



December 2019

**Report of the Auditor General
to the Nova Scotia
House of Assembly**



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December 10, 2019

Honourable Kevin Murphy
Speaker
House of Assembly
Province of Nova Scotia

Dear Sir:

I have the honour to submit herewith my Report to the House of Assembly under Section 18(2) of the Auditor General Act, to be laid before the House in accordance with Section 18(4) of the Auditor General Act.

Respectfully,

A handwritten signature in black ink, which appears to read "Michael A. Pickup".

MICHAEL A. PICKUP, FCPA, FCA

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Chapter 1

Office of Regulatory Affairs and Service Effectiveness: Reducing Regulatory Burden

Overall Conclusions

- The Office of Regulatory Affairs and Service Effectiveness has effective processes in place to assess and measure regulatory burden reduction for businesses in Nova Scotia.
- The Office of Regulatory Affairs and Service Effectiveness uses client survey feedback and weekly reporting to assess if the Business Navigator program is meeting its objectives.

Why We Did This Audit

- Reducing regulatory burden allows businesses to spend more time on their business; this can be beneficial for the economy.
- The estimated overall regulatory burden on Nova Scotia businesses is approximately \$560 million.
- The unnecessary regulatory burden on Nova Scotia businesses is approximately \$200 million.
- In 2017, the Province of Nova Scotia set a target to reduce unnecessary regulatory burden by \$25 million by December 2018.
- The Province reported \$34.4 million annual reduction in unnecessary regulatory burden as of December 2018.

Assessment and Measurement of Regulatory Burden

The Office of Regulatory Affairs and Service Effectiveness:

- ensures reasonable assumptions are used for estimating impacts of regulatory changes on Nova Scotia businesses; this increases the likelihood of good estimates
- ensures that regulatory changes impacting businesses are assessed against the governing charter to promote better regulation
- has a process to ensure that estimates are accurately calculated and reported; however, minor improvements to documentation are needed
- provides appropriate training to departments on the Business Impact Assessment process so departments are better able to estimate the impact of regulation on businesses
- needs to ensure guidance documents and the Business Impact Assessment tool are updated on a regular basis and ensure the most current versions are used

Business Navigator Program

The Office of Regulatory Affairs and Service Effectiveness:

- uses weekly reports to regularly monitor the operations of the Business Navigator program and acts if needed
- provides initial and ongoing training to the Business Navigators
- sets strategic priorities for the program and monitors progress to evaluate success and takes action if needed



Recommendations at a Glance

Recommendation 1.1

The Office of Regulatory Affairs and Service Effectiveness should ensure that guidance documents and the Business Impact Assessment tool are regularly updated, and the most current versions are used.

1 Office of Regulatory Affairs and Service Effectiveness: Reducing Regulatory Burden

Background



Reducing regulatory burden on Nova Scotia businesses

- 1.1 The Office of Regulatory Affairs and Service Effectiveness (the Office) has two functions:
 - to reduce undue provincial burden on Nova Scotia businesses; and
 - to align, where possible, regulatory systems across the Atlantic region. This work is undertaken by a partnership of the four Atlantic provinces.
- 1.2 While an inter-jurisdictional approach across the Atlantic region exists, our audit focused on the Office's function to reduce regulatory burden on Nova Scotia businesses.

What is regulatory burden?

Regulatory burden or 'red tape' is the time and cost business spends dealing with regulations. Unnecessary regulatory burden includes: outdated, overly complex or duplicative rules, and processes or paperwork that provide little or no value to consumers, employees, the environment, government or businesses.

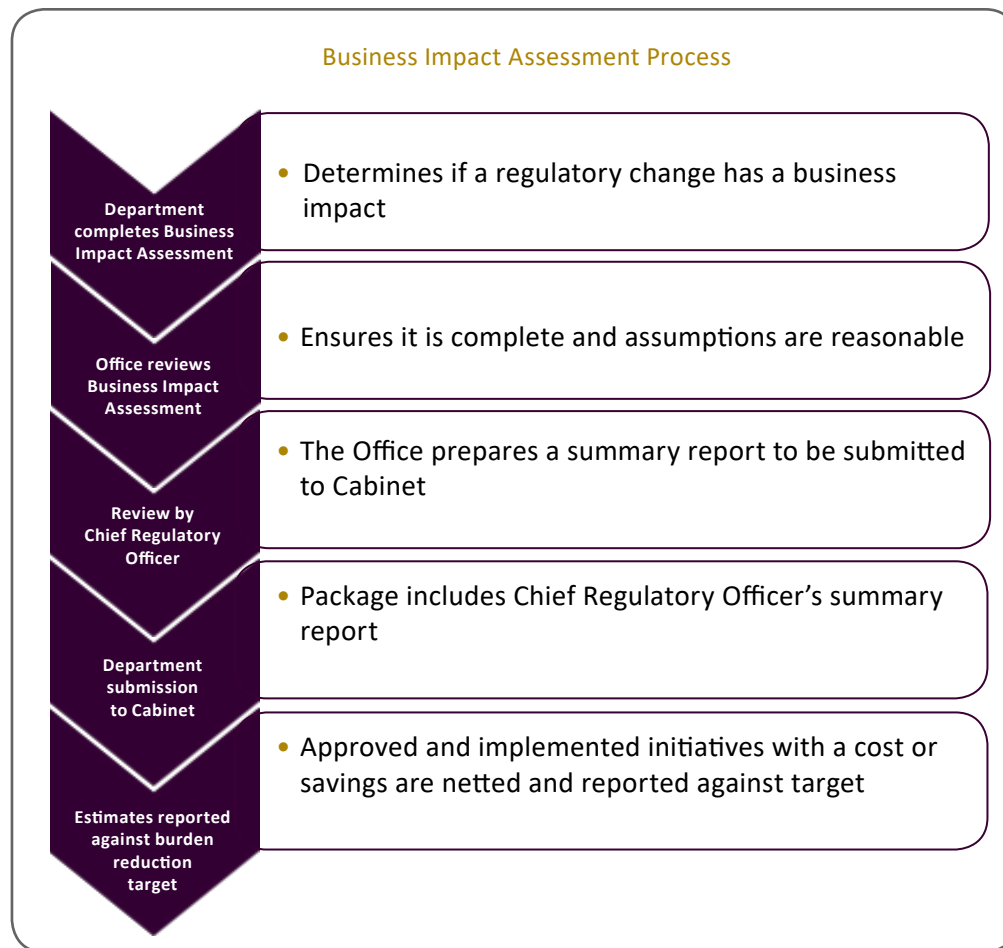
- 1.3 Between the federal, provincial, and municipal governments, the estimated overall regulatory burden on Nova Scotia businesses is approximately \$560 million. The Office determined that the unnecessary regulatory burden to businesses is estimated to be approximately \$200 million.
- 1.4 In 2017, the Province of Nova Scotia set a target to reduce unnecessary regulatory burden by \$25 million by the end of 2018. The objective of reducing regulatory burden is to allow businesses to spend more time on their business, which can be beneficial for the economy.
- 1.5 Not all regulatory burden is unnecessary. For example, regulations for health and safety purposes are in place to protect against harm to human life. In contrast, regulatory burden reduction is focused on changing regulations that do not provide value. For example, changing a regulation to allow businesses to provide electronic documentation rather than paper, allows businesses to save time and paper costs.



