

**Annual Report to the
Legislative Assembly
2024**



**Office of the Auditor General
Prince Edward Island**



Prince Edward Island

Office of the
Auditor General

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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 2024 Annual Report to the Legislative Assembly.

Respectfully submitted,

Darren Noonan, CPA, CA
Auditor General

Charlottetown
Prince Edward Island
February 29, 2024

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Introduction

Report Overview

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

This 2024 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 2024 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: Biomass Heating Contracts

The Biomass Heating Contracts report looks at the sustainable harvesting requirements included in contracts to supply biomass heating to certain government buildings, and the monitoring for compliance with these contracts.

Chapter 6: Follow-Up on Performance Audits

This chapter includes information on the status of the implementation of recommendations reported in our 2019, 2020, 2021 and 2022 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, 2023 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, 2023.

Chapter 12: Indicators of Financial Condition

This chapter provides summary financial information on the Province's operating results and financial position from 2019 to 2023. Information is also provided on a number of financial indicators, based primarily on the Province's audited consolidated financial statements.

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 information, advice, and assurance to the Legislative Assembly. We promote accountability and best practices in government operations, and work closely with the Province's Standing Committee on Public Accounts.

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, as well as enhance accountability and transparency.

Lastly, I would like to thank the staff of the Office of the Auditor General of Prince Edward Island for all their hard work this year.

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 2024 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 2024 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 : Contrats de chauffage à la biomasse

Le rapport sur les contrats de chauffage à la biomasse étudie les exigences en matière de récolte durable intégrées aux contrats de chauffage à la biomasse pour certains édifices gouvernementaux et le suivi de la conformité à ces contrats.

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 2019, 2020, 2021 et 2022, et autres, 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 2023.

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 2023.

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 2019 et 2023. 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, en plus de travailler en étroite collaboration avec le Comité permanent des comptes publics.

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 ses recommandations afin d'améliorer l'efficacité du gouvernement, la responsabilisation et la transparence.

Pour conclure, j'aimerais remercier le personnel du Bureau du vérificateur général pour son travail acharné cette année.

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 vision, mission and values of the Office are:

Vision

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

Mission

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

Values

Our values guide us in achieving our vision and mission. They guide our day-to-day actions and serve as constant reminders of our commitments. They are a statement of the high standards we apply to ourselves and our work.

Independence

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

Reliability

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

Progressive

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

Relevance

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

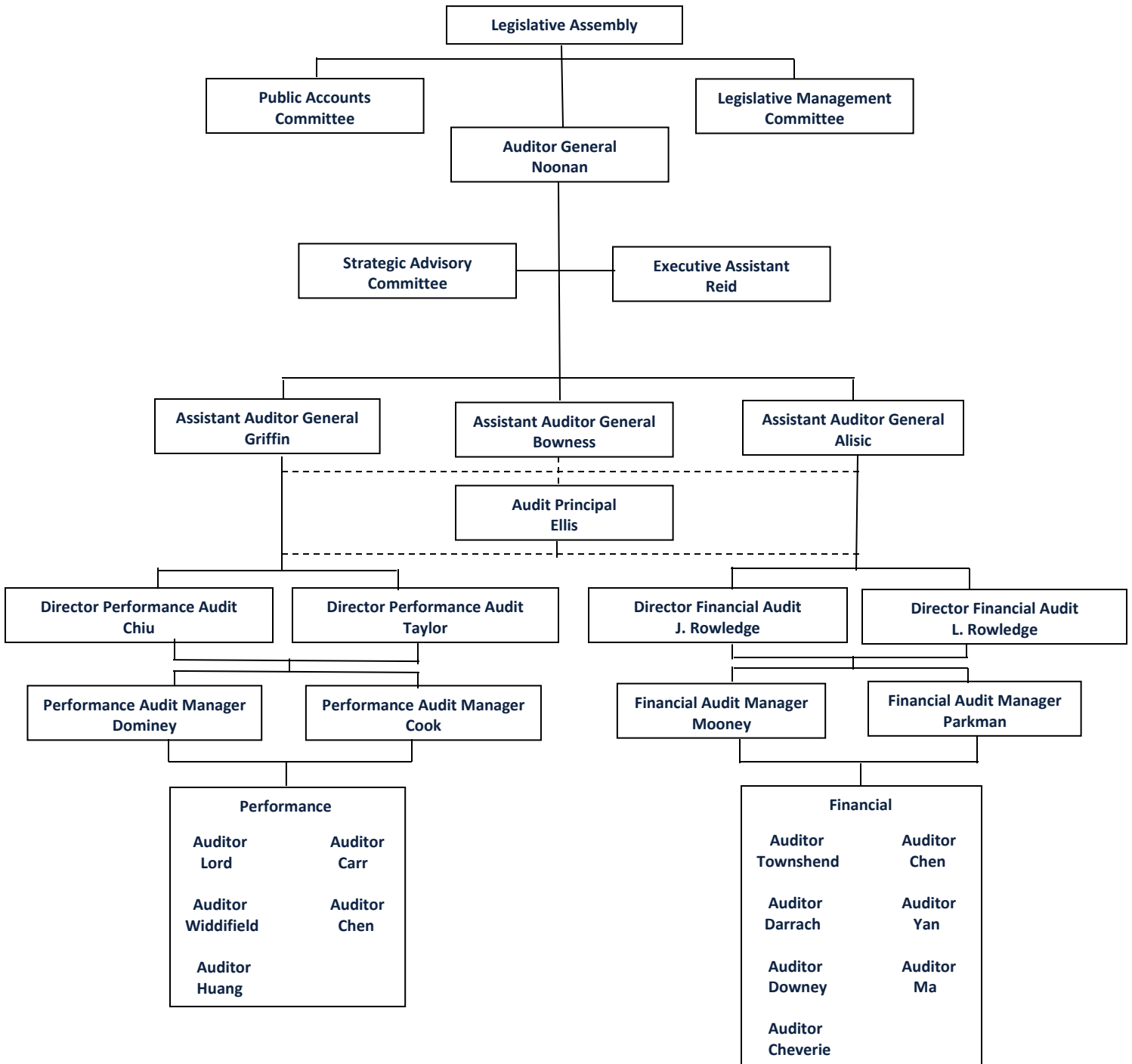
1.8 The Office staff complement consists of three Assistant Auditors General, one Audit Principal, four Audit Directors, four Audit Managers, twelve professional auditors and one administrative staff.

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.

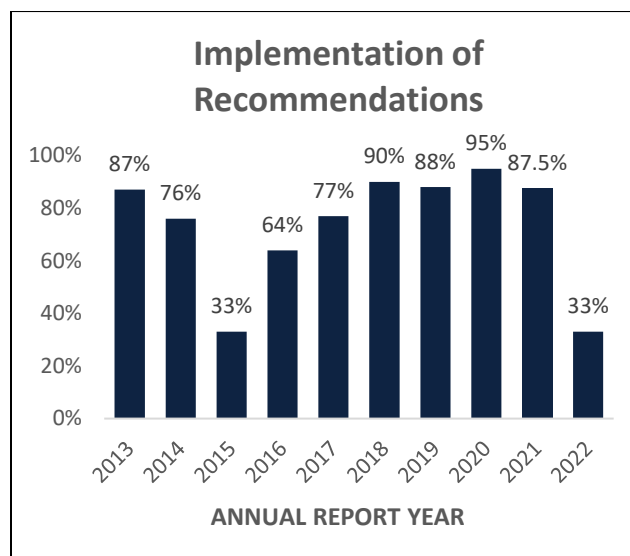
1.13 The Office annually completes approximately 10 financial audits, including the consolidated financial statements of the Province. On an annual basis, the Office completes a number of performance audits and examinations. Various factors are considered in establishing priorities for performance audits 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 2022/2023, our Office performed financial audits for 10 entities, including the consolidated financial statements for the Province, and the statutory reporting deadlines were achieved by 50% of these entities. This is a decrease from last year, which was 64%, and this was mainly due to a new accounting standard *Asset Retirement Obligations*, that required a significant amount of work to implement this year. We expect this to improve in 2023/2024.

- 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 2020, 2021 and 2022 recommendations again next year.

- 3) Increase the number of reports issued during the year. Our Office had intended to release eleven reports in 2023/2024. Seven reports were released and are listed below:

- Annual Report;
- Biomass Heating Contracts;
- Executive Council – COVID-19 Phase II and Phase III;
- Follow-Up on Previous Audits;
- Health PEI – Surgical Wait Times; and
- Treasury Board Secretariat – Government Performance Reporting – Phase II – Report Content.

1.15 During the 2024/2025 fiscal year, our Office anticipates releasing 10 reports as follows:

- Annual Report;
- Education and Early Years – Healthiness of Food in Schools;
- Finance – Future Sustainability;
- Finance – PEILCC Agency Stores;
- Follow-up on Previous Audits;
- Health PEI – Physicians Billings;
- Health and Wellness – Mental Health Review Board;
- Health and Wellness - PEI Alliance for Mental Well-Being;
- Housing, Land and Communities – Affordable Housing; and
- Social Development and Seniors – Grants and Conditional Contracts to NGOs.

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 (late 2024/early 2025).

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 peer review is scheduled for the spring of 2024.

1.19 In addition, the Office complies with the Canadian Standard on Quality Management of CPA Canada. This standard requires our Office to design, implement and operate a system of quality management. Our quality assurance system includes documented policies and procedures regarding compliance with ethical requirements, professional standards, regulatory and legal requirements, and internal policies.

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 four occasions since his last annual report. He met with the Committee "in-camera" to release his reports on COVID-19 Phase III and Performance Reporting – Phase II - Report Content. He met publicly with the Committee to review his 2023 Annual Report, reports on COVID-19 Phases II and III, report on Performance Reporting – Phase II – Report Content, and report on Surgical Wait Times – Cataract, Knee Replacement and Hip Replacement.
- 2.3 During the year, the Committee met 10 times. The election in 2023 slowed the Committee's activities down; however, once

the Committee was formed, it became very active for the remainder of the year.

- 2.4 The makeup of the Public Accounts Committee members changed during the year, with two non-voting government members being added as observing members.
- 2.5 During the year, the Auditor General attended the Canadian Council of Public Accounts Committees Conference in Whitehorse with two members of the Standing Committee on Public Accounts and a Clerk of the Legislative Assembly. The Auditor General also attended a training session provided to the members of the Standing Committee on Public Accounts that was delivered by the Canadian Audit and Accountability Foundation.

Committee Reports

- 2.6 The Committee reported to the Legislative Assembly on November 29, 2023, to provide updates on its activities for the year. The Committee made the following recommendations to the Legislative Assembly during the year:
 - Your committee commends the work done by the Office of the Auditor General and endorses all the recommendations made in the Annual Report to the Legislative Assembly 2023, the COVID-19 Financial Support Programs Phase II report, and the report on Performance Reporting – Phase II – Report Content.

- Your committee recommends that Government review its level of financial staffing across its departments and agencies to determine whether it is sufficient to meet workload demand.
- Your committee recommends that details of capital expenditures to be incurred by Government Business Enterprises to be provided as part of the capital budget process in the legislature.
- Your committee recommends that Government consider requiring post-secondary institutions to provide more detailed information on their spending plans as a condition of future funding agreements.
- Your committee stresses the need for formal agreements between PEI and other provinces on out-of-province medical services and urges Government to make these a priority.

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 *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, 2023. 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 agreement between the Province and the Federal Government expired on March 31, 2021, and no pricing increase was approved until May 9, 2022. This pricing increase is reflected in our reporting period. We report that for the period of April 1, 2022 to March 31, 2023, a total of approximately \$31,080,000 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: Free Heat Pump Program, reduction in gasoline tax rates, Active Transportation Fund Projects, carbon rebates for lower income Islanders, Rural Transit Pilot Program, Universal Electric Vehicle and Bicycle Incentive Programs, transit fee subsidies through discounted passes and fees, Free Electric Hot Water Heater Program, Free Insulation Program, reductions in motor vehicle registration costs for electric and hybrid vehicles, and Home Heating Loan Programs. These initiatives totaled approximately \$48,868,000 over this period and are broken down as follows:

Free Heat Pump Program ¹	\$15,197,000
Reduction in Gasoline Tax	13,447,000
Active Transportation Fund Projects	6,863,000
Carbon Rebates (Low Income)	6,700,000
Rural Transit Pilot Program	2,564,000
Universal Electric Vehicle and Bicycle Incentive Programs ²	1,659,000
Transit Fee Subsidies (Discounted Passes)	1,275,000
Free Electric Hot Water Heater Program ³	730,000
Free Insulation Program ³	308,000
Registration of Motor Vehicles ⁴	120,000
Home Heating Loan Programs	5,000
	<u>\$48,868,000</u>

3.7 On July 1, 2023, the Federal Government imposed a federal carbon tax in Prince Edward Island. Therefore, next year will be our final report under the *Climate Leadership Act* and it will only include carbon levies from April 1 to June 30, 2023. Most of the carbon tax collected by the Federal Government will be returned directly to Islanders in the form of quarterly cheques.

1 - Program available to Islanders with (1) an annual household income of \$75,000 or less; and (2) a principal residence with a tax assessed value under \$300,000. The annual income threshold increased during the year from \$35,000 to \$55,000 and then to \$75,000.

2 - Rebate of \$5,000 for battery electric vehicles and \$2,500 for plug-in hybrid electric vehicles purchased at Island dealerships. Program was expanded to include \$500 rebates for new e-bikes retailing over \$1,200 and \$100 rebates for new bicycles with a retail price of up to \$2,000.

3 - Program available to Islanders with (1) an annual household income of \$55,000 or less; and (2) a principal residence with a tax assessed value under \$300,000.

4 - 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, 2022 to March 31, 2023 was \$17,788,000 higher than the carbon levies collected, which constitutes a net loss for the Province. The Province had originally budgeted that the cost of initiatives funded by the carbon levies would exceed the levies collected creating a net loss of approximately \$5 million. Additionally, increasing the income eligibility thresholds for the Free Heat Pump Program increased the costs of this initiative by nearly \$10 million from the amounts originally budgeted.



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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, 2022 to March 31, 2023 ("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, 2023 on which we issued our audit report dated November 3, 2023. 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, 2023.

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
Assistant Auditor General

Charlottetown, Prince Edward Island
February 13, 2024

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 specific 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 speaker of the Legislative Assembly about any matter that is considered appropriate to report under this Act.
- 4.5 Two requests were received during the year. The first request dated May 31, 2023 was determined not to be considered an advertisement, and therefore not subject to the Act. The second request, dated December 6, 2023, was determined to meet the advertising standards established in the *Government Advertising Standards Act*, after changes were made to the original submission.

5. Biomass Heating Contracts - Highlights

Why we did this audit

- As of March 31, 2023, there were 47 provincial government facilities using biomass products for heating fuel.
- The inventory of PEI forests was reduced significantly as a result of Post-Tropical Storm Fiona; therefore, it is more important than ever that the biomass used to heat public buildings be harvested using sustainable forest practices.
- Any biomass harvesting carried out on PEI should follow sustainable forest management practices to help ensure PEI forests will provide economic, ecological and recreational benefits to future generations.
- Our Office released the Forest Management report in January 2023, and when conducting that audit we identified concerns related to biomass heating contracts.

Objectives

- To determine whether the Department of Transportation and Infrastructure:
 - has biomass heating contracts for government facilities that include sustainable harvesting requirements, and
 - monitors compliance with sustainable harvesting requirements in biomass heating contracts for government facilities.

Conclusions

- There were 18 contracts to heat government facilities using biomass. Of these, two did not include sustainable harvesting requirements.
- The Department of Transportation and Infrastructure does not monitor compliance with sustainable harvesting requirements in biomass heating contracts for government facilities.

Audit Scope Period: April 1, 2020 to March 31, 2023

What we found

Sustainable Harvesting Requirements	<ul style="list-style-type: none">• Two of the 18 contracts did not define sustainable harvesting practices or require that biomass used to heat government facilities be harvested in a sustainable manner. RECOMMENDATIONS (paragraphs 5.21 and 5.22)
Reporting Requirements	<ul style="list-style-type: none">• For the 16 contracts with sustainable harvesting requirements<ul style="list-style-type: none">○ Five did not require contractors to report information related to the biomass harvests.○ Eleven contracts had reporting requirements; however:<ul style="list-style-type: none">- Reports were not received by the Department for 7 of the 11 contracts;- When reports were received by the Department, they did not always include all information required in accordance with the terms of the contracts; and- The 2022 reports were received subsequent to the annual reporting requirement.○ Eleven contracts lacked clauses that outlined corrective action or consequences when deficiencies were found in meeting sustainable harvesting requirements.• The Department did not take action when reports were not received from contractors, and when reports were received, the Department did not verify whether information was accurate or complete. RECOMMENDATIONS (paragraphs 5.39, 5.40, 5.41, and 5.42)
Other Contract Issues	<ul style="list-style-type: none">• The Department did not have copies of all current biomass heating contracts which it is responsible for administering.• Sustainable harvesting and reporting requirements as well as penalty clauses were not consistent among the biomass heating contracts administered by the Department. RECOMMENDATIONS (paragraphs 5.48 and 5.50)

5. Biomass Heating Contracts

Why it's important

Prince Edward Island's energy mix includes petroleum products, electricity (wind, thermal generation, and solar), natural gas, biofuels and other sources. Biofuels, which include biomass, made up approximately eight percent of the energy used in the province in 2023.

In 2010, Executive Council authorized the Department of Transportation and Infrastructure (formerly the Department of Transportation and Public Works) to contract for the supply of biomass to heat selected government facilities. It was expected that biomass fuel would displace imported petroleum products and redirect investments to further develop the local biomass fuels industry.

As at March 31, 2023, 47 government facilities used biomass for heating fuel. For the calendar year ended December 31, 2022 these facilities required approximately 16,100 green metric tonnes¹ (GMT) of wood chips.

In January 2023, our Office released the Forestry Management report which identified that the Department of Environment, Energy and Climate Action did not monitor the sustainability of wood harvested for biomass to heat public buildings. This audit report further examines the issue and focuses on the Department of Transportation and Infrastructure which is responsible to administer the biomass heating contracts.

What we found

The weaknesses we identified during the audit were:

- There were 18 biomass contracts for heating government facilities. Of these, two did not define sustainable harvesting practices or require that biomass used to heat government facilities be harvested in a sustainable manner.
- Of the 16 contracts with sustainable harvesting requirements
 - Five did not require contractors to report information related to the biomass harvests.
 - Eleven contracts had reporting requirements; however:
 - Reports were not received by the Department for 7 of the 11 contracts;
 - When reports were received by the Department, they did not always include all information required in accordance with the terms of the contracts; and
 - The 2022 reports were received subsequent to the annual reporting requirement.
 - Eleven contracts lacked clauses that outlined corrective action to be taken, or consequences when deficiencies were found in meeting sustainable harvesting requirements.
- The Department did not take action when reports were not received from contractors, and when reports were received, did not

¹ Unit of weight equal to 2,205 pounds.

verify whether information was accurate or complete.

- The Department did not have current copies of all biomass heating contracts which it is responsible to administer.
- Sustainable harvesting and reporting requirements as well as penalty clauses were not consistent among the biomass heating contracts administered by the Department.

We have made eight recommendations to the Department of Transportation and Infrastructure (the Department). The recommendations and responses from the Department are included in **Appendix A**.

BACKGROUND

- 5.1 According to National Resources Canada, biomass encompasses all organic materials of biological origin and can be derived through a variety of ways including, but not limited to, harvesting of forest lands from forestry operations. Biomass is available in various forms including firewood, wood chips, briquettes, and wood pellets.
- 5.2 Biomass can be produced directly from the harvesting and chipping of wood material in forests, or it may be created as a byproduct from any forestry activity. Biomass is typically dried for one year before it is used as fuel.
- 5.3 In the 1980's, the Government of PEI began using wood chips to heat some government facilities. This practice was suspended a decade later, due to operational problems related to poor quality wood chips and inexperienced operators.
- 5.4 In 2008, the PEI Government released *Prince Edward Island and Climate Change: A*

Strategy for Reducing the Impacts of Global Warming. The strategy reintroduced biomass fuel into PEI's energy mix stating, "the Government of Prince Edward Island will lead by example in demonstrating biomass and biogas technologies in public buildings and facilities across the Island." The strategy noted that although sustainable harvesting was certainly possible, the long-term sustainability of harvesting wood for biomass remained unclear.

- 5.5 In February 2010, Executive Council authorized the Department of Environment, Energy and Climate Action (formerly the Department of Environment, Energy and Forestry), and the Department of Transportation and Infrastructure (formerly the Department of Transportation and Public Works) to accept expressions of interest for the supply of biomass derived heat for government operated facilities. The Department of Transportation and Infrastructure was also authorized to enter into contracts for the supply of biomass derived heat for selected government facilities. Expected benefits from heating with biomass included the development of a domestic industry for the supply of heat from biomass, and the reduction of greenhouse gas emissions from the displacement of imported petroleum products.
- 5.6 The Department has continued to lead the implementation and oversight of biomass heating contracts for government facilities under the authority of the *Public Works Act*. Sections 3 and 4 of the *Public Works Act*, state the Minister of Transportation and Infrastructure shall:

- have the care and management of all buildings belonging to the Government; and
- order all repairs, improvements, extensions, additions and alterations made in any provincial buildings.

5.7 The Department has seven divisions. According to the Department's most recent annual report, the Public Works and Planning Division (the Division) provides the staff and resources required to:

- complete the design and construction of new capital building projects as well as the renovation of existing buildings for Government departments, boards, and agencies; and
- operate and maintain buildings owned and leased by the Department.

5.8 The Division consists of two sections. The Building Design and Construction Section (the Section) is responsible for the design and preparation of tender documents required for the construction or renovation of various government buildings. This includes construction contract administration and quality control as well as the preparation of all requests for proposals, and the evaluation of the applications related to the proposals.

5.9 Staff from the Section are responsible for administering heating contracts for the 47 government facilities² which used biomass as their primary heat source as at March 31, 2023. These include:

- four hospitals and five long-term care facilities operated by Health PEI;
- 23 schools operated by the Public Schools Branch;
- three schools operated by La Commission Scolaire de Langue Française;
- the Provincial Correctional Centre, operated by the Department of Justice and Public Safety;
- nine seniors housing units operated by the Department of Housing, Land and Communities (formerly the Department of Social Development and Seniors); and
- two maintenance facilities operated by the Department of Transportation and Infrastructure.

5.10 Contracts were signed with third-party contractors to supply heat generated from biomass fuel to government facilities. The contracts specify that contractors are responsible for servicing and maintaining the biomass heating equipment as well as supplying all biomass fuel to each facility. Depending on the contract, biomass heating equipment may be owned by the contractor or Government.

5.11 For the year ended March 31, 2023, biomass heating costs for the 47 government facilities were approximately \$4.76 million. There were 18 contracts and four contractors. The oldest contract was signed in 2009 and the most recent was signed in 2021. See **Appendix D** for a detailed listing of the contracts, including expenditures for the most recent two fiscal years.

² Out of a total of approximately 600 government facilities in the province.

5.12 In July 2023, the Prince Edward Island Forestry Commission released a report titled *Sustainability of Biomass Utilisation*. The Commission's report also identified issues with biomass heating contracts for government facilities.

