

Annual Report to the
Legislative Assembly
2023



AUDITOR GENERAL
Prince Edward Island



Prince Edward Island Île-du-Prince-Édouard

Office of the
Auditor General

PO Box 2000, Charlottetown PE
Canada C1A 7N8

Bureau du
vérificateur général

C.P. 2000, Charlottetown PE
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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 2023 Annual Report to the Legislative Assembly.

Respectfully submitted,

Darren Noonan, CPA, CA
Auditor General

Charlottetown
Prince Edward Island
March 2, 2023

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Introduction

Report Overview

The *Audit Act* requires the Auditor General to report at least annually to the Legislative Assembly.

This 2023 Annual Report provides findings, recommendations, and information in accordance with Section 16 of the *Audit Act*. It also includes information pertaining to special examinations completed by our Office during the year.

Following is a brief overview of our 2023 Annual Report:

Chapter 1: Office of the Auditor General

This chapter includes information on the mandate and responsibilities of the Auditor General. Summary information is also presented on our assurance engagements, Office resources, professional standards and professional affiliations.

Chapter 2: Public Accounts Committee

The Public Accounts Committee (the Committee) plays an important role in holding government accountable for the management of public resources. A primary focus of the Committee is the review of the Auditor General's Annual Report and other reports to the Legislative Assembly, and following up with Crown corporations, agencies, funds and departments on recommendations included in the reports. This chapter includes summary information on the Committee and its interactions with our Office.

Chapter 3: Report in Accordance with the Climate Leadership Act

The Auditor General reports annually to the Legislative Assembly the amount of the levy collected under this Act, and the amounts returned to consumers, businesses and municipalities.

Chapter 4: Report in Accordance with the Government Advertising Standards Act

The Auditor General reports annually to the Legislative Assembly about those matters the Auditor General considers appropriate relating to his or her powers and duties under this Act.

Chapter 5: Update on the COVID-19 Special Examination

This chapter provides an update on the status of our Office's COVID-19 special examination.

Chapter 6: Follow-Up on Performance Audits

This chapter includes information on the status of the implementation of recommendations reported in our 2018, 2019, 2020 and 2021 annual and other reports.

Chapter 7: Follow-Up with Treasury Board

Every quarter, departments, Crown corporations and agencies who have been audited by our Office, are to report to Treasury Board with respect to the status of the implementation of the recommendations from our Office. This chapter reports on the review of this reporting requirement.

Chapter 8: Introduction to Financial Audits

This chapter provides introductory comments to summarize professional standards and Office responsibilities related to financial audits.

Chapter 9: Audit of the Consolidated Financial Statements

Each year, we audit the Province's consolidated financial statements. This chapter provides summary comments, findings, and recommendations from our March 31, 2022 audit.

Chapter 10: Issues Noted in Other Financial Audits

This chapter provides a summary of issues communicated to management as a result of financial audits of Crown corporations, agencies, and trust funds.

Chapter 11: Appropriations and Special Warrants

This chapter provides summary information on appropriations and special warrants for the year ended March 31, 2022.

Chapter 12: Indicators of Financial Condition

This chapter provides summary financial information on the Province's operating results and financial position from 2018 to 2022. Information is also provided on a number of financial indicators, based primarily on the Province's audited consolidated financial statements.

information, advice, and assurance to the Legislative Assembly. We promote accountability and best practices in government operations.

The Office serves Members of the Legislative Assembly with integrity and independence, which is the foundation of our work. We strive to make a positive difference for Islanders. I would like to thank the departments and government organizations that assisted us in completing our audits this year. We continue to encourage senior government officials to implement our recommendations, which are important for improving the efficiency and effectiveness of government.

Lastly, I would like to thank the staff of the Office of the Auditor General of Prince Edward Island for their hard work to meet our reporting deadlines.

Summary Comments

The Office of the Auditor General of Prince Edward Island has a long history of serving Islanders. We conduct independent audits and examinations that provide objective

Introduction

Aperçu du rapport

L'*Audit Act* (loi sur la vérification des comptes publics) stipule que le vérificateur général doit déposer un rapport devant l'Assemblée législative au moins tous les ans.

Le présent rapport de 2023 fournit conclusions, recommandations et renseignements conformément à l'article 16 de l'*Audit Act*. Il inclut aussi de l'information concernant les enquêtes spéciales effectuées par notre Bureau au cours de l'année.

Voici un aperçu du contenu du rapport annuel de 2023 du Bureau :

Chapitre 1 : Bureau du vérificateur général

Ce chapitre comprend des renseignements sur le mandat et les responsabilités du vérificateur général. Des renseignements sommaires sont également fournis sur les missions de certification, les normes et affiliations professionnelles et les ressources du Bureau.

Chapitre 2 : Comité des comptes publics

Le Comité des comptes publics (le Comité) joue un rôle important en assurant la responsabilisation du gouvernement en matière de gestion des ressources publiques. L'une des tâches principales du Comité est d'examiner le rapport annuel du vérificateur général et d'autres rapports déposés devant l'Assemblée législative, et de faire le suivi auprès des sociétés de la Couronne, des organismes, des fonds et des ministères sur les recommandations incluses dans ces rapports. Des renseignements sommaires sur

le Comité et ses interactions avec le Bureau sont fournis dans ce chapitre.

Chapitre 3 : Rapport conformément à la Climate Leadership Act (loi sur le leadership climatique)

Le vérificateur général présente un rapport annuel à l'Assemblée législative concernant le montant du prélèvement recueilli conformément à la loi et le montant retourné aux consommatrices et consommateurs, aux entreprises et aux municipalités.

Chapitre 4 : Rapport conformément à la Government Advertising Standards Act (loi sur les normes de publicité gouvernementale)

Le vérificateur général présente un rapport annuel à l'Assemblée législative concernant les questions que le vérificateur général considère comme appropriées relativement à ses pouvoirs et tâches selon la loi.

Chapitre 5 : Mise à jour sur l'examen spécial lié à la COVID-19

Ce chapitre fait le point sur le statut de l'examen spécial lié à la COVID-19 réalisé par le Bureau.

Chapitre 6 : Suivi sur les vérifications de gestion

Ce chapitre fournit des renseignements sur le statut de la mise en œuvre des recommandations émises dans les rapports annuels de 2018, 2019, 2020 et 2021 du Bureau.

Chapitre 7 : Suivi auprès du Conseil du Trésor

Tous les trimestres, les ministères, sociétés de la Couronne et organismes vérifiés par le Bureau doivent présenter un rapport au Conseil du Trésor sur le statut de la mise en œuvre des recommandations émises par le Bureau. Ce chapitre comprend des renseignements sur l'examen de cette exigence de rapport.

Chapitre 8 : Introduction aux vérifications financières

Ce chapitre contient des commentaires d'introduction qui résument les normes professionnelles et les responsabilités du Bureau liées aux vérifications financières.

Chapitre 9 : Vérification des états financiers consolidés

Chaque année, le Bureau vérifie les états financiers consolidés du gouvernement provincial. Ce chapitre présente les commentaires, conclusions et recommandations sommaires découlant de la vérification allant jusqu'au 31 mars 2022.

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 de vérifications financières auprès de sociétés de la Couronne, d'organismes et de fonds de fiducie.

Chapitre 11 : Compte de crédits et mandats spéciaux

Ce chapitre fournit des renseignements sommaires sur le compte de crédits et les mandats spéciaux pour l'exercice qui s'est terminé le 31 mars 2022.

Chapitre 12 : Indicateurs de l'état des finances

Ce chapitre fournit des renseignements financiers sommaires sur les résultats d'exploitation et la situation financière du gouvernement provincial entre 2018 et 2022. Il fournit également des renseignements sur un certain nombre d'indicateurs financiers, tirés principalement des états financiers consolidés vérifiés du gouvernement provincial.

Commentaires sommaires

Le Bureau du vérificateur général de l'Île-du-Prince-Édouard est au service des Insulaires depuis longtemps. Il s'occupe d'effectuer des vérifications et des examens indépendants qui permettent de donner des renseignements, une assurance et des avis objectifs à l'Assemblée législative. Le Bureau promeut ainsi la responsabilisation et les pratiques exemplaires en ce qui concerne les activités du gouvernement.

Le Bureau sert les membres de l'Assemblée législative en faisant preuve d'intégrité et d'indépendance – la nature même de son travail. Le Bureau vise à générer des retombées positives pour les Insulaires. Je souhaite remercier les ministères et organismes qui ont aidé le Bureau à effectuer ses vérifications cette année. Le Bureau continue d'inciter les hauts dirigeants à mettre en œuvre nos recommandations afin d'améliorer l'efficacité du gouvernement.

Pour conclure, j'aimerais remercier le personnel du Bureau du vérificateur général pour son travail acharné afin de respecter les échéances de rapport.

1. Office of the Auditor General

Auditor General's Mandate

- 1.1 The Auditor General is an independent officer of the Legislative Assembly appointed under the authority of the *Audit Act*. The *Audit Act* establishes the 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.
- 1.2 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 audits and examinations;
 - the power to request and receive required information and explanations;
 - the requirement to report at least annually to the Legislative Assembly; and
 - a Legislative Management Committee that reviews the Office's budget.
- 1.3 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 the Province's consolidated financial statements, as well as various other financial statement audits. Special audits and examinations conducted by our Office include performance audits, which may sometimes be referred to as value-for-money audits.
- 1.4 In accordance with the *Audit Act*, the Auditor General reports at least 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*, the *Climate Leadership Act*, and the *Government Advertising Standards Act*.
- 1.5 By exercising these responsibilities, the Auditor General assists the Legislative Assembly in its responsibility to hold Government accountable for its management of public resources.

1.6 **Exhibit 1.1** provides a summary of the value and benefits provided by a Legislative Audit Office to the Legislative Assembly and the public.

**EXHIBIT 1.1
THE VALUE AND BENEFITS OF A LEGISLATIVE AUDIT OFFICE**

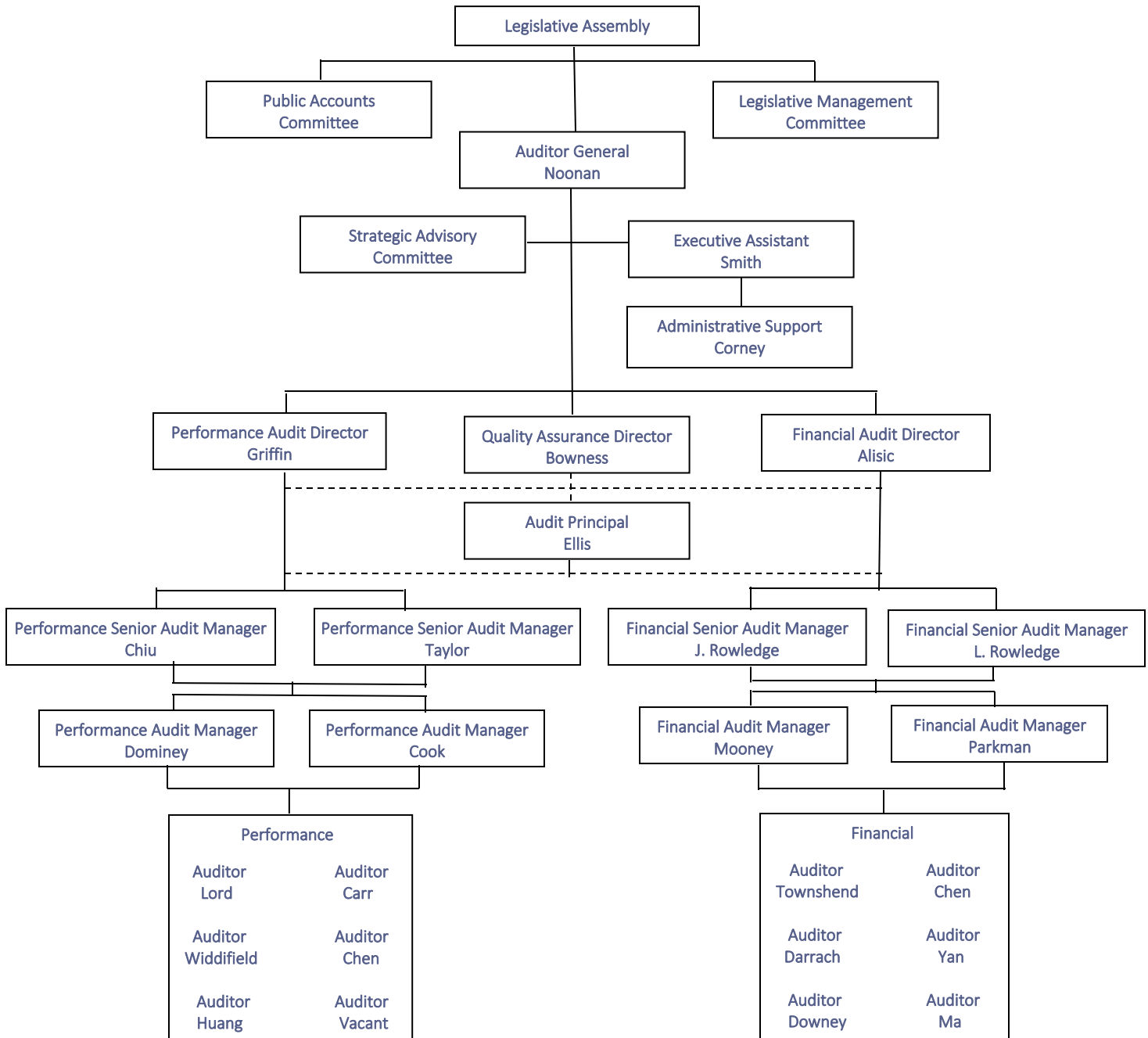


Light yellow: Value and benefits of a Legislative Audit Office
 Light blue: Key services and products of a Legislative Audit Office
 Adapted from a Canadian Legislative Auditors Working Group

- 1.7 The *Audit Act* was amended in July 2020, which expanded the authority of the Auditor General in conducting audits and examinations, and in reporting to the Legislative Assembly. As a result of these amendments, the Auditor General may now conduct work within organizations outside of government that have received government funding, and the Office may now report to the Legislative Assembly more than once per year.
- 1.8 The Office staff complement consists of three audit directors, one audit principal, nineteen professional auditors and two administrative staff.
- 1.9 All audit staff in the Office have a professional accounting designation or are working towards their professional accounting designation, and continue to meet the annual professional development requirements of the Chartered Professional Accountants of Prince Edward Island (CPA PEI). 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 various symposiums and committees of the Canadian Council of Legislative Auditors (CCOLA).
- 1.10 Responsibility for administrative oversight of the Office of the Auditor General falls to the Legislative Management Committee. On an annual basis, the Committee will review the budget estimates submitted by our Office.

1.11 Exhibit 1.2 provides the organization chart for our Office.

**EXHIBIT 1.2
OFFICE OF THE AUDITOR GENERAL
ORGANIZATION CHART**



Audits and Other Assurance Engagements

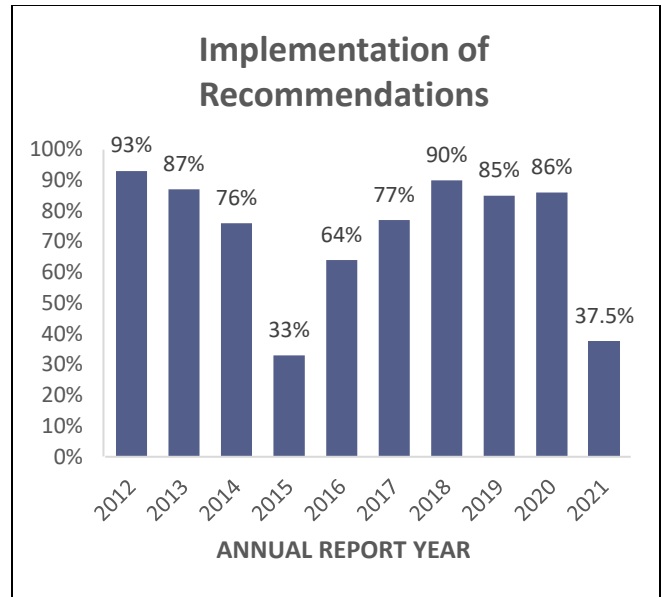
1.12 Each year, we conduct a variety of audits and examinations, some of which are mandated by legislation, while others are selected at the discretion of the Auditor General.

1.13 The Office annually completes approximately 11 financial audits, including the consolidated financial statements of the Province. On an annual basis, the Office completes a number of performance audits and examinations. Various factors are considered in establishing priorities for performance audits and examinations. In addition, follow-up work is completed on previous audit recommendations. Work plans of the Office can also be impacted by requests from the Legislative Assembly and/or Executive Council.

Performance Indicators

1.14 Our Office has adopted three performance targets for tracking our performance. These performance targets are:

- 1) Meet the statutory reporting deadlines for financial audits completed by our Office. For 2021/2022, our Office performed financial audits for 11 entities, and the statutory reporting deadlines were achieved by 64% of these entities. This is an improvement from last year which was 55%.
- 2) Increase in the percentage of previous years performance audit recommendations that have been implemented. We are seeing an increase in the implementation of our recommendations.



These rates are based on the information in our annual report at the time our follow-up work was completed. We will follow up on outstanding 2019, 2020 and 2021 recommendations again next year.

- 3) Increase the number of reports issued during the year. Our Office had intended to release nine reports in 2022/2023. Five reports were released and are listed below:

- Annual Report;
- Environment, Energy and Climate Action – Forest Management;
- Atlantic Province’s Joint Follow-up of Recommendations to the Atlantic Lottery Corporation;
- Follow-Up on Previous Audits; and
- Treasury Board Secretariat – Government Performance Reporting – Phase I.

1.15 During the 2023/2024 fiscal year, our Office anticipates reporting on the following audits/studies:

- Annual Report;
- Finance – Future Sustainability;
- Health PEI – Surgical Wait Times;

- Executive Council – COVID-19 Phase II and Phase III;
- Treasury Board Secretariat – Government Performance reporting – Phase II and Phase III;
- Biomass Heating Contracts;
- Education and Lifelong Learning – PEI School Food program Inc.;
- Follow-up on Previous Audits;
- Health and Wellness – Mental Health Review Board;
- Social Development and Housing – Grants and Conditional Contracts; and
- Health and Wellness - PEI Alliance for Mental Well-Being.

Professional Standards

1.16 The Accounting Standards Board and the Auditing and Assurance Standards Board establish 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 the Chartered Professional Accountants of Canada (CPA Canada) and other authoritative sources.

1.17 For financial audits, the Office is subject to a periodic practice inspection administered by CPA PEI, 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. A practice inspection was completed by CPA PEI in 2021. The inspection confirmed that the Office was meeting professional standards. Our next inspection will occur in 2024.

1.18 The Office also participates in the CCOLA peer review process for financial statement audits and performance 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 in improving our professional practices. A peer review was completed in 2021 on one of our performance audit files by a professional staff member of the Office of the Auditor General of Canada. The inspection confirmed that the Office was meeting professional standards. Our next inspection will occur in 2024.

1.19 In addition, the Office complies with the Canadian Standard on Quality Management 1 of CPA Canada. This standard requires our Office to design, implement and operate a system of quality management. Our quality assurance system is designed to provide us with reasonable assurance that:

- the Office and staff comply with ethical requirements, professional standards, regulatory and legal requirements, and internal policies; and
- the reports issued are appropriate in the circumstances.

Professional Affiliations

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

1.21 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. Office staff also serve on various CCOLA committees. CCOLA provides an opportunity for professional development and practice improvement through information exchange, peer reviews, discussion, and sharing of audit methodologies and practices.
- **Canadian Audit and Accountability Foundation (CAAF)** - The Office has been a member and supporter of CAAF since its inception in 1980. CAAF is an organization dedicated to promoting and strengthening public sector performance audit, oversight, and accountability in Canada and abroad through research, education, and knowledge sharing.
- **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.

2. Public Accounts Committee

Review of Auditor General's Reports

- 2.1 The Standing Committee on Public Accounts (the Committee) is charged with matters concerning the Public Accounts of the Province, the Annual Report and other reports of the Auditor General, and fiscal management. The Committee is dedicated to improving public administration in partnership with the Auditor General. 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.
- 2.2 The Auditor General's Annual Report and other reports to the Legislative Assembly are referred to the Committee for review and consideration. The Committee may request the Auditor General and other witnesses to appear and answer questions on matters raised in the reports. The Auditor General met with the Committee on six occasions in 2022 and 2023 to complete the review of the 2022 Annual Report; and the review of our reports on Overdue Property Taxes, follow-up on previous performance audits, the Atlantic Provinces' Joint Follow-Up on Recommendations to the Atlantic Lottery Corporation, Forest Management, Government Performance Reporting – Phase I, and to discuss various other matters.
- 2.3 During the year, the Committee has been very active in following up with Crown corporations, agencies, funds and

departments on their progress with the implementation of the recommendations of the Auditor General. This is a critical component of making positive improvements to government operations.

- 2.4 The working relationship between the Public Accounts Committee and the Office of the Auditor General has been very collaborative over the last few years. We would like to thank the Committee for their interest and commitment to their work.
- 2.5 During the year, the Auditor General attended the Canadian Council of Public Accounts Committees Conference in Ottawa with one of the Directors of the Office, two members of the Standing Committee on Public Accounts and a Clerk of the Legislative Assembly.

Committee Reports

- 2.6 The Committee reported to the Legislative Assembly on November 24, 2022, to provide updates on its activities for the year. The Committee made the following recommendations to the Legislative Assembly during the year:
 - Your committee endorses the recommendations of the Auditor General provided in his audit of Overdue Property Taxes; financial audits for the year ended March 31, 2021; and past audits subject to recent follow up, including the 2016 joint audit of Atlantic Lottery Corporation.

- Your committee encourages departments, agencies and Crown corporations to make claims for federal receivable funds in a timely fashion and to ensure surplus funds are producing revenue through investment where appropriate.
- Your committee recommends that a policy for the investment of funds held in trust by the Supreme Court be developed.
- Your committee encourages Government to continue to improve the operating and capital budget presentation of Consolidated Agencies and Government Business Enterprises.
- Your committee recommends that the four provincial governments that are Atlantic Lottery Corporation shareholders reconsider their position that government representatives should be voting members of the ALC Board of Directors.
- Your committee recommends that the Atlantic Lottery Corporation revise its bylaws to include a term limit for the position of Chair of the Board of Directors.
- Your committee recommends that the Department of Social Development and Housing make public the monthly reports, final report and evaluation report on the Charlottetown Outreach Centre, and also make public any reports required under the Department's contracts with Salvation Army for other services, such as transitional housing and shelters.
- Lastly, your committee draws Government's attention to the need for a Phase II Environmental site Assessment to be completed for the former Queens County Highway Depot location – now temporarily servicing as an emergency homeless shelter – if it has not been done already.