- 1.6 As of December 31, 2018, the Office reported that the net regulatory burden reduction was \$34.4 million annually – 138% of the original target. See Appendix II for a listing of the regulatory changes included in the \$34.4 million. The Office set a new target of an additional \$10 million net annual reduction by the end of 2020. We audited the Office’s process to ensure the estimates used were reasonable; we did not audit the accuracy of the numbers reported.
- 1.7 The Atlantic provinces agreed to a charter of governing principles to guide regulatory change. The intent of the charter is to outline best practice principles for regulatory design and promote better regulation. It has the following core themes:
- Regulation should be a last resort; non-regulatory options like education, voluntary compliance, incentives, and self-regulation should be used, if possible.
 - Regulation should be in the lightest form possible and based on a compelling cost-benefit analysis that includes cost to businesses and government, and its overall economic impact.
 - The process of making regulations should be transparent and consultative with affected parties.

The Office uses this charter to assess all regulatory changes that have an impact on businesses. See Appendix III for a summary of the governing charter.

- 1.8 To assess regulatory changes against the charter and estimate burden reduction, the Office developed the Business Impact Assessment tool. Management indicated the tool is based on an internationally accepted methodology. The tool calculates an estimate of expected costs or savings for Nova Scotia businesses as a result of complying with regulatory requirements.



- 1.9 The department responsible for specific regulatory changes completes the Business Impact Assessment tool and submits it for review to the Office of Regulatory Affairs and Service Effectiveness. The Office reviews the submission and outlines the expected impact in the Chief Regulatory Officer's summary report. The cost or savings of each regulatory change that impacts businesses is totaled to determine the net regulatory burden reduction.

Assessment and Measurement of Regulatory Burden



Process in place to ensure the estimated impact to businesses is reasonable

- 1.10 Using the Business Impact Assessment tool, the department responsible for the regulations calculates the regulatory burden; however, it is just an estimate. By their very nature, there is uncertainty associated with estimates and actuals may differ from the estimate.
- 1.11 The Office did a good job to ensure the estimated \$34.4 million annual regulatory burden reduction was reasonable and supported. Regulatory changes are only included in the target once they are approved, implementation



is complete or underway, and have an impact on businesses. We found that all samples we tested met the criteria for reporting against the target and those not reported were appropriately excluded.

- 1.12 All samples we reviewed had a completed summary report by the Office. Each assessment that had an estimated business impact was supported by detailed calculations. A few minor documentation issues were identified; however, these did not impact the estimates nor the reasonableness of the estimated \$34.4 million annual burden reduction. It is important that the Office continues to ensure estimates are supported by detailed documentation.

 The Office reviews assumptions used in the business impact estimates

- 1.13 For all 20 samples we tested, we saw evidence that the Office questioned the assumptions used by departments in preparing the estimated impact of regulatory changes. Departments calculate estimated impacts using such assumptions as the number of businesses affected, the level of employee doing the work, and the time to complete the activity. Proper review of these assumptions helps ensure the resulting estimates are reasonable.
- 1.14 The Business Impact Assessment tool provides guidance to departments to calculate the estimated impact to businesses. However, not all situations can be estimated using the tool. Some situations are too complex and need a more rigorous process to calculate the estimate. The Office works closely with departments to provide its expertise in estimating the impact on businesses. Departments should continue to work with the Office to calculate reasonable estimates for burden reduction.

 The most current Business Impact Assessment tool was not always used

- 1.15 The Business Impact Assessment tool is updated annually with new data from Statistics Canada. Examples of Statistics Canada data used in the tool include information about the number of businesses operating in a certain industry and the average wage rate for different levels of employees. The tool uses this data in the estimate of the impact on businesses.
- 1.16 We noted that the most current version of the tool was not used when preparing estimates for 9 of 14 files we tested. For eight of the nine files, there was no impact on the estimate as the outdated Statistics Canada data was not used to calculate the final estimates. The remaining file did not have a version date, therefore, it is unclear if the data was current.
- 1.17 Management noted that changes in the Statistics Canada data are minimal from year to year and calculations would not be substantially impacted. While this may be the case, it is important for the Office to define when data should be updated. By not using the most recent Statistics Canada data, there is a risk that the estimated cost or savings could be inaccurate.



- 1.18 The Office shares guidance documents and the Business Impact Assessment tool with departments. However, we noted some information was outdated. For instance, the guidance directs departments to contact staff who are no longer employed with the Office. Similar to using the most up-to-date assessment tool, it is important that the Office ensures the information shared with departments is current.

Recommendation 1.1

The Office of Regulatory Affairs and Service Effectiveness should ensure that guidance documents and the Business Impact Assessment tool are regularly updated, and the most current versions are used.

Office of Regulatory Affairs and Service Effectiveness Response: The Office agrees with this recommendation. Guidance documents will be updated and distributed to users by November 30, 2019 and will be reviewed annually and updated if required. The Business Impact Assessment Tool will be updated on an annual basis by May of each year to ensure data is up to date. To ensure that current versions are used by departments, user guidance documents and the Business Impact Tool will be distributed to user departments as well as shared on the Office's SharePoint site if updates are made.



Regulatory changes are assessed against the governing charter

- 1.19 For all 20 samples we tested, the regulatory change was assessed against the governing charter as adopted by the four Atlantic provinces. See Appendix III for excerpts from the governing charter. The Business Impact Assessment tool and the Chief Regulatory Officer's summary report both align with the governing charter. This ensures that from the beginning of the process, all regulatory changes impacting businesses follow the guiding principles for better regulation.
- 1.20 By following the Business Impact Assessment process, and providing a summary report to Cabinet, the Office ensures regulatory changes with an impact on businesses are consistently assessed and appropriate information is provided to Cabinet to assist in its decision making.