AUDIT OBJECTIVES AND SCOPE

5.13 The objectives of this audit were to determine whether the Department of Transportation and Infrastructure:

- has biomass heating contracts for government facilities that include sustainable harvesting requirements; and
- monitors compliance with sustainable harvesting requirements in biomass heating contracts for government facilities.

5.14 This report summarizes the results of our audit work on the 18 biomass heating contracts for government facilities in effect as at March 31, 2023, for the period from April 1, 2020 to March 31, 2023.

5.15 This report includes eight recommendations which are listed in **Appendix A**. Details on the audit standards, objectives and scope are included in **Appendix B**, and the audit criteria are included in **Appendix C**. The following sections of our report provide information on the findings, related recommendations, and conclusions from our audit.

OBSERVATIONS AND RECOMMENDATIONS

SUSTAINABLE HARVESTING REQUIREMENTS

Summary of Findings

5.16 Two of the 18 contracts did not define sustainable harvesting practices or require that biomass used to heat government facilities be harvested in a sustainable manner.

5.17 Many of the biomass heating contracts, which were submitted to Treasury Board for approval, stated there were environmental benefits to using biomass. For example, some submissions discussed the displacement of oil, while others noted that biomass fuel is considered carbon neutral due to the recapture of carbon dioxide by planting trees to replace what was harvested. Due to the focus on environmental concerns for the rationale of switching to biomass heat, we expected each contract to define sustainable harvesting and require sustainable harvesting practices for the biomass used to heat public buildings.

Not all contracts define or require the use of sustainable harvesting practices

5.18 We reviewed the 18 biomass heating contracts in effect as at March 31, 2023. We found that 16 of the contracts defined sustainability as following the Ecosystem-based Forest Management Standards Manual (Eco-manual), and required harvesting to be

conducted in accordance with the Eco-manual.

5.19 The Eco-manual is a technical document developed by the Forests, Fish and Wildlife Division of the Department of Environment, Energy and Climate Action, which provides guidelines for forest professionals when planning and implementing forest treatments. The objective of any treatment carried out in accordance with the Eco-manual is to improve the quality of the forest.

5.20 The other two biomass heating contracts did not define sustainable harvesting or require the biomass used to heat these public buildings be harvested in a sustainable manner. These two contracts were for five government buildings including two schools, a maintenance facility, and two seniors housing units.

Recommendations

5.21 The Department of Transportation and Infrastructure should define sustainable harvesting practices in all biomass heating contracts for government facilities.

5.22 The Department of Transportation and Infrastructure should require all biomass used to heat government facilities be harvested in a sustainable manner. This requirement should be included in all biomass heating contracts.

REPORTING REQUIREMENTS

Summary of Findings

5.23 Of the 16 contracts with sustainable harvesting requirements

- Five did not require contractors to report information related to the biomass harvests.
- Eleven contracts had reporting requirements; however:
 - Reports were not received by the Department for 7 of the 11 contracts;
 - When reports were received by the Department, they did not always include all information required in accordance with the terms of the contracts; and
 - The 2022 reports were received subsequent to the annual reporting requirement.
- Eleven contracts lacked clauses that outlined corrective action to be taken, or consequences when deficiencies were found in meeting sustainable harvesting requirements.

5.24 The Department did not take action when reports were not received from contractors, and when reports were received, the Department did not verify whether information was accurate or complete.

5.25 According to Treasury Board Policy 13.10, Contract Management and Reporting, departments are required to establish administrative procedures for efficient and effective contract management. These administrative procedures include monitoring

to ensure contractor compliance with the terms and conditions of the contract.

5.26 In order to effectively monitor these contracts, we expected that the Department would require contractors to report sufficient information to allow the Department to assess whether the biomass used to heat government facilities was harvested in accordance with the sustainability requirements included in the contracts. We expected this information to be reported in accordance with the timelines outlined in the contracts.

Not all contracts require contractors to report information on harvests

5.27 We examined each of the 16 biomass heating contracts that required biomass be harvested in a sustainable manner, and noted that only 11 of these required contractors to report information related to the harvests to the Department.

Not all reports received and not all included required information

5.28 The information required to be reported varied among the contracts. Of the 11 contracts

- Six required the contractor to report annually and provide a statement indicating if the biomass fuel was harvested in accordance with the Eco-manual.
 - Five of these six contracts also required a summary of the total amount of wood chips used in the previous 12-month period and the source of forest material used to produce the wood

chips, including the property identification number where the forest material was harvested.

- The sixth contract required the contractor to report on where the biomass fuel was harvested, but not specifically the property identification number.
- The five other contracts required contractors to provide the following information within one month of completing the harvest:
 - property identification number;
 - stand number; and
 - number of acres harvested.

5.29 We found that reports were provided for four of the eleven contracts. Reports for the 2020, 2021 and 2022 calendar years were provided for three of the four contracts. The facilities covered by the fourth contract did not become operational until 2022 and reporting was provided for the 2022 calendar year. These reports were from the same contractor, but did not always include all the information required in accordance with the terms of the contracts.

5.30 Three of the four contracts required annual reporting from the contractor. The Department expected this reporting by the end of the following calendar year. The reports provided for these contracts included all required information, except that the 2021 and 2022 reports did not include a summary of the total amount of wood chips used in the previous 12-month period. Also, the 2022 report was received subsequent to the annual reporting requirements.

5.31 The other contract for which reporting was received, required the contractor to provide

information within one month of completing the harvest. These reports did not include the dates of the harvests; therefore, we could not tell if the reports were provided within the required timeframe. Also, the reports received did not include the stand numbers, or the number of acres harvested.

5.32 Of the remaining seven contracts which required contractors to report information related to the harvests, no reports were provided to the Department.

5.33 We expected the Department to enforce reporting requirements to:

- verify the information included in the reports provided by the contractors to determine if the information was complete and accurate;
- complete a documented assessment on whether sustainable harvesting requirements in the contracts were complied with; and
- take corrective action and/or apply penalties if contract terms were not complied with.

No enforcement when report not received or reporting requirements not met

5.34 We inquired with management of the Department to determine what action was taken when reports were either not provided, or when the content of the reports did not meet the terms of the contract. Management confirmed that when reports were not received from contractors, there was no action taken by the Department for failing to report. They also confirmed that when reports were received, the Department

did not verify whether they were accurate or complete.

Corrective action and consequences not included in most contracts, and not enforced when included

5.35 Of the 16 biomass heating contracts with sustainable harvesting requirements, five included clauses that state contractors will be given nine months to correct any deficiencies related to these requirements or will be assessed a financial penalty of \$2,000 per hectare. The remaining 11 contracts do not include any consequences for contractors if sustainable harvesting requirements are not met.

5.36 As noted above, the Department did not receive all reports from contractors in accordance with contract terms and did not verify the information in the reports that were received.

5.37 The biomass heating contracts are legally binding agreements between government departments and the contractors. Upon signing, contractors agreed to all terms of the contract, including reporting requirements. It is the Department's responsibility to enforce contract terms and have processes in place to ensure they receive the information necessary to determine if the contract terms are being complied with.

5.38 See **Appendix E** for a summary of reporting requirements and what information was received for each contract.

Recommendations

5.39 The Department of Transportation and Infrastructure should require contractors to report sufficient information on harvests for all biomass contracts which will allow the Department to assess if sustainable harvesting requirements were met.

5.40 The Department of Transportation and Infrastructure should regularly monitor, review, and enforce the reporting requirements included in the biomass contracts.

5.41 The Department of Transportation and Infrastructure should include penalty clauses in all biomass heating contracts to be applied if harvest information is not reported by contractors in accordance with the contract terms.

5.42 The Department of Transportation and Infrastructure should include corrective action and penalty clauses in all biomass heating contracts to be applied if sustainable harvesting requirements are not met.

not consistent among the biomass heating contracts administered by the Department.

One contract expired and Department missing copy of another contract

5.45 One of the 18 biomass contracts we reviewed as part of this audit, expired in 2019. We requested an updated contract from the Department and the operator of the facility. As of the date of this audit report we have not been provided with a current contract. We were informed by management at the Department and the operator of the facility that neither had a copy, and both were not sure if a current contract was in place.

5.46 Also, the Department did not have a copy of another contract for a school, which was signed in 2012. However, we were provided with a copy of the contract from another government entity.

5.47 Contracts establish terms and conditions including a clear description of services, the amount and manner in which any payments are to be made, and other requirements such as those related to sustainable harvesting. Since the Department is responsible for the administration of the biomass contracts, it should have copies of all current contracts.

OTHER CONTRACT ISSUES

Summary of Findings

5.43 The Department did not have copies of all current biomass heating contracts which it is responsible for administering.

5.44 Sustainable harvesting and reporting requirements as well as penalty clauses were

Recommendation

5.48 The Department of Transportation and Infrastructure should maintain complete records of all biomass heating contracts it administers.

Requirements not consistent among contracts

5.49 An overarching issue noted during this audit was the differences in sustainable harvesting and reporting requirements as well as penalty clauses among the biomass heating contracts the Department administers. These differences are summarized in **Appendix E**.

Recommendation

5.50 The Department of Transportation and Infrastructure should update all biomass heating contracts so that requirements are consistent among all contracts.

CONCLUSION

5.51 The weaknesses we identified during the audit were:

- There were 18 biomass contracts for heating government facilities. Of these, two do not define sustainable harvesting practices or require that biomass used to heat government facilities be harvested in a sustainable manner.
- Of the 16 contracts with sustainable harvesting requirements
 - Five did not require contractors to report information related to the biomass harvests.
 - Eleven contracts had reporting requirements; however:

- Reports were not received by the Department for 7 of the 11 contracts;
 - When reports were received by the Department, they did not always include all information required in accordance with the terms of the contracts; and
 - The 2022 reports were received subsequent to the annual reporting requirement.
- Eleven contracts lacked clauses that outlined corrective action or consequences when deficiencies were found in meeting sustainable harvesting requirements.

- The Department did not take action when reports were not received from contractors, and when reports were received, the Department did not verify whether information was accurate or complete.
- The Department did not have copies of all current biomass heating contracts which it is responsible to administer.
- Sustainable harvesting and reporting requirements as well as penalty clauses were not consistent among the biomass heating contracts administered by the Department.

RECOMMENDATIONS*	MANAGEMENT RESPONSE
<p>Recommendation 5.21 The Department of Transportation and Infrastructure should define sustainable harvesting practices in all biomass heating contracts for government facilities.</p>	<p>The Department of Transportation and Infrastructure (DTI) is collaborating with the Department of Environment, Energy and Climate Action (EECA) and the local forest industry to define sustainable harvesting practices for wood to be used for biomass heating in government buildings from biomass energy contractors. All new biomass supply contracts will include this definition.</p>
<p>Recommendation 5.22 The Department of Transportation and Infrastructure should require all biomass used to heat government facilities be harvested in a sustainable manner. This requirement should be included in all biomass heating contracts.</p>	<p>DTI will explore the potential to support the local forest industry in establishing an available, reliable and traceable supply of sustainably harvested biomass material, including the associated supply chain and cost implications.</p> <p>With an established supply chain in place, DTI will include a requirement, in future contracts, for sustainable harvesting, as per the sustainable harvesting definition, for all wood harvested, which is intended to be used for biomass heating in government buildings from biomass energy contractors.</p>
<p>Recommendation 5.39 The Department of Transportation and Infrastructure should require contractors to report sufficient information on harvests for all biomass contracts which will allow the Department to assess if sustainable harvesting requirements were met.</p>	<p>DTI will work with EECA to develop reporting tools for biomass energy contractors to use that will allow the Departments to confirm that the harvested wood complies with the sustainable harvesting definition.</p>
<p>Recommendation 5.40 The Department of Transportation and Infrastructure should regularly monitor, review, and enforce the reporting requirements included in the biomass contracts.</p>	<p>DTI will continue to monitor, review and enforce reporting requirements and commits to working with EECA to establish processes and procedures to monitor and review biomass energy contractors contract reporting and to follow up on any reporting gaps.</p> <p>DTI will also seek to add EECA as a party to future biomass energy sale contracts to provide EECA with additional authority to assist DTI in monitoring the wood harvesting component of the contracts.</p> <p>If contractors are unable or unwilling to provide the required information, legal options to address the lack of contract compliance will be explored.</p>

RECOMMENDATIONS*	MANAGEMENT RESPONSE
<p>Recommendation 5.41 The Department of Transportation and Infrastructure should include penalty clauses in all biomass heating contracts to be applied if harvest information is not reported by contractors in accordance with the contract terms.</p>	<p>DTI will explore options for penalty clauses in new contracts. The clauses will be developed based on what is practical to meet Department objectives, forest industry resources as well as supply chain requirements and issues.</p>
<p>Recommendation 5.42 The Department of Transportation and Infrastructure should include corrective action and penalty clauses in all biomass heating contracts to be applied if sustainable harvesting requirements are not met.</p>	<p>Similar to Recommendation #41, DTI will work with industry stakeholders to explore options for clear and fair corrective action and penalty clauses in new contracts. The clauses will be developed based on what is practical to meet Department objectives, forest industry resources as well as supply chain requirements and issues.</p>
<p>Recommendation 5.48 The Department of Transportation and Infrastructure should maintain complete records of all biomass heating contracts it administers.</p>	<p>DTI will maintain complete records of all biomass heating contracts and contract documentation that it administers.</p>
<p>Recommendation 5.50 The Department of Transportation and Infrastructure should update all biomass heating contracts so that requirements are consistent among all contracts.</p>	<p>Previous biomass energy contract terms and conditions were developed and progressed based upon what the biomass energy contractor, and the forest supply chain were capable of providing at the time the contracts were developed. Evolutions of the contracts have attempted to improve upon previous contract iterations and keep up with the rapid push towards sustainability, thus there is a high amount of variation in current contractual obligations.</p> <p>DTI will continue to improve contract language to keep pace with evolving sustainability requirements and use consistent contracts, where similar services are required, when new contracts are negotiated.</p> <p>DTI will also explore the possibility of updating existing biomass energy contracts to reflect the updated approach (e.g. definitions, reporting, penalties).</p> <p>DTI will seek Treasury Board approval for any increases in cost associated with changing existing contracts.</p>

*Recommendation numbers refer to the paragraph numbers.

STANDARDS, OBJECTIVES, AND SCOPE

STANDARDS

This independent assurance report was prepared by the Office of the Auditor General of Prince Edward Island. The purpose of this audit was to determine whether the Department of Transportation and Infrastructure has biomass heating contracts for government facilities that include sustainable harvesting requirements and monitors compliance with sustainable harvesting requirements in biomass heating contracts for government facilities. Our responsibility was to provide objective information and independently conclude on whether the Department of Transportation and Infrastructure complies in all significant respects with the applicable criteria.

Work conducted for this audit was performed to a reasonable level of assurance in accordance with the Canadian Standards on Assurance Engagements (CSAE) 3001 – Direct Engagements set out by the Chartered Professional Accountants of Canada (CPA Canada) in the CPA Canada Handbook – Assurance.

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 the audit 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 our Office's Code of Conduct are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.

OBJECTIVES

The objectives of the audit were to determine whether the Department of Transportation and Infrastructure:

- has biomass heating contracts for government facilities that include sustainable harvesting requirements, and
- monitors compliance with sustainable harvesting requirements in biomass heating contracts for government facilities.

We developed criteria, primarily from Treasury Board policy and best practice, to assess whether the Department of Transportation and Infrastructure had met the objectives. These criteria are listed in **Appendix C**.

In accordance with our regular audit process, we obtained the following from management:

- confirmation of management's responsibility for the subject;
- acknowledgment of the suitability of criteria used in the audit;
- confirmation that all known information that has been requested, or that could affect the findings or audit conclusion, has been provided; and
- confirmation that the audit report is factually accurate.

SCOPE AND APPROACH

The scope of our audit included analysis and testing of records for contracts, in effect as of March 31, 2023, for the period April 1, 2020 to March 31, 2023. We examined documentation outside of that period as necessary.

Our approach included:

- interviews with management of the Department Transportation Infrastructure and other government representatives;
- review of relevant legislation;
- review of relevant policies, reports, and standards;
- review of Treasury Board Minutes;
- analysis of 18 biomass heating contracts, in effect as of March 31, 2023; and
- analysis of third-party biomass reporting.

This engagement did not include any contracts for heating of government facilities from PEI Energy Systems' district energy plant.

We did not audit the effectiveness of the sustainable harvesting requirements in the biomass heating contracts. We also did not assess the environmental impacts of using biomass for heat.

It is important to note that our observations and conclusions relate only to the management practices of the Department of Transportation and Infrastructure. Consequently, our comments and conclusions do not pertain to the practices or performance of any third parties.

DATE OF REPORT

We obtained sufficient and appropriate audit evidence on which to base our conclusions on February 27, 2024, in Charlottetown Prince Edward Island.

AUDIT TEAM

Auditor General:	Darren Noonan	Director:	Julianna Chiu
Assistant Auditors General:	Sheri Griffin	Manager:	Tim Cook
	Jennifer Bowness	Auditor:	Ryan Carr

AUDIT CRITERIA – OBJECTIVE 1

1. The Department of Transportation and Infrastructure’s biomass heating contracts define sustainable harvesting practices.
2. The Department of Transportation and Infrastructure’s biomass heating contracts require that biomass used to heat government facilities is harvested sustainably.

AUDIT CRITERIA – OBJECTIVE 2

1. The Department of Transportation and Infrastructure receives and reviews reports, in a timely manner, to determine if the biomass used to heat government facilities was harvested in accordance with the sustainability requirements in the contracts.
2. The Department of Transportation and Infrastructure takes appropriate action when sustainable harvesting requirements are not met.

BIOMASS HEATING CONTRACT DETAILS AND EXPENDITURES
MARCH 31, 2023

Contractor	Number Of Contracts	Contractee ¹	Date Signed	Government Facility	Fiscal 2022-23 Expenditures \$	Fiscal 2021-22 Expenditures \$
A	8	WSB	27-Oct-09	Westisle Composite High School	342,892	148,977
		Health PEI	30-Aug-12	Wedgewood Manor	68,143	75,061
		FLSB	27-Nov-12	École Évangéline	13,392	53,568
		TIR	19-Jun-13	Western Hospital	138,804	121,515
				Athena Consolidated School	93,935	93,071
		TIR	15-Aug-14	Summerside Intermediate School	98,925	121,464
				École-sur-Mer ²	44,698	-
		TIR	15-Apr-15	Elm Street Elementary School	70,627	74,938
		TIE	20-Apr-16	Miscouche Consolidated School	68,104	87,553
Prince County Hospital	555,006			550,196		
				Summerset Manor	131,260	105,444
				Hernewood Intermediate School	219,168	149,308
Subtotal					\$1,844,954	\$1,581,095
B	7	Health PEI	29-Sep-11	O'Leary Community Hospital	256,276	263,351
		ESD	12-Dec-11	Bluefield Senior High School	132,293	129,019
		WSB	12-Dec-11	Three Oaks Senior High School	159,658	162,449
				East Prince Career and Technical Education Centre		
		TIR	15-Jul-13	Beach Grove Home	217,941	223,356
				Prince Edward Home	225,847	226,324
				Provincial Correction Center	221,874	174,242
				Souris Hospital	228,331	233,051
				East Wiltshire Intermediate School	168,928	159,752
				Eliot River Elementary School	85,288	94,832
				Morell Regional High School	117,449	116,843
				Souris Regional School	120,638	128,693
		TIE	16-May-19	Stonepark Intermediate School	195,880	186,502
				Queens County Highway Depot ³	91,163	59,364
				Glen Stewart Primary School	52,865	55,248
				Stratford Elementary School	48,905	49,118
		TIE	26-Jun-20	West Royalty Elementary School	94,762	77,421
Westwood Primary School	65,100			63,142		
TIE	26-Jul-21	École François-Buote	80,713	81,370		
TIE	26-Jul-21	Riverview Manor ⁴	57,146	-		
		Montague Intermediate School ⁴	32,677	-		
Subtotal					\$2,653,734	\$2,484,077
C	1	TIE	1-Mar-18	Tignish Seniors Building A	2,267	9,390
				Tignish Seniors Building B	2,196	7,874
				Tignish Sign Shop	11,711	12,906
				Tignish Elementary School	57,879	75,881
Subtotal					\$74,053	\$106,051

Appendix continued on next page.

**BIOMASS HEATING CONTRACT DETAILS AND EXPENDITURES
MARCH 31, 2023**

Contractor	Number Of Contracts	Contractee ¹	Date Signed	Government Facility	Fiscal 2022-23 Expenditures \$	Fiscal 2021-22 Expenditures \$
D	2	TIE	24-Jul-19	Kensington Intermediate Senior High School	38,332	35,436
				Queen Elizabeth Elementary School	32,032	46,207
				M.E. Callaghan Intermediate School	65,052	63,874
		TIE	15-Jul-20	Summerside Seniors Building D, E, F	19,032	20,194
				Summerside Seniors Building G, H	12,396	13,044
				Summerside Seniors Building J	11,141	7,507
				Summerside Seniors Building L	4,457	3,004
		Subtotal				
Total Expenditures					\$4,755,183	\$4,360,489

Source: Derived from financial information provided by government facility operators.

- Abbreviations:
WSB – Western School Board. Now Public Schools Branch (PSB).
ESD – Eastern School District. Now Public Schools Branch (PSB).
FLSB – French Language School Board. La Commission scolaire de langue française.
TIR – Department of Transportation and Infrastructure Renewal. Now Department of Transportation and Infrastructure (TI).
TIE – Department of Transportation, Infrastructure and Energy. Now Department of Transportation and Infrastructure (TI).
- Government facility was undergoing an expansion that caused the biomass heating system to be shut down for fiscal 2021-22.
- Government facility became operational in November 2021.
- Government facilities became operational in April 2022.