3. Report in Accordance with the *Climate Leadership Act*

- 3.1 The *Climate Leadership Act* (the Act) became official on April 1, 2019. The purpose of the Act is to charge a levy on carbon for purchasers and consumers of fuel, in an effort to reduce greenhouse gas emissions in the Province to less than 1.2 megatonnes of carbon dioxide equivalent per year by 2030, and to achieve carbon neutrality by 2040 in accordance with the new *Net-Zero Carbon Act*. In return, the incremental revenue from the carbon levy may be used to provide rebates, credits, rate reductions or fee reductions to Islanders. The Minister of Finance is responsible for the administration of this Act.
- 3.2 The Act stipulates that there will be a levy on fuel at rates as listed in the Act. The levy shall be collected by registered agents and remitted to the Government on a regular basis. There are special rules around items such as mixtures and blends of fuels and rebranded fuel. The Act does provide certain exemptions and provides details on offences and penalties that may be issued.
- 3.3 In accordance with Section 2(3) of the Act, the Auditor General is responsible for reporting annually to the Legislative Assembly on the amount of the levy collected under the Act, and the amounts returned to consumers, businesses and municipalities. This report is compiled based on the information prepared by the Province and it is consistent with the audited consolidated financial statements of the Province of Prince Edward Island for the period ended March 31, 2022. We performed a few additional procedures to verify the accuracy of this report, but less than would be required to provide an audit opinion. Accordingly, we are not providing an audit opinion with regard to this report, as no such requirement is stipulated in the Act. This report is prepared solely in accordance with the requirements of the Act and should not be used for any other purpose. Refer to **Appendix A** for our Engagement Report.
- 3.4 The carbon pricing plan between the Province and the Federal Government expired on March 31, 2021, and no pricing increase was approved until May 9, 2022. As a result, the carbon levy rates remained the same for the 2021-22 fiscal period. We report that for the period of April 1, 2021 to March 31, 2022, a total of \$18,491,000 was collected by the Province as carbon levy revenue under the Act.
- 3.5 The levies collected were returned to Islanders through the following initiatives: reduction in gasoline tax rates, Active Transportation Fund projects, Universal Electric Vehicle Incentive, Free Heat Pump Program, Rural Transit Pilot Program, reductions in motor vehicle registration costs for electric and hybrid vehicles, and a reduction in transit fees. These initiatives totaled approximately \$19,817,000 over this period and are broken down as follows:

Reduction in Gasoline Tax	\$ 13,317,000
Active Transportation Fund Projects	2,261,000
Universal Electric Vehicle Incentive*	2,112,000
Free Heat Pump Program**	1,551,000
Rural Transit Pilot Program	398,000
Registration of Motor Vehicles***	121,000
Transit Fees (10% subsidy)	57,000
	<u>\$ 19,817,000</u>

**Rebate of \$5,000 for battery electric vehicles and \$2,500 for plug-in hybrid electric vehicles purchased at Island dealerships.*

***Program was available to Islanders with an annual household income of \$35,000 or less and a principal residence with a tax assessed value under \$300,000.*

****Subsidies were provided at 50% of registration fees for non-plug-in hybrid electric vehicles and 100% of registration fees for electric or plug-in hybrid electric vehicles.*

- 3.6 The total amount returned to Islanders during the period of April 1, 2021 to March 31, 2022 was \$1,326,000 higher than the carbon levies collected, which constitutes a net loss for the Province.
- 3.7 On July 1, 2023, the Federal Government will be imposing a federal carbon tax in Prince Edward Island. The federal carbon tax will be levied on additional types of fuels, such as home heating fuels, which were previously exempt. Most of the carbon tax collected by the Federal Government will be returned directly to Islanders in the form of quarterly cheques.



Prince Edward Island Île-du-Prince-Édouard

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Report on a Supplementary Matter Arising from an Audit Engagement

To the Members of the Legislative Assembly of the Province of Prince Edward Island

In accordance with Section 2(3) of the *Climate Leadership Act*, we have been engaged to report on the amount of carbon levy collected and the amounts returned to consumers, businesses and municipalities for the period of April 1, 2021 to March 31, 2022 ("reporting responsibility"). This reporting responsibility relates to our audit of the financial statements of Public Accounts of the Province of Prince Edward Island for the year ended March 31, 2022 on which we issued our audit report dated October 28, 2022. Management prepared the supplementary matter necessary to carry out our reporting responsibility.

This report has been prepared in accordance with Canadian Standard on Related Services (CSRS) 4460, *Reports on Supplementary Matters Arising from an Audit or a Review Engagement*. Our responsibility is to report on the supplementary matter. This standard requires us to comply with ethical requirements and to plan and perform procedures to address our reporting responsibility. The procedures were selected based on our professional judgment to enable us to form a basis for this report. The procedures vary in nature from, and are less in extent than for, those required when providing an audit opinion or a review conclusion. Users are cautioned that the procedures performed may not be suitable for their purposes.

Accordingly, we do not express an audit opinion or a review conclusion on the supplementary matter.

In response to our reporting responsibility, we have reported on the amount of carbon levy collected and returned to consumers, businesses and municipalities for the year ended March 31, 2022.

This report is intended solely for use by the Members of the Legislative Assembly of the Province of Prince Edward Island and should not be used by other parties.

Darren Noonan, CPA, CA
Auditor General

Elvis Alisic, CPA, CA
Audit Director

Charlottetown, Prince Edward Island
February 15, 2023

4. Report in Accordance with the *Government Advertising Standards Act*

- 4.1 The *Government Advertising Standards Act* (the Act) sets out standards that all government advertising must meet. When requested under the Act, the Auditor General is responsible for examining certain government advertisements to determine whether the legislated standards have been met, and that advertisements are not partisan in nature.
- 4.2 Under Section 5(1), a head of a government office may request the Auditor General to examine a specific advertising item not yet made public, to determine whether the item will meet the standards set out in the Act.
- 4.3 A Member of the Legislative Assembly may also make a written complaint to the Auditor General under Section 6(1), that the specified advertisement identified in the complaint does not meet the standards set out in the Act.
- 4.4 In accordance with Section 9(1) of the Act, the Auditor General is required to report annually to the Legislative Assembly about any matter that the Auditor General considers appropriate to report under this Act.
- 4.5 No requests or complaints were received by our Office since our last annual report, dated March 2, 2022.

5. Update on the Covid-19 Special Examination

- 5.1 On April 10, 2020, the Honorable Dennis King requested the Auditor General, under Section 14(d) of the *Audit Act*, to undertake a special assignment to examine Government's COVID-19 pandemic response. In particular, the Auditor General was requested to complete a financial examination of the Provincial Government's COVID-19 programming and supports, and the special warrants associated with COVID-19 for the period commencing March 13, 2020.
- 5.2 In the request from Executive Council, we were asked to report back by August 1, 2021. As we obtained a better understanding of the various funding periods of the COVID-19 programs, we presented a three phased approach with various reporting dates for reporting to Executive Council. The phases consist of the following:
- **Phase I:** Included programs paid using the Emergency Contingency Fund with application deadlines up to and including August 31, 2020. Our Office issued a report on Phase I on July 28, 2021.
 - **Phase II:** Includes loan programs, as well as the remaining programs funded through the Emergency Contingency Fund, with application deadlines between August 31, 2020 and March 31, 2021.
 - **Phase III:** Includes programs established using the COVID-19 Response and Recovery Contingency Fund of \$65 million.
- 5.3 The objectives of each phase of our audit is to determine whether the Province of PEI:
- obtained appropriate authorizations for financial support programs initiated in response to COVID-19; and
 - maintained appropriate oversight and controls over disbursements made under these programs.
- 5.4 We expect to report on Phase II and Phase III in the spring of 2023, and we will complete follow-up work on all three phases in the summer of 2024

6. Follow-up on Performance Audits - Highlights

WHY WE FOLLOW UP

To hold audit entities **accountable** for the implementation of our recommendations

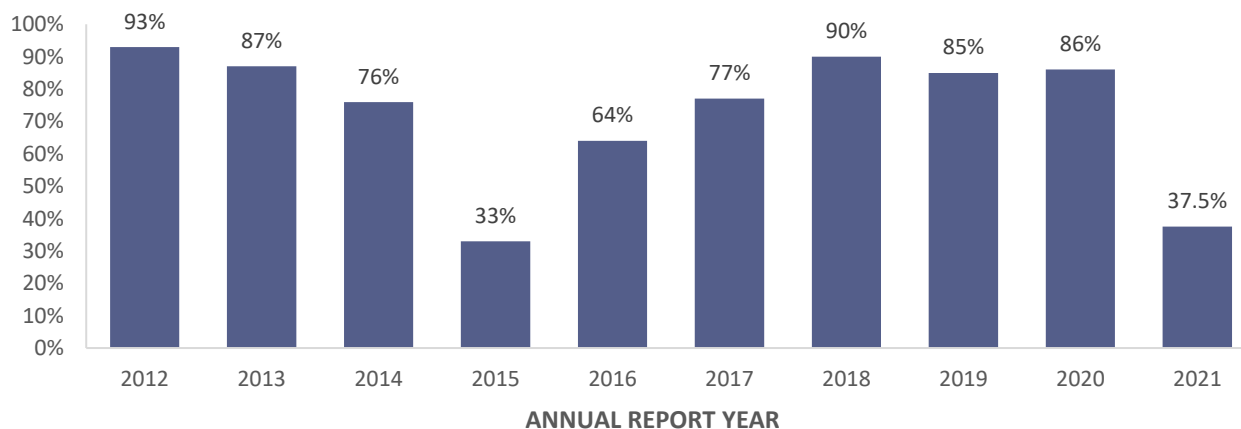
IN THIS REPORT

103 total recommendations
 For audit reports issued in 2018, 2019, 2020 and 2021
 Status as at August 31, 2022

WHAT WE FOUND

	3 rd year follow-up	2 nd year follow-up		1 st year follow-up
Annual report years included	2018	2019	2020	2021
# recommendations	30	28	21	24
Total % implemented – current year	90%	85%	86%	37.5%
Total % implemented – prior year	60%	71%	43%	N/A

Implementation of Recommendations



These rates are based on the information in our annual report at the time our follow-up work was completed. We will follow up on outstanding 2019, 2020 and 2021 recommendations again next year.

6. Follow-Up on Performance Audits

- 6.1 Our performance audits and examinations include recommendations to improve the management of Government programs and protect the interests of taxpayers. It is important that Members of the Legislative Assembly and Islanders receive regular updates on the progress Government is making in implementing our recommendations. We do not infringe on management's right to select the best course of action to deal with issues identified. However, we expect action to be taken to address the issues.
- 6.2 The follow-up process holds audited entities accountable. In 2022, our Office initiated a new follow-up practice where we will follow-up one year after the initial audit, and then for three more years.
- 6.3 This year, we reviewed the implementation status for audits completed in 2018, 2019, 2020 and 2021. We requested status updates from management indicating whether the recommendations were implemented, not implemented, no longer applicable, or they do not intend to implement, as at August 31, 2022.
- 6.4 The implementation status of each recommendation falls under one of four categories:
- *Implemented*: the recommendation has been implemented, or an alternate solution has been implemented that addresses the risk identified in the report.
 - *Not Implemented*: the recommendation has not yet been implemented; management is working on implementing a solution.
 - *No longer applicable*: the recommendation is no longer relevant due to changes in circumstances.
 - *Do not intend to implement*: the recommendation is not implemented, and the organization does not plan to implement.
- 6.5 For each recommendation management reported as implemented, we requested details on the actions taken, and we conducted follow-up work to determine if the recommendation was implemented.
- 6.6 The objective of our follow-up work was to provide limited assurance on the implementation of the recommendations. We did not conduct a follow-up audit, but conducted sufficient procedures to obtain limited assurance to support our conclusions. For recommendations that management reported as not implemented, we did not complete any follow-up work.
- 6.7 The following chapter provides information on the results of our work. **Appendices B-E** list all recommendations from performance audits and examinations from our 2018, 2019, 2020 and 2021 reports, and the status of implementation as at August 31, 2022. Further details on the engagement standards, objective, scope, and conclusions are included in **Appendix A** of this chapter.

6.8 **Appendix F** lists all recommendations reported by management as not implemented as at August 31, 2022. We have not conducted any work and provide no assurance on these management responses. We encourage readers of this report to refer to **Appendix F**, which provides management’s detailed update on the status of implementation of outstanding recommendations. In many cases, management has indicated that significant work has been undertaken, and the outstanding recommendations are close to being implemented.

from last year. The paragraphs that follow provide additional information on the outstanding recommendations.

6.11 During our follow-up work in 2021, we confirmed that the Office of the Public Guardian had implemented all of our recommendations, therefore, no additional work was completed this year.

Social Assistance Program (2018)

WHAT OUR AUDIT EXAMINED

2018 ANNUAL REPORT

6.9 **Exhibit 6.1** shows the overall rate of implementation of recommendations for each audit included in our 2018 Annual Report.

**EXHIBIT 6.1
STATUS OF IMPLEMENTATION OF
RECOMMENDATIONS*
BASED ON LIMITED ASSURANCE
2018 ANNUAL REPORT**

Audit	Total	Not Implemented	Implemented	
			#	Percent
Social Assistance Program	11	2	9	82%
Medication Controls: Institutional Pharmacy Program	15	1	14	93%
Office of the Public Guardian	4	0	4	100%
Total*	30	3	27	90%

*As at August 31, 2022

6.12 The Social Assistance Program provides support to individuals and families who are not able to meet their basic needs with their own resources. The Department of Social Development and Housing (formerly the Department of Family and Human Services) is responsible for the program.

6.13 Our audit objectives were to determine whether:

- social assistance rates and financial exemptions were submitted annually to Executive Council for review and approval;
- the Department of Social Development and Housing assessed, authorized, and provided benefits in accordance with regulations and policy; and
- case plans were completed and updated for social assistance recipients in accordance with policy.

6.10 This is the final year that we are following up on the recommendations reported in our 2018 Annual Report. Overall, we concluded that 90 percent of these recommendations have been implemented, in comparison to 60 percent

WHAT OUR AUDIT FOUND

6.14 The Department of Social Development and Housing had not developed performance indicators to measure and report on its progress in achieving program objectives.

6.15 Information had not been provided to Executive Council for its review of social assistance rates and financial exemptions. We noted:

- Food rates were based on a five year plan with a target of 70 percent of the Atlantic average cost of the National Nutritious Food Basket.
- Shelter rates had not changed since November 2013.
- Rates for clothing, household, and personal requirements had not changed in over ten years.

6.16 Although the Department assessed eligibility in accordance with requirements in regulations and policies, annual reviews required to confirm continued eligibility were often overdue.

6.17 Case plans did not include sufficient information and were not updated annually.

STATUS OF RECOMMENDATIONS

6.18 Our original audit included eleven recommendations. We considered seven of these recommendations to have been implemented during the prior year's follow-up process. Management indicated that three additional recommendations were implemented, and one recommendation was not implemented this year. Based on our work, we concluded that two additional

recommendations were implemented and two remain not implemented as at August 31, 2022.

Follow-up Report	Implemented	No Longer Applicable	Not Implemented	Total
Current year	9	-	2	11
Prior Year	7	-	4	11

6.19 Management has taken action on implementing the outstanding recommendations.

6.20 The Department of Social Development and Housing has completed annual reviews in accordance with the *Social Assistance Act* regulations (*recommendation 2.45*) and updated their processes to inform all applicants in writing of its decision regarding social assistance, the reason(s) for the decision, any amounts approved and the right to appeal (*recommendation 2.55*).

6.21 Management continues to work on reporting annually to the Legislative Assembly on the administration of the Social Assistance Program, including program goals and results achieved (*recommendation 2.23*).

6.22 The last outstanding recommendation (*recommendation 2.75*) relates to the requirement of case plans to be completed and updated in accordance with policy. Current case plans were on file for the recipients we looked at for our follow-up work as at August 31, 2022; however, they did not all include the necessary documentation as required by policy.

Medication Controls: Institutional Pharmacy Program (2018)

WHAT OUR AUDIT EXAMINED

6.23 During our initial audit, the Institutional Pharmacy Program was administered by the Provincial Pharmacy and provided fully subsidized prescription medications to residents of provincially-owned long-term care facilities.

6.24 Our audit objective was to determine whether:

- medication for residents of provincially-owned long-term care facilities was adequately controlled.

WHAT OUR AUDIT FOUND

6.25 We found that narcotics and controlled drugs for residents of provincially-owned long-term care facilities were not adequately controlled. The following weaknesses were identified:

- There were several control weaknesses at the Provincial Pharmacy, including unsupported inventory adjustments.
- Health PEI's system for dispensing narcotics to provincially-owned long-term care facilities did not provide adequate control over inventory and limited the ability of Provincial Pharmacy staff to provide effective oversight.
- Inventory of controlled drugs, such as benzodiazepines, was not routinely counted, recorded and reconciled in long-term care facilities.
- There were inadequate controls over the return of unused narcotics and controlled drugs from the provincially-owned long-

term care facilities at the Provincial Pharmacy.

- Narcotics and controlled drugs awaiting disposal at the Provincial Pharmacy were not de-natured or disposed of by a licensed dealer, in accordance with Health Canada requirements.

6.26 Subsequent to our original audit, Health PEI has developed a planned, phased in approach, transitioning the service delivery model of medications for long-term care residents from the Provincial Pharmacy to a unit dose packager at the Queen Elizabeth Hospital (QEH). All long-term care facilities now receive patient specific medication strips packaged by an automated unit dose packager at the QEH.

STATUS OF RECOMMENDATIONS

6.27 Our original audit included fifteen recommendations. We considered seven of these recommendations to have been implemented during our prior year follow-up process. Management indicated that all remaining recommendations were implemented this year. Based on our work, we concluded that seven additional recommendations were implemented, and one remains not implemented as at August 31, 2022.

Follow-up Report	Implemented	No Longer Applicable	Not Implemented	Total
Current year	14	-	1	15
Prior Year	7	-	8	15

6.28 Through the implementation of these recommendations, Health PEI and provincially-owned long-term care facilities have communicated expectations regarding the

control of medications to management and staff (*recommendations 3.20, 3.55, 3.60 and 3.83*), and mitigated the risk of diversion going unidentified at provincially-owned long-term care facilities (*recommendations 3.49, 3.74 and 3.84*).

6.29 As at August 31, 2022, management had drafted procedures to communicate to management and staff the expectations regarding the disposal of medications (*recommendation 3.90*); however, these procedures were not finalized or approved until January 2023.

2019 ANNUAL REPORT

6.30 **Exhibit 6.2** shows the overall rate of implementation of recommendations for each audit included in our 2019 Annual Report.

EXHIBIT 6.2
STATUS OF IMPLEMENTATION OF
RECOMMENDATIONS*
BASED ON LIMITED ASSURANCE
2019 ANNUAL REPORT

Audit	Total	No Longer Applicable	Not Implemented	Implemented	
				#	Percent
Early Learning and Child Care Centres	14	-	3	11	79%
Capital Asset Plan for Provincial Parks	6	-	-	6	100%
Procurement of Goods for Government Departments	8	2	1	5	83%**
Total*	28	2	4	22	85%**

*As at August 31, 2022

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

6.31 This is the second year that we have followed up on the recommendations reported in our 2019 Annual Report. Overall, we concluded that 85 percent of these recommendations have been implemented, in comparison to 71 percent from last year. The paragraphs that follow provide additional information on the outstanding recommendations.

Early Learning and Child Care Centres (2019)

WHAT OUR AUDIT EXAMINED

6.32 The Ministry of Education and Lifelong Learning (formerly the Ministry of Education, Early Learning and Culture) is responsible for ensuring that licensed early learning and child care services are operating in compliance with legislative requirements.

6.33 Our audit objectives were to determine whether the Ministry of Education and Lifelong Learning:

- adequately monitored and enforced licensing in compliance with the *Early Learning and Child Care Act*, regulations and related policies;
- utilized current data to assess accessibility of licensed child care in Prince Edward Island; and
- provided grant funding for early child care centres in compliance with program criteria and funding agreements.

WHAT OUR AUDIT FOUND

6.34 The Ministry of Education and Lifelong Learning did not adequately monitor and enforce the licensing of early learning and

child care centres in compliance with legislation.

6.35 The Department collected and maintained information on capacity and demand for licensed child care spaces. However, overall accessibility targets had not been established.

6.36 Grant funding to centres, for two specific programs, were not always provided in compliance with program criteria and funding contracts.

STATUS OF RECOMMENDATIONS

6.37 Our original audit included fourteen recommendations. Six recommendations were made to the Early Learning and Child Care Board, and eight were made to the Department of Education and Lifelong Learning. We considered ten of these recommendations to have been implemented during the prior year’s follow-up process. Management indicated that one additional recommendation was implemented, and three recommendations were not implemented as at August 31, 2022. Based on our work, we agreed with management.

Follow-up Report	Implemented	No Longer Applicable	Not Implemented	Total
Current year	11	-	3	14
Prior Year	10	-	4	14

6.38 The Department of Education and Lifelong Learning has updated the Department’s website to ensure publicly available information on eligibility for the Special Needs Grant program is consistent with the approved funding guidelines (*recommendation 2.94*).

6.39 The Department of Education and Lifelong Learning continues to work towards:

- establishing performance indicators and targets to evaluate accessibility of licensed childcare services (*recommendation 2.69*); and
- documenting and appropriately authorizing funding arrangements in contracts with Early Years Centres (*recommendation 2.85*);

6.40 In our initial audit, we recommended that the Department of Education and Lifelong Learning should include the terms and conditions for employee benefits in the authorized contracts for Early Years Centres grant funding (*recommendation 2.86*). Although the contracts now outline the acceptable percentage of benefits to be included in funding, they do not include the specific allowable benefits. Including these specific benefits in the contract allows the Department to monitor whether the funds were used as intended. Management has indicated that they do not intend to implement this recommendation. Based on our work, it has been assessed as not implemented.

Capital Asset Plan for Provincial Parks (2019)

WHAT OUR AUDIT EXAMINED

6.41 Provincial parks are a key component of Prince Edward Island’s tourism product. Capital assets at the provincial parks are significant, and the long-term sustainability of the parks requires an adequate capital asset plan to support the management of these assets.

6.42 Our audit objectives were to determine whether Tourism PEI:

- had an adequate long-term capital asset plan for provincial parks; and
- capital expenditures for provincial parks were based on priorities established in its capital asset plan.

Follow-up Report	Implemented	No Longer Applicable	Not Implemented	Total
Current year	6	-	-	6
Prior Year	3	-	3	6

WHAT OUR AUDIT FOUND

6.43 Tourism PEI had not developed a strategic vision for the provincial parks.

6.44 A five-year capital plan was prepared but did not reasonably reflect the capital improvements and replacements required to sustain the provincial parks.

6.45 There was not sufficient information on the capacity of its existing assets, and funding for provincial parks capital assets did not support the needs outlined in the capital asset plan.

STATUS OF RECOMMENDATIONS

6.46 Our original audit included six recommendations. We considered three of these recommendations to have been implemented during prior year's follow-up process. Management indicated the three remaining recommendations were implemented as at August 31, 2022. Based on our work, we agreed with management.

6.47 Tourism PEI:

- developed a strategic plan endorsed by government (*recommendation 3.22*);
- maintains a complete and accurate listing of all capital assets for provincial parks, including the age and estimated useful life of the assets (*recommendation 3.39*); and
- developed and implemented a policy for the regular assessment of capital assets at provincial parks (*recommendation 3.46*).

Procurement of Goods for Government Departments (2019)

WHAT OUR AUDIT EXAMINED

6.48 Government's procurement of goods is significant to the provincial economy. Suppliers expect equal access to opportunities through a fair and open competitive process. Government departments rely on the procurement process to satisfy their requirements for goods in a timely manner at the lowest practicable cost.

6.49 Our audit objective was to determine whether goods were procured for government departments in compliance with key components of the *Procurement of Goods Act* (formerly the *Public Purchasing Act*) and regulations, the *Financial Administration Act* and applicable trade agreements.