The Office correctly classified exempt regulatory changes

- 1.21 The Office correctly applied the exclusion criteria for all five regulatory changes it deemed exempt from the \$34.4 million annual burden reduction reporting. The Office assesses regulatory changes against set criteria to determine which should be exempt from the burden reduction program.
- 1.22 Regulatory changes are exempt from the target if they fall into one of the three following categories:

- economic analysis indicates economic benefits produced by the regulatory change will be materially larger than the burden
- initiatives that are substantially beyond the direct control of the provincial government but are required to meet national or international standards or agreements
- initiatives that are required to meet unforeseen or urgent public policy needs such as public health or safety risks

1.23 For example, Nova Scotia increased the basic personal amount, resulting in fewer Nova Scotians paying income taxes and a reduction in income taxes paid. However, there was a one-time impact on businesses as they had to update their payroll systems. The benefit of reducing income taxes paid by Nova Scotians outweighed the one-time cost to businesses.


1.24 The Office publicly reported which initiatives were exempt from the target and the estimated impact. This promotes transparency within the program. See Appendix IV for the listing of exempt regulatory changes.

 Training provided to departments was appropriate

1.25 The Office provides comprehensive training to departments on the Business Impact Assessment process. Departments identify training needs and the Office provides training when requested. As expected, training was more frequent when the Business Impact Assessment process was new and happens less frequently now that departments are more familiar with the process.

1.26 The Office asks participants to complete a feedback survey after training is complete. Training sessions were well attended and the Office received positive feedback. Feedback from surveys helped shape training material for future sessions. We encourage the Office to continue to offer training on the Business Impact Assessment process and the importance of regulatory burden reduction.

Business Navigator Program

 Strategic priorities of the Business Navigator program are established and monitored

1.27 In addition to the burden reduction initiative, the Office created the Business Navigator program in January 2017. The program is designed to help start-ups, as well as existing businesses, navigate through provincial regulations. This is intended to reduce regulatory burden by helping businesses find answers to their questions faster than if they were to research it themselves.



- 1.28 Three Business Navigators are available to answer questions or find the right departmental or external contact to provide the requested information to the business. As a result, the Business Navigators help businesses comply with applicable regulations. Management indicated that the program has assisted Nova Scotia businesses 2,900 times since its launch in 2017 to December 31, 2018.
- 1.29 The Office created an initial plan in 2016 for the program which included strategic priorities; however, they did not formally track the plan to determine if priorities were met. Management indicated that due to the small size of the Office and continuous communication, the strategic priorities were monitored.
- 1.30 Since 2017, yearly plans are created and progress towards strategic priorities is tracked. This ensures work is focused on achieving the strategic priorities.

➡ The Office regularly monitors the Business Navigator program

- 1.31 Management monitors day-to-day operations of the Business Navigator program through weekly reports. Weekly reports contain useful management information such as the number of cases, types of questions clients inquire about, departments contacted to provide an answer to a client, how the client was referred to the service, and feedback from client satisfaction surveys. This information allows management to assess the workload of the Business Navigators, identify any trends in client questions, and monitor overall client satisfaction.
- 1.32 The Office sets performance expectations for the Business Navigators and uses client satisfaction surveys to assess results. For example, the Business Navigators are expected to be responsive, and this is measured through survey results by determining if clients agree that their question was addressed in a reasonable timeframe. Satisfaction surveys are sent to clients once client questions have been answered. Management reviews survey results weekly to ensure that Business Navigators provide a beneficial service and the program helps businesses understand their regulatory environment.

➡ Initial and ongoing training is provided to Business Navigators

- 1.33 The Office provides initial training to Business Navigators, as well as ongoing training through meetings with departments and external parties. The need for these meetings is assessed through weekly team gatherings when trends in client questions are discussed. By obtaining information and building relationships with departments and external parties, the Business Navigators learn how to better serve their clients.



Appendix I

Reasonable Assurance Engagement Description and Conclusions

In fall 2019, we completed an independent assurance report of the regulatory and administrative burden reduction initiatives at the Office of Regulatory Affairs and Service Effectiveness. The purpose of this performance audit was to determine how burden reduction is assessed and measured, and if the Business Navigator program is meeting its objectives.

It is our role to independently express a conclusion about whether the regulatory and administrative burden reduction initiatives comply in all significant respects with the applicable criteria. Management of the Office of Regulatory Affairs and Service Effectiveness acknowledged their responsibility for the regulatory and administrative burden reduction initiatives.

This audit was performed to a reasonable level of assurance in accordance with the Canadian Standard for Assurance Engagements (CSAE) 3001—Direct Engagements set out by the Chartered Professional Accountants of Canada; and Sections 18 and 21 of the Auditor General Act.

We apply the Canadian Standard on Quality Control 1 and, accordingly, maintain a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting the audit work, we complied with the independence and other ethical requirements of the Code of Professional Conduct of Chartered Professional Accountants of Nova Scotia, as well as those outlined in Nova Scotia's Code of Conduct for public servants.

The objectives and criteria used in the audit are below:

Objective:

To determine if the Office of Regulatory Affairs and Service Effectiveness has effective processes in place to assess and measure regulatory burden for businesses in Nova Scotia.

Criteria:

1. The Office of Regulatory Affairs and Service Effectiveness should provide training to departments on the Business Impact Assessment tool.
2. The Office of Regulatory Affairs and Service Effectiveness should review Business Impact Assessments to ensure they are based on reasonable assumptions.
3. The Office of Regulatory Affairs and Service Effectiveness should be accurately measuring and reporting regulatory burden.



Objective:

To determine if the Office of Regulatory Affairs and Service Effectiveness assesses if the Business Navigator program is meeting its objectives.

Criteria:

1. The Office of Regulatory Affairs and Service Effectiveness should regularly set and assess performance measures for the Business Navigator program.
2. The Office of Regulatory Affairs and Service Effectiveness should provide initial and ongoing training for its Business Navigators.

Generally accepted criteria consistent with the objectives of the audit did not exist. Audit criteria were developed specifically for this engagement. Criteria were accepted as appropriate by senior management of the Office of Regulatory Affairs and Service Effectiveness.

Our audit approach consisted of interviewing management and staff of the Office of Regulatory Affairs and Service Effectiveness, reviewing policy, examining processes for regulatory and administrative burden reduction initiatives, and reviewing detailed files. We examined relevant processes, plans, reports, and other supporting documentation. Our audit period covered June 1, 2015 to December 31, 2018. We examined documentation outside of that period as necessary.

We obtained sufficient and appropriate audit evidence on which to base our conclusions on November 8, 2019, in Halifax, Nova Scotia.

