

Report of the  
**AUDITOR GENERAL**  
to the Legislative Assembly



Prince Edward Island  
2017

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The Honourable Speaker and  
Members of the Legislative Assembly  
Province of Prince Edward Island

In accordance with the requirements of the *Audit Act*, I have the honour of  
presenting my 2017 Annual Report to the Legislative Assembly.

Respectfully submitted,

B. Jane MacAdam, CPA, CA  
Auditor General

Charlottetown  
Prince Edward Island  
March 10, 2017



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# INTRODUCTION

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## REPORT OVERVIEW

The *Audit Act* requires the Auditor General to report annually to the Legislative Assembly. This 2017 Annual Report provides observations, recommendations, and information pertaining to audits and examinations conducted by the Office during the year.

We also completed two special reports which were tabled in the Legislative Assembly in October 2016:

- *Special Assignment: Government Involvement with the E-gaming Initiative and Financial Services Platform; and*
- *Joint Audit of Atlantic Lottery Corporation.*

These special reports were a significant part of the work completed by my Office during the year. The reports are not reproduced in this annual report. The reports are available in their entirety on our website at [www.assembly.pe.ca/auditorgeneral](http://www.assembly.pe.ca/auditorgeneral).

Following is a brief overview of my 2017 Annual Report:

### ***Chapter 1: Introduction to Special Audits and Examinations***

This chapter provides summary information on the mandate, selection, and processes related to special audits and examinations.

### ***Chapter 2: Climate Change***

This chapter includes information on the province's commitments and progress to mitigate and adapt to climate change.

### ***Chapter 3: Office of the Public Trustee***

This audit examined whether the Office of the Public Trustee has adequate processes to safeguard and administer client assets held in trust. We also examined whether the Office of the Public Trustee annually reports to the public on its performance.

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### ***Chapter 4: Seniors Housing Program***

The audit examined whether PEI has a long-term plan for seniors housing. It also examined controls and processes for selecting new tenants and managing wait lists.

### ***Chapter 5: Special Assignment: Government Involvement with the E-gaming Initiative and Financial Services Platform***

This chapter includes a listing of recommendations and government's response to each recommendation.

### ***Chapter 6: Update on Previous Recommendations***

Our special audits and examinations result in recommendations to departments, Crown corporations, and agencies. Each year, we contact these departments and agencies to obtain an update on action taken to address outstanding recommendations. This year, we conducted additional follow-up work on recommendations from audits reported in our 2013 and 2014 annual reports. This chapter summarizes our work and includes information on the status of implementation of previous recommendations.

### ***Chapter 7: Introduction to Financial Audits***

Introductory comments summarize the standards and responsibilities related to financial audits.

### ***Chapter 8: Indicators of Financial Condition***

This chapter provides summary financial information on the province's operating results and financial position from 2012 to 2016. We also provide information on a number of financial indicators based on the province's audited consolidated financial statements.

### ***Chapter 9: Audit of the Consolidated Financial Statements***

Each year, we audit the province's consolidated financial statements. This chapter provides our independent audit opinion as well as comments, observations, and recommendations arising from our audit work.

### ***Chapter 10: Matters Noted In Other Financial Audits***

This chapter provides a summary of issues communicated to management as a result of the other financial audits completed by our office.

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### *Chapter 11: Appropriations and Special Warrants*

This chapter provides summary information on appropriations and special warrants for the year ended March 31, 2016.

### *Chapter 12: Public Accounts Committee*

The Public Accounts Committee reviews the Auditor General's Annual Report and plays an important role in holding government accountable for the management of public resources. Information on the Committee and its activities is provided in this chapter.

### *Chapter 13: Office of the Auditor General*

This chapter provides information on the mandate and responsibilities of the Auditor General. Information is also provided on our strategic objectives, resources, personnel, and professional affiliations.

## ACKNOWLEDGEMENTS

The Office makes a significant contribution to improved management and control of public resources. Cooperation of ministers, deputy ministers, and senior management and staff of departments, agencies, boards, and Crown corporations is essential. My Office received good cooperation from government to complete the audits and examinations included in this Annual Report.

This Annual Report reflects the professionalism and hard work of my staff. I would like to take this opportunity to express my appreciation to them for their continued support and dedication. Their contributions and commitment are essential to the continued success of the Office.

# INTRODUCTION

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## APERÇU DU RAPPORT

En vertu de la *Audit Act* (loi sur la vérification des comptes publics), le vérificateur général doit déposer un rapport devant l'Assemblée législative tous les ans. Le présent rapport de 2017 fournit les observations, les recommandations et des renseignements sur les vérifications et les examens menés par le Bureau au cours de l'année.

Nous avons également rédigé deux rapports spéciaux qui ont été déposés devant l'Assemblée législative en octobre 2016 :

- *Special Assignment : Government Involvement with the E-gaming Initiative and Financial Services Platform;*
- *Joint Audit of Atlantic Lottery Corporation.*

Ces rapports spéciaux ont représenté une partie importante du travail accompli par notre bureau durant l'année. Ceux-ci ne sont pas intégrés au présent rapport annuel. Les rapports complets sont accessibles à partir de notre site Web à [www.assembly.pe.ca/auditorgeneral](http://www.assembly.pe.ca/auditorgeneral).

Voici un aperçu du contenu de notre rapport annuel 2017 :

### ***Chapitre 1 : Introduction aux vérifications et aux examens spéciaux***

Ce chapitre fournit de l'information sommaire sur le mandat, la sélection et les processus concernant les vérifications et les examens spéciaux.

### ***Chapitre 2 : Changements climatiques***

Ce chapitre fournit de l'information sur les engagements de la province et les progrès réalisés en matière d'adaptation aux changements climatiques et d'atténuation de ceux-ci.

### ***Chapitre 3 : Bureau du curateur public***

La vérification a examiné si le Bureau du curateur public dispose de processus adéquats pour assurer la protection et la gestion des avoirs des clients qui sont détenus en fiducie. Nous avons aussi examiné si le Bureau du curateur public rend compte annuellement de son travail à la population.

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### *Chapitre 4 : Programme de logement pour aînés*

La vérification a examiné si l'Î.-P.-É. dispose d'un plan à long terme en matière de logement pour aînés. Elle a aussi examiné les mesures de contrôle et les processus utilisés pour sélectionner les nouveaux locataires et gérer les listes d'attente.

### *Chapitre 5 : Mandat spécial - Implication du gouvernement dans le projet de jeu en ligne et la plateforme de services financiers*

Ce chapitre comprend une liste de recommandations et la réponse du gouvernement à chacune d'elles.

### *Chapitre 6 : Suivi des recommandations antérieures*

À la suite de nos vérifications et examens spéciaux, des recommandations sont faites aux ministères, aux sociétés de la Couronne et aux organismes. Chaque année, nous communiquons avec ces ministères et organismes afin de faire un suivi des mesures prises par rapport aux recommandations. Cette année, nous avons effectué un travail de suivi additionnel par rapport aux recommandations découlant des vérifications publiées dans les rapports annuels de 2013 et 2014. Ce chapitre résume notre travail et fournit de l'information sur l'avancement de la mise en œuvre des recommandations précédentes.

### *Chapitre 7 : Introduction aux vérifications financières*

Les commentaires d'introduction résument les normes et les responsabilités liées aux vérifications financières.

### *Chapitre 8 : Commentaires sur les indicateurs financiers*

Ce chapitre fournit de l'information financière sommaire sur les résultats d'exploitation et la situation financière de la province entre 2012 et 2016. Nous fournissons également de l'information sur un certain nombre d'indicateurs financiers à partir des états financiers consolidés de la province.

### *Chapitre 9 : Vérification des états financiers consolidés*

Chaque année, nous vérifions les états financiers consolidés de la province. Ce chapitre présente une opinion de vérification indépendante ainsi que des commentaires, des observations et des recommandations découlant de notre travail de vérification.

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### *Chapitre 10 : Questions soulevées dans le cadre d'autres vérifications financières*

Ce chapitre présente un résumé des questions portées à l'attention des hauts dirigeants à la suite des autres vérifications financières effectuées par notre bureau.

### *Chapitre 11 : Compte de crédits et mandats spéciaux*

Ce chapitre fournit de l'information sommaire sur le compte de crédits et les mandats spéciaux pour l'exercice qui s'est terminé le 31 mars 2016.

### *Chapitre 12 : Comité des comptes publics*

Le Comité des comptes publics révisé le rapport annuel du vérificateur général et joue un rôle important en rendant le gouvernement responsable de la gestion des ressources publiques. Des renseignements sur le comité et ses activités sont fournis dans ce chapitre.

### *Chapitre 13 : Bureau du vérificateur général*

Ce chapitre offre des renseignements sur le mandat et les responsabilités du vérificateur général. Des renseignements sont également fournis sur les objectifs stratégiques, les ressources, le personnel et les affiliations professionnelles du Bureau.

## REMERCIEMENTS

Le Bureau contribue de façon considérable à l'amélioration de la gestion et du contrôle des ressources publiques. La collaboration des ministres, des sous-ministres ainsi que des hauts dirigeants et du personnel des ministères, des organismes, des conseils et des sociétés de la Couronne est essentielle. Notre bureau a bénéficié d'une bonne collaboration de la part du gouvernement pour accomplir les vérifications et les examens dont il est fait état dans le présent rapport annuel.

Ce rapport annuel est le fruit du professionnalisme et du travail acharné des membres de mon personnel. J'aimerais profiter de l'occasion pour exprimer ma gratitude envers eux, pour leur soutien constant et leur dévouement. Leur contribution et leur engagement sont essentiels au succès continu du Bureau.

# **SPECIAL AUDITS AND EXAMINATIONS**



# 1. INTRODUCTION TO SPECIAL AUDITS AND EXAMINATIONS

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**1.1** The Auditor General has a broad mandate for conducting special audits and examinations. Subsection 13(2) of the *Audit Act* states that the Auditor General may conduct any audit or examination considered necessary to determine whether any agency of government is achieving its purpose, is doing so economically and efficiently, and is complying with the applicable statutory provisions.

**1.2** Given the complexity and magnitude of government operations, we cannot examine all government programs on an annual basis. We focus our efforts to make the best use of our resources. To determine our annual work plan, we consider numerous factors including:

- the financial magnitude of the entity or program;
- the significance of potential issues;
- the impact of the subject matter;
- complexity of the operations;
- results of previous audits;
- availability of resources; and
- timing of previous audit work.

**1.3** In addition, we may receive specific requests from the Public Accounts Committee and/or Executive Council.

**1.4** Value-for-money or performance audits, provide a high level of assurance and are independent and objective assessments that assist in determining how well government is discharging its responsibilities. These audits assess the broader management issues affecting an organization or program and may examine issues such as accountability relationships, economy, efficiency, compliance with authorities, and procedures to measure effectiveness. These audits are planned, performed, and reported in accordance with standards established by the Chartered Professional Accountants of Canada. There are three distinct phases in value-for-money audits:

## 1. Introduction to Special Audits and Examinations

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- planning;
- implementation; and
- reporting.

**1.5** In the planning phase, audit staff obtain a thorough knowledge of the function, organization, or program selected for audit and the environment in which it operates. This knowledge is acquired from a variety of sources and is used to develop an audit plan which sets out the audit objectives, criteria, scope, and timing.

**1.6** Audit criteria are the standards against which performance is assessed. The audit criteria are determined by the auditor and are often based on regulations, policies, or other generally accepted sources. These are communicated to and discussed with management responsible for the subject matter. The suitability of criteria is accepted by management prior to the commencement of the detailed audit work.

**1.7** During the implementation stage, the auditor gathers sufficient appropriate audit evidence by interviewing key personnel, reviewing documentation, and testing samples of files as well as other procedures. Audit evidence is then evaluated and analyzed. During this phase, performance is assessed against criteria established in the planning phase and findings are identified. All findings or observations are discussed with management.

**1.8** During the reporting phase, a draft audit report is developed which highlights significant issues and recommendations. Senior management responsible for the audit subject matter is provided with a copy of the draft audit report for review and discussion. At the conclusion of the audit, a final report is issued to the department, Crown corporation, or agency. A management letter may also be issued to communicate less significant findings. A written response is requested for any reports and management letters issued.

**1.9** The recommendations provided in our reports are intended to address the issues identified. It is management's prerogative to select the most appropriate course of action to deal with the issues identified. Our concern is that action is taken to address the issues raised.

## 2. CLIMATE CHANGE

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### CHAPTER SUMMARY

#### *What we examined*

We assessed whether PEI has made progress towards commitments to reduce greenhouse gas emissions.

We also assessed whether PEI has taken action to adapt to climate change risks.

Audit work for this report was substantially complete as of December 2016.

#### *Why it's important*

The United Nations Framework Convention on Climate Change (UNFCCC) has stated that climate change is one of the greatest challenges of our time. According to Natural Resources Canada (NRCan), severe weather patterns will become more frequent and continue to increase in intensity and occurrence. NRCan also indicates changes in climate are expected to affect food production, the availability of water, and the amount of soil erosion as well as wildlife and human health.

PEI is not immune to the impacts of climate change. Government needs to have a clear strategy and action plan to mitigate and adapt to climate change.

#### *What we found*

Overall, the province has reduced its greenhouse gas emissions which contributes to meeting regional emission reduction commitments.

- The province has committed to regional greenhouse gas reduction targets but has not formally adopted provincial targets.
- Greenhouse gas emissions in PEI have declined by eight percent from 1990 to 2014.

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The most current climate change strategy at the time of our audit was released in 2008 and it has not been updated.

The province has not completed a comprehensive risk assessment to support a strategy and action plan to adapt to climate change.

- In the absence of a comprehensive provincial risk assessment, government has taken some action to adapt to climate change risks.

There has not been regular and timely public reporting on climate change.

### BACKGROUND

#### Changing climate

**2.1** Climate change is one of the greatest challenges of our time. Environment and Climate Change Canada (ECCC), a department of the federal government, has stated that the planet is getting warmer and Canada's average temperature rose 1.6 degrees Celsius between 1948 and 2013. ECCC states that this is a higher rate of warming than most other regions of the world.

**2.2** Many countries around the world have adopted a goal of achieving a 2 degree Celsius ceiling on global warming. It is widely believed that if the increase in average global temperature is kept below 2 degrees Celsius from pre-industrial times, the most serious effects of climate change can be avoided.

**2.3** Climate change is attributed to the accumulation of greenhouse gases (GHG) in the atmosphere. Carbon dioxide (CO<sub>2</sub>) makes up 80 percent of Canada's emissions. Although CO<sub>2</sub> is naturally present in the atmosphere, the International Panel on Climate Change (IPCC) states human activities are responsible for a more than 40 percent increase in GHG levels since pre-industrial times. CO<sub>2</sub> is released into the atmosphere mainly through combustion of fossil fuels.

**2.4** The IPCC is the world's most authoritative voice on climate change. This group was established by the United Nations in 1988 and assesses the scientific and socio-economic information relevant to climate

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change. The IPCC states the key risks of global warming that will affect most regions around the world are:

- severe ill-health and disrupted livelihoods resulting from storm surges, sea level rise, and flooding;
- extreme weather events leading to a breakdown of infrastructure networks and critical services;
- loss of rural livelihoods and income due to issues with access to water; and
- loss of ecosystems as many plant and animal species are unable to adapt to the quickly changing climate.

**2.5** Actions addressing climate change can generally be categorized into either mitigation or adaptation activities. Climate change mitigation focuses on limiting or reducing greenhouse gas emissions. Natural Resources Canada defines adaptation as activities that reduce the negative impacts of climate change and/or take advantage of new opportunities that may be presented.

**2.6** Governments can implement various policies to encourage the reduction of greenhouse gas emissions. Policies could include, for example, providing incentives to use and purchase green technology, enhancing carbon sinks, or implementing a carbon pricing strategy such as a tax on carbon emissions.

**2.7** The UNFCCC has stated that the global climate has already begun to change and even with reduced emissions adaptation activities will be needed. Adaptation activities can be very broad. Some examples are adapting building codes to withstand extreme weather events, building flood defenses, and adjusting crops for changing climate conditions. Other adaptation initiatives include monitoring for new harmful or invasive species and assisting businesses impacted by climate change to adjust to new conditions.

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**2.8** In 2013, the annual average emissions per person in Canada was approximately 21 tonnes. Based on information from the World Resources Institute, the global average emissions per capita in 2013 was 6 tonnes.

### **Canada's climate change agreements**

**2.9** Canada is a member of the United Nations Framework Convention on Climate Change which came into force in March 1994. The UNFCCC has 197 member countries, referred to as Parties to the Convention. They meet annually to assess progress in dealing with climate change and are required to annually report their GHG emissions based on specific established methodologies. Environment and Climate Change Canada annually estimates the GHG emissions for Canada, the provinces, and the territories. This information is available in its National Inventory Report.

**2.10** The most current agreement under the UNFCCC was adopted in December 2015 in Paris, France. The key objective of this agreement is to keep the global temperature rise this century to below 2 degrees Celsius, ideally 1.5 degrees, above pre-industrial levels. It also aims to strengthen the ability of countries to deal with the impacts of climate change.

**2.11** In March 2016, Canadian First Ministers agreed to develop a framework to achieve Canada's commitments in the Paris Agreement. Four working groups were established to work with various stakeholders and present options to act on climate change and enable clean growth. These working groups included Adaptation and Climate Resilience; Specific Mitigation Opportunities; Carbon Pricing Mechanisms; and Clean Technology, Innovation and Jobs. Prince Edward Island (PEI) had representation on all working groups and co-chaired the Adaptation and Climate Resilience group. The working groups released their final reports in late 2016 and the *Pan-Canadian Framework on Clean Growth and Climate Change* was jointly released by the federal, provincial (excluding Saskatchewan and Manitoba), and territorial governments in December 2016.

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**2.12** The framework states that PEI's focus for climate change will be on the built environment (residential and commercial buildings), transportation, agriculture, conservation, and adaptation. It also states PEI will contribute to the Pan-Canadian Framework and help to facilitate a transition to a low carbon economy. To address climate change and clean growth, PEI has committed to collaborate with the Government of Canada in the areas of energy efficiency, clean energy, adaptation, research and development as well as transportation.

### **Prince Edward Island and climate change**

**2.13** Climate change can have significant impacts on many coastal communities. Sea level rise, storms, and decreases in sea ice can increase the rate of coastal erosion. Natural Resources Canada's report entitled *Canada's Marine Coasts in a Changing Climate* indicates that PEI with its 1,100 kilometers of soft sandstone coastline will be highly susceptible to erosion. The report also includes projections based on IPCC reports that indicate sea level could rise by 1.0 to 1.2 meters by the year 2100.

**2.14** Although Prince Edward Island will feel the effects of climate change, PEI has low annual GHG emissions compared to other provinces. PEI's lack of major industry as well as its small size and population explain why it produces only 0.3 percent of the country's annual GHG emissions and why PEI ranks among the lowest of all the provinces and territories in total annual emissions. However, for 2014 on a per capita basis, PEI is almost equal to Ontario and higher than Quebec, Nunavut and the Yukon. **Exhibit 2.1** illustrates the total and per capita GHG emissions for Canada, the provinces, and territories in 2014.

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### EXHIBIT 2.1 GREENHOUSE GAS EMISSIONS CANADA, PROVINCES, AND TERRITORIES 2014

	Total Emissions* (megatonnes)		Emissions per Capita** (tonnes)
	Total	%	
Canada	733.5	100.0	20.6
Alberta	274.0	37.4	66.7
Ontario	170.0	23.2	12.4
Quebec	83.0	11.3	10.1
Saskatchewan	76.0	10.4	67.3
British Columbia	63.0	8.6	13.5
Manitoba	21.0	2.9	16.8
Nova Scotia	17.0	2.3	17.6
New Brunswick	15.0	2.0	19.7
Newfoundland and Labrador	10.6	1.4	20.1
Prince Edward Island	1.8	0.3	12.3
Northwest Territories	1.5	0.2	34.9
Yukon	0.3	-	7.3
Nunavut	0.3	-	7.5

Sources: \*National Inventory Report, 2016

\*\*Compiled from the National Inventory Report 2016, and Statistics Canada 2014

Notes: Amounts do not account for inter-provincial transfers.  
There could be slight differences due to rounding.

### Legislation and mandate

**2.15** The purpose of the *Environmental Protection Act* is to manage, protect, and enhance the environment. The PEI Department of Communities, Land and Environment is responsible for administering the *Environmental Protection Act*.

**2.16** In the September 2015 mandate letter to the Minister of Communities, Land and Environment, the Premier requested that action be taken to prepare for and mitigate the adverse effects of climate change. Although many government departments and agencies have a role in implementing climate change activities, the Minister of Communities,

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Land and Environment is responsible for coordinating and managing climate change activities for government.

**2.17** The climate change activities for government are led by an Executive Director. There are three other positions in the Environment Division that have responsibilities related to climate change. The Manager of Climate Change and Agriculture Outreach works on climate change activities but also has responsibilities for other programs. Two positions, a Climate Change Mitigation Specialist and an Adaptation Specialist are fully dedicated to climate change.

**2.18** In October 2016, the Executive Director was appointed to lead the PEI Climate Change Secretariat. We were advised that the Secretariat includes representation from departments and agencies across government. We were also advised it was established to coordinate government's climate change activities. However, at the completion of our audit, terms of reference for the PEI Climate Change Secretariat had not been approved.

**2.19** Government expenditures for activities related to climate change were not segregated within the Department. Similarly, other ministries and agencies which engage in climate change activities did not segregate these expenditures.

### OBJECTIVES AND SCOPE

**2.20** In 2015, the Office of the Auditor General of Canada and all provincial legislative audit offices agreed to work together on a collaborative audit initiative regarding climate change. In the spring of 2016, all partners agreed to work together to determine the extent to which federal, provincial, and territorial governments in Canada are meeting their commitments to reduce GHG emissions and to adapt to climate change. All jurisdictions plan to contribute to a summary report which is expected to be tabled in late 2017.

**2.21** The objectives of our audit were to determine whether the Government of Prince Edward Island

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- has made progress towards commitments to reduce greenhouse gas emissions; and
- has taken action to adapt to climate change risks.

**2.22** The standards against which we assessed performance were based on best practice. These standards, or criteria, were reviewed with senior management prior to the commencement of the audit. Management accepted the relevance and suitability of the criteria used in the audit. A listing of the criteria is included in **Appendix III** of this chapter.

**2.23** We reviewed documentation and conducted interviews to assess the key elements in the province's 2008 climate change strategy. We also selected a sample of action items which were included in the Province's 2008 climate change strategy released by the former Department of Environment, Energy and Forestry. We assessed government's progress on these action items. We did not assess the impact of the action items on the reduction in greenhouse gas emissions.

**2.24** In addition to our detailed testing, our audit approach included

- interviews with staff in
  - the Department of Communities, Land and Environment
  - the Department of Finance
  - the Department of Transportation, Infrastructure and Energy
  - the PEI Energy Corporation;
- review of relevant reports, strategies, and documentation regarding climate change;
- review of selected legislation and policies;
- review of the 2008 Provincial Energy Strategy; and
- interview with staff of the University of Prince Edward Island Climate Lab.

**2.25** We performed our audit in accordance with the standards for assurance engagements encompassing value-for-money established by the Chartered Professional Accountants of Canada and accordingly included such tests and other procedures as we considered necessary in the circumstances.

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### OBSERVATIONS AND RECOMMENDATIONS

#### CLIMATE CHANGE - STRATEGY AND REPORTING

**2.26** In 2008, the province released a climate change strategy entitled *Prince Edward Island and Climate Change: A Strategy for Reducing the Impacts of Global Warming*. The strategy stated it would build on Government's existing efforts to reduce greenhouse gas emissions and adapt to meet the challenges of a world that has a more variable and less predictable climate. This 2008 strategy was the most recent strategy at the time of our audit.

**2.27** We assessed whether the 2008 climate change strategy addressed the following key elements:

- the need for the strategy;
- the objectives of the strategy;
- a listing of planned actions to achieve the objectives;
- the time frame for the strategy;
- roles and responsibilities for the strategy overall, including responsibility for coordinating action among various entities; and
- reporting on progress in relation to the strategy.

**2.28** The 2008 strategy addressed many of the key elements as required. For example, the strategy document stated why it was needed and included information on the history of government directed actions for reducing greenhouse gas emissions. The objectives of the strategy were outlined and 47 action items were included.

**2.29** Most of the action items related to mitigation of greenhouse gases, some related to adaptation, while others related to more general climate change activities. **Exhibit 2.2** summarizes this breakdown. Further discussion of the action items is included in the report sections on mitigation and adaptation.

## 2. Climate Change

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**EXHIBIT 2.2**  
**PRINCE EDWARD ISLAND AND CLIMATE CHANGE:**  
**STRATEGY FOR REDUCING THE IMPACTS OF**  
**GLOBAL WARMING**  
**ACTION ITEMS BY TYPE**

	Mitigation	Adaptation	Other	Total
Number of Action Items	38	4	5	47
Percentage	81%	8%	11%	100%

### Strategy not updated

**2.30** The 2008 climate change strategy did not include a timeframe for regular review and reassessment of the key objectives and actions in the strategy. Strategies are developed based on information and priorities at a point in time. It is important that strategies be reassessed at appropriate time periods to determine whether they are still focused on current priority areas.

**2.31** A new provincial mitigation strategy is under development and is expected to be released in the spring of 2017. In addition, management advised that government is in the beginning stages of developing a new provincial adaptation strategy which is expected to be released in the fall of 2017. We have also been advised that a risk assessment will be completed as part of the strategy development process.

### Accountability and coordination needs improvement

**2.32** The Department of Communities, Land and Environment has the statutory responsibility to manage, protect, and enhance the environment. Climate change plans and activities normally involve multiple departments and agencies. It is difficult to achieve implementation of activities across departmental boundaries without extensive coordination and cooperation at various levels within key entities. We noted a lack of formal coordination and unclear lines of authority and responsibility related to climate change activities.

**2.33** The 2008 strategy required the creation of an interdepartmental working group to identify and manage current and projected climate

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related risks. The group was co-chaired by staff of the former Department of Environment, Energy and Forestry and the former Department of Transportation and Public Works and reported to the deputy ministers of these two departments. The group met a number of times in 2009 and 2010 and drafted terms of reference. Neither of these departments could provide approved terms of reference for the working group.

**2.34** There hasn't been a formal mechanism for coordination of climate change efforts across government since this interdepartmental working group stopped meeting in 2010. There was no requirement for other departments to report back to the Department of Communities, Land and Environment on the action items included in the strategy. We were informed that important climate change activities have been undertaken by various entities since that time although the Department of Communities, Land and Environment was not always involved, and in some situations, was not aware of the activities.

**2.35** The Department of Communities, Land and Environment has overall responsibility for environmental issues. However, achievement of climate change objectives requires not only coordination and cooperation, it also requires clear accountability and responsibility. Action on climate change cannot always be achieved through the Department's own efforts. Approval of strategic plans on climate change at the Executive Council level is needed to help ensure approved climate change actions outside the control of the Department of Communities, Land and Environment are completed.

**2.36** Climate change activities can be costly and high level approval from government is important to ensure resources, both human and financial, are dedicated to the risks and priorities of government. In turn, overall accountability for the strategy needs to be established.

### **Lack of public reporting on results**

**2.37** Timely public reporting of results helps to hold government accountable for its actions and informs the public on issues. We assessed whether there was regular and timely public reporting on progress in reducing greenhouse gas emissions and implementation of adaptation strategies. We expected these reports to include

## 2. Climate Change

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- updates on the implementation status of all action items from the 2008 strategy;
- key adaptation activities government has undertaken and the rationale for these activities;
- efforts to reduce greenhouse gas emissions within the province and specifically within government operations; and
- annual GHG emission levels of the province and comparisons to prior years and targets.

**2.38** There has not been sufficient and timely public reporting on climate change activities within the province. The strategy called for government to prepare an annual climate change report beginning in 2009. As of the date of this audit report, there has not been an annual climate change report released by Government. The limited reporting that was provided is summarized in the paragraphs that follow.

**2.39** In 2009, some information regarding climate change activities was included in the former Department of Environment, Energy and Forestry's annual report but it was very limited.

**2.40** In 2010, the former Department of Environment, Energy and Forestry released an annual report which included some information on climate change. However, it did not provide any information on total GHG emissions within the province or any changes to these levels. Also in 2010, this Department released a *State of the Environment* report which provided information on sea level rise and what government was doing to adapt to the issue. It did not provide information on any other adaptation activities. It included information on GHG emissions over the previous 20 years and actions government had taken to reduce emission levels. Neither of these reports provided an update on the status of implementation on action items in the 2008 climate change strategy.

**2.41** Since 2010, the only public reporting has been departmental annual reports. These reports provided only general information on climate change activities with no information on GHG emissions of the province.

**2.42** The *Pan-Canadian Framework on Clean Growth and Climate Change*, released in 2016, states that there will be regular reporting required on the implementation of the Framework which will involve all provinces. Annual reports will be required to publicly report on progress.

## 2. Climate Change

### Recommendations

**2.43 The Department of Communities, Land and Environment should coordinate provincial strategy development and implementation related to climate change.**

**2.44 The Department of Communities, Land and Environment should develop a climate change strategy including both mitigation and adaptation which focuses on the key risks and vulnerabilities of the province. The strategy should include at a minimum**

- objectives;
- planned actions;
- timeframe;
- roles and responsibilities; and
- public reporting requirements.