WHAT OUR AUDIT FOUND

6.50 Goods for government departments were not always procured in compliance with key components of the *Public Purchasing Act* and regulations, and the *Financial Administration Act*.

6.51 Competitive processes were not consistently followed and some exemptions under the regulations were broadly applied.

6.52 Certain key legislative requirements for the procurement of goods were not followed:

- Goods were purchased by departments without the required approval of Procurement Services.
- The Comptroller’s Office did not ensure that the person confirming the receipt of goods for the department had designated signing authority.

STATUS OF RECOMMENDATIONS

6.53 Our original audit included eight recommendations. We considered five of these recommendations to have been implemented, and two recommendations to be no longer applicable during prior year’s follow-up process. Management indicated that the one outstanding recommendation remains not implemented as at August 31, 2022.

Follow-up Report	Implemented	No Longer Applicable	Not Implemented	Total
Current Year	5	2	1	8
Prior Year	5	2	1	8

6.54 The *Procurement of Goods Act* replaced the *Public Purchasing Act* on November 15, 2020. As a result, purchase orders are no longer required when purchasing goods. Therefore, recommendations 4.43 and 4.44 are no longer applicable.

6.55 The Office of the Comptroller is still working on ensuring that an authorized employee of the government department confirms the receipt of goods, prior to payment processing (*recommendation 4.50*).

2020 ANNUAL REPORT

6.56 **Exhibit 6.3** shows the overall rate of implementation of recommendations for each audit included in our 2020 Annual Report.

EXHIBIT 6.3 STATUS OF IMPLEMENTATION OF RECOMMENDATIONS* BASED ON LIMITED ASSURANCE 2020 ANNUAL REPORT

Audit	Total	Not Implemented	Implemented	
			#	Percent
Accessibility Supports Program	13	1	12	92%
IT Security Access Controls	2	1	1	50%
Laboratory Services: Surgical Specimen Processing	6	1	5	83%
Total*	21	3	18	86%

*As at August 31, 2022

6.57 This is the second year that we have followed up on the recommendations reported in our 2020 Annual Report. Overall, we concluded that 86 percent of these recommendations have been implemented, in comparison to 43 percent from last year. The paragraphs that follow provide additional information on the outstanding recommendations.

AccessAbility Supports Program (2020)

WHAT OUR AUDIT EXAMINED

6.58 The AccessAbility Supports Program (AAS) provides financial and non-funded supports to Islanders living with disabilities.

6.59 Our audit objectives were to determine whether the Department of Social Development and Housing:

- authorized and provided AccessAbility Supports in accordance with legislation and policies; and
- had an adequate process to receive and respond to AccessAbility Supports Program inquiries on a timely basis.

WHAT OUR AUDIT FOUND

6.60 Our audit noted the following weaknesses:

- The AccessAbility Supports Program was implemented without approved policies.
- The computer application used for case management was not updated for the AAS Program.
- Not all individuals receiving benefits were assessed using the new capabilities assessment tool.
- Collaborative Support Plans, which are key to identifying needs and supports for individuals, were not always completed, monitored, and updated.
- Program inquiries were not adequately logged and monitored.

STATUS OF RECOMMENDATIONS

6.61 Our original audit included thirteen recommendations. We considered seven of these recommendations to have been implemented during prior year's follow-up process. Management indicated that the remaining six recommendations were implemented. Based on our work, we concluded that an additional five recommendations have been implemented and one recommendation was not implemented as August 31, 2022.

Follow-up Report	Implemented	No Longer Applicable	Not Implemented	Total
Current Year	12	-	1	13
Prior Year	7	-	6	13

6.62 The Department of Social Development and Housing has ensured:

- assured income rates are approved by Executive Council and supports are provided in accordance with those approved rates (*recommendations 2.40 and 2.74*);
- the collaborative support plans are completed, updated and monitored annually so that clients' needs are met (*recommendations 2.54 and 2.57*); and
- documentation is obtained prior to providing payments under AAS (*recommendation 2.66*).

6.63 Management continues to work on:

- ensuring all individuals receiving benefits under AAS are assessed using AccessAbility

Supports program policies
(*recommendation 2.45*).

IT Security Controls (2020)

WHAT OUR AUDIT EXAMINED

6.64 The Government of Prince Edward Island collects, processes, and stores large amounts of information to provide government programs and services. Most information collected is stored electronically and can include personal and sensitive information such as names, addresses and birthdates, as well as health and financial information.

6.65 Our audit objective was to determine whether:

- the Department of Social Development and Housing and Information Technology Shared Services have designed and implemented key access controls, as identified in the Access Control chapter of the PEI Government Information Security Policy.

WHAT OUR AUDIT FOUND

6.66 Government had established an information security policy which includes controls for protecting government information assets from unauthorized access. Based on noncompliance with the Government Information Security Policy, we concluded that the Department of Social Development and Housing and Information Technology Shared Services did not adequately implement key information technology security access controls.

6.67 The Department of Social Development and Housing collects and maintains sensitive information electronically in information systems. Controlling access to these systems involves information technology security which is the responsibility of Information Technology Shared Services (ITSS). Based on our findings, recommendations were directed to ITSS.

STATUS OF RECOMMENDATIONS

6.68 Our original audit included two recommendations for ITSS. We considered one of these recommendations to have been implemented during the prior year follow-up process. Management indicated that the one outstanding recommendation was not implemented as at August 31, 2022.

Follow-up Report	Implemented	No Longer Applicable	Not Implemented	Total
Current Year	1	-	1	2
Prior Year	1	-	1	2

6.69 ITSS continues to work towards establishing a security compliance process to measure implementation of controls to effectively protect information systems and assets (*recommendation 3.21*).

Laboratory Services – Surgical Specimen Processing (2020)

WHAT OUR AUDIT EXAMINED

6.70 It is important that Health PEI Laboratory Services has an effective process for the timely analysis of surgical specimens, as there were over 15,000 surgical pathology reports issued annually at the time of our audit. These reports impact the timely and accurate diagnosis of medical conditions, so that necessary treatments can be initiated. Delayed diagnoses and treatment may result in a reduced quality of life and/or survival rates for patients.

6.71 Our audit objective was to assess whether Laboratory Services had effective processes to analyze surgical specimens efficiently.

WHAT OUR AUDIT FOUND

6.72 We found that Laboratory Services had effective processes to analyze surgical specimens efficiently; however, the following weaknesses were identified in the process:

- There was no documentation to support that standard operating procedures at the Queen Elizabeth Hospital histology lab were regularly reviewed, updated, and provided to staff.
- Staff were unaware of the 2009 policy on the turnaround time for surgical specimen analysis and reporting.
- Laboratory Services did not have guidelines for continuous professional development for staff and did not routinely document professional development completed.

- The distribution of pathology reports was inefficient as the reports were primarily distributed to requisitioning physicians and/or nurse practitioners through courier or regular mail.

STATUS OF RECOMMENDATIONS

6.73 Our original audit included six recommendations. We considered one of these recommendations to have been implemented during the prior year follow-up process. Management indicated that four additional recommendations have been implemented, and one recommendation was not implemented as at August 31, 2022. Based on our work, we agreed with management.

Follow-up Report	Implemented	No Longer Applicable	Not Implemented	Total
Current Year	5	-	1	6
Prior Year	1	-	5	6

6.74 Management of the histology labs have ensured standard operating procedures are regularly reviewed, documented and available on their internal system (*recommendation 4.24*). Management has also ensured histology lab staff are aware and have read the procedures (*recommendation 4.25*).

6.75 Laboratory Services has updated the turnaround time policy and the policy was distributed to relevant staff (*recommendation 4.35*).

6.76 The College of Allied Health Professionals of PEI, a not-for-profit organization whose mandate includes regulating the practice of Medical Laboratory Technologists for the

province, now regulates professional development requirements for Medical Laboratory Technologists (*recommendation 4.42*).

6.77 Management continues to work on the delivery of pathology reports electronically, to allow for a more efficient process (*recommendation 4.55*).

2021 ANNUAL REPORT

6.78 **Exhibit 6.4** shows the overall rate of implementation of recommendations for each audit included in our 2021 Annual Report.

**EXHIBIT 6.4
STATUS OF IMPLEMENTATION OF
RECOMMENDATIONS*
BASED ON LIMITED ASSURANCE
2021 ANNUAL REPORT**

Audit	Total	Not Implemented	Implemented	
			#	Percent
International Student Program	13	8	5	38%
Crown Corporations Governance Survey	11	7	4	36%
Total*	24	15	9	37.5%

*As at August 31, 2022

6.79 This is the first year that we have followed up on the recommendations reported in our 2021 Annual Report. Overall, we concluded that 37.5 percent of these recommendations have been implemented. The paragraphs that follow provide additional information on the outstanding recommendations.

Prince Edward Island International Student Program (2021)

WHAT OUR AUDIT EXAMINED

6.80 International student programs create new relationships between our residents and people from countries beyond Canada. These relationships bring strong social and cultural benefits to our communities. These programs provide significant contributions to the economy, through both direct and indirect student spending.

6.81 In the 2020 fiscal year in Prince Edward Island, the international student program had 137 international students attend Island public schools and generated direct revenues of approximately \$1.5 million.

6.82 Our audit objective was to determine whether the Department of Education and Lifelong Learning had processes to effectively manage the Prince Edward Island International Student Program (PEIISP).

WHAT OUR AUDIT FOUND

6.83 The Department of Education and Lifelong Learning did not have processes to effectively manage the PEI International Student Program (PEIISP). Our audit noted the following weaknesses:

- There was no documented and approved long-term strategic plan for the PEIISP.
- Documented and approved policies and procedures had not been developed for the PEIISP.
- Required documentation was not always maintained in application files.

- Tuition fees were not always collected in a timely manner.
- The Department had not developed standardized, documented agreements with education agents, who recommend international students to the PEIISP.
- There was no screening or monitoring of homestay arrangements for PEIISP students.
- There were no formal agreements with homestay providers.
- Management was not able to access reliable and timely program data.
- There was limited reporting on program results.
- There was limited monitoring and feedback on PEIISP students.

- improved processes involving education agents, including developing and implementing standardized contractual agreements (*recommendation 4.43*) and performing due diligence procedures (*recommendation 4.44*);
- entered into an agreement with a third party to manage all aspects of the homestay accommodations for PEIISP students; this agreement requires the third party to appropriately screen and select homestay providers, regularly monitor the wellbeing of students (*recommendation 4.52*), as well as execute agreements with homestay providers (*recommendation 4.53*); and
- implemented a new database program to obtain reliable and timely program data to effectively manage and oversee the PEIISP (*recommendation 4.61*).

STATUS OF RECOMMENDATIONS

6.84 Our original audit included 13 recommendations. Management indicated that ten recommendations were implemented, and three recommendations were not implemented. Based on our work, we concluded that five recommendations have been implemented, and eight recommendations have not been implemented as at August 31, 2022.

Follow-up Report	Implemented	No Longer Applicable	Not Implemented	Total
Current Year	5	-	8	13
Prior Year*	N/A	N/A	N/A	N/A

*N/A – Not applicable as this is the first year of follow-up

6.85 The Department of Education and Lifelong Learning has:

6.86 Management continues to work on:

- finalizing a strategic plan for the PEIISP (*recommendation 4.18*);
- finalizing policies and procedures documents, to be reviewed by policy and legal staff (*recommendation 4.24*);
- ensuring key documentation is kept in PEIISP student files in accordance with policy guidance (*recommendation 4.29*);
- implementing a quality assurance process for applications (*recommendation 4.30*);
- establishing procedures for collecting overdue tuition fees (*recommendation 4.36*);
- documenting discussions on strategic and operational decisions for the PEIISP (*recommendation 4.62*);
- reporting publicly on the performance of the PEIISP on an annual basis (*recommendation 4.63*); and

- monitoring student satisfaction with the PEIISP (*recommendation 4.66*).

Crown Corporation Governance Survey (2021)

WHAT OUR SURVEY EXAMINED

6.87 Strong governance in the public sector plays a critical role in ensuring government services are delivered in an effective and efficient manner, ensuring the safeguarding of public funds.

6.88 Crown corporations in Prince Edward Island work in all major industry sectors of the province’s economy and manage assets totalling over \$1 billion. These corporations are governed by boards of directors. Poor governance in these organizations could lead to adverse consequences including financial losses, real or perceived conflicts of interest, as well as loss of confidence in public institutions.

6.89 We conducted a survey of Crown corporations to compile and report on an overview of current government practices. The study was not an audit, an evaluation of the board of directors, or an assessment of governance practices being utilized by these boards. The purpose was to provide information on existing practices within PEI Crown corporations and highlight areas for discussion and improvement among the various boards.

WHAT OUR SURVEY FOUND

6.90 Based on our survey, respondents stated the following:

- 28 percent did not receive an orientation when they joined the board;
- 50 percent felt more training was needed for board members;
- 50 percent of boards did not set time aside to deal with strategic planning issues;
- 88 percent either did not have an IT strategic plan, or were unsure if one had been developed for their board;
- 24 percent were not satisfied with how often the responsible Minister meets directly with the board;
- 16 percent felt their board did not do a good job of reporting organizational performance publicly;
- 30 percent did not sign a conflict of interest declaration when they joined the board;
- 76 percent of respondents indicated their board either did not have, or they were unsure if they had, an audit committee;
- 18 percent of boards had not established clear, measurable objectives for the CEO’s performance; and
- 46 percent of boards did not conduct a formal evaluation of its performance.

STATUS OF RECOMMENDATIONS

6.91 Our survey included eleven recommendations. Management indicated that all recommendations were implemented. Based on our work, we concluded that four recommendations have been implemented, and seven recommendations have not been implemented as at August 31, 2022.

Follow-up Report	Implemented	No Longer Applicable	Not Implemented	Total
Current Year	4	-	7	11
Prior Year*	N/A	N/A	N/A	N/A

*N/A – Not applicable as this is the first year of follow-up

6.92 Treasury Board has developed a new Treasury Board policy - section “10.03 Reporting Entities - Good Governance”. The purpose of this policy is to establish and communicate Government’s minimum expectations for Boards and members to ensure they fulfil their fiduciary function.

6.93 With the development of the new policy, Treasury Board now requires:

- the board of directors of all Crown corporations to document and regularly update a strategic plan (*recommendation 5.17*) and include information technology strategies in that strategic plan (*recommendation 5.19*);
- all Crown corporations to have members of its board of directors complete a conflict of interest declaration form annually (*recommendation 5.26*); and
- Crown corporations to have an audit committee (*recommendation 5.28*).

6.94 Many of the outstanding recommendations require Treasury Board to ensure that Crown corporations are fulfilling these duties. Based on management’s response, Treasury Board will request all entities to report on an annual basis if they have completed, or not completed the actions described within the policy.

6.95 Although the new policy established requirements for reporting entities which address each of the recommendations made in our 2021 report, Treasury Board had not yet taken any measures to ensure entities were fulfilling the requirements of the policy. The policy was effective January 2022 and Treasury Board requested all entities submit their first report on the actions described in the policy in January 2023. The cut-off of our current follow-up work was August 31, 2022; therefore, these reports will be looked at as part of our next follow-up report.

6.96 Upon completion of these reports, Treasury Board will be able to determine whether Crown corporations:

- maintain a formal board orientation program (*recommendation 5.13*);
- provide regular training opportunities for board members (*recommendation 5.15*);
- have been provided with Government’s public policy objectives, which have been clearly communicated to all boards of directors (*recommendation 5.21*);
- established a minimum number of board meetings that a Departmental Minister or representatives are to attend annually (*recommendation 5.22*);
- boards of directors report publicly on the mandate and performance of the organization on an annual basis (*recommendation 5.24*);
- complete performance evaluations annually for the Chief Executive Officers or equivalents (*recommendation 5.30*); and
- evaluate the effectiveness of Boards of Directors annually with documented performance measures (*recommendation 5.33*).

6.97 The policy also requires reporting entities to provide annual reporting to the responsible departments by December 31st, commencing with December 31st, 2022. We will be following up with departments to assess compliance with this requirement as part of our 2024 Annual Report.

STANDARDS, OBJECTIVE, SCOPE AND CONCLUSION

STANDARDS

This independent limited assurance attestation engagement report was prepared by the Office of the Auditor General of Prince Edward Island on the status of the implementation of recommendations made in our 2018, 2019, 2020 and 2021 Annual Reports. Work conducted for this review was performed to a limited level of assurance in accordance with the Canadian Standards on Assurance Engagements (CSAE) 3000 - Attestation Engagements Other Than Audits or Reviews of Historical Financial Information, set out by the Chartered Professional Accountants of Canada (CPA Canada).

The Office of the Auditor General of Prince Edward Island applies the Canadian Standard on Quality Management which requires our office to design, implement and operate a system of quality management, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting this limited assurance work, we have complied with independence and other ethical requirements of the Rules of Professional Conduct of the Chartered Professional Accountants of Prince Edward Island and the Code of Conduct of the Office of the Auditor General of Prince Edward Island. Both the Rules of Professional Conduct and the Code of Conduct are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.

OBJECTIVE

Our objective was to provide limited assurance on those recommendations assessed as “implemented” as of August 31, 2022, to determine if government’s assessment was free from material misstatement. We did not perform any procedures, and provide no assurance, on recommendations reported by management as not implemented.

For recommendations assessed as “do not intend to implement” or “no longer applicable” we focused on whether the rationale provided by management was reasonable. If we agreed with the rationale, we will not conduct further follow-up work on the applicable recommendation.

SCOPE AND APPROACH

The scope of our work included only recommendations from 2018, 2019, 2020 and 2021 Annual Reports. We provide limited assurance on those recommendations assessed by management as implemented as at August 31, 2022.

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.

Our approach included:

- obtaining assertions from management on the status of implementation of each recommendation;
- interviewing management and staff;
- examining documents; and
- reviewing specific controls and processes.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less extensive than, for a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained, had a reasonable assurance engagement been performed.

CONCLUSION

We concluded that as at August 31, 2022

- 90 percent of 2018 recommendations were implemented;
- 85 percent of 2019 recommendations were implemented;
- 86 percent of 2020 recommendations were implemented; and
- 37.5 percent of 2021 recommendations were implemented.

Based on the limited assurance procedures performed and evidence obtained on all implemented recommendations, no matters have come to our attention that cause us to believe that the status of the recommendations reported as implemented have been materially misstated. Additional information provided in this report is not intended to take away from our overall conclusion.

DATE OF REPORT

We obtained sufficient evidence on which to base our limited assurance conclusion on February 9, 2023, in Charlottetown, Prince Edward Island.

2018 ANNUAL REPORT
PERFORMANCE AUDITS AND EXAMINATIONS
RECOMMENDATIONS

Audit	Para.	Recommendation	Status of Implementation as at Aug 31, 2022
Social Assistance Program			
Department of Social Development and Housing (formerly the Department of Family and Human Services)	2.22	The Department of Social Development and Housing should establish performance indicators and targets to measure and monitor its progress in achieving the objectives of the Social Assistance Program.	Implemented
	2.23	The Department of Social Development and Housing should annually report to the Legislative Assembly on the administration of the Social Assistance Program including program goals and results achieved.	Not Implemented
	2.37	The Department of Social Development and Housing should annually provide information to Executive Council to support its review of social assistance rates and exemptions from financial resources.	Implemented
	2.38	The Department of Social Development and Housing should ensure that changes in social assistance rates are approved by Executive Council prior to implementation.	Implemented
	2.45	The Department of Social Development and Housing should complete annual reviews in accordance with the <i>Social Assistance Act Regulations</i> .	Implemented
	2.48	The Department of Social Development and Housing should conduct and document home visits in accordance with Program policy.	Implemented
	2.54	The Department of Social Development and Housing should record all applications in the case management system.	Implemented
	2.55	The Department of Social Development and Housing should inform all applicants in writing of its decision regarding social assistance, the reason(s) for the decision, any amounts approved, and the right to appeal.	Implemented
	2.62	The Department of Social Development and Housing should maintain the internal review function of its Audit Services Section.	Implemented
	2.65	Management of the Social Programs Division should ensure social assistance payments are authorized in accordance with Treasury Board Policy.	Implemented
	2.75	The Department of Social Development and Housing should complete and update case plans for recipients of social assistance in accordance with policy.	Not Implemented

2018 ANNUAL REPORT
PERFORMANCE AUDITS AND EXAMINATIONS
RECOMMENDATIONS

Audit	Para.	Recommendation	Status of Implementation as at Aug 31, 2022
Medication Controls: Institutional Pharmacy Program			
Health PEI	3.20	Health PEI should develop policies and procedures to strengthen medication controls and improve coordination for management and delivery of the Institutional Pharmacy Program.	Implemented
	3.32	The Provincial Pharmacy should conduct and adequately document monthly inventory counts of narcotics and controlled drugs.	Implemented
	3.33	The Provincial Pharmacy should investigate all inventory discrepancies of narcotics and controlled drugs. All discrepancies should be supported with documentation, reviewed, and signed off by management. Any unexplained variances should be reported.	Implemented
	3.34	The Provincial Pharmacy should enforce individual electronic login protocols.	Implemented
	3.49	Health PEI should improve controls over dispensing and oversight of ward stock narcotics for provincially-owned long-term care facilities.	Implemented
	3.50	Provincial Pharmacy staff should have access to essential information to evaluate the appropriateness of initial prescriptions and refill requests prior to dispensing medication.	Implemented
	3.55	Health PEI should document a policy on the transportation of medications from the Provincial Pharmacy to the provincially owned long-term care facilities.	Implemented
	3.60	Health PEI should establish a policy on conducting comprehensive medication reviews for residents of provincially-owned long-term care facilities.	Implemented
	3.73	Provincially-owned long-term care facilities should ensure that inventory records for narcotics include the actual amount of each drug counted in addition to verification that count was completed.	Implemented
	3.74	Provincially-owned long-term care facilities should ensure controlled drugs are recorded and regularly counted. Discrepancies should be investigated and unexplained shortages should be reported.	Implemented
	3.83	Health PEI should implement policies and procedures to require the Provincial Pharmacy and the long-term care facilities to maintain a clear trail of accountability for all narcotics and controlled drugs.	Implemented

2018 ANNUAL REPORT
PERFORMANCE AUDITS AND EXAMINATIONS
RECOMMENDATIONS

Audit	Para.	Recommendation	Status of Implementation as at Aug 31, 2022
Medication Controls: Institutional Pharmacy Program (cont'd)			
Health PEI	3.84	Provincially-owned long-term care facilities should return all unused, discontinued, and expired narcotics and controlled drugs to the Provincial Pharmacy.	Implemented
	3.90	Health PEI should develop documented procedures for the disposal of medications consistent with federal regulatory requirements.	Not Implemented
	3.91	Documentation supporting the disposal of narcotics and controlled drugs should be maintained by the Provincial Pharmacy in accordance with federal regulatory requirements.	Implemented
	3.92	Unserviceable narcotics and controlled drugs should either be de-natured and disposed of by the Provincial Pharmacy or destroyed by a licensed third party in accordance with Health Canada requirements.	Implemented
Office of the Public Guardian			
	4.17	The Office of the Public Guardian should clearly and consistently communicate its roles and responsibilities to care providers.	Implemented
	4.18	The Office of the Public Guardian should define the types of significant care decisions that must be approved by the Public Guardian and formally communicate this information to care providers.	Implemented
	4.22	The Office of the Public Guardian should document and implement policies to guide staff in managing key risks and responsibilities.	Implemented
	4.33	The Office of the Public Guardian should document the authorization and rationale for significant care decisions.	Implemented