**BIOMASS HEATING CONTRACT DETAILS, REPORTING
REQUIREMENTS AND SUMMARY OF REPORTING RECEIVED
FEBRUARY 27, 2024**

Date Signed	Government Facility	Harvesting Conducted in a Sustainable Manner	Reporting Related to the Harvests	Reporting Timeline	Statement that Biomass was Harvested in Accordance with Eco-manual	Summary of Wood Chips Used in Previous 12 Months	Property Identification Number	Stand Number	Location of Harvest	Number of Acres Harvested	Includes Clauses for Corrective Action or Penalties	Reporting Received	2020 Report Included All Required Information	2021 Report Included All Required Information	2022 Report Included All Required Information
27-Oct-09	Westisle Composite High School	No	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
29-Sep-11	O'Leary Community Hospital	Yes	No	N/A	N/A	N/A	N/A	N/A	N/A	N/A	No	N/A	N/A	N/A	N/A
12-Dec-11	Bluefield Senior High School	Yes	No	N/A	N/A	N/A	N/A	N/A	N/A	N/A	No	N/A	N/A	N/A	N/A
12-Dec-11	Three Oaks Senior High School	Yes	No	N/A	N/A	N/A	N/A	N/A	N/A	N/A	No	N/A	N/A	N/A	N/A
	East Prince Career and Technical Education Centre														
30-Aug-12	Wedgewood Manor	Yes	No	N/A	N/A	N/A	N/A	N/A	N/A	N/A	No	N/A	N/A	N/A	N/A
27-Nov-12	École Évangéline	Yes	No	N/A	N/A	N/A	N/A	N/A	N/A	N/A	No	N/A	N/A	N/A	N/A
19-Jun-13	Western Hospital	Yes	Yes	Yes ¹	No	No	Yes	Yes	No	Yes	Yes	No	N/A	N/A	N/A
	Athena Consolidated School														
	Summerside Intermediate School														
15-Jul-13	Beach Grove Home	Yes	Yes	Yes ¹	No	No	Yes	Yes	No	Yes	Yes	Yes ³	No	No	No
	Prince Edward Home														
	Provincial Correctional Center														
	Souris Hospital														
	East Wiltshire Intermediate School														
	Eliot River Elementary School														
	Morell Regional High School														
	Souris Regional High School														
Stonepark Intermediate School															
15-Aug-14	École-sur-Mer	Yes	Yes	Yes ¹	No	No	Yes	Yes	No	Yes	Yes	No	N/A	N/A	N/A
	Elm Street Elementary School														
15-Apr-15	Miscouche Consolidated School	Yes	Yes	Yes ¹	No	No	Yes	Yes	No	Yes	Yes	No	N/A	N/A	N/A
20-Apr-16	Prince County Hospital	Yes	Yes	Yes ¹	No	No	Yes	Yes	No	Yes	Yes	No	N/A	N/A	N/A
	Summerset Manor														

**BIOMASS HEATING CONTRACT DETAILS, REPORTING
REQUIREMENTS AND SUMMARY OF REPORTING RECEIVED
FEBRUARY 27, 2024**

Date Signed	Government Facility	Harvesting Conducted in a Sustainable Manner	Reporting Related to the Harvests	Reporting Timeline	Statement that Biomass was Harvested in Accordance with Eco-manual	Summary of Wood Chips Used in Previous 12 Months	Property Identification Number	Stand Number	Location of Harvest	Number of Acres Harvested	Includes Clauses for Corrective Action or Penalties	Reporting Received	2020 Report Included All Required Information	2021 Report Included All Required Information	2022 Report Included All Required Information
1-Mar-18	Tignish Seniors Building A	No	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Tignish Seniors Building B														
	Tignish Sign Shop														
	Tignish Elementary School														
13-Jun-18	Hernewood Intermediate School	Yes	Yes	Yes ²	Yes	No	No	No	Yes	No	No	N/A	N/A	N/A	
16-May-19	Queens County Highway Depot	Yes	Yes	Yes ²	Yes	Yes	Yes	No	No	No	No	Yes ³	Yes	No	No
	Glen Stewart Primary School														
	Stratford Elementary School														
	West Royalty Elementary School														
24-Jul-19	Westwood Primary School	Yes	Yes	Yes ²	Yes	Yes	Yes	No	No	No	No	No	N/A	N/A	N/A
	Kensington Intermediate Senior High School														
	Queen Elizabeth Elementary School														
26-Jun-20	ME Callaghan Intermediate School	Yes	Yes	Yes ²	Yes	Yes	Yes	No	No	No	No	Yes ³	Yes	No	No
	École Française-Buote														
15-Jul-20	Summerside Seniors Building D	Yes	Yes	Yes ²	Yes	Yes	Yes	No	No	No	No	No	N/A	N/A	N/A
	Summerside Seniors Building E														
	Summerside Seniors Building F														
	Summerside Seniors Building G														
	Summerside Seniors Building H														
	Summerside Seniors Building J														
	Summerside Seniors Building L														

**BIOMASS HEATING CONTRACT DETAILS, REPORTING
REQUIREMENTS AND SUMMARY OF REPORTING RECEIVED
FEBRUARY 27, 2024**

Date Signed	Government Facility	Harvesting Conducted in a Sustainable Manner	Reporting Related to the Harvests	Reporting Timeline	Statement that Biomass was Harvested in Accordance with Eco-manual	Summary of Wood Chips Use in Previous 12 Months	Property Identification Number	Stand Number	Location of Harvest	Number of Acres Harvested	Includes Clauses for Corrective Action or Penalties	Reporting Received	2020 Report Included All Required Information	2021 Report Included All Required Information	2022 Report Included All Required Information
26-Jul-21	Riverview Manor Montague Intermediate School	Yes	Yes	Yes ²	Yes	Yes	Yes	No	No	No	No	Yes ⁴	N/A	N/A	No

Source: Department of Transportation and Infrastructure and Biomass Heating Contracts

1. Requires contractor to report within one month of completing a harvest.
2. Requires contractor to report annually.
3. Reports were provided to the Department by the contractor for the 2020-2022 calendar years.
4. Facilities became operational in 2022, therefore reporting was only required for the 2022 calendar year.

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

79 total recommendations

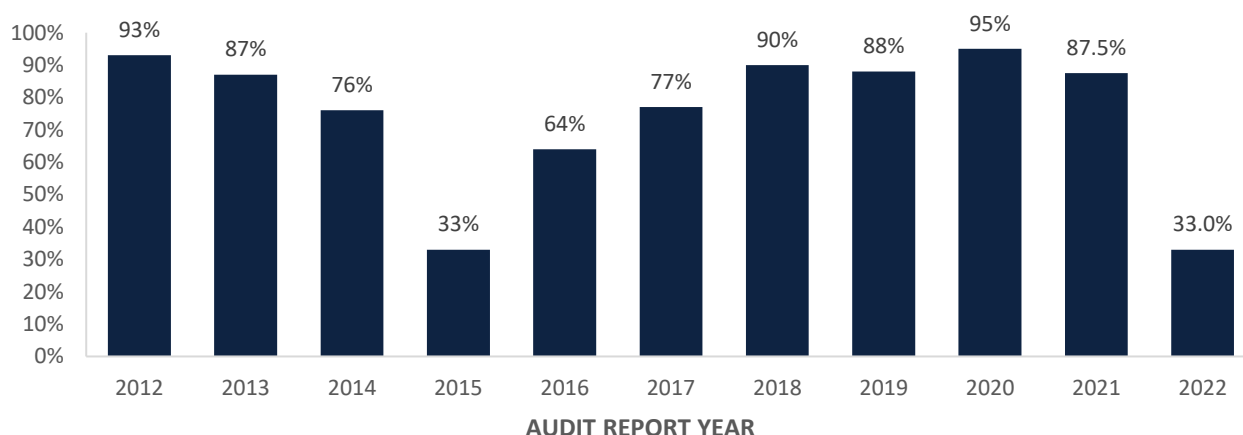
For audit reports issued in 2019, 2020, 2021 and 2022

Status as at August 31, 2023

WHAT WE FOUND

	3 rd year follow-up		2 nd year follow-up	1 st year follow-up
Audit report years included	2019	2020	2021	2022
# recommendations	28	21	24	6
Total % implemented – current year	88%	95%	87.5%	33%
Total % implemented – prior year	85%	86%	37.5%	N/A

Implementation of Recommendations



These rates are based on the information at the time our follow-up work was completed. We will follow-up on outstanding 2020, 2021 and 2022 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 2019, 2020, 2021 and 2022. 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, 2023.
- 6.4 The COVID-19 special examination audits were not included in our current year follow-up work. We completed our work on the COVID-19 Financial Support Programs in three phases with reports released between July 2021 and December 2023. We will follow-up on all three phases approximately one year after we released the COVID-19 Financial Support Programs Phase III report, and then for three more years.
- 6.5 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.
- 6.6 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.
- 6.7 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.

6.8 This chapter provides information on the results of our work. Further details on the engagement standards, objective, scope, and conclusions are included in **Appendix A** of this chapter. **Appendices B-E** list all recommendations from performance audits and examinations from our 2019, 2020, 2021 and 2022 reports, and the status of implementation as at August 31, 2023.

6.9 **Appendix F** lists all recommendations reported by management as not implemented as at August 31, 2023. 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.

2019 ANNUAL REPORT

6.10 **Exhibit 6.1** shows the overall rate of implementation of recommendations for each audit included in our 2019 Annual Report.

EXHIBIT 6.1 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	-	2	12	86%
Capital Asset Plan for Provincial Parks	6	-	-	6	100%
Procurement of Goods for Government Departments	8	2	1	5	83%**
Total*	28	2	3	23	88%**

*As at August 31, 2023

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

6.11 This is the final year that we follow up on the recommendations reported in our 2019 Annual Report. Overall, we concluded that 88 percent of these recommendations have been implemented, in comparison to 85 percent from last year. The paragraphs that follow provide additional information on the outstanding recommendations.

6.12 During our follow-up work in 2022, we confirmed that all recommendations had been implemented for the Capital Asset Plan for Provincial Parks audit; therefore, no additional work was completed this year.

Early Learning and Child Care Centres (2019)

6.17 Grant funding to centres under two programs were not always provided in compliance with program criteria and funding contracts.

WHAT OUR AUDIT EXAMINED

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

6.14 Our audit objectives were to determine whether the Ministry of Education and Early Years:

- 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

6.15 The Ministry of Education and Early Years did not adequately monitor and enforce the licensing of early learning and child care centres in compliance with legislation

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

STATUS OF RECOMMENDATIONS

6.18 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 Early Years. We considered eleven of these recommendations to have been implemented during the prior year's follow-up process. Management indicated that one additional recommendation was implemented, and two recommendations were not implemented as at August 31, 2023. Based on our work, we agreed with management.

Follow-up Report	Implemented	No Longer Applicable	Not Implemented	Total
Current year	12	-	2	14
Prior Year	11	-	3	14

6.19 The Department of Education and Early Years has documented and appropriately authorized funding arrangements in contracts with Early Years Centres (*recommendation 2.85*).

6.20 The Department of Education and Early Years continues to work towards establishing performance indicators and targets to evaluate accessibility of licensed childcare services (*recommendation 2.69*).

6.21 In our initial audit, we recommended that the Department of Education and Early Years 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, they do not specify which benefits the funding can be used for. Including the specific benefits that the funding can be used for would allow the Department to monitor whether the funds were used as intended. Based on our work, it has been assessed as not implemented. Management has indicated that they do not intend to implement this recommendation.

Procurement of Goods for Government Departments (2019)

WHAT OUR AUDIT EXAMINED

6.22 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.

6.23 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

6.24 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*.

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

6.26 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

6.27 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 the prior year's follow-up process. Management indicated that one outstanding recommendation remains not implemented as at August 31, 2023.

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

6.28 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.

6.29 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

6.30 **Exhibit 6.2** shows the overall rate of implementation of recommendations for each audit included in our 2020 Annual Report.

**EXHIBIT 6.2
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	-	2	100%
Laboratory Services: Surgical Specimen Processing	6	-	6	100%
Total*	21	1	20	95%

*As at August 31, 2023

6.31 This is the third year that we have followed up on the recommendations reported in our 2020 Annual Report. Overall, we concluded that 95 percent of these recommendations have been implemented, in comparison to 86 percent from last year. The paragraphs that follow provide additional information on the outstanding recommendations.

AccessAbility Supports Program (2020)

WHAT OUR AUDIT EXAMINED

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

6.33 Our audit objectives were to determine whether the Department of Social Development and Seniors (formerly 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

6.34 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

6.35 Our original audit included 13 recommendations. We considered 12 of these recommendations to have been implemented during the prior year’s follow-up process. Management indicated that the last outstanding recommendation was implemented as at August 31, 2023. Based on our work, we concluded that this recommendation was not implemented as at August 31, 2023.

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

6.36 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

6.37 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.

6.38 Our audit objective was to determine whether the Department of Social Development and Seniors 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 Framework (formerly the Government Information Security Policy).

WHAT OUR AUDIT FOUND

6.39 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 Framework, we concluded that the Department of Social Development and Seniors and Information Technology Shared Services did not adequately implement key information technology security access controls.

6.40 The Department of Social Development and Seniors 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), and to a limited extent, the Department of Finance. Based on our findings, recommendations were directed to ITSS.

original 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.

STATUS OF RECOMMENDATIONS

6.41 Our original audit included two recommendations for ITSS. We considered one of these recommendations to have been implemented during the prior year’s follow-up process. Management indicated that the one outstanding recommendation was implemented as at August 31, 2023. Based on our work, we agreed with management.

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

6.42 ITSS has established 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

6.43 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 being issued annually at the time of our

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

WHAT OUR AUDIT FOUND

6.45 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

6.46 Our original audit included six recommendations. We considered five of these recommendations to have been implemented during the prior year's follow-up process. Management indicated the last outstanding recommendation was implemented as at August 31, 2023. Based on our work, we agreed with management.

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

6.47 Management of Laboratory Services has implemented a process for the efficient delivery of pathology reports (*recommendation 4.55*). Management has reported that more than 90% of family practitioners have implemented the Electronic Medical Records system and are receiving pathology reports electronically.

2021 ANNUAL REPORT

6.48 **Exhibit 6.3** shows the overall rate of implementation of recommendations for each audit included in our 2021 Annual Report.

EXHIBIT 6.3 STATUS OF IMPLEMENTATION OF RECOMMENDATIONS* BASED ON LIMITED ASSURANCE 2021 ANNUAL REPORT

Audit	Total	Not Implemented	Implemented	
			#	Percent
International Student Program	13	2	11	85%
Crown Corporations Governance Survey	11	1	10	91%
Total*	24	3	21	87.5%

*As at August 31, 2023

6.49 This is the second year that we have followed up on the recommendations reported in our 2021 Annual Report. Overall, we concluded that 87.5 percent of these recommendations have been implemented, in comparison to 37.5 percent from last year. The paragraphs that follow provide additional information on the outstanding recommendations.

Prince Edward Island International Student Program (2021)

WHAT OUR AUDIT EXAMINED

6.50 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.

6.51 In the 2020 fiscal year the Prince Edward Island International Student Program (PEIISP) had 137 international students attend Island public schools and generated direct revenues of approximately \$1.5 million.

6.52 Our audit objective was to determine whether the Department of Education and Early Years (formerly the Department of Education and Lifelong Learning) had processes to effectively manage the PEIISP.

WHAT OUR AUDIT FOUND

6.53 The Department of Education and Early Years 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.

STATUS OF RECOMMENDATIONS

6.54 Our original audit included 13 recommendations. We considered five of these recommendations to have been implemented during the prior year’s follow-up process. Management indicated that seven additional recommendations were implemented, and one recommendation was not implemented. Based on our work, we concluded that six additional recommendations have been implemented, and two recommendations have not been implemented as at August 31, 2023.

Follow-up Report	Implemented	No Longer Applicable	Not Implemented	Total
Current Year	11	-	2	13
Prior Year	5	-	8	13

6.55 The Department of Education and Early Years has:

- finalized a strategic plan for the PEIISP (*recommendation 4.18*);
- maintained key supporting documentation in PEIISP student files and included documentation requirements within the drafted policy guidance (*recommendation 4.29*);
- implemented a quality assurance process for applications (*recommendation 4.30*);
- documented meeting minutes noting any significant strategic and operational decisions for the PEIISP (*recommendation 4.62*);

- improved public reporting on the performance of the PEIISP on an annual basis (*recommendation 4.63*); and
- monitored student satisfaction with the PEIISP (*recommendation 4.66*).

6.56 Management continues to work on:

- finalizing policies and procedures documents, to be reviewed by policy and legal staff (*recommendation 4.24*); and
- establishing procedures for collecting overdue tuition fees (*recommendation 4.36*).

Crown Corporation Governance Survey (2021)

WHAT OUR SURVEY EXAMINED

6.57 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.

6.58 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.

6.59 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

6.60 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

6.61 Our survey included eleven recommendations. We considered four of these recommendations to have been implemented during the prior year’s follow-up process. Management indicated that all remaining recommendations were implemented. Based on our work, we concluded that six additional recommendations have been implemented, and one recommendation has not been implemented as at August 31, 2023.

Follow-up Report	Implemented	No Longer Applicable	Not Implemented	Total
Current Year	10	-	1	11
Prior Year	4	-	7	11

6.62 Treasury Board continues to work on ensuring Government’s public policy objectives are clearly communicated to all boards of directors of Crown corporations (*recommendation 5.21*).

6.63 Treasury Board developed a new section for Treasury Board policy: “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.

6.64 The policy, effective January 2022, established requirements for reporting entities which addressed each of the recommendations made in our 2021 report. Treasury Board developed the Good Governance Policy

Checklist based on the policy to allow reporting entities to indicate whether the items required by the policy were implemented, not implemented or not applicable. Treasury Board provided a copy of the checklist to all Departments and requested that it be completed for each of their reporting entities by May 31, 2023.

6.65 The Good Governance Policy Checklist allows Treasury Board to assess whether reporting entities:

- maintained and conducted a formal board orientation program (*recommendation 5.13*);
- provided regular training opportunities for board members (*recommendation 5.15*);
- established a minimum number of board meetings that a Departmental Minister or representatives are to attend annually (*recommendation 5.22*);
- reported publicly as an entity, on an annual basis, on the mandate and performance of the organization (*recommendation 5.24*);
- completed performance evaluations annually for the Chief Executive Officers or equivalents (*recommendation 5.30*); and
- evaluated the effectiveness of Boards of Directors annually with documented performance measures (*recommendation 5.33*).

6.66 Treasury Board provided our Office with all Good Governance Policy Checklists that were received in 2023. Checklists were received from all applicable reporting entities.

6.67 Over the next three years, our Office will review the responses provided by the

reporting entities to determine whether the items identified as implemented on their checklists can be supported. For the current year we reviewed the checklists for eight reporting entities under the Department of Agriculture; Department of Economic Development, Innovation and Trade; and the Department of Environment, Energy and Climate Action.

6.68 We reviewed the Good Governance Policy Checklists of these eight reporting entities and requested support for items identified as implemented. We did not assess the quality of the content provided in the supporting documentation, but rather reviewed the information to determine whether documentation existed to demonstrate the implementation of Treasury Board Policy 10.03 requirements. For those items identified as not implemented, or not applicable, we did not do any work.

6.69 **Appendix G** outlines the results of our testing on the reporting entity checklists in our sample. The table indicates what was identified as implemented, not implemented and not applicable, and our conclusion on whether implemented items were supported. A summary of the checklist responses provided by reporting entities which were not part of our current year testing are included in **Appendix H**. We have not conducted any work and provide no assurance on these checklist responses.

6.70 Section 6 of Treasury Board Policy 10.03 requires reporting entities to provide the following reports or forms to their responsible Departments each year by December 31st:

- a) Annual Report;
- b) Conflict of Interest declaration forms;
- c) Board Certification – Fiduciary Duty forms;
- d) Performance Evaluation – CEO or equivalents; and
- e) Performance Evaluation – Board Members.

6.71 We requested Departments provide our Office with any of the reports or forms received from the eight reporting entities in our sample as at December 31st, 2022.

6.72 We found that none of the reporting entities tested provided the required reports or forms to their Departments by the December 31st, 2022 deadline. This annual reporting would allow Departments to ensure the Boards and members of reporting entities are fulfilling their fiduciary function.

2022 AUDIT REPORT

6.73 **Exhibit 6.4** shows the overall rate of implementation of recommendations for the 2022 audit that we are following up on this year.

EXHIBIT 6.4 STATUS OF IMPLEMENTATION OF RECOMMENDATIONS* BASED ON LIMITED ASSURANCE 2022 AUDIT REPORT

Audit	Total	Not Implemented	Implemented	
			#	Percent
Overdue Property Taxes*	6	4	2	33%

*As at August 31, 2023

6.74 This is the first year that we have followed up on the recommendations reported in our 2022 audit report. Overall, we concluded that 33 percent of these recommendations have

been implemented. The paragraphs that follow provide additional information on the outstanding recommendations.

Overdue Property Taxes (2022)

WHAT OUR AUDIT EXAMINED

- 6.75 There are over 110,000 real properties on Prince Edward Island. The Province charges property taxes on these properties and generated approximately \$132 million in provincial property tax revenue in the fiscal year ended March 31, 2021. Property tax represents approximately 12 percent of the Province's tax revenue each year.
- 6.76 Overdue property tax refers to property taxes that have not been paid by the taxpayer by the due date. As at March 31, 2021, approximately \$16.8 million in provincial property taxes were overdue. When overdue property tax amounts are not collected by the Province, this reduction in revenue could impact funding for public programs.
- 6.77 When overdue amounts are no longer considered collectable by the Department, the property tax amounts may be forgiven. To ensure fairness, it is important that property tax forgiveness is appropriately approved in accordance with legislation and policies.
- 6.78 Our audit objective was to determine whether the Department of Finance collects property taxes in accordance with the *Real Property Tax Act* and regulations, and makes property tax forgiveness decisions and recommendations in accordance with applicable legislation and policies.

WHAT OUR AUDIT FOUND

6.79 Overall, we concluded that the Department of Finance collects property taxes in accordance with the *Real Property Tax Act* and regulations, and makes tax forgiveness decisions and recommendations in accordance with applicable legislation and policies. However, the following weaknesses were identified:

- There were no documented policies or procedures related to payment arrangements. There was also a lack of documentation regarding the administration of these arrangements, and there were inconsistencies in the actions taken when taxpayers defaulted.
- Property tax sales were not occurring in a timely manner. Based on our sample, when the Province sold a property to collect overdue and unpaid taxes, the property did not go to sale in a timely manner, taking between 2.4 and 9.3 years.
- Debts, which were considered uncollectable, were not submitted to Executive Council for approval to be cancelled in a timely manner.
- The Department's records retention schedule allows for active files within the Tax Deferral Program for Senior Citizens to be destroyed three years after application, although many taxpayers remain in the program for longer.
- When the taxpayer's primary residence is used for commercial, farming, or other purposes, there was no guidance regarding what factors to consider when determining which portion of property taxes were eligible to be deferred under the Tax Deferral Program for Senior Citizens.

STATUS OF RECOMMENDATIONS

6.80 Our original audit included six recommendations. Management indicated that two recommendations were implemented, and four recommendations were not implemented. Based on our work, we agreed with management.

Follow-up Report	Implemented	No Longer Applicable	Not Implemented	Total
Current Year	2	-	4	6
Prior Year*	N/A	N/A	N/A	N/A

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

6.81 The Department of Finance has:

- implemented a practice whereby uncollectable property tax amounts are sent to Executive Council for cancellation in the fiscal year following the year in which they are determined to be uncollectable (*recommendation 1.51*); and
- developed guidance for the Tax Deferral Program for Senior Citizens to determine which portion of property taxes for multi-use and larger acreage properties may be deferred (*recommendation 1.62*).

6.82 Management continues to work on:

- documenting and implementing policies relating to the administration of payment arrangements (*recommendation 1.29*);
- advertising properties for tax sale according to timelines established in legislation (*recommendation 1.34*);
- establishing acceptable timelines to sell a property after the Notice of Tax Sale has been sent (*recommendation 1.35*); and
- updating their records retention and disposition schedule to maintain records for taxpayers who qualify for the Tax Deferral Program for Senior Citizens until they exit the Program (*recommendation 1.58*).

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 2019, 2020, 2021 and 2022 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, 2023, 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 2019, 2020, 2021 and 2022 audit reports. We provide limited assurance on those recommendations assessed by management as implemented as at August 31, 2023.

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, 2023

- 88 percent of 2019 recommendations were implemented;
- 95 percent of 2020 recommendations were implemented;
- 87.5 percent of 2021 recommendations were implemented; and
- 33 percent of 2022 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 22, 2024, in Charlottetown, Prince Edward Island.