Based on the reasonable assurance procedures performed and evidence obtained, we have formed the following conclusions:

- The Office of Regulatory Affairs and Service Effectiveness has effective processes in place to assess and measure regulatory burden reduction for businesses in Nova Scotia.
- The Office of Regulatory Affairs and Service Effectiveness uses client survey feedback and weekly reporting to assess if the Business Navigator program is meeting its objectives.



Appendix II

List of Regulatory Changes Included in the Annual Burden Reduction Estimate

We audited the Office’s process to ensure the estimates used were reasonable; we did not audit the accuracy of the numbers reported. The cost and saving estimates are based on conservative assumptions, including information from employers, Statistics Canada data, and reflect information available to date. It is important to note that the Office may revise cost and saving estimates based on new or refined data. For example, more accurate information may be provided to the Office after a measure is implemented. In such cases, estimates may be revised.

Department	Approved and/or Implemented Regulatory Measure	Estimated Savings (Cost) to Business
Service Nova Scotia ¹	Amendments to Residential Tenancies Act	\$826,000
	Changes to Special Move Permit Application form for carriers for milk and waste haulers during spring weight restrictions	\$60,000
	Remove requirement for the filing of duplicate subdivision and condo plans	\$370,000
	Modernization of Registry of Joint Stocks Companies	\$7,170,000
	Amendments to the Consumer Protection Act	\$(77,000)
	Liquor licensing criminal record checks	\$28,000
	Electronic Vehicle Registration for dealers	\$839,000
	Telephone hearing alternative for Residential Tenancies	\$130,000
	Strike off companies suspended due to lack of payment	\$1,800,000
	Compliance Officer authority to take affidavits to assist liquor licensees	\$5,000
	Petroleum Price Regulations	\$47,000
	Eliminate requirements for a permanent place of business for lenders	\$957,000
	Residential Tenancies Act amendments	\$1,250,000
	Reduction of incorporation fee under Companies Act	\$402,900
	Amendments of Corporation Registration Act	\$355,000
	Affirmation to be accepted for Residential Tenancies Hearings	\$80,000
	Bring Form 45 online	\$114,000
	Mortgage Act Regulations	\$(1,677,000)



Department	Approved and/or Implemented Regulatory Measure	Estimated Savings (Cost) to Business
Transportation and Infrastructure Renewal	Innovation HUB for forest transportation in NS – phase 1	\$2,300,000
	Innovation HUB for transportation in NS – phase 2	\$7,000,000
Environment	Clarifying the definition of public drinking water supplier	\$10,000
	Removing duplicative requirements for lead-acid battery waste and asbestos waste storage	\$16,000
	Mercury Diversion Program extension	\$1,300,000
	System improvements for notification and approval processing	\$1,000,000
	On-site Services Advisor Board Regulations repeal	\$1,000
Finance and Treasury Board	Retail sales mark up	\$805,000
	Fuel Tax Credit	\$1,600,000
Labour and Advanced Education	Removing tuition and fees for technical training for apprentices	\$386,000
	Presumptive coverage for post-traumatic stress disorder (PTSD) for emergency workers	\$(300,000)
	Updating Labour Standards Code awareness materials relating to issuing final pay cheques	\$636,000
	Amendment stipulating Canada Day will be recognized on July 1 for business closure	\$16,000
	Co-op and GTO: improvements to approval and claims processes	\$5,000
	Apprenticeship Management System	\$1,080,000
	Changes to frequency and cost of Oil Burner Technician licensing fee	\$(8,800)
	Domestic violence leave	\$(1,164,000)
	Labour Standards Code General Regulations reducing pregnancy and parental leave eligibility period	\$(285,000)
	Private Career Colleges – LaMPSS Administration Platform	\$23,000
	Labour Board forms modernization	\$31,000
	Communications Technician Trade Regulations	\$14,000
	WIPSI: program improvements to approval and claims process	\$9,000
	Employer Registration Certificate application	\$8,000



Department	Approved and/or Implemented Regulatory Measure	Estimated Savings (Cost) to Business
Workers' Compensation Board	Secure messaging with employers	\$1,620,000
	Elimination of special protection accounts for family members	\$80,000
	New process for annual sub-contractor reporting	\$252,000
	Electronic filing of injury reports	\$940,000
Agriculture	Initiatives under the Natural Products Marketing Council	\$53,000
	Poultry Insurance Plan amendments	\$(1,000)
	Farm Loan Board Regulations amendments	\$132,000
Fisheries and Aquaculture	Mandatory quality training for fish buyers	\$(18,000)
	Promotional awareness and coordination of delivery throughout Nova Scotia by the Nova Scotia Fisheries Sector Council (to offset costs of mandatory quality training for fish buyers)	\$18,000
	Amendments to Fisheries and Coastal Resources Act with respect to aquaculture	\$1,500
	Fisheries and Aquaculture Loan Regulations amendments	\$118,000
Justice	Builders Lien Act	\$440,000
	Fees for firearms training	\$(1,000)
Regulatory Affairs and Service Effectiveness	Business Navigator Service	\$3,400,000
Energy ²	Marine Renewable Energy Act	\$(215,000)
	Mineral Resource Regulations	\$175,000
Internal Services ¹	Ariba e-bidding	\$233,000
Total Burden Reduction Savings (net)		\$34,389,600

Source: Office of Regulatory Affairs and Service Effectiveness Final Progress Report as of December 31, 2018 (unaudited)

¹ Since renamed Service Nova Scotia and Internal Services

² Since renamed Energy and Mines



Appendix III

Excerpts from the Premiers' Charter of Governing Principles for Regulation

A. Statement of Fundamental Intent on Regulation

1. The Government will regulate to achieve its policy objectives only
 - a) having demonstrated that satisfactory outcomes cannot be achieved by alternative self-regulatory or non-regulatory approaches;
 - b) where analysis of the costs and benefits demonstrates that the regulatory approach is superior by a clear margin to alternative, self-regulatory or non-regulatory approaches;
 - c) where the regulation and the enforcement framework can be implemented in a fashion which is demonstrably proportionate, accountable, consistent, accessible, targeted and predictable; and
 - d) where the regulation and associated process is consistent with the Guidelines set out in section B below.

2. There is a general presumption that regulation should not impose costs and obligations on business, social enterprises, individuals and community groups unless a robust and compelling case has been made to do so.