2019 ANNUAL REPORT
PERFORMANCE AUDITS AND EXAMINATIONS
RECOMMENDATIONS

Audit	Para.	Recommendation	Status of Implementation as at Aug 31, 2022
Early Learning and Child Care Centres			
Early Learning and Childcare Board	2.19	The Early Learning and Child Care Board should develop and implement a policy based on established good practice on the required frequency of inspections for licensed child care centres.	Implemented
	2.27	The Early Learning and Child Care Board should update its inspection template to ensure all key requirements of the <i>Early Learning and Child Care Act</i> and regulations are included.	Implemented
	2.35	The Early Learning and Child Care Board should develop policy guidelines to identify key violations that should result in an overall unsatisfactory inspection result.	Implemented
	2.42	The Early Learning and Child Care Board should develop a policy on the nature and timing of follow-up action on non-compliance issues, including required reporting to the Board.	Implemented
	2.50	The Early Learning and Child Care Board should ensure that all required criminal record and vulnerable sector checks are obtained prior to license approval in accordance with the <i>Early Learning and Child Care Act</i> and regulations.	Implemented
	2.55	The Early Learning and Child Care Board should obtain current, satisfactory fire inspections prior to approval of licenses for early learning and child care centres.	Implemented
Department of Education and Lifelong Learning (formerly the Department of Education, Early Learning and Culture)	2.68	The Department of Education and Lifelong Learning should define overall goals for the accessibility of licensed child care services in Prince Edward Island.	Implemented
	2.69	The Department of Education and Lifelong Learning should establish performance indicators and targets to evaluate the accessibility of licensed child care services.	Not Implemented
	2.85	The Department of Education and Lifelong Learning should ensure that funding arrangements with Early Years Centres are documented in the contract and appropriately authorized. Payments should not exceed amounts authorized in the contracts.	Not Implemented
	2.86	The Department of Education and Lifelong Learning should include the terms and conditions for employee benefits in the authorized contracts for Early Years Centres grant funding.	Not Implemented
	2.87	The Department of Education and Lifelong Learning should ensure that funding contracts for Early Years Centres are authorized in accordance with Treasury Board Policy.	Implemented

2019 ANNUAL REPORT
PERFORMANCE AUDITS AND EXAMINATIONS
RECOMMENDATIONS

Audit	Para.	Recommendation	Status of Implementation as at Aug 31, 2022
Early Learning and Child Care Centres (cont'd)			
Department of Education and Lifelong Learning (formerly the Department of Education, Early Learning and Culture)	2.88	The Department of Education and Lifelong Learning should strengthen review procedures for payments to Early Years Centres.	Implemented
	2.94	The Department of Education and Lifelong Learning should ensure publicly available information on eligibility for the Special Needs Grant program is consistent with the approved funding guidelines.	Implemented
	2.95	The Department of Education and Lifelong Learning should ensure funding agreements for the Special Needs Grant program are authorized by the Department and include: <ul style="list-style-type: none"> the amount, terms and timing of payments; and required reporting on the use of funds. 	Implemented
Capital Asset Plan for Provincial Parks			
Tourism PEI	3.22	Tourism PEI should develop a strategic plan and seek endorsement from government.	Implemented
	3.23	Tourism PEI should establish strategic objectives for provincial parks.	Implemented
	3.39	Tourism PEI should maintain a complete and accurate listing of all capital assets for provincial parks. The listing should include the age and estimated useful life of the capital assets.	Implemented
	3.46	Tourism PEI should develop and implement a policy for the regular assessment of capital assets at provincial parks.	Implemented
	3.56	Tourism PEI should ensure that water testing at provincial parks is completed in accordance with the <i>Environmental Protection Act</i> .	Implemented
	3.57	Tourism PEI should ensure that playgrounds at provincial parks are regularly inspected by qualified persons and these inspections are documented.	Implemented

2019 ANNUAL REPORT
PERFORMANCE AUDITS AND EXAMINATIONS
RECOMMENDATIONS

Audit	Para.	Recommendation	Status of Implementation as at Aug 31, 2022
Procurement of Goods for Government Departments			
Department of Finance	4.25	The Office of the Comptroller should ensure that all purchases of goods follow a competitive process as required by the <i>Procurement of Goods Act</i> (formerly the <i>Public Purchasing Act</i>) and applicable trade agreements.	Implemented
	4.26	The Office of the Comptroller should ensure that all sole sourced purchases are supported with departmental authorization referencing the applicable exemption under the <i>Procurement of Goods Act</i> and regulations (formerly the <i>Public Purchasing Act Regulations</i>).	Implemented
	4.35	The Office of the Comptroller should define and communicate to departments the types of goods that qualify as construction materials under exemptions to the <i>Procurement of Goods Act</i> and regulations (formerly the <i>Public Purchasing Act Regulations</i>).	Implemented
	4.36	The Office of the Comptroller should implement controls to ensure exemptions related to road maintenance vehicles and equipment are appropriately applied.	Implemented
	4.43	When required by the <i>Procurement of Goods Act</i> (formerly the <i>Public Purchasing Act</i>), the Office of the Comptroller should ensure departments obtain a purchase order authorized by Procurement Services prior to the purchase of goods.	No Longer Applicable
	4.44	The Office of the Comptroller should verify that the terms and conditions of the purchase are in accordance with the competitive process prior to approval of the purchase order.	No Longer Applicable
	4.50	Prior to payment authorization, the Office of the Comptroller should ensure an authorized employee of the department confirms the receipt of goods.	Not Implemented
	4.55	The Office of the Comptroller should ensure the competitive process requirements in the <i>Procurement of Goods Act</i> (formerly the <i>Public Purchasing Act</i>) are followed by PCard users.	Implemented

2020 ANNUAL REPORT
PERFORMANCE AUDITS AND EXAMINATIONS
RECOMMENDATIONS

Audit	Para.	Recommendation	Status of Implementation as at Aug 31, 2022
AccessAbility Supports Program			
Department of Social Development and Housing	2.19	The Department of Social Development and Housing should ensure the AccessAbility Advisory Council meets on a regular basis in accordance with its terms of reference.	Implemented
	2.28	The Department of Social Development and Housing should ensure that program policies are finalized and formally approved prior to implementation.	Implemented
	2.39	The Department of Social Development and Housing should ensure that the computer application is updated for the AccessAbility Supports Program.	Implemented
	2.40	The Department of Social Development and Housing should ensure assured income supports are provided in accordance with the rates approved by Executive Council.	Implemented
	2.41	The Department of Social Development and Housing should ensure that client contributions are properly calculated and applied for the AccessAbility Supports Program.	Implemented
	2.45	The Department of Social Development and Housing should ensure all individuals receiving benefits from the AccessAbility Supports Program are assessed using AccessAbility Supports Program policies.	Not Implemented
	2.54	The Department of Social Development and Housing should ensure that Collaborative Support Plans are completed for all applicants of the AccessAbility Supports Program.	Implemented
	2.57	The Department of Social Development and Housing should ensure that Collaborative Support Plans are monitored and updated.	Implemented
	2.63	The Department of Social Development and Housing should ensure that non-funded supports are considered and documented for recipients of the AccessAbility Supports Program.	Implemented
	2.66	In accordance with policy, the Department of Social Development and Housing should ensure that documentation is obtained for all payments provided under the AccessAbility Supports Program.	Implemented
	2.70	The Department of Social Development and Housing should ensure funded supports are authorized in accordance with program policies.	Implemented

2020 ANNUAL REPORT
PERFORMANCE AUDITS AND EXAMINATIONS
RECOMMENDATIONS

Audit	Para.	Recommendation	Status of Implementation as at Aug 31, 2022
AccessAbility Supports Program (cont'd)			
Department of Social Development and Housing	2.74	The Department of Social Development and Housing should ensure that assured income rates are approved by Executive Council.	Implemented
	2.83	The Department of Social Development and Housing should establish a process to log, monitor and respond to inquiries received under the AccessAbility Supports Program.	Implemented
IT Security Access Controls			
Information Technology Shared Services	3.20	Information Technology Shared Services should develop a strategy to communicate security requirements of the access control policy to all key stakeholders.	Implemented
	3.21	Information Technology Shared Services should establish a security compliance process to measure implementation of controls to effectively protect information systems and assets.	Not Implemented
Laboratory Services: Surgical Specimen Processing			
Health PEI	4.24	Management of the histology labs should ensure all standard operating procedures are regularly reviewed, documented, and available on the Omni-assistant document server.	Implemented
	4.25	Management of the histology labs should ensure histology lab staff are informed and required to review and sign off on changes to standard operating procedures.	Implemented
	4.35	Management of Laboratory Services should update the turnaround time policy for surgical specimen processing to: <ul style="list-style-type: none"> reflect current standard operating procedures; and include details of a process for monitoring turnaround times. This policy should be issued and distributed to relevant staff.	Implemented
	4.42	Management of the histology labs should develop continuous professional development guidelines and maintain records of training completed by lab staff.	Implemented
	4.55	Management of Laboratory Services should implement a process for the efficient delivery of pathology reports to requisitioning physicians and/or nurse practitioners.	Not Implemented
	4.65	In accordance with existing policies, management of the histology labs should ensure internal maintenance on laboratory equipment is completed and documented.	Implemented

2021 ANNUAL REPORT
PERFORMANCE AUDITS AND EXAMINATIONS
RECOMMENDATIONS

Audit	Para.	Recommendation	Status of Implementation as at Aug 31, 2022
International Student Program			
Department of Education and Lifelong Learning	4.18	The Department of Education and Lifelong Learning should document and approve a strategic plan for the PEI International Student Program.	Not Implemented
	4.24	The Department of Education and Lifelong Learning should document, approve and implement policies and procedures for the PEI International Student Program.	Not Implemented
	4.29	The Department of Education and Lifelong Learning should maintain all key supporting documentation in PEI International Student Program files and include documentation requirements within the policy guidance for the PEI International Student Program.	Not Implemented
	4.30	The Department of Education and Lifelong Learning should document and maintain a quality assurance process for PEI International Student Program applications.	Not Implemented
	4.36	The Department of Education and Lifelong Learning should establish procedures for collecting overdue tuition fees and include these procedures within the policy guidance for the PEI International Student Program.	Not Implemented
	4.43	The Department of Education and Lifelong Learning should develop and implement a standardized contractual agreement for education agents in accordance with Treasury Board policy.	Implemented
	4.44	The Department of Education and Lifelong Learning should perform due diligence procedures on education agents associated with the PEI International Student Program.	Implemented
	4.52	The Department of Education and Lifelong Learning should implement a screening and selection process for homestay providers and regularly monitor the wellbeing of PEI International Student Program students living in homestay accommodations.	Implemented
	4.53	In accordance with CAPS-I Standards of Practice, the Department of Education and Lifelong Learning should have agreements with homestay providers.	Implemented
	4.61	The Department of Education and Lifelong Learning should obtain reliable program data on a timely basis to enable effective management and oversight of the PEI International Student Program.	Implemented
	4.62	The Department of Education and Lifelong Learning should document meeting minutes noting any significant strategic or operational decisions for the PEI International Student Program.	Not Implemented

2021 ANNUAL REPORT
PERFORMANCE AUDITS AND EXAMINATIONS
RECOMMENDATIONS

Audit	Para.	Recommendation	Status of Implementation as at Aug 31, 2022
International Student Program (cont'd)			
Department of Education and Lifelong Learning	4.63	The Department of Education and Lifelong Learning should report publically on the performance of the PEI International Student Program on an annual basis.	Not Implemented
	4.66	The Department of Education and Lifelong Learning should monitor student satisfaction with the PEI International Student Program.	Not Implemented
Crown Corporations Governance Survey			
Treasury Board	5.13	Treasury Board should ensure a formal board orientation program is used by all Crown corporations. It should provide a clear outline of board roles, responsibilities, and structural relationships, along with board by-laws and mandates or terms of reference.	Not Implemented
	5.15	Treasury Board should ensure regular training opportunities for board members are provided by all Crown corporations.	Not Implemented
	5.17	Treasury Board should require the board of directors of all Crown corporations to document a strategic plan and regularly update the plan as the goals and mandate of the organization change.	Implemented
	5.19	Treasury Board should require all Crown corporations to include information technology strategies in their strategic plan.	Implemented
	5.21	Treasury Board should ensure Government's public policy objectives are clearly communicated to all boards of directors of Crown corporations.	Not Implemented
	5.22	Treasury Board should establish a minimum number of board of directors meetings which departmental ministers, or representatives, are to attend annually for each Crown corporation.	Not Implemented
	5.24	Treasury Board should ensure all boards of directors of Crown corporations report publically on the mandate and performance of the organization, on an annual basis.	Not Implemented
	5.26	Treasury Board should require all Crown corporations to have members of its board of directors complete a conflict of interest declaration form annually.	Implemented
	5.28	Treasury Board should require Crown corporations to have an audit committee.	Implemented

2021 ANNUAL REPORT
PERFORMANCE AUDITS AND EXAMINATIONS
RECOMMENDATIONS

Audit	Para.	Recommendation	Status of Implementation as at Aug 31, 2022
Crown Corporations Governance Survey (cont'd)			
Treasury Board	5.30	Treasury Board should ensure standardized performance evaluations are completed annually for Chief Executive Officers (or equivalent) of Crown corporations.	Not Implemented
	5.33	Treasury Board should ensure evaluations on the effectiveness of boards of directors for Crown corporations are completed periodically. These evaluations should include documented performance measures which are important to each Crown corporation.	Not Implemented

**RECOMMENDATIONS REPORTED BY MANAGEMENT
AS NOT IMPLEMENTED AT AUGUST 31, 2022
2018, 2019, 2020 AND 2021 AUDITS**

We requested a written assessment from management on whether recommendations from our 2018, 2019, 2020 and 2021 performance audits and examinations were complete or not complete at August 31, 2022. This appendix lists all recommendations reported by management as not implemented. We have not conducted any work and provide no assurance on these management responses. They are presented for information purposes only.

Rec. #	Recommendation	Management Response
Social Assistance Program – 2018		
2.23	The Department of Social Development and Housing should annually report to the Legislative Assembly on the administration of the Social Assistance Program including program goals and results achieved.	<p>Actions Taken To Date:</p> <ul style="list-style-type: none"> • The Department of Social Development and Housing (SDH) has completed annual reports of 2013-14 to 2019-20, including updates on key achievements and indicators of the Social Assistance Programs as well as expenditure information. The 2019-20 Annual Report was tabled in the Legislative Assembly in August 2021 and is available on-line <p>Actions Planned:</p> <ul style="list-style-type: none"> • Completion of outstanding annual reports.

**RECOMMENDATIONS REPORTED BY MANAGEMENT
AS NOT IMPLEMENTED AT AUGUST 31, 2022
2018, 2019, 2020 AND 2021 AUDITS**

We provide no assurance on management responses (for information only)

Rec. #	Recommendation	Management Response
Early Learning and Child Care Centres – 2019		
2.69	The Department of Education and Lifelong Learning should establish performance indicators and targets to evaluate the accessibility of licensed child care services.	<p>Actions Taken To Date:</p> <ul style="list-style-type: none"> • Early Learning and Child Care space creation targets are identified in the Canada-Prince Edward Island Early Learning and Child Care Agreement. • Creation of two new positions – Junior Evaluation Analyst and Data and Reporting Coordinator. Positions are currently posted for competition. • First meeting of the Canada-Prince Edward Island Early Learning and Child Care Implementation Committee is scheduled for the first week of September, 2022. • IT project to develop a system to support the data collection critical for evaluative purposes. The IT Project Committee has met regularly to develop the business requirements. Work is ongoing and a completion date has not yet been established. <p>Actions Planned:</p> <ul style="list-style-type: none"> • Further actions may be identified following the Implementation Committee meeting in September.
2.85	The Department of Education and Lifelong Learning should ensure that funding arrangements with Early Years Centres are documented in the contract and appropriately authorized. Payments should not exceed amounts authorized in the contracts.	<p>Actions Taken To Date:</p> <ul style="list-style-type: none"> • Applicable Early Years Centres have been identified. <p>Actions Planned:</p> <ul style="list-style-type: none"> • Contract amendments will be executed prior to October, 2022.
2.86	The Department of Education and Lifelong Learning should include the terms and conditions for employee benefits in the authorized contracts for Early Years Centres grant funding.	<p>Actions Taken To Date: N/A – Do not intend to implement</p> <p>Actions Planned: N/A – Do not intend to implement</p> <p>Reasons for No Action: Management does not agree with this recommendation. The formula in the contract calculated an operating grant to supplement the Early Learning Centres operations. It is not designed to directly link to specific wage benefits.</p>

**RECOMMENDATIONS REPORTED BY MANAGEMENT
AS NOT IMPLEMENTED AT AUGUST 31, 2022
2018, 2019, 2020 AND 2021 AUDITS**

We provide no assurance on management responses (for information only)

Rec. #	Recommendation	Management Response
Procurement of Goods for Government Departments - 2019		
4.50	Prior to payment authorization, the Office of the Comptroller should ensure an authorized employee of the department confirms the receipt of goods.	<p>Actions Taken To Date:</p> <p>Work has been done by the Procurement Section to identify individuals in every department that can be set as a receiver. Issues with the proposed process have been identified. Work will be undertaken to find solutions that work for each departments operational structure in order to complete this recommendation.</p> <p>Actions Planned:</p> <p>Will be working with key areas to develop processes that will allow Departments to ensure goods are received and receipted appropriately.</p>
IT Security Access Controls – 2020		
3.21	Information Technology Shared Services should establish a security compliance process to measure implementation of controls to effectively protect information systems and assets.	<p><i>ITSS has provided our Office with extensive details on the work they have completed to date and the tasks they are still working on. Details will not be published for security reasons.</i></p>

**RECOMMENDATIONS REPORTED BY MANAGEMENT
AS NOT IMPLEMENTED AT AUGUST 31, 2022
2018, 2019, 2020 AND 2021 AUDITS**

We provide no assurance on management responses (for information only)

Rec. #	Recommendation	Management Response
Laboratory Services: Surgical Specimen Processing – 2020		
4.55	Management of Laboratory Services should implement a process for the efficient delivery of pathology reports to requisitioning physicians and/or nurse practitioners.	<p>Actions Taken To Date:</p> <p>Currently, Laboratory reports for Anatomic Pathology are being transmitted electronically (in real time) to the community-based physicians and nurse practitioners using the EMR. There are currently 43 clinics and 127 providers (family physicians, specialist and nurse practitioners) who have implemented the EMR to date.</p> <p>Actions Planned:</p> <p>There are approximately 90 more providers planning to adopt the EMR. By March 31st, 2023, the majority of community-based providers will have implemented the EMR and will be receiving pathology reports electronically.</p>
International Student Program - 2021		
4.18	The Department of Education and Lifelong Learning should document and approve a strategic plan for the PEI International Student Program.	<p>Actions Taken To Date:</p> <p>The Prince Edward Island International Student Program (PEIISP) retained the services of a consultant to draft a high-level strategic plan. The plan was reviewed by key members of the K-12 international team and is ready to submit to senior staff in the Department of Education and Lifelong Learning for review and approval.</p>
4.24	The Department of Education and Lifelong Learning should document, approve and implement policies and procedures for the PEI International Student Program.	<p>Actions Taken To Date:</p> <ul style="list-style-type: none"> • Two Policies and Procedures documents are currently being developed. A Policies and Procedures Manual is being developed as is a companion Operations Manual. • Our website is being updated to go live in the fall of 2022. Our new database program is fully operational as a registration and management tool for the PEIISP. <p>Actions Planned:</p> <p>Draft manuals will be completed in the spring of 2023 for review by policy and legal staff. Once accepted, the documents will be finalized and reviewed annually.</p>

RECOMMENDATIONS REPORTED BY MANAGEMENT
AS NOT IMPLEMENTED AT AUGUST 31, 2022
2018, 2019, 2020 AND 2021 AUDITS

We provide no assurance on management responses (for information only)

Rec. #	Recommendation	Management Response
International Student Program (cont'd) - 2021		
4.66	The Department of Education and Lifelong Learning should monitor student satisfaction with the PEI International Student Program.	<p>Actions Taken To Date:</p> <p>The PEIISP has created a feedback form that will be provided to all homestay students upon completion of their program. This has been formatted to be easily completed and returned using a personal mobile device.</p> <p>In addition, the third-party provider of homestay agreements has created a feedback form specific to the homestay experience. This information is available to PEIISP staff.</p>

7. Follow-Up with Treasury Board

CHAPTER SUMMARY

- 7.1 Every year, our Office makes recommendations specific to each of the performance audits and examinations conducted, which are intended to address the findings and issues identified. We report on the implementation of these recommendations approximately one year after the audit was initially reported, and follow-up again on any outstanding recommendations for three additional years.

Board has obtained reporting on the status of implementation of recommendations included in our annual reports from 2013 to 2021, we have only included those from our 2018, 2019, 2020 and 2021 annual reports which are part of our current year follow-up report (see Chapter 6).

QUARTERLY UPDATES TO TREASURY BOARD

- 7.2 Each entity audited is required to provide a quarterly update to Treasury Board on the implementation of recommendations of the Auditor General. On October 13, 2020, we requested that our Office be provided with all quarterly updates provided to Treasury Board by departments and reporting entities.
- 7.3 We review the updates to determine if these reports are being submitted as required. We expected reports to be filed with Treasury Board for the first full quarterly reporting period after the report had been released. We have not examined the content of the quarterly updates provided to Treasury Board, and provide no assurance on the content of these updates.
- 7.4 **Exhibit 7.1** outlines the departments and reporting entities responsible for reporting to Treasury Board with respect to performance audits included in our 2018, 2019, 2020 and 2021 annual reports. Although Treasury

EXHIBIT 7.1
QUARTERLY UPDATES BY DEPARTMENTS AND REPORTING ENTITIES
FOR CALENDAR YEARS 2021-2022

Entity*	Year	Mar 31 2021	June 30 2021	Sept 30 2021	Dec 30 2021	Mar 31 2022	June 30 2022	Sept 30 2022	Dec 31 2022
Tourism PEI									
Capital Asset Plan for Provincial Parks	2019	Yes	Yes	Yes	Yes	Yes	No	No	Yes
Department of Education and Lifelong Learning									
Prince Edward Island International Student Program	2021	N/A ¹	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Early Learning and Child Care Centres	2019	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Department of Finance									
Crown Corporation Governance Survey	2021	N/A ²	N/A ²	N/A ²	N/A ²	N/A ²	N/A ²	N/A ²	N/A ²
IT Security Access Controls	2020	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Procurement of Goods for Government Departments	2019	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes
Department of Justice and Public Safety									
Office of the Public Guardian ³	2018	-	-	-	-	-	-	-	-
Department of Social Development and Housing									
AccessAbility Supports Program	2020	Yes	No	No	Yes	Yes	Yes	Yes	Yes
Social Assistance Program	2018	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Health PEI									
Laboratory Services: Surgical Specimen Processing	2020	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Medication Controls: Institutional Pharmacy Program	2018	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No

*Reflects current entity responsible

¹ Update for March 31, 2021 not expected as report released less than one fiscal quarter earlier.

² For Crown Corporation Governance Survey, the recommendations were made to Treasury Board; therefore, we would not expect quarterly reports to be submitted.