2019 ANNUAL REPORT
PERFORMANCE AUDITS AND EXAMINATIONS
RECOMMENDATIONS

Audit	Para.*	Recommendation	Status of Implementation as at Aug 31, 2023
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 Early Years (formerly the Department of Education, Early Learning and Culture)	2.68	The Department of Education and Early Years should define overall goals for the accessibility of licensed child care services in Prince Edward Island.	Implemented
	2.69	The Department of Education and Early Years should establish performance indicators and targets to evaluate the accessibility of licensed child care services.	Not Implemented
	2.85	The Department of Education and Early Years 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.	Implemented
	2.86	The Department of Education and Early Years 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 Early Years should ensure that funding contracts for Early Years Centres are authorized in accordance with Treasury Board Policy.	Implemented

*Recommendation numbers refer to the paragraph numbers in the original audit report.

2019 ANNUAL REPORT
PERFORMANCE AUDITS AND EXAMINATIONS
RECOMMENDATIONS

Audit	Para.*	Recommendation	Status of Implementation as at Aug 31, 2023
Early Learning and Child Care Centres (cont'd)			
Department of Education and Early Years (formerly the Department of Education, Early Learning and Culture)	2.88	The Department of Education and Early Years should strengthen review procedures for payments to Early Years Centres.	Implemented
	2.94	The Department of Education and Early Years 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 Early Years 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

*Recommendation numbers refer to the paragraph numbers in the original audit report.

2019 ANNUAL REPORT
PERFORMANCE AUDITS AND EXAMINATIONS
RECOMMENDATIONS

Audit	Para.*	Recommendation	Status of Implementation as at Aug 31, 2023
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

*Recommendation numbers refer to the paragraph numbers in the original audit report.

2020 ANNUAL REPORT
PERFORMANCE AUDITS AND EXAMINATIONS
RECOMMENDATIONS

Audit	Para.*	Recommendation	Status of Implementation as at Aug 31, 2023
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

*Recommendation numbers refer to the paragraph numbers in the original audit report.

2020 ANNUAL REPORT
PERFORMANCE AUDITS AND EXAMINATIONS
RECOMMENDATIONS

Audit	Para.*	Recommendation	Status of Implementation as at Aug 31, 2023
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.	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.	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

*Recommendation numbers refer to the paragraph numbers in the original audit report.

2021 ANNUAL REPORT
PERFORMANCE AUDITS AND EXAMINATIONS
RECOMMENDATIONS

Audit	Para.*	Recommendation	Status of Implementation as at Aug 31, 2023
International Student Program			
Department of Education and Early Years	4.18	The Department of Education and Early Years should document and approve a strategic plan for the PEI International Student Program.	Implemented
	4.24	The Department of Education and Early Years should document, approve and implement policies and procedures for the PEI International Student Program.	Not Implemented
	4.29	The Department of Education and Early Years 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.	Implemented
	4.30	The Department of Education and Early Years should document and maintain a quality assurance process for PEI International Student Program applications.	Implemented
	4.36	The Department of Education and Early Years 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 Early Years 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 Early Years should perform due diligence procedures on education agents associated with the PEI International Student Program.	Implemented
	4.52	The Department of Education and Early Years 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 Early Years should have agreements with homestay providers.	Implemented
	4.61	The Department of Education and Early Years 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 Early Years should document meeting minutes noting any significant strategic or operational decisions for the PEI International Student Program.	Implemented

*Recommendation numbers refer to the paragraph numbers in the original audit report.

2021 ANNUAL REPORT
PERFORMANCE AUDITS AND EXAMINATIONS
RECOMMENDATIONS

Audit	Para.*	Recommendation	Status of Implementation as at Aug 31, 2023
International Student Program (cont'd)			
Department of Education and Early Years	4.63	The Department of Education and Early Years should report publically on the performance of the PEI International Student Program on an annual basis.	Implemented
	4.66	The Department of Education and Early Years should monitor student satisfaction with the PEI International Student Program.	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.	Implemented
	5.15	Treasury Board should ensure regular training opportunities for board members are provided by all Crown corporations.	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.	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.	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

*Recommendation numbers refer to the paragraph numbers in the original audit report.

2021 ANNUAL REPORT
PERFORMANCE AUDITS AND EXAMINATIONS
RECOMMENDATIONS

Audit	Para.*	Recommendation	Status of Implementation as at Aug 31, 2023
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.	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.	Implemented

*Recommendation numbers refer to the paragraph numbers in the original audit report.

**2022 AUDIT REPORT
PERFORMANCE AUDITS AND EXAMINATIONS
RECOMMENDATIONS**

Audit	Para.*	Recommendation	Status of Implementation as at Aug 31, 2023
Overdue Property Taxes			
Department of Finance	1.29	<p>The Department of Finance should document and implement policies to guide staff in relation to the administration of payment arrangements. These policies should include:</p> <ul style="list-style-type: none"> • taxpayer eligibility criteria for entering a payment arrangement; • acceptable payment terms including length of payment arrangement and payment frequency; • authorization levels required to approve a payment arrangement; and • protocols when a taxpayer defaults on a payment arrangement. 	Not Implemented
	1.34	The Department of Finance should advertise properties for tax sale according to timelines established in legislation.	Not Implemented
	1.35	The Department of Finance should establish acceptable timelines to sell a property after the Notice of Tax Sale has been sent to a taxpayer via registered mail.	Not Implemented
	1.51	The Department of Finance should submit uncollectable property tax amounts to Executive Council for cancellation in a timely manner, and no more than twelve months from the end of the fiscal year in which they are determined to be uncollectable.	Implemented
	1.58	The Taxation and Property Records Division of the Department of Finance should update their records retention and disposition schedule to maintain all records for taxpayers who have qualified for the Tax Deferral Program for Senior Citizens until the taxpayer exits the Program.	Not Implemented
	1.62	The Department of Finance should develop guidance for determining which portion of property taxes of multi-use properties and larger acreage properties may be deferred through the Tax Deferral Program for Senior Citizens. This guidance should be made available to the public.	Implemented

*Recommendation numbers refer to the paragraph numbers in the original audit report.

**RECOMMENDATIONS REPORTED BY MANAGEMENT
AS NOT IMPLEMENTED AT AUGUST 31, 2023
2019, 2020, 2021 AND 2022 AUDITS**

We requested a written assessment from management on whether recommendations from our 2019, 2020, 2021 and 2022 performance audits and examinations were complete or not complete at August 31, 2023. 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

Rec. #*	Recommendation	Management Response
Early Learning and Child Care Centres – 2019		
2.69	The Department of Education and Early Years should establish performance indicators and targets to evaluate the accessibility of licensed child care services.	<p>Actions Taken To Date:</p> <p>This action is ongoing.</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. • A Junior Evaluation Analyst and a Data and Reporting Coordinator have been hired. • Evaluation of Early Years Centre average enrolment has been completed. Enrolment, however, does fluctuate throughout the year. The EYC funding agreement has been updated to include a reporting requirement on enrolment. EEY staff have started meeting with Centres that are operating below 90% average enrolment. • Canada-Prince Edward Island Early Learning and Child Care Implementation Committee has met three times – fall and winter of 2022 and spring 2023. • IT project to develop a system to support the data collection critical for evaluative purposes is underway. Work will continue this fiscal and is expected Early Years will begin utilizing components of this new system this winter. <p>Actions Planned:</p> <ul style="list-style-type: none"> • EEY will review enrolment numbers this fall. Centres below 90% enrolment will be contacted to determine why they are below that number and plans for action to meet capacity expectations will be determined by centre and EEY.

*Recommendation numbers refer to the paragraph numbers in the original audit report.

**RECOMMENDATIONS REPORTED BY MANAGEMENT
AS NOT IMPLEMENTED AT AUGUST 31, 2023
2019, 2020, 2021 AND 2022 AUDITS**

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

Rec. #*	Recommendation	Management Response
Early Learning and Child Care Centres – 2019 cont'd		
2.86	The Department of Education and Early Years 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>
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: Work has been done by the Procurement Section to identify individuals in every department and has set them up as a receiver/recepter in Oracle FIS.</p> <p>Actions Planned: Will be working with CFOs from all Departments to develop processes that will allow us to ensure goods are received and receipted appropriately. CFOs will be responsible for maintaining approval listings of who has been identified as receivers (who can sign for a package), and the process that a receiver needs to follow in order to ensure appropriate safekeeping of goods. This will be finalized in the fall of 2023.</p>

*Recommendation numbers refer to the paragraph numbers in the original audit report.

**RECOMMENDATIONS REPORTED BY MANAGEMENT
AS NOT IMPLEMENTED AT AUGUST 31, 2023
2019, 2020, 2021 AND 2022 AUDITS**

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

Rec. #*	Recommendation	Management Response
International Student Program - 2021		
4.24	<p>The Department of Education and Early Years should document, approve and implement policies and procedures for the PEI International Student Program.</p>	<p>Actions Taken To Date:</p> <ul style="list-style-type: none"> • Our website was updated in the fall of 2022. • TrueNorth is fully operational as registration and management tool for the PEIISP. • Draft Policies and Draft of Operations Manual have been created for feedback. • Feedback and the resulting dialogue for Policies and Operations Manual indicate the possibility for legislative changes prior to the completion of this work. <p>Actions Planned:</p> <p>The PEIISP has incorporated all recommendations except for two relating to policy development. The Department is in the process of determining the legislation path required to implement the desired policies.</p>
Overdue Property Taxes - 2022		
1.29	<p>The Department of Finance should document and implement policies to guide staff to relation to the administration of payment arrangements. These policies should include:</p> <ul style="list-style-type: none"> • taxpayer eligibility criteria for entering a payment arrangement; • acceptable payment terms including length of payment arrangement and payment frequency; • authorization levels required to approve a payment arrangement; and • protocols when a taxpayer defaults on a payment arrangement. 	<p>Actions Taken To Date:</p> <p>The Department has developed a payment arrangement procedure. Procedure has been reviewed by the impacted staff, and was posted to the internal portal for review by all staff prior to finalization.</p> <p>Actions Planned:</p> <p>Staff had until July to post comments on the draft procedure. Comments were received and are being reviewed and incorporated into the procedure prior to posting it as a finalized approved procedure. A final version will be posted in September 2023.</p>

*Recommendation numbers refer to the paragraph numbers in the original audit report.

**RECOMMENDATIONS REPORTED BY MANAGEMENT
AS NOT IMPLEMENTED AT AUGUST 31, 2023
2019, 2020, 2021 AND 2022 AUDITS**

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

Rec. #*	Recommendation	Management Response
Overdue Property Taxes - 2022 cont'd		
1.34	The Department of Finance should advertise properties for tax sale according to timelines established in legislation.	<p>Actions Taken To Date:</p> <p>The Department of Finance does not have the same interpretation of the timeline established in the legislation. The Department has discussed the differing interpretations of the legislation with a view to crafting wording that is easier to interpret.</p> <p>The Department has first developed the payment arrangement and tax sale timing procedures to assist legislative drafters with determining how to draft legislative language.</p> <p>Actions Planned:</p> <p>Upon finalization of the payment arrangement policy noted in 1.29, the Department will work with legislative counsel to add clarity on reasonable timelines for advertising properties, based on interpreting the Act as a whole, including other prescribed requirements for advertising.</p> <p>The Department has received approval to add this to our Legislative work plan for Fall 2023.</p>
1.35	The Department of Finance should establish acceptable timelines to sell a property after the Notice of Tax Sale has been sent to a taxpayer via registered mail.	<p>Actions Taken To Date:</p> <p>The Department has discussed the timeline requirements in legislation with legal counsel, as well as guidance on dealing with some of the barriers to timely sale such as issues with title.</p> <p>The Department has developed procedures for ensuring more timely processing of property sales, while taking into account that there are many factors that are not within the control of the Department that can lead to an extended timeline for sale of a property (i.e. issues with title). The procedure has been developed and reviewed by management and staff involved in the process.</p> <p>Actions Planned:</p> <p>Staff had until July to post comments on the draft procedure. Comments were received and are being reviewed and incorporated into the procedure prior to posting it as a finalized approved procedure. A final version will be posted in September 2023.</p>

*Recommendation numbers refer to the paragraph numbers in the original audit report.

**RECOMMENDATIONS REPORTED BY MANAGEMENT
AS NOT IMPLEMENTED AT AUGUST 31, 2023
2019, 2020, 2021 AND 2022 AUDITS**

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

Rec. #*	Recommendation	Management Response
Overdue Property Taxes - 2022 cont'd		
1.58	The Taxation and Property Records Division of the Department of Finance should update their records retention and disposition schedule to maintain all records for taxpayers who have qualified for the Tax Deferral Program for Senior Citizens until the taxpayer exits the Program.	<p>Actions Taken To Date:</p> <p>This updated retention schedule has been presented to the archivist by our RIM coordinator.</p> <p>Actions Planned:</p> <p>We understand that the previous archivist has retired, and a replacement is being sought. Once in place, if the new archivist has no comments, they will forward it to the records management committee for approval. We are awaiting approval from the records management committee, however in the interim, no records for active senior tax deferral programs will be removed.</p>

*Recommendation numbers refer to the paragraph numbers in the original audit report.

RESULTS OF REVIEW*
GOOD GOVERNANCE CHECKLISTS
AS REPORTED ON MAY 31, 2023 CHECKLISTS
 (*for those requirements reported as implemented by the reporting entity)

Items required in Treasury Board Policy 10.03 included on Good Governance Policy Checklist	Department of Agriculture				Department of Economic Development, Innovation and Trade								Department of Environment, Energy and Climate Action			
	Agriculture Insurance Corp		Grain Elevators Corp		Finance PEI		Innovation PEI		Island Investment Development Inc.		Charlottetown Area Development Corp.		Summerside Regional Development Corp.		PEI Energy Corp.	
	Per Checklist	Per review ¹	Per Checklist	Per review ¹	Per Checklist	Per review ¹	Per Checklist	Per review ¹	Per Checklist	Per review ¹	Per Checklist	Per review ¹	Per Checklist	Per review ¹	Per Checklist	Per review ¹
5(a) Formal board orientation	✓	Yes	✓	Yes	X	-	X	-	X	-	✓	Yes	N/A ²	-	✓	Yes
5(b) Regular board training	✓	Yes	X	-	✓	Yes	✓	X	✓	Yes	✓	Yes	N/A ²	-	✓	Yes
5(c) Strategic Plan including Information Technology Strategies	✓	Yes	X	-	✓	No	✓	Yes	✓	Yes	✓	Yes	✓	Yes	✓	Yes
5(d) Departmental Minister/representative at board meetings	✓	Yes	✓	No	✓	Yes	✓	Yes	✓	Yes	✓	No	✓	Yes	✓	Yes
5(e) Publicly released annual report	✓	Yes	✓	No	✓	Yes	✓	Yes	✓	Yes	✓	Yes	✓	Yes	✓	Yes
5(f) Conflict of Interest declaration forms	✓	No	✓	No	✓	Yes	✓	No	✓	No	✓	No	X	-	✓	Yes
5(g) Annual Board Certifications	✓	No	X	-	X	-	✓	No	X	-	✓	Yes	X	-	✓	Yes
5(h) Audit Committee/other sub-committees	✓	Yes	X	-	✓	No	✓	Yes	✓	No	✓	Yes	N/A ²	-	✓	Yes
5(i) Annual CEO Performance evaluation	N/A ²	-	X	-	✓	No	X	-	✓	No	✓	No	X	-	X	-
5(j) Annual Board effectiveness evaluation	✓	Yes	X	-	X	-	X	-	X	-	X	-	X	-	N/A ²	-

¹ Review column indicates where follow-up work was completed. Where the entity indicated not implemented or not applicable, no follow-up work was completed.

² Reporting entities indicated not applicable (N/A) based on composition of board members and/or nature of operations.

**SUMMARY OF GOOD GOVERNANCE POLICY CHECKLIST RESPONSES
AS REPORTED ON MAY 31, 2023 CHECKLIST**

We provide no assurance on the responses provided by each reporting entity (for information only)

Items required in Treasury Board Policy 10.03 included on Good Governance Policy Checklist	Department of Finance				Department of Fisheries, Tourism, Sport and Culture			Department of Health and Wellness	Department of Housing, Land and Communities	
	PEI Cannabis Management Corporation	PEI Liquor Control Commission	Prince Edward Island Self-Insurance and Risk Management Fund	PEI Lotteries	P.E.I. Aquaculture and Fisheries Research Initiative Inc.	PEI Museum and Heritage	Tourism PEI	Health PEI	PEI Housing Corporation*	
5(a) Formal board orientation	✓	✓	<i>N/A – not overseen by a Board of Directors</i>	✓	<i>N/A – dissolved March 19, 2019</i>	✓	✓	✓	N/A	
5(b) Regular board training	✓	✓		✓		✗	✓	✓	✓	N/A
5(c) Strategic Plan including Information Technology Strategies	✗	✗		✗		✓	✓	✓	✓	N/A
5(d) Deputy Minister/representative at board meetings	✓	✓		✓		✓	✓	✓	✓	N/A
5(e) Publicly released annual report	✗	✗		✓		✓	✓	✓	✓	✓
5(f) Conflict of Interest declaration forms	✓	✓		✗		✓	✓	✓	✗	N/A
5(g) Annual Board Certifications	✗	✗		✗		✓	✓	✓	✗	N/A
5(h) Audit Committee/other sub-committees	✓	✓		N/A		✓	✓	✓	✗	N/A
5(i) Annual CEO Performance evaluation	✗	✗		N/A		✓	N/A	N/A	✗	N/A
5(j) Annual Board effectiveness evaluation	✗	✗		✗		✓	✗	✗	✓	N/A

*Per checklist provided by Prince Edward Island Housing Corporation (PEIHC), as at March 31, 2023 PEIHC did not have a Board of Directors.

SUMMARY OF GOOD GOVERNANCE POLICY CHECKLIST RESPONSES
AS REPORTED ON MAY 31, 2023 CHECKLIST

We provide no assurance on the responses provided by each reporting entity (for information only)

Items required in Treasury Board Policy 10.03 included on Good Governance Policy Checklist	Department of Transportation and Infrastructure		Department of Workforce, Advanced Learning and Population			Department of Education and Early Years			Department of Justice and Public Safety
	Island Waste Management Corporation	PEI Crown Building Corporation	PEI Employment Development Agency	PEI Student Financial Assistance Corporation	Workers Compensation Board	Public Schools Branch	La Commission Scolaire de langue française	Island Regulatory and Appeals Commission	PEI Human Rights Commission
5(a) Formal board orientation	✓	X	✓	✓	✓	✓	✓	<i>N/A – not overseen by a Board of Directors</i>	✓
5(b) Regular board training	✓	X	N/A	N/A	✓	X	✓		✓
5(c) Strategic Plan including Information Technology Strategies	X	X	✓	X	✓	X	✓		X
5(d) Deputy Minister/representative at board meetings	✓	N/A	✓	✓	✓	X	✓		N/A
5(e) Publicly released annual report	✓	✓	✓	✓	✓	✓	✓		✓
5(f) Conflict of Interest declaration forms	✓	N/A	N/A	✓	✓	✓	✓		N/A
5(g) Annual Board Certifications	X	N/A	N/A	✓	✓	✓	✓		N/A
5(h) Audit Committee/other sub-committees	X	X	N/A	N/A	✓	✓	X		N/A
5(i) Annual CEO Performance evaluation	X	N/A	N/A	N/A	✓	X	X		✓
5(j) Annual Board effectiveness evaluation	X	N/A	N/A	N/A	✓	X	X		N/A

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.

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 made by 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 2019, 2020, 2021 and 2022 audit reports. Although Treasury Board has obtained reporting on the status of implementation of recommendations included in our audit reports from 2013 to 2023, we have only included those from our 2019, 2020, 2021 and 2022 audit reports, which were part of our current year follow-up report (see Chapter 6).

EXHIBIT 7.1
QUARTERLY UPDATES BY DEPARTMENTS AND REPORTING ENTITIES
FOR CALENDAR YEARS 2022-2023

Entity*	Year	Mar 31 2022	June 30 2022	Sept 30 2022	Dec 31 2022	Mar 31 2023	June 30 2023	Sept 30 2023	Dec 31 2023
Tourism PEI									
Capital Asset Plan for Provincial Parks ¹	2019	Yes	No	No	Yes	-	-	-	-
Department of Education and Early Years									
Prince Edward Island International Student Program	2021	Yes	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									
Overdue Property Taxes	2022	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
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 ³	2020	Yes	Yes	Yes	Yes	Yes	-	-	-
Procurement of Goods for Government Departments	2019	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Department of Social Development and Seniors									
AccessAbility Supports Program	2020	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
Health PEI									
Laboratory Services: Surgical Specimen Processing	2020	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

*Reflects current entity responsible

¹ Based on our follow-up work completed for August 31, 2022, all recommendations were determined to be complete. Therefore, no further reports to Treasury Board were required.

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

³ The entity reported all recommendations to be complete in their March 31, 2023 quarterly report to Treasury Board. Based on our follow-up work completed for August 31, 2023, all recommendations were determined to be complete. 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
- 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, 2023, and issued a clean, or unqualified, audit opinion on November 3, 2023.
- We provided information on significant observations and recommendations arising from our audit work, along with one other item 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, funds, and Crown corporations for the year ended March 31, 2023.

Why it’s important

The consolidated financial statements consolidate the accounts of the Operating Fund with those of the agencies, boards, funds, and Crown corporations 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 2022-23 consolidated financial statements fairly present the Province’s financial results.
- For the year ended March 31, 2023, the Province of Prince Edward Island was the only province in Canada that did not meet its statutory deadline for publishing Public Accounts. This was mainly due to delays and difficulties associated with the implementation of new accounting standards.
- There was no up to date asbestos management plan, as required by Section 49.6 of the *Occupational Health and Safety Act – General Regulations*.
- Several issues were noted with the Province’s handling of the federal Disaster Financial Assistance Arrangements (DFAA) program, including the failure to request advance or interim payments, failure to consider DFAA eligibility requirements when setting up a provincial program, and failure to properly account for the program in accordance with Canadian Public Sector Accounting Standards.
- The Province of Prince Edward Island is the only province in Canada that does not have an internal audit function.
- Over the past two years, conservative budget estimates have led to tax revenues being underestimated by \$200 million and \$190 million respectively, which has produced significant budget to actual variances in the Province’s financial results.

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 Public Accounts contains the Province's audited consolidated financial statements. All information and decisions related to these statements are the responsibility of Government. Public Accounts also includes 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, funds, and Crown corporations 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 Province's Public Accounts in the Legislative Assembly. Public Accounts for the fiscal year ended March 31, 2023 were tabled on November 6, 2023. This was past the statutory deadline of October 31.

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, 2023. 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 November 3, 2023, the Auditor General issued a clean, or unqualified, audit opinion on the Province's consolidated financial statements for the fiscal year ended March 31, 2023. The independent audit opinion stated that the Province's consolidated financial statements for the year ended March 31, 2023 were fairly presented in accordance with Canadian Public Sector Accounting Standards. As part of our audit report, we also disclosed key audit matters encountered during our audit of the Province's consolidated financial statements.

OBSERVATIONS AND RECOMMENDATIONS

- 9.7 The consolidated financial statements are the responsibility of Government and are prepared by the Office of 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 controls 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 another item we noted for consideration.