**2.45 Executive Council should approve provincial climate change strategies.**

**2.46 The Department of Communities, Land and Environment should provide annual public reports on progress made to mitigate and adapt to climate change.**

### MITIGATION

**2.47** Mitigation activities reduce GHG emissions. There are a wide variety of actions which can be taken by government to reduce GHG emissions. The province's 2008 climate change strategy contained 38 action items related to mitigation.

**2.48** Prince Edward Island is a member of the Conference of New England Governors and Eastern Canadian Premiers (NEG/ECP). This group includes six governors from the New England states and Premiers from the five Eastern Canadian provinces. An annual conference is held and the group works together on various joint committees regarding common interests such as energy, environment, economic development, and trade.

**2.49** In 2001, the NEG/ECP group adopted regional GHG reduction targets. Regional reduction targets were established for 2010, 2020, and 2050. In 2012, an interim target for 2030 was added. The NEG/ECP has publicly reported that the 2010 regional target was met. The targets are shown in **Exhibit 2.3**.

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### EXHIBIT 2.3 NEW ENGLAND GOVERNORS AND EASTERN CANADIAN PREMIERS REGIONAL GREENHOUSE GAS REDUCTION TARGETS

Year	Target
2010	return to 1990 GHG emission levels
2020	10% below 1990 emission levels
2030	35%-45% below 1990 emission levels
2050	75%-85% below 2001 emission levels

Source: New England Governors and Eastern Canadian Premiers Resolution 39-1.

**2.50** The targets established by the NEG/ECP are clear and publicly communicated. They are published on various websites of the parties involved including the PEI government. These regional targets were included in the province's 2008 climate change strategy and have been discussed publicly by the Minister of Communities, Land and Environment.

#### **PEI does not have provincial greenhouse gas reduction targets**

**2.51** From the beginning of our audit, government officials indicated that the NEG/ECP targets were not provincial targets, but government has committed to reducing GHG emissions within the region.

**2.52** We found that PEI does not have provincial greenhouse gas emission targets. Clearly established targets for the province provide a consistent message to the public and other stakeholders and communicates Government's commitment to work towards the targets and measure its progress. All other eastern Canadian provinces have formally adopted GHG emission targets.

## 2. Climate Change

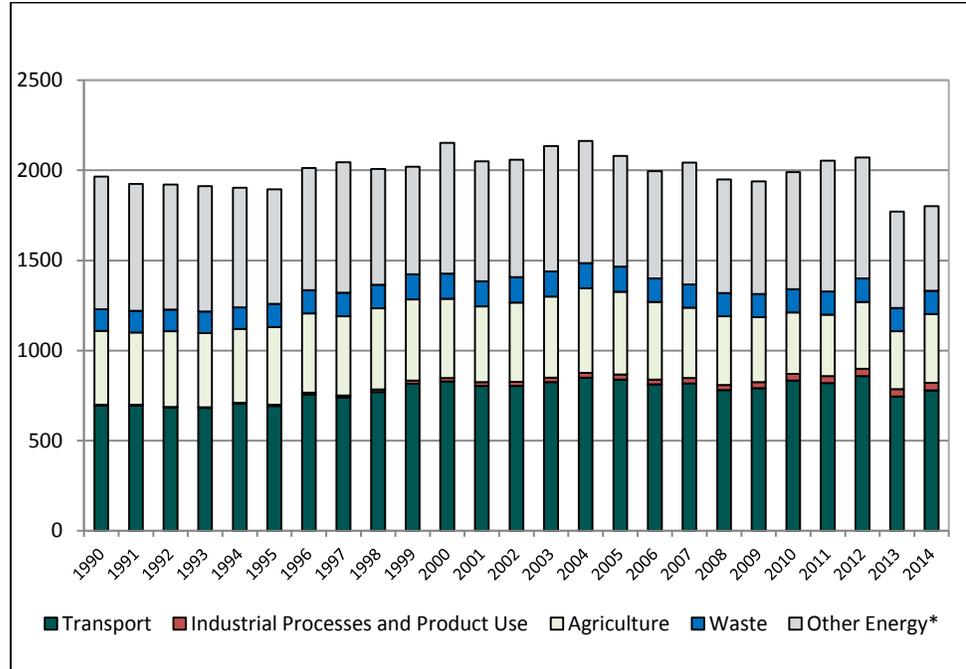
### Decrease in PEI greenhouse gas emissions

**2.53** GHG emissions within Canada are reported in the National Inventory Report which is released annually by Environment and Climate Change Canada. The inventory is prepared in accordance with the UNFCCC reporting guidelines. Inventory estimates are determined by methods and models which undergo a quality control and assurance process that conforms to the requirements of the UNFCCC.

**2.54** The most current National Inventory Report is dated 2016, which includes the 2014 data. The report indicates that Prince Edward Island has reduced its GHG emissions by 8 percent of 1990 levels at 2014.

**Exhibit 2.4** shows PEI’s GHG emissions data from 1990 to 2014 extracted from Environment and Climate Change Canada’s data.

**EXHIBIT 2.4**  
**PEI GREENHOUSE GAS EMISSION DATA PER SECTOR**  
**ACTUAL 1990 to 2014**  
**Kilotonne Carbon Dioxide Equivalent (kt CO<sub>2</sub>)**



Source: Environment and Climate Change Canada  
 \*Includes heating for residential and commercial buildings

## 2. Climate Change

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### **Implementation plan for mitigation activities lacking**

**2.55** The 2008 climate change strategy included planned actions to achieve the strategy objectives of reducing greenhouse gas emissions and enhancing carbon sinks. Some of the mitigation action items assigned responsibility and timelines for implementation, however, many did not. A description of the estimated financial and other resources was also not included for each action item.

**2.56** The National Inventory Report breaks down PEI's GHG emissions by key sectors; industry, agriculture, waste, and energy, including energy from transport as well as other energy related to the heating of buildings. **Exhibit 2.4** illustrates the PEI 2014 data broken down by sector. The energy sector, accounted for approximately 70 percent of PEI's GHG emissions in 2014 which is consistent with data available when the 2008 strategy was developed. The composition of the energy sector has changed over time. In 1990, the energy sector excluding transportation accounted for 37 percent of total GHG emissions whereas in 2014 it accounted for 26 percent. Transportation GHG emissions have risen from 35 percent of total GHG emissions in 1990 to 43 percent in 2014.

**2.57** The 2008 strategy included 38 mitigation actions, but the estimated impact on GHG emissions was not quantified for each action item. Without this information, it is difficult to establish a linkage between the key sectors responsible for high emissions and the strategy to reduce emissions. Some action items were in high emitting sectors, but the impacts were not evident.

**2.58** As previously stated, government has not updated its strategy since 2008, nor has it reassessed the continued relevance of action items from the strategy. As part of our audit, we selected a sample of 29 of the 38 mitigation action items included in the 2008 strategy and assessed the status of implementation. **Appendix II** of this chapter shows all action items from the 2008 strategy and their status.

## 2. Climate Change

**2.59** Exhibit 2.5 includes summary information on our audit sample results.

**EXHIBIT 2.5  
PRINCE EDWARD ISLAND  
2008 CLIMATE CHANGE STRATEGY  
MITIGATION ACTION ITEMS**

<b>Audited Status*</b>	<b>Number</b>	<b>Percentage</b>
Significant Action Taken	9	31
Some Action Taken	11	38
No Action Taken	8	28
Could Not Conclude	1	3
Total	29	100

\*Based on a sample of action items

**2.60** Given that energy, including transportation and heating of buildings, is a high emitting sector, we also considered the action items in the 2008 Energy Strategy. We determined that all actions in the energy strategy that related to climate change were also reflected in the 2008 climate change strategy and were covered by our audit. The climate change strategy did not include the estimated impact of the action items. However, based on information from the National Inventory Report, there was a decline in emissions related to the energy sector of over 15 percent between 2010 and 2014.

**2.61** The Department of Communities, Land and Environment advised that the actions taken by the province which are having the greatest impact in the reduction of GHG emissions related to the energy sector are through work being done by Efficiency PEI and the PEI Energy Corporation.

**2.62** Efficiency PEI, formerly the Office of Energy Efficiency, was formed in 2007. Its mandate is to provide Islanders with advice and programs that will promote sustainable energy use and reinforce the importance of sound energy management for the economic, social, and environmental well-being of Island residents and businesses. Based on reports prepared for Treasury Board, Efficiency PEI has provided financial assistance to over 12,000 Islanders in the last seven fiscal years ending in March 2015. Programs for retrofitting homes and businesses are directed

## 2. Climate Change

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at reducing energy consumption and assisting Islanders to transition to cleaner energy sources such as biomass and electric energy.

**2.63** The PEI Energy Corporation was established in 1978. Its main business includes the development and promotion of energy systems in Prince Edward Island. Since 2001, PEI Energy Corporation has developed four wind farms in the province. Canada's Second Biennial Report to the UNFCCC, released in 2016, states 25 percent of Prince Edward Island's electricity consumption is sourced from on-Island wind farms. Wind provides a sustainable form of renewable energy which does not produce GHG emissions.

**2.64** Wind farm development on PEI has reduced GHG emissions. Wind energy replaces other energy sources, some of which are dependent on the burning of fossil fuels. PEI acquires much of its energy from outside the province. Emission data due to power generation is attributed to the province where that power is generated. Wind energy reduces the emissions of the source province.

**2.65** In October 2016, the Government of Canada announced a plan requiring all Canadian jurisdictions to have carbon pricing mechanisms in place by 2018. At the completion of our audit in December 2016, the Government of Prince Edward Island had not implemented or announced its plans for a carbon pricing mechanism.

### **Recommendations**

**2.66** Executive Council should establish clearly defined provincial targets for the reduction of greenhouse gas emissions. These targets should be publicly communicated.

**2.67** The Department of Communities, Land and Environment should ensure documented implementation plans are completed for all key mitigation actions. This would include at a minimum:

- assignment of responsibility;
- timelines for each action;
- financial and other resources required; and
- performance measures.

## 2. Climate Change

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### ADAPTATION

**2.68** Natural Resources Canada indicates that Prince Edward Island will experience rising sea level, more frequent and intense storms, and coastal erosion. Regardless of mitigation actions, efforts must be taken to adapt to the effects of climate change.

**2.69** A working group of the Pan Canadian Framework indicated that the effectiveness of adaptation actions can greatly impact the livelihood, health, and quality of life of residents. It is important that risks are identified to determine where adaptation efforts may be required.

**2.70** A comprehensive risk assessment supports decision making. It provides Government with a knowledge of key vulnerabilities due to climate change. To compile this assessment, risks should be

- identified using the best information available and an established baseline to determine risks due to climate change;
- analyzed to develop estimates of the likelihood, consequences, and magnitude of the risk events; and
- evaluated by comparing the risks and assessing the level of risk which stakeholders consider acceptable. The focus would then be put on a prioritization of the key risks.

#### **No province-wide risk assessment**

**2.71** Government has not completed or documented a comprehensive risk assessment for the province to guide its adaptation activities. Government has initiated and participated in numerous adaptation projects within the province. Many of these projects have been cost shared with the federal government through the Regional Adaptation Collaborative (RAC) programs. These programs, one in place from 2009-2012 and a second between 2012-2016, provided funding for projects to assess and maximize opportunities to deal with climate change. There were numerous risk related projects completed for PEI through these programs including inland flood risk assessment, salt water intrusion risk assessments, and vulnerability risk assessments for four communities in the province. The vulnerability assessments initiated by the communities identified, analyzed, and evaluated climate change risks for these communities. While these projects provide valuable input to a province-wide comprehensive risk assessment, the overall assessment and establishment of provincial priorities has not been completed.

## 2. Climate Change

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**2.72** Without a comprehensive province-wide risk assessment, resources may not be directed to the most significant climate change risks. This could leave Islanders vulnerable and subject to higher financial costs to address the negative effects of climate change. A comprehensive province-wide risk assessment can inform the development of an adaptation strategy.

### **No adaptation implementation plan**

**2.73** An implementation plan should provide a step-by-step approach to implement the action items outlined in the strategy. There were four adaptation action items in the 2008 climate change strategy but there was limited information provided on each action item. The timeline, estimated financial costs, method for measuring results and assignment of responsibility was not outlined for each action item.

**2.74** We tested three of the four adaptation action items and found significant action had been taken on two, while only some action was taken on the third. See **Appendix II** of this chapter for the breakdown of action items from the strategy and their status at the time of our audit.

### **Some adaptation work has been completed**

**2.75** Although a comprehensive risk assessment and a robust adaptation strategy have not been completed, we were advised that some government departments have completed work directed at adaptation to climate change. For example, the Department of Transportation, Infrastructure and Energy (TIE) advised that some new bridges are being built higher than they would have been in the past due to sea level rise, some culverts are being upgraded to withstand severe weather events, and other work is being completed such as the installation of coastal armoring to protect the province's extensive shoreline. These practices are not policy, however, we were advised they are implemented where possible. This is not intended to be a comprehensive or complete list but it provides information on some important adaptation activities initiated by government.

## 2. Climate Change

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### Recommendations

**2.76** The Department of Communities, Land and Environment should prepare a province-wide risk assessment for adaptation to climate change. This assessment should identify, analyze and prioritize key risks.

**2.77** The Department of Communities, Land and Environment should ensure documented implementation plans are completed for all key adaptation actions. This would include at a minimum:

- assignment of responsibility;
- timelines for each action;
- financial and other resources required; and
- performance measures.

### MANAGEMENT RESPONSE

**2.78** Our findings and recommendations were discussed with management. In general, management agreed with the issues raised. Our report was recently provided to the Department of Communities, Land and Environment and a written response was requested.

## 2. Climate Change

### APPENDIX I

Glossary	
Adaptation <sup>3</sup>	Any activity that reduces the negative impacts of climate change and/or takes advantage of new opportunities that may be presented. Adaptation includes activities that are taken before impacts are observed (anticipatory) and after impacts have been felt (reactive). Both anticipatory and reactive adaptation can be planned, and reactive adaptation can also occur spontaneously.
Carbon Tax <sup>2</sup>	A levy imposed by a government on each unit of CO <sub>2</sub> equivalent emissions by a source subject to the tax.
Climate Change <sup>1</sup>	A change of climate which is attributed directly or indirectly to human activity that alters the composition of the global atmosphere and which is in addition to natural climate variability observed over comparable time periods.
Emissions <sup>1</sup>	The release of greenhouse gases into the atmosphere over a specified area and period of time.
Greenhouse Gases(GHG) <sup>2</sup>	Greenhouse gases are those gaseous constituents of the atmosphere, both natural and anthropogenic, that absorb and emit radiation at specific wavelengths within the spectrum of terrestrial radiation emitted by the Earth's surface, the atmosphere itself, and by clouds. This property causes the greenhouse effect. Water vapour (H <sub>2</sub> O), carbon dioxide (CO <sub>2</sub> ), nitrous oxide (N <sub>2</sub> O), methane (CH <sub>4</sub> ) and ozone (O <sub>3</sub> ) are the primary greenhouse gases in the Earth's atmosphere. Moreover, there are a number of entirely human-made greenhouse gases in the atmosphere, such as the halocarbons and other chlorine and bromine containing substances.
International Panel on Climate Change(IPCC) <sup>1</sup>	Established in 1988 by the World Meteorological Organization and the UN Environment Programme, the IPCC surveys world-wide scientific and technical literature and publishes assessment reports that are widely recognized as the most credible existing sources of information on climate change. The IPCC also works on methodologies and responds to specific requests from the UNFCCC's subsidiary bodies. The IPCC is independent of the UNFCCC.
Mitigation <sup>1</sup>	In the context of climate change, a human intervention to reduce the sources or enhance the sinks of greenhouse gases. Examples include using fossil fuels more efficiently for industrial processes or electricity generation, switching to solar energy or wind power, improving the insulation of buildings, and expanding forests and other "sinks" to remove greater amounts of carbon dioxide from the atmosphere.
Sink <sup>1</sup>	Any process, activity, or mechanism which removes a greenhouse gas, an aerosol, or a precursor of a greenhouse gas from the atmosphere. Forests and other vegetation are considered sinks because they remove carbon dioxide through photosynthesis.
United Nations Framework Convention on Climate Change(UNFCCC) <sup>1</sup>	An international environment treaty entered into in 1994 with the ultimate aim of preventing dangerous human interference with the climate system. There are currently 197 countries who are members. The treaty requires industrialized countries to report regularly on their climate change policies and measures as well as submit an annual inventory of their greenhouse gas emissions including data for their base year (1990) and all the years since.

1 Source: United Nations Framework Convention on Climate Change (UNFCCC)

2 Source: The International Panel on Climate Change

3 Source: Natural Resources Canada

## 2. Climate Change

APPENDIX II  
Page 1 of 3

### PRINCE EDWARD ISLAND AND CLIMATE CHANGE: A STRATEGY FOR REDUCING THE IMPACTS OF GLOBAL WARMING 2008 ACTION ITEMS

Item	Action Item	Status*
	Mitigation	
1	Develop programs for increasing energy efficiency in Island homes and businesses that include direct incentives, loan programs, grants, and rebates.	Significant Action Taken
2	Adopt energy efficient building standards and implement codes and practices in line with providing unified energy efficient building standards across the province that match or better current best standards for energy efficient building construction in Canada.	Some Action Taken
3	Building standards and an implementation time line will be set with targets for energy efficiency standards over the next 5 to 10 years.	Some Action Taken
4	Administration, inspection, education, and compliance will be linked to the new Provincial Building Code and Energy Standards.	Some Action Taken
5	Explore the use of financial incentives to promote the 'energy consumption' labeling of houses and buildings with special recognition of best practice and best in class.	Some Action Taken
6	Develop an Energy Efficiency Advisory Committee to identify potential investments in energy efficiency needs and opportunities in PEI and provide information and advice to government departments.	No Action Taken
7	Reduce, by 2025, the amount of CO <sub>2</sub> equivalent emitted per megawatt hour of electricity use by 20% of current emissions.	Could Not Conclude
8	Commit to the development of 500 MW of wind generated power in PEI.	Some Action Taken
9	Support the installation of small-scale renewable heating technologies for residential buildings and businesses through financial incentives.	Significant Action Taken
10	Review and improve codes and regulatory barriers preventing the sustainable development of biomass fuel and biogas facilities in PEI.	Significant Action Taken
11	Lead by example in demonstrating biomass and biogas technologies in public buildings and facilities across the Island.	Significant Action Taken
12	Promote the installation of biomass heating systems in homes and businesses, through financial incentives to reduce harmful greenhouse gas emissions.	Significant Action Taken
13	Undertake feasibility studies for the use of biomass and biogas in community district heating systems and the potential for co-generation facilities with the Island utilities.	Significant Action Taken*
14	Consider the introduction of escalating Renewable Fuel Standards for bioethanol and biodiesel. A Provincial E5 and B10 mandate could be introduced by 2013 and doubled by 2018.	Significant Action Taken*
15	Endorse the concept of a Low Carbon Fuel Standard, to reduce greenhouse gas emissions, through the increased use of environmentally and economically sustainable alternative biofuels.	Significant Action Taken*
16	Engage neighboring jurisdictions in formulating a collaborative regional approach to GHG emissions reduction through the adoption of Low Carbon Fuel Standards.	No Action Taken*
17	Promote the use and encourage the installation of community based heating projects through loans, tax breaks, and other financial incentives.	Some Action Taken
18	Evaluate, determine, and implement the most appropriate policy mechanism ( e.g. net-billing, standard offer contracts) and provide the proper regulatory framework to facilitate the development of community-based renewable energy projects in PEI.	No Action Taken

\*For those action items shaded, the status is per a self assessment provided by the Department of Communities, Land and Environment. The status of all other action items is per our audit work to assess implementation.

## 2. Climate Change

**APPENDIX II**  
**Page 2 of 3**

### **PRINCE EDWARD ISLAND AND CLIMATE CHANGE: A STRATEGY FOR REDUCING THE IMPACTS OF GLOBAL WARMING 2008 ACTION ITEMS**

Item	Action Item	Status*
	Mitigation	
19	Introduce a variety of transportation initiatives, including a commitment to introducing and increasing the renewable content of fuels, individual tax initiatives for public transport travel, developing co-funding initiatives for the construction of bicycle and walking paths within city limits, and the removal of sales taxes on bicycles, bicycle parts, and bicycle related clothing and safety gear.	Some Action Taken
20	The adoption of California-like vehicle emission standards was announced in 2007. The Government of PEI will work on implementation of this standard.	No Action Taken*
21	The Hybrid Tax Incentive will be expanded to become a Fuel Efficient Tax Incentive and include all vehicles that meet the criteria for 'best' fuel economy standards to be applied to the purchase of new vehicles in proportion to their fuel efficiency.	No Action Taken
22	\$2,000 additional tax incentive will be offered to taxi drivers purchasing hybrid vehicles or their fuel efficient conventional counterparts.	No Action Taken
23	Incorporate information on fuel-efficient driving practices into the Driver's Handbook and Driver Examinations.	Significant Action Taken
24	Amend the Vehicle Weights and Dimensions Regulations of the Roads Act to allow wide-based single truck tires, and a payload exemption for trucks equipped with auxiliary power units and particulate filters.	Some Action Taken
25	Examine mandatory emissions testing for heavyduty vehicles beginning in 2010.	Significant Action Taken
26	Examine mandatory emissions testing for passenger vehicles as part of the annual inspection.	Significant Action Taken
27	Provide incentives to landowners to remove marginal land from agricultural production, if coupled with a program of reforestation with approved Management Plans. Reforested land will be designated as environmentally sensitive land and removed from land holding limits.	Significant Action Taken*
28	Promote the use of reduced tillage management; cover crops, improved manure storage systems, and nutrient management systems, and evaluate the level of greenhouse gas mitigation that these practices provide the agricultural sector.	Significant Action Taken*
29	Prepare an annual Climate Change Report beginning in 2009, including progress on efforts to reduce greenhouse gas emissions provincially and in our own operations.	No Action Taken
30	Adopt advanced energy and environmental standards for all publicly funded, publicly owned, and leased buildings.	Some Action Taken
31	Commence an energy audit program for all government owned facilities beginning in 2009.	No Action Taken
32	Using information from energy audits, take action to reduce energy consumption, greenhouse gas emissions, and set standards for energy retrofitting of facilities.	No Action Taken*
33	Establish an Energy Technology Investment Fund for departments and agencies.	No Action Taken*
34	Adopt an environmental procurement policy that gives preference to products that protect and improve public health and safety, reduce pollution, minimize waste, maximize use of bio-based or recycled materials, conserve energy and water, and reduce the consumption or disposal of hazardous materials.	No Action Taken

\*For those action items shaded, the status is per a self assessment provided by the Department of Communities, Land and Environment. The status of all other action items is per our audit work to assess implementation.

## 2. Climate Change

APPENDIX II  
Page 3 of 3

### PRINCE EDWARD ISLAND AND CLIMATE CHANGE: A STRATEGY FOR REDUCING THE IMPACTS OF GLOBAL WARMING 2008 ACTION ITEMS

Item	Action Item	Status*
	Mitigation	
35	Amend the Transportation Efficiency Standard and require that all new government light duty vehicles be 80 percent more fuel efficient than other vehicles in their class. Departments will be required to purchase best in class vehicles.	Some Action Taken
36	Secure a source of locally available biofuels for use in oil-fired equipment and fleet vehicles, provided there are clear environmental benefits.	No Action Taken
37	Develop campaigns and tools to create awareness among public service employees on issues relating to our impact on the environment.	Some Action Taken
38	Implement a reserved parking area for vehicles involving carpools of 3 or more employees at the Shaw, Sullivan, and Jones building complex in Charlottetown.	Significant Action Taken
	Adaptation	
39	Create an interdepartmental working group to identify and manage current and projected climate-related risks.	Some Action Taken
40	A new digital elevation model based on LiDAR mapping will be available to government in 2009.	Significant Action Taken
41	Support a review of current land use and development policies and encourage sustainable options for future land developments.	Significant Action Taken
42	Incorporate climate change outcomes into the environmental impact assessment process.	Some Action Taken*
	Other	
43	Create and maintain a climate change website, providing information on government programs and initiatives to the public.	Significant Action Taken
44	Work with Island communities to develop greenhouse gas emission inventories and develop resources that identify actions communities can take to reduce emissions and prepare for climate change.	Significant Action Taken
45	Dedicate resources and work cooperatively with other provinces to incorporate climate change into the science curriculum.	No Action Taken*
46	Create a Centre for Climate Change Strategies to be aligned with federal and regional initiatives to develop sustainable, coordinated responses to climate change issues through trans-disciplinary activities.	No Action Taken*
47	Use revenues from wind development initiatives and invest them to fund provincial government climate change activities and associated research initiatives.	No Action Taken

\*For those action items shaded, the status is per a self assessment provided by the Department of Communities, Land and Environment. The status of all other action items is per our audit work to assess implementation.

## 2. Climate Change

### APPENDIX III

AUDIT CRITERIA
Mitigation of Greenhouse Gas Emissions
<p><b>Objective:</b> To determine whether the government of Prince Edward Island is making progress towards commitments to reduce greenhouse gas emissions.</p> <p>Criteria:</p> <ul style="list-style-type: none"><li>• There should be clearly established and public communicated provincial targets for mitigation of greenhouse gas emissions.</li><li>• There should be documented implementation plans/strategies that describe how the targets will be met.</li><li>• There should be processes for assessing whether the province is on track to achieve the intended targets and monitor progress.</li><li>• There should be regular and timely reporting to the public and other stakeholders on the progress to achieve greenhouse gas emission targets.</li></ul>
Adaptation to Climate Change
<p><b>Objective:</b> To determine whether the government of Prince Edward Island has taken action to adapt to climate change risks.</p> <p>Criteria:</p> <ul style="list-style-type: none"><li>• There should be a comprehensive and coherent specific risk assessment.</li><li>• There should be an action plan to adapt to climate change effects.</li><li>• There should be processes in place for assessing progress in implementing adaptation actions in accordance with the strategy.</li><li>• There should be regular and timely reporting on the progress in implementing adaptation strategies.</li></ul>

### 3. OFFICE OF THE PUBLIC TRUSTEE

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#### CHAPTER SUMMARY

##### *What we examined*

This audit examined whether the Office of the Public Trustee has adequate processes to safeguard and administer client assets held in trust. We also examined whether the Office of the Public Trustee publicly reports on its performance.

Audit work for this report was substantially complete as of January 2017.

##### *Why it's important*

The Public Trustee is responsible to protect the financial interests of some of Prince Edward Island's most vulnerable residents. The Office of the Public Trustee responds to the needs of those who are deemed medically incapable of making their own financial decisions or where required by order of the court. As of March 31, 2016, the Public Trustee was responsible for approximately 300 clients.

##### *What we found*

The processes to administer and safeguard client assets are inadequate:

- Significant internal control weaknesses were identified including inadequate management review and oversight of trust accounts.
- Some receipts and disbursements did not have sufficient supporting documentation.

The accounting system is inefficient and inadequate which impacts the ability of the Office to produce timely financial reports. Performance reporting needs improvement.

### 3. Office of the Public Trustee

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Many of the issues identified in this report are not new and we have brought them to the attention of the Office of the Public Trustee in previous audits.

#### BACKGROUND

**3.1** The offices of the Public Trustee, Public Guardian, and Official Guardian operate as one office. This Office provides a service to the public for the purpose of ensuring that vulnerable members of society are appropriately cared for and are not at risk. The Office is called upon to assist in matters of a personal and/or financial nature where there are no family or friends who are ready, willing, and able to assist. The Office operates on the principle that decisions will always be made in the client's best interest.

**3.2** The Office is led by a single employee who serves in three distinct roles:

1. Public Trustee - to assist individuals who are unable to look after their own financial affairs and have no trusted family or friends who can do this for them.
2. Public Guardian - to assist individuals who are unable to look after their own personal affairs and have no trusted family or friends who can do this for them.
3. Official Guardian - to act as a litigation guardian, for minors and other persons deemed incapable where required under an act or the Rules of Court.

**3.3** The Office operates under the Legal and Court Services Division of the Department of Justice and Public Safety and incurred operating costs of \$353,000 in 2015-16 which were funded through the Department's annual budget.

**3.4** For purposes of this audit, our work focused entirely on the Office's role as Public Trustee. For the remainder of this report, any references to the Office relate only to the Public Trustee's role.

### 3. Office of the Public Trustee

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**3.5** Public Trustee services are delivered by the Public Trustee, the Deputy Public Trustee, and an administrative support staff member. We were advised that both the Public Trustee and the administrative support person spend at least fifty percent of their time on other responsibilities related to the Public Guardian and Official Guardian.

**3.6** The Public Trustee is granted authority through the *Public Trustee Act*. The Public Trustee can be appointed to act for a person upon receipt of two medical certificates each signed by a different practicing physician who determines that the person is no longer able to manage his or her financial affairs by reason of incapacity. The Public Trustee may also be appointed to act for a client pursuant to a court order. If clients of the Public Guardian require financial oversight, their financial affairs are included within the trust accounts of the Public Trustee.