B. Guidelines for Developing and Assessing Regulation

1. The policy need should be clearly articulated at the outset
2. Regulation should be the only effective and necessary way to meet the policy need
3. Regulation should be a tempered response
4. Regulation should be accountable
5. Regulation should be accessible and easy to comply with
6. Regulation should consider economic impact
7. Good regulatory governance
 - a. the responsibility of regulating, and of demonstrating that regulation is justified under this Charter, is that of the department, agency or office whose mandate includes the policy need the regulation seeks to address
 - b. the Office is an independent advisory office of government, which oversees and advises on the application of the Charter and the adoption of regulatory best practices in Nova Scotia



Appendix IV

List of Regulatory Changes Exempt from the Annual Burden Reduction Estimate

Regulatory changes are exempt from the target if they fall into one of the three following categories:

- economic analysis indicates economic benefits produced by the regulatory change will be materially larger than the burden
- initiatives that are substantially beyond the direct control of the provincial government but are required to meet national or international standards or agreements
- initiatives that are required to meet unforeseen or urgent public policy needs such as public health or safety risks

We audited the Office's process to ensure the estimates used were reasonable; we did not audit the accuracy of the numbers reported. The cost and saving estimates are based on conservative assumptions, including information from employers, Statistics Canada data and reflect information available to date. It is important to note that the Office may revise cost and saving estimates based on new or refined data. For example, more accurate information may be provided to the Office after a measure is implemented. In such cases, estimates may be revised.

Department	Exempt Regulatory Measure	Estimated Savings (Cost) to Business Exempt from the Burden Reduction Program
Environment	Safe Body Art Act and Regulations	\$(400,000)
	Cap and Trade and Supporting Regulations	\$(525,000)
Finance and Treasury Board	Basic Personal Amount Supplement	\$(400,000)
Labour and Advanced Education	Adoption of CSA Fuel Safety Codes	\$(63,000)
	Amendments to Labour Standards Code to align with Federal EI	\$(533,000)

Source: Office of Regulatory Affairs and Service Effectiveness Final Progress Report as of December 31, 2018 (unaudited)

Chapter 2

Transportation and Infrastructure Renewal: QEII New Generation Project – Halifax Infirmary Expansion and Community Outpatient Centre

Overall Conclusions

- As of October 24, 2019, the Department of Transportation and Infrastructure Renewal (TIR) had not implemented all of its own consultant's recommendations meant to address gaps in governance and key project capabilities for the projects. While progress has been made towards many recommendations, gaps remain.
- TIR had not developed detailed plans and schedules to guide the implementation of its own consultant's recommendations to address gaps in governance and key project capabilities.
- TIR followed a thorough process to select qualified consultants to advise on the Halifax Infirmary Expansion and the Community Outpatient Centre projects.

Why We Did This Audit

- The size of these projects, with projected costs of around \$2 billion, is simply too large for our Office not to look at now.
- We have identified many issues in the past around both P3 and traditional construction projects.
- We felt it important to report this first phase of our audit now due to the importance of getting the right resources in the right places as the projects move forward.

Project Governance and Key Capabilities Assessment

- 11 of 18 consultant recommendations to address gaps in governance and key project capabilities were incomplete, including 7 identified as critical. These recommendations were given to the Department in January 2018.
 - Examples of incomplete recommendations include:
 - project controls not in place
 - risk assessments not completed for projects
 - need for more project human resources
 - only 40 of 49 project team positions filled
 - lack of succession planning for key project team member
 - need to clarify roles and responsibilities
 - no detailed project plan with milestones and responsibilities assigned
 - reassignment agreement not completed for 1 of 5 positions tested
 - terms of reference not completed for some project committees
 - TIR did not assign responsibility for monitoring these recommendations until June 2019
 - No plan or schedule was developed to guide implementation of consultant's recommendations
 - Examples of recommendations completed to date include:
 - addressing a lack of P3 experience on the project team
 - reaching an agreement with a jurisdiction with more P3 experience to share documentation
 - co-locating team members in one location
 - Project specific fraud risk management program not developed
 - Oversight of consultant needs improvement

Procurement of Consultants

- Processes used to select consultants to advise on the Halifax Infirmary Expansion and the Community Outpatient Centre complied with provincial policies and guidelines
- Contract with one consultant was not signed until work had been underway for approximately 9 months



Recommendations at a Glance

Recommendation 2.1

The Department of Transportation and Infrastructure Renewal should implement a fraud risk management program specific to the QEII New Generation Project, including a fraud policy, fraud risk assessment, and fraud training.

Recommendation 2.2

The Department of Transportation and Infrastructure Renewal should implement a process to regularly monitor the implementation of recommendations included in the governance and key project capabilities report. The process should include developing detailed implementation plans and schedules along with regular reporting on the status of recommendations.

Recommendation 2.3

The Department of Transportation and Infrastructure Renewal should implement all recommendations made by its own consultant to address gaps in governance and key project capabilities.

Recommendation 2.4

The Department of Transportation and Infrastructure Renewal should implement a contract management process to fully oversee contracts related to the Halifax Infirmary Expansion and the Community Outpatient Centre. This process should include documentation to support the oversight of service providers.

Recommendation 2.5

The Department of Transportation and Infrastructure Renewal should ensure the timely signing of contracts with private sector partners that are consistent with procurement documents and contain terms to ensure the public interest is protected.

2 Transportation and Infrastructure Renewal: QEII New Generation Project – Halifax Infirmity Expansion and Community Outpatient Centre

QEII New Generation Project: The Need to Replace Existing Infrastructure

- 2.1 Redeveloping the Queen Elizabeth II Health Sciences Centre (QEII) is a massive multi-year project (the Project) aiming to reshape how healthcare is delivered in Nova Scotia. It will be the largest capital project ever undertaken by the Province. The Project includes several components with the largest being the Halifax Infirmity Expansion and the construction of a new Community Outpatient Centre in Bayers Lake.
- 2.2 The Halifax Infirmity Expansion includes the relocation of many of the services presently delivered at the aging Victoria, Centennial, and Dickson buildings on the Victoria General site and allow for their eventual closure. Other components of the Project include the construction of a new hospice residence, as well as renovations at the Dartmouth General and Hants Community hospitals.
- 2.3 In October 2018, the Government of Nova Scotia announced that a public-private partnership (P3) model would be used to deliver both the Halifax Infirmity Expansion and the Community Outpatient Centre. Specifically, private sector partners would be responsible for designing, building, financing, and maintaining the projects. Initial estimates indicate the combined cost of these projects to be approximately \$2 billion. The Halifax Infirmity Expansion and the Community Outpatient Centre are expected to be completed by August 2025 and September 2022, respectively. A detailed overview of key milestones for the projects can be found in Appendix II.
- 2.4 In July 2018, the Health Care Infrastructure Projects Division of Nova Scotia Lands Inc., a crown corporation, was created to oversee the QEII New Generation Project. This branch has a dedicated project team comprised of staff from within government and the Nova Scotia Health Authority, as well as new hires. The team reports to the Deputy Minister of the Department of Transportation and Infrastructure Renewal and the Chief Executive Officer of the Nova Scotia Health Authority. Specific divisions have been established within the project team to manage the P3 portions of the projects.
- 2.5 This chapter focuses on the selection of key consultants used to guide work related to the Halifax Infirmity Expansion and the Community Outpatient Centre, as well as whether steps have been taken to ensure appropriate governance structures have been implemented to oversee the projects. Our



recommendations are addressed to the Department of Transportation and Infrastructure Renewal as staff from this department are responsible for this work.