Non-Compliance with the *Financial Administration Act*

- 9.9 The *Financial Administration Act* establishes a statutory deadline of October 31 for publishing Public Accounts. A key component of meeting this deadline is the ability to meet audit readiness requirements for the audit of the consolidated financial statements of the Province of Prince Edward Island (the audit). Audit readiness requirements, which consist of dates for the delivery of financial information for audit, are established by our Office at the beginning of the audit, and are agreed upon by our Office and the Office of the Comptroller. The financial information provided for audit is expected to be well-supported and prepared by

management in accordance with Canadian Public Sector Accounting Standards (PSAS).

- 9.10 Effective April 1, 2022, the Province adopted new Public Sector Accounting Standards of which the most significant were: *PS 3280 Asset Retirement Obligations*, *PS 3450 Financial Instruments*, *PS 3041 Portfolio Investments* and *PS 1201 Financial Statement Presentation*. The implementation of these standards was time-intensive, complex and required significant resources, judgements, assumptions and inputs. This was especially true for *PS 3280 Asset Retirement Obligations*, which was one of the most challenging new standards ever implemented in the public sector. As this was our expectation, we had regularly communicated to management through our past reporting the importance of being proactive and preparing early for these new standards. However, the financial information related to these newly adopted accounting standards was received for audit months later than the audit readiness dates that had been agreed upon.
- 9.11 Our Office also identified several additional adjustments and changes to financial presentation in order to achieve compliance with PSAS. In an attempt to meet the statutory deadline, our Office worked a significant amount of overtime, but was unable to meet the deadline due to the late receipt of information provided for audit and the number of issues identified.
- 9.12 Overall, delays and difficulties associated with the implementation of new accounting standards were the main factors contributing to Public Accounts not meeting the statutory deadline. Public Accounts were not published and released to the public until November 6,

2023. Prince Edward Island was the only province in Canada that did not meet its statutory deadline for the 2023 fiscal year.

Recommendation

9.13 The Office of the Comptroller should implement new accounting standards on a timely basis to allow for Public Accounts to be published in accordance with the *Financial Administration Act's* statutory reporting deadline of October 31.

Asset Retirement Obligations

9.14 Effective April 1, 2022, the Province adopted the new Public Sector Accounting Standard *PS 3280 Asset Retirement Obligations*. An asset retirement obligation (ARO) is a legal obligation associated with the retirement of a tangible capital asset. This includes a legal requirement to remove hazardous materials, such as lead and asbestos. When an ARO exists, the standard requires public sector entities to recognize the legally obligated costs associated with the retirement or decommissioning of assets on acquisition, construction or development.

9.15 As noted previously, there were significant delays in receiving ARO information for audit and we identified several adjustments that were required to be made. The ARO methodology memo is a key document which summarizes the process followed by the Province during the scoping and measurement phases for implementation of the ARO standard. During our audit, we identified several areas of the memo that required updates or corrections. We recommended that additional documentation be added to support scoping work completed, in particular around other types of hazardous materials such as lead, PCBs and fluorocarbons.

9.16 We also identified issues with the scoping of buildings for inclusion in the Province's ARO. As a result, many adjustments to add, remove, or amend buildings were made to the ARO estimate provided for audit. Creosote bridges, culverts, and retaining walls were originally included in the assessment provided for audit but were later removed, following our inquiries, since it was determined that there was no specific legal requirement to retire or decommission these assets. We also noted inconsistent approaches in calculating the ARO, as some Crown corporations did not record any obligation for areas that were not assessed for hazardous substances, while others made the assumption that non-assessed areas would also have similar hazardous substances as any areas that had been assessed.

9.17 The above noted issues were particularly concerning since the Department of Finance engaged multiple experts to assist with the implementation of *PS 3280 Asset Retirement Obligations*. Management relied completely on the work of these experts and there was an evident lack of oversight provided by management through the process, which contributed to the issues noted above. In addition, we identified that the Prince Edward Island Housing Corporation (the Corporation), which engaged the same experts to assist with implementation of the ARO standard, had a significant error in its ARO calculations. The Corporation had received a clean audit opinion from an external accounting firm that required the financial statements to be amended following our discovery of the error. This further added to concerns and delays around the completion of our audit work.

9.18 As part of our audit work on *PS 3280 Asset Retirement Obligations*, it was also noted that an up to date asbestos management plan, including a current record of asbestos-containing materials (ACMs) and remediation work, was not available. Section 49.6 of the *Occupational Health and Safety Act – General Regulations* requires that an asbestos management plan be developed to prevent ACMs from becoming airborne in the workplace as well as to protect the health and safety of workers if ACMs become airborne in the workplace. This report should be reviewed and updated at least annually and provide a complete summary of ACMs in the workplace, as required by the legislated regulations.

Recommendations

9.19 The Office of the Comptroller should ensure that information provided for audit is complete and accurate.

9.20 The Province should prepare a complete and up to date asbestos management plan as required by the *Occupational Health and Safety Act – General Regulations*. This asbestos management plan should be reviewed and updated annually.

Post-Tropical Storm Fiona and Disaster Financial Assistance Arrangements

9.21 As a result of the damage caused by Post-Tropical Storm Fiona (the storm), the Province was eligible for Federal Government assistance through the Disaster Financial Assistance Arrangements program (DFAA). The purpose of the DFAA is to assist provinces with the costs of dealing with a disaster, when those costs would otherwise place a significant burden on the provincial economy.

9.22 The DFAA estimate is derived from management’s estimate of the expenses considered eligible for cost-sharing under the program. The estimated DFAA accrual provided for audit was based on expenditures that were claimed up to March 31, 2023, however, the DFAA accrual also had to include the estimated unclaimed costs related to support programs announced prior to year-end.

9.23 A lack of review around PSAS recognition criteria, as well as assumptions used in the accrual estimate, directly impacted the accuracy and completeness of the accrual. As a result, audit adjustments were necessary to recognize an additional \$45 million in estimated accrued expenditures and \$34 million in estimated DFAA accrued revenue. All assumptions should be reasonable, adequately supported and reviewed to improve accuracy of these accruals.

9.24 Under DFAA Guidelines – Section 2.8, provinces may request advance payments in the first 12 months following the end of an event, to address early requirements or outlays. Due to the significant level of recovery expenditures incurred by the Province following the storm, it is reasonable that an advance payment on its eligible program outlays would have assisted the Province with its significant recovery efforts. However, an advance payment was not requested by the Province within the specified timeline. A lack of resources was cited as the reason why supporting documentation could not be submitted for an advance claim request in the 12 months following the storm. Under DFAA Guidelines – Section 2.9, interim payments may be made from time to time if the situation warrants such payments. As of November 3, 2023, the date of our audit report, no interim payments had been

requested or made on the \$85 million in estimated DFAA revenue.

9.25 During the audit, we identified an instance where \$3.8 million in clean-up program spending was not eligible for DFAA reimbursement because the program, established by the Province, was not set-up properly in accordance with the DFAA eligibility guidelines. The Province had not required time logs as part of the claim submission process, which significantly reduced the amount of funding eligible through DFAA. Similar clean-up programs administered by the Canadian Red Cross required time log submissions, as part of the claim submission process, and were therefore eligible for DFAA funding.

Recommendations

9.26 The Office of the Comptroller should review accrued federal revenues and expenditures to ensure that they are measured and recorded in accordance with Canadian Public Sector Accounting Standards.

9.27 Departments should prepare and submit advance claims in accordance with DFAA guidelines to reduce the burden on the Province's finances.

9.28 When creating support programs, departments should structure the programs in a way that maximizes available federal funding, reducing financial burden on the Province.

internal audit function. This is because the Province currently does not have an internal audit function.

9.30 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.

The internal audit function could also help address some of the issues that have been identified in this report, specifically related to audit readiness, completeness of estimates and quality of information provided for audit.

Recommendation

9.31 The Department of Finance should establish an internal audit function to help support the Province's operations.

Municipal Property Tax Overpayments

9.32 The Province is responsible for collecting both the municipal and provincial portion of property taxes. Municipalities receive their portion of property tax through monthly installments, which are based on the Province's calculations of estimated municipal taxes to be collected during a given year.

Internal Audit Function

9.29 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 have no publicly available information on its**

9.33 During the year, an error was discovered in the Province’s municipal tax calculations that resulted in the overpayment of monthly installments to 23 of the Province’s 60 municipalities. The issue related to the calculation of the April to December installments and amounted to total overpayments of approximately \$4.6 million. The error was not detected until the year-end reconciliation, and resulted in nine months of overpayments being paid to some municipalities.

9.34 The appropriate review and approval of monthly property tax installment calculations, before payments are made, is a preventative measure which reduces the risk of payment errors. It is evident that this internal control procedure was not functioning effectively. While the Province expects to recover the overpayments in full, some municipalities have publicly expressed concern about having to repay these amounts.

Recommendation

9.35 The Department of Finance should address internal control weaknesses related to the review and approval of municipal tax payment calculations.

Budgeting of Tax Revenues

9.36 Governments set out a fiscal plan through their operating budget each year. This includes an estimate of revenues and expenditures that details spending plans of the Province for operating each department over the next fiscal year. The Province finances its expenditures in large part from the collection of tax revenues. Tax revenues include personal income tax, corporate income tax and sales tax, and these

streams have historically represented approximately 40% of the Province’s total revenues each year.

9.37 Conservative budget estimates, specifically related to these tax revenues, are leading to significant financial variances when comparing the Province’s budgeted to actual results. Tax revenues were underestimated by \$200 million in 2022-23 and \$190 million in 2021-22. While we understand that the Province uses the most recent federal projections to budget its tax revenues, these estimates have proven to be inaccurate. Since revenues are used to fund spending, the underbudgeting of tax revenues leads to a reduction in budgeted funds available to spend. This reduces the services and programs that a government can provide.

Recommendation

9.38 The Department of Finance should improve its budgeting methodology related to tax revenues so that it can more accurately project its future tax revenues.

Capital Projects Management

9.39 A competitive process serves to ensure that the best quality product or service is procured for the most economical cost. *Treasury Board Policies and Procedures Manual - Section 7.02 Capital Projects Management* provides general guidelines to be followed for tendering procedures related to capital projects. These include a requirement to publicly advertise tender calls for capital projects.

9.40 During our audit, we identified an instance where this guideline was not followed for a capital project that had been selected for testing. The Prince Edward Island Housing

Corporation attempted to secure three quotes from qualified vendors of their choice, without publicly advertising the tender call and engaging in a formal tender process as outlined in *Section 7.02*. The authorized general guidelines referenced above should be followed for all capital projects.

Recommendation

9.41 The Prince Edward Island Housing Corporation should publicly advertise tender calls for capital projects in accordance with Treasury Board policy.

Tangible Capital Assets

Estimated Useful Life of Buildings

9.42 The Province's Tangible Capital Asset Policy (the Policy) defines amortization of tangible capital assets (TCA) as the process of allocating the cost of TCA over its estimated useful life in order to match expenditures with revenues generated or public services provided. As a result, the useful life is the estimated period over which TCA is expected to be used by the Province.

9.43 As part of our audit, it was noted that the average age of buildings and schools has exceeded the 40-year estimated useful life that is disclosed in Section 8 of the Policy. Additionally, many of these buildings are expected to be used well beyond this amortization period based on the assumptions used for the retirement of these assets under the new Asset Retirement Obligations (ARO) accounting standard.

9.44 As a result, the Policy should reflect an appropriate useful life estimate for buildings

that are considered to have longer useful lives. Regular review of estimated useful life is required under paragraph 29 of *PS 3150 Tangible Capital Assets* and several factors should be considered in estimating the useful life for buildings. Amortization expense is an important part of the costs associated with providing government services and the estimated useful life is a key factor in ensuring TCA are amortized over the period they are used by the Province.

Tangible Capital Asset Listing

9.45 As part of our audit of the ARO section, we noted that several buildings were included in the Province's ARO calculations, but were not identified on the TCA listing. While there may be no net effect on the consolidated financial statements, the cost and accumulated amortization of the buildings and improvements asset category in the TCA schedule could be understated. All buildings should be assessed to ensure the TCA listing is complete and accurate.

Tangible Capital Asset Policy

9.46 Section 7 of the Province's TCA Policy (the Policy) states that TCA are grouped based on specified asset categories in order to calculate amortization expense over their expected useful lives. During our audit, we noted that the treatment of TCA related to golf courses is not consistent with the Policy. Other assets, described at paragraph 7(g) of the Policy, include the non-land portion of TCA that do not fit into other capital asset classes described in the section. Included in the other assets of the Province is \$13.9 million related to golf courses, which are not being amortized. This is inconsistent with Section 8 of the Policy, which

states that golf courses should be amortized on a straight-line basis between 5 and 20 years. Guidance should be reviewed and consistently applied; otherwise, the policy should be updated to reflect the Province's treatment of these golf courses.

identified changes to disclosures of approximately \$173 million for contractual obligations and \$14 million for contractual rights. The Office of the Comptroller recorded the recommended changes.

Recommendations

9.47 The Office of the Comptroller should review the Province's Tangible Capital Asset Policy to ensure that the estimated useful life of buildings reflects the best estimate of expected useful life for this class of tangible capital assets.

9.48 The Office of the Comptroller should ensure that the tangible capital asset listing is complete and accurate, and that tangible capital assets are classified and amortized according to the Province's Tangible Capital Asset Policy.

Recommendation

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

Recurring Issues

9.49 Recurring issues relate to observations and recommendations provided in some of our prior year reports. These repetitive issues need to be addressed and are discussed in the following paragraphs.

Federal Receivable Collection

9.52 Consistent with prior years, we identified a significant amount of aged receivables due from the Government of Canada as at March 31, 2023. 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 Official Languages in Education and the Low Carbon Economy Fund. Delays in claim submissions impact the Province's cash flow and interest costs.

Contractual Obligations and Contractual Rights

9.50 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 disclosure provides 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

Recommendation

9.53 Claims to the Government of Canada should be submitted by the responsible departments on a timely basis.

Social Programs Overpayments

9.54 Social programs receivable in the March 31, 2023 consolidated financial statements includes \$8.9 million for accumulated social programs overpayments, which have been set up as doubtful of collection through a provision. This balance continues to grow each

year and no write-offs have occurred since 2016. Most of this balance relates to adjustments, errors, and misrepresentations associated with client income levels and living arrangements.

9.55 Considering that uncollected overpayments of almost \$2.9 million have occurred in the last five 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

9.56 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

9.57 During our audit, we continued to note that some sections of the Treasury Board Policy and Procedures Manual (the 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 is up to date and aligns with current Acts and regulations.

Recommendation

9.58 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

9.59 The Canadian Public Sector Accounting Board has issued new or amended standards for the public sector that became effective on April 1, 2023. These standards include *PS 3400 Revenue*, *PSG-8 Purchased Intangibles* and *PS 3160 Public Private Partnerships*. In addition, there are new or amended standards that become effective on April 1, 2026. These include *The Conceptual Framework for Financial Reporting in the Public Sector* and *PS 1202 Financial Statement Presentation*. Each of these new standards should be reviewed to assess the potential impacts of adoption, if any, on the Province.

Recommendation

9.60 The Office of the Comptroller should be proactive in preparing for new standards in order to achieve a timely and smooth implementation.

Other Item for Consideration

9.61 In addition to the observations and recommendations provided above, we would like to call attention to another opportunity we have identified for enhancing the Province's accountability and transparency.

Disclosure of Supplemental Information

9.62 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 such as 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.

Government Business Enterprises

9.63 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

9.64 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 \$20.1 million for capital expenditures during the 2023 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

9.65 The capital budget of the Province should include the projected capital spending of all government business enterprises.

9.66 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

9.67 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, 2023, 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, 2023

	Cancellations Section 26(1)	Write-offs Section 26.1(1)
Health PEI	\$ 61,761	\$ 2,036,589
PEI Student Financial Assistance Corporation	390,177	-
<i>Real Property Tax Act</i>	145,455	-
Total	\$597,393	\$2,036,589

Source: Orders-In-Council April 1, 2022 - March 31, 2023.

Surplus (Deficit) Crown Corporations, Agencies and Funds

9.68 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, 2023.

EXHIBIT 9.2 SURPLUS (DEFICIT) CROWN CORPORATIONS, AGENCIES AND FUNDS YEAR ENDED MARCH 31, 2023

	Annual Surplus (Deficit) \$
Charlottetown Area Development Corporation*	873,101
Finance PEI	5,394,572
French Language School Board	74,020
Health PEI	11,982,160
Innovation PEI	35,089
Island Investment Development Inc.	17,936,293
Island Waste Management Corporation	342,088
PEI Advisory Council on the Status of Women**	1,345
PEI Agricultural Insurance Corporation	4,652,979
PEI Cannabis Management Corporation	2,909,096
PEI Crown Building Corporation***	(15,541)
PEI Energy Corporation	3,502,559
PEI Grain Elevators Corporation (July 31, 2022)	(60,053)
PEI Housing Corporation	22,605,371
PEI Human Rights Commission	(39,966)
PEI Liquor Control Commission	25,171,307
PEI Lotteries Commission	23,672,594
PEI Marine Science Organization	105,673
PEI Museum and Heritage Foundation	(77,217)
PEI Regulatory and Appeals Commission	37,405
PEI Self-Insurance and Risk Management Fund	4,835,491
PEI Student Financial Assistance Corporation	400,000
Public Schools Branch	4,044
Summerside Regional Development Corporation	20,458
Tourism PEI	-

Source: The Province's Volume III (Part A and B) Public Accounts March 31, 2023.

*Includes the Province's portion only

**Based on reviewed financial statements

***Based on draft 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 and the implementation of a new accounting standard, Asset Retirement Obligations.
- Notable compliance issues were identified in relation to the lack of timely business plans and non-compliance with: the *Public Trustee Act* and the *Occupational Health and Safety Act – General Regulations*.
- Reportable internal control issues consisted of: delays in physician audits, lack of guidelines for the management of surplus funds, lack of investment guidelines and formal policies and procedures for funds paid into court, slow collection of rebates and receivables, and the need to assess whether operating an inactive corporation is economically justified.
- Of the 27 reporting entities, 25 did not meet the *Financial Administration Act's* annual reporting deadline for their most recent fiscal year.
- Only two government departments met the annual reporting deadline established by the *Treasury Board Policy and Procedures Manual* for the most recent fiscal year.
- Noteworthy issues identified through external audits related to: the importance of continually assessing and updating future cost estimates for obligations, and a lack of employment contracts for casual employees at government business enterprises.

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. We also provide a summary of issues identified in the management letters issued by external auditors related to the financial audits of entities included in the Province's consolidated financial statements. 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 implementation of a new accounting standard, and the completeness and accuracy of the information provided for audit.

10.9 Effective April 1, 2022, the Province and its government organizations adopted the new Public Sector Accounting Standard *PS 3280 Asset Retirement Obligations* (AROs). The implementation of this new standard was time-intensive, complex and required significant resources, inputs, judgements, and assumptions. The government organizations most impacted by this new standard were: Health PEI, the Prince Edward Island Crown Building Corporation and the Prince Edward Island Housing

Corporation. These entities were late in implementing the new standard, and the information provided for audit was insufficient, resulting in additional adjustments to be posted and extra audit work to be completed. Consequently, this led to the late completion of audits for these entities and the financial statements were issued after the statutory reporting deadline. In the case of the Prince Edward Island Crown Building Corporation, it also led to a disclaimer of opinion being included in our independent auditor's report because we were unable to obtain sufficient and appropriate audit evidence to ensure completeness and accuracy of the ARO liability.

10.10 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 totalling over \$800,000. Additionally, adjustments were required to previous years' trust balances to accurately record reversals of prior years' fees.

10.11 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 audit adjustments totalling \$636,000.

Compliance Issues

10.12 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.

10.13 We identified that Health PEI's business plan was not submitted to the Minister for approval prior to the start of the 2023 fiscal year, as required by the *Health Services Act*. Health PEI's Board of Directors is responsible for approving the business plans prior to submission to the Minister. As of January 31st, 2024, the business plans for 2022-23 and 2023-24 were still not publicly available. These documents set out strategic objectives, performance measures, targets, and key tactical actions for Health PEI. These documents should be approved in a timely manner and available to the public.

10.14 Effective April 1, 2022, Health PEI adopted the new Public Sector Accounting Standard *PS 3280 Asset Retirement Obligations*. An asset retirement obligation exists when there is a legal requirement to retire or remediate an asset, which includes the removal of hazardous materials, such as asbestos. As a part of our audit work surrounding the new standard, we found that Health PEI did not have an asbestos management plan in place for buildings containing hazardous materials. An asbestos management plan is a requirement under Section 49.6 of the *Occupational Health and Safety Act – General Regulations*. The plan helps prevent asbestos containing materials (ACMs) from becoming airborne in the workplace and protects the health and safety of workers in the case of ACMs becoming airborne.

10.15 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 40 trust balances for clients who have been deceased for more than five years. These trust balances totalled approximately \$340,000 and were not paid out to the Province in accordance with the Act.

Internal Control Weaknesses

10.16 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 weaknesses identified related to the lack of timely resolution and collection of receivables, rebates and potential recoveries, along with insufficient investment strategies for excess funds. There is also a need to assess whether operating an inactive corporation is economically justified.

10.17 Health PEI receives drug product rebates on eligible drug purchases. During our audit, it was determined that Health PEI's total drug rebates accrual has nearly doubled over the prior year to \$25 million. Health PEI continues to be a year behind in billing suppliers for these rebates, with \$15 million of the accrual still to be billed as of June 30, 2023. 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.

- 10.18 As noted in prior years, our 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 has increased significantly in recent years, Health PEI's Audit Advisory Committee approved an audit plan in January 2022 to examine potential overpayments of these premiums. Health PEI has since received authorization to engage an accounting firm to assist in executing this audit plan. Timely completion of this audit is required to ensure that any potential recoveries can be made. This audit has still not been completed, and our Office is now conducting a performance audit on physician billings.
- 10.19 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, 2023, the Corporation was behind on the submission of these reports resulting in approximately \$4.2 million of grant funding being withheld by CMHC related to prior years.
- 10.20 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 and can also lead to unnecessary costs. This was evident in the 2022-23 reporting period, as the implementation of Public Sector Accounting Standard *PS 3280 Asset Retirement Obligations* was costly, requiring the use of experts along with many additional hours of work to complete the accounting and auditing functions for the new standard. If there are no plans to utilize the Corporation as an active company, we recommended that it be wound up with the assets transferred to the Province.

- 10.21 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 \$275,680 and is included with the cash balance and reported as 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

- 10.22 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 and departments 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.
- 10.23 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. Based on our review, 25 of 27 reporting entities did not meet their most recent annual reporting deadline. As of January 31, 2024, 8 reporting entities have yet to publish an annual report for their most recent fiscal year.
- 10.24 Government departments are not reporting entities, as defined in the *Financial Administration Act*; however, they are subject to Treasury Board policy that requires annual reports of departments to be made public within two months after the date of tabling of Public Accounts. Public Accounts was tabled on November 6, 2023 so the deadline for departments to publish their annual reports was January 6, 2024. Only two government departments had published an annual report for the most recent fiscal year by this deadline. Our review of historical annual reports indicates

that timely reporting has been an issue for the past number of years. As of January 31, 2024, the Department of Health and Wellness has still not issued an annual report since 2015, and the Department of Social Development and Housing has not issued an annual report since 2020.