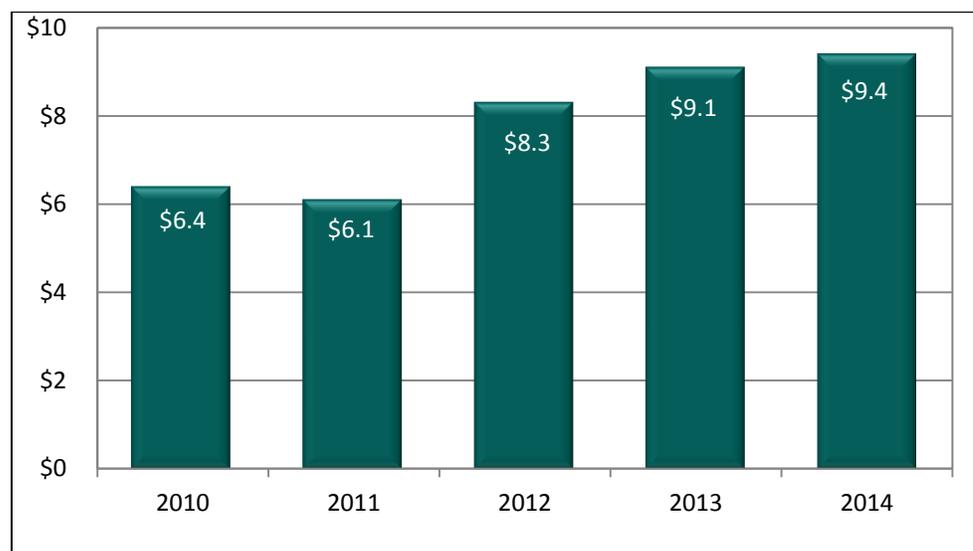
**3.7** When appointed to act for an individual, the Public Trustee is required to take possession or control of assets, receive income, make disbursements, and invest excess funds on behalf of and in the best interests of the client. The degree to which the Office is involved may vary greatly depending on the client's circumstances and in some cases specifications included within the applicable court order.

**3.8** Court orders may also authorize the Public Trustee to hold funds on behalf of minors or persons with disabilities which were awarded through court settlements, estates, or under Attorney General's Orders pursuant to the *Victims of Crime Act*. The Office also represents deceased persons' estates in certain situations. As at March 31, 2016, the Public Trustee had responsibility for approximately 300 clients.

**3.9** As of March 31, 2014, the net value of client assets held in trust was \$9.4 million. Total client net asset balances at year-end ranged from \$6.1 million to \$9.4 million for fiscal years 2010 to 2014. **Exhibit 3.1** illustrates these totals. Client net asset balances for 2015 and 2016 were not prepared by management.

### 3. Office of the Public Trustee

#### EXHIBIT 3.1 PUBLIC TRUSTEE CLIENT NET ASSETS AS AT MARCH 31 (\$ Millions)



Source: The Public Trustee's Audited Financial Statements

**3.10** The number and value of transactions processed by the Public Trustee Office is significant. Over a three year period ending March 31, 2016, the Public Trustee processed approximately 18,000 transactions related to \$10.9 million receipts and \$10.5 million disbursements.

**3.11** In 2014, Public Trustee fees of \$87,000 were charged to clients and payable to the Minister of Finance. These fees included an annual charge based on each client's total asset holdings and additional charges for specific services as outlined in the *Public Trustee Act Fee Regulations*. Activity related to total client assets held in trust, including any fees charged by the Office, is presented in the Public Trustee's audited financial statements.

### 3. Office of the Public Trustee

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#### OBJECTIVES AND SCOPE

**3.12** The objectives of our audit were to determine whether

- the Public Trustee Office has adequate processes to safeguard and administer client assets held in trust; and
- publicly reports on its performance.

**3.13** The standards against which we measured the Public Trustee's performance came from various sources including relevant government legislation, existing policies, and general best practices. These standards, or criteria, were reviewed with the Public Trustee prior to the commencement of the audit. The Public Trustee accepted the relevance and suitability of the criteria used in the audit.

**3.14** The scope of our audit covered three fiscal years from April 1, 2013 to March 31, 2016. Our audit approach included

- interviews with the Public Trustee and staff;
- an examination of internal controls and processes related to trust accounts and case files;
- analysis of client balances and transactions; and
- testing a sample of client files for appropriate documentation to support authorization, asset balances, receipts, and disbursements.

**3.15** We did not audit the services provided under the Office's role as Public Guardian or Official Guardian, nor did we audit the capabilities of the accounting software currently used by the Public Trustee. Our testing of trust assets and related income was limited to those recorded in the accounts.

**3.16** We performed our audit in accordance with the standards for assurance engagements encompassing value-for-money established by the Chartered Professional Accountants of Canada and accordingly included such tests and other procedures as we considered necessary in the circumstances.

#### OBSERVATIONS AND RECOMMENDATIONS

#### AUTHORIZATION AND ADMINISTRATION OF CLIENT FILES

**3.17** The *Public Trustee Act* (the Act) outlines the manner in which the Public Trustee is authorized to obtain control of assets and administer finances in the best interests of a client. Under the Act, authority is granted to the Public Trustee to act for clients pursuant to a court order or, where a client is declared incompetent, based on the issuance of two medical certificates. In addition, under section 25 of the Act, the Public Trustee may make application to the court to be appointed to manage the financial affairs of an incompetent person.

**3.18** In situations where the Public Trustee is authorized to act for a client, the supporting authorization should be maintained by the Office. For a sample of client files, we checked for documented authorization for the Public Trustee to act on behalf of the client. In all but one instance, appropriate documentation was on file.

#### **Client information not readily available**

**3.19** Each file should contain a consistent summary of basic client information and it should be updated regularly. This could include the client's age, living conditions, family support, care taker information, income, terms of court orders, monthly living requirements, and appropriate cash balances. Clients and caretakers should be periodically contacted to ensure information on file is current.

**3.20** We found that there was no summary of client information available in the files. This information is important for continuity and efficiency in the administration of client files. Many client files examined were disorganized and information was often difficult to find. Where there is a court settlement, there may be court records that detail some client information. However, even where these did exist, the information was not updated when circumstances changed.

### 3. Office of the Public Trustee

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#### **Client transactions not always recorded**

**3.21** Our analysis of client transactions identified a number of clients with significant activity in the form of receipts and disbursements. Conversely, there were also a number of clients with very little activity within their accounts. For clients with little activity, we expected there would be at least a periodic review of the client's circumstances to ensure the financial interests of the client are protected. This review could help to ensure summary client information is updated, appropriate levels of cash are maintained, annual tax returns are filed, and annual fees are charged. Without a regular review, there is an increased risk that clients who do not require the Office's immediate attention may be overlooked.

**3.22** Client monthly receipts are sometimes forwarded directly to care providers, such as nursing homes, to cover living expenses. We were advised that these amounts are not recorded within the Public Trustee's records. We found that under these circumstances client financial records are incomplete and the Public Trustee Office is not providing adequate oversight for the client.

**3.23** In our sample testing, we identified three clients for whom the revenues and expenses were not recorded in the client accounts. There was no documentation on file to support that the Office had periodically checked in with the client or the caregiver to provide financial oversight for the client. In one of these three cases, we found that the client had been deceased since 2004. The Public Trustee Office was unaware of the client's death and the annual fee was charged each year. As of March 31, 2016, a balance of approximately \$4,000 was held in this client's account.

**3.24** When the Public Trustee becomes authorized to act for a client it is the Office's obligation to protect the financial interests of that client. Some clients have complex changing circumstances while others have limited financial activity. In all cases, it is important for the Public Trustee to have current and complete financial and other information to safeguard the interests of clients and provide adequate oversight.

### 3. Office of the Public Trustee

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#### **Recommendations**

**3.25 The Public Trustee Office should document and regularly update key summary information on each client.**

**3.26 The Public Trustee Office should record the revenues and expenses for each client.**

**3.27 The Public Trustee Office should provide adequate oversight for all clients.**

#### **Asset information incomplete**

**3.28** When the Public Trustee is authorized to take financial responsibility for an individual, staff should establish a complete listing and take control of known assets and liabilities in a timely manner. The Public Trustee is required to take possession of client assets including cash, real estate, investments, and other assets such as vehicles, furniture, and jewelry.

**3.29** For our sample of 30 files, there were 22 clients who had assets other than cash. In general, documentation was on file to support the value of the known assets that were recorded by the Public Trustee. We found that in general asset information was not summarized in client files. For each client, such a summary should include a brief description of assets, their location, value, and ownership as well as associated liabilities. Without this information assets can get overlooked. In fact, during our audit we noted instances where client assets were not listed and/or recorded in the client's trust accounts.

**3.30** In one sample file, the Office did not take immediate control and possession of the client's bank account. Four months later when the Trustee took control, there had been withdrawals from the client's bank account. The Public Trustee could not determine the reason for the withdrawals and the funds could not be recovered.

**3.31** In some cases, the Office is required to take possession of a home and its contents. Often, the contents are liquidated through an auction administered by the Public Trustee Office. In our sample, there were two auctions connected with three clients. We expected the proceeds to be reconciled to the high value items in the inventory listing. Staff informed

### 3. Office of the Public Trustee

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us that proceeds were reconciled but documentation was not maintained. Without this documentation, we could not conclude if these reconciliations were completed.

#### Recommendations

**3.32 The Public Trustee Office should act in a timely manner to establish a complete listing and take control of assets and liabilities for each client.**

**3.33 The Public Trustee Office should reconcile auction proceeds to the inventory of significant assets and maintain appropriate documentation.**

#### FINANCIAL CONTROLS AND OVERSIGHT

**3.34** Internal controls are a set of procedures that are intended to protect assets, ensure the reliability of accounting information, and support operational efficiency. We examined selected internal controls of the Office to determine whether adequate controls existed over receipts and disbursements made on behalf of Public Trustee clients.

**3.35** A basic key element of an effective control environment is the concept of segregation of duties. This requires having more than one person to complete a task as an internal control intended to prevent or detect unauthorized transactions and errors. Ideally, an appropriate segregation of duties would separate

- custody of assets, i.e. cash;
- recordkeeping;
- authorization; and
- reconciliation procedures.

#### **Insufficient internal controls for receipts and disbursements**

**3.36** We found there is an inadequate segregation of duties which could expose client assets to risk. One staff member can set up new clients, initiate disbursements, record transactions, transfer funds between client accounts, handle all aspects of client investments, and perform bank reconciliations.

### 3. Office of the Public Trustee

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**3.37** Segregation of duties can be challenging in a small office. In the absence of an appropriate segregation of duties, we would expect compensating controls to mitigate the risks of unauthorized transactions and errors going undetected. It is important that the Public Trustee provides oversight and authorization for key processes. This should include, at a minimum, authorizing disbursements and reviewing bank reconciliations.

**3.38** Having disbursements prepared by one person and reviewed and authorized by a second person is a key control that helps ensure that each disbursement is required, accurate, and supported. We examined disbursements for a sample of 30 clients. In all but one case, the cheques were signed by the Public Trustee. However, there was no evidence that the Public Trustee reviewed documentation to support the disbursements, and there were instances in our testing where there was inadequate supporting documentation for payments. Therefore, we concluded that internal controls over disbursements are inadequate.

**3.39** Bank reconciliations are a key control to identify the existence of unauthorized disbursements and to help ensure that all bank transactions have been entered into the Office's accounting records. We expected that bank reconciliations would be prepared on a monthly basis by Office staff and reviewed and approved by the Public Trustee. We found that the Office prepares bank reconciliations but they were not performed in a timely manner. For example, the March 31, 2016 bank reconciliation was not completed until November 2016. In addition, bank reconciliations were not reviewed by the Public Trustee.

#### **Recommendation**

**3.40** The Public Trustee Office should develop and implement adequate internal controls to safeguard and maintain client's financial assets. This, at a minimum, should include

- appropriate segregation of duties;
- review and approval of documentation to support disbursements; and
- timely preparation and review of monthly bank reconciliations.

### 3. Office of the Public Trustee

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#### **Insufficient management information**

**3.41** Regular management reports are a valuable management tool. Management needs relevant, reliable, and timely information to make informed decisions that help to achieve program goals and perform effective oversight. We expected the Public Trustee to obtain regular summary reports on the financial and other activities of the Office.

**3.42** Due to the small number of employees, the Public Trustee communicates daily with staff about individual clients. However, the Office does not produce regular summary reports. High level financial reporting, such as a monthly client transaction summary, would facilitate review and oversight of client receipts and disbursements. Clients often have consistent, recurring, monthly transactions and such a report could allow the Public Trustee to identify missing information and/or unusual transactions.

#### **Recommendation**

**3.43** The Public Trustee should obtain regular summary reports to facilitate oversight of client accounts.

#### **Lack of supporting documentation**

**3.44** An efficient, well organized filing system is important when administering finances on behalf of a large group of clients. It allows staff to quickly locate information on clients and/or supporting documentation for specific disbursements. The Public Trustee Office should have well organized client files including support for the value of client assets and any receipts or disbursements while the assets are under its administration. In 30 sample files, we found that many client files were not well organized and, in some cases, staff in the Public Trustee Office could not locate supporting documentation.

**3.45** In many cases, the Public Trustee Office administers regular monthly disbursements on behalf of the client. These payments would include monthly comfort allowances, rent payments, or payments for regular private care. In these circumstances, the Office should have documentation to support the initial authorization of the payments which outlines the underlying expenditure or service and the amount. When the

### 3. Office of the Public Trustee

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payment amount or terms of service change, updated authorization should be obtained. If the change is temporary, support should be on file for that particular instance. In our sample, we noted six files where the Office could not provide supporting documentation for regular recurring payments.

**3.46** We also checked for proper documentation for a number of non-recurring transactions. In 11 of the 30 client files tested, the Public Trustee Office could not provide the supporting documentation when requested. In one of these instances, the Office could not provide support for significant costs of approximately \$125,000 withheld on the sale of a condominium. Other examples included a number of disbursements related to a home renovation, repayments of debt, furniture purchases, and other smaller disbursements.

#### **Recommendation**

**3.47 The Public Trustee Office should maintain organized client files containing all relevant documentation to support transactions.**

## **ACCOUNTING SYSTEM**

### **Inadequate accounting system**

**3.48** An accounting system is an organized set of manual and computerized accounting methods, procedures, and controls established to gather, record, classify, analyze, summarize, interpret, and present accurate and timely financial data for management decisions. An accounting system for the Office of the Public Trustee should capture all client assets, liabilities, receipts, and disbursements for each client. The system should also be capable of generating complete, accurate, and timely reports to

- provide financial oversight;
- report financial activity by client; and
- facilitate the preparation of financial statements.

### 3. Office of the Public Trustee

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**3.49** The Office's accounting system is inadequate. Significant deficiencies make the accounting process inefficient and prone to errors. These problems also impact the Office's ability to produce timely financial reports.

**3.50** The general ledger maintained by the Office does not include all balance sheet accounts, therefore changes to client asset and liability balances are not updated as transactions occur. Instead, on an annual basis transactions impacting assets and liabilities are manually transferred to a spreadsheet, analyzed, and recorded to produce client net asset balances. This manual process of sorting through client files is inefficient and increases the risk of human error. As a result, the Public Trustee Office cannot generate accurate, timely reports of client assets and liabilities.

**3.51** In conducting the March 31, 2014 financial statement audit, the manual listing of client assets prepared by the Public Trustee Office contained errors totaling approximately \$1 million relating to client assets held in trust. The majority of these errors related to unrecorded assets and disposals. These were corrected by the Public Trustee Office as part of the financial statement audit.

**3.52** There are also issues with the method of recording client receipts and disbursements. These transactions are not always accurately or consistently coded by Office staff and a large portion of transactions are posted to a miscellaneous account. In order for meaningful, accurate reports to be generated, staff must manually analyze and reclassify these transactions to the proper accounts. Further, while testing receipts and disbursements for a sample of 30 files, we noted two coding errors totaling \$7,700 in which receipts were posted to the wrong client accounts.

**3.53** These current practices and processes are not efficient and highlight the need for improvements in the accounting system to provide management with accurate and timely financial information.

#### **External financial reporting not timely**

**3.54** The *Public Trustee Act* requires that the accounts and transactions of the Public Trustee Office are examined and reported on.

### 3. Office of the Public Trustee

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**3.55** It is a statutory requirement that the Office of the Auditor General perform an audit of the Public Trustee's financial statements. The annual financial statement audit provides assurance that the financial balances and activity as presented within the Public Trustee's financial statements are fairly presented.

**3.56** The inefficient and inadequate accounting system of the Office of the Public Trustee has contributed to significant delays in preparing its financial statements. The March 31, 2014 audited financial statements were completed in February 2017. Presently, the Public Trustee Office is in the process of preparing its March 31, 2015 and 2016 financial statements. Because of these delays, the Public Trustee's audited financial statements have not been publicly available since 2011.

#### **Recommendation**

**3.57 The Public Trustee Office should take action to implement an accounting system that facilitates timely, accurate information for management decision making and reporting.**

## **POLICIES**

**3.58** The *Public Trustee Act* and regulations outline specific legislative requirements. Documented policies and procedures establish expectations and provide a resource for staff to follow and a framework for achieving objectives. The Public Trustee should have policies and procedures, consistent with legislation, to safeguard and administer client assets.

**3.59** We noted that the Office currently has three approved documented policies. These policies relate to waiving fees charged by the Office, a statement of the Office mandate, and accepting power of attorney.

**3.60** Several issues raised in this report support the need for additional policy guidance in areas involving administration of client files and financial controls. We also noted the need for additional policy guidance in the following areas.

#### **No approved investment policy**

**3.61** Under the Act, the Public Trustee has the authority to invest available assets on behalf of clients. However, the Public Trustee must exercise the care, skill, diligence, and judgment that a prudent investor

### 3. Office of the Public Trustee

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would exercise in making investments. As of March 31, 2014, the Public Trustee was responsible for \$6.5 million in investment holdings.

**3.62** The Office has no approved investment policy. We were provided with a draft investment policy that was developed in 2008. We were advised that if clients have a pre-existing portfolio managed by a reputable third party, funds remain managed by that party and the Office receives and reviews monthly portfolio statements. For each client, an appropriate level of cash is established and maintained to meet the monthly requirements, and any excess funds are invested in guaranteed investment certificates administered by the Office.

**3.63** We noted two cases in our sample where the client's cash balance was maintained for an extended period at an amount much higher than the monthly needs, one at \$170,000, and the other at \$225,000. In each of these cases, the client could have earned interest on the excess cash had it been invested by the Public Trustee Office.

#### **Inconsistent efforts in contacting heirs**

**3.64** When a client dies, the *Public Trustee Act* requires that, until an executor or administrator is appointed, the Public Trustee continues to conserve the estate of the person. The Act further states that all property held of a deceased person that is not claimed within five years of the date of death shall be converted into cash and paid to the Minister of Finance. In 2014, unclaimed assets were transferred to the Minister of Finance in accordance with legislation. These assets had a value of \$545,000 and related to 72 deceased clients.

**3.65** We were advised, in cases where there is no will, the practice is to contact known heirs for execution of the estate. Where there are no known heirs, the Office of the Public Trustee holds client assets until unclaimed amounts are transferred to the Minister of Finance. The Public Trustee Office currently has no documented policy for seeking out and contacting heirs in the event of a client's death.

**3.66** In performing our work, we noted that action taken to contact family varies. A documented policy would provide guidance on the efforts and actions required and help ensure consistency.

### 3. Office of the Public Trustee

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#### Recommendation

**3.67** The Public Trustee Office should establish documented policies and procedures to guide staff in conducting the work of the Office. At a minimum, these should include

- administration of client files;
- financial controls;
- managing client investments; and
- contacting known heirs.

## PERFORMANCE REPORTING

### Lack of performance reporting

**3.68** Public reporting is an essential component of transparency and accountability. Annual reporting of the Office's activities and performance is important for establishing transparency and accountability. Although there is no legislative requirement specifically for the Public Trustee to publicly report on its performance, it is the practice in most Canadian provinces.

**3.69** We expected the Office to have established documented performance measures and to monitor and publicly report on performance. Documented performance measures provide a means to measure success and demonstrate accountability for the Office's work. We found that the Office has not established any form of goals or performance measures.

**3.70** Based on Treasury Board Policy, the Department of Justice and Public Safety is required to submit an annual report to the Minister which is released to the public. The Department's annual report normally includes summary information on the Public Trustee Office. As of March 1, 2017, the latest departmental annual report was for the period ending March 31, 2014, which was released in June 2015.

### 3. Office of the Public Trustee

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#### **Recommendations**

**3.71 The Office of the Public Trustee should establish documented performance measures.**

**3.72 The Public Trustee Office should annually report to the public on its performance.**

#### **MANAGEMENT RESPONSE**

**3.73** Our findings and recommendations were discussed with management. Our report was recently issued to the Office of the Public Trustee and a written response has been requested.

## 4. SENIORS HOUSING PROGRAM

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### CHAPTER SUMMARY

#### *What we examined*

This audit examined whether the Housing Services Division has developed a long-term plan to address the housing needs of low income Island seniors. It also examined the processes for assessing and selecting new tenants for the Seniors Housing Program.

Audit work for this report was substantially complete as of December 2016.

#### *Why it's important*

The Seniors Housing Program (Seniors Housing) was established to provide quality housing to low income seniors who are unable to maintain their existing homes and are unable to obtain suitable housing through their own resources. Demand for subsidized seniors housing services has been growing, and based on current demographic projections that growth is expected to continue.

It is important that the Division has a long-term plan to help ensure the vulnerable population it serves will have timely access to housing. It is also important that applicants are correctly assessed and those most in need of housing are selected for housing units and rental supplements.

#### *What we found*

The Housing Services Division does not have a long-term plan to address the housing needs of low income seniors.

Management of wait list information needs improvement:

- The Housing Services Division does not maintain an accurate wait list for the Seniors Housing Program; and
- The Housing Services Division does not have an adequate process to provide timely accurate information for decision making.

## 4. Seniors Housing Program

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We noted deficiencies in the assessment process and non-compliance with policy.

We noted issues with the selection of tenants for low income seniors housing including:

- non-compliance with the selection policy;
- lack of documentation to support decisions; and
- need for more policy guidance for housing officers.

### BACKGROUND

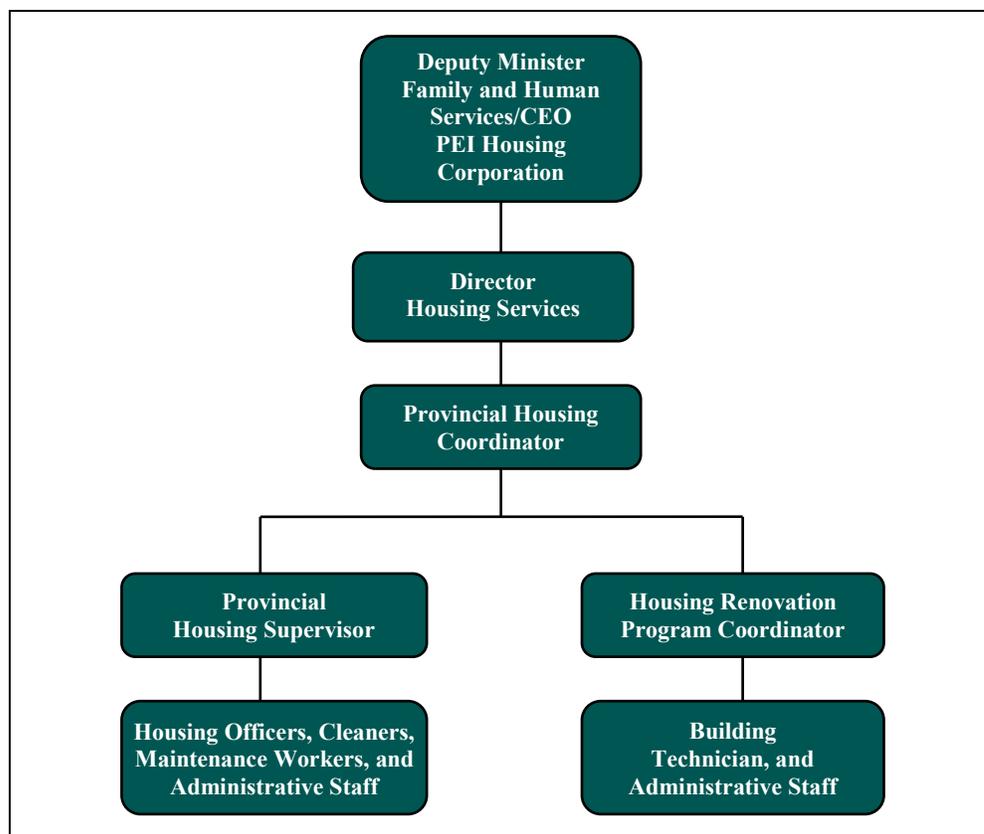
**4.1** The Housing Services Division of the Department of Family and Human Services is responsible for the delivery of social housing and renovation programs which promote affordable housing for Islanders who need support including low income seniors who wish to maintain independent living conditions. The Seniors Housing Program is administered by the Housing Services Division (the Division).

**4.2** The Prince Edward Island Housing Corporation (Housing Corporation) is a separate legal entity that is associated with this Division. The majority of the funding agreements between the Province and the Canada Mortgage and Housing Corporation are with the Housing Corporation. The majority of the revenues and expenditures related to the work conducted by the Housing Services Division is flowed through the Housing Corporation and is reported in its audited financial statements.

## 4. Seniors Housing Program

4.3 Exhibit 4.1 shows the primary positions involved in the management and delivery of the Seniors Housing Program.

**EXHIBIT 4.1**  
**ORGANIZATION CHART**  
**HOUSING SERVICES DIVISION**  
**AS AT MARCH 31, 2016**



Source: Adapted from the organization chart of Department of Family and Human Services

4.4 The Provincial Housing Coordinator and the Provincial Housing Supervisor oversee both family and seniors housing programs. There are six housing officers that manage the Seniors Housing Program. These housing officers operate out of four provincial housing offices located in Charlottetown, Summerside, Montague, and Souris.

4.5 The Seniors Housing Program is delivered to low income seniors through provincially owned housing units and rental supplements for units owned by private landlords. The Program is intended to provide quality apartment style housing to low income individuals, sixty years or older, who are seeking independent living accommodations. They must be

## 4. Seniors Housing Program

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unable to maintain their existing homes and unable to obtain other suitable housing through their own resources. In situations where the individual is permanently unemployable due to poor health, the age requirement for eligibility may be lowered to fifty-five.

**4.6** At March 31, 2016, the province owned 1,117 seniors housing units located in 32 communities across the province. The units accommodate a variety of needs including pet friendly units and wheelchair accessible units. Rent for these units includes the majority of costs related to the unit including maintenance and heat. Rent for seniors housing is calculated at 25 percent of the senior's income with a minimum monthly rental of \$100.

**4.7** The province incurs costs to operate the provincially owned housing units such as repairs and maintenance, property taxes, utilities, depreciation, insurance, and other administrative costs. The province receives rental income from tenants to offset some of these costs.

**4.8** Approximately 65 percent of the provincially owned seniors housing units are cost shared with the Government of Canada, through the Canada Mortgage and Housing Corporation (CMHC). In accordance with various agreements, CMHC reimburses the province for a portion of the net operating costs associated with the units. These agreements will expire between 2018 and 2036. At the time of our audit, the province had not received information on the future status of this funding. The federal government has indicated it will release a National Housing Strategy in 2017.

## 4. Seniors Housing Program

**4.9** Exhibit 4.2 provides a summary of revenues and expenses for the Seniors Housing Program. This includes provincially owned housing units that are cost shared with CMHC and those that are fully funded by the province, as well as rental supplements. This does not include revenues and expenses related to the Seniors Home Repair Program and Seniors Safe at Home Program.

**EXHIBIT 4.2**  
**SENIORS HOUSING PROGRAM**  
**FINANCIAL SUMMARY**  
**FOR THE YEARS ENDED MARCH 31**  
**(\$ Millions)**

	2015	2016
Rental income	\$5.2	\$5.3
Expenses	8.0	7.7
Net costs before CMHC reimbursement	2.8	2.4
Less: CMHC reimbursement	1.4	1.2
<b>Net provincial cost</b>	<b>\$1.4</b>	<b>\$1.2</b>

Source: Department of Family and Human Services

**4.10** Significant capital costs have been incurred to acquire and maintain the properties. At March 31, 2016, the province reported a total capital investment of approximately \$30 million, with a net book value of \$11 million, related to the provincially owned seniors housing units.

**4.11** Rental supplements are provided for seniors to access private sector housing units. Under these arrangements, the province enters into a lease agreement and pays rent directly to the landlord. The province then collects rental income from the senior based on 25 percent of the senior's income. The rent charged by private landlords cannot exceed a specified dollar amount determined by the province.

**4.12** In 2012 and 2013, the Division, through the Housing Corporation, entered into 10 year lease agreements with private landlords to provide 104 rental supplement units in 6 buildings. In May 2016, the Department announced the funding of a further 25 rental supplement units for a total of 129 units funded in this manner. For these additional 25 units, the supplement can be used for any unit in the province as long as the unit is considered adequate to support the senior's needs, the landlord is willing

## 4. Seniors Housing Program

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to partner with the province, and the monthly rent is below the maximum rent set by the province.