- 2.6 Our spring 2020 report will include the results of our work around the decision to deliver the projects using a P3 model and the development of master plans to guide the design and construction of the buildings. The objectives of that audit are to assess whether
- the Department of Transportation and Infrastructure Renewal conducted a reasonable and appropriate analysis to select a project delivery model
 - the Department of Transportation and Infrastructure Renewal, along with the Nova Scotia Health Authority, followed a reasonable and appropriate approach to develop master plans for the new facilities
- 2.7 Our audit does not include an examination of the procurement process currently underway to select private sector partners to design, build, finance, and maintain the Halifax Infirmity Expansion and the Community Outpatient Centre.

Governance and Key Project Capabilities Assessment



Many recommendations to improve governance and key project capabilities not implemented

- 2.8 The Department of Transportation and Infrastructure Renewal had not implemented all recommendations received in January 2018 from its own consultant to improve governance and key project capabilities to deliver the projects. The consultant identified several of these recommendations as critical to the success of the projects. In September 2017, the Department hired a consultant to assess the existing governance structures and capabilities of key functions essential to the successful delivery of the projects, including procurement, financial, legal, project management, and technical capabilities. The consultant identified numerous gaps and made 18 recommendations for improvement, all of which the Department accepted.
- 2.9 Until June 2019, we found that no one in the Department of Transportation and Infrastructure Renewal had been assigned responsibility for monitoring implementation of the recommendations. While we saw evidence that project leaders discussed topics related to some recommendations, along with work completed on some, the Department had not completed an assessment of the status of each recommendation until requested by our Office in June 2019. We found 11 of the 18 recommendations were incomplete as of October 24, 2019. In addition, the Department had not developed detailed plans or schedules to guide the implementation of the outstanding recommendations.

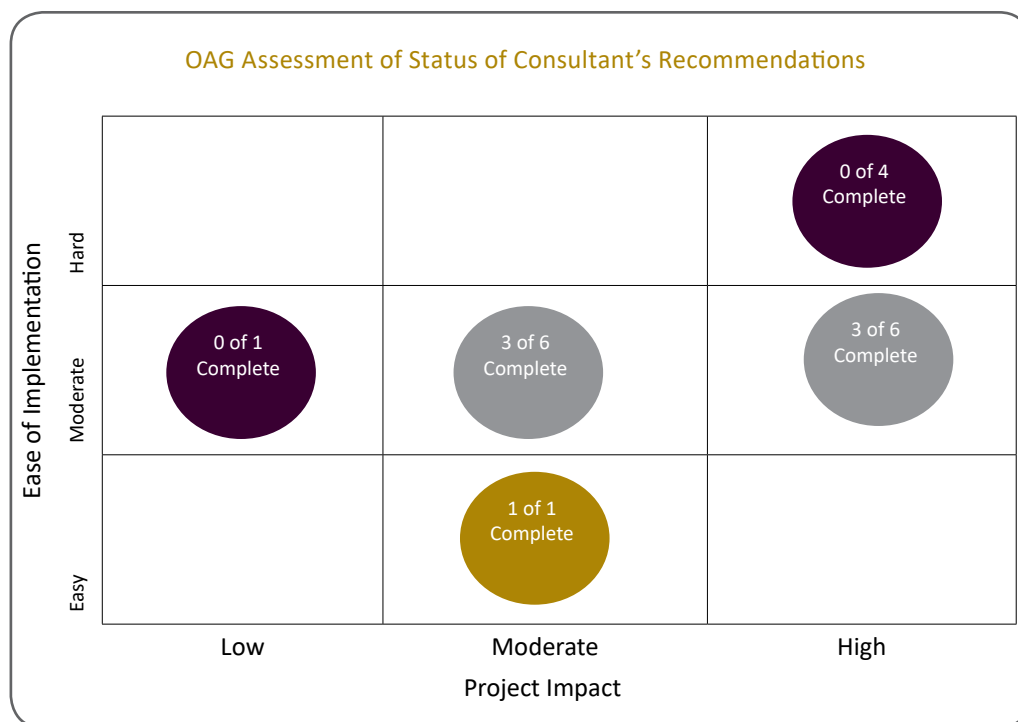


While we found there had been progress made towards implementing many of these recommendations, additional work is needed to fully address the gaps identified. A summary of the recommendations and their status can be found in Appendix III.

- 2.10 Issues such as these are not new, nor are they specific to these projects. Our February 2010 report on contract management of P3 schools identified significant weaknesses in the Province’s oversight of private sector developers. As well, our May 2011 report on the Colchester Regional Hospital replacement, while not a P3 project, highlighted poor management and oversight of the construction of the hospital. At that time, we recommended a central organization with the necessary expertise be assigned oversight responsibilities. As a result, in 2015, the Province made the decision to involve the Department of Transportation and Infrastructure Renewal in all infrastructure projects over \$1 million. It is concerning that despite this improved approach to oversight, gaps specific to these projects, which were identified by the Department’s own consultant almost two years ago, have still not been fully addressed. These gaps can lead to issues similar to those we have reported in previous audits.
- 2.11 As the Province moves forward with the Halifax Infirmar Expansion and the Community Outpatient Centre, a strong governance structure is imperative not only to effectively manage the size and complexity of the projects, but also to prevent a repeat of historical contract mismanagement. As the government will be working closely with the private sector at all stages of these projects, having the necessary governance structures and expertise in place is needed to monitor risks and ensure the hospital projects are delivered and managed as planned.

 Seven critical recommendations not yet complete

- 2.12 The consultant categorized recommendations in its governance and key project capabilities report based on ease of implementation and impact on the projects. The consultant assessed 10 of the 18 recommendations as having a high impact, meaning they are critical to the success of the projects, yet we found 7 of these were not yet completed. A summary of this, as well as an overview of how many recommendations in each category have been completed, is shown in the chart below. If these recommendations are not addressed, it increases the chances of the projects failing.