External Audits

- 10.25 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. Reportable issues identified during this review related to outdated significant estimates and a lack of employment contracts.
- 10.26 During the audit of the Island Waste Management Corporation, it was noted that the Corporation's estimate of the future cash flows required to settle its asset retirement obligations increased significantly from \$7.9 million in the prior year to \$14.4 million. An engineering report was completed on landfill cell closure costs for the first time since 2011. The report identified an increased obligation due to many factors, which include changes in the *Environmental Protection Act* and increased costs in the construction industry. Continually assessing and updating future cost estimates for obligations is important to ensure there are no unforeseen significant changes in obligations of the Corporation.
- 10.27 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

10.28 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, 2023.
- We listed in detail the appropriations made by special warrants up to February 2, 2024, applicable to the fiscal year ended March 31, 2023, 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. Additional expenditures not included in the Appropriation Acts (Current and Capital) require special warrants, transfers from previously approved amounts in the Appropriation Acts, or sequestrations. 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, 2023 fiscal year provided an additional \$275.7 million in authorized spending for current expenditures, which represents an additional 10% of the approved appropriation.
- Special warrants for the March 31, 2023 fiscal year provided an additional \$51.0 million in authorized spending for capital expenditures, which represents an additional 24% of the approved appropriation.
- Special warrants were partially offset by \$111.4 million in additional revenue.
- Total value of special warrants, and special warrants net of revenue and sequestrations, are the highest ever reported for the Province.
- Consistent with prior years, expenditures were incurred for the year ended March 31, 2023 without special warrants being authorized, as is required by the *Financial Administration Act*.
- Twenty-three late special warrants were issued between August 2023 and January 2024, totalling approximately \$143.8 million. Seven of these late special warrants were issued in January 2024, and three additional late warrants are expected to be issued in February 2024, nearly a full year after the 2023 fiscal year ended.
- The amount of late special warrants is the highest ever reported for the Province.

11. Appropriations and Special Warrants

BACKGROUND

- 11.1 The *Appropriation Act (Current Expenditures) 2022* authorized \$2.7 billion in current expenditures for the fiscal year ended March 31, 2023. The *Appropriation Act (Capital Expenditures) 2022* authorized capital spending of \$212.1 million for the fiscal year ended March 31, 2023.
- 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 only 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, 2023. We also examined the approvals, processing, and recording of special warrants, appropriation transfers, and sequestrations made related to 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 end of this chapter.

OBSERVATIONS AND RECOMMENDATIONS

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, 2023. Our report includes all appropriations and special warrants authorized up to February 2, 2024, applicable to the fiscal year ended March 31, 2023.
- 11.6 For the fiscal year ended March 31, 2023, special warrants in the amount of \$275.7 million were issued for current expenditures which represents **an additional 10% of the approved appropriation**. Special warrants in the amount of \$51.0 million were issued for capital expenditures which represents **an additional 24% of the approved appropriation**. **Exhibit 11.1** provides a summary of these special warrants authorized up to February 2, 2024. 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, 2023

Department/ Entity	Special Warrants
Current:	
Agriculture and Land	\$ 8,281,000
Economic Growth, Tourism and Culture	1,260,000
Education and Lifelong Learning	6,125,000
Employment Development Agency	940,300
Environment, Energy and Climate Action	23,307,200
Fisheries and Communities	1,233,800
French Language School Board	2,225,000
General Government	73,000,000
Health PEI	12,464,800
Innovation PEI	4,750,000
Justice and Public Safety	41,075,000
PEI Housing Corporation	5,280,800
Public Schools Branch	11,550,000
Social Development and Housing	40,332,300
Tourism PEI	6,832,000
Transportation and Infrastructure	23,009,100
Amortization of Tangible Capital Assets	1,645,000
Interest Charges on Debt	12,340,000
Total Current	275,651,300
Capital:	
Economic Growth, Tourism and Culture	2,974,800
Education and Lifelong Learning	16,030,000
Finance	460,000
Health and Wellness	1,760,700
Justice and Public Safety	4,768,400
Social Development and Housing	1,608,400
Transportation and Infrastructure	23,477,400
Total Capital	51,079,700
Total Special Warrants	\$326,731,000

Source: Orders-In-Council

11.7 Special warrants were partially offset by \$111.4 million in additional revenue. There

were no sequestrations made relating to the March 31, 2023 fiscal year.

11.8 Three additional current special warrants in the amount of approximately \$6.4 million are needed for additional expenditures related to PEI Housing Corporation, PEI Student Financial Assistance Corporation, and Amortization of Tangible Capital Assets. These special warrants are outstanding and are expected to receive authorization subsequent to February 2, 2024, the last day of our audit fieldwork.

11.9 Total authorized special warrants, and special warrants net of revenue and sequestrations, for each of the last ten 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. Total special warrants authorized of \$326.7 million is the largest amount we have ever reported on in our work under the *Audit Act*.

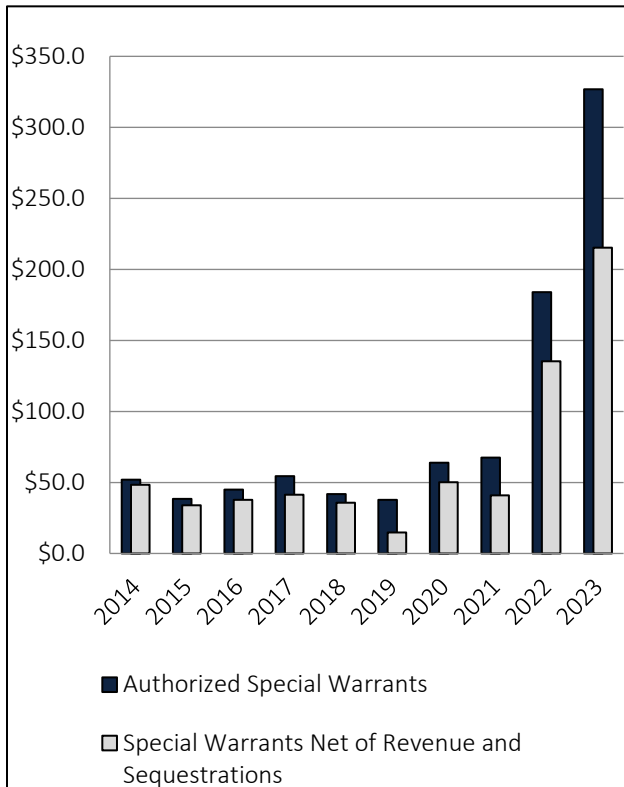
11.10 Between 2014 and 2021, total authorized special warrants ranged from \$37.7 million to \$67.4 million, whereas for the 2022 and 2023 fiscal years, total authorized special warrants increased significantly to \$183.9 million and \$326.7 million respectively. This is a concerning trend. It is also a sign of weakness in the appropriations process, as \$326.7 million represents additional expenditures that were not debated in the Legislative Assembly. In order to reduce the amount of special warrants, we are suggesting that the Government considers tabling additional Appropriation Acts, especially when a large portion of additional spending is related to events with significant financial impact on the Province, such as the

Post-Tropical Storm Fiona or high inflationary impact on Islanders. This would allow for additional spending to be debated in the Legislative Assembly, as the process around special warrants bypasses this requirement.

Recommendation

11.11 The Government should consider tabling additional Appropriations Acts when unexpected events occur, requiring a significant financial outlay, in order to promote debate in the Legislative Assembly and reduce the use of special warrants.

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



11.12 In February 2023, two additional special warrants totalling \$20.5 million were approved for the March 31, 2022 fiscal year. This was subsequent to the date of our 2023 Annual Report. These special warrants are included in **Appendix C**. Total special warrants for the year ended March 31, 2022, as presented in **Exhibit 11.2**, reflect these additional special warrants.

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Authorized Special Warrants	\$51.9	\$38.5	\$44.9	\$54.5	\$41.9	\$37.7	\$63.9	\$67.4	\$183.9	\$326.7
Revenue and Sequestrations	(3.6)	(4.6)	(7.2)	(13.2)	(6.1)	(22.9)	(13.8)	(26.4)	(48.5)	(111.4)
Special Warrants Net of Revenue and Sequestrations	<u>\$48.3</u>	<u>\$33.9</u>	<u>\$37.7</u>	<u>\$41.3</u>	<u>\$35.8</u>	<u>\$14.8</u>	<u>\$50.1</u>	<u>\$41.0</u>	<u>\$135.4</u>	<u>\$215.3</u>

Source: Orders-In-Council

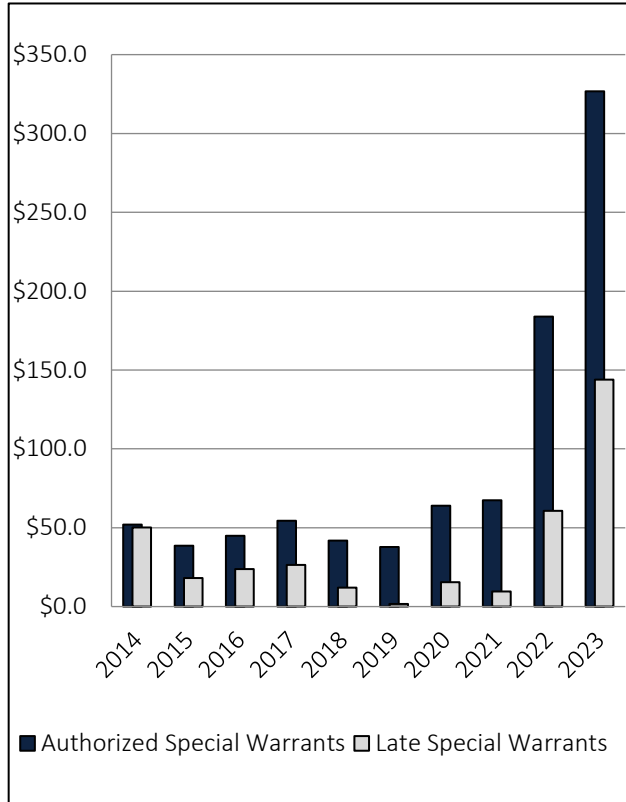
Delay in Issuing Special Warrants

11.13 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. Based on our findings, there is a disregard for the process around special warrants. Expenditures continue to be incurred without authorized appropriation in place, as required by the *Financial Administration Act*.

11.14 Consistent with prior years, our audit identified instances where special warrants were not authorized prior to the expenditure being incurred. It is anticipated that there will be a total of twenty-six late special warrants required to cover overspending for the March 31, 2023 fiscal year. Seven of these late special warrants were issued in January 2024 and the three remaining required late warrants are expected to be issued in February 2024, nearly a full year after the 2023 fiscal year ended. The twenty-three late special warrants, issued subsequent to the related expenditures already being incurred, totalled approximately \$143.8 million, and were authorized by Orders-In-Council between August 2023 and January 2024. The three late special warrants expected to be issued in February 2024 were not included in this report as they were not authorized prior to the last day of our audit fieldwork.

11.15 We have reported on this issue for a number of years. In the prior year, we reported that there were eight late special warrants authorized after the expenditure was incurred. The twenty-six late special warrants in the current year represent a 225% increase, which is significant and reflects poor fiscal management practices. **Exhibit 11.3** presents total special warrants and late special warrants over the past 10 years. The amount of late special warrants is the largest ever reported for the Province.

**EXHIBIT 11.3
LATE SPECIAL WARRANTS
YEAR ENDED MARCH 31
(\$ Millions)**



Recommendation

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

11.17 We have discussed our findings and recommendations with the Treasury Board Secretariat.

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Authorized Special Warrants	\$51.9	\$38.5	\$44.9	\$54.5	\$41.9	\$37.7	\$63.9	\$67.4	\$183.9	\$326.7
Late Special Warrants	\$50.1	\$18.1	\$23.8	\$26.3	\$12.1	\$1.6	\$15.5	\$9.6	\$60.6	\$143.8

Source: Orders-In-Council

CURRENT APPROPRIATIONS

	APPROPRIATION ACT 2022	SPECIAL WARRANTS	TOTAL APPROPRIATIONS	EXPENDITURES 2023	UNDER/(OVER) EXPENDITURES 2023
CURRENT					
AGRICULTURE AND LAND	\$ 22,057,000	\$ 8,281,000	\$ 30,338,000	\$ 30,337,911	\$ 89
AUDITOR GENERAL	3,131,500	-	3,131,500	2,756,751	374,749
CONSOLIDATED AGENCIES	59,322,900	-	59,322,900	54,031,311	5,291,589
ECONOMIC GROWTH, TOURISM AND CULTURE	41,324,500	1,260,000	42,584,500	42,584,484	16
EDUCATION AND LIFELONG LEARNING	176,312,900	6,125,000	182,437,900	182,433,624	4,276
EMPLOYEE BENEFITS	64,496,600	-	64,496,600	38,824,091	25,672,509
EMPLOYMENT DEVELOPMENT AGENCY	6,213,000	940,300	7,153,300	6,742,909	410,391
ENVIRONMENT, ENERGY AND CLIMATE ACTION	86,270,400	23,307,200	109,577,600	109,577,595	5
EXECUTIVE COUNCIL	11,268,200	-	11,268,200	10,947,778	320,422
FINANCE	71,623,000	-	71,623,000	66,955,142	4,667,858
FISHERIES AND COMMUNITIES	44,094,000	1,233,800	45,327,800	45,327,765	35
FRENCH LANGUAGE SCHOOL BOARD	20,727,400	2,225,000	22,952,400	22,951,460	940
GENERAL GOVERNMENT	41,770,000	73,000,000	114,770,000	108,332,628	6,437,372
HEALTH AND WELLNESS	72,147,000	-	72,147,000	70,626,686	1,520,314
HEALTH PEI	838,738,800	12,464,800	851,203,600	851,203,524	76
INNOVATION PEI	58,382,000	4,750,000	63,132,000	62,565,513	566,487
JUSTICE AND PUBLIC SAFETY	72,708,100	41,075,000	113,783,100	113,782,996	104
LEGISLATIVE ASSEMBLY	9,831,500	-	9,831,500	9,499,434	332,066
PEI AGRICULTURAL INSURANCE CORPORATION	47,302,000	-	47,302,000	44,672,763	2,629,237
PEI HOUSING CORPORATION	35,525,500	5,280,800	40,806,300	46,820,012	(6,013,712)
PEI PUBLIC SERVICE COMMISSION	9,107,000	-	9,107,000	8,896,685	210,315
PEI STUDENT FINANCIAL ASSISTANCE CORPORATION	12,075,000	-	12,075,000	12,123,759	(48,759)
PUBLIC SCHOOLS BRANCH	255,972,800	11,550,000	267,522,800	267,521,449	1,351
SOCIAL DEVELOPMENT AND HOUSING	146,116,700	40,332,300	186,449,000	186,448,942	58
TOURISM PEI	23,717,300	6,832,000	30,549,300	30,548,809	491
TRANSPORTATION AND INFRASTRUCTURE	198,241,200	23,009,100	221,250,300	221,250,236	64
AMORTIZATION OF TANGIBLE CAPITAL ASSETS	102,608,800	1,645,000	104,253,800	104,581,465	(327,665)
INTEREST CHARGES ON DEBT	<u>130,981,600</u>	<u>12,340,000</u>	<u>143,321,600</u>	<u>143,319,989</u>	<u>1,611</u>
TOTAL CURRENT	\$2,662,066,700	\$275,651,300	\$2,937,718,000	\$2,895,665,711	\$42,052,289

Expenditures are presented in accordance with the classifications in the Appropriation Acts 2022 and approved special warrants for the 2022/23 fiscal year. This format differs from the Province's Operating Fund financial statements.

CAPITAL APPROPRIATIONS

	APPROPRIATION ACT 2022	SPECIAL WARRANTS	TOTAL APPROPRIATIONS	EXPENDITURES 2023	UNDER EXPENDITURES 2023
CAPITAL					
AGRICULTURE AND LAND	\$ 50,000	\$ -	\$ 50,000	\$ 48,456	\$ 1,544
ECONOMIC GROWTH, TOURISM AND CULTURE	1,800,000	2,974,800	4,774,800	4,774,506	294
EDUCATION AND LIFELONG LEARNING	33,230,000	16,030,000	49,260,000	39,936,142	9,323,858
ENVIRONMENT, ENERGY AND CLIMATE ACTION	2,452,600	-	2,452,600	2,422,071	30,529
FINANCE	10,995,600	460,000	11,455,600	11,455,529	71
FISHERIES AND COMMUNITIES	25,000	-	25,000	-	25,000
HEALTH AND WELLNESS	9,031,500	1,760,700	10,792,200	10,792,139	61
HEALTH PEI	54,154,600	-	54,154,600	31,943,159	22,211,441
JUSTICE AND PUBLIC SAFETY	3,528,000	4,768,400	8,296,400	6,740,252	1,556,148
SOCIAL DEVELOPMENT AND HOUSING	24,142,900	1,608,400	25,751,300	25,751,284	16
TRANSPORTATION AND INFRASTRUCTURE	<u>72,695,000</u>	<u>23,477,400</u>	<u>96,172,400</u>	<u>96,133,790</u>	<u>38,610</u>
TOTAL CAPITAL	\$ 212,105,200	\$ 51,079,700	\$ 263,184,900	\$ 229,997,328	\$33,187,572
GRAND TOTAL	<u>\$2,874,171,900</u>	<u>\$326,731,000</u>	<u>\$3,200,902,900</u>	<u>\$3,125,663,039</u>	<u>\$75,239,861</u>

Expenditures are presented in accordance with the classifications in the Appropriation Acts 2022 and approved special warrants for the 2022/23 fiscal year. This format differs from the Province's Operating Fund financial statements.

ORDER-IN-COUNCIL SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2023 FISCAL YEAR

AGRICULTURE AND LAND

EC2023-901 Oct 24, 2023	AGRICULTURE RESOURCES	
	Grants	<u>\$8,281,000</u>
	To fund additional operating expenditures related to the Fiona Agriculture Support Program.	

ECONOMIC GROWTH, TOURISM AND CULTURE

EC2023-902 Oct 24, 2023	WORKFORCE DEVELOPMENT – SKILLS PEI	
	Grants – Digital Skills for Youth	\$ 340,000
	Grants – Labour Market Development Agreement	<u>920,000</u>
	Total Economic Growth, Tourism and Culture	<u>\$1,260,000</u>
	To fund additional operating expenditures related to the Labour Market Development Agreement and the Digital Skills for Youth Program, partially offset by federal revenue of \$340,000.	

EDUCATION AND LIFELONG LEARNING

EC2023-903 Oct 24, 2023	POST-SECONDARY AND CONTINUING EDUCATION	
	Grants	<u>\$6,125,000</u>
	To fund additional operating expenditures related to post- secondary and continuing education grants.	

ORDER-IN-
COUNCIL

SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2023 FISCAL YEAR

EMPLOYMENT DEVELOPMENT AGENCY

EC2023-174 EMPLOYMENT DEVELOPMENT AGENCY – COMMUNITY AND BUSINESS PROJECTS
Mar 6, 2023

Grants – Emergency Jobs Initiative	\$ 360,000	
Grants – Special Projects Program	<u>580,300</u>	
Total Employment Development Agency		<u>\$ 940,300</u>

To fund additional operating expenditures related to the Emergency Jobs Initiative and Special Projects Program.

ENVIRONMENT, ENERGY AND CLIMATE ACTION

EC2023-175 CLIMATE ACTION SECRETARIAT
Mar 6, 2023

Equipment	\$ 417,500	
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ENVIRONMENT AND WATER – WATER AND AIR MONITORING

Grants	1,960,300	
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FORESTS, FISH AND WILDLIFE – FIELD SERVICES EAST

Salaries	428,600	
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SUSTAINABILITY – ENERGY AND EFFICIENCY

Grants	3,352,300	
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SUSTAINABILITY – OFFICE OF NET ZERO

Grants	<u>14,348,700</u>	\$20,507,400
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To fund additional operating expenditures related to expanded and new energy efficiency programs and to respond to Post-Tropical Storm Fiona.

ORDER-IN-
COUNCIL

SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2023 FISCAL YEAR

EC2023-904 SUSTAINABILITY – ENERGY AND EFFICIENCY

Oct 24, 2023

Grants \$ 2,799,800

To fund additional expenditures related to the provision of efficiencyPEI’s solar and energy efficient equipment rebate programs.

Total Environment, Energy and Climate Action \$23,307,200

FISHERIES AND COMMUNITIES

EC2023-905 MUNICIPAL AFFAIRS

Oct 24, 2023

Grants – Real Property Tax Credit \$ 1,233,800

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

FRENCH LANGUAGE SCHOOL BOARD

EC2023-906 LA COMMISSION SCOLAIRE DE LANGUE FRANÇAISE

Oct 24, 2023

Grants – Maintenance \$ 230,000

Grants – Program Materials 10,000

Grants – Transportation 245,000

Salaries 1,740,000

Total French Language School Board \$ 2,225,000

To fund additional operating expenditures related to the operation of the French Language School Board.

GENERAL GOVERNMENT

EC2022-544	RESPONSE AND RECOVERY CONTINGENCIES	
July 5, 2022		
	Grants – Emergency Support Program	\$15,000,000
	To fund expenditures related to the Emergency Support Program for Islanders facing inflationary pressures.	
EC2022-821	RESPONSE AND RECOVERY CONTINGENCIES	
Oct 31, 2022		
	Grants – Emergency Support Program	<u>\$8,000,000</u>
	To fund expenditures related to helping Islanders with financial pressures associated with inflation and Post-Tropical Storm Fiona.	
	Total General Government	<u>\$73,000,000</u>

HEALTH PEI

EC2023-908	CORPORATE SERVICES	
Oct 24, 2023		
	Grants – Health and Social Services	<u>\$12,464,800</u>
	To fund additional operating expenditures primarily related to the COVID-19 response and salary pressures, partially offset by \$9,702,900 of revenue from the COVID-19 Contingency Fund.	

INNOVATION PEI

EC2023-176	BUSINESS DEVELOPMENT AND INNOVATION	
Mar 6, 2023		
	Grants	<u>\$ 4,750,000</u>
	To fund additional operating expenditures related to the administration of the Wage Rebate for Impacted Workers Program, as part of the response to Post-Tropical Storm Fiona.	

JUSTICE AND PUBLIC SAFETY

EC2023-910
Oct 24, 2023

EMERGENCY MEASURES ORGANIZATION

Grants	\$35,798,000
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To fund additional operating expenditures related to the Post-Tropical Storm Fiona response, fully offset by federal revenues. This offset also included offsetting revenue for other departments that experienced additional expenditures related to Post-Tropical Storm Fiona.

EC2024-88
Jan 30, 2024

EMERGENCY MEASURES ORGANIZATION

Grants	<u>5,277,000</u>
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To fund additional operating expenditures related to the Post-Tropical Storm Fiona response, fully offset by federal revenues. This offset also included offsetting revenue for other departments that experienced additional expenditures related to Post-Tropical Storm Fiona.

Total Justice and Public Safety	<u>\$41,075,000</u>
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PEI HOUSING CORPORATION

EC2023-178
Mar 6, 2023

PEI HOUSING CORPORATION – GENERAL

Equipment	\$ 18,800
Grants	4,038,700
Materials, Supplies and Services	911,400
Professional Services	264,900
Salaries	7,100
Travel and Training	<u>39,900</u>

Total PEI Housing Corporation	<u>\$ 5,280,800</u>
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To fund additional operating expenditures related to inflationary supports and core funding pressures.