### OBJECTIVES AND SCOPE

**4.13** The objectives of our audit were to determine whether the Housing Services Division

- developed a long-term plan for seniors housing to address the housing needs of Island seniors;
- performed assessments on applicants and selected new tenants in compliance with policy; and
- maintained an accurate, up-to-date listing of applicants waiting for placement.

**4.14** This audit included the Seniors Housing Program only and did not include the Seniors Safe at Home Program or the Seniors Home Repair Program. In addition, this audit did not address compliance with CMHC agreements.

**4.15** The standards against which we measured performance of the Seniors Housing Program came from various sources, including the Seniors Housing Program Policy and Procedures Manual and general best practice. These standards, or criteria, were reviewed with senior management prior to the commencement of the audit. Management accepted the relevance and suitability of the criteria used in the audit.

**4.16** The scope of our audit covered the period September 1, 2015 to August 31, 2016. Our approach included

- interviews with Division management and staff;
- review of relevant legislation, policies, and procedures;
- review of documentation and analysis;
- testing of applicant and tenant files; and
- analysis and review of wait lists for seniors housing.

**4.17** It is important to note that our observations and conclusions relate only to the management practices and actions of the Housing Services

## 4. Seniors Housing Program

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Division. Consequently, our comments and conclusions do not pertain to the practices or performance of any third parties.

**4.18** We performed our audit in accordance with the standards for assurance engagements encompassing value-for-money established by the Chartered Professional Accountants of Canada and accordingly included such tests and other procedures as we considered necessary in the circumstances.

### OBSERVATIONS AND RECOMMENDATIONS

#### LONG-TERM PLANNING

**4.19** The Housing Services Division of the Department of Family and Human Services is responsible for delivery of the Seniors Housing Program in Prince Edward Island. A long-term planning process would allow the Division to assess future demand, analyze options for meeting demand, and implement changes to the program to improve its services in a cost effective manner. The Division's delivery of low income seniors housing is significantly impacted by the following factors and trends:

- the number of seniors housing units in PEI is insufficient to meet the current demand;
- the inventory of seniors housing units is aging; approximately 50 percent of the buildings were constructed prior to 1980;
- there is uncertainty regarding future funding due to the expiration of CMHC Agreements; and
- the percentage of the Island population that are age 60 and over is increasing and is expected to continue to increase into the future.

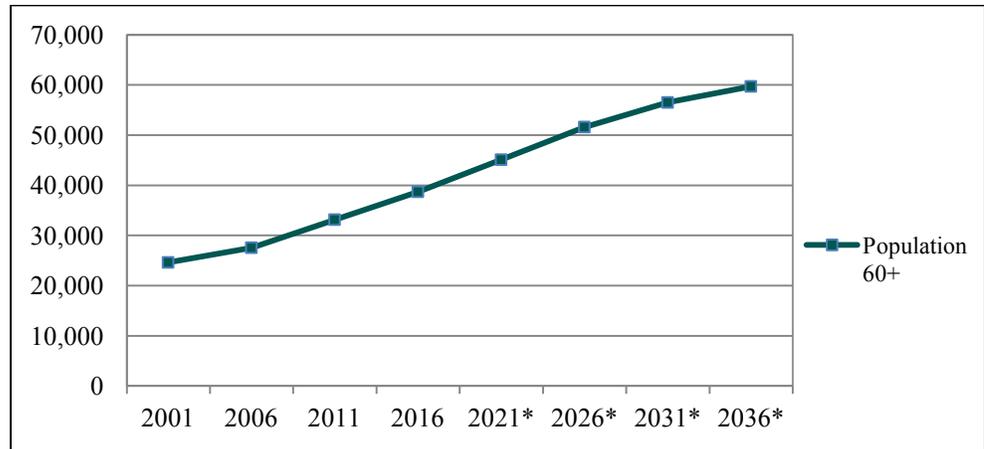
**4.20** We expected the Division to have analyzed and identified projected future demand for its programs and services, assessed viable options to satisfy these demands, and developed a long-term plan.

**4.21** Based on estimates from Statistics Canada, 26 percent of PEI's population was 60 years of age and over in 2016, up from 18 percent in 2001. Statistics Canada predicts that the number of Islanders age 60 and over will continue to increase. The number of Islanders 60 years of age and older is expected to increase from 38,700 in 2016 to 59,700 in 2036. This would be an increase of over 20,000 seniors and this age group would represent 34 percent of the total Island population.

## 4. Seniors Housing Program

**4.22 Exhibit 4.3** depicts past, current, and future growth in the population of Island seniors age 60 and over. While the growth in seniors requiring low income housing may not mirror the population growth, it points to the need for the Housing Services Division to analyze the expected future demand and make plans to address the impact on the program.

**EXHIBIT 4.3  
PEI POPULATION  
AGE 60 AND OVER  
ACTUAL AND PROJECTED POPULATION**



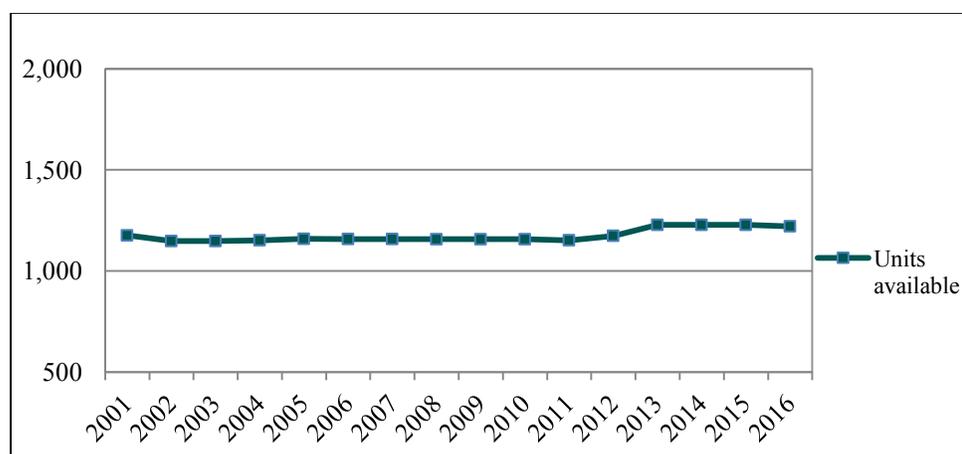
\*Projected figures.

Source: Statistics Canada estimates of population

## 4. Seniors Housing Program

**4.23** As depicted in **Exhibit 4.4**, the number of units available for low income seniors has remained relatively steady since 2001. There were approximately 1,180 units in 2001 and 1,220 units available at March 2016, including rental supplements available up to that date. There were an additional 25 rental supplement units approved subsequent to March 31, 2016 that are not reflected in this exhibit.

**EXHIBIT 4.4**  
**SENIORS HOUSING PROGRAM**  
**UNITS AVAILABLE**  
**2001 to 2016**



Source: Department of Family and Human Services

**4.24** Demand for the Seniors Housing Program is comprised of the number of units available plus the wait list. The units available are fully occupied and there is a wait list. The wait list, as reported in the Department's annual reports, has increased significantly over the last 10 years. However, based on our work, the department is not maintaining accurate wait list information. This is discussed in more detail later in this chapter. The Department needs reliable information to estimate the demand for the program as a key input into the planning process.

### **No long-term plan for seniors housing**

**4.25** The Division has not analyzed and projected the future demand for the Seniors Housing Program. No new seniors housing units have been built or acquired since May 2012. New units made available for seniors housing programs since that time have been in the form of rental supplements. The Division did not conduct a cost benefit analysis to

## 4. Seniors Housing Program

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support this approach of addressing demand through rental supplements versus provincially owned units.

**4.26** The Division does not have a long-term plan for the Seniors Housing Program. This is problematic given that the province is not meeting current demands for seniors housing and population projections for seniors indicate future demand for this program will likely continue to increase.

**4.27** We were informed that preliminary work has begun on a provincial housing strategy and this strategy is expected to be completed by the end of 2017. Further, a national housing strategy is also in progress. The Division advised it is waiting for the release of this national strategy to complete its own long-term plan.

### Recommendation

**4.28 The Housing Services Division should prepare a long-term plan to address the current and expected future demand for low income seniors housing.**

### ASSESSMENT PROCESS

**4.29** Documented policies exist for the Seniors Housing Program. The assessment forms used to evaluate an applicant's need for low income housing mirror the scoring system requirements of this established policy.

**4.30** Prospective tenants complete an application and are assessed by housing officers through an interview process held at the applicant's residence. The only eligibility requirement in policy is that the applicant must be 60 years of age. Applicants under 60 will be considered in limited circumstances. The housing officer scores the applicant on various factors and assigns an overall score to the applicant.

**4.31** The scoring system established in policy divides the assessment of an individual's need into various categories. Each category is assigned a maximum point value as follows:

- Assets - maximum 10 points
- Income - maximum 20 points
- Housing costs - maximum 20 points
- Housing situation - maximum 25 points

## 4. Seniors Housing Program

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- Health - maximum 10 points
- Age - maximum 5 points
- Applicant's responsibility - maximum 5 points
- Interviewer assessment - maximum 5 points

**4.32** The applicant's name is then placed on a wait list in accordance with his/her score and preferred location(s). The maximum score is 100 and there is no minimum score required to be placed on the wait list. The higher the score, the higher the applicant's ranking on the wait list. This wait list is used to select applicants when vacancies occur. Housing officers are responsible to reassess applicants on an annual basis. If the applicant's circumstances change before the annual review, it is the applicant's responsibility to notify the housing officer and request a reassessment.

**4.33** As part of our audit, we did not evaluate the adequacy of this scoring system. However, we checked that the scoring system was used to rank applicants as intended by the policy. We selected a random sample of 30 applicant assessments to test for compliance with the seniors housing policies and examined whether adequate supporting information was maintained in the file. Our sample of assessments was selected from the August 2016 wait lists provided by management.

### **Deficiencies in assessment process**

**4.34** In the program policy, three of the assessment categories; assets, income, and housing costs comprise 50 out of the possible 100 points. For these categories, the current practice is for the applicant to self declare information. The housing officers do not verify this information prior to assigning a score. Because this information is not verified, an applicant may not be properly scored at the application stage.

**4.35** We noted one instance where an applicant received a seniors housing unit but when income was verified to calculate the tenant's rent, additional income was noted. If the income had been verified at the application stage, the applicant would have had a lower score and been placed lower on the wait list. Another applicant on the wait list should have been offered the unit.

## 4. Seniors Housing Program

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**4.36** On the assessment form, the housing situation category is the most significant with a maximum of 25 points available. During our work, we noted that there were inconsistencies in how housing officers assigned scores in this category. We recognize that some subjectivity can be expected but we noted examples of similar scoring with widely contrasting living conditions. As a result, applicants were not consistently scored based on need. More oversight on the completed assessments and training for housing officers in subjective categories is required.

### **Non-compliance with policy**

**4.37** We noted errors in the assessment score in 11 of 30 files examined. These errors were a result of housing officers applying the scoring system incorrectly, making calculation errors, and applying outdated Old Age Security (OAS) and Guaranteed Income Supplement (GIS) levels at the time of assessment. In the latter instance, the scoring system assesses each applicant based on his/her income above the maximum OAS and GIS levels. Housing officers are required to use current OAS and GIS levels in completing the assessments. These errors impact applicants' rankings on the wait list.

**4.38** Given the demand for low income seniors housing, it is important that housing officers perform assessments and assign assessment scores in accordance with policy. The score assigned should reflect the needs of the applicant. The difference of a small number of points can determine whether or not an applicant is offered a unit.

**4.39** Management informed us that there is no quality control review process performed on the assessment forms completed by the housing officers. Such a review, even on a random basis, could assist in identifying inconsistencies and errors. It would also serve as feedback and guidance to staff and provide assurance that needs are being assessed as intended by policy.

## 4. Seniors Housing Program

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### Recommendations

**4.40 The Housing Services Division should establish a process for housing officers to verify income, assets, and housing costs at the time of application.**

**4.41 The Housing Services Division should ensure that housing officers comply with policy in assessing applicants.**

**4.42 The Housing Services Division should implement a quality control review process for assessments.**

### WAIT LIST MANAGEMENT

**4.43** As previously discussed, when an applicant is assessed, his/her name is placed on the wait list. Applicants from the wait list are awarded units or rental supplements based on their assessed score, location preferences, and other requirements (such as smoking/non-smoking, wheelchair accessibility, parking, etc). It is important that an accurate wait list is maintained by the Division and that it includes timely, relevant information for management.

#### **Accurate wait list for Seniors Housing Program not maintained**

**4.44** The Division does not maintain an accurate wait list for the Seniors Housing Program. In total, there are 13 wait lists maintained by the various offices as follows:

- Charlottetown - 1;
- Summerside - 2; and
- Montague/Souris - 10.

The Division advised that for program reporting purposes the wait lists are added together. The total number of eligible applicants in need of low income housing cannot be accurately determined by adding these lists together without adjusting for duplicates and other items.

**4.45** In reviewing these lists, we noted the following:

- applicants included on multiple lists in accordance with their location preferences;
- tenants who are already living in a unit and are requesting a transfer;

## 4. Seniors Housing Program

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- applicants who had cancelled or are already placed in a unit but the wait list had not yet been updated; and
- applicants whose name was listed more than once on the same wait list.

**4.46** Management provided us with the 13 wait lists as of August 2016 with a total of 944 names. We removed duplicate names and transfer requests from current tenants. This reduced the number on the wait list to approximately 860.

**4.47** In addition, we noted the wait lists included applicants who are not ready or willing to move but have applied to ‘hold a spot’. In our testing, we had examples where units were declined by applicants because they were not ready to move. These individuals are difficult to identify but are on the wait list.

### **Inadequate process for managing wait list information**

**4.48** The Division needs accurate, up-to-date, and complete information on program applicants. This information is necessary for the Division to be fully informed of program demands and to facilitate a fair and efficient process of awarding units to prospective tenants.

**4.49** The Division does not have an adequate system for capturing and managing relevant information on program applicants. Important applicant information is obtained at the assessment stage and throughout the waiting period. This information is not maintained in a format that allows for efficient decisions to award units. In addition, it does not provide management with up-to-date information on applicants’ needs.

**4.50** We noted the wait lists are not conducive for management and staff to perform analysis. The amount of information maintained on the 13 wait lists varies substantially. For example, the original assessment date of the applicant is not recorded on the wait list for all offices, making it difficult to readily determine how long an individual has been waiting. The current format in all offices does not allow the housing officers to easily sort for important applicant information such as second and third location preferences, pets, smoking, parking, etc. Each office uses different software programs to maintain wait lists making it difficult to efficiently consolidate and share information among offices. Management

#### 4. Seniors Housing Program

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cannot readily obtain summary profile information on applicants such as number of applicants, average scores, age of applicants, percentage of applicants at various scores, etc.

**4.51** Province-wide applicant information should be readily available for management and staff to make informed decisions on the program. We were informed by management that they are aware of the inadequacy of the current process to manage wait list information. The Division carried out an analysis of the September 2015 wait lists and is working to develop an improved process for wait list management. Management also advised that the Department intends to implement policy changes which could impact the wait list. At the date of our audit report, these policy changes were still outstanding.

#### **Recommendation**

**4.52 The Housing Services Division should develop a process to ensure accurate, relevant wait list information is available for the Seniors Housing Program on a timely basis.**

## 4. Seniors Housing Program

### SELECTION PROCESS

**4.53** Exhibit 4.5 provides a summary of seniors housing units available at March 31, 2016. This does not include the 25 rental supplements announced in May 2016.

#### EXHIBIT 4.5 SENIORS HOUSING PROGRAM UNITS BY LOCATION AS AT MARCH 31, 2016

Location	Provincially Owned Units	Rental Supplement Units	Total
Souris Area	116	-	116
Montague Area	128	-	128
Charlottetown Area	481	88	569
East Prince Area	144	-	144
Summerside Area	186	10	196
West Prince Area	58	6	64
Other (mobile)	4	-	4
<b>Total</b>	<b>1,117</b>	<b>104</b>	<b>1,221</b>

Source: Department of Family and Human Services

### Provincially owned and rental supplement units

**4.54** When a vacancy occurs, the housing officer is to review the wait list for the area where the unit is available and complete a recommendation form with the top three scoring applicants from the wait list for whom the unit is suitable. There are a number of reasons why a unit may not be suitable for a particular applicant such as requiring ground floor, parking, a pet friendly building or a smoking unit. The recommendation form is to be provided to the Provincial Housing Supervisor for approval prior to offering a unit to the applicant.

**4.55** We expected the applicants with the highest assessed score to be considered for any unit that is suitable for their needs and supporting documentation to be maintained for any exceptions.

**4.56** Excluding placements made related to new rental supplements announced in May 2016, there were 148 tenant placements during our scope period of September 1, 2015 to August 31, 2016. The allocation of these placements by office were as follows:

## 4. Seniors Housing Program

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- Charlottetown - 60
- Summerside - 55
- Montague/Souris - 33

**4.57** We examined 106 placements of the 148 made during our scope period. For each placement, we examined the recommendation form supporting the placement decision. For any applicants on the wait list with a higher score, we examined documentation on file to support why they were not recommended for the unit.

### **Deficiencies in selection process**

**4.58** Overall, we noted deficiencies in 17 placements. In some cases, applicants were not recommended for units and either should have been recommended for the unit or the exception to policy should have been approved by senior management. In many cases, there was no documentation to support the decision to pass over other applicants with higher scores. These decisions impacted 25 applicants who had a higher assessed score than the individuals who received the units.

**4.59** We noted variations among the offices in the level of supporting information provided to the Provincial Housing Supervisor with the recommendation form. In the Summerside office, there was no documentation provided to the Provincial Housing Supervisor indicating why applicants with higher scores were passed over in the selection process. In the Charlottetown and Montague/Souris offices, a copy of the wait list at the time the recommendation was made with reasons for passing over higher scoring applicants was provided for the Provincial Housing Supervisor's review. However, documented reasons for passing over applicants with higher scores were limited to a few words and in some cases inaccurate. In addition, the Provincial Housing Supervisor did not sign or initial the supporting documentation indicating that it was reviewed.

**4.60** For the 25 applicants passed over for a unit, the difference between their score and the score of the individual who received the unit was sometimes substantial. For 11 of these applicants, their score was higher by at least 10 points. Following is information on the circumstances for these 25 applicants.

## 4. Seniors Housing Program

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**4.61** There were five applicants where the housing officer did not consider each applicant's location preferences. When a unit became available in one of their preferred locations, they were not considered for placement.

**4.62** There were four applicants where there was no documentation to support why the applicant was passed over and the housing officer could not provide a rationale for the decision.

**4.63** There were six applicants where a verbal explanation for passing over the applicant was provided by the housing officer. However, there was no documentation in the file to support the explanation provided. For example, the housing officer indicated that certain applicants were not offered the unit as they were not ready to move, but there was no evidence in the applicant's file supporting this statement.

**4.64** There were an additional ten applicants who did not have adequate documentation as to why they were not recommended for a unit. These applicants were passed over many times despite having a score higher than other applicants who were awarded units. We were advised these applicants have addiction issues, behaviour issues, and cleanliness issues. Housing officers expressed concerns with selecting these individuals for a unit where they may disrupt other tenants in the building. However, the explanations provided are not covered under policy and the decision to pass over these applicants should have been authorized at a higher level than the Provincial Housing Supervisor. Further, the policy does not provide guidance on what action can be taken to help these applicants such as referrals to other services and other supports.

**4.65** Placements should be awarded based on the applicant's assessed need. When a unit is not awarded to a higher ranked applicant, the reasons to pass over the applicant should be documented and the decision appropriately authorized. This process will help to ensure consistency and fairness in the selection process. Without this documentation, the department could not demonstrate that all selections were in compliance with policy and any exceptions were appropriately authorized.

## 4. Seniors Housing Program

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### New Rental Supplements

#### Rental supplements not awarded in compliance with policy

**4.66** In May 2016, 25 rental supplement units for seniors were approved and these units could be located anywhere in the province. By September 1, 2016, six of these new rental supplement units had been awarded and the tenant was living in the unit. The policy for awarding rental supplements is the same as for provincially owned housing units.

**4.67** We expected the applicants with the highest assessed score to receive the rental supplements with supporting documentation and approval for any exceptions to policy.

**4.68** We reviewed the selection of tenants for these six units. We noted in all cases the policy was not followed. There were applicants with higher scores on the wait list that did not receive the rental supplement. In addition, the selection of tenants was not approved by the Provincial Housing Supervisor. In some cases, a significant number of applicants were higher on the wait list. Again, there was limited documentation to support why exceptions to policy were made.

**4.69** As these rental supplements could be provided anywhere in the province, they provide flexibility to the Division to meet the needs of applicants. When an exception to policy is warranted, it should be documented as such and authorized by senior management.

#### Recommendations

**4.70** The Housing Services Division should ensure placements are made based on program policy. Exceptions to policy should be documented and authorized by senior management.

**4.71** The Housing Services Division should ensure sufficient documentation is maintained to support placement decisions.

**4.72** The Housing Services Division should provide guidance to housing officers regarding challenging applicants.

## 4. Seniors Housing Program

### PERFORMANCE REPORTING

#### Inadequate reporting on performance

**4.73** Quality public reporting on the results of government programs is an important element of good governance because it supports accountability, transparency, sound decision making, and stewardship of public resources. We expected that the Division would produce regular public reporting on the Seniors Housing Program.

**4.74** Some reporting on the Seniors Housing Program was included in the Departmental annual reports as well as within the Housing Corporation's annual reports. However, the information provided included wait lists and other statistics such as the number of seniors units available. It did not include key performance measures such as number of days on the wait list for a seniors housing unit or number of days to turn over vacant units. The Division has not established performance indicators and has not been annually reporting on program performance.

#### Recommendations

**4.75** The Housing Services Division should establish performance indicators as a basis to measure and report on program performance.

**4.76** The Housing Services Division should report publicly on the performance of its low income Seniors Housing Program.

#### MANAGEMENT RESPONSE

**4.77** Our findings and recommendations were discussed with management. In general, management agreed with the issues raised. Our report was recently provided to the Department of Family and Human Services and a written response was requested.

## 5. SPECIAL ASSIGNMENT: GOVERNMENT INVOLVEMENT WITH THE E-GAMING INITIATIVE AND FINANCIAL SERVICES PLATFORM

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**5.1** In March 2015, our Office was asked by Executive Council to undertake a special assignment. The assignment involved an examination of “government support to the Mi’kmaq Confederacy of Prince Edward Island in relation to E-gaming, along with steps taken by government, throughout its relationship with MCPEI, to protect the interests of taxpayers.” We were further asked to “consider government’s dealings with Simplex, Capital Markets Technologies (CMT) and related companies in relation to E-gaming and financial services, including the conduct of current and former elected officials and staff.”

**5.2** The Standing Committee on Public Accounts also raised concerns about government’s involvement in the E-gaming file and the financial services file.

**5.3** The report was tabled in the Legislative Assembly on October 5, 2016, and is available in its entirety on our website at [www.assembly.pe.ca/auditorgeneral](http://www.assembly.pe.ca/auditorgeneral).

**5.4** In this chapter we list the recommendations arising from our Special Assignment: Government Involvement with the E-gaming Initiative and Financial Services Platform. Government’s response to each recommendation is provided based on information received from Executive Council in February 2017. We provide no assurance on the response provided by Government.

**5.5** All recommendations have been accepted by Government. In addition, government responded that the Deputy Minister of Finance and the Secretary to Treasury Board communicated to all deputy ministers that Treasury Board and the Comptroller’s Office are committed to monitoring compliance with legislation, policies, and procedures.

## 5. Special Assignment: Government Involvement with the E-gaming Initiative and Financial Services Platform

Auditor General's Recommendations	Government's Response
<p><b>Recommendation 3.24</b> When engaging in joint initiatives with external parties, government should ensure taxpayers' interests are protected through written agreements. These agreements should address, at a minimum, roles and responsibilities, conflict of interest, confidentiality and government access to files and information.</p>	<p>A clause was recently added to the Treasury Board policy on Contract Services, Conditional Grants and Funding Agreements to address conflict of interest situations with contractors. The existing contract template within the policy was strengthened to address the subject of conflict of interest.</p>
<p><b>Recommendation 3.56</b> Innovation PEI should ensure grant approval documents and agreements accurately reflect the project being funded.</p>	<p>Innovation PEI has amended its approval process to include confirmation that in all instances an application is on file, eligible expenditures are clearly defined in the letter of offer, and documentation on file clearly describes the activities to be funded.</p>
<p><b>Recommendation 3.57</b> Innovation PEI should monitor grant funding in accordance with the terms and conditions in the letter of offer.</p>	<p>Innovation PEI has amended its disbursement approval sheet to include confirmation that the funds are being disbursed in accordance with the terms in the letter of offer.</p>
<p><b>Recommendation 3.58</b> IIDDI should not disburse loan proceeds prior to signing loan agreements and obtaining security.</p>	<p>It is an established practice of Island Investment Development Inc. not to advance funds before the offer to finance and security is in place. This policy will be adhered to without exception.</p>
<p><b>Recommendation 3.59</b> In accordance with the <i>Financial Administration Act</i> and Treasury Board policy, government loan guarantees should be authorized by the Lieutenant Governor in Council.</p>	<p>Treasury Board will ensure loan guarantees adhere to the policies set out in Section 15.03 of the Treasury Board Policy and Procedures Manual - Loan Guarantees - and that they meet the criteria set out in the <i>Financial Administration Act</i>, Section 32.(1).</p>
<p><b>Recommendation 3.66</b> The Department of Finance should strengthen its financial reporting practices to ensure all loss provisions are reflected in the consolidated financial statements of the province.</p>	<p>Government's consolidated financial statements are prepared in accordance with the <i>Financial Administration Act</i> and Public Sector Accounting Board (PSAB) standards. These standards include specific guidance for establishing and reporting loss provisions. The Comptroller's Office works closely with departments and Crown corporations to present timely and reliable financial information. Recent changes to the <i>Financial Administration Act</i> in the area of write-offs and cancellation of debts due to Government will further strengthen the reporting of loss provisions.</p>

## 5. Special Assignment: Government Involvement with the E-gaming Initiative and Financial Services Platform

Auditor General's Recommendations	Government's Response
<p><b>Recommendation 3.67</b> IIDI should strengthen its financial reporting practices and ensure all significant information is disclosed.</p>	<p>As part of its annual audit, staff of Island Investment Development Inc. will ensure the external auditor is informed of any related party transactions.</p>
<p><b>Recommendation 3.68</b> In accordance with the <i>Financial Administration Act</i>, IIDI should recommend to Executive Council the write off of the loan to MCPEI.</p>	<p>Island Investment Development Inc. recommended the cancellation of the loan to MCPEI. It was approved by Executive Council on November 8, 2016.</p>
<p><b>Recommendation 3.69</b> IIDI should provide the required information on its loan portfolio in its quarterly reporting to Treasury Board.</p>	<p>In November 2016, Island Investment Development Inc. initiated consultations with Treasury Board to ensure that it is compliant with Treasury Board's Quarterly Reporting expectations. Monitoring is ongoing.</p>
<p><b>Recommendation 5.17</b> Innovation PEI should perform adequate due diligence prior to entering into commitments or agreements with external parties.</p>	<p>Innovation PEI has implemented a policy that dictates the minimum due diligence required prior to execution of any commitments or agreements.</p>
<p><b>Recommendation 5.18</b> Treasury Board policy on contracting should be expanded to address conflict of interest situations with contractors.</p>	<p>To reinforce the significance of the measures prescribed in the Treasury Board Policy, Contract Services, Conditional Grants and Funding Agreements, a clause was added to the policy to address conflict of interest situations with contractors. The existing contract template within the policy was strengthened to address the subject of conflict of interest.</p>

## 5. Special Assignment: Government Involvement with the E-gaming Initiative and Financial Services Platform

Auditor General's Recommendations	Government's Response
<p><b>Recommendation 7.14</b> The Public Archives and Records Office, in cooperation with public bodies, should monitor compliance with records management policies and procedures and submit compliance reports to the Minister of Education.</p>	<p>An action plan was developed by staff of Education, Early Learning and Culture and IT Shared Services to ensure compliance with the <i>Archives and Records Act</i>. The plan identifies the need to:</p> <ul style="list-style-type: none"> <li>• improve training for all departmental records staff and all employees;</li> <li>• increase staff resources for records management within departments;</li> <li>• adopt records retention schedules in all departments and public bodies;</li> <li>• implement an electronic records management system; and</li> <li>• increase the level of secure space for government records.</li> </ul> <p>Departmental recorded information management assessments were conducted in December 2016. A secondary Provincial Records Centre location has already been identified. Additionally, new protocols adopted in July 2016 ensure compliance with records management policies prior to the removal of email accounts.</p>
<p><b>Recommendation 7.15</b> The Minister of Education, as the Minister responsible for the <i>Archives and Records Act</i>, should take necessary action to enforce compliance with the Act.</p>	<p>Legislation to amend the <i>Archives and Records Act</i> will be introduced in spring 2017. The revised Act would include duty to comply and penalties for failure to comply. The Treasury Board Policy, Recorded Information Management, will also be revised.</p>
<p><b>Recommendation 8.9</b> Treasury Board should take action to enforce compliance with its policies on contracting.</p>	<p>Treasury Board is currently monitoring compliance with its policies on contracting in each submission it receives.</p>
<p><b>Recommendation 8.10</b> Government should consider adopting whistleblower legislation.</p>	<p>Whistleblower legislation will be introduced in the spring of 2017. The new Act will facilitate the disclosure of wrongdoing within the public sector by creating a system for disclosures, investigations, and protection from reprisals, translating the current policy into legislation. The Act will define what constitutes wrongdoing, set a requirement for procedures, and provide authority for investigations and implementation of recommendations.</p>



## **UPDATE ON PREVIOUS RECOMMENDATIONS**



## 6. UPDATE ON PREVIOUS RECOMMENDATIONS

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### CHAPTER SUMMARY

#### *What we examined*

This chapter provides summary information on the status of implementation of previous recommendations. We assessed the status of recommendations related to special audits and examinations that were reported in our 2013 and 2014 annual reports. We also obtained information from management on the status of recommendations related to special audits and examinations included in our 2016 Annual Report.