³ Based on our follow-up work completed in 2020, all recommendations were determined to be complete as at October 31, 2020. Therefore, no further reports to Treasury Board were required.

8. Introduction to Financial Audits

- 8.1 Government is responsible for the management and control of public resources. Financial statements provide information to describe changes in a government's financial position, and its revenues and expenses for a fiscal period. Information contained in the annual financial statements is used by Members of the Legislative Assembly and the public to hold government accountable for its use and control of public resources.
- 8.2 Management is responsible for the preparation and fair presentation of financial statements, with oversight from those charged with governance. Management is also responsible to establish internal controls necessary to enable the preparation and fair presentation of financial statements. Users of financial statements need to know that the information in the financial statements is reliable, in order to make economic decisions based on what is prepared and presented by management.
- 8.3 The work of an independent auditor provides assurance that the financial statements are fairly presented. Using Canadian Auditing Standards, the auditor:
- identifies and assesses the risks of material misstatement;
 - obtains an understanding of internal controls;
 - examines evidence supporting the amounts and disclosures in the financial statements;
 - objectively assesses the accounting principles used, the estimates made, and other management assertions reflected in the financial statements; and
- evaluates the overall presentation, structure and content of the financial statements.
- 8.4 Canadian Auditing Standards require the auditor to obtain a high level of assurance to determine whether the financial information is free from material misstatement. The auditor obtains sufficient appropriate audit evidence to express an opinion in an independent auditor's report.
- 8.5 The *Audit Act* requires the Auditor General to perform the annual financial audit of the Province's consolidated financial statements. We also perform the annual financial statement audits for the following entities:
- Health PEI
 - PEI Agricultural Insurance Corporation
 - PEI Crown Building Corporation
 - PEI Lotteries Commission
 - PEI Public Sector Pension Plan*
 - PEI Self-Insurance and Risk Management Fund
 - PEI Teachers' Pension Plan
 - Public Trustee
 - Supreme Court of PEI Trust Accounts
- *Pension Plan for Members of the Legislative Assembly was combined with the PEI Public Sector Pension Plan on December 31, 2021.
- 8.6 The *Audit Act* requires the Auditor General to bring to the attention of the Legislative Assembly any matter identified during an audit which in his/her opinion should be brought to its attention.

8.7 The Office has reporting responsibilities under the *Climate Leadership Act* and the *Government Advertising Standards Act*. These responsibilities were reported in Chapters 3 and 4.

8.8 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;
- the financial statements of Crown corporations, agencies and trust funds; and
- the processing and recording of appropriations and special warrants.

9. Audit of the Consolidated Financial Statements – Highlights

What we did

- We completed our audit of the Province’s consolidated financial statements for the year ended March 31, 2022 and issued a clean, or unqualified, audit opinion on October 28, 2022.
- We provided information on significant observations and recommendations arising from our audit work, along with other items we identified for consideration.
- We provided a summary of amounts due to the Province that had been cancelled or written off under Section 26 of the *Financial Administration Act*.
- We reported surpluses and deficits of the Province’s agencies, boards, and Crown corporations for the year ended March 31, 2022.

Why it’s important

The consolidated financial statements consolidate the accounts of the Operating Fund with those of the Crown corporations, agencies and funds owned or controlled by Government. These consolidated financial statements provide the most complete information about the financial position and operating results of the Province. The reported issues, recommendations, and other items for consideration identify opportunities to strengthen internal controls, enhance accountability and transparency, and improve management and accounting processes.

What we found

- The 2021-22 consolidated financial statements fairly present the Province’s financial results.
- Treasury Board approval and formal agreements were not in place for significant grants provided to the University of Prince Edward Island and Holland College.
- Improvements to processes are still required for: management of pandemic inventory, social programs payments, timely collection of federal receivables, recording of transactions in accordance with Canadian Public Sector Accounting Standards, preparation of financial statement note disclosures, and correspondence with the Canada Revenue Agency.
- Phase II Environmental Site Assessment should be completed at the former Queens County Highway Depot site due to potential contamination.
- An internal audit function, the disclosure of supplemental information, and additional contaminated sites disclosure are items to be considered by the Province.
- The Province’s capital budget presentation does not include projected capital spending for government business enterprises.

9. Audit of the Consolidated Financial Statements

BACKGROUND

9.1 The *Financial Administration Act* requires the Comptroller to annually prepare the Province's Public Accounts. Volume I of the Public Accounts contains the Province's audited consolidated financial statements. All information and decisions related to these statements are the responsibility of Government. The Public Accounts also include Volume II, which contains the unaudited Operating Fund financial statements and details of revenues and expenses of the Operating Fund, and Volume III (Part A and B), which contains the available financial statements of agencies, boards, Crown corporations, and funds that have been audited or had a review engagement completed.

9.2 The *Financial Administration Act* requires the Minister of Finance to annually table the Public Accounts in the Legislative Assembly. The Public Accounts for the fiscal year ended March 31, 2022 were tabled on October 31, 2022.

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 *Audit 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, as necessary, audit work performed by the external auditors of those government 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, 2022. We also include observations and recommendations arising from our work and provide information to address other reporting requirements under the *Audit Act*.

AUDIT OPINION

9.6 Our audit was conducted in accordance with Canadian Auditing Standards. On October 28, 2022, the Auditor General issued a clean, or unqualified, audit opinion on the Province's consolidated financial statements. The independent audit opinion stated that the Province's consolidated financial statements for the year ended March 31, 2022 were fairly presented in accordance with Canadian Public Sector Accounting Standards.

OBSERVATIONS AND RECOMMENDATIONS

9.7 The consolidated financial statements are the responsibility of Government and are

prepared by the Comptroller. Our audit involves performing procedures to obtain sufficient and appropriate audit evidence to provide a basis for the audit opinion.

- 9.8 As part of the audit process, we evaluate the financial statements and the information supporting the amounts and note disclosures. We identify any audit adjustments required and provide those adjustments to management. We request that all adjustments be posted to the financial statements. We also identify issues related to internal control and financial reporting that require improvement. The following paragraphs provide details on some of the more significant observations and recommendations resulting from our audit, along with other items we noted for consideration. A new observation related to grant funding arrangements will be discussed first, followed by recurring issues.

Grant Funding Arrangements

- 9.9 During the year, the Province provided approximately \$105 million of post-secondary grant funding. This included funding provided for post-secondary educational institutions, student assistance, adult basic education, literacy training, and the community service bursary program. The most significant of these grants, approximately \$36 million and \$20 million respectively, were provided to the University of Prince Edward Island (UPEI) and Holland College for core operational funding.
- 9.10 We noted that no formal agreements were in place with UPEI or Holland College for the funding provided. The most recent funding agreement for core operational funding with UPEI expired on March 31, 2021, while no funding agreement with Holland College has

been in place over the last number of years. A formal agreement outlines the agreed upon terms, conditions, and expectations of both parties. It can also offer protection if either party fails to meet the terms of the agreement.

- 9.11 In addition, no Treasury Board approval was obtained for this grant funding provided to UPEI and Holland College. Sections 13 and 19 of the Treasury Board Policy and Procedures Manual provide authorization guidance regarding various types of grants. The guidance stated that grant funding over one hundred thousand dollars requires Treasury Board approval.

Recommendation

9.12 Treasury Board approval and formal agreements with grant recipients should be in place prior to providing grant funding, in accordance with Treasury Board policies.

Recurring Issues

- 9.13 Recurring issues relate to observations and recommendations provided in our prior year report. These repetitive issues need to be addressed and are summarized below.

Pandemic Inventory

- 9.14 During our inventory count, we continued to identify a lack of safeguards at the facility used to store personal protective equipment related to the COVID-19 pandemic. Specifically, we noted a lack of security clearance requirements at some access points to the facility. This is concerning as, without adequate safeguards in place, inventory is susceptible to theft or tampering.

9.15 Consistent with the prior year, a number of variances between the pandemic inventory quantities tracked and actual inventory quantities on hand were identified. This indicated that inventory was not accurately tracked. Facility staff have continued to use a manual spreadsheet to track pandemic inventory which contributed to the variances noted, as manual tracking is more susceptible to human error.

9.16 In the current year, the value initially recorded of pandemic inventory contributed by the Federal Government was significantly understated due to incorrect units of measure being applied to this inventory. We also identified several instances where quantities on the final inventory listing provided for audit, differed from the quantities counted. No explanation was obtained for these variances due to staff turnover. These situations further highlighted issues with the tracking of pandemic inventory. Given the significance of this inventory to the Province's COVID-19 response and its use as an essential safety resource for the public, additional measures should be taken to ensure proper tracking and safeguarding of pandemic inventory.

Recommendation

9.17 The departments of Health and Wellness and Transportation and Infrastructure should ensure that adequate tracking procedures, security clearance requirements, and monitoring are in place for all pandemic inventory.

Measurement of Transactions in Accordance with Canadian Public Sector Accounting Standards

9.18 The Province's consolidated financial statements are to be prepared in accordance with Canadian Public Sector Accounting Standards (PSAS). PSAS requires items recognized in government financial statements to be accounted for in accordance with the accrual basis of accounting. The accrual basis of accounting recognizes the effects of transactions in the period they occur, regardless of whether there has been a receipt or payment of cash. Consistent with prior years, we continued to note that accruals for holdbacks owing at year end for certain infrastructure projects were not set-up by the Province. We recommended audit adjustments to record these accruals and the Office of the Comptroller recorded some of the adjustments.

9.19 PS 3410 establishes standards on how to report and account for government transfers. Specifically, a government transfer should be recognized by a transferring government as an expense in the period the transfer is authorized and all eligibility criteria have been met by the recipient. As part of our audit work, we identified two government transfers recorded at year end that failed to meet the requirements for recognition. We recommended audit adjustments to remove the accrued grant expenses. The Office of the Comptroller agreed and reduced these expenses by approximately \$4 million.

Recommendation

9.20 The Office of the Comptroller should review year-end transactions to ensure that they are measured and recorded in accordance with Canadian Public Sector Accounting Standards.

Contractual Obligations and Contractual Rights

9.21 Disclosure of significant contractual obligations provides information to users of the financial statements about government resources that have already been committed for future spending. Contractual rights disclosures provide information about future resources that will be available to meet obligations or finance operations. Consistent with prior periods, we noted incomplete information and errors in the schedules of contractual obligations and contractual rights provided for audit. As a result of our audit work, we identified changes to disclosures of approximately \$28 million for contractual obligations and \$155 million for contractual rights. The Office of the Comptroller recorded the recommended changes.

Recommendation

9.22 The Office of the Comptroller should ensure that the information in the note disclosures of the consolidated financial statements are complete and accurate.

Corporate Income Tax Revenues

9.23 The Province continued to rely on monthly tax assessment data provided by the Canada Revenue Agency (CRA) to estimate personal and corporate income tax revenues. This data is provided monthly from May to December, usually near the end of each month and can significantly impact income tax revenue estimates. This is especially true for corporate

income tax revenues, which are more volatile than personal income tax revenues.

9.24 Consistent with the prior periods, the Province did not obtain a sufficient detailed breakdown of corporate income tax filers to date, which would have enabled it to more accurately project corporate income tax revenues based on historical filings. This method of estimating corporate income tax revenues would be less likely to result in significant estimate fluctuations. The Tax Collection Agreement between the Province and Government of Canada allows for sharing of information as the Federal Government is acting as an agent on behalf of the Province when collecting taxes.

Recommendation

9.25 The Department of Finance should obtain a detailed breakdown of corporate income tax filers from the Canada Revenue Agency to enhance the accuracy of the estimate for corporate income tax revenues.

Federal Receivables Collection

9.26 Consistent with prior years, we identified a significant amount of aged receivables due from the Government of Canada as at March 31, 2022. These receivables have been outstanding for longer than a full year. Most of the aged receivables identified related to federal claims that had not been submitted on a timely basis. The issue around the timeliness of claim submissions relates mainly to federal contribution agreements for Youth Justice Services, Official Languages in Education and the Low Carbon Economy Fund. Delays in claim submissions impact the Province's cash flow and interest costs.

Recommendation

9.27 Claims to the Government of Canada should be submitted on a timely basis.

Environmental Site Assessment

9.28 During the planning phase of our fiscal 2021 audit, we learned that the Department of Transportation and Infrastructure was planning to complete a Phase II Environmental Site Assessment for the former Queens County Highway Depot site (the Depot).

9.29 The purpose of a Phase II Environmental Site Assessment is to evaluate the presence, or absence, of petroleum products or hazardous substances in the subsurface of a site. The Department noted that the results of the assessment will likely identify areas of concern. This is a reasonable expectation given the history and use of the Depot.

9.30 In January 2023, we followed up on the status of the Phase II Environmental Site Assessment and we were advised that it has not yet commenced due to the present use of this site for COVID-19 testing as well as for housing temporary emergency shelters. Due to the apparent likelihood that this assessment could identify contamination in need of remediation, this assessment should be completed and evaluated before December 31, 2023.

Recommendation

9.31 The Department of Transportation and Infrastructure should complete the Phase II Environmental Site Assessment for the former Queens County Highway Depot location in order to determine the environmental risk associated with potential contamination at this site, before December 31, 2023.

Social Programs Overpayments

9.32 Social programs receivable in the March 31, 2022 consolidated financial statements includes \$8.3 million for accumulated social programs overpayments which have been set up as doubtful through a provision. This balance continues to grow each year and no write-offs have occurred since 2016. The majority of this balance relates to adjustments, errors, and misrepresentations associated with client income levels and living arrangements.

9.33 Considering that uncollected overpayments of almost \$1.9 million have occurred in the last three years, the Department of Social Development and Housing should evaluate and improve its processes and controls around the verification of client income levels and living arrangements, to reduce the incidents of these overpayments.

Recommendation

9.34 The Department of Social Development and Housing should improve processes and controls around social programs payments, specifically those related to the verification of client income levels and living arrangements.

Treasury Board Policy and Procedures Manual

9.35 During our audit, we continued to note that some sections of the Treasury Board Policy and Procedures Manual were not up to date. As per Subsection 1.01 of the manual, the manual has been compiled to provide a current source of reference for employees of Government departments, Crown corporations and reporting entities. The manual is intended to assist management in administration and in decision-making as well

as to provide a basis for consistent application of policy and procedures throughout Government. Subsection 1.01 also states that it is the responsibility of every reporting entity to be aware of the contents of the manual. Considering this, the manual is a vital resource for Government employees. Therefore, it is imperative that it remains up-to-date and aligns with current Acts and regulations.

Recommendation

9.36 The Treasury Board Secretariat should continue to review and update the Treasury Board Policy and Procedures Manual regularly to ensure it aligns with current Acts and regulations.

New Accounting Standards

9.37 The Canadian Public Sector Accounting Board has issued new or amended standards for the public sector. Standards related to financial statement presentation, foreign currency translation, portfolio investments, asset retirement obligations and financial instruments became effective April 1, 2022, and will impact the 2023 fiscal year.

9.38 As noted in prior years, the asset retirement obligations standard has the potential to significantly impact the net debt of the Province. It will also require substantial time to implement due to the extensive requirements of the standard. Work related to this new standard should be finalized and provided to our office as soon as possible, as we anticipate that a significant amount of time will be required to audit the implementation of this standard.

Recommendation

9.39 The Office of the Comptroller should be proactive in preparing for these new standards in order to achieve timely implementation so the audited financial statements can be issued by the statutory deadline.

Other Items for Consideration

9.40 In addition to the observations and recommendations provided above, there are other items that we wanted to highlight in our Report, to identify opportunities for enhancing the Province's accountability and transparency, improving current practices and processes, or identifying other avenues for betterment or advancement.

Internal Audit Function

9.41 In a December 2021 value-for-money report issued by the Office of the Auditor General of Ontario related to Ontario's provincial comptrollership framework, the Province of Prince Edward Island was the only jurisdiction to respond "not applicable" to a question related to having an internal audit function.

9.42 An internal audit function would assist the Province in accomplishing its objectives by providing it with internal auditing services. These services would provide a systematic approach for evaluating and advising government on the effectiveness of its internal controls, governance processes and risk management. It could support the Province's operations by assessing:

- the reliability of information produced and used by the Province;
- compliance with legislation, policies and accounting standards; and

- the effectiveness of programs, internal control operations and exposure to fraud.

Disclosure of Supplemental Information

9.43 Other jurisdictions, including Nova Scotia and New Brunswick, provide supplementary information as part of their reporting on Public Accounts. This includes the public disclosure of information such as cumulative payments within the fiscal year to individuals and suppliers for things like salaries, travel expenses, supplier payments, grants and other payments. Such amounts typically must meet a minimum threshold for disclosure. The disclosure of such information would enhance accountability and transparency for the Province.

Contaminated Sites Disclosure

9.44 The Province's contaminated sites disclosure allows users of the financial statements to assess the nature and extent of the Province's liability for remediation of contaminated sites. Standard PS 3260 requires the financial statements to disclose information about the nature and source of the liability, the basis for the estimate of the liability, the estimated total undiscounted expenditures and discount rate when a net present value technique is used, the reasons for not recognizing a liability, and any estimated recoveries.

9.45 Currently, the Province's contaminated sites disclosures are relatively minimal compared to other similar jurisdictions, such as Nova Scotia and New Brunswick. For example, the disclosures in these jurisdictions allow a financial statement user to better understand the nature and source of the liability, as well as the basis for the estimate of the liability, as

additional information is disclosed. The standard encourages additional disclosures when the disclosures will enhance financial statement users' understanding of the estimate of the liability. Based on this, the Province should consider improving disclosure around contaminated sites.

Government Business Enterprises

9.46 Government business enterprises are government organizations that have the power to contract in their own name. They carry on business by selling goods and services to individuals outside of the government reporting entity, enabling them to maintain their operations and meet their liabilities without government support. A complete list of government business enterprises is included in Volume I of the Province's consolidated financial statements.

Capital Budget Presentation

9.47 Consistent with prior periods, the capital budget of the Province does not include expected capital spending by government business enterprises. This is significant because these entities spent \$30.6 million for capital expenditures during the 2022 fiscal period. Capital budget information of government business enterprises would enhance accountability and transparency. It would also allow Members of the Legislative Assembly and the public to assess and debate the capital budgets of these entities.

Recommendation

9.48 The capital budget of the Province should present the projected capital spending of government business enterprises.

9.49 We have communicated our findings and recommendations to the Minister of Finance, Provincial Comptroller and Treasury Board Secretariat.

OTHER REPORTING

Amounts Cancelled and Written Off

9.50 Section 16 of the *Audit Act* requires the Auditor General to report the total amount of any claims, obligations, debts, or moneys due to the Province that have been cancelled under Section 26 of the *Financial Administration Act*. For the year ended March 31, 2022, the amounts cancelled under Section 26(1) are detailed in **Exhibit 9.1**. Also included are amounts written off under Section 26.1(1).

EXHIBIT 9.1 AMOUNTS CANCELLED AND WRITTEN OFF YEAR ENDED MARCH 31, 2022

	Cancellations Section 26(1)	Write- offs Section 26.1(1)
Finance PEI	\$ 18,602	\$ -
<i>Gasoline Tax Act</i>	12,724	-
PEI Grain Elevators Corporation	3,552	-
PEI Housing Corporation	4,510	69,955
PEI Student Financial Assistance Corporation	614,188	-
<i>Real Property Tax Act</i>	99,765	-
Total	\$753,341	\$69,955

Source: Orders-In-Council April 1, 2021 - March 31, 2022.

Surplus (Deficit) Crown Corporations, Agencies and Funds

9.51 Consistent with our prior reports, we will continue to include information on surpluses/deficits of the Province's Crown corporations, agencies and funds. **Exhibit 9.2** includes the surplus or deficit of each entity for the year ended March 31, 2022.

**EXHIBIT 9.2
SURPLUS (DEFICIT)
CROWN CORPORATIONS, AGENCIES AND FUNDS
YEAR ENDED MARCH 31, 2022**

	Annual Surplus (Deficit) \$
Charlottetown Area Development Corporation*	591,441
Finance PEI	2,023,980
French Language School Board	1,320,008
Health PEI	1,495,175
Innovation PEI	3,593
Island Investment Development Inc.	12,980,201
Island Waste Management Corporation	(259,824)
PEI Advisory Council on the Status of Women**	(1,787)
PEI Agricultural Insurance Corporation	20,664,604
PEI Cannabis Management Corporation	2,609,580
PEI Crown Building Corporation	-
PEI Energy Corporation	7,602,517
PEI Grain Elevators Corporation (July 31, 2021)	(24,683)
PEI Housing Corporation	10,345,400
PEI Human Rights Commission	57,770
PEI Liquor Control Commission	24,913,541
PEI Lotteries Commission	18,928,900
PEI Marine Science Organization	96,831
PEI Museum and Heritage Foundation	(15,658)
PEI Regulatory and Appeals Commission	161,224
PEI Self-Insurance and Risk Management Fund	2,786,750
PEI Student Financial Assistance Corporation	400,000
Public Schools Branch	(9,230)
Summerside Regional Development Corporation	(8,321)
Tourism PEI	-

Source: The Province's Volume III (Part A and B) Public Accounts March 31, 2022.

*Includes the Province's portion only

**Based on reviewed financial statements

10. Issues Noted in Other Financial Audits – Highlights

What we did

- We provided summary comments on significant issues noted in the management letters arising from our financial statement audits.
- We reviewed management letters issued by external auditors of government entities for significant issues to report.
- We reported on the timeliness of annual report filings for reporting entities and departments.

Why it's important

Management letters are provided to management, and those charged with governance, to assist them in fulfilling their responsibilities. The reported issues and recommendations identify opportunities to strengthen internal controls and improve management and accounting processes.

What we found

- Accounting concerns were identified that mainly related to the completeness and accuracy of information provided for audit.
- Notable compliance issues were identified in relation to the lack of timely business and strategic plans, no signed or approved grant funding agreements, and non-compliance with the *Public Trustee Act*.
- Reportable internal control issues consisted of a lack of formal policies and procedures, delays in physician audits, management of surplus funds, lack of investment guidelines, and slow collection of rebates and receivables.
- 22 out of 25 reporting entities did not meet the *Financial Administration Act* annual reporting deadline for their most recent fiscal year.
- As of January 31, 2023, only one government department has published an annual report for the most recent fiscal year.

10. Issues Noted in Other Financial Audits

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 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 controls 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.
- 10.3 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 issues or matters identified during an audit.
- 10.4 At the completion of an audit, any issues identified as significant are communicated through a management letter. A management letter provides recommendations for improvements in various areas, such as the entity's system of internal controls, proper accounting for transactions, adequate disclosures, compliance with policies and agreements, or any other matter the auditor concludes

should be brought to the attention of management and those charged with governance. Our audits may also identify matters of a less significant nature, which are verbally communicated to management.

- 10.5 Prior to finalizing a management letter, we communicate our findings and recommendations to management for feedback. We also request a written response to our management letters. A copy of each management letter is provided to the Secretary to Treasury Board and to the Office of the Comptroller.

SCOPE

- 10.6 In this chapter, we provide summary comments on significant issues noted in the management letters arising from the financial statement audits conducted by our Office. Management letters related to the financial statement audits of entities included in the Province's consolidated financial statements that are audited by external auditors have been reviewed and are discussed separately below. This chapter does not include findings and recommendations related to our audit of the Province's consolidated financial statements, as they were discussed in Chapter 9.