ORDER-IN-
COUNCIL

SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2023 FISCAL YEAR

PUBLIC SCHOOLS BRANCH

EC2023-911
Oct 24, 2023

PUBLIC SCHOOLS BRANCH

Grants – Maintenance	\$ 1,250,000
Grants – Program Materials	100,000
Grants – Transportation	2,500,000
Salaries	<u>7,700,000</u>
 Total Public Schools Branch	 <u>\$11,550,000</u>

To fund additional expenditures related to the operation of the Public Schools Branch.

SOCIAL DEVELOPMENT AND HOUSING

EC2023-50
Jan 24, 2023

CHILD AND FAMILY SERVICES

Administration	\$ 30,300
Equipment	60,000
Grants – Supports for Children	266,000
Materials, Supplies and Services	15,500
Salaries	910,700
Travel	55,000

SENIORS AND PLANNING, POLICY AND INNOVATION

Grants	18,700,000
Salaries	317,000

SOCIAL PROGRAMS

Administration	3,800	
Equipment	26,200	
Grants – Accessibility Supports	12,388,600	
Grants – Community Grants	2,788,000	
Materials, Supplies and Services	3,025,000	
Professional Services	4,000	
Salaries	513,000	
Travel	<u>3,200</u>	\$39,106,300

ORDER-IN-
COUNCIL

SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2023 FISCAL YEAR

To fund additional operating expenditures related to inflationary supports, Post-Tropical Storm Fiona response and core funding pressures.

EC2023-912
Oct 24, 2023

SOCIAL PROGRAMS

Grants – Seniors Independence Program 165,000

To fund additional operating expenditures related to the delivery of the Seniors Independence Initiative.

EC2024-90
Jan 30, 2024

SENIORS AND PLANNING, POLICY AND INNOVATION

Grants 1,061,000

To fund the final payment to the Canadian Red Cross for the delivery of the Fiona Support Program of \$250 payments to Island households.

Total Social Development and Housing \$40,332,300

TOURISM PEI

EC2023-629
Aug 8, 2023

CORPORATE SERVICES – GENERAL ADMINISTRATION

Corporate Services – Golf Courses Debt	\$ 30,500
Debt	22,000
Materials, Supplies and Services	1,371,000
Salaries	119,200
Travel and Training	8,700

CORPORATE SERVICES – MARK ARENDZ PROVINCIAL SKI PARK AT BROOKVALE

Materials, Supplies and Services	120,000
Salaries	313,100

CORPORATE SERVICES – PARKS OPERATIONS

Equipment – Computer Software	30,600
Materials, Supplies and Services	625,500
Salaries	337,800
Travel and Training	42,000

STRATEGIC INITIATIVES – STRATEGY AND EVALUATION

Grants	3,354,100
Professional Services	37,500

TOURISM MARKETING COMMUNICATIONS – ADVERTISING AND PUBLIC RELATIONS

Grants – Atlantic Canada Agreement on Tourism	<u>420,000</u>
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Total Tourism PEI	<u>\$6,832,000</u>
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To fund additional operating expenditures related to Tourism PEI operations, partially offset by \$3,681,800 in additional revenues from golf and park operations and ACOA funding.

ORDER-IN-
COUNCIL

SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2023 FISCAL YEAR

TRANSPORTATION AND INFRASTRUCTURE

EC2023-914 Oct 24, 2023	HIGHWAY MAINTENANCE ADMINISTRATION		
	Materials, Supplies and Services		\$11,430,000
	To fund additional operating expenditures related to the Post-Tropical Storm Fiona response.		
EC2024-92 Jan 30, 2024	CAPITAL PROJECTS ADMINISTRATION		
	Materials, Supplies and Services	185,100	
	CONFEDERATION TRAIL MAINTENANCE		
	Materials, Supplies and Services	347,000	
	HIGHWAY MAINTENANCE ADMINISTRATION		
	Materials, Supplies and Services	6,933,000	
	PROVINCIAL HIGHWAY MAINTENANCE OPERATIONS		
	Materials, Supplies and Services	<u>4,114,000</u>	<u>11,579,100</u>
	To fund additional operating expenditures related to the Post-Tropical Storm Fiona response.		
	Total Transportation and Infrastructure		<u>\$23,009,100</u>

AMORTIZATION OF TANGIBLE CAPITAL ASSETS

EC2024-87 Jan 30, 2024	AMORTIZATION		
	Amortization of Capital Assets		<u>\$ 1,645,000</u>
	To fund additional amortization expenditures related to roads, bridges and vehicles.		

ORDER-IN-
COUNCIL

SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2023 FISCAL YEAR

INTEREST CHARGES ON DEBT

EC2023-909
Oct 24, 2023

INTEREST CHARGES ON DEBT

Loans and Treasury Notes \$ 12,340,000

To fund additional operating expenditures related to the financing of the Province's short-term and long-term debt, fully offset by additional interest revenue earned in the cash reserve fund.

TOTAL SPECIAL WARRANTS FOR CURRENT EXPENDITURES

\$275,651,300

ORDER-IN-COUNCIL SPECIAL WARRANTS FOR CAPITAL EXPENDITURES 2023 FISCAL YEAR

ECONOMIC GROWTH, TOURISM AND CULTURE

EC2023-628 Aug 8, 2023	CAPITAL IMPROVEMENTS	
	Museums and Culture	\$ (225,800)
	Golf Courses	745,000
	Provincial Parks	2,015,400
	EQUIPMENT	
	Tourism Marketing and Reservation System	<u>440,200</u>
	Total Department of Economic Growth, Tourism and Culture	<u>\$ 2,974,800</u>

To fund additional capital expenditures related to Tourism PEI assets owned by government, partially offset by revenue of \$73,125 from the trade in of old golf carts. Funding of \$225,800 has been reallocated from Museums and Culture to Golf Courses and Provincial Parks.

EDUCATION AND LIFELONG LEARNING

EC2023-49 Jan 24, 2023	BUS REPLACEMENT	
	School Buses – Electric	\$ 8,330,000
	CAPITAL IMPROVEMENTS	
	New School Construction – Buildings	3,819,000
	School Improvements – Building Renovations	<u>3,881,000</u>
	Total Department of Education and Lifelong Learning	<u>\$16,030,000</u>

To fund additional capital expenditures for electric school buses, school renovations, and new construction.

ORDER-IN-
COUNCIL

SPECIAL WARRANTS FOR CAPITAL EXPENDITURES 2023 FISCAL YEAR

FINANCE

EC2024-86
Jan 30, 2024

EQUIPMENT

Corporate Systems Upgrade \$ 460,000

To fund the purchase of network equipment.

HEALTH AND WELLNESS

EC2023-907
Oct 24, 2023

CAPITAL IMPROVEMENTS – MENTAL HEALTH FACILITIES

Capital Projects – Buildings – New \$1,760,700

To fund additional capital expenditures related to capital projects.

JUSTICE AND PUBLIC SAFETY

EC2023-177
Mar 6, 2023

CAPITAL IMPROVEMENTS

Correctional Centre – Women’s Unit \$4,116,400

EQUIPMENT

Provincial Integrated Communications System 385,000
Vital Statistics 267,000

Total Department of Justice and Public Safety \$4,768,400

To fund additional capital expenditures related to PICS II radio equipment purchases, the Electronic Death Certificate Registry Project and construction costs for the Correctional Centre – Women’s Unit, partially offset by federal revenue of \$267,000.

ORDER-IN-COUNCIL SPECIAL WARRANTS FOR CAPITAL EXPENDITURES 2023 FISCAL YEAR

SOCIAL DEVELOPMENT AND HOUSING

EC2024-89 Jan 30, 2024	CAPITAL IMPROVEMENTS – HOUSING CONSTRUCTION		
	Housing Construction		<u>\$ 1,608,400</u>
	To fund additional capital expenditures related to housing projects.		

TRANSPORTATION AND INFRASTRUCTURE

EC2022-576 July 19, 2022	CAPITAL IMPROVEMENTS		
	Bridges	\$ 1,800,000	
	National and Collector Highway	4,700,000	
	Provincial Paving	<u>12,000,000</u>	\$ 18,500,000
	To fund additional capital expenditures for paving, shoreline protection, bridges, and highways.		

EC2023-913 Oct 24, 2023	CAPITAL IMPROVEMENTS		
	Bridges		3,300,000
	To fund additional capital expenditures related to unbudgeted road and bridge work required.		

EC2024-91 Jan 30, 2024	CAPITAL IMPROVEMENTS		
	Bridges		<u>1,677,400</u>
	To fund additional capital expenditures related to unbudgeted bridge repairs required.		
	Total Department of Transportation and Infrastructure		<u>\$ 23,477,400</u>

TOTAL SPECIAL WARRANTS FOR CAPITAL EXPENDITURES \$ 51,079,700

TOTAL SPECIAL WARRANTS ISSUED FOR THE 2023 FISCAL YEAR \$326,731,000

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

GENERAL GOVERNMENT

EC2023-82 COVID-19 RESPONSE AND RECOVERY CONTINGENCY
Feb 14, 2023

Grants – COVID-19 Contingency \$ 274,000

To fund additional expenditures from the COVID-19 Response and Recovery Contingency associated with a federal funding agreement.

HEALTH PEI

EC2023-83 CORPORATE SERVICES
Feb 14, 2023

Grants – Health and Social Services \$20,241,300

To fund additional operating expenditures primarily related to the COVID-19 response, partially offset by \$17,400,100 of revenue from the COVID-19 Contingency Fund.

TOTAL SPECIAL WARRANTS FOR CURRENT EXPENDITURES SUBSEQUENTLY ISSUED FOR 2022 FISCAL YEAR \$20,515,300

*Issued subsequent to the Auditor General’s 2023 Annual Report

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 2023 audited consolidated 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 impact on 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 \$14.4 million in 2022-23. This was a significant difference from the originally budgeted deficit of \$92.9 million. The Province's economy performed better than expected, which led to significantly higher provincial tax revenues, and contributed to a surplus despite significant unexpected response and recovery costs incurred due to Post-Tropical Storm Fiona.
- As at March 31, 2023, the net debt of the Province reached its highest level ever, and now sits at \$2.45 billion. This represents an increase of \$103.8 million during the year, and \$327.3 million since 2019.
- Despite the continued growth in net debt, the ratios of net debt to GDP and net debt to total revenues have followed a downward trend over the last five years due to the overall positive performance of the economy.
- Net debt per capita, however, increased from \$14,038 per person at March 31, 2022 to \$14,103 per person at March 31, 2023.
- The Province's spending in proportion to GDP was the highest of all Canadian provinces at 30.5 percent. This indicates that PEI's economy is more dependent on government spending than any other Canadian province.
- The Province's ratio of federal revenues to total revenues was the highest of all Canadian provinces at 37.9 percent. This indicates that PEI has the highest level of vulnerability, in terms of being the most dependent Canadian province on federal funding.

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 being dependent on external sources of funding. We discuss a number of these indicators in this chapter.

12.2 Consolidated financial statements provide an overview of the financial condition of a province at its year end, comparing current year results 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 chapter 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 nominal GDP and other commonly used

terminology, please refer to the Glossary at the end 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)

	2019	2020	2021	2022	2023
Financial Assets	\$1,119.1	\$1,365.1	\$1,687.4	\$1,935.7	\$2,027.7
Liabilities	3,242.6	3,570.1	3,986.7	4,282.7	4,478.5
Net Debt	(2,123.5)	(2,205.0)	(2,299.3)	(2,347.0)	(2,450.8)
Non-Financial Assets	1,111.5	1,197.5	1,308.9	1,418.4	1,542.4
Accumulated Deficit	(\$1,012.0)	(\$1,007.5)	(\$ 990.4)	(\$ 928.6)	(\$ 908.4)
Revenues	\$2,078.7	\$2,187.6	\$2,364.6	\$2,652.7	\$2,877.2
Expenses	2,021.7	2,165.6	2,370.2	2,570.5	2,862.8
Annual Surplus (Deficit)	\$ 57.0	\$ 22.0	\$ (5.6)	\$ 82.2	\$ 14.4
Nominal Gross Domestic Product*	\$6,983.0	\$7,440.0	\$7,461.0	\$8,575.0	\$9,376.0

Source: Derived from the Province's consolidated financial statements with restatements as identified in Public Accounts.

*Statistics Canada, published November 8, 2023.

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 \$103.8 million, and was \$2.45 billion as at March 31, 2023. The increase in net debt was mainly due to an increase in the net investment in tangible capital assets of \$130.4 million, which was partially offset by the annual surplus of \$14.4 million.
- 12.7 Net debt continues to rise and sits at its highest level ever. The tabled Estimates of Revenue and Expenditure for 2023-24 are forecasting net debt to reach \$3.18 billion by March 31, 2026. This represents an increase of approximately \$730 million, or 30 percent, over the next three years.

Financial Assets and Liabilities

- 12.8 **Exhibit 12.1** shows that financial assets increased by \$92.0 million since March 31, 2022. The main reasons for this increase were an increase in accounts and taxes receivable, as well as an increase in investment in government business enterprises. Accounts and taxes receivable increased by \$47.9 million mainly due to increases in receivables from: taxes, Government of Canada, PEI Lotteries Commission and Health PEI fees. Investment in government business enterprises increased by \$27.8 million, mainly due to the income generated during the 2023 fiscal year from Island Investment Development Inc. (\$17.9 million) and the PEI Energy Corporation (\$9.4 million).
- 12.9 **Exhibit 12.1** also shows that total liabilities have increased by \$195.8 million since March 31, 2022. The main reason for the

increase was debentures increasing by \$189.4 million. New debentures were used to fund the Province's operational spending and investments in tangible capital assets.

- 12.10 As at March 31, 2023, the Province had outstanding short-term loans payable, long-term loans payable, and debentures totaling \$3.78 billion. These government borrowings are partially offset by sinking fund assets of \$362.2 million.

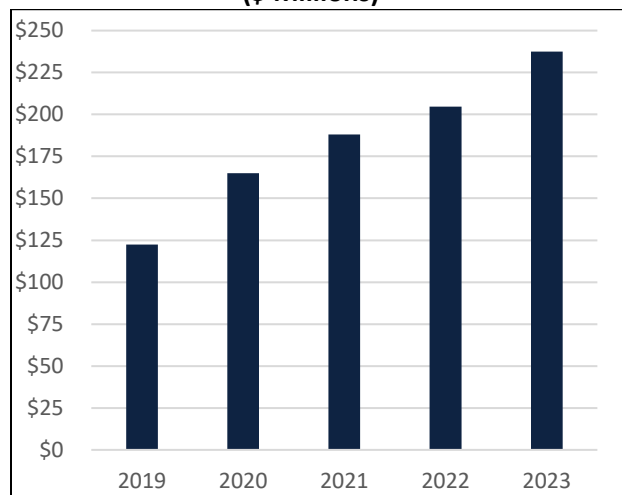
Non-Financial Assets

- 12.11 Non-Financial assets increased by \$124.0 million since March 31, 2022. Most of the increase is from investment 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, 2023 was due to tangible capital asset additions of \$237.5 million, which was partially offset by \$104.3 million of amortization expense for tangible capital assets. **Exhibit 12.2** shows the Province's total tangible capital asset additions from 2019 to 2023. Tangible 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)



	2019	2020	2021	2022	2023
Tangible Capital Asset Additions	\$122.4	\$165.0	\$188.0	\$204.7	\$237.5

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 of \$263.2 million when special warrants are included (as noted in Chapter 11). This was due to delays in various capital projects including:

- Health PEI was underspent by \$22.2 million mainly due to delays in construction projects at Island hospitals and health centres, and the delayed replacement of a linear accelerator at the Queen Elizabeth Hospital.
- The Department of Education and Lifelong Learning was underspent by \$9.3 million mainly due to delays in construction of the new Sherwood Elementary school and the

Stratford High school as well as the late delivery of new school buses.

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, 2023, the Province had a surplus of \$14.4 million. This is lower than the prior year surplus of \$82.2 million. Explanations for variances between current and prior year revenues and expenses are provided in the following sections.

Revenues

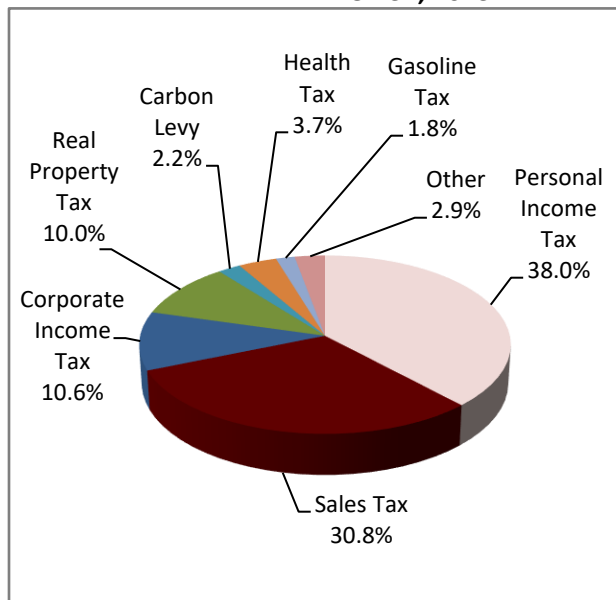
12.16 Revenues increased by \$224.5 million from the prior period. The increase was due largely to higher tax revenues of \$139.6 million and additional federal revenues of \$57.4 million.

12.17 The increase in tax revenues was driven by higher personal income tax, corporate income tax and sales tax revenues. The increase in these tax revenues was mainly due to the Province's growing population and continued economic recovery from the COVID-19 pandemic, which is evidenced by the rise in the nominal gross domestic product (GDP) totals during the year. The increase in federal revenues was mainly due to the funding of \$84.9 million related to the Disaster Financial Assistance Arrangements program to assist with the response and recovery costs resulting from Post-Tropical Storm Fiona. While federal funding under

most programs increased during the year, funding for COVID-19 Response and Recovery and Infrastructure Programs decreased from the prior year due to the phasing out of COVID-19 related programs as well as fewer infrastructure projects being completed during the year.

12.18 Provincial tax revenues are the largest source of revenue for the Province and totalled \$1.47 billion for the year ended March 31, 2023. **Exhibit 12.3** shows the various sources of provincial tax revenues for the year ended March 31, 2023.

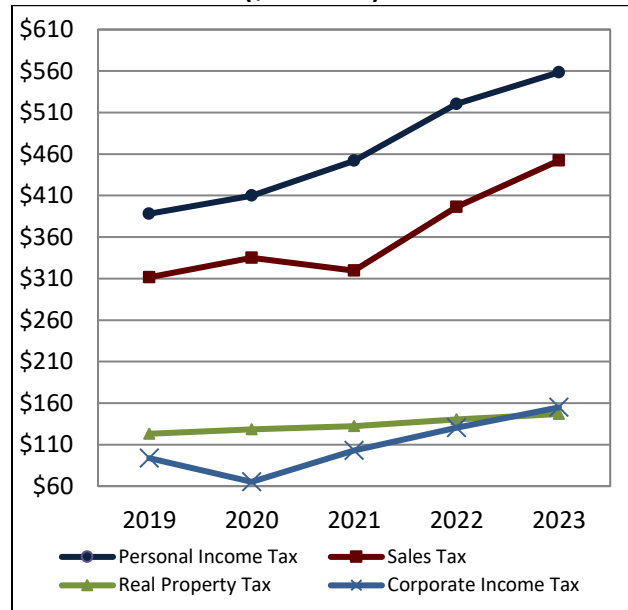
**EXHIBIT 12.3
PROVINCIAL TAX REVENUES
BY SOURCE
YEAR ENDED MARCH 31, 2023**



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

12.19 **Exhibit 12.4** shows tax revenues from the four largest sources from 2019 to 2023. All of these sources have continued on an upward trend over the past five years.

**EXHIBIT 12.4
TAX REVENUES
YEAR ENDED MARCH 31
(\$ Millions)**



	2019	2020	2021	2022	2023
Personal Income Tax	\$388.1	\$409.9	\$451.9	\$520.2	\$558.5
Sales Tax	\$311.6	\$334.9	\$319.5	\$396.2	\$452.3
Real Property Tax	\$123.1	\$128.4	\$132.2	\$140.5	\$146.9
Corporate Income Tax	\$93.6	\$65.1	\$103.1	\$130.3	\$154.9

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

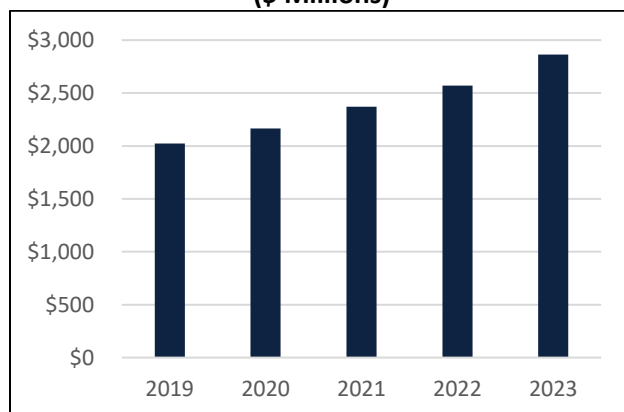
Expenses

12.20 Expenses increased by \$292.3 million from the prior year due to additional spending by various departments. The Department of Health and Wellness contributed \$58.1 million of this increase, which was largely due to higher compensation costs at Health PEI. The Department of Social Development and Housing contributed \$48.2 million of the increase, which was mainly due to costs

associated with Post-Tropical Storm Fiona and increased spending on social programs. The Department of Justice and Public Safety contributed \$47.6 million of the increase, which was primarily due to disaster recovery expenses associated with Post-Tropical Storm Fiona. Finally, the Department of Environment, Energy and Climate Action contributed \$40.0 million of the increase, which mainly related to the expansion and introduction of various sustainability programs including the free heat pump program, carbon rebates and other energy efficiency programs.

12.21 Expenses have risen by \$841.1 million since 2019 as more demands are being placed on government programs and services. **Exhibit 12.5** shows the total expenses from 2019 to 2023.

**EXHIBIT 12.5
TOTAL EXPENSES
YEAR ENDED MARCH 31
(\$ Millions)**



	2019	2020	2021	2022	2023
Total Expenses	\$2,021.7	\$2,165.6	\$2,370.2	\$2,570.5	\$2,862.8

Source: Derived from the Province's consolidated financial statements with restatements as identified in Public Accounts.

Budget to Actual

12.22 For the year ended March 31, 2023, the Province had a surplus of \$14.4 million. This was a significant variance from the original budgeted deficit of \$92.9 million, and the subsequently forecasted deficit of \$66.2 million based on preliminary results published in May 2023. **Exhibit 12.6** provides a summary breakdown of the change between the deficit originally budgeted to the surplus actually realized.