#### *Why it's important*

Assessing the progress government is making in implementing our recommendations provides useful information for holding government accountable.

#### *What we found*

The 2013 and 2014 annual reports of the Auditor General included 87 recommendations arising from special audits and recommendations. We determined that 87 percent of the recommendations in our 2013 Annual Report and 49 percent of the recommendations in our 2014 Annual Report have been implemented.

Our 2014 audit of Child Protection - Internal Controls included 16 recommendations. The audit identified several internal control issues which pose a significant risk. Only 25 percent of these recommendations have been implemented.

## 6. Update on Previous Recommendations

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### BACKGROUND

**6.1** This chapter provides an annual update to the Legislative Assembly on the status of implementation of the recommendations arising from our special audits and examinations.

**6.2** The recommendations are intended to address the findings and issues identified. We do not infringe on management's right to select the best course of action to deal with the issues identified.

**6.3** In this chapter, we are providing information on the status of implementation of recommendations. Our process is as follows:

- Where the department, Crown corporation, or agency has had at least three years to take action, in this case the 2013 and 2014 audits, we conduct sufficient procedures to assess the plausibility of the responses received from management.
- For recommendations made in the previous year, in this case 2016, we report the status of implementation based on management's response, with no assurance provided.

**6.4** The status of recommendations from audits first reported in our 2015 annual report will be subject to our review in 2018.

### OBJECTIVE AND SCOPE

**6.5** We requested information from management on the status of implementation of the recommendations arising from special audits and examinations reported for the years 2013, 2014, and 2016. We received all information requested.

**6.6** We conducted additional work on the recommendations reported in 2013 and 2014. The objective of our follow-up work was to provide review level assurance on the implementation of recommendations. Our follow-up work was conducted on those recommendations that were reported by management as implemented. Our procedures included:

## 6. Update on Previous Recommendations

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- interviews with key personnel;
- examination of documents; and
- review of specific controls and processes.

**6.7** **Appendix A** includes all outstanding recommendations from special audits and examinations included in our 2013 and 2014 annual reports.

**6.8** For special audits and examinations reported in 2016, we are providing information on each recommendation including action taken, action planned, and management's assessment of the status of implementation. This information is provided in **Appendix B**, and we provide no assurance on the information provided by management.

**6.9** Recommendations made to departments, Crown corporations, and agencies pursuant to our financial audit work are followed up annually as part of our financial audit process and are not discussed in this chapter.

## 6. Update on Previous Recommendations

### OBSERVATIONS

**6.10 Exhibit 6.1** illustrates the rate of implementation of recommendations arising from the special audits and examinations included in our 2013 and 2014 annual reports.

#### EXHIBIT 6.1 STATUS OF IMPLEMENTATION OF RECOMMENDATIONS BASED ON REVIEW LEVEL ASSURANCE 2013 AND 2014

Year	Audit	Recommendations				
		Total	No Longer Applicable	Still o/s	Implemented Based on Auditor's Review	
					#	Percent
2013	Management of Ground Ambulance Services	24	-	6	18	75%
	Skills PEI*	21	3	-	18	100%
	Provincial Nominee Program: Follow-Up on the Use of Proceeds Agreement	3	-	-	3	100%
	<b>Total*</b>	<b>48</b>	<b>3</b>	<b>6</b>	<b>39</b>	<b>87%</b>
2014	Information Technology - Governance and IT Contracting	14	-	4	10	71%
	Diabetes - Strategy and Organization of Care	7	-	3	4	57%
	Child Protection - Internal Controls	16	-	12	4	25%
	Island Community Fund Grant Program*	2	2	-	-	N/A
	<b>Total*</b>	<b>39</b>	<b>2</b>	<b>19</b>	<b>18</b>	<b>49%</b>
<b>Overall Total*</b>		<b>87</b>	<b>5</b>	<b>25</b>	<b>57</b>	<b>70%</b>

\*Percent implemented excludes recommendations that are no longer applicable.

## 6. Update on Previous Recommendations

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### 2013 ANNUAL REPORT

#### Management of Ground Ambulance Services

**6.11** Our 2013 Annual Report included an audit on Management of Ground Ambulance Services. The objective of the audit was to determine whether Health PEI had processes to

- manage the contract for ground ambulance services; and
- ensure ground ambulance services met the legislative requirements as they pertain to Emergency Medical Technician licensure and ambulance inspections.

**6.12** Our 2013 audit included 24 recommendations. Based on our work, we determined that six recommendations are still outstanding. All six outstanding recommendations relate to the existing contract with the service provider. We were advised that Health PEI intends to address outstanding recommendations as part of a new contract for ground ambulance services in 2018.

#### SkillsPEI

**6.13** SkillsPEI is a division of the Department of Workforce and Advanced Learning. At the time of our audit in 2013, it had administrative responsibility for over \$36 million in expenditures for employment related programs and services.

**6.14** We made 21 recommendations, three of which are no longer applicable due to program changes. Based on our work, we concluded that the remaining 18 recommendations have been implemented.

#### Provincial Nominee Program: Follow-up on the Use of Proceeds Agreement

**6.15** In 2013, we conducted an audit of the Provincial Nominee Program: Follow-up on the Use of Proceeds Agreement. We made three recommendations and determined that all three have been implemented.

## 6. Update on Previous Recommendations

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### 2014 ANNUAL REPORT

#### Information Technology - Governance and IT Contracting

**6.16** Information Technology Shared Services (ITSS) provides information technology (IT) services to all government departments and the majority of Crown corporations and agencies. Almost 30 percent of the cost of IT services incurred by government in 2012-13 arose through contracts with external service providers. Our 2014 Annual Report included an audit on governance and IT contracting as it related to these IT services.

**6.17** The objective of our audit was to determine whether

- a governance model was in place for providing IT services that was consistent with selected aspects of a recognized IT governance framework; and
- IT contracted services were managed in accordance with key aspects of applicable legislation, Treasury Board policies, and best practices for IT contract management.

**6.18** We made 14 recommendations. Based on our review, we concluded that 10 recommendations have been implemented.

**6.19** We recommended that ITSS management should ensure service level objectives are documented to clearly outline IT roles and responsibilities of both ITSS and client departments and agencies. Management indicated that ITSS provides a full service portfolio to all departments and has implemented service level objectives for significant projects or large applications to clearly delineate the role of ITSS. Management also confirmed that ITSS has not yet documented service level objectives to define its responsibilities with regards to Crown corporations and agencies. Therefore, we concluded that this recommendation is still outstanding.

**6.20** We made a recommendation that government should take action to ensure an IT strategic plan is developed which outlines government-wide strategic direction and priorities. An IT Strategy was developed in 2014. After reviewing the strategy and discussing it with management, we determined that the strategy related to the direction of ITSS, but it was not intended as a strategic plan outlining IT strategic direction and priorities

## 6. Update on Previous Recommendations

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on a government-wide basis. We determined that this recommendation is still outstanding.

**6.21** We recommended that ITSS management obtain clarification on its scope of responsibility for the various departments, Crown corporations, and agencies. Management indicated that ITSS will update Treasury Board on its current scope of responsibility for the various departments, Crown corporations, and agencies and also seek confirmation of its scope of responsibility from Treasury Board. To date it has not been done.

**6.22** We also recommended that the roles and responsibilities for government-wide IT management and direction be clearly assigned. There is an interim measure in place with the Secretary to Treasury Board completing certain high level IT duties and providing updates to the Deputy Ministers IT Management Advisory Council. Management reported this recommendation as outstanding.

### **Diabetes - Strategy and Organization of Care**

**6.23** In 2014, we completed an audit to determine whether the Department of Health and Wellness or Health PEI had a comprehensive strategy to prevent diabetes related health complications and whether Health PEI had organized its diabetes care in accordance with evidence-based standards of diabetes care.

**6.24** We made seven recommendations. Based on our review and further discussions with management, we concluded that three of the seven recommendations are still outstanding as follows:

- Health PEI should ensure the Diabetes Program has sufficient access to specialist support services;
- When considering physician requests for funding of private diabetes educators, Health PEI should conduct a cost-benefit analysis to assess the optimal use of resources for delivering diabetes care; and
- If arrangements are established providing collaborative diabetes care outside of the Diabetes Program, Health PEI should obtain information to monitor and report on results achieved.

**6.25** Management indicated that a temporary position has been created to support the Medical Director for Diabetes and a request for funding is

## 6. Update on Previous Recommendations

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under review. We were advised that negotiations are in progress and must be complete before the cost-benefit analysis recommendation can be implemented. In addition, discussions have been held regarding a review of collaborative diabetes care outside of the Diabetes Program.

### **Child Protection - Internal Controls**

**6.26** In 2012-13, we received a request from the Deputy Minister of the department responsible for Child Protection Services to conduct an audit of internal controls related to cash transactions for child protection at the Summerside Child Protection Office. Financial staff had identified risks related to a large volume of cash transactions processed through that office.

**6.27** It is important that there are adequate internal controls over payments made for child protection services to ensure children are supported with the amounts to which they are entitled and taxpayers' interests are protected.

**6.28** This audit was included in our 2014 Annual Report. The objective of our audit was to identify and assess

- internal controls over cash transactions initiated through the Summerside Child Protection Office and the Tyne Valley Youth Centre for children in care; and
- selected IT controls over payments for children in care.

**6.29** We made 16 recommendations. We were advised that the Department is working on the recommendations. Management indicated that a new Finance Officer was hired in June 2016 which should assist in addressing our recommendations. Based on our review, we concluded that only 4 of the 16 have been implemented. Our report was released in March 2014 and these recommendations have been outstanding for three years.

**6.30** These recommendations were made to improve basic internal controls over payment and processing of a large volume of transactions related to child protection. This lack of action is concerning. The outstanding issues expose the Department to significant financial risks.

## 6. Update on Previous Recommendations

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### Island Community Fund Grant Program

**6.31** Our 2014 Annual Report included an audit on the Island Community Fund Grant Program. We made 2 recommendations. The Program was discontinued in 2015, therefore we did not conduct any further work.

### SUMMARY COMMENTS

**6.32** The recommendations provided in our reports are intended to address issues and findings identified. We recognize that some recommendations take a longer time to implement. We will continue to follow up on our recommendations as a means to assist in holding government accountable.

**6.33** We are pleased that 87 percent of our 2013 Annual Report recommendations have been implemented. Only 49 percent of our 2014 Annual Report recommendations have been implemented. This is concerning and is primarily due to insufficient action on the recommendations from our audit on Child Protection - Internal Controls.

## 6. Update on Previous Recommendations

**2013 AND 2014 ANNUAL REPORTS  
SPECIAL AUDITS AND EXAMINATIONS  
OUTSTANDING RECOMENDATIONS**

Audit	Department/ Agency	Year	Para.	Recommendation
Management of Ground Ambulance Services	Health and Wellness / Health PEI	2013	3.51	Emergency Health Services should implement internal control procedures to assess the completeness and accuracy of Patient Call Report data.
			3.56	Emergency Health Services should strengthen its incident reporting framework to <ul style="list-style-type: none"> <li>• include a definition of incidents;</li> <li>• streamline the process through the implementation of standardized forms and contacts; and</li> <li>• log and track incidents for analysis and reporting.</li> </ul>
			3.59	Overall, Emergency Health Services should modernize its performance standards for ground ambulance services to reflect a performance management framework that is more in line with industry best practices.
			3.70	Emergency Health Services should amend the contract terms to reflect the actual amount of automobile insurance it requires of the service provider.
			3.73	Pursuant to Treasury Board policy 13.07 - <i>Elements of a Professional Services Contract</i> , Emergency Health Services should amend the contract items to clearly lay out the payment mechanism for inter-facility transfers.
			3.86	Emergency Health Services should amend the contract terms to reflect policy changes that impact payments for services.
Information Technology - Governance and IT Contracting	Finance	2014	2.15	The role and responsibilities for government-wide IT management and direction should be clearly assigned.
			2.20	ITSS management should obtain clarification on its scope of responsibility for the various departments, Crown corporations and agencies.
			2.21	ITSS management should ensure service level objectives are documented to clearly outline IT roles and responsibilities of both ITSS and client departments and agencies.
			2.25	Government should take action to ensure an IT strategic plan is developed which outlines government-wide strategic direction and priorities.

## 6. Update on Previous Recommendations

Audit	Department/ Agency	Year	Para.	Recommendation
Diabetes - Strategy and Organization of Care	Health and Wellness / Health PEI	2014	3.53	Health PEI should ensure the Diabetes program has sufficient access to specialist support services.
			3.72	When considering physician requests for funding of private diabetes educators, Health PEI should conduct a cost-benefit analysis to assess the optimal use of resources for delivering diabetes care.
			3.73	If arrangements are established providing collaborative diabetes care outside of the Diabetes Program, Health PEI should obtain information to monitor and report on results achieved.
Child Protection - Internal Controls	Family and Human Services (formerly, Community Services and Seniors)	2014	4.19	Management of Child Protection should take action to improve segregation of key control functions related to cash and accounting records.
			4.29	Management of Child Protection should ensure that all payments are appropriately approved and approval documentation is maintained.
			4.30	Management of Child Protection should ensure payments are supported with sufficient documentation.
			4.47	Management of Child Protection should generate and review the accounts receivable reports on a regular basis.
			4.48	Management of Child Protection should establish procedures to ensure <ul style="list-style-type: none"> <li>• all amounts owing are recorded;</li> <li>• collection procedures are documented;</li> <li>• amounts outstanding are followed up; and</li> <li>• accounts receivable adjustments are reviewed and approved by management.</li> </ul>
			4.52	Management of Child Protection should strengthen controls to ensure that payments for children in care are independently reviewed.
			4.55	Management of Child Protection should ensure all master file changes are reviewed and approved.
			4.60	Management of Child Protection should ensure that only personnel with properly delegated signing authority are authorized to process payments in ISM.
			4.61	Management of Child Protection should ensure that signing authority levels are consistent between ISM and the province's financial system.

## 6. Update on Previous Recommendations

Audit	Department/ Agency	Year	Para.	Recommendation
Child Protection - Internal Controls	Family and Human Services (formerly, Community Services and Seniors)	2014	4.64	Management of Child Protection should ensure that access levels in ISM are current and access rights are limited to what each staff member needs to perform his or her required duties.
			4.68	Management of Child Protection should ensure that payment end dates entered in the system reflect a reasonable time frame for review of the child's file.
			4.73	Management of Child Protection should develop a procedures manual for financial transactions as a resource for staff.

## 6. Update on Previous Recommendations

### STATUS OF IMPLEMENTATION OF RECOMMENDATIONS AS REPORTED BY DEPARTMENTS/AGENCIES 2016

Year	Audit	Recommendations			
		Total	Fully Implemented	Outstanding	% Implemented
2016	Maintenance Enforcement Program	8	6	2	75%
	Developmental Lending	10	10	0	100%
	Payments to Private Nursing Homes	7	4	3	57%
<b>Total</b>		<b>25</b>	<b>20</b>	<b>5</b>	<b>80%</b>

**6.34** The table above provides summary information on the status of implementation of recommendations from special audits and examinations reported in our 2016 Annual Report. It is based on self reporting by management with no assurance provided.

**6.35** For each of the audits reported in our 2016 Annual Report, we provide details on the action taken, action planned, and the status of implementation as reported by management of applicable departments and agencies.

## 6. Update on Previous Recommendations

### STATUS OF IMPLEMENTATION OF RECOMMENDATIONS REPORTED IN 2016

#### MAINTENANCE ENFORCEMENT PROGRAM

**6.36** Following are the recommendations resulting from our audit of the Maintenance Enforcement Program reported in the 2016 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of Justice and Public Safety.

2016 Paragraph Reference	Auditor General's Recommendation	Management Response		Status Based on Management's Response
		Action Taken	Action Planned	
2.29	The Maintenance Enforcement Office should develop and document policies and procedures to guide enforcement officers in administering and enforcing court orders and agreements.	<p>A Maintenance Enforcement Program (MEP) Policies and procedures Manual ("Manual") has been drafted which updates MEP's written policies to be in line with practices in other provinces and territories in Canada. The Manual will serve as a means to ensure standardization in enforcement practices and can be used as a tool to train current and new enforcement staff. The Manual is currently being reviewed by the Director of Legal and Court Services.</p> <p>The work completed to develop the manual included the following:</p> <ul style="list-style-type: none"> <li>• consultations with and scans of Maintenance Enforcement Programs across Canada;</li> <li>• input from enforcement staff;</li> </ul>	<p>Work will continue on the development of MEP Policies and Procedures.</p> <p>The Department of Justice and Public Safety will be asked to formally approve the MEP Policy and Procedures Manual when completed.</p>	Outstanding

## 6. Update on Previous Recommendations

2016 Paragraph Reference	Auditor General's Recommendation	Management Response		Status Based on Management's Response
		Action Taken	Action Planned	
		<ul style="list-style-type: none"> <li>detailed review of the Auditor General's report;</li> <li>identification of gaps in existing legislation and policy; and</li> <li>extensive policy research.</li> </ul> <p>The MEP plans to complete this work by March 31, 2017.</p>		
2.34	The Maintenance Enforcement Office should support key decisions in the case files with appropriate documentation.	<p>A checklist has been developed for use in each file in order to detail enforcement actions. Comments and/or reasons behind key enforcement decisions will be documented.</p> <p>The checklist register is part of the process when opening new files. Staff add the checklist register to existing files as enforcement action is taken. Each new case is reviewed and verified to ensure the support order and filing information is correctly entered in the MEPS system.</p> <p>An IT Business Analyst has been assigned to the MEP Office to develop a workflow chart based on the business process in the office. This chart will help to identify gaps in the business process, improve effectiveness, and define technology needs.</p>		Implemented

## 6. Update on Previous Recommendations

2016 Paragraph Reference	Auditor General's Recommendation	Management Response		Status Based on Management's Response
		Action Taken	Action Planned	
2.35	The Maintenance Enforcement Office should obtain documented consent from beneficiaries, before arrears balances are reduced and no longer enforced.	<p>The process of documenting written consent from the beneficiary prior to making any adjustment to arrears has already been implemented.</p> <p>The documentation is verified by the Director of Maintenance Enforcement or the Senior Enforcement Officer. The MEPS system generates a daily adjustment report for review to ensure all adjustments have been identified and verified.</p>	The Policy and Procedures Manual will be amended to require written consent of the beneficiary prior to any reduction or elimination of arrears.	Implemented
2.38	The Maintenance Enforcement Office should perform and document an independent review of ledger adjustments.	<p>The MEP, with the assistance of IT Shared Services, has developed a daily adjustment report that is sent to the Director of Maintenance Enforcement with all adjustments from the previous business day.</p> <p>All adjustments are to be documented and verified by the Director, or in the Director's absence, by the Senior Enforcement Officer.</p>		Implemented

## 6. Update on Previous Recommendations

2016 Paragraph Reference	Auditor General's Recommendation	Management Response		Status Based on Management's Response
		Action Taken	Action Planned	
2.42	The Maintenance Enforcement Office should implement a risk-based quality control review process on case files.	<p>The Director of Maintenance Enforcement has implemented a process to conduct random monthly file reviews from each Enforcement Officer to ensure that all appropriate enforcement activity has been conducted and documented.</p> <p>Further, the Director has asked ITSS to create a monthly data report that summarizes the activity each month and allows for a comparison of arrears, enforcement activities, and changes in case status. The IT work has been completed and is ready to be tested.</p> <p>Maintenance Enforcement has also adopted a policy that requires a second Enforcement Officer to review all new cases entered on the system, all financial adjustments, and assist with risk-based quality assurance controls.</p>	Monthly data report in final testing stage.	Implemented

## 6. Update on Previous Recommendations

2016 Paragraph Reference	Auditor General's Recommendation	Management Response		Status Based on Management's Response
		Action Taken	Action Planned	
2.47	The Maintenance Enforcement Office should define and obtain the necessary reports for effective management and oversight of the Maintenance Enforcement Program.	<p>The following monthly reports have been completed with the assistance of ITSS:</p> <p>1) Monthly Data Reports are generated automatically and sent to Director of Maintenance Enforcement with a detailed breakdown of a number of statistics.</p> <p>2) Enforcement officer's review a Monthly Summary Report which details amounts charged each month to enforcement officers, including accounts, amounts received, enforcement activities, and outstanding arrears.</p> <p>3) Compliance Reports detail dollars collected, percentage collected, and amount due which can be rolled into enforcement reports.</p> <p>4) Review and update file run daily to remind staff of files requiring action.</p> <p>5) Data reports have been developed and added to the MEPs. These reports can be generated any time and provide current, up-to-date information for a number of key indicators for effective management and oversight of the MEP.</p>	<p>1) Credit bureau reporting will identify delinquent payors.</p> <p>2) A workflow chart has been developed and is currently under review.</p> <p>3) MEP Policies and Procedures Manual is now in development.</p> <p>These items are to be completed by March 31, 2017.</p>	Outstanding

## 6. Update on Previous Recommendations

2016 Paragraph Reference	Auditor General's Recommendation	Management Response		Status Based on Management's Response
		Action Taken	Action Planned	
2.58	The Maintenance Enforcement Office should determine the appropriate distribution of the unassigned balance in the trust account at March 31, 2015, and complete the required adjustments.	<p>A review of the unassigned balances was performed which included overpayments, beneficiaries who could not be located, and directors fees.</p> <p>Amounts owing to payors have been paid if MEP could locate the individuals.</p> <p>A daily report is now generated and reviewed to identify all payors and beneficiaries for accounts with payment due.</p>	<p>Directors fees are mainly non-sufficient funds fees dating from the implementation period of the existing MEP system.</p> <p>These will be reviewed to determine the appropriate allocation.</p>	Implemented
2.59	<p>The Maintenance Enforcement Office should develop and implement internal controls to safeguard assets and maintain complete and accurate financial records. This at a minimum should include:</p> <ul style="list-style-type: none"> <li>• regular bank reconciliations;</li> <li>• periodic review of unallocated amounts in the trust account;</li> <li>• appropriate segregation of duties; and</li> <li>• review and approval of significant adjustments to client ledgers.</li> </ul>	<p>The Finance Officer of Justice and Public Safety worked with the Comptroller's Office and ITSS to obtain appropriate reports from MEP and FIS to reconcile the bank account.</p> <p>There is now adequate segregation of duties in place. The bookkeeper, intake officer, senior enforcement officer and Sheriff's Office are all involved in the process to ensure proper segregation.</p> <p>The Director's approval on all adjustments to client ledgers is now being required based on the supporting documentation provided by enforcement officers.</p>	The Finance Officer will work with ITSS to create one report from MEP to capture information currently being obtained from 4 different reports.	Implemented

## 6. Update on Previous Recommendations

### DEVELOPMENTAL LENDING

**6.37** Following are the recommendations resulting from our audit of Developmental Lending within Island Investment Development Incorporated (IID) reported in the 2016 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of Economic Development and Tourism.

2016 Paragraph Reference	Auditor General's Recommendation	Management Response		Status Based on Management's Response
		Action Taken	Action Planned	
3.25	Finance PEI and Island Investment Development Inc. should identify key economic indicators for the developmental loan programs and report on performance in relation to these indicators.	For the calendar year 2014, Finance PEI (FPEI) and IID commissioned a local accounting firm to assess the economic impact of those firms they support through their loan programs. That report was published as at September 2016 and is available on FPEI's website.	The Department agrees with the recommendation, and FPEI and IID will gather and report in its annual report the economic development indicators related to their respective lending portfolios.	Implemented
3.32	Finance PEI Developmental Lending Division and Island Investment Development Inc. should prepare and provide additional policy guidance to staff on lending processes regarding risk assessment at the application stage, security requirements, and problem accounts.	<p>IIDI and FPEI have reviewed their lending policies and have introduced additional policy guidance relating to:</p> <ul style="list-style-type: none"> <li>• Implementing a more detailed risk assessment form to be completed on loan applications; and</li> <li>• Dealing with problem accounts, including additional mitigating procedures to be undertaken.</li> </ul>	On an on-going basis, both FPEI and IID review outcomes of loans with a view to continually improve practices.	Implemented
3.37	When placing reliance on guarantees as part of the loan security, Island Investment Development Inc. should obtain sufficient financial information to support the guarantee.	IIDI and FPEI have reviewed lending policies and introduced additional policy for staff regarding the reliance placed on personal and corporate guarantees.		Implemented

## 6. Update on Previous Recommendations

2016 Paragraph Reference	Auditor General's Recommendation	Management Response		Status Based on Management's Response
		Action Taken	Action Planned	
3.54	For significant projects, Island Investment Development Inc. should obtain detailed cost estimates prior to approving financing.	IIDI has reviewed its lending policies and amended its policy to ensure detailed costs estimated are on file before first disbursements are made.		Implemented
3.55	Island Investment Development Inc. should monitor actual project costs against original cost estimates and obtain explanations for significant variances.	IIDI has reviewed its lending policies to ensure it notes that actual project costs are to be monitored against original cost estimates (with staff obtaining explanations for significant variances).		Implemented
3.70	Finance PEI and Island Investment Development Inc. should update their loan policies to define problem loans. This definition should differentiate between performing and non-performing loans.	FPEI and IIDI have reviewed lending policies to update the definition of a problem loan (differentiate between performing and non-performing loans).		Implemented
3.71	Finance PEI should enhance reporting to its board of directors to include reporting on non-performing loans.	FPEI has reviewed its reporting to its board of directors to ensure the reporting of non-performing loans.		Implemented
3.72	Island Investment Development Inc. should provide its board of directors with regular reporting on its loan portfolio including non-performing loans.	IIDI is providing quarterly reporting of its loan portfolio to its board of directors.		Implemented
3.77	Finance PEI and Island Investment Development Inc. should strengthen their loan reporting process to comply with Treasury Board requirements.	FPEI and IIDI have worked with Treasury Board to clarify reporting expectations and have implemented reporting processes to comply with Treasury Board requirements.		Implemented

## 6. Update on Previous Recommendations

2016 Paragraph Reference	Auditor General's Recommendation	Management Response		Status Based on Management's Response
		Action Taken	Action Planned	
3.78	Finance PEI and Island Investment Development Inc. should highlight in their loan reporting to Treasury Board any problem loans which have been refinanced.	FPEI and IIDI have worked with Treasury Board to clarify reporting expectations and have implemented reporting processes, which include refinanced problem loans, to comply with Treasury Board requirements.		Implemented

## 6. Update on Previous Recommendations

### PAYMENTS TO PRIVATE NURSING HOMES

**6.38** Following are the recommendations resulting from our audit of Payments to Private Nursing Homes in the 2016 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of Health PEI.

2016 Paragraph Reference	Auditor General's Recommendation	Management Response		Status Based on Management's Response
		Action Taken	Action Planned	
4.31	Health PEI should <ul style="list-style-type: none"> <li>• establish clearly defined review procedures for monthly claims submitted by private nursing homes;</li> <li>• take appropriate action to ensure the review procedures are consistently applied; and</li> <li>• obtain sufficient documentation to support the amounts claimed.</li> </ul>	A standardized claim review process has been established, including a checklist of tasks to be completed and signed by the appropriate authority.	Upon completion and review of the Department of Health and Wellness's Study on Long Term Care, current practices for claims review procedures will be formalized in policy.	Implemented
4.34	Health PEI should pay transportation expenses for subsidized residents in accordance with policy.	All claims are now reviewed by the Long Term Care Subsidization Manager to ensure the transportation expenses are consistently applied in all claims in accordance to policy.		Implemented
4.39	Health PEI should periodically review the trust accounts of subsidized residents at private nursing homes and maintain documentation supporting the review.	The Long Term Care Subsidization staff met with Financial Services and Pharmacare staff and developed a review and documentation procedure.  Reviews have begun as of November 2016.	Comfort Accounts in each nursing home are to be reviewed annually. Reviews are to be conducted by the LTC Subsidization Manager. Reviews will be documented in the Private Nursing Home Financial claims Archive.	Implemented

## 6. Update on Previous Recommendations

2016 Paragraph Reference	Auditor General's Recommendation	Management Response		Status Based on Management's Response
		Action Taken	Action Planned	
4.46	Health PEI should maintain adequate documentation to support that each applicant's income was verified in accordance with the <i>Long-Term Care Subsidization Act Regulations</i> .	Long Term Care Subsidization staff are now printing a copy of the electronic Notice of Assessment from CRA and including it in client files.		Implemented
4.49	Health PEI should conduct annual file reviews on all subsidized residents to comply with the <i>Long-Term Care Subsidization Act Regulations</i> .	Annual file reviews are conducted based on a financial risk assessment of subsidized residents.	Further measures will be determined after review of the Department of Health and Wellness report on Long Term Care. Current expectations are for the report's release early in 2017.	Outstanding
4.53	Health PEI should conduct, document, and report on case audits in accordance with the Long-Term Care Subsidization Act Regulations.	The Long Term Care Subsidization Program staff worked with Financial Services and Pharmacare staff to develop an auditing process and with ISM staff to develop processes to conduct/document audits in ISM.	Changes to ISM program to support the audits are currently being planned. Once completed, the system will enable staff to be randomly assigned an appropriate number of audits.	Outstanding
4.59	Health PEI should report annually on the administration of the Long-Term Care Subsidization program in accordance with the <i>Long-Term Care Subsidization Act</i> .	Health PEI completed a draft of the 2014/15 Annual Report. The Annual Report has been forwarded to the Minister for review.	The 2015/16 report is currently in draft and will be made public upon approval of the Minister.	Outstanding

# FINANCIAL AUDITS



## 7. INTRODUCTION TO FINANCIAL AUDITS

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**7.1** To hold government accountable for its use of public funds and management of the resources entrusted to it, members of the Legislative Assembly and the public need sufficient, reliable, and timely information on the province's financial position and operating results.