➔ Detailed risk assessments not completed

- 2.13 The Department of Transportation and Infrastructure Renewal had not yet established a comprehensive risk assessment for the Halifax InfirmarY Expansion or the Community Outpatient Centre. A comprehensive risk assessment would identify the risks to the projects, as well as identify the controls or processes in place to manage those risks. Related to this issue, the consultant’s recommendations highlight the need for strong project controls. While numerous controls such as budgets, schedules, and regular reporting have been established, additional work is needed to ensure appropriate approaches are used to identify key risks and ensure controls are in place to deal with them.
- 2.14 We did note that a listing of risks that could impact the Community Outpatient Centre had been developed; however, risk mitigation measures had yet to be determined, meaning no plan was in place to deal with these risks. No risk assessment had been prepared for the Halifax InfirmarY Expansion. The lack of completed risk assessments for the projects is even more concerning given the selection of private sector partners for both projects is already underway.
- 2.15 A comprehensive risk assessment, including strategies to monitor and manage these risks is vital for both projects. Due to the complexity of the projects, there are many risks that can impact success. It is important for the project team to actively identify, monitor, and manage these risks to reduce their impact.



➔ Fraud risk management program not established

- 2.16 One specific risk area that must be addressed by the project team is to establish mechanisms to manage the risk of fraud related to the projects. For a project the size of the QEII New Generation Project, we expected to see a project-specific fraud risk management program which included a fraud policy, code of ethics, fraud risk assessment, fraud awareness training, and processes to ensure ongoing monitoring of fraud risks. However, these have not been completed.
- 2.17 All Government of Nova Scotia employees are required to complete basic fraud prevention training. Project team management indicated that managers are responsible to ensure staff complete the required training. However, there was no tracking of whether the training had been taken. In response to a request from our Office, management indicated only 11 of the 40 members of the project team had completed the training and work was underway to ensure training is completed by the remaining project team members.
- 2.18 Management determined that the Province's basic fraud prevention training was sufficient and more extensive training was not needed. With an expected budget of approximately \$2 billion, strong fraud prevention practices should be in place for the Halifax Infirmity Expansion and the Community Outpatient Centre to safeguard public assets.
- 2.19 The lack of attention to fraud risks is concerning to us. We noted in our October 2019 report that the Department of Transportation and Infrastructure Renewal had one of the lowest rates for completing government's mandatory fraud training – only 11%. While we understand that staff and management for these projects come from various departments, we feel it is important to note that ultimately a large part of the project team reports to the Department of Transportation and Infrastructure Renewal, and the pattern of not fully addressing key aspects of fraud risk management within this department is concerning.

Recommendation 2.1

The Department of Transportation and Infrastructure Renewal should implement a fraud risk management program specific to the QEII New Generation Project, including a fraud policy, fraud risk assessment, and fraud training.

Department of Transportation and Infrastructure Renewal Response: This recommendation is accepted. The development of a specific fraud management program is already in progress. Scoping of the program has been completed and milestone dates for completing the next stage of the fraud management program will be set within December 2019.



The QEII New Generation Project team, as part of the Health Care Infrastructure Projects Division of Nova Scotia Lands Inc., reports to the Department of Transportation and Infrastructure Renewal. The Division was created in July 2018 and has been managed according to Provincial government and NSTIR policies and procedures including those related to fraud.

Work is underway to mirror the Provincial and TIR fraud policies and procedures for the QEII New Generation Project. This policy is being specifically revised to include all anticipated project related risks. It includes training for all project resources, including those outside of NSTIR and NS Lands, to ensure consistency in approach regarding fraud. The work underway is led by the Health Care Infrastructure Division with professional support from the Province of Nova Scotia Internal Audit Centre and an external consultant.



Dedicated project team not fully staffed and inadequate succession planning

2.20 The Department of Transportation and Infrastructure Renewal had not completed a detailed human resources gap analysis. The consultant concluded more team members were needed to oversee the projects and recommended some key senior positions that should be filled. The consultant's recommendation also included the need to complete a detailed analysis to compare current human resources to the expected need in order to identify gaps. Management identified 49 positions to staff the project team within Nova Scotia Lands, but except for the senior positions identified by the consultant, we were not provided with documentation outlining how the remaining positions were determined. Without a gap analysis, it is difficult to assess whether enough resources, and in the right areas, have been dedicated to the projects.

2.21 Management indicated 40 of the 49 positions had been filled, including 11 of 16 senior project team positions. These were filled through the reassignment of staff from other departments or the Nova Scotia Health Authority, and new hires. Management indicated they were in the process of filling many of these vacant positions. While we recognize the challenges involved in filling this many positions, it is important for the remaining positions to be filled as soon as possible. Failure to do so could lead to not having enough people in the right places to successfully oversee the projects and potentially lead to delays or risks not being identified and addressed.

2.22 We also found that the Department of Transportation and Infrastructure Renewal had not completed succession planning for a key project position as recommended by their consultant. While the appointment of staff to key positions on the project team is a recent and ongoing process, succession planning was identified by the consultant as important to the long-term success of the projects.



2.23 The Halifax Infirmary Expansion is not expected to be completed until 2025 and the management of the contract with the private sector partner to maintain the facility is expected to last 30 years beyond this. It is unlikely that individuals currently in key roles will be involved for the entire length of the projects. Thus, adequate succession planning is important to help avoid gaps in leadership and to mitigate the loss of expertise and experience on the project team. The consultant indicated this could include retention strategies to reduce the risk of losing key team members, training other team members to serve as replacements, and developing hiring plans to identify and attract qualified replacements. While the Department of Transportation and Infrastructure Renewal has actively recruited for the key project position identified by the consultant, a suitable replacement has not yet been found.



Roles and responsibilities for key tasks and milestones not clearly defined

2.24 The Department of Transportation and Infrastructure Renewal had not clearly defined and documented the roles and responsibilities of project team members. The consultant recommended the completion of detailed plans to outline the tasks and milestones involved in the projects and assign responsibility for each. This recommendation had not yet been completed. Without clearly defined responsibilities, key tasks may be overlooked or may not be completed in a timely manner

2.25 We selected a sample of five individuals assigned to the project team from other government departments and found one case where a reassignment agreement had not been signed by the lending department. These agreements formally dedicate an employee to their role on the project team. Management told us this individual shares their time between their home government department and the project team.

2.26 Balancing other responsibilities outside the project team creates a risk of insufficient attention given to the Halifax Infirmary Expansion and the Community Outpatient Centre. Formal reassignment agreements are needed to ensure roles and responsibilities are documented and understood. The importance of a fully staffed and dedicated team to oversee the Halifax Infirmary Expansion and the Community Outpatient Centre will only increase as the projects move forward in selecting private sector partners and constructing the infrastructure.