**EXHIBIT 12.6
CHANGE IN ANNUAL SURPLUS (DEFICIT)
BUDGET TO ACTUAL
YEAR ENDED MARCH 31, 2023
(\$ Millions)**

	Revenues	Expenses	Surplus (Deficit)
2022-23 Budget	\$2,548.8	\$2,641.7	\$(92.9)
Increase (decrease) in:			
Revenues			
Tax revenues	208.0	-	208.0
Government of Canada transfers	76.2	-	76.2
Other income	14.6	-	14.6
Investment income	14.3	-	14.3
Other provincial revenues	15.3	-	15.3
Expenses			
Education and Lifelong Learning	-	20.8	(20.8)
Environment, Energy and Climate Action	-	23.3	(23.3)
Finance	-	35.0	(35.0)
Justice and Public Safety	-	41.3	(41.3)
Social Development and Housing	-	51.2	(51.2)
Transportation and Infrastructure	-	22.7	(22.7)
Other program expenses	-	10.4	(10.4)
Interest, Amortization and Accretion	-	16.4	(16.4)
Total Change	328.4	221.1	107.3
2022-23 Actual	\$2,877.2	\$2,862.8	\$ 14.4

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

Budget to Actual Revenues

12.23 Overall, revenues were \$328.4 million higher than the amount originally budgeted. Higher tax revenues, Government of Canada transfers, investment income and other income were the main reasons for this increase.

12.24 Tax revenues were \$208.0 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.

12.25 The budget for the 2022-23 fiscal year was presented in February 2022 and tax revenues were underestimated by a significant amount. The budget was based on the available information at the time it was published, which included projections that did not anticipate the level of growth in the economy, tax revenues and GDP for 2022-23. These projections were supported by Statistics Canada and the Federal Government's Department of Finance.

12.26 Personal and corporate income tax revenues were \$75.8 million and \$47.9 million above budget respectively, while sales tax revenues were \$75.8 million higher than the budgeted figure. 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 our growing population associated with immigration and internal migration from other provinces.

12.27 Revenue from the Government of Canada totalled \$1.1 billion for the year ended March 31, 2023. This represents an increase of \$76.2 million from the amount budgeted. The following are the areas where significant variances from budget were identified:

- Disaster Financial Assistance Arrangements funding of \$84.9 million to assist with response and recovery costs resulting from significant damage incurred during Post-Tropical Storm Fiona was not included in the original budget.
- COVID-19 Response and Recovery funding was over budget by \$16.6 million, as the Government of Canada authorized additional COVID-19 funding following the Province's budget presentation.
- Budget overages were partially offset by Investing in Canada Infrastructure Program funding which was under budget by \$26.2 million. This was largely due to delays in the progress of infrastructure projects, which had a direct impact on the amount of federal funding received.

12.28 Other income was \$14.6 million higher than the amount originally budgeted. This was mostly attributable to the following increases at Health PEI:

- An unbudgeted employer rebate was received from the Workers Compensation Board.
- Higher than expected contributions were received from hospital foundations for capital purchases.

12.29 Investment income was \$14.3 million higher than the amount originally budgeted due to the unexpected rise in interest rates. This rise in interest rates also impacted interest expense which was over budget by \$13.3 million.

Budget to Actual Expenses

12.30 Overall, expenses were \$221.1 million higher than the amount originally budgeted. The following are areas where significant variances from budget were identified:

- Expenses were \$51.2 million higher than budgeted for the Department of Social Development and Housing. This was mainly due to unbudgeted expenditures that related to Post-Tropical Storm Fiona and spending overages on social programs due to higher than budgeted usage.
- Expenses were \$41.3 million higher than budgeted for the Department of Justice and Public Safety. This was mainly due to unbudgeted expenditures resulting from Post-Tropical Storm Fiona.
- Expenses were \$35.0 million higher than budgeted for the Department of Finance due to unbudgeted inflationary support payments.
- Expenses were \$23.3 million higher than budgeted for the Department of Environment, Energy and Climate Action. This was mainly due to higher than expected demand for various sustainability programs including the free heat pump program and other energy efficiency programs.
- Expenses were \$22.7 million higher than budgeted for the Department of Transportation and Infrastructure due to

unbudgeted response and recovery costs resulting from Post-Tropical Storm Fiona.

FINANCIAL INDICATORS

12.31 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.

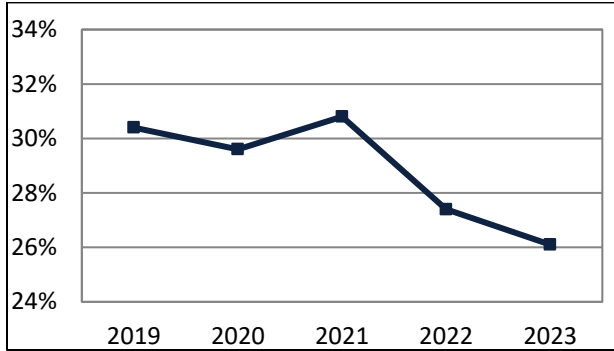
Sustainability

12.32 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

12.33 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 has continued to decline to its lowest point in the past five years since experiencing a slight increase in 2021, as shown in **Exhibit 12.7**.

**EXHIBIT 12.7
NET DEBT TO GDP
YEAR ENDED MARCH 31**

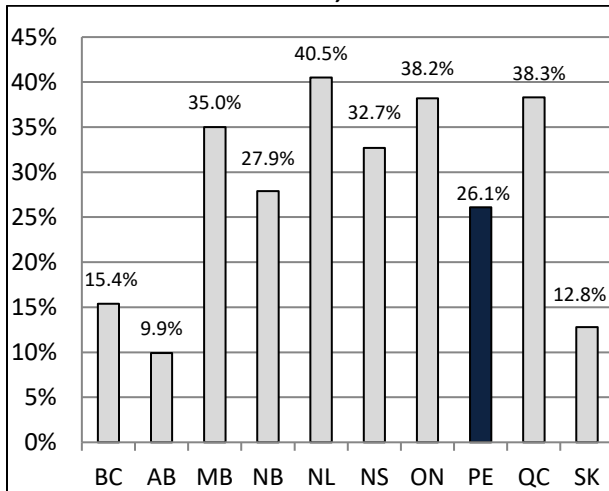


	2019	2020	2021	2022	2023
Net Debt to GDP	30.4%	29.6%	30.8%	27.4%	26.1%

Source: Derived from the Province’s consolidated financial statements with restatements as identified in Public Accounts and GDP data from Statistics Canada, published November 8, 2023.

12.34 **Exhibit 12.8** compares the Province’s net debt to GDP with the other Canadian provinces. As at March 31, 2023, 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, 2023**



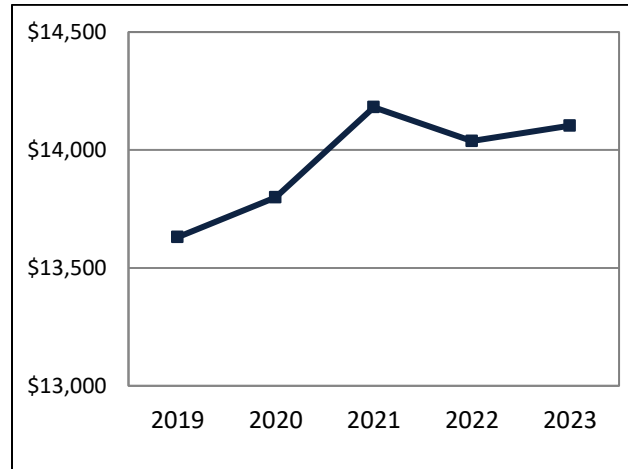
Source: Net debt derived from each province’s consolidated financial statements as at March 31, 2023 and GDP data from Statistics Canada, published November 8, 2023.

Net Debt per Capita

12.35 Net debt per capita is the amount of net debt attributable to each resident of the Province. The Province’s net debt per capita increased by \$65 to \$14,103 per person.

12.36 **Exhibit 12.9** shows that the Province’s net debt per capita has increased over the prior year. Overall, net debt per capita has generally increased over the last five years. This is a negative trend, especially when considering the population growth that the Province has experienced.

**EXHIBIT 12.9
NET DEBT PER CAPITA
YEAR ENDED MARCH 31**



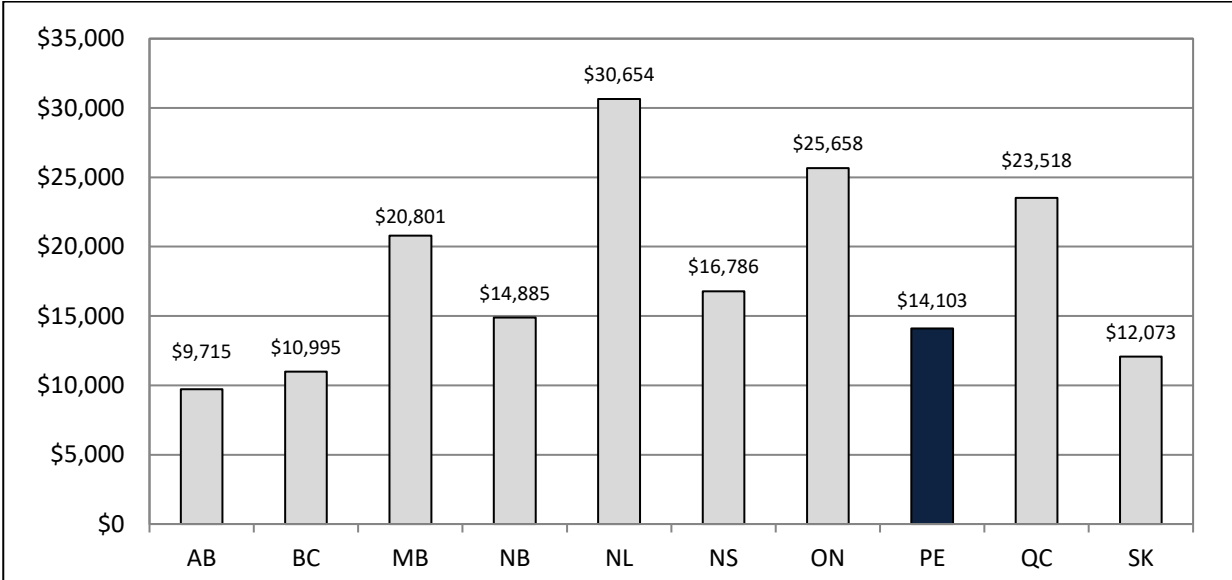
	2019	2020	2021	2022	2023
Net Debt per Capita	\$13,630	\$13,851	\$14,181	\$14,038	\$14,103

Source: Derived from the Province’s consolidated financial statements with restatements as identified in Public Accounts and population data from Statistics Canada, published September 27, 2023.

12.37 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, 2023**

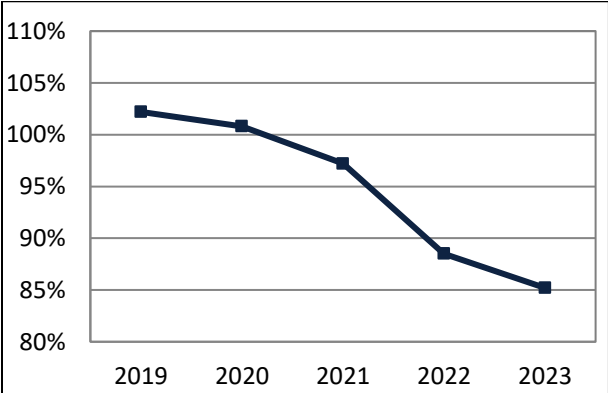


Source: Net debt derived from each province’s consolidated financial statements as at March 31, 2023 and population data from Statistics Canada, published September 27, 2023.

Net Debt to Total Revenues

12.38 **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 2019 to 2023, which is a positive trend.

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



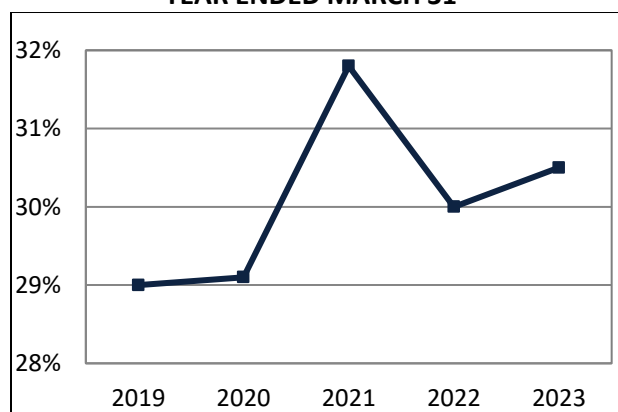
	2019	2020	2021	2022	2023
Net Debt to Total Revenues	102.2%	100.8%	97.2%	88.5%	85.2%

Source: Derived from the Province’s consolidated financial statements with restatements as identified in Public Accounts.

Expenses to GDP

12.39 During the 2023 fiscal year, government expenses increased by \$292.3 million from the prior period. Comparing expenses to GDP provides the trend of government spending in relation to the growth in the economy. An increasing ratio indicates government spending is growing at a rate faster than the growth in the economy. Expenses as a percentage of GDP increased slightly over the prior year and have increased by 1.5 percent since 2019. This is due to growth in government spending outpacing growth of the economy. **Exhibit 12.12** shows the Province’s expenses to GDP on a comparative basis.

EXHIBIT 12.12
EXPENSES TO GDP
YEAR ENDED MARCH 31



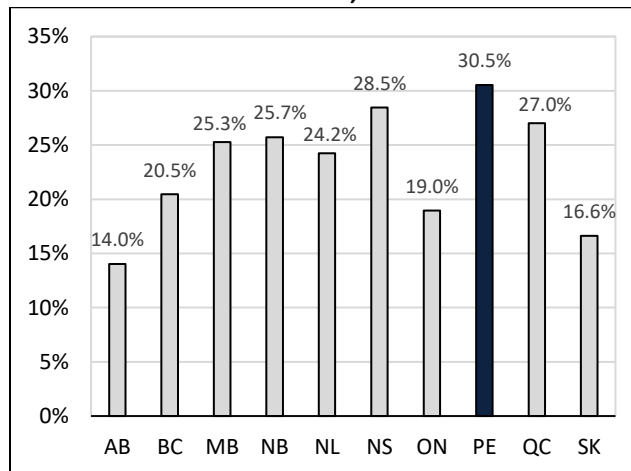
	2019	2020	2021	2022	2023
Expenses to GDP	29.0%	29.1%	31.8%	30.0%	30.5%

Source: Derived from the Province’s consolidated financial statements with restatements as identified in Public Accounts and GDP data from Statistics Canada, published November 8, 2023.

12.40 **Exhibit 12.13** shows a comparison of PEI’s expense to GDP ratio to other Canadian provinces. For the year ended March 31,

2023, PEI’s expense to GDP ratio was the highest of all Canadian provinces. This is an unfavorable statistic as it means that PEI’s economy is more dependent on government spending than any other Canadian province.

EXHIBIT 12.13
EXPENSES TO GDP FOR CANADIAN PROVINCES
MARCH 31, 2023



Source: Total expenses derived from each province’s consolidated financial statements as at March 31, 2023 and GDP data from Statistics Canada, published November 8, 2023.

Flexibility

12.41 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.

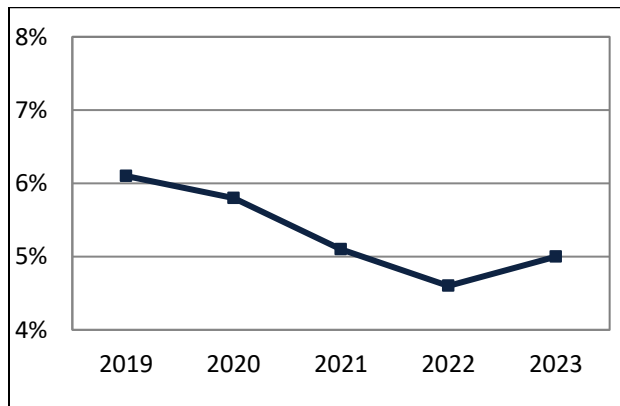
12.42 Flexibility provides insight into the management of financial resources. A government that increases its current borrowings reduces its future flexibility to respond to adverse economic

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

12.43 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 12.14**. 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 increased slightly over the prior year as a result of rising interest rates.

**EXHIBIT 12.14
INTEREST CHARGES TO TOTAL REVENUES
YEAR ENDED MARCH 31**



	2019	2020	2021	2022	2023
Interest Charges to Total Revenues	6.1%	5.8%	5.1%	4.6%	5.0%

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

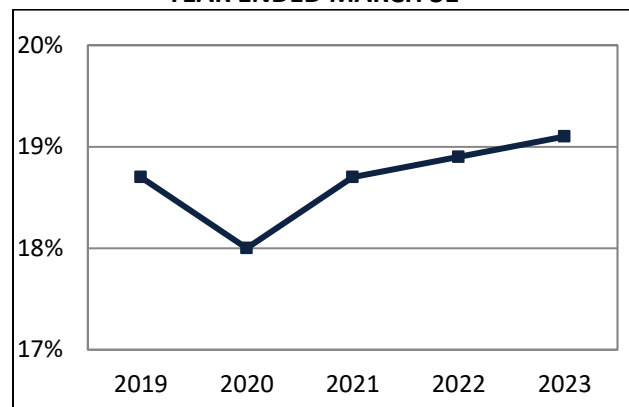
12.44 Interest charges totalled \$144.1 million during the 2022-23 fiscal year. This

represents an increase of \$23.1 million or 19% from the prior year. This means that the first \$144.1 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, interest rates have risen significantly and interest charges will require a larger amount of future revenues.

Own Source Revenues to GDP

12.45 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 12.15** indicates that the percentage increased slightly during the year, however it is comparable to the last few years.

**EXHIBIT 12.15
OWN SOURCE REVENUES TO GDP
YEAR ENDED MARCH 31**



	2019	2020	2021	2022	2023
Own Source Revenues to GDP	18.7%	18.0%	18.7%	18.9%	19.1%

Source: Derived from the Province’s consolidated financial statements and GDP data from Statistics Canada, published November 8, 2023.

Vulnerability

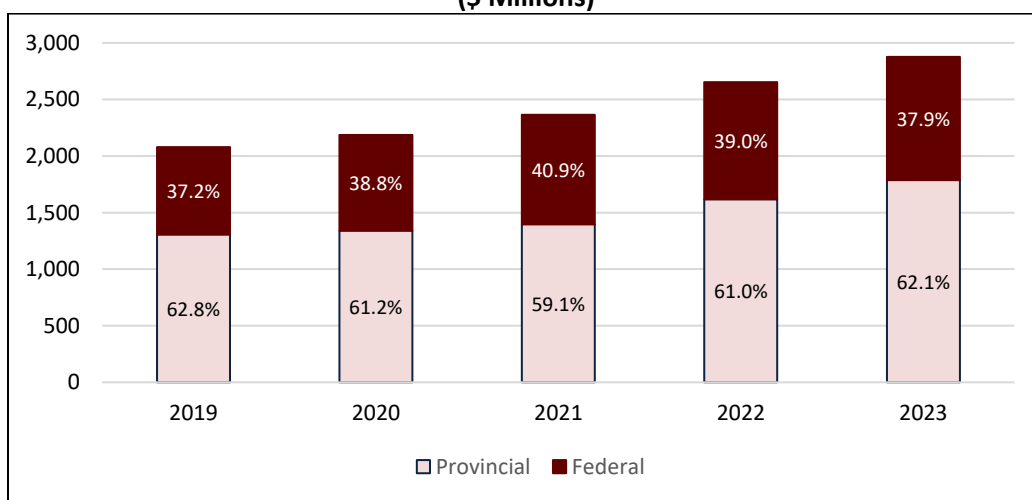
12.46 Vulnerability is the degree to which a government depends on sources of funding outside of its control or influence. It provides insight into the risks to the Province that could affect its ability to meet existing service commitments to the public and financial commitments to creditors, employees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

Provincial and Federal Revenues to Total Revenues

12.47 As indicated in **Exhibit 12.16**, federal revenues as a percentage of total revenues has decreased over the past couple of years, 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 2022-23, the Federal Government provided 37.9 percent of the Province's total revenues. This is the lowest percentage noted for the Province since 2019, however, it was the highest percentage of all Canadian provinces. The decrease in this ratio was mainly driven by higher growth in the Province's provincial tax revenues compared to the growth in federal revenues.

EXHIBIT 12.16
PROVINCIAL AND FEDERAL REVENUES TO TOTAL REVENUES
YEAR ENDED MARCH 31
(\$ Millions)

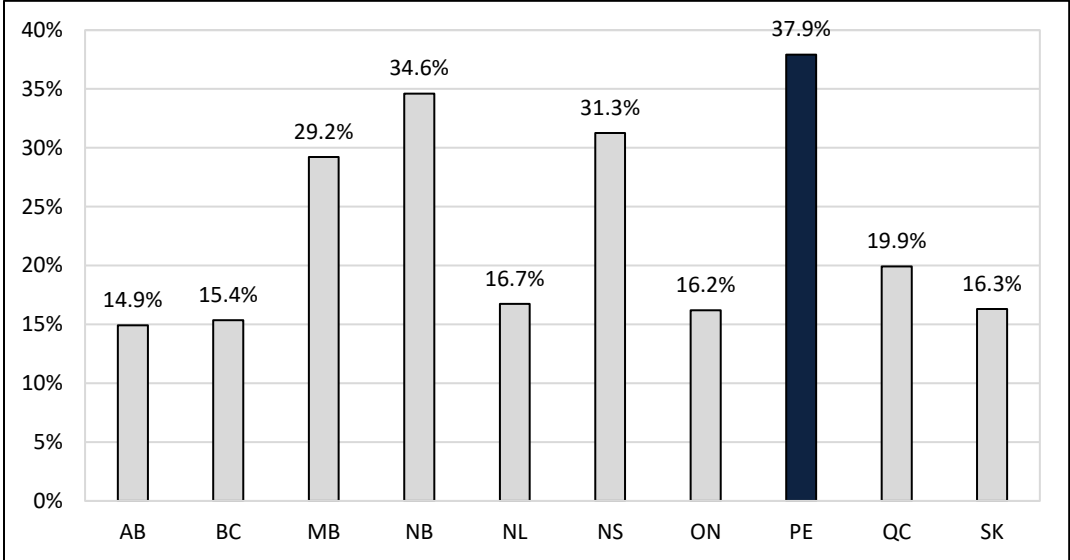


	2019	2020	2021	2022	2023
Provincial Revenues	\$1,305.4	\$1,339.4	\$1,396.4	\$1,619.0	\$1,786.2
Federal Revenues	<u>773.3</u>	<u>848.2</u>	<u>968.2</u>	<u>1,033.7</u>	<u>1,091.0</u>
Total Revenues	<u>\$2,078.7</u>	<u>\$2,187.6</u>	<u>\$2,364.6</u>	<u>\$2,652.7</u>	<u>\$2,877.2</u>

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

12.48 The Province’s federal revenue ratio has been compared to other Canadian provinces in **Exhibit 12.17**. For the year ended March 31, 2023, PEI’s ratio of federal revenues to total revenues was the highest of all Canadian provinces. This indicates that PEI has the highest level of vulnerability in terms of being the most dependent Canadian province on federal funding.

EXHIBIT 12.17
FEDERAL REVENUES TO TOTAL REVENUES FOR CANADIAN PROVINCES
YEAR ENDED MARCH 31, 2023



Source: Federal revenues and total revenues derived from each province’s consolidated financial statements as at March 31, 2023.

GLOSSARY

Accumulated deficit is the sum of all surpluses, deficits, and net remeasurement 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.

Net remeasurement gain (loss) includes unrealized gains and losses arising from portfolio investments, derivative financial instruments, foreign currency transactions, and other comprehensive income from government business enterprises.

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.

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

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