**7.2** One of the means by which governments provide such information is by preparing annual consolidated financial statements which are intended to provide a full accounting of the financial and other resources that government controls. Financial statements provide information to describe the changes in a government's financial position and its revenues and expenditures for the fiscal period. Financial statements and other financial information help governments demonstrate accountability.

**7.3** Overall responsibility for financial reporting and related decisions rests with the governing body of an organization, such as a government or a board of directors. Management of the organization is responsible for preparing the financial statements and all related decisions with oversight from those charged with governance. Financial statements provide information that is used to assess an organization's performance and management's stewardship over the economic resources entrusted to it. Therefore, it is imperative that the reader has credible information on a timely basis.

**7.4** To add credibility to financial reports, users often rely on the work of an independent auditor. The auditor examines the entity's accounts and the presentation and disclosures of its financial information in accordance with Canadian auditing standards. The auditor objectively assesses the accounting principles used, the estimates made, and other management assertions reflected in the financial reports.

**7.5** Canadian auditing standards require the auditor to obtain a high level of assurance as to whether the financial information is fairly presented. Upon completion of the examination, the auditor expresses an opinion on whether the financial information is presented fairly, in all material respects. The auditor's opinion is expressed in the independent auditor's report.

## 7. Introduction to Financial Audits

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**7.6** The *Audit Act* requires the Auditor General to perform financial audits of the province's consolidated financial statements, Crown controlled or owned corporations, and the trusts and funds held by any agency of government insofar as they are not subject to a financial audit by an external auditor.

**7.7** The *Audit Act* also requires the Auditor General to bring to the attention of the Legislative Assembly any matter identified during an audit which in her opinion should be brought to its attention.

**7.8** In the chapters that follow, we provide summary financial highlights and comments on indicators of financial condition for the province. We also report on observations and recommendations resulting from our audits of the province's consolidated financial statements, agencies, boards, trusts, and Crown corporations as well as appropriations and special warrants.

## 8. INDICATORS OF FINANCIAL CONDITION

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### CHAPTER SUMMARY

#### *What we examined*

In this chapter, we provide commentary and other information based on the operating results and financial position of the province for the past five years. Summary financial information and highlights are also included.

Financial indicators related to sustainability, flexibility, and vulnerability are presented for each fiscal year from 2012 to 2016.

#### *Why it's important*

Information in this chapter is presented to assist legislators, the public, and other users to better understand the financial condition of the province. The condition of the province's finances is important because it affects all residents of the province through the level of taxation, spending, and the provincial economy.

#### *What we found*

- The province continues to incur deficits resulting in a further deterioration in the financial position of the province.
- Net debt continues to grow and increased by \$35.8 million to \$2.17 billion at March 31, 2016. Net debt has increased by 13.7 percent over the last four years.
- Net debt to gross domestic product (GDP) declined in 2016 and is stable compared to 2012.
- Net debt per capita increased slightly from the previous year and was \$14,598 at March 31, 2016.

## 8. Indicators of Financial Condition

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### BACKGROUND

**8.1** Several resources are used in assessing the financial condition of a province. The Public Sector Accounting Board's (PSAB) Statement of Recommended Practice suggests a number of indicators to assist in assessing a government's financial condition. These indicators help provide insight into government's ability to maintain its programs and services, the flexibility it has to respond to economic changes, and its vulnerability to external sources of funding. We highlight a number of these indicators in this chapter.

**8.2** Consolidated financial statements are helpful to provide an overview of the financial status of the province at its year-end and for the prior period. However, financial statements do not provide a complete perspective on how the province is performing in relation to the overall economic and fiscal environments. Therefore, financial statements used in conjunction with indicators of financial condition are more useful in assessing the state of the province's finances.

**8.3** Our current update provides financial information and indicators for the last five fiscal periods. Certain prior period results have been restated due to accounting changes. The most recent estimates of nominal gross domestic product (GDP) and population were used in the determination of various indicators. Consistent with other jurisdictions, nominal GDP is presented on a calendar year basis.

## 8. Indicators of Financial Condition

### SUMMARY FINANCIAL INFORMATION

#### FINANCIAL HIGHLIGHTS

**8.4** Exhibit 8.1 summarizes the province's financial position and operating results for the last five years. Net debt continues to rise and although the size of the annual deficit has declined, the province continues to incur deficits resulting in a continued growth in the accumulated deficit.

#### EXHIBIT 8.1 SUMMARY FINANCIAL INFORMATION YEAR ENDED MARCH 31 (\$ Millions)

	2012 Restated	2013 Restated	2014	2015	2016
Financial Assets	\$ 831.4	\$ 829.7	\$1,229.2	\$1,131.6	\$1,079.5
Liabilities	<u>2,739.5</u>	<u>2,869.3</u>	<u>3,328.2</u>	<u>3,265.8</u>	<u>3,249.5</u>
Net Debt	1,908.1	2,039.6	2,099.0	2,134.2	2,170.0
Non-Financial Assets	<u>923.6</u>	<u>975.2</u>	<u>988.7</u>	<u>1,003.6</u>	<u>1,026.4</u>
Accumulated Deficit	<u>\$ 984.5</u>	<u>\$1,064.4</u>	<u>\$1,110.3</u>	<u>\$1,130.6</u>	<u>\$1,143.6</u>
Revenues	\$1,587.1	\$1,597.0	1,691.8	1,726.4	1,758.7
Expenses	<u>1,672.7</u>	<u>1,676.9</u>	<u>1,737.7</u>	<u>1,746.7</u>	<u>1,771.8</u>
Annual Deficit	<u>\$ 85.6</u>	<u>\$ 79.9</u>	<u>\$ 45.9</u>	<u>\$ 20.3</u>	<u>\$ 13.1</u>
Nominal Gross Domestic Product*	<u>\$ 5,424</u>	<u>\$ 5,573</u>	<u>\$ 5,752</u>	<u>\$ 5,955</u>	<u>\$ 6,186</u>

Source: \*Statistics Canada published November 9, 2016.

**8.5** An important and widely accepted measure of financial condition is net debt. Net debt is the difference between liabilities and financial assets. It provides a measure of the amount of future revenue that will be required to pay for past operations.

**8.6** As at March 31, 2016, net debt increased by 1.7 percent or \$35.8 million from the prior year and was \$2.17 billion at year-end. Net debt has grown by approximately \$261.9 million or 13.7 percent since March 31, 2012.

## 8. Indicators of Financial Condition

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**8.7** Investments in non-financial assets, the majority of which are tangible capital assets, combined with annual deficits contributed to the increase in net debt. Of the \$261.9 million increase in net debt over the past four years, \$102.8 million or 39.3 percent related to net investments in non-financial assets and \$159.1 million or 60.7 percent related to accumulated deficits.

**8.8** **Exhibit 8.1** also shows total liabilities have increased by approximately \$510.0 million or 18.6 percent since March 31, 2012.

**8.9** At March 31, 2016, the province had outstanding short-term loans, loans payable, and debentures totaling \$2.96 billion making up 91 percent of total liabilities. These borrowings are partially offset by sinking fund assets. Included in loans payable are promissory notes to the province's pension funds totaling \$558.0 million.

**8.10** The annual surplus/deficit indicates the extent to which a government spends more or less than what is raised in revenue in a particular year. It basically shows whether a government is living within its means. For the year ended March 31, 2016, the province incurred a deficit of \$13.1 million.

**8.11** **Exhibit 8.2** provides a summary breakdown of the change in the province's annual deficit from the prior period.

## 8. Indicators of Financial Condition

### EXHIBIT 8.2 CHANGE IN ANNUAL DEFICIT YEAR ENDED MARCH 31 (\$ Millions)

	Revenues	Expenses	Deficit
<b>2014-15 Deficit</b>	<b>\$1,726.4</b>	<b>\$1,746.7</b>	<b>\$(20.3)</b>
<b>Change in:</b>			
Tax revenue	41.6	-	
Government of Canada	(23.4)	-	
Government business enterprises	18.0	-	
Other revenue	(3.9)	-	
Economic Development and Tourism	-	(6.7)	
Education Early Learning and Culture	-	(3.9)	
Finance	-	4.4	
Health and Wellness	-	25.0	
Transportation Infrastructure and Energy	-	(6.2)	
Workforce and Advanced Learning	-	7.6	
Other program expenses	-	2.8	
Interest on debt	-	(0.7)	
Amortization	-	2.8	
<b>2015-16 Deficit</b>	<b><u>\$1,758.7</u></b>	<b><u>\$1,771.8</u></b>	<b><u>\$(13.1)</u></b>

#### Increased Revenues

**8.12** Overall, revenues increased by \$32.3 million from 2015 to 2016. Increased taxes and revenues from government business enterprises were offset by a decline in revenue from the Government of Canada for the year ended March 31, 2016. These items accounted for the majority of the change in total revenues.

**8.13** The majority of the \$41.6 million net increase in tax revenue was attributable to an

- increase of \$18.7 million in personal income tax revenue;
- a decrease of \$4.2 million in sales tax revenue; and
- an increase in corporate tax revenue of \$20.7 million.

## 8. Indicators of Financial Condition

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**8.14** The increase in revenue from government business enterprise is due primarily to an

- increase of \$8.6 million from Island Investment Development Inc.;
- increase of \$4.5 million from Lotteries Commission; and
- increase of \$2.8 million from Energy Corporation.

**8.15** The decrease in Government of Canada revenue was primarily due to a \$7.3 million increase in Canada Health Transfers and a decrease of \$35.0 million from the prior year related to capital markets securities regulation transitional funding.

### Increased Expenses

**8.16** The \$25.1 million increase in expenses consisted primarily of a \$24.5 increase in Health PEI expenses which included compensation increases of \$13.9 million and a \$7.5 million increase for contract services.

## FINANCIAL INDICATORS

**8.17** Consistent with prior years, we continue to provide information on a number of selected indicators of financial condition. **Exhibit 8.3** provides a summary of the financial indicators presented in this chapter over a one and four year period. For each indicator, we have assessed the change as favorable, unfavorable, or stable. This represents the direction of the indicator and is not a comment on performance or policy. For the period 2015 to 2016, six of the indicators are stable and one is favorable. The four year trend for most of the indicators are stable or favorable, but two of the sustainability indicators are unfavorable.

## 8. Indicators of Financial Condition

### EXHIBIT 8.3 SUMMARY OF INDICATORS OF FINANCIAL CONDITION YEAR ENDED MARCH 31

Financial Indicator	2015 to 2016	2012 to 2016
<b>Sustainability Indicators:</b>		
Net Debt to GDP	Stable	Stable
Net Debt per Capita	Stable	Unfavorable
Net Debt to Total Revenues	Stable	Unfavorable
Expenses to GDP	Stable	Favorable
<b>Flexibility Indicators:</b>		
Interest Costs to Total Revenues	Stable	Stable
Own Source Revenues to GDP	Stable	Stable
<b>Vulnerability Indicators:</b>		
Federal Revenues to Total Revenues	Favorable	Favorable

\*A change of one percentage point or less is classified as stable.

#### SUSTAINABILITY

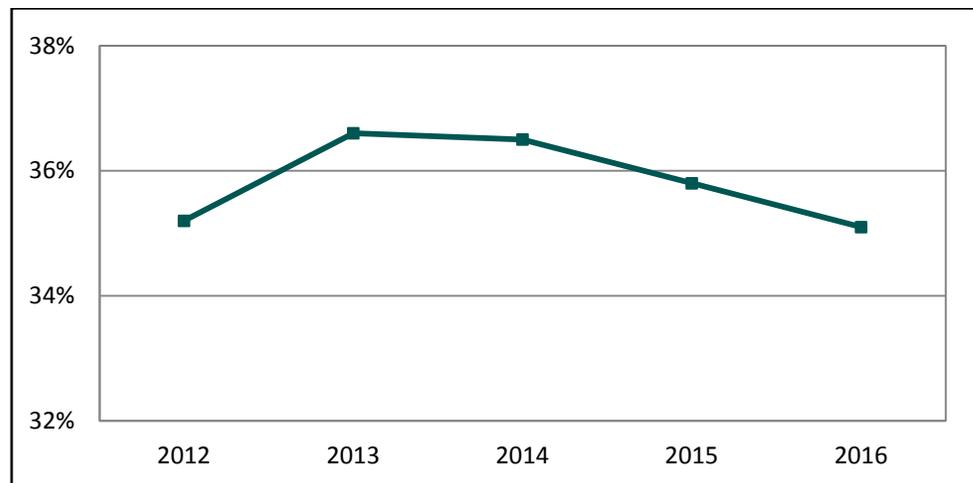
**8.18** Sustainability is an important indicator to include in an assessment of financial condition because it shows the extent to which programs and services can be maintained and existing creditor, employee, and other obligations can be met without increasing the debt or tax burden. Sustainability is a significant consideration because of its potential impact on current and future generations.

## 8. Indicators of Financial Condition

### Net Debt to GDP

**8.19** Net debt to GDP provides a measure of the financial demands placed on the economy by the province’s spending and taxation policies. An increasing ratio indicates net debt is growing at a rate faster than the growth in the economy which places higher demands on future revenues. **Exhibit 8.4** indicates that during the past five years, the province’s net debt to GDP ratio reached its highest level in 2013. It decreased slightly over the last year and is slightly lower than it was in 2012.

**EXHIBIT 8.4  
NET DEBT TO GDP  
YEAR ENDED MARCH 31**

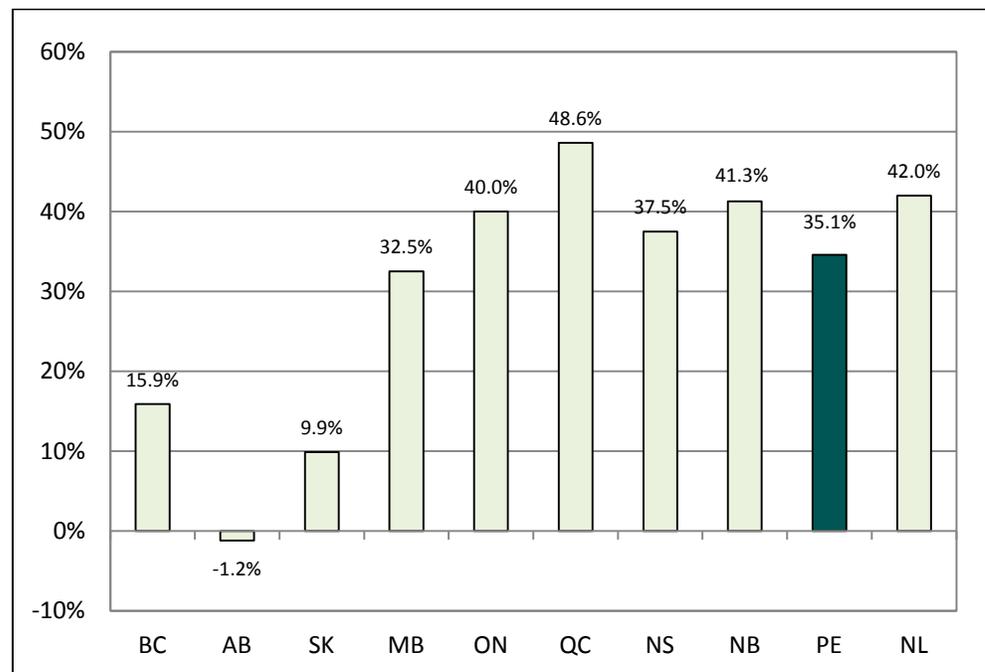


	2012 Restated	2013 Restated	2014	2015	2016
<b>Net Debt to GDP</b>	35.2%	36.6%	36.5%	35.8%	35.1%

## 8. Indicators of Financial Condition

**8.20 Exhibit 8.5** compares the province's net debt to GDP with other Canadian provinces. At March 31, 2016, PEI's net debt to GDP ratio is lower than five other provinces and higher than British Columbia, Alberta, Saskatchewan, and Manitoba.

**EXHIBIT 8.5**  
**NET DEBT TO GDP CANADIAN PROVINCES**  
**MARCH 31, 2016**



Source: Net debt derived from the province's consolidated financial statements at March 31, 2016. GDP data from Statistics Canada published November 9, 2016.

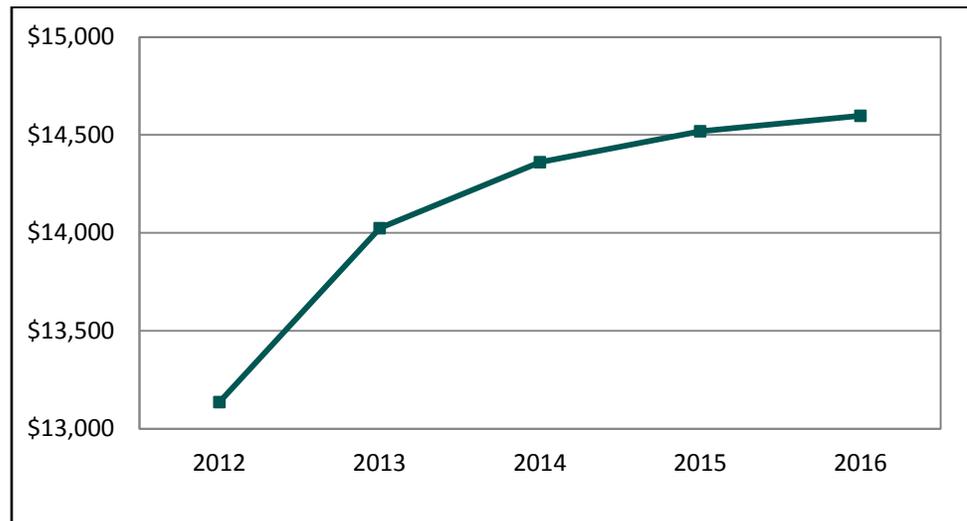
## 8. Indicators of Financial Condition

### Net Debt per Capita

**8.21** Net debt per capita is the amount of net debt attributable to each resident of the province. The province’s net debt per capita increased slightly from the previous year which indicates net debt is growing at a faster rate than the population.

**8.22** Exhibit 8.6 shows the province’s net debt per capita has been increasing since 2012. The net debt attributable to each Island resident was \$14,598 at March 31, 2016, up slightly from \$14,519 at March 31, 2015.

**EXHIBIT 8.6  
NET DEBT PER CAPITA  
YEAR ENDED MARCH 31**

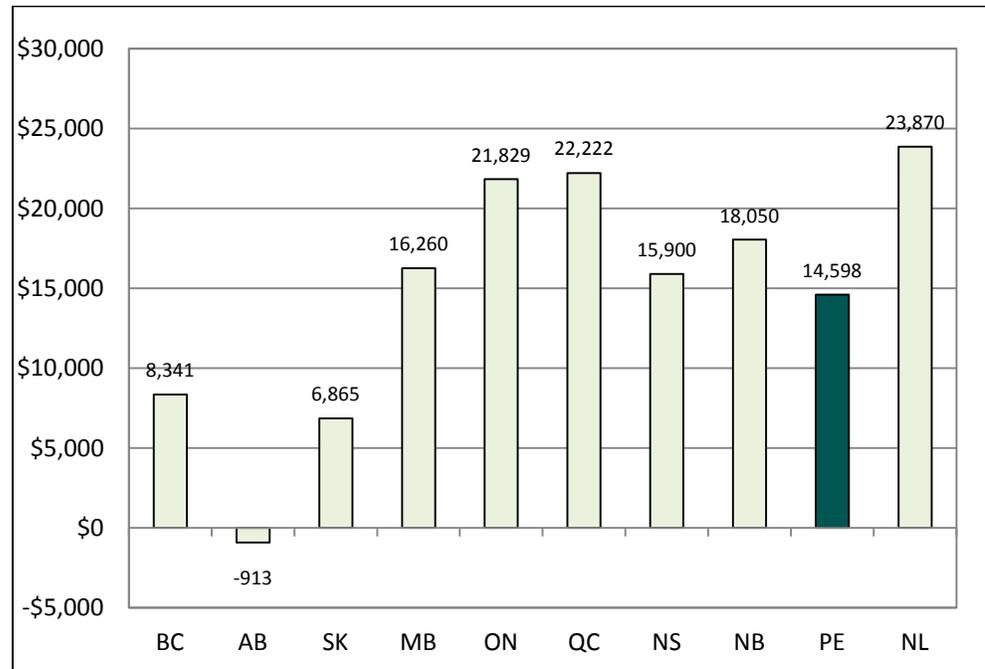


	2012 Restated	2013 Restated	2014	2015	2016
Net Debt per Capita	\$13,136	\$14,024	\$14,361	\$14,519	\$14,598

## 8. Indicators of Financial Condition

**8.23** A comparison of PEI's net debt per capita to other Canadian provinces is provided in **Exhibit 8.7**. PEI's net debt per capita ratio is more favorable than the other provinces, except for British Columbia, Alberta, and Saskatchewan.

**EXHIBIT 8.7**  
**NET DEBT PER CAPITA CANADIAN PROVINCES**  
**MARCH 31, 2016**



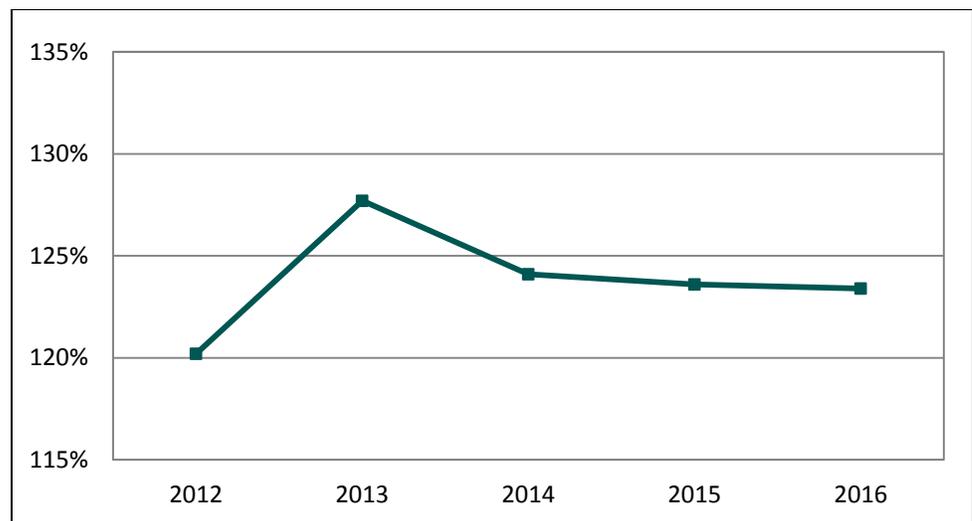
Source: Net debt derived from province's consolidated financial statements at March 31, 2016. Population data from Statistics Canada published September 28, 2016.

## 8. Indicators of Financial Condition

### Net Debt to Total Revenues

**8.24 Exhibit 8.8** depicts the ratio of net debt to total revenues. This ratio is a measure of the future revenue which will be required to pay for past transactions. An increasing ratio indicates more time will be needed to repay the debt. The province's ratio has increased overall from 2012 to 2016. At March 31, 2016, the province's net debt to total revenues ratio decreased slightly to 123.4 percent.

**EXHIBIT 8.8**  
**NET DEBT TO TOTAL REVENUES**  
**YEAR ENDED MARCH 31**



	2012 Restated	2013 Restated	2014	2015	2016
<b>Net Debt to Total Revenues</b>	120.2%	127.7%	124.1%	123.6%	123.4%

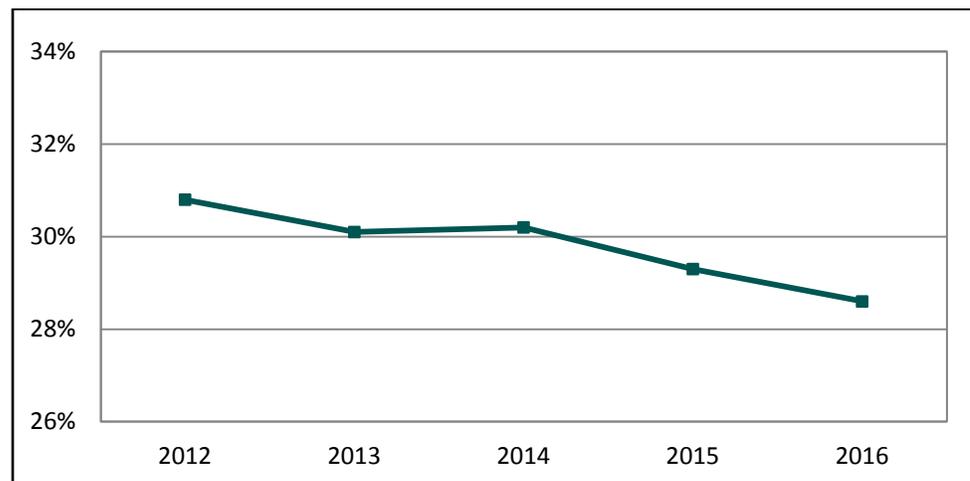
## 8. Indicators of Financial Condition

### Expenses to GDP

**8.25** During 2015-16, government expenses increased by \$25.1 million from the prior period. Comparing expenses to GDP provides the trend of government spending over time in relation to the growth in the economy. An increasing ratio indicates government spending is growing at a rate faster than the growth in the economy. Expenses as a percentage of GDP have declined from the prior period and over the past four years.

**Exhibit 8.9** shows government spending at March 31, 2016, represented approximately 28.6 percent of GDP compared to 29.3 percent in 2015 and 30.8 percent in 2012.

**EXHIBIT 8.9  
EXPENSES TO GDP  
YEAR ENDED MARCH 31**



	2012 Restated	2013 Restated	2014	2015	2016
<b>Expenses to GDP</b>	30.8%	30.1%	30.2%	29.3%	28.6%

### FLEXIBILITY

**8.26** Flexibility is the degree to which a government can increase its financial resources to respond to rising commitments by either increasing its debt or raising additional revenue. A government meets the test of flexibility when it can respond to changing economic conditions, such as a recession or higher interest rates, without making substantial changes to the way it operates.

**8.27** Flexibility provides insight into the management of financial resources. A government that increases its current borrowings reduces its future flexibility to respond to adverse economic circumstances.

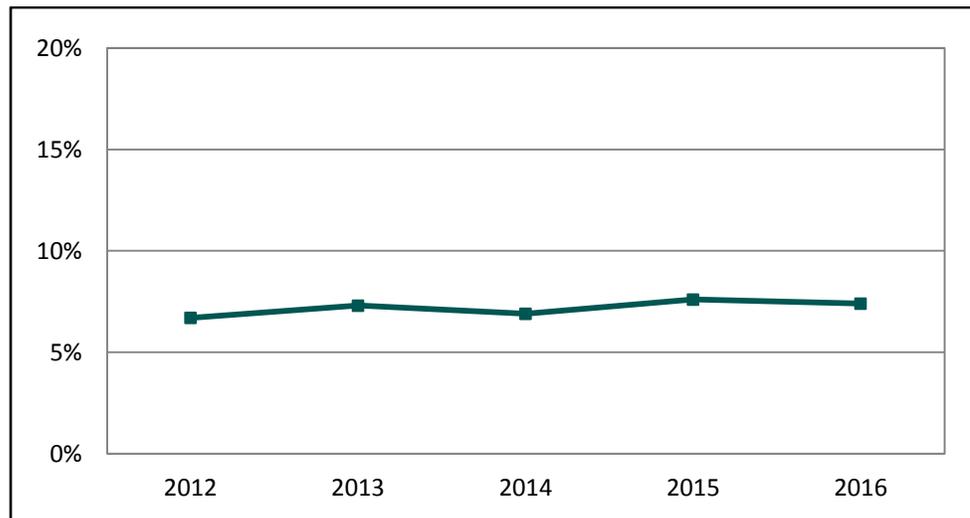
## 8. Indicators of Financial Condition

Similarly, increasing taxation or fees reduces a government’s ability to do so in the future as citizens and businesses approach the limit that they can or are willing to bear.