SUMMARY OBSERVATIONS

10.7 We issued management letters for all financial statement audits that we conducted. The main issues identified and detailed in our management letters can be categorized into three areas: accounting concerns, compliance issues, and internal control weaknesses. The following is a description of each category of issues identified in our financial statement audits. In some cases, certain issues have been noted for several years in our management letters.

Accounting Concerns

10.8 Financial statements are prepared in accordance with 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 concerns identified related to the completeness and accuracy of information provided for audit.

10.9 At year end, Health PEI's liabilities included \$16.3 million owing to the Province of Nova Scotia for unpaid billings related to Academic Funding Premiums. These premiums relate to Nova Scotia's recovery of physician compensation for direct clinical services provided to out-of-province residents by the academic departments of teaching hospitals. The balance owing increases by approximately \$2 million per year, and no payment has been made since 2014, as the validity of these premiums is under dispute. Given the significance of this growing balance, Health PEI should work

with the Province of Nova Scotia to reach a settlement on these disputed premiums. A settlement amount that is different from the \$16.3 million reported could have a significant impact on the future operating results of Health PEI.

10.10 Subsequent to our inquiry with Health PEI about the potential impairment of pandemic inventory, it was determined that the carrying values of several pandemic inventory items were overstated and not recorded at the lower of moving average and replacement cost, as per the accounting policy. The carrying value of pandemic inventory was reduced by \$2.9 million, roughly half of its initially recorded value at year end. This impacted the operating results of Health PEI and indicated that an adequate review of inventory valuation was not completed by Health PEI prior to our inquiry.

10.11 The Prince Edward Island Self-Insurance and Risk Management Fund has an estimated reserve for unsettled claims. During our audit, we identified an unsettled property claim of \$260,000 that was not included in the reserve. This is similar to an item noted in the 2021 fiscal year when we identified an automobile claim in the amount of \$750,000 that was also missed in setting up the reserve at year end. The omission of such claims results in the reserve recorded in the draft financial statements being inaccurate at year end.

10.12 As part of our audit of the Public Trustee, we continued to note accounting concerns related to the accuracy of year end information provided for audit and the application of accounting policies, which

contributed to many audit adjustments totaling over \$1.5 million.

10.13 During our audit of the Prince Edward Island Agricultural Insurance Corporation, we continued to identify several issues related to the calculation of the AgriStability accrual resulting in an audit adjustment of \$283,000.

Compliance Issues

10.14 Governments have objectives and establish regulations, policies, and procedures to clearly communicate expectations. We noted several compliance issues during our financial statement audits. These issues related to compliance with legislation and Treasury Board policies. Similar to the prior year, a common compliance issue identified was the late filing of annual reports by reporting entities, so we have continued to report on this issue in a separate section below.

10.15 We identified that Health PEI's business and strategic plans were not submitted to the Minister for approval prior to the start of the 2022 fiscal year, as required by the *Health Services Act*. Health PEI's Board of Directors is responsible for approving the business and strategic plans prior to submission to the Minister. The business plan for 2021-22 was not approved until April 7, 2022, subsequent to the year it pertained to. The Board also did not approve the 2021-2024 strategic plan until October 7, 2021. These documents set out strategic objectives, performance measures, targets, and key tactical actions for Health

PEI and should be approved in a timely manner.

10.16 We continued to note compliance issues with grant funding arrangements of the Prince Edward Island Lotteries Commission. The Commission provides grants of approximately \$4 million to the harness racing industry. These grants are provided on an annual basis without signed agreements in place. Signed funding agreements are important as they outline the agreed upon terms for all parties, and can also offer protection if either party fails to meet the terms of the agreement. In addition, Treasury Board policy was not followed as many of these grants were over the threshold requiring Treasury Board approval, which was not obtained.

10.17 The *Public Trustee Act* states that all property held by the Public Trustee and not claimed within five years after the death of a client is to be converted to cash and paid to the Province. During our audit of the Public Trustee, we noted 44 trust balances for clients who have been deceased for more than five years. These trust balances totaled approximately \$480,000 and were not paid out to the Province in accordance with the Act.

Internal Control Weaknesses

10.18 Internal controls help to ensure transactions are appropriately recorded and authorized. They also help to ensure business processes are operating as intended. Weaknesses in internal controls can expose an entity to business and financial risks. The most significant internal control issues identified

related to the lack of timely resolution and collection of receivables, rebates and potential recoveries along with insufficient investment strategies for excess funds.

- 10.19 Health PEI receives drug product rebates on eligible drug purchases. During our audit, it was determined that Health PEI is a year behind in billing suppliers for these rebates. This lack of timely billing has resulted in the slower collection of funds owed to Health PEI. It has also resulted in an estimated accrual at year end to record drug product rebates receivable, which is less accurate than an accrual based on actual billings.
- 10.20 Our prior year audit of Health PEI identified potential overpayments to a group of physicians that were not in compliance with the Master Agreement. These potential overpayments mainly related to premiums billed for emergency services that were non-emergency situations in accordance with the Master Agreement. Since premiums billed for emergency services by this group of physicians increased significantly over the last few years, Health PEI's Audit Advisory Committee approved an audit plan in January 2022 to examine potential overpayments of these premiums. This audit has been delayed in part due to a vacant physician claims auditor position. Timely completion of this audit is required to ensure that any potential recoveries can be made.
- 10.21 Internal control issues were again identified relating to the timeliness of reporting. The Prince Edward Island Housing Corporation is required to submit audited financial reports to the Canadian Mortgage and Housing Corporation (CMHC) in order to receive

funding in a timely manner. As at March 31, 2022, the Corporation was behind on the submission of these reports resulting in approximately \$12 million being withheld by CMHC related to old years.

- 10.22 The Prince Edward Island Crown Building Corporation was established in 1974 and has many objectives including the ability to: purchase, lease, exchange, construct, maintain, alter and sell property, borrow, remunerate, and invest funds. The Corporation has been inactive with no financial transactions since 2012. The Corporation's Board of Directors has not held a formal meeting, that we are aware of, since 1997. Operating an inactive company creates an unnecessary administrative burden. If there are no plans to utilize the Corporation, we suggest that it be wound up with the assets transferred to the Province.
- 10.23 At year end, the Prince Edward Island Agricultural Insurance Corporation held approximately \$39 million in its bank account. A significant portion of these funds was deemed to be excess based on operational requirements of the Corporation. In accordance with the *Agriculture Insurance Act*, such funds may be invested in accordance with the rules under the *Financial Administration Act*. However, excess funds were not invested during fiscal 2022 resulting in potential lost income to the Corporation.

- 10.24 As noted in the prior year, the Supreme Court of Prince Edward Island lacks internal policies and procedures that would provide guidance regarding funds paid into court and held in trust. Funds held in trust earn interest through bank accounts and

investment with the Province. There are no specific policies in place for how to invest these funds, which would set clear expectations on how to maximize earnings. Also, the interest earned has grown to \$204,000 and is included with the cash balance and reported as the accumulated surplus of the Supreme Court Trust Accounts. No guidelines have been established to specify the intended use of the growing accumulated surplus funds.

Annual Reporting

10.25 During our audits, we continued to identify a common issue among reporting entities and government departments related to the timeliness of annual report publishing. Our review of annual reporting compliance includes all reporting entities of the Province. Annual reports serve as accountability documents to permit stakeholders to assess the performance of departments and reporting entities, and the results achieved for money spent. The *Financial Administration Act* requires that annual reports of reporting entities be made public within six months of the financial year end. Reporting entities are identified in the *Financial Administration Act* under schedules B, C and D.

10.26 Based on our review, 22 of 25 reporting entities did not meet their most recent annual reporting deadline. Also, as of January 31, 2023, 5 reporting entities have yet to publish an annual report for their most recent fiscal year. Some reporting entities are even further behind in their reporting. As of January 31, 2023, the following entities have not published annual

reports beyond the 2020 fiscal year: the Prince Edward Island Housing Corporation, the Prince Edward Island Agricultural Insurance Corporation, and the Employment Development Agency.

10.27 The Government departments are not reporting entities, as defined in the *Financial Administration Act*; however, they are subject to Treasury Board policies that have similar reporting requirements. As of January 31, 2023, only one government department has published an annual report for the most recent fiscal year. Our review of historical annual reports indicates that timely reporting has been an issue for the past number of years. As of January 31, 2023, the Department of Health and Wellness has still not issued an annual report since 2015, and the Department of Fisheries and Communities and the Department of Social Development and Housing have not issued an annual report since 2020.

External Audits

10.28 We reviewed all management letters issued to externally audited government entities during the reporting period and discussed certain items with the external auditors to obtain further clarification. A reportable issue identified during this review related to a lack of supporting documentation.

10.29 During payroll testing for the audits of the Prince Edward Island Liquor Control Commission and the Prince Edward Island Cannabis Management Corporation, it was noted that signed employment contracts were not in place for casual employees.

Employment contracts are important because they outline the terms and conditions of employment and can facilitate settlement in the event of a disagreement.

Follow-up

10.30 As part of our financial audits, we follow up on the issues included in our previous management letters to determine if those issues have been addressed. We acknowledge that management is working to address the noted issues and some progress is being made. However, sufficient work had not been completed by the audited entities at the time of our audits, to warrant removal of certain issues from our management letters. We encourage auditees to implement our recommendations.

11. Appropriations and Special Warrants – Highlights

What we did

- We examined the process around current and capital appropriations and special warrants.
- We provided a comparison of current and capital appropriations to actual expenditures for the fiscal year ended March 31, 2022.
- We listed in detail the appropriations made by special warrants up to January 31, 2023, applicable to the fiscal year ended March 31, 2022, and the purpose of such appropriations, as required by the *Audit Act*.

Why it's important

Government's annual spending authority is approved by Members of the Legislative Assembly through an appropriation act. Our work provides assurance that special warrants, transfers, and sequestrations comply with applicable legislation and Treasury Board policy.

What we found

- Special warrants for the March 31, 2022 fiscal year provided an additional \$121.4 million in authorized spending for current expenditures and an additional \$41.9 million for capital expenditures for a total of \$163.3 million.
- Special warrants were partially offset by \$31.0 million in additional revenue.
- Total special warrants, and special warrants net of revenue and sequestrations are significantly higher than in previous years.
- Consistent with prior years, expenditures were incurred for the year ended March 31, 2022 without special warrants being authorized, as required by the *Financial Administration Act*.
- Approximately \$40 million in late special warrants were issued between June 2022 and January 2023. Two additional late warrants are expected to be issued in February 2023, nearly a full year after the 2022 fiscal year ended.

11. Appropriations and Special Warrants

BACKGROUND

- 11.1 The *Appropriation Act (Current Expenditures) 2021* authorized \$2.3 billion in current expenditures for the fiscal year ended March 31, 2022. The *Appropriation Act (Capital Expenditures) 2021* authorized capital spending of \$195.9 million for the fiscal year ended March 31, 2022.
- 11.2 Authorization for a department/entity to exceed the initial amount set by an appropriation requires the issuance of a special warrant or the transfer of a previously appropriated amount.
- 11.3 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.
- 11.4 We examined the processes for recording current and capital appropriations for the fiscal year ended March 31, 2022. We also examined the approvals, processing, and recording of special warrants, appropriation transfers, and sequestrations made during the fiscal year. This chapter provides comments and recommendations resulting from our audit

work. 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 consolidated financial statements. For definitions of some of the more commonly used terminology, please refer to the Glossary at the back of this chapter.

OBSERVATIONS AND RECOMMENDATION

Special Warrants

- 11.5 **Appendix A** of this chapter provides a comparison of current and capital appropriations to actual expenditures for the fiscal year ended March 31, 2022. Our report includes all appropriations and special warrants authorized up to January 31, 2023 applicable to the fiscal year ended March 31, 2022.
- 11.6 For the fiscal year ended March 31, 2022, special warrants in the amount of \$121.4 million were issued for current expenditures, and special warrants in the amount of \$41.9 million were issued for capital expenditures. **Exhibit 11.1** provides a summary of these special warrants authorized up to January 31, 2023. The *Audit Act* requires the Auditor General to list in detail, appropriations made by special warrant and the purpose of such appropriations. This information is included in **Appendix B** of this chapter.

**EXHIBIT 11.1
SUMMARY OF SPECIAL WARRANTS
MARCH 31, 2022**

Department/Entity	Special Warrants
Current:	
Agriculture and Land	\$ 11,829,000
Economic Growth, Tourism and Culture	5,570,500
Education and Lifelong Learning	20,620,000
Executive Council	450,000
Fisheries and Communities	675,000
General Government	40,000,000
Health and Wellness	5,869,000
Social Development and Housing	12,627,500
Tourism PEI	1,286,400
Transportation and Infrastructure	22,490,000
Total Current	121,417,400
Capital:	
Agriculture and Land	26,500
Economic Growth, Tourism and Culture	4,597,000
Education and Lifelong Learning	13,270,000
Transportation and Infrastructure	24,030,700
Total Capital	41,924,200
Total Special Warrants	\$163,341,600

Source: Orders-In-Council

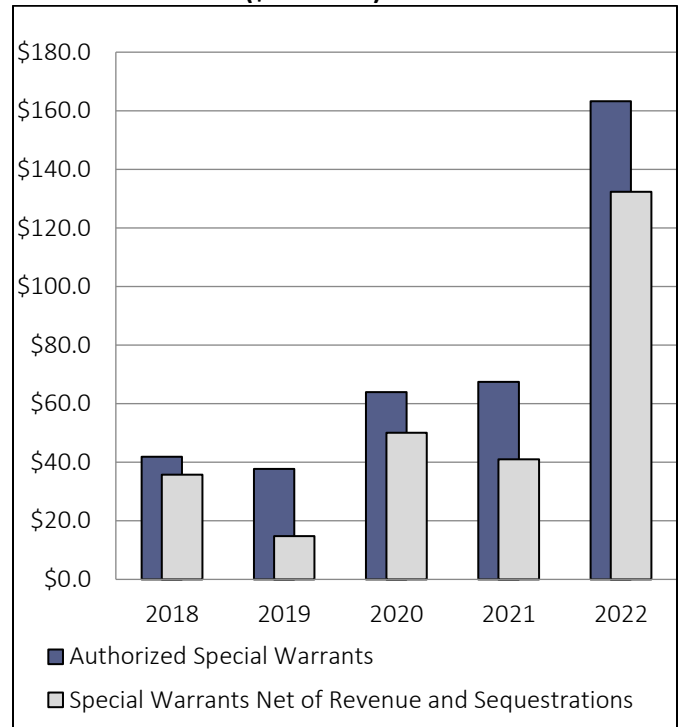
11.7 Special warrants were partially offset by \$31.0 million in additional revenue. There were no sequestrations made relating to the March 31, 2022 fiscal year.

11.8 There is a need for two additional current special warrants in the amount of approximately \$3.2 million to cover General Government and Health PEI expenditures. These current special warrants are outstanding and are expected to receive authorization subsequent to our reporting date of January 31, 2023.

11.9 Total authorized special warrants, and special warrants net of revenue and sequestrations, for each of the last five years are presented in **Exhibit 11.2**. Total special warrants, and special warrants net of

revenue and sequestrations are significantly higher this year than in previous years.

**EXHIBIT 11.2
SPECIAL WARRANTS
YEAR ENDED MARCH 31
(\$ Millions)**



	2018	2019	2020	2021	2022
Authorized Special Warrants	\$41.9	\$37.7	\$63.9	\$67.4	\$163.3
Revenue and Sequestrations	(6.1)	(22.9)	(13.8)	(26.4)	(31.0)
Special Warrants Net of Revenue and Sequestrations	<u>\$35.8</u>	<u>\$14.8</u>	<u>\$50.1</u>	<u>\$41.0</u>	<u>\$132.3</u>

Source: Orders-In-Council

Delay in Issuing Special Warrants

11.10 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.

11.11 Consistent with prior years, our audit identified instances where special warrants were not authorized prior to the expenditure being incurred. There were eight late special warrants required to cover overspending for the March 31, 2022 fiscal year. Two of the late special warrants were not authorized prior to our reporting date of January 31, 2023, and therefore were not included in this report. They are expected to be authorized in February 2023, which is nearly a full year after the 2022 fiscal year ended. The other six late special warrants, issued subsequent to the related expenditures being incurred, totalled approximately \$40 million and were authorized by Orders-In-Council between June 2022 and January 2023.

Recommendation

11.12 In accordance with the *Financial Administration Act*, special warrants should be obtained prior to expenditures being incurred, when the authorized appropriation will be exceeded.

11.13 We have discussed our findings and recommendation with the Treasury Board Secretariat.

CURRENT APPROPRIATIONS

	APPROPRIATION ACT 2021	SPECIAL WARRANTS	TOTAL APPROPRIATIONS	EXPENDITURES 2022	UNDER/(OVER) EXPENDITURES 2022
CURRENT					
AGRICULTURE AND LAND	\$ 38,906,700	\$ 11,829,000	\$ 50,735,700	\$ 47,580,562	\$ 3,155,138
AUDITOR GENERAL	2,671,600	-	2,671,600	2,227,142	444,458
ECONOMIC GROWTH, TOURISM AND CULTURE	39,980,700	5,570,500	45,551,200	42,552,465	2,998,735
EDUCATION AND LIFELONG LEARNING	421,714,000	20,620,000	442,334,000	442,305,561	28,439
EMPLOYEE BENEFITS	69,590,000	-	69,590,000	62,881,160	6,708,840
EMPLOYMENT DEVELOPMENT AGENCY	5,936,000	-	5,936,000	5,609,476	326,524
ENVIRONMENT, ENERGY AND CLIMATE ACTION	77,093,800	-	77,093,800	69,563,619	7,530,181
EXECUTIVE COUNCIL	9,973,700	450,000	10,423,700	9,840,664	583,036
FINANCE	65,169,600	-	65,169,600	60,278,694	4,890,906
FISHERIES AND COMMUNITIES	40,855,600	675,000	41,530,600	41,469,745	60,855
GENERAL GOVERNMENT	65,272,500	40,000,000	105,272,500	105,545,795	(273,295)
HEALTH AND WELLNESS	63,921,500	5,869,000	69,790,500	67,498,622	2,291,878
HEALTH PEI	782,260,600	-	782,260,600	785,101,839	(2,841,239)
INNOVATION PEI	47,301,500	-	47,301,500	44,791,063	2,510,437
ISLAND REGULATORY AND APPEALS COMMISSION	1,600,300	-	1,600,300	1,600,000	300
JUSTICE AND PUBLIC SAFETY	66,393,600	-	66,393,600	66,311,914	81,686
LEGISLATIVE ASSEMBLY	8,019,300	-	8,019,300	7,651,367	367,933
PEI PUBLIC SERVICE COMMISSION	8,575,600	-	8,575,600	8,325,164	250,436
SOCIAL DEVELOPMENT AND HOUSING	172,967,500	12,627,500	185,595,000	185,594,915	85
TOURISM PEI	22,362,300	1,286,400	23,648,700	23,647,091	1,609
TRANSPORTATION AND INFRASTRUCTURE	201,525,700	22,490,000	224,015,700	224,014,061	1,639
INTEREST CHARGES ON DEBT	<u>127,548,200</u>	<u>-</u>	<u>127,548,200</u>	<u>120,083,353</u>	<u>7,464,847</u>
TOTAL CURRENT	<u>\$2,339,640,300</u>	<u>\$121,417,400</u>	<u>\$2,461,057,700</u>	<u>\$2,424,474,272</u>	<u>\$36,583,428</u>

Expenditures are presented in accordance with the classifications in the Appropriation Acts 2021 and approved special warrants for the 2021/22 fiscal year. This format differs from the Province's Operating Fund financial statements.

CAPITAL APPROPRIATIONS

	APPROPRIATION ACT 2021	SPECIAL WARRANTS	TOTAL APPROPRIATIONS	EXPENDITURES 2022	UNDER EXPENDITURES 2022
CAPITAL					
AGRICULTURE AND LAND	\$ 50,000	\$ 26,500	\$ 76,500	\$ 76,402	\$ 98
ECONOMIC GROWTH, TOURISM AND CULTURE	5,550,000	4,597,000	10,147,000	10,060,779	86,221
EDUCATION AND LIFELONG LEARNING	28,275,600	13,270,000	41,545,600	35,097,970	6,447,630
ENVIRONMENT, ENERGY AND CLIMATE ACTION	1,756,000	-	1,756,000	1,143,056	612,944
FINANCE	10,618,100	-	10,618,100	7,676,353	2,941,747
FISHERIES AND COMMUNITIES	25,000	-	25,000	24,423	577
HEALTH AND WELLNESS	20,160,700	-	20,160,700	10,740,241	9,420,459
HEALTH PEI	28,544,100	-	28,544,100	19,862,394	8,681,706
JUSTICE AND PUBLIC SAFETY	13,595,000	-	13,595,000	9,260,757	4,334,243
SOCIAL DEVELOPMENT AND HOUSING	13,021,000	-	13,021,000	11,919,137	1,101,863
TRANSPORTATION AND INFRASTRUCTURE	<u>74,258,000</u>	<u>24,030,700</u>	<u>98,288,700</u>	<u>96,525,770</u>	<u>1,762,930</u>
TOTAL CAPITAL	\$ 195,853,500	\$ 41,924,200	\$ 237,777,700	\$ 202,387,282	\$35,390,418
GRAND TOTAL	<u>\$2,535,493,800</u>	<u>\$163,341,600</u>	<u>\$2,698,835,400</u>	<u>\$2,626,861,554</u>	<u>\$71,973,846</u>

Expenditures are presented in accordance with the classifications in the Appropriation Acts 2021 and approved special warrants for the 2021/22 fiscal year. This format differs from the Province's Operating Fund financial statements.

ORDER-IN-
COUNCIL

SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2022 FISCAL YEAR

AGRICULTURE AND LAND

EC2022-77 Feb 8, 2022	AGRICULTURE RESOURCES	
	Grants	\$10,200,000
	To fund the provincial portion of the PEI Potato Destruction Plan (2021 Crop) program.	
EC2022-119 Feb 15, 2022	AGRICULTURE RESOURCES	
	Grants	<u>1,629,000</u>
	To fund programs implemented during the year in support of potato producers impacted by the identification of potato wart on PEI.	
	Total Agriculture and Land	<u>\$11,829,000</u>

ECONOMIC GROWTH, TOURISM AND CULTURE

EC2022-120 Feb 15, 2022	WORKFORCE DEVELOPMENT - SKILLSPEI	
	Grants – Labour Market Development Agreement	\$ 1,370,500
	WORKFORCE DEVELOPMENT - SKILLSPEI	
	Grants – Labour Market Provincial Funds	<u>4,200,000</u>
	Total Economic Growth, Tourism and Culture	<u>\$ 5,570,500</u>
	To fund programs for workers directly impacted by the ban on the export of table and seed potatoes to US markets and additional Canada-PEI Labour Market Development Agreement programming, partially offset by federal revenue of \$1,370,500.	

EDUCATION AND LIFELONG LEARNING

EC2022-121 EARLY CHILDHOOD DEVELOPMENT

Feb 15, 2022

Administration	\$ 40,000	
Grants – Health and Social Services	8,785,000	
Materials	172,000	
Professional Fees	360,000	
Salary	543,000	
Travel	<u>20,000</u>	\$9,920,000

To fund programs and activities implemented as a result of signing the Canada Wide Early Learning and Child Care Agreement, fully offset by federal revenue of \$9,920,000.