### Interest Costs to Total Revenues

**8.28** One measure of a government’s flexibility is the “interest bite”. This is the interest cost as a percentage of total revenues and is shown in **Exhibit 8.10**. This indicator illustrates the extent to which past borrowing decisions constrain a government’s ability to provide programs and services in the future.

**EXHIBIT 8.10**  
**INTEREST COSTS TO TOTAL REVENUES**  
**YEAR ENDED MARCH 31**



	2012 Restated	2013 Restated	2014	2015	2016
<b>Interest Costs to Total Revenues</b>	6.7%	7.3%	6.9%	7.6%	7.4%

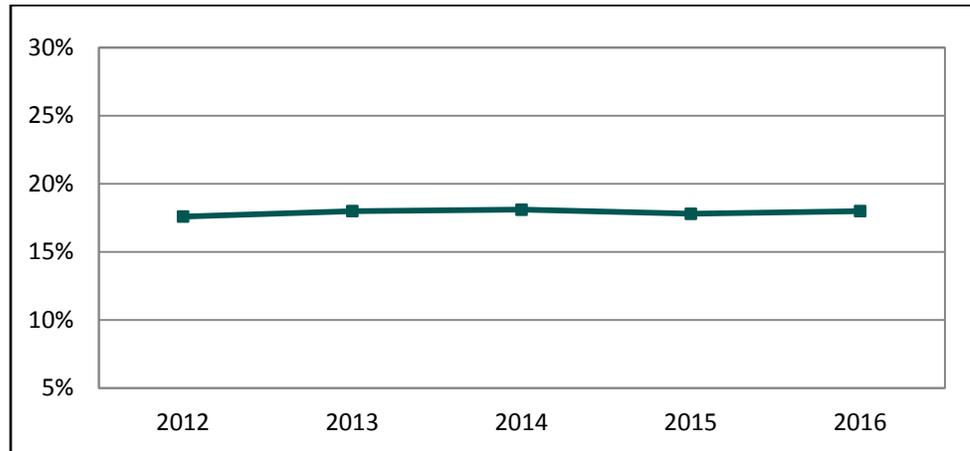
**8.29** Interest costs totaled \$129.8 million during 2015-16. This means the first \$129.8 million of revenue must be used to pay interest costs and is not available for government programs and services. Interest charges were approximately 7.4 percent of total revenues for the March 31, 2016, fiscal year. Although the interest costs to total revenues ratio has slightly declined since last year, it has increased since 2012 and net borrowings (borrowings less sinking funds) have grown by 32.0 percent over this four year period.

## 8. Indicators of Financial Condition

### Own Source Revenues to GDP

**8.30** Own source revenues as a percentage of GDP indicates the extent to which a government is taking money out of the local economy through taxation, fees, and/or other charges. **Exhibit 8.11** indicates the percentage has been stable since 2012.

**EXHIBIT 8.11  
OWN SOURCE REVENUES TO GDP  
YEAR ENDED MARCH 31**



	2012 Restated	2013 Restated	2014	2015	2016
<b>Own Source Revenues to GDP</b>	17.6%	18.0%	18.1%	17.8%	18.0%

### VULNERABILITY

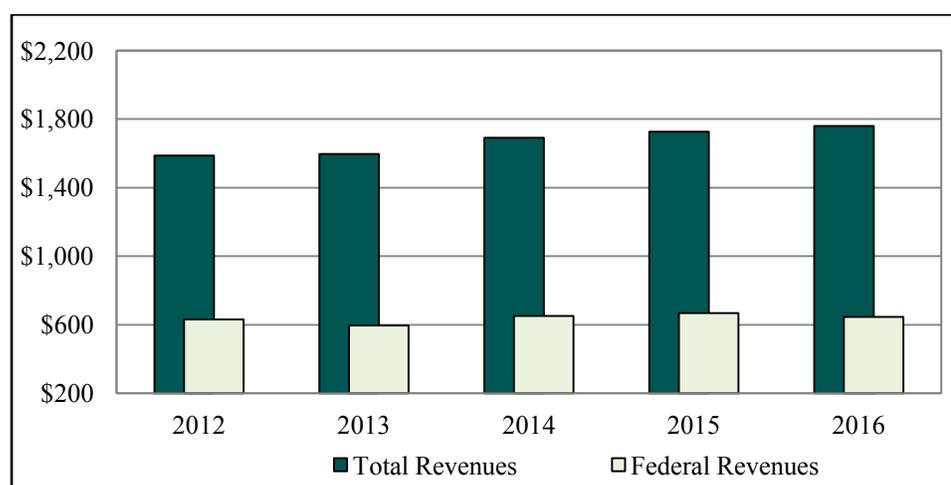
**8.31** Vulnerability is the degree to which a government depends on sources of funding outside its control or influence. It provides insight into the risks the province is exposed to that could affect its ability to meet existing service commitments to the public and financial commitments to creditors, employees, and others.

## 8. Indicators of Financial Condition

### Federal Revenues to Total Revenues

**8.32** Federal revenues as a percentage of total revenues have decreased over the previous year and compared to 2012. A decreasing ratio indicates less vulnerability. In 2015-16, the federal government provided 36.7 percent of the province's total revenues or \$644.9 million. The decrease in federal revenues is attributable mainly to a one time transitional funding payment in each of the two previous years; \$35.0 million in 2014-15 for capital markets securities regulations and \$39.0 million in 2013-14 for the implementation of the Harmonized Sales Tax. **Exhibit 8.12** shows federal revenues as a percentage of total revenues for the last five years.

**EXHIBIT 8.12**  
**FEDERAL REVENUES TO TOTAL REVENUES**  
**YEAR ENDED MARCH 31**  
**(\$ Millions)**



	2012 Restated	2013 Restated	2014	2015	2016
<b>Provincial Revenues</b>	\$ 956.4	\$1,001.6	\$1,040.0	\$1,058.1	\$1,113.8
<b>Federal Revenues</b>	<u>630.7</u>	<u>595.4</u>	<u>651.8</u>	<u>668.3</u>	<u>644.9</u>
<b>Total Revenues</b>	<u>\$1,587.1</u>	<u>\$1,597.0</u>	<u>\$1,691.8</u>	<u>\$1,726.4</u>	<u>\$1,758.7</u>
<b>Provincial Revenues as Percent of Total</b>	60.3%	62.7%	61.5%	61.3%	63.3%
<b>Federal Revenues as Percent of Total</b>	39.7%	37.3%	38.5%	38.7%	36.7%

## 8. Indicators of Financial Condition

### GLOSSARY

**Annual surplus or deficit** is the difference between a government's revenues and expenses. This measure shows the extent to which revenues raised in the year were sufficient to cover expenses in that year.

**Total liabilities** is the amount owed by government. Government's liabilities include outstanding debentures and other amounts payable.

**Financial assets** are cash and other assets which could provide resources to pay liabilities or finance future operations.

**Net debt** is the difference between the government's total liabilities and its financial assets.

**Government borrowings** is the total of short-term loans, long-term loans payable, and debentures.

**Non-financial assets** are tangible capital assets such as buildings, roads, and equipment as well as prepaid expenses and inventories. The book value of tangible capital assets increases as they are acquired and is reduced over a period of time through amortization. These assets do not normally provide resources to discharge liabilities.

**Accumulated deficit** is the sum of all surpluses and deficits incurred over the years.

**Interest charged on borrowings** is the amount required to service the debt and must be taken from revenues before any expenditure can be made on government programs and services.

**Gross domestic product (GDP)** is a measure of the value of all goods and services produced in a jurisdiction in a given period. The province's GDP is measured and reported by Statistics Canada.

**Nominal gross domestic product** is gross domestic product that has not been adjusted for inflation.

## 9. AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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### CHAPTER SUMMARY

#### *What we examined*

This chapter provides summary information on issues identified during our audit of the province's consolidated financial statements. We also provide summary comments on our audit opinion.

#### *Why it's important*

The consolidated financial statements provide the most complete information about the financial position and operating results of the province as they consolidate the accounts of the Operating Fund with those of the agencies, boards, and Crown corporations owned or controlled by government.

#### *What we found*

- The 2015-16 consolidated financial statements fairly present the province's financial results. An unqualified audit opinion was issued on November 25, 2016.
- Consolidated budgets are not prepared on the same basis as the consolidated financial statements.
- Improvements are required in the province's financial reporting processes.
- Revenue recognition policies need to be reassessed.

## 9. Audit of the Consolidated Financial Statements

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### BACKGROUND

**9.1** The *Financial Administration Act* requires the Minister of Finance to annually table the Public Accounts in the Legislative Assembly. The 2016 Public Accounts consist of three volumes: Volume I contains the province's audited consolidated financial statements; Volume II contains the unaudited Operating Fund financial statements and details of revenues and expenses of the Operating Fund; and Volume III includes the audited financial statements of agencies, boards, Crown corporations, and funds.

**9.2** The consolidated financial statements are prepared by government, and all information within and decisions related to these statements are the responsibility of government. Each year, we audit the province's consolidated financial statements and issue an independent auditor's report. In this chapter, we provide comments on Volume I of the Public Accounts based on our audit work.

### OBJECTIVES AND SCOPE

**9.3** The *Audit Act* requires the Auditor General to annually audit the province's consolidated financial statements and provide an independent auditor's report stating whether the statements are fairly presented.

**9.4** Under Section 17 of the Act, the Auditor General is not required to audit or report on the accounts of any agency of government where another auditor has been designated to audit its accounts. As part of the audit of the consolidated financial statements, the Auditor General reviews certain audit work performed by the external auditors of significant entities.

**9.5** In the following sections, we provide information on our independent audit opinion on the province's consolidated financial statements for the fiscal year ended March 31, 2016. We also include observations and recommendations arising from our work. Information to address other reporting requirements under the *Audit Act* is also provided.

## 9. Audit of the Consolidated Financial Statements

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### AUDIT OPINION

**9.6** The *Financial Administration Act* requires the Comptroller to annually prepare the province's consolidated financial statements. The Auditor General is required to conduct an audit of the consolidated financial statements and express an independent audit opinion. Our audit was conducted in accordance with Canadian auditing standards. On November 25, 2016, the Auditor General issued an unqualified audit opinion on the province's consolidated financial statements. The independent audit opinion stated the province's consolidated financial statements for the year ended March 31, 2016, are fairly presented in accordance with the basis of accounting disclosed in Note 2 to the consolidated financial statements, which are Canadian public sector accounting standards.

### OBSERVATIONS AND RECOMMENDATIONS

#### ACCOUNTABILITY

**9.7** The consolidated financial statements are one of the most important accountability documents produced by government. These statements provide financial and other information to help users assess the financial position and operating results of government.

**9.8** In order to demonstrate accountability, government needs to provide information on how it has managed provincial resources. The Legislative Assembly, including its Public Accounts Committee, plays a primary role in holding government accountable. To fulfill their oversight role, members of the Legislative Assembly, as well as the public, need sufficient, timely, and reliable financial information on the financial position and operating results of the province.

#### **Budgets not prepared on same basis as consolidated financial statements**

**9.9** Government lays out its spending plan each year in an annual budget. Governments are held accountable when actual results are provided for comparison. Legislators, the public, and other users should be able to easily assess the province's actual results in comparison to its approved budget. For several years, we noted the province's budget is not prepared on the same basis as its consolidated financial statements.

## 9. Audit of the Consolidated Financial Statements

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**9.10** Canadian public sector accounting standards require original budget information to be presented in the province's consolidated financial statements. However, the original budget does not include each consolidated entity's revenues and expenses on a line by line basis. The budgets of certain entities are grouped and reported on a net basis. This means that the original budget is not prepared on the same basis as the consolidated financial statements.

**9.11** Similar to previous years, a separate reconciliation was necessary to present the budget on the same comparative basis as the actual financial results. For the year ended March 31, 2016, original budget revenues and expenses were increased by \$92.5 million to put them on a comparative basis with the actual financial results presented in the consolidated financial statements.

**9.12** The operating budgets for government business enterprises are also prepared on a net basis and the details of each entity's revenues and expenses are not disclosed to the Legislature nor are they publicly available. This is significant because government business enterprises had revenues of \$159.7 million (2015 - \$148.2 million) and expenses of \$103.2 million (2015 - \$109.9 million) for the year ended March 31, 2016. Government business enterprises also controlled \$820.1 million (2015 - \$724.0 million) in total assets at year end.

**9.13** Detailed budget information of government business enterprises and government organizations would enhance accountability and transparency. It would also assist members of the Legislative Assembly and the public to assess and debate the budgets of these entities.

**9.14** We have repeatedly reported these issues. To date, there has been no action taken.

### **Budgeted amortization of tangible capital assets is not correct**

**9.15** During our audit of the consolidated financial statements, we noted that the 2015-16 Budget Estimates included amortization of \$1.2 million for Finance PEI in the line item "amortization of tangible capital assets". Amortization was also reflected separately in the budget presentation of Finance PEI. Therefore, amortization of \$1.2 million was budgeted twice.

## 9. Audit of the Consolidated Financial Statements

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**9.16** In an attempt to correct a similar issue noted last year for the Prince Edward Island Housing Corporation (Housing Corporation), budgeted amortization for the Housing Corporation was removed from both the budget line item “amortization of tangible capital assets” and the Housing Corporation’s budget. Amortization for the Housing Corporation was therefore not included in the 2015-16 budget. The Housing Corporation’s amortization expense for 2015-16 was \$2.1 million.

**9.17** Actual amortization expense of Crown corporations that are fully consolidated is reflected in the line item on the consolidated financial statements “amortization of tangible capital assets”. To facilitate comparison of budget and actual expenses, budgeted amortization for these Crown corporations should be reflected in this line item in the budget estimates.

### **Recommendations**

**9.18** Budgets should be prepared on the same basis as the consolidated financial statements.

**9.19** Detailed budget information of significant agencies, boards, and Crown corporations should be provided to the Legislative Assembly as part of the budget approval process.

**9.20** Budgeted amortization for Crown corporations should be accurately reflected in the budget estimates.

### **FINANCIAL REPORTING PROCESS**

**9.21** The consolidated financial statements for the year ended March 31, 2016, were released December 7, 2016. Each year in preparation for our audit, we meet with the Comptroller’s Office to discuss audit readiness and timelines. This is done to clarify expectations and provide for a coordinated and cooperative effort to facilitate the timely completion of the consolidated financial statements. As discussed in the following paragraphs, we noted a number of issues which impacted the completion of our audit.

## 9. Audit of the Consolidated Financial Statements

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### Improvements are required in the financial reporting process

**9.22** Government is responsible for the preparation and fair presentation of the consolidated financial statements. The Comptroller is responsible for establishing and maintaining an effective system of internal control over financial reporting to enable the preparation of consolidated financial statements that are free of material misstatement, whether due to fraud or error. The Comptroller is responsible for the maintenance of adequate accounting records and internal controls, prevention and detection of fraud and errors, safeguarding of assets, selection and application of appropriate accounting policies, and appropriate presentation and disclosure of financial information in the consolidated financial statements.

**9.23** As the auditors of the consolidated financial statements, we are independent of the financial preparation and reporting process. Our responsibility is to express an independent, objective opinion on the province's consolidated financial statements. At the completion of the audit, we may offer objective advice for improving financial reporting and internal controls. However, this does not diminish or change the government's responsibility for the financial statements.

**9.24** To facilitate the completion of the audit, the Comptroller's Office provides our office with access to all records, documentation, and other information that is relevant to the preparation of the financial statements, any additional information that we may request, and unrestricted access to persons within the entity that we determine is necessary to obtain audit evidence.

**9.25** During our audit, we identified a number of issues in the province's system of quality control. The issues described in the following paragraphs demonstrate that improvements are required in the preparation and presentation of the consolidated financial statements.

**9.26** Our audit of the consolidated financial statements identified 57 audit adjustments totalling \$76.3 million. Of these, approximately \$41.9 million related to classification adjustments which did not change the annual deficit and \$17.9 million related to income tax adjustments. All significant items were subsequently adjusted by the province, however, considerable time was required by both audit staff and staff of the Comptroller's Office to discuss, follow up, and address these adjustments.

### Audit Adjustments

## 9. Audit of the Consolidated Financial Statements

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### Contractual Obligations and Commitments

**9.27** Disclosure of significant contractual obligations provides information to users of the financial statements about government resources that have already been committed for future spending. Errors were found in the schedule of contractual obligations and the note disclosures provided for audit. This included missing contracts, incorrect contract information, and contracts included in both the schedule and the note disclosures. The financial statements also included a schedule of contractual obligations signed subsequent to year end. Again, the schedule provided for audit was incomplete. Care should be taken to ensure information on contractual obligations and subsequent events is complete and accurate.

### Other Issues

**9.28** We noted instances of insufficient documentation to support accounting decisions. In addition, transactions were reflected in the consolidated financial statements that had not been recorded in the financial accounting system. These issues contributed to inefficiencies in accounting and auditing processes.

**9.29** An improved quality control process has the potential to save time on the part of staff of the Comptroller's Office and audit staff by reducing the amount of work required to identify errors, discuss, and follow up on these items. The quality control process should be improved to ensure information is complete and accurate.

#### Recommendation

**9.30** The Comptroller's Office should improve its quality control review processes.

### OTHER AUDIT ISSUES

#### Revenue recognition policies need to be reviewed

**9.31** Canadian public sector accounting standards (PSAS) require provincial tax revenue to be measured based on management's best estimate of the amount of tax revenue to be received. As better information becomes available, adjustments to the amount of tax revenue initially recognized should be recorded.

## 9. Audit of the Consolidated Financial Statements

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**9.32** The province's revenue recognition policy is to record income tax based on the latest available estimates provided by the Government of Canada's Department of Finance. However, prior to the completion of the consolidated financial statements, federal assessment data is also available. Federal assessments provide information on actual tax returns assessed and this information was not considered by the Comptroller's Office when estimating tax revenue. Using estimates and assessment data, our audit of provincial tax revenue identified significant adjustments for both corporate income tax of \$9.1 million and personal income tax of \$8.8 million at March 31, 2016. Without a sound methodology consistent with PSAS, there is a higher risk of significant revenue adjustments.

**9.33** We also identified an issue regarding the accounting for personal income tax revenue related to reassessments. The province implemented a policy during 2015-16 to address reassessments. The policy sets a threshold for the value of reassessments which will not be recognized as revenue until the case reaches final settlement. PSAS requires revenue to be recognized based on management's best estimate of tax revenue that is expected to be collected. Our expectation is that any policy regarding reassessments should be based on Canadian public sector accounting standards.

### **Recommendation**

**9.34 The Comptroller's Office should ensure that the revenue recognition policies are in accordance with Canadian public sector accounting standards.**

### **Some prior period recommendations still outstanding**

**9.35** We have raised a number of issues in past management letters. Our audit of the 2015-16 consolidated financial statements noted that some of the issues have still not been addressed, several of which have been outstanding for a number of years. These include issues related to the assessment and write-off of uncollectible accounts receivable, accounting for loans with concessionary terms, accounting for tangible capital assets, payroll documentation issues, and the need to improve some internal controls. We encourage the province to take action on these issues.

## 9. Audit of the Consolidated Financial Statements

### New standards require planning

**9.36** The Canadian Public Sector Accounting Board has issued a number of new standards for the public sector. For years beginning on or after April 1, 2017, new standards take effect which define and establish disclosures required for related party transactions, assets, contingent assets and contractual rights as well as accounting for inter-entity transactions. For years beginning on or after April 1, 2018, standards take effect related to the accounting and reporting of restructuring transactions. For years beginning on or after April 1, 2019, standards take effect related to financial statement presentation, foreign currency translation, portfolio investments, and financial instruments. We again encourage the Office of the Comptroller to be proactive in preparing for these changes to ensure any accounting and disclosure issues that may arise are resolved in a timely manner.

### OTHER REPORTING REQUIREMENTS

#### DEBTS CANCELLED, DISCHARGED, WRITTEN OFF

**9.37** Section 16 of the *Audit Act* requires the Auditor General to report the total amount of any claims, debts, or monies due to the province that have been discharged, cancelled, and/or released under Section 26 of the *Financial Administration Act*. For the year ended March 31, 2016, the amount cancelled or discharged under Section 26 is detailed in **Exhibit 9.1**. Also included are amounts written off under Section 26.1(1).

#### EXHIBIT 9.1 AMOUNTS CANCELLED, DISCHARGED OR WRITTEN OFF YEAR ENDED MARCH 31, 2016

	Cancellations Section 26(1)	Write-offs Section 26.1(1)
<i>Social Assistance Act</i>	\$ 36,483	\$ 136,699
Health PEI	13,816	113,002
Department of Family and Human Services	792	9,734
<b>Total</b>	<b><u>\$ 51,091</u></b>	<b><u>\$ 259,435</u></b>

## 9. Audit of the Consolidated Financial Statements

### SURPLUS (DEFICIT) AGENCIES, BOARDS, AND CROWN CORPORATIONS

**9.38** Section 16 of the *Audit Act* also requires the Auditor General to include information in the Annual Report on surpluses/deficits of agencies, boards, and Crown corporations. In **Exhibit 9.2**, we provide the surplus or deficit for each entity.

#### EXHIBIT 9.2 SURPLUS (DEFICIT) AGENCIES, BOARDS, AND CROWN CORPORATIONS YEAR ENDED MARCH 31, 2016

	Annual Surplus (Deficit)
Charlottetown Area Development Corporation*	\$ 284,818
English Language School Board	(12,018)
Finance PEI	581,095
French Language School Board	17,239
Health PEI	(19,830,920)
Innovation PEI	(369)
Island Investment Development Inc.	10,993,524
Island Waste Management Corporation	440,920
PEI Advisory Council on the Status of Women	(47,029)
PEI Agricultural Insurance Corporation	4,460,436
PEI Energy Corporation	9,383,554
PEI Grain Elevators Corporation (July 31, 2015)	(268,942)
PEI Housing Corporation	(64,900)
PEI Human Rights Commission	(28,347)
PEI Liquor Control Commission	20,644,718
PEI Lotteries Commission	14,945,137
PEI Museum and Heritage Foundation	(33,177)
PEI Regulatory and Appeals Commission	(534,874)
PEI Self-Insurance and Risk Management Fund	525,578
PEI Student Financial Assistance Corporation	15,895
PEI 2014 Inc.	(250,154)
Summerside Regional Development Corporation*	(182,144)

\* Includes the provincial portion only

### MANAGEMENT RESPONSE

**9.39** Our observations and recommendations have been provided to the Office of the Comptroller.

## 10. MATTERS NOTED IN OTHER FINANCIAL AUDITS

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### CHAPTER SUMMARY

#### *What we examined*

This chapter summarizes the issues reported in our management letters as a result of the financial statement audits completed by our Office.

#### *Why it's important*

Our management letters are provided to management and those charged with governance to assist them in discharging their responsibilities. The reported issues and recommendations identify opportunities to strengthen internal control and improve management and accounting processes.

#### *What we found*

- We completed 12 financial statement audits related to the 2015-16 fiscal year. In all cases, we issued an unqualified audit opinion.
- Islanders can rely on the financial statements for the entities we audited. All of the financial statements are fairly presented.
- The majority of the issues that we noted in our financial statement audits are in the areas of accounting, compliance, and internal controls.

### BACKGROUND

**10.1** Our Office conducts independent audits and examinations that provide objective information, advice, and assurance to the Legislative Assembly. A significant portion of our work relates to financial audits.

**10.2** The objective of a financial audit is to obtain reasonable assurance that the financial information is free of material misstatement. An independent audit opinion is provided at the conclusion of the audit.

## 10. Matters Noted in Other Financial Audits

**10.3** In addition to the audit of the province's consolidated financial statements, we perform an annual financial statement audit for a number of agencies, boards, trusts and Crown corporations. We also audit nine operating claims submitted by the province to the Canada Mortgage and Housing Corporation (CMHC). The annual audits are listed in **Exhibit 10.1**. The estimated total annual revenues and expenses related to these audits is \$1,072.7 million and \$902.4 million, respectively.

### EXHIBIT 10.1 FINANCIAL STATEMENT AND CLAIMS AUDITS (\$ Thousands)

Audit	Year End	Revenues	Expenses
Health PEI	31-Mar-16	\$ 622,484	\$642,315
PEI Advisory Council on the Status of Women	31-Mar-16	159	206
PEI Agricultural Insurance Corporation	31-Mar-16	31,029	26,568
PEI Aquaculture and Fisheries Research Initiative Inc.**	31-Mar-15	78	116
PEI Civil Service Superannuation Fund**	31-Mar-15	203,372	71,486
PEI Crown Building Corporation*	31-Mar-16	-	-
PEI Grain Elevators Corporation	31-Jul-15	22,620	22,889
PEI Housing Corporation	31-Mar-16	13,216	13,281
PEI Human Rights Commission	31-Mar-16	420	448
PEI Liquor Control Commission	31-Mar-16	75,630	54,985
PEI Lotteries Commission	31-Mar-16	18,503	3,558
PEI Self-Insurance & Risk Management Fund	31-Mar-16	5,094	4,568
PEI Teachers' Superannuation Fund	30-Jun-15	72,440	46,894
Pension Plan for Members of the Legislative Assembly**	31-Dec-14	2,103	1,515
Public Trustee**	31-Mar-14	107	3
Supreme Court of PEI Trust Accounts	31-Mar-16	2	-
CMHC Operating Claims**	31-Dec-14 & 31-Mar-15	5,469	13,589
<b>TOTAL</b>		<b>\$1,072,726</b>	<b>\$902,421</b>

\*Inactive

\*\*Based on most recent audited information

## 10. Matters Noted in Other Financial Audits

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**10.4** It is important to note that an audit is not designed to express an opinion on the adequacy or effectiveness of the system of internal control established by management. It cannot be relied upon to detect all internal control weaknesses, defalcations, irregularities, and/or other areas which may be of interest to management.

**10.5** Our financial audits are conducted in accordance with Canadian auditing standards and include such tests and other procedures we consider necessary in the circumstances. These standards require the auditor to communicate to management and those charged with governance any significant issue or matter identified during an audit.

**10.6** The auditor details any significant issues arising from the audit in a separate communication commonly referred to as a management letter. This letter identifies any significant concern noted in the entity's system of internal control, in management processes, significant accounting adjustments or disclosures identified by the audit, compliance issues, or any other matter which the auditor concludes should be brought to the attention of management and those charged with governance. Recommendations are provided to address concerns noted. Our audits can also identify matters of a less significant nature. These items are verbally communicated to management.

**10.7** For the majority of the financial statement audits completed, management letters were issued. Prior to finalizing a management letter, we discuss each finding and recommendation with management. We also request a written response to our management letters. A copy of our management letters are provided to the Secretary to Treasury Board and to the Office of the Comptroller.

### SCOPE

**10.8** In this chapter, we provide summary comments on the significant issues and recommendations arising from the financial statement audits completed by our Office. This does not include findings and recommendations related to our audit of the province's consolidated financial statements. These are provided in a separate chapter. This chapter also excludes the management letters, if any, related to the financial statement audits of the other entities reflected in the province's consolidated financial statements and audited by other auditors.

## 10. Matters Noted in Other Financial Audits

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### SUMMARY OBSERVATIONS

**10.9** For the 12 financial statement audits we completed related to the 2015-16 fiscal year, unqualified audit opinions were issued. The information presented in these financial statements is fairly presented.

**10.10** During the year we also completed an audit of the Public Trustee for the year ended March 31, 2014. Our audit of these accounts for the fiscal years ended March 31, 2015 and 2016 have not been completed due to audit readiness issues. Further information is included in Chapter 3 of this Annual Report.

**10.11** We are also the appointed auditors of the province's pension plans including the Prince Edward Island Civil Service Superannuation Fund, and the Pension Plan for Members of the Legislative Assembly. These audits were not completed at the time of this report. The March 31, 2016 consolidated financial statements include the accrued benefit obligation, plan assets, and pension expense for each plan. Therefore, priority was given to the preparation of this information for audit of the consolidated financial statements.

**10.12** We had findings and recommendations resulting from our financial statements audits which we detailed in our management letters. The main issues identified can be categorized into the following areas: accounting, compliance, internal controls, and accountability. Following is a description of each category along with examples of issues identified in the financial statement audits.

**10.13 *Accounting*** - Financial statements are prepared in accordance with a set of accounting standards. An objective of these standards is to enable users of the financial statements to understand the information and for the information to be fairly presented. The majority of accounting issues noted in the management letters related to how amounts were determined and recorded. Audit readiness was also noted as a concern.

**10.14 *Compliance*** - Governments have objectives and establish regulations, policies, and procedures designed to clearly communicate expectations. We reported compliance matters in the management letters we issued. These matters related to compliance with legislation,

## 10. Matters Noted in Other Financial Audits

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agreements, and with Treasury Board policies on appropriation transfers, human resources, signing authority, and receivable write-offs.

**10.15 *Internal Controls*** - Internal controls help to ensure transactions are appropriately recorded and authorized. They also ensure business processes operate as intended. Inadequate internal control can expose an entity to business and financial risks. Internal control issues identified included inadequate segregation of duties, lack of documented policies and procedures, and the need to improve transaction controls.

**10.16 *Accountability*** - An important concept in the public sector is accountability. In order to demonstrate accountability, entities need to provide information on how financial resources have been managed. One way this is done is by comparing actual results to authorized budgets. In 2015-16, we noted detailed budgets of two entities were not formally approved.

**10.17** In our next financial audit, we follow up to assess the status of action taken to address the issues reported.

### MANAGEMENT RESPONSE

**10.18** As of March 1, 2017, management responses have been received for all management letters issued by our Office. In general, management agreed with the issues raised and advised that they have taken or plan to take action.

# 11. APPROPRIATIONS AND SPECIAL WARRANTS

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## CHAPTER SUMMARY

### *What we examined*

We examined the processes for recording appropriations for current and capital expenditures for the fiscal year ended March 31, 2016. We also examined the approvals, processing, and recording of special warrants. There were no transfers or sequestrations approved for 2015-16.

### *Why it's important*

Appropriation acts are an important control over spending. Our work provides assurance that special warrants, transfers, and sequestrations comply with applicable legislation and Treasury Board Policy.

### *What we found*

- The *Appropriation Act (Current Expenditures) 2015* authorized \$1,603.1 million in operating expenditures for the fiscal year ended March 31, 2016.
- The *Appropriation Act (Capital Expenditures) 2015* authorized capital spending of \$74.5 million.
- Special warrants provided an additional \$24.6 million in authorized spending for operating expenditures and \$13.2 million for capital expenditures.
- During the year, there were delays in issuing special warrants.

## 11. Appropriations and Special Warrants

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### BACKGROUND

**11.1** Government's annual spending authority is approved by members of the Legislative Assembly through an appropriation act. Appropriations for 2015-16 were approved in the *Appropriation Act (Current Expenditures) 2015* and *Appropriation Act (Capital Expenditures) 2015*. Authorization to exceed the initial amount set by an appropriation act is provided by a special warrant or transfer of a previously appropriated amount.

**11.2** Special warrants are used when the Legislative Assembly is not in session and funds are needed for operations in addition to amounts that were included in the *Appropriation Act*. Unlike appropriation acts which require the approval of the Legislative Assembly, special warrants must be approved by the Lieutenant Governor in Council through an Order-in-Council.

**11.3** This chapter provides comments and recommendations resulting from the audit of the province's appropriations and special warrants for the year ended March 31, 2016. In addition to the information provided in this chapter, readers should also consider the province's consolidated financial statements and our independent auditor's report on those financial statements.

**11.4** **Schedule A** of this Annual Report provides a comparison of operating and capital appropriations to actual expenditures in accordance with the classifications in the 2015 appropriation acts.

### OBSERVATIONS AND RECOMMENDATION

#### SPECIAL WARRANTS

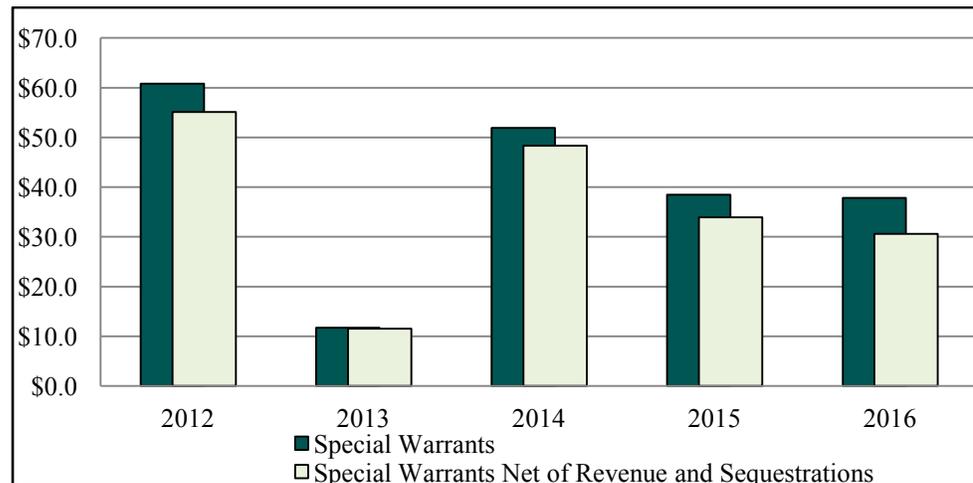
**11.5** The *Audit Act* requires the Auditor General to list in detail appropriations made by special warrant and the purpose of such appropriations. Information on special warrants for 2015-16 is included in **Schedule B** to this report. For the year ended March 31, 2016, special warrants totaling \$37.8 million were issued for operating and capital expenditures. These special warrants were partially offset by a \$7.2 million increase in revenue for a net increase in spending authority of \$30.6 million.

## 11. Appropriations and Special Warrants

**11.6** Some additional warrants were approved for the 2014-15 fiscal year. These warrants were issued subsequent to the release of our 2016 Annual Report. These special warrants are included in **Schedule C**. The total special warrants in **Exhibit 11.1** for 2014-15 reflect these additional warrants.

**11.7** **Exhibit 11.1** depicts total special warrants and special warrants net of revenue and sequestrations for each of the last five years.

**EXHIBIT 11.1**  
**SPECIAL WARRANTS**  
**YEAR ENDED MARCH 31**  
**(\$ Millions)**



	2012 Restated	2013	2014	2015 Restated	2016
Total Special Warrants	\$60.8	\$11.7	\$51.9	\$38.5	\$37.8
Revenue and Sequestrations	5.7	0.2	3.6	4.6	7.2
Special Warrants Net of Revenue and Sequestrations	\$55.1	\$11.5	\$48.3	\$33.9	\$30.6

### Delay in Issuing Special Warrants

**11.8** The *Financial Administration Act* prohibits expenditures from being incurred unless provided for by an appropriation. When it is expected that an appropriation will be exceeded, a special warrant should be obtained prior to the expenditure being incurred.

## 11. Appropriations and Special Warrants

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**11.9** Consistent with prior years, our audit identified instances where a special warrant was not obtained prior to the expenditure being incurred. The most significant instance relates to Health PEI. In 2015-16, Health PEI's expenditures exceeded its budget by \$12.5 million. The special warrant was not authorized by Executive Council until August 23, 2016.

**11.10** Canadian public sector accounting standards require that government transfers be recognized by the recipient (Health PEI) when the transfer is authorized and all eligibility criteria have been met. Since the special warrant was not authorized until after March 31, 2016, Health PEI reported an operating deficit of \$12.5 million for the year ended March 31, 2016.

### **Recommendation**

**11.11 Special warrants should be obtained prior to expenditures being incurred.**

### **MANAGEMENT RESPONSE**

**11.12** We have discussed our findings and recommendation with management.

**PUBLIC ACCOUNTS COMMITTEE**



## 12. PUBLIC ACCOUNTS COMMITTEE

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### ROLE AND MANDATE

**12.1** The Legislative Assembly of Prince Edward Island is charged with holding government accountable for the resources entrusted to it and the stewardship of those resources. To help fulfill this responsibility, the Legislative Assembly established the Standing Committee on Public Accounts. This Committee is charged with matters concerning the Public Accounts of the province, the Annual Report of the Auditor General, and fiscal management. The Committee may meet to inquire into other matters as deemed necessary by the Committee.

**12.2** The Committee consists of eight members of the Legislative Assembly and is chaired by a member of the Official Opposition. Each year, the Committee develops an annual work plan and holds public meetings. Through its work and reporting to the Legislative Assembly, the Committee contributes to improvements in operations, transparency, and accountability in the province's public sector.

**12.3** Our Office prepares an annual report for the Legislative Assembly. The report is referred to the Committee for review and consideration. The Committee calls upon the Auditor General and other witnesses to appear and answer questions on matters raised in her reports.

### PROCEEDINGS AND RESULTS

**12.4** From March 1, 2016 to March 31, 2017, the Committee has met several times. The Auditor General was called as a witness for nine of these meetings which dealt directly with the review of the 2016 Annual Report of the Auditor General, the Special Assignment: Government Involvement with the E-gaming Initiative and Financial Services Platform, and the Joint Audit of Atlantic Lottery Corporation. The Auditor General provided additional information and clarification on issues raised in these reports.

## 12. Public Accounts Committee

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**12.5** On November 30, 2016, the Committee submitted a report to the Legislative Assembly on its activities. The committee endorsed all the observations and recommendations made in the special audits and examinations section of the 2015 Annual Report of the Auditor General. The Committee report also indicated that the Committee plans to continue its review of the Auditor General's 2016 Annual Report, the Special Assignment: Government Involvement with the E-gaming Initiative and Financial Services Platform, and the Joint Audit of Atlantic Lottery Corporation.

Further, the Committee requested that the implementation of recommendations be reviewed and presented by the Auditor General in the next report to the Legislative Assembly.

**OFFICE OF THE AUDITOR GENERAL**



## 13. OFFICE OF THE AUDITOR GENERAL

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### ROLE AND RESPONSIBILITIES

**13.1** The Auditor General is an independent officer of the Legislative Assembly appointed under the authority of the *Audit Act*. The *Audit Act* establishes the legal framework for an independent audit office. This independence enables the Office of the Auditor General (the Office) to offer impartial opinions, observations, and recommendations on government operations and management practices. The key components of the Office's independence are:

- the authority of the Auditor General to select audits and examinations;
- the right of access to records, information, and individuals necessary to conduct our work;
- the power to request and receive required information and explanations;
- the requirement to report annually to the Legislative Assembly; and
- a Legislative Audit Committee which reviews the Office's budget including its staff complement.

**13.2** The *Audit Act* provides the Office with the authority to conduct audits and examinations of provincial departments, Crown corporations, agencies, and funds. Financial audits include examinations of the province's consolidated financial statements and other financial statements and reports on which we provide assurance that the financial information is fairly presented. Special audits and examinations include the value-for-money or performance audits conducted by our Office.

**13.3** The Office complies with the rules of professional conduct of the Chartered Professional Accountants of Prince Edward Island (CPAPEI) and conducts its work in accordance with assurance standards issued by the Chartered Professional Accountants of Canada (CPA Canada). The Office is responsible to annually complete 26 financial audits, including the consolidated financial statements of the province. On an annual basis, the Office completes a number of value-for-money and/or special examinations. In addition, follow-up work is completed on previous audit recommendations.

## 13. Office of the Auditor General

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**13.4** In accordance with the *Audit Act*, the Auditor General reports annually to the Legislative Assembly. The annual report

- provides observations, recommendations, and information pertaining to the audits and examinations of government operations conducted by the Office during the year;
- calls attention to anything that the Auditor General considers necessary to be brought to the attention of the Legislative Assembly; and
- includes other specific reporting requirements pursuant to the *Audit Act*.

**13.5** In the fall of 2014, the Office released its *Strategic Plan 2014-2018*. The plan documents the vision and mission of the Office and outlines the future direction of the Office as it continues to serve the Legislative Assembly and Islanders. The Office continues to make progress toward its strategic objectives through completion of various actions.

### OUR VISION

**13.6** An independent audit office highly valued by Islanders for the integrity and excellence of its work in advancing accountability for government's administration of public resources.

### OUR MISSION

**13.7** The Office conducts independent audits and examinations that provide objective information, advice, and assurance to the Legislative Assembly. The Office promotes accountability and best practices in government operations.

### OUR VALUES

**13.8** Our values serve as a constant reminder of our commitments and guide our work. Our values are a statement of the high standards we apply to ourselves and our work. Our values are

## 13. Office of the Auditor General

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- **Independence**

We are fair, objective, and non-partisan in our work and in our report to the Legislative Assembly. We adhere to our independence standards and professional code of conduct, avoiding real and perceived conflicts in our relationships and in the conduct of our work.

- **Reliability**

We work together and with others in an open, honest, and trustworthy manner. We strive to meet the highest standards of professional conduct and to produce work of consistent high quality.

- **Progressive**

We seek opportunities for positive change and innovation in our operations. We promote improvements in public sector management through our work and recommendations.

- **Relevance**

We select our audits on the basis of significance and risk with the goal of making a positive difference for Islanders. Our reports present significant findings to the Legislative Assembly and to the public.

### OUR STRATEGIC OBJECTIVES

**13.9** The realization of our vision is supported by three strategic objectives. These strategic objectives have the following planned actions:

**Increase support and communication to our external stakeholders.**

- Deliver the best mix of audit products consistent with our mandate that maximizes the impact and value of our audit work.
- Seek opportunities to enhance understanding of our role and responsibilities with
  - Members of the Legislative Assembly;
  - Public Accounts Committee;
  - management;
  - governing bodies; and
  - Islanders.
- Improve communications with our external stakeholders.

## 13. Office of the Auditor General

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### **Provide a more rewarding professional work environment.**

- Increase opportunities to challenge and reward employees.
- Increase professional development and training opportunities for staff.
- Improve internal office communications and the office work environment.

### **Improve our audit and administrative work practices.**

- Develop and implement a risk management program.
- Increase audit efficiency while continuing to meet professional standards.

**13.10** Our efforts are directed by our strategic objectives and planned actions. We have completed several action items and continue to make progress on others. We have identified recommendations implemented as one key performance measure for our office and others are being considered. It is our intention to report on our performance using these indicators.

**13.11** Each year, we include the status of recommendations made as a result of our special audits and examinations. Information on implementation rates is provided in Chapter 6, Update on Previous Recommendations.

### **AUDIT PLANNING AND PROFESSIONAL STANDARDS**

#### **OFFICE AUDIT PLANNING**

**13.12** Each year, we develop an audit work plan based on statutory requirements, audit priorities, and Office resources. The annual plan includes financial audits, special audits and examinations, and other statutory work. Our annual plan incorporates risk with the goal of providing periodic audit coverage across government operations.

**13.13** Various factors are considered in establishing priorities for special audits and examinations. These include the potential impact on the public, the financial magnitude of the entity or program, the possible matters of significance that may be identified, the complexity of operations or program delivery, the results of previous audits, and/or the timing of the last audit. Other factors considered include our audit mandate, expected

### 13. Office of the Auditor General

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resources required to complete the audit, and the quality of existing internal controls within the entity.

**13.14** Work plans can also be impacted by requests from the Legislative Assembly and government. Our 2015-16 work plan included a special assignment requested by government. Our work on this assignment continued into 2016-17 and a significant amount of Office resources were required to complete the work. We issued a special report on this assignment in October 2016.

#### PROFESSIONAL STANDARDS

**13.15** CPA Canada establishes the accounting and assurance standards which apply to public sector entities and our work. In conducting our work, we rely on these standards as well as guidance provided by CPA Canada and other authoritative sources.

**13.16** Our financial audits are completed in accordance with Canadian auditing standards of CPA Canada. These standards require the auditor to comply with independence and ethical requirements, plan and perform the audit to obtain reasonable assurance that the financial information is free from material misstatement, and to express an independent audit opinion. Special audits and examinations are conducted in accordance with other Canadian assurance standards as outlined in the CPA Canada Handbook. These standards provide guidance in the following areas: compliance with independence and ethical requirements, knowledge of the entity, audit planning, implementation, and reporting.

**13.17** For financial audits, the Office is subject to a periodic practice inspection conducted by CPAPEI, which is the regulatory body that provides oversight of the public accounting profession in the province. A practice inspection is designed to protect the public interest by ensuring Office practices meet professional standards. The next practice inspection by CPAPEI is scheduled for 2018.

**13.18** Our Office also participates in the Canadian Council of Legislative Auditors (CCOLA) peer review process for financial statement audits and special audits and examinations. This peer review process provides additional assurance that the Office is conducting audits in compliance with the applicable standards of CPA Canada. The peer review process also exposes our Office to practices and methodologies of other offices which assists us in improving our practices.

### 13. Office of the Auditor General

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#### PERSONNEL RESOURCES

**13.19** In addition to participating in the CPAPEI practice inspection and the CCOLA peer review processes, our Office also complies with the Canadian Standard on Quality Control of CPA Canada. This standard requires internal practice reviews and monitoring processes to ensure standards are adhered to and our assurance opinions are appropriate.

**13.20** The Office staff complement consists of two audit directors, a director of professional practice and quality assurance, thirteen professional auditors, one student auditor position, and two administrative staff. Three auditor positions are part-time.

**13.21** All audit staff in our Office have a professional accounting designation and continue to meet the annual professional development requirements of CPAPEI. We strive to provide staff with relevant and timely professional development opportunities and training. Individual staff members attend various professional courses, conferences, webinars, and meetings. Staff also participate in CCOLA committees and study groups.

**13.22** The Legislative Audit Committee is responsible for administrative oversight of the Office of the Auditor General. This Committee includes the Speaker of the Legislative Assembly, who is the Chairperson, the Leader of the Opposition, and the Minister of Finance. On an annual basis, the Committee reviews the budget estimates submitted by the Auditor General.

**13.23** Office operations are funded by an annual appropriation approved by the Legislative Assembly. For the year ended March 31, 2017, the Office's approved budgeted expenditures amounted to \$2,028,800 and are summarized in **Exhibit 13.1**. Salaries and benefits accounted for approximately 93 percent of the Office budget for 2016-17.

### 13. Office of the Auditor General

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**EXHIBIT 13.1**  
**OFFICE OF THE AUDITOR GENERAL**  
**BUDGET**  
**YEAR ENDED MARCH 31, 2017**

Account	Budget
Administration	\$ 32,700
Equipment	4,000
Materials, supplies, and services	25,000
Professional and contract services	45,000
Salaries	1,887,600
Travel and training	26,300
Contributions - CCAF	<u>8,200</u>
<b>Total</b>	<b><u>\$2,028,800</u></b>

#### **PROFESSIONAL AFFILIATIONS**

**13.24** The Office maintains an affiliation with a number of professional organizations to share information, experience, knowledge, and methodology with a view to contributing to the ongoing development of legislative audit practices and standards. We strive to remain current in audit practices and new developments within the profession.

**13.25** Key affiliations include

- **Canadian Council of Legislative Auditors (CCOLA)** - The Auditor General is a member of CCOLA. CCOLA brings together legislative auditors of the federal government, the provinces, and the territories. The Council provides an opportunity for professional development and practice improvement through information exchange, peer reviews, discussion, and sharing of audit methodologies and practices. Office staff also serve on various CCOLA committees and study groups.
- **Chartered Professional Accountants of Canada and Chartered Professional Accountants of Prince Edward Island** - The Office maintains an important professional relationship with these organizations. We provide input into the development of accounting and assurance standards and receive information on various topics relevant to the profession.

### 13. Office of the Auditor General

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- **CCAF - FCVI Inc. (CCAF)** - The Office has been a member and supporter of CCAF since its inception in 1980. CCAF is a Canadian research and educational organization dedicated to strengthening public sector accountability through performance audit and effective oversight.

# SCHEDULES



OPERATING APPROPRIATIONS

	APPROPRIATION ACT 2015	SPECIAL WARRANTS	GOVERNMENT REORGANIZATION	TOTAL APPROPRIATIONS	EXPENDITURES 2016	UNDER/(OVER) EXPENDITURES 2016
<b>CURRENT</b>						
AGRICULTURE AND FISHERIES	\$ 33,039,500	\$ -	\$ -	\$ 33,039,500	\$ 31,210,086	\$ 1,829,414
AUDITOR GENERAL	2,056,700	-	-	2,056,700	1,832,327	224,373
COMMUNITIES, LAND AND ENVIRONMENT	20,271,100	-	-	20,271,100	19,803,432	467,668
COUNCIL OF ATLANTIC PREMIERS	188,400	-	-	188,400	188,392	8
ECONOMIC DEVELOPMENT AND TOURISM	2,873,800	-	-	2,873,800	2,644,591	229,209
EDUCATION, EARLY LEARNING AND CULTURE	242,746,200	1,250,000	-	243,996,200	243,951,806	44,394
EMPLOYEE BENEFITS	55,632,800	-	-	55,632,800	61,814,132	(6,181,332)
EMPLOYMENT DEVELOPMENT AGENCY	5,231,500	-	-	5,231,500	5,005,629	225,871
EXECUTIVE COUNCIL	8,673,800	-	-	8,673,800	8,166,747	507,053
FAMILY AND HUMAN SERVICES	94,205,200	2,461,300	-	96,666,500	96,666,418	82
FINANCE	70,330,000	-	-	70,330,000	68,028,101	2,301,899
GENERAL GOVERNMENT	6,300,000	-	-	6,300,000	5,891,277	408,723
HEALTH AND WELLNESS	12,540,900	-	-	12,540,900	12,260,362	280,538
HEALTH PEI	586,577,300	12,583,300	-	599,160,600	586,577,300	12,583,300
INNOVATION PEI	26,403,100	6,891,300	-	33,294,400	33,294,400	-
INTERMINISTERIAL WOMEN'S SECRETARIAT	438,600	-	-	438,600	433,553	5,047
ISLAND REGULATORY AND APPEALS COMMISSION	1,200,300	-	-	1,200,300	1,200,000	300
JUSTICE AND PUBLIC SAFETY	49,444,100	425,000	-	49,869,100	49,866,599	2,501
LEGISLATIVE ASSEMBLY	6,422,800	-	-	6,422,800	6,310,169	112,631
PEI PUBLIC SERVICE COMMISSION	7,320,000	-	-	7,320,000	7,130,934	189,066
TOURISM PEI	14,674,600	-	-	14,674,600	14,279,982	394,618
TRANSPORTATION, INFRASTRUCTURE AND ENERGY	108,981,300	-	-	108,981,300	105,257,436	3,723,864
WORKFORCE AND ADVANCED LEARNING	120,506,000	995,000	-	121,501,000	121,450,994	50,006
INTEREST CHARGES ON DEBT	<u>127,016,400</u>	<u>-</u>	<u>-</u>	<u>127,016,400</u>	<u>127,925,186</u>	<u>(908,786)</u>
<b>TOTAL CURRENT</b>	<b><u>\$1,603,074,400</u></b>	<b><u>\$24,605,900</u></b>	<b><u>-</u></b>	<b><u>\$1,627,680,300</u></b>	<b><u>\$1,611,189,853</u></b>	<b><u>\$16,490,447</u></b>

Appropriations and expenditures are presented in accordance with the classification in the Appropriation Acts 2015. This differs from the format used in the Operating Fund financial statements in that amortization of tangible capital assets is recorded as an expense and capital assets are capitalized in the Operating Fund financial statements.

CAPITAL APPROPRIATIONS

	APPROPRIATION ACT 2015	SPECIAL WARRANTS	GOVERNMENT REORGANIZATION	TOTAL APPROPRIATIONS	EXPENDITURES 2016	UNDER/(OVER) EXPENDITURES 2016
<b>CAPITAL</b>						
AGRICULTURE AND FISHERIES	\$ -	\$ -	\$ 50,000	\$ 50,000	\$ 49,350	\$ 650
COMMUNITIES, LAND AND ENVIRONMENT	-	-	110,000	110,000	108,769	1,231
COMMUNITY SERVICES AND SENIORS	750,000	-	(750,000)	-	-	-
EDUCATION AND EARLY CHILDHOOD DEVELOPMENT	13,705,300	-	(13,705,300)	-	-	-
EDUCATION, EARLY LEARNING AND CULTURE	-	-	13,858,300	13,858,300	9,360,728	4,497,572
ENVIRONMENT, LABOUR AND JUSTICE	865,000	-	(865,000)	-	-	-
FAMILY AND HUMAN SERVICES	-	24,400	750,000	774,400	774,355	45
FINANCE	-	-	8,877,000	8,877,000	8,867,800	9,200
FINANCE, ENERGY AND MUNICIPAL AFFAIRS	8,877,000	-	(8,877,000)	-	-	-
FISHERIES AQUACULTURE AND RUAL DEVELOPMENT	50,000	-	(50,000)	-	-	-
HEALTH PEI	8,831,300	-	-	8,831,300	4,729,019	4,102,281
JUSTICE AND PUBLIC SAFETY	-	3,309,000	755,000	4,064,000	3,995,777	68,223
TOURISM AND CULTURE	153,000	-	(153,000)	-	-	-
TOURISM PEI	750,000	-	-	750,000	750,000	-
TRANSPORTATION, INFRASTRUCTURE AND ENERGY	-	9,848,000	40,545,000	50,393,000	50,283,525	109,475
TRANSPORTATION AND INFRASTRUCTURE RENEWAL	<u>40,545,000</u>	<u>-</u>	<u>(40,545,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL CAPITAL</b>	<b><u>\$ 74,526,600</u></b>	<b><u>\$13,181,400</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 87,708,000</u></b>	<b><u>\$ 78,919,323</u></b>	<b><u>\$ 8,788,677</u></b>
<b>GRAND TOTAL</b>	<b><u>\$1,677,601,000</u></b>	<b><u>\$37,787,300</u></b>	<b><u>\$ -</u></b>	<b><u>\$1,715,388,300</u></b>	<b><u>\$1,690,109,176</u></b>	<b><u>\$25,279,124</u></b>

Appropriations and expenditures are presented in accordance with the classifications in the Appropriation Acts 2015. This differs from the format used in the Operating Fund financial statements in that amortization of tangible capital assets is recorded as an expense and capital assets are capitalized in the Operating Fund financial statements.

**EDUCATION, EARLY LEARNING AND CULTURE**

**EC2016-569 GRANTS TO SCHOOL BOARDS**

Salaries	\$ 835,000
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**EARLY CHILDHOOD DEVELOPMENT**

Grants	<u>415,000</u>
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Total	<u>\$ 1,250,000</u>
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To fund salaries for teaching positions and grants to early learning centres.

**FAMILY AND HUMAN SERVICES**

**EC2016-701 SOCIAL PROGRAMS**

Grants - Disability Support Program	\$ 1,710,700
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Grants - Social Assistance Benefits	<u>750,600</u>
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Total	<u>\$ 2,461,300</u>
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To fund increases in Disability Support and Social Assistance Programs as a result of increased utilization.

**HEALTH PEI**

**EC2016-571 MEDICAL AFFAIRS AND DIAGNOSTIC IMAGING**

Professional Services	\$11,818,600
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**CHIEF NURSING OFFICE AND LAB SERVICES**

Materials, Supplies and Services	<u>764,700</u>
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Total	<u>\$12,583,300</u>
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To fund increased costs for In-Province medical services, Out-of-Province health services, and laboratory materials at the Queen Elizabeth Hospital.

**INNOVATION PEI**

**EC2016-138 BUSINESS DEVELOPMENT PROGRAMS**

Grants - PEI Tax Incentives \$ 6,891,300

To fund additional costs for tax incentives paid as a rebate of corporate income tax, fully offset by increased corporate income tax revenue in the Department of Finance.

**JUSTICE AND PUBLIC SAFETY**

**EC2016-570 PUBLIC SAFETY AND POLICING**

Administration \$ 200,000  
Professional Services 80,000

**COURT SERVICES**

Professional Services 20,000

**LEGAL SERVICES**

Materials, Supplies and Services 35,000

**COMMUNITY AND CORRECTIONAL SERVICES**

Materials, Supplies and Services 50,000  
Professional Services 40,000

Total \$ 425,000

To fund costs of additional projects and changes made to some Federal Funding Agreements, partially offset by \$270,000 in federal revenue and \$35,000 from the Law Foundation of PEI.

**WORKFORCE AND ADVANCED LEARNING**

**EC2016-180 SKILLS PEI**

Grants - Labour Market Development Agreement \$ 995,000

To fund additional costs for Labour Market Development Agreement projects.

**TOTAL SPECIAL WARRANTS FOR CURRENT EXPENDITURES \$24,605,900**

**FAMILY AND HUMAN SERVICES**

**EC2016-700 CAPITAL PROJECTS**

Housing Unit Renovations \$ 24,400

To fund additional capital costs for renovations to housing units.

**JUSTICE AND PUBLIC SAFETY**

**EC2015-604 CAPITAL EQUIPMENT**

Machinery and Equipment \$ 3,139,000  
Professional Services 170,000

Total \$ 3,309,000

To fund additional capital costs for the Provincial Integrated Communication System including mobile radios and project implementation costs.

**TRANSPORTATION, INFRASTRUCTURE AND ENERGY**

**EC2015-662 CAPITAL IMPROVEMENTS - HIGHWAYS**

Bridges \$ 5,000,000

**EQUIPMENT**

Heavy Equipment 2,680,000

**CAPITAL IMPROVEMENTS - BUILDINGS**

New Building Construction 2,168,000

Total \$ 9,848,000

To fund additional capital costs for bridges, snow plowing equipment, and construction costs for the Highway Maintenance Depot.

**TOTAL SPECIAL WARRANTS FOR CAPITAL EXPENDITURES \$13,181,400**

**TOTAL SPECIAL WARRANTS ISSUED FOR THE 2016 FISCAL YEAR \$37,787,300**

ORDER-IN-  
COUNCIL

ADDITIONAL SPECIAL WARRANTS ISSUED FOR 2014-15\*

COMMUNITY SERVICES AND SENIORS - CURRENT

EC2016-105 SOCIAL PROGRAMS

Grants - Social Assistance Benefits \$1,119,600

To fund additional costs for social assistance/disability support programs.

TRANSPORTATION AND INFRASTRUCTURE RENEWAL - CAPITAL

EC2016-134 LAND

Land Purchases \$ 112,000

To fund additional land costs.

**TOTAL SPECIAL WARRANTS SUBSEQUENTLY ISSUED FOR 2015 FISCAL YEAR \$1,231,600**

\*Issued subsequent to Auditor General's 2016 Annual Report