EC2022-788 EXTERNAL RELATIONS AND EDUCATIONAL SERVICES

Oct 18, 2022

Grants – Education, Sports and Community Service	\$ 725,000	
Professional Services	325,000	

GRANTS TO PUBLIC SCHOOLS

Salaries	5,404,000	
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POST-SECONDARY AND CONTINUING EDUCATION

Grants – Education, Sports and Community Service	<u>4,246,000</u>	<u>10,700,000</u>
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To fund expenditures related to the School Healthy Food Program; UPEI for planning and start-up costs for the new medical school, the expansion of the faculty of nursing, the expansion of the health and wellness clinic; and for year-end salary accruals.

Total Education and Lifelong Learning		<u>\$20,620,000</u>
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ORDER-IN-COUNCIL SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2022 FISCAL YEAR

EXECUTIVE COUNCIL

EC2022-122 Feb 15, 2022	EXECUTIVE COUNCIL OFFICE	
	Grants – Education, Sports and Community Services	\$ 50,000
	INDIGENOUS RELATIONS SECRETARIAT	
	Grants	250,000
	Grants – Education, Sports and Community Services	75,000
	Grants – Native Council of PEI	50,000
	Professional Services	<u>25,000</u>
	Total Executive Council	<u>\$450,000</u>

To fund grants in support of the Murdered and Missing Indigenous Women and Girls Working Group and to support meaningful participation in the consultation process with the Crown.

FISHERIES AND COMMUNITIES

EC2022-505 June 30, 2022	MUNICIPAL AFFAIRS	
	Grants – Real Property Tax Credit	<u>\$675,000</u>

To fund expenditures related to the Real Property Tax Credit Program due to higher property value assessments and more construction than expected.

ORDER-IN-COUNCIL SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2022 FISCAL YEAR

GENERAL GOVERNMENT

EC2021-834 Oct 12, 2021	COVID-19 RESPONSE AND RECOVERY CONTINGENCY	
	Grants – COVID-19 Contingency	\$15,000,000
	To fund additional expenditures from the COVID-19 Response and Recovery Contingency.	
EC2022-78 Feb 8, 2022	COVID-19 RESPONSE AND RECOVERY CONTINGENCY	
	Grants – COVID-19 Contingency	<u>25,000,000</u>
	To fund additional expenditures from the COVID-19 Response and Recovery Contingency.	
	Total General Government	<u>\$40,000,000</u>

HEALTH AND WELLNESS

EC2022-123 Feb 15, 2022	HEALTH POLICY AND PROGRAMS	
	Grants – Health and Social Services	\$ 4,269,000
	SPORT, RECREATION AND PHYSICAL ACTIVITY	
	Grants – Provincial Organizational Support	<u>1,600,000</u>
	Total Health and Wellness	<u>\$ 5,869,000</u>
	Funding to support the activities resulting from a Federal Safe Restart Agreement for long-term care and for data management, as well as additional funding provided to the Canada Games Host Society, partially offset by federal revenue of \$4,269,000.	

ORDER-IN-
COUNCIL

SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2022 FISCAL YEAR

SOCIAL DEVELOPMENT AND HOUSING

EC2022-124
Feb 15, 2022

HOUSING SERVICES

Grants – NGO Operating Grants/Subsidies	\$ 8,400,000	
Materials, Supplies and Services	64,900	

SOCIAL PROGRAMS

Grants – Accessibility Supports	798,900	
Grants – Community Grants	500,000	
Grants – Social Assistance Benefits	<u>1,285,400</u>	\$11,049,200

Funding to support housing grants, and the increase in the food allowance for the Social Assistance Program and AccessAbility Program.

EC2022-789
Oct 18, 2022

CHILD AND FAMILY

Grants – Supports for Children	\$ 535,700	
Salaries	453,900	

HOUSING SERVICES

Administration	227,000	
Materials, Supplies and Services	281,300	
Professional Services	<u>80,400</u>	<u>1,578,300</u>

To fund expenditures related to salaries and grants supporting children in the care of the province and increased operational costs supporting clients of the PEI Housing Corporation.

Total Social Development and Housing		<u>\$12,627,500</u>
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ORDER-IN-COUNCIL SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2022 FISCAL YEAR

TOURISM PEI

<p>EC2022-125 Feb 15, 2022</p>	<p>DIGITAL MARKETING</p> <p>Materials, Supplies and Services \$ 630,000</p> <p>GOLF COURSES</p> <p>Debt 25,000 Materials, Supplies and Services 250,000 Salaries 100,000</p> <p>PARKS OPERATIONS</p> <p>Administration 70,000 Equipment 60,000 Salaries 83,900</p> <p>STRATEGY AND EVALUATION</p> <p>Professional Services <u>67,500</u></p> <p>Total Tourism PEI <u>\$1,286,400</u></p>
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To fund additional marketing initiatives and additional costs related to higher than planned activities at Provincial Golf Courses and Parks, fully offset by ACOA funding and additional revenues from golf and park operations.

ORDER-IN-
COUNCIL

SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2022 FISCAL YEAR

TRANSPORTATION AND INFRASTRUCTURE

EC2022-575
July 19, 2022

BRIDGE MAINTENANCE

Bridge Supplies	\$ 825,000
Equipment Rentals	910,000
Road and Roadside Maintenance	1,175,000

INFRASTRUCTURE, POLICY, AND PLANNING

Grants – Infrastructure Program	10,025,000
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PROVINCIAL HIGHWAY MAINTENANCE OPERATIONS

Road and Roadside Maintenance	4,600,000	
Winter Salt	410,000	
Winter Sand	<u>1,255,000</u>	\$19,200,000

To fund additional infrastructure grants and municipal grants, small bridge repairs, winter salt and sand, and winter and summer contract services.

EC2023-42
Jan 17, 2023

INFRASTRUCTURE, POLICY, AND PLANNING

Grants – Infrastructure Program	<u>3,290,000</u>
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To fund year-end holdback adjustments relating to the City of Summerside solar farm installation, and Bell Canada and Xplornet Broadband projects, partially offset by federal revenue of \$2,090,000.

Total Transportation and Infrastructure	<u>\$ 22,490,000</u>
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TOTAL SPECIAL WARRANTS FOR CURRENT EXPENDITURES

\$121,417,400

ORDER-IN-
COUNCIL

SPECIAL WARRANTS FOR CAPITAL EXPENDITURES 2022 FISCAL YEAR

AGRICULTURE AND LAND

EC2022-118
Feb 15, 2022

CAPITAL

Vehicle Purchases – Light \$ 26,500

To fund the purchase of two vehicles.

ECONOMIC GROWTH, TOURISM AND CULTURE

EC2022-497
June 10, 2022

CAPITAL IMPROVEMENTS

Provincial Parks – Property Improvements \$ 4,597,000

To fund capital expenditures related to cost overruns, timing of project work, and project scope additions at Basin Head Provincial Park and Mark Arendz Provincial Ski Park, partially offset by Canada Games Host Society funding of \$1,165,400 and federal revenue of \$600,000.

EDUCATION AND LIFELONG LEARNING

EC2021-1002
Dec 7, 2021

BUS REPLACEMENTS

Vehicle Purchases – School Buses \$ 8,685,000

CAPITAL IMPROVEMENTS

School Construction and Renovations 4,585,000

Total Department of Education and Lifelong Learning \$13,270,000

To fund additional capital costs for school projects, the purchase of 35 electric school buses, and construction costs for Eliot River Elementary and École-Sur-Mer, partially offset by federal revenue of \$4,112,500.

ORDER-IN-
COUNCIL

SPECIAL WARRANTS FOR CAPITAL EXPENDITURES 2022 FISCAL YEAR

TRANSPORTATION AND INFRASTRUCTURE

EC2021-670
Aug 10, 2021

HIGHWAYS

Active Transportation	\$ 7,800,000	
Bridges	9,000,000	
National and Collector Highways	(3,100,000)	
Provincial Paving	<u>7,000,000</u>	\$20,700,000

To fund additional capital costs for highway construction, bridges, provincial paving and active transportation, partially offset by federal revenue of \$6,233,000. Funding of \$3.1 million has been reallocated from National and Collector Highways to Active Transportation and Bridges projects.

EC2022-126
Feb 15, 2022

CAPITAL - NON-ROAD

Capital Improvements – Highways	\$ 1,300,000	
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HIGHWAY EQUIPMENT

Equipment	1,260,000	
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LAND PURCHASES

Land	597,200	
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NEW BUILDING CONSTRUCTION

Capital Improvements – Buildings	<u>173,500</u>	<u>3,330,700</u>
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To fund land purchases associated with a federal funding agreement, enhanced infrastructure for point-of-entry screening in Borden, additional heavy fleet vehicles, and shoreline protection.

Total Transportation and Infrastructure		<u>\$24,030,700</u>
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TOTAL SPECIAL WARRANTS FOR CAPITAL EXPENDITURES	<u>\$41,924,200</u>
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TOTAL SPECIAL WARRANTS ISSUED FOR THE 2022 FISCAL YEAR	<u>\$163,341,600</u>
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GLOSSARY

Appropriation is the government authorized budget of each department/entity for the year. This is sometimes referred to as an appropriation vote for each department/entity.

Appropriation Act is the budget approval by the Legislative Assembly.

Appropriation transfers are transfers of appropriated funds either within a department/entity or from one department/entity to another.

Capital expenditures are incurred in the purchase and/or improvement of tangible capital assets owned by the Province and include land, buildings, roads, bridges, equipment, motor vehicles, and computer hardware and software.

Current expenditures are operating or non-capital expenditures of the Province that are consumed within the fiscal period. Examples of current expenditures are salaries and benefits, transfer payments, professional services, materials, supplies, and debt costs.

Order-In-Council is a public document issued by the Lieutenant Governor on the advice of the Executive Council directing that a certain action be undertaken under authority of legislation.

Sequestrations are transfers of appropriated funds into special accounts for the purpose of “freezing” funds. Treasury Board approval is required for transfers out of sequestration accounts.

Special warrants represent authorized spending above the original appropriation for a department/entity related to the fiscal period.

Special warrants, net of revenue, are special warrants that generate revenues resulting directly from the additional spending.

12. Indicators of Financial Condition – Highlights

What we did

- We presented summary financial information and key financial indicators of the Province for the last five fiscal periods.
- We provided commentary on the Province's 2022 audited financial results in comparison to budgeted amounts and the results of prior periods.
- We reported on a number of selected indicators of financial condition to assess the Province's sustainability, flexibility, and vulnerability.

Why it's important

The condition of the Province's finances is important. It affects all residents of the Province through the levels of taxation, government spending, services provided, and the provincial economy. This chapter presents information to assist legislators, the public, and other users to better understand the financial condition of the Province.

What we found

- The Province reported a surplus of \$83.8 million in 2021-22. This was a significant difference from the originally budgeted deficit of \$112.1 million. The Province's economy performed better than expected, which led to significantly higher provincial tax revenues.
- As at March 31, 2022, the net debt of the Province reached its highest level ever at \$2.3 billion. This represents an increase of \$9.5 million during the year and \$185.3 million since 2019.
- Despite the continued growth in net debt, the ratios of net debt to GDP and net debt to total revenues reached the lowest levels over the last five years due to the overall positive performance of the economy during the year.
- Net debt per capita also decreased for the first time in a few years from \$13,955 per person at March 31, 2021 to \$13,526 per person at March 31, 2022.
- Expenses as a percentage of GDP decreased for the first time since 2018. This is due to growth in the economy exceeding growth in government spending during the fiscal period.

12. Indicators of Financial Condition

BACKGROUND

12.1 Several resources are used in assessing the financial condition of a province. The Public Sector Accounting Board's Statement of Recommended Practice suggests a number of indicators to assist in assessing a government's financial condition. These indicators help provide insight into a 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 discuss a number of these indicators in this chapter.

12.2 Consolidated financial statements are helpful to provide an overview of the financial condition of a province at its year-end, compared to the budget and prior period. However, financial statements do not provide a complete perspective on how a province is performing in relation to the overall economic and fiscal environments. To assist users in understanding the financial condition of the Province, we provide information on a number of indicators of financial condition.

12.3 This current update provides financial information and indicators for the last five fiscal periods. 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. For definitions of some of the more commonly used terminology,

please refer to the Glossary at the back of this chapter.

SUMMARY FINANCIAL INFORMATION

Financial Highlights

12.4 **Exhibit 12.1** summarizes the Province's financial position and operating results for the last five years.

EXHIBIT 12.1 SUMMARY FINANCIAL INFORMATION YEAR ENDED MARCH 31 (\$ Millions)

	2018	2019	2020	2021	2022
Financial Assets	\$1,114.6	\$1,119.1	\$1,365.1	\$1,687.4	\$1,935.7
Liabilities	3,243.5	3,242.6	3,570.1	3,986.7	4,244.5
Net Debt	(2,128.9)	(2,123.5)	(2,205.0)	(2,299.3)	(2,308.8)
Non-Financial Assets	1,067.1	1,111.5	1,197.5	1,308.9	1,415.0
Accumulated Deficit	(\$1,061.8)	(\$1,012.0)	(\$1,007.5)	(\$ 990.4)	(\$ 893.8)
Revenues	\$1,987.1	\$2,078.7	\$2,187.6	\$2,364.6	\$2,652.7
Expenses	1,912.5	2,021.7	2,165.6	2,370.2	2,568.9
Annual Surplus (Deficit)	\$ 74.6	\$ 57.0	\$ 22.0	\$ (5.6)	\$ 83.8
Nominal Gross Domestic Product*	\$6,790.0	\$6,983.0	\$7,440.0	\$7,546.0	\$8,627.0

Source: Derived from the Province's consolidated financial statements.

*Statistics Canada, published November 8, 2022.

Net Debt

12.5 An important and widely accepted measure of the financial condition of government 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.

- 12.6 Net debt increased during the year by \$9.5 million and was \$2.3 billion as at March 31, 2022. The increase in net debt was mainly due to an increase in the net investment in tangible capital assets of \$105.2 million, which is offset by the annual surplus of \$83.8 million and other comprehensive income of \$12.8 million.
- 12.7 Net debt continues to rise and sits at its highest level ever. The tabled Estimates of Revenue and Expenditure for 2022-23 are forecasting net debt to reach \$2.9 billion by March 31, 2025.

Financial Assets and Liabilities

- 12.8 **Exhibit 12.1** shows that financial assets increased by \$248.3 million since March 31, 2021. The main reasons for this increase were additional investments in short-term holdings in the Province's liquidity reserve and an increase in receivables from the Government of Canada. The Province increased its investment in the liquidity reserve by \$111.6 million to maximize interest-rate opportunities available during the fiscal period. The Government of Canada receivables increased by \$75.8 million due to more claims filed by the Province for the Investing in Canada Infrastructure Program and additional corporate income tax and sales tax assessed as owing to the Province.
- 12.9 **Exhibit 12.1** also shows that total liabilities have increased by \$257.8 million since March 31, 2021. The main reasons for the increase were debentures increasing by \$179.4 million and an increase in deferred

revenue of \$56.0 million. New debentures were used to fund the Province's operating spending, investments in capital assets and the liquidity reserve. An increase in deferred revenue was due to the receipt of federal funding for use on eligible future projects.

- 12.10 As at March 31, 2022, the Province had outstanding short-term loans payable, long-term loans payable, and debentures totalling \$3.68 billion. These government borrowings are partially offset by sinking fund assets of \$339.0 million.

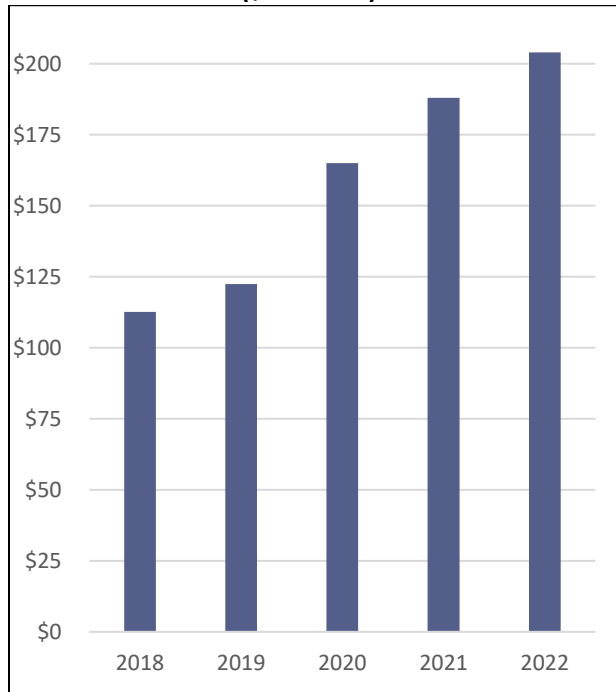
Non-Financial Assets

- 12.11 Non-Financial assets increased by \$106.1 million since March 31, 2021. Most of the increase is from the investments in tangible capital assets and includes upgrades and new construction related to buildings, roads, and bridges.

Tangible Capital Assets

- 12.12 Tangible capital assets include land and improvements, buildings and improvements, leasehold improvements, roads and bridges, equipment, motor vehicles and other assets. The increase in tangible capital assets for the year ended March 31, 2022 was due to tangible capital asset additions of \$204.7 million, which was partially offset by \$98.8 million of amortization expense for tangible capital assets. **Exhibit 12.2** shows the Province's total tangible capital asset additions from 2018 to 2022. Capital asset additions have continued to grow, and they are a key contributor to the increasing net debt levels.

**EXHIBIT 12.2
TOTAL TANGIBLE CAPITAL ASSET ADDITIONS
YEAR ENDED MARCH 31
(\$ Millions)**



	2018	2019	2020	2021	2022
Tangible Capital Asset Additions	\$112.6	\$122.4	\$165.0	\$188.0	\$204.7

Source: Derived from the Province's consolidated financial statements.

12.13 Although capital spending continues to increase, actual capital spending was still significantly lower than the authorized capital spending including special warrants totalling \$237.8 million, as noted in Chapter 11. This was due to delays in various capital projects including:

- The Department of Health and Wellness was underspent by nearly \$9.4 million mainly due to delays related to the electronic medical records project and the new Mental Health & Addictions Campus;

- Health PEI was underspent by \$8.7 million because of delays related to construction projects at Island hospitals;
- The Department of Education and Lifelong Learning was underspent by \$6.4 million due to delays in construction and renovations for several schools; and
- The Department of Justice and Public Safety was underspent by \$4.3 million due to delays in construction of the women's unit at the Provincial Correctional Center.

Annual Surplus/Deficit

12.14 The annual surplus/deficit indicates the extent to which a government spends more or less than what is generated in revenue in a particular year. It indicates whether a government is living within its means.

12.15 For the year ended March 31, 2022, the Province had a surplus of \$83.8 million. This surplus was a significant turnaround from the original budgeted deficit of \$112.1 million, and the subsequently forecasted deficit of \$26.5 million based on preliminary results published in February 2022. The explanations for higher than budgeted surplus are provided in the following sections.

Revenues

12.16 Revenues increased by \$288.1 million from the prior period. The increase was due largely to higher tax revenues of \$189.8 million and additional federal revenues of \$65.5 million.

12.17 The increase in tax revenues was driven by higher personal income tax, corporate income tax and sales tax revenues. The

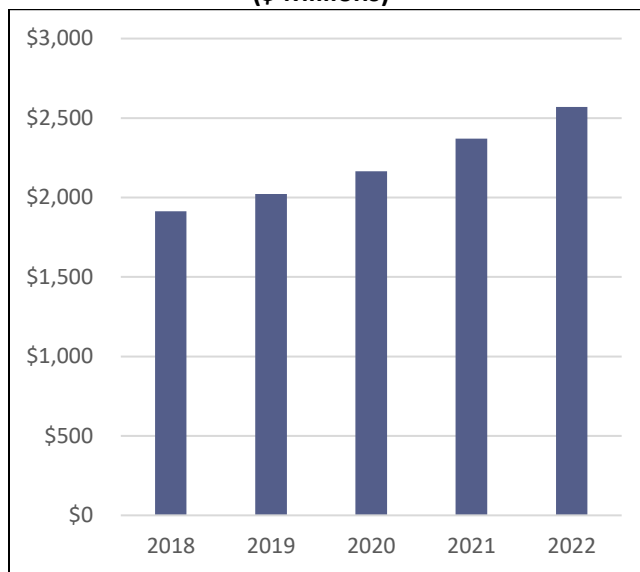
increase in the tax revenues was due to a stronger than expected economic recovery from the COVID-19 pandemic, which is supported by the rise in the nominal gross domestic product (GDP) totals during the year. The increase in federal revenues was largely due to additional infrastructure projects along with higher equalization payments from the Federal Government.

Expenses

12.18 Expenses increased by \$198.7 million from the prior year mainly due to additional spending by the departments of Transportation and Infrastructure and Health and Wellness. The Department of Transportation and Infrastructure incurred increased expenditures of \$60 million during the year, mostly resulting from additional infrastructure projects which are cost shared with the Federal Government. The Department of Health and Wellness contributed to \$54.1 million of the increase, which was largely due to higher compensation costs at Health PEI and funding for the 2023 Canada Games.

12.19 Expenses have risen by \$656.4 million since 2018 as more demands are being placed on government programs and services. **Exhibit 12.3** shows the total expenses from 2018 to 2022.

EXHIBIT 12.3
TOTAL EXPENSES
YEAR ENDED MARCH 31
(\$ Millions)



	2018	2019	2020	2021	2022
Total Expenses	\$1,912.5	\$2,021.7	\$2,165.6	\$2,370.2	\$2,568.9

Source: Derived from the Province's consolidated financial statements.

Budget to Actual

12.20 **Exhibit 12.4** provides a summary breakdown of the change between the deficit originally budgeted to the surplus actually realized.

EXHIBIT 12.4
CHANGE IN ANNUAL SURPLUS (DEFICIT)
BUDGET TO ACTUAL
YEAR ENDED MARCH 31, 2022
(\$ Millions)

	Revenues	Expenses	Surplus (Deficit)
2021-22 Budget	<u>\$2,391.9</u>	<u>\$2,504.0</u>	<u>\$(112.1)</u>
Increase (decrease) in:			
<i>Revenues</i>			
Tax revenues	186.5	-	186.5
Government of Canada transfers	34.5	-	34.5
Other income	11.6	-	11.6
Other provincial revenues	28.2	-	28.2
<i>Expenses</i>			
Agriculture and Land	-	(14.1)	14.1
Education and Lifelong Learning	-	22.6	(22.6)
Finance	-	31.2	(31.2)
Social Development and Housing	-	12.7	(12.7)
Transportation and Infrastructure	-	22.7	(22.7)
Other program expenses	-	(3.2)	3.2
Interest and Amortization	-	(7.0)	7.0
Total Change	<u>260.8</u>	<u>64.9</u>	<u>195.9</u>
2021-22 Actual	<u>\$2,652.7</u>	<u>\$2,568.9</u>	<u>\$83.8</u>

Source: Derived from the Province's consolidated financial statements.

Budget to Actual Revenues

12.21 Overall, revenues were \$260.8 million higher than the amount originally budgeted. Higher tax revenues, Government of Canada transfers, other income and other provincial revenues were the main reasons for this increase.

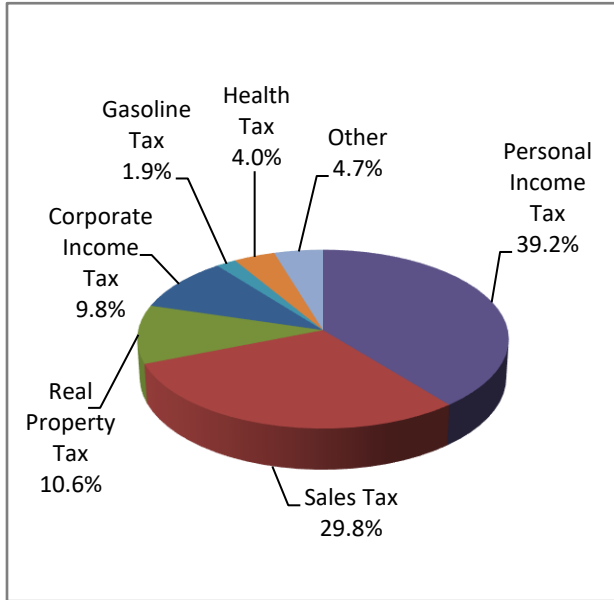
12.22 Tax revenues were \$186.5 million higher than the amount originally budgeted. The majority of the increase was attributable to higher than expected personal and corporate income tax, and sales tax revenues.

12.23 The budget for 2021-22 fiscal year was published in March 2021 and it underestimated the actual tax revenues by a significant amount. The budget was based on the available information at the time it was published, which included projections for a slowdown in the economy, tax revenues and GDP for 2021-22. These projections were supported by Statistics Canada and the Federal Government's Department of Finance.

12.24 Personal and corporate income tax revenues were \$98.4 million and \$37.8 million above budget respectively, while the sales tax revenues were \$53.4 higher than the budgeted figures. The provincial economy is the main driver of tax revenues and it performed much better than projected. The growth in the economy was mainly due to increased household spending which is attributable to increases in our population due to immigration and internal migration from other provinces. As border restrictions and other COVID-19 measures eased during the fiscal year, imports and exports of goods and services was also higher than expected.

12.25 Provincial tax revenues are the largest source of revenue for the Province and totalled \$1.3 billion for the year ended March 31, 2022. **Exhibit 12.5** shows the sources of provincial tax revenues for the year ended March 31, 2022.

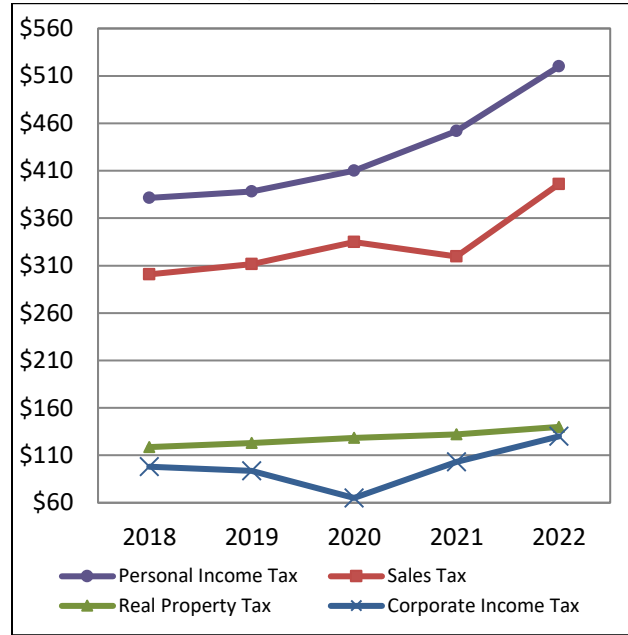
**EXHIBIT 12.5
PROVINCIAL TAX REVENUES
BY SOURCE
YEAR ENDED MARCH 31, 2022**



Source: Derived from the Province's consolidated financial statements.

12.26 **Exhibit 12.6** shows the tax revenues for the four largest sources from 2018 to 2022. Personal income tax and real property tax revenues have continued their upward trend. Sales tax and corporate income tax revenues are also on an upward trend after experiencing some declines in the recent years.

**EXHIBIT 12.6
TAX REVENUES
YEAR ENDED MARCH 31
(\$ Millions)**



	2018	2019	2020	2021	2022
Personal Income Tax	\$381.4	\$388.1	\$409.9	\$451.9	\$520.2
Sales Tax	\$300.8	\$311.6	\$334.9	\$319.5	\$396.2
Real Property Tax	\$118.7	\$123.1	\$128.4	\$132.2	\$140.5
Corporate Income Tax	\$ 98.1	\$ 93.6	\$ 65.1	\$103.1	\$130.3

Source: Derived from the Province's consolidated financial statements.

12.27 Revenue from the Government of Canada totalled \$1.0 billion for the year ended March 31, 2022. This represents an increase of \$34.5 million from the amount budgeted. The following are the areas where significant variances from budget were identified:

- COVID-19 response and recovery federal funding was over budget by \$37.4 million. Only \$3.1 million was included in the original budget for COVID funding

due to a lack of Federal commitment when the budget was prepared, resulting in federal funding for COVID-19 increasing to \$40.5 million in the fiscal year 2022, because of continuous outbreaks and lock down measurements;

- New Deals for Cities and Communities funding and capital funding were over budget by \$12.5 million and \$7.5 million respectively, mostly due to additional federal government funding not being included in the original budget; and
- Budget overages were partially offset by Investing in Canada Infrastructure Program funding which was under budget by \$32.6 million. This was largely due to various delays in the progress of infrastructure projects, which had a direct impact on the amount of federal funding received.

12.28 Other income was \$11.6 million higher than the amount originally budgeted. This was attributable to the following increases at Health PEI:

- An unexpected employer rebate was received from the Workers Compensation Board; and
- Higher than expected contributions were received from the Queen Elizabeth Hospital Foundation for capital purchases.

Budget to Actual Expenses

12.29 Expenses were \$64.9 million higher than budgeted in 2021-22. The following are areas where significant variances from budget were identified:

- Expenses were \$22.6 million higher than budgeted for the Department of Education and Lifelong Learning. This was mainly due to new investments through the Early Learning and Childcare Agreement in collaboration with the Government of Canada, the start-up costs for the new medical school, and additional salary accruals;
- Expenses were \$31.2 million higher than budgeted for the Department of Finance. This was mainly due to additional funding of the COVID-19 programs through the COVID-19 Response and Recovery Contingency;
- Expenses were \$22.7 million higher than budgeted for the Department of Transportation and Infrastructure due to increased infrastructure grants to municipalities, and additional spending necessary to maintain the safety of roads, bridges and equipment;
- Expenses were \$12.7 million higher than budget for Social Development and Housing due to more housing grants provided than anticipated; and
- The budget overages were partially offset by the Department of Agriculture and Land which was under budget by \$14.1 million, due to lower than expected claims under the AgriInsurance and AgriStability programs.

FINANCIAL INDICATORS

12.30 Consistent with prior years, we continue to provide information on a number of selected indicators of financial condition. We provide indicators that help assess the

Province's sustainability, flexibility, and vulnerability.

Sustainability

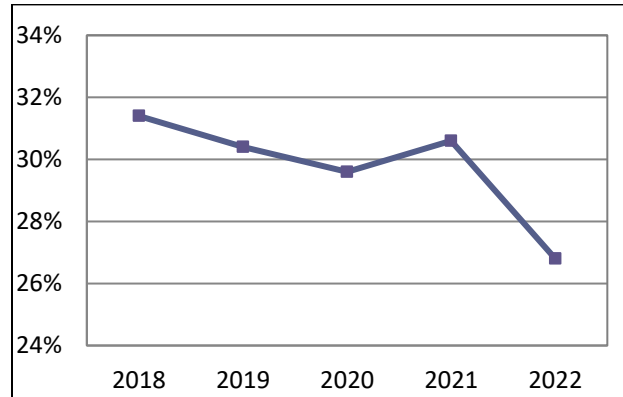
12.31 Sustainability is an important indicator to include in an assessment of financial condition because it shows the extent to which programs and services can be maintained, and existing creditor, employee, and other obligations can be met without increasing the debt or tax burden.

Sustainability is a significant consideration because of its potential impact on current and future generations.

Net Debt to GDP

12.32 Net debt to GDP provides a measure of the financial demands placed on the economy by the Province's spending and taxation policies. A decreasing ratio indicates net debt is growing at a rate slower than the growth in the economy. The Province's net debt to GDP ratio declined to its lowest point in the past five years after a slight increase in 2021, as shown in **Exhibit 12.7**.

EXHIBIT 12.7
NET DEBT TO GDP
YEAR ENDED MARCH 31

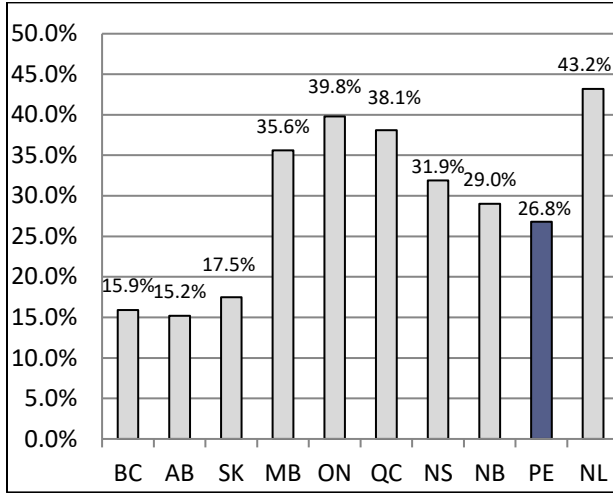


	2018	2019	2020	2021	2022
Net Debt to GDP	31.4%	30.4%	29.6%	30.5%	26.8%

Source: Derived from the Province's consolidated financial statements and GDP data from Statistics Canada, published November 8, 2022.

12.33 **Exhibit 12.8** compares the Province's net debt to GDP with the other Canadian provinces. As at March 31, 2022, PEI's net debt to GDP ratio was lower than six other provinces and higher than British Columbia, Alberta, and Saskatchewan.

EXHIBIT 12.8
NET DEBT TO GDP FOR CANADIAN PROVINCES
MARCH 31, 2022



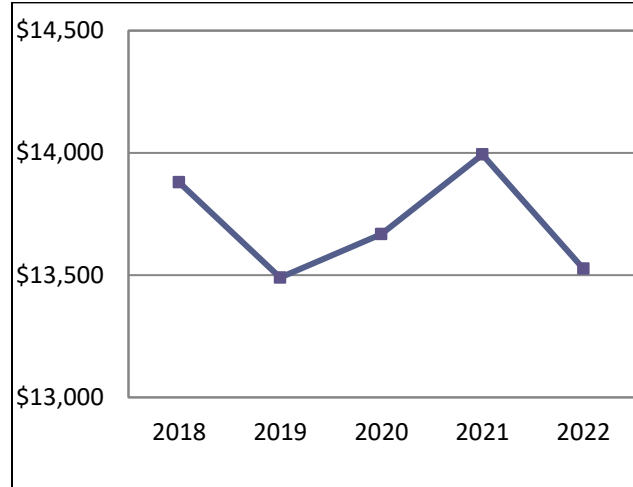
Source: Net debt derived from each province’s consolidated financial statements as at March 31, 2022 and GDP data from Statistics Canada, published November 8, 2022.

Net Debt per Capita

12.34 Net debt per capita is the amount of net debt attributable to each resident of the Province. The Province’s net debt per capita decreased by \$429 from the previous year.

12.35 **Exhibit 12.9** shows that the Province’s net debt per capita has decreased after increasing over the last few consecutive periods. This is a positive trend.

EXHIBIT 12.9
NET DEBT PER CAPITA
YEAR ENDED MARCH 31

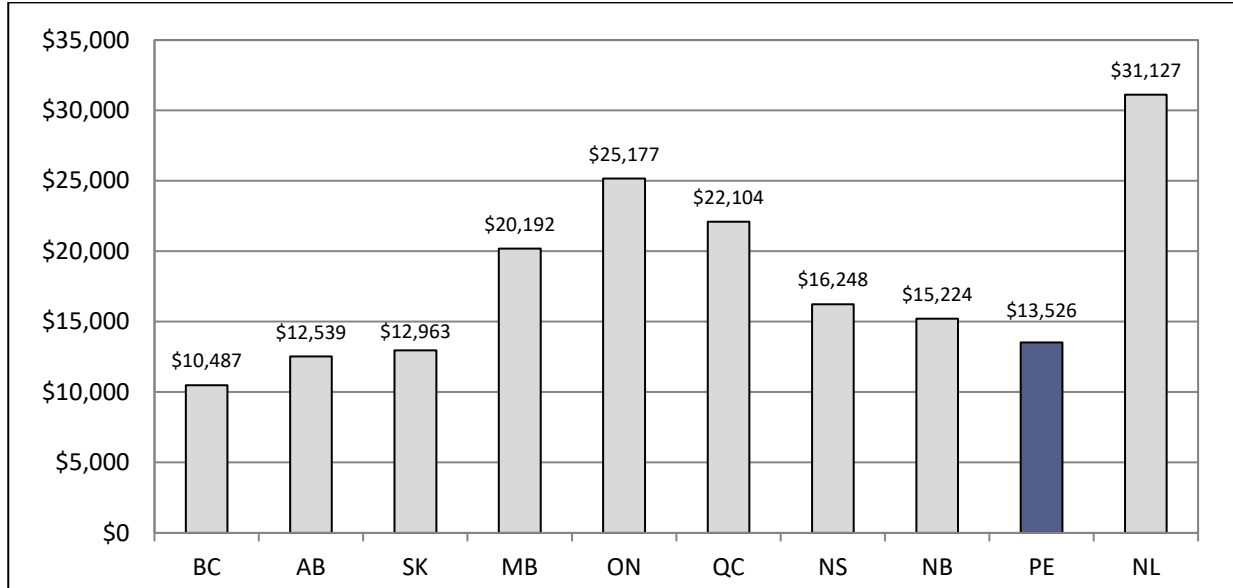


	2018	2019	2020	2021	2022
Net Debt per Capita	\$13,879	\$13,490	\$13,670	\$13,955	\$13,526

Source: Derived from the Province’s consolidated financial statements and population data from Statistics Canada, published September 28, 2022.

12.36 A comparison of PEI’s net debt per capita to the other Canadian provinces is provided in **Exhibit 12.10**. PEI’s net debt per capita ratio is more favorable than most provinces, other than British Columbia, Alberta, and Saskatchewan.

**EXHIBIT 12.10
NET DEBT PER CAPITA FOR CANADIAN PROVINCES
MARCH 31, 2022**

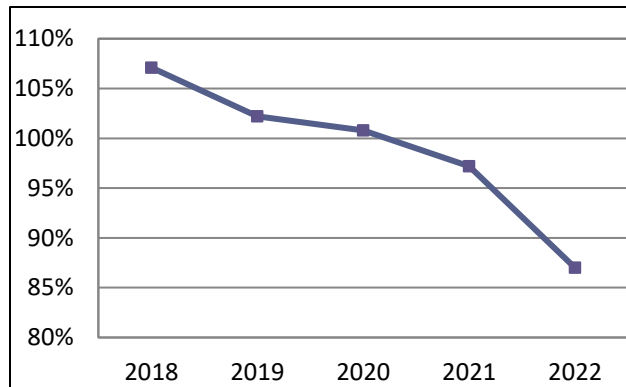


Source: Net debt derived from each province’s consolidated financial statements at March 31, 2022 and population data from Statistics Canada, published September 28, 2022.

Net Debt to Total Revenues

12.37 **Exhibit 12.11** depicts the ratio of net debt to total revenues. This ratio is a measure of the future revenue that will be required to pay for past transactions. The Province’s ratio has decreased significantly from 2018 to 2022, which is a positive trend.

**EXHIBIT 12.11
NET DEBT TO TOTAL REVENUES
YEAR ENDED MARCH 31**



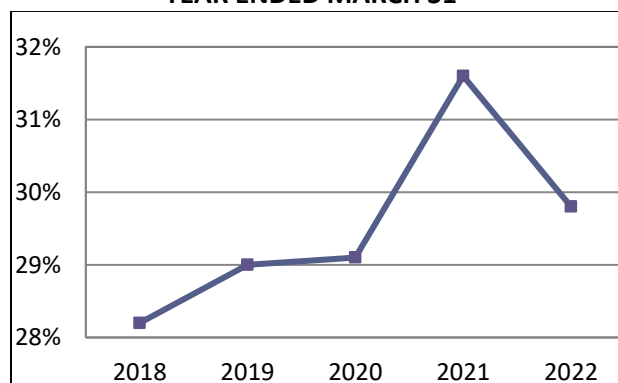
	2018	2019	2020	2021	2022
Net Debt to Total Revenues	107.1%	102.2%	100.8%	97.2%	87.0%

Source: Derived from the Province’s consolidated financial statements.

Expenses to GDP

12.38 During the 2022 fiscal year, government expenses increased by \$198.7 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. A decreasing ratio indicates government spending is growing at a rate slower than the growth in the economy. Expenses as a percentage of GDP decreased for the first time since 2018. This is due to growth in the economy exceeding growth in government spending. **Exhibit 12.12** shows the Province’s expenses to GDP on a comparative basis.

**EXHIBIT 12.12
EXPENSES TO GDP
YEAR ENDED MARCH 31**



	2018	2019	2020	2021	2022
Expenses to GDP	28.2%	29.0%	29.1%	31.4%	29.8%

Source: Derived from the Province’s consolidated financial statements and GDP data from Statistics Canada, published November 8, 2022.

Flexibility

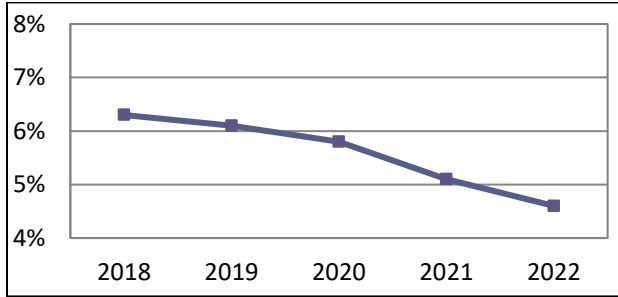
12.39 Flexibility is the degree to which a government can increase its financial resources to respond to rising commitments, by either incurring debt or raising additional revenue. A government meets the test of flexibility when it can respond to changing economic conditions, such as a recession or higher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

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

Interest Bite and Interest Charges

12.41 One measure of a government’s flexibility is what is known as the interest bite. This is the amount of annual interest charge as a percentage of total revenues and is shown in **Exhibit 12.13**. This indicator illustrates the extent to which past borrowing decisions constrain a government’s ability to provide programs and services in the future. The interest charges to total revenues ratio has continued to decline, which is a positive trend.

EXHIBIT 12.13
INTEREST CHARGES TO TOTAL REVENUES
YEAR ENDED MARCH 31



	2018	2019	2020	2021	2022
Interest Charges to Total Revenues	6.3%	6.1%	5.8%	5.1%	4.6%

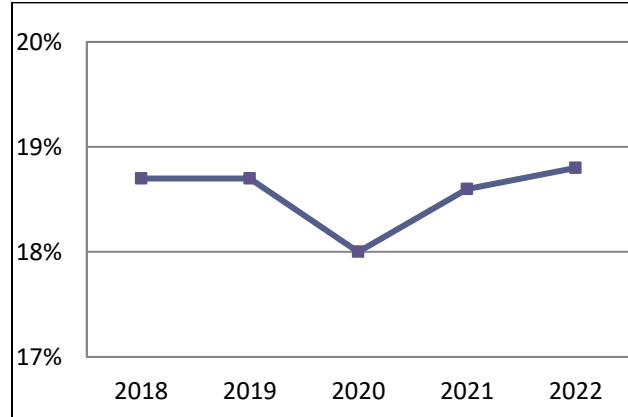
Source: Derived from the Province's consolidated financial statements.

12.42 Interest charges totalled \$121.0 million during 2021-22. This means the first \$121.0 million of revenue must be used to pay interest charges and is not available for government programs and services. While the Province operated in a low interest environment over the past few years, the interest rates have risen recently and interest charges have the potential to require a larger amount of future revenues.

Own Source Revenues to GDP

12.43 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 12.14** indicates the percentage increased slightly during the year, however it is comparable to the last few years.

EXHIBIT 12.14
OWN SOURCE REVENUES TO GDP
YEAR ENDED MARCH 31



	2018	2019	2020	2021	2022
Own Source Revenues to GDP	18.7%	18.7%	18.0%	18.5%	18.8%

Source: Derived from the Province's consolidated financial statements and GDP data from Statistics Canada, published November 8, 2022.

Vulnerability

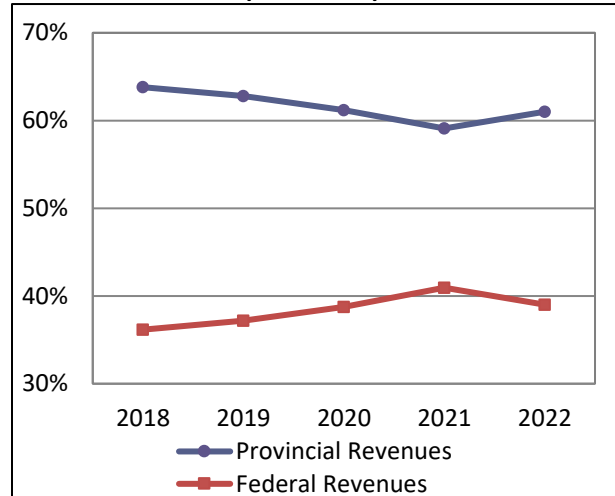
12.44 Vulnerability is the degree to which a government depends on sources of funding outside its control or influence. It provides insight into the risks to the Province that could affect its ability to meet existing service commitments to the public and financial commitments to creditors, employees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

Provincial and Federal Revenues to Total Revenues

12.45 As indicated in **Exhibit 12.15**, federal revenues as a percentage of total revenues have decreased for the first time since 2018, while provincial revenues, i.e. own source revenues, have increased. A decreasing federal revenue ratio indicates less vulnerability, as the Province is less

dependent on this source of revenue. In 2021-22, the Federal Government provided 39.0 percent of the Province's total revenues. This is the second highest percentage noted over the last ten years. The decrease in this ratio was mainly driven by the higher growth in Province's own tax revenues compared to the federal funding received.

EXHIBIT 12.15
PROVINCIAL AND FEDERAL REVENUES
TO TOTAL REVENUES
YEAR ENDED MARCH 31
(\$ Millions)



	2018	2019	2020	2021	2022
Provincial Revenues	\$1,268.5	\$1,305.4	\$1,339.4	\$1,396.4	\$1,619.0
Federal Revenues	718.6	773.3	848.2	968.2	1,033.7
Total Revenues	\$1,987.1	\$2,078.7	\$2,187.6	\$2,364.6	\$2,652.7
Provincial Revenues as Percent of Total	63.8%	62.8%	61.2%	59.1%	61.0%
Federal Revenues as Percent of Total	36.2%	37.2%	38.8%	40.9%	39.0%

Source: Derived from the Province's consolidated financial statements.

GLOSSARY

Accumulated deficit is the sum of all surpluses, deficits, and other comprehensive gains (losses) incurred over the years.

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.

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

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

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.

Interest charge is the amount required to service the debt, and must be taken from revenues before any expenditures can be made on government programs and services.

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

Nominal gross domestic product is gross domestic product given in current market prices, which includes the impact of inflation.

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.

Other comprehensive gain (loss) includes revenues, expenses, gains, and losses that have yet to be realized and are recognized in accumulated deficit, but excluded from annual surplus or deficit.

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

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