2.27 Terms of reference that define the role of committees responsible for overseeing the QEII New Generation Project had also not been established, despite the consultant noting a lack of direction around the roles of these committees. We identified five committees that have a role in overseeing the projects, three of which have decision-making responsibilities. We found roles and responsibilities were not documented for three committees, including one with decision-making responsibilities. We also noted that



meeting minutes for two committees with decision-making responsibilities were not consistently kept.

2.28 The Halifax Infirmity Expansion and the Community Outpatient Centre are very complex and expensive infrastructure projects meaning clearly-defined roles and responsibilities are essential to provide adequate oversight. Without this, key project activities may be overlooked or not effectively and efficiently addressed and impact the success of the projects. Furthermore, confusion may exist around responsibility for decision making, impacting both the quality and timeliness of decisions.



Seven recommendations to improve governance and key project capabilities completed

2.29 Seven of the consultant's 18 recommendations to improve governance and key project capabilities were completed. Several of these recommendations related to addressing a lack of P3 experience on the project team and the importance of integrating team members from several government departments and the Nova Scotia Health Authority. Some examples of work completed to address these recommendations include:

- engaged external parties to provide P3 advisory services in areas including legal, procurement, and facilities management
- reached an agreement with another Canadian jurisdiction with significantly more P3 experience to share documentation used for selecting private sector partners
- co-located project team members in one office space to promote team integration

2.30 To address the issues described in the preceding paragraphs we made two recommendations.

Recommendation 2.2

The Department of Transportation and Infrastructure Renewal should implement a process to regularly monitor the implementation of recommendations included in the governance and key project capabilities report. The process should include developing detailed implementation plans and schedules along with regular reporting on the status of recommendations.

Department of Transportation and Infrastructure Renewal Response: This recommendation is accepted. A process to monitor implementation of recommendations is now in place and will continue to be refined as the project proceeds. An external consultant was hired proactively by the NS Department of Transportation and Infrastructure Renewal early in the project planning to identify and action project governance and key project capabilities requirements.



Since the final Provincial project approval was received in October 2018, the recommendations have been an ongoing part of the project team and Department's work. The QEII New Generation project team, with the support of external consultants, will continue to monitor completion of all recommendations that are currently in progress or those that will be implemented on an ongoing basis throughout the life of the project. In addition, the project team will continue to report on recommendations within the established decision making organizational chart governing the project.

Recommendation 2.3

The Department of Transportation and Infrastructure Renewal should implement all recommendations made by its own consultant to address gaps in governance and key project capabilities.

Department of Transportation and Infrastructure Renewal Response: This recommendation is accepted. All consultant recommendations are well underway. Significant progress has been made in the early stage of this multi-year capital project. Work will continue to complete all recommendations to ensure governance and key project capabilities are all fully established in the early stages of the project. Some recommendations, such as those related to project controls and staffing, will continue to be implemented and refined on an ongoing basis through the various stages of the project.

Contract Management and Oversight



Oversight of contracts needs improvement

- 2.31 The consultant hired to complete the governance and key project capabilities assessment completed an analysis that was consistent with the deliverables outlined in their contract. However, we noted the Department of Transportation and Infrastructure Renewal did not have documentation of its oversight of their work. The Province will be entering into long-term contracts with private sector partners to design, build, finance, and maintain complex healthcare infrastructure projects and the success of the projects is highly dependent on the Province's ability to actively manage contracts to ensure private sector partners meet their obligations.
- 2.32 The Department did not maintain meeting minutes or records of its discussions with the consultant. We saw several instances of the consultant requesting feedback from the Province but no documentation was available to show whether the feedback was provided and reflected in the consultant's work. For example, the final report submitted by the consultant included notes indicating the Department did not respond to some minor information requests. We also did not see a final assessment by the Department of whether the consultant completed all the tasks they were contracted to do.



2.33 While this lack of oversight did not appear to impact the quality of the consultant’s work, documented oversight of contracts is very important as the Halifax Infirmiry Expansion and the Community Outpatient Centre projects move forward. Without proper oversight, there is a risk that weaknesses in the performance of consultants may not be identified.

Recommendation 2.4

The Department of Transportation and Infrastructure Renewal should implement a contract management process to fully oversee contracts related to the Halifax Infirmiry Expansion and the Community Outpatient Centre. This process should include documentation to support the oversight of service providers.

Department of Transportation and Infrastructure Renewal Response: This recommendation is accepted. More documentation of the contract management process will be generated to demonstrate in writing the ongoing contract management approach.

The long-standing contract management approach utilized by NSTIR is also followed by NS Lands for the QEII New Generation Project. To ensure that evidence of this contract management process will be readily available in the future, more detailed documents will be created throughout the life of the project. Each NSTIR major capital project contract, including those within the QEII New Generation Project, is assigned an internal point of contact for consistency with the external contractor. This internal contact is the designated lead and will be responsible for ensuring that documentation is maintained to demonstrate ongoing contract management efforts. In addition, for long-term P3 contracts, the required processes and documentation will be established as the project proceeds.

Procurement of Consultants



Selection of consultants complied with provincial policies

2.34 Consistent with provincial procurement policies and guidelines, the Department of Transportation and Infrastructure Renewal followed a thorough process to select two key consultants for the Halifax Infirmiry Expansion and the Community Outpatient Centre projects. Specifically, we examined the procurement processes used to select consultants to

- develop master plans to guide the design of the Halifax Infirmiry Expansion and the Community Outpatient Centre
- complete the governance and key project capabilities assessment, as well as an assessment of whether a P3 model should be used to deliver the projects



- 2.35 We found the evaluation criteria and processes used to select the successful bidders were consistent with the process outlined in the procurement documents. Criteria and weighting for both competitions were reasonable and appropriate and the contracts were awarded to the bidders with the highest scores.
- 2.36 We identified two minor issues with one of the competitions. Members of the evaluation team did not sign conflict of interest declarations. At the time of the competition this was not a policy requirement. We believe this is a standard business practice that should have been in place and this requirement has since been added to the provincial policy.
- 2.37 While we had no concerns with the overall decisions and final scoring of proponents, we did find some minor documentation issues around support for some scoring at the individual evaluator level. So, while this did not impact the final selection of the most qualified consultant, as the Province moves forward on selecting private sector partners to deliver the Halifax Infirmity Expansion and the Community Outpatient Centre projects it is important that the procurement process is thorough and well documented.

 Significant delays in contract signing

- 2.38 Final contracts signed with each consultant were consistent with services requested in the procurement documents and the proposals submitted by the successful bidders. However, we did see there was a delay of almost nine months in signing a subsequent contract with one of the consultants for additional work on the projects. While we found no evidence the delay impacted the work performed, there are risks associated with completing work without a signed contract. Contracts outline the specifics of the work to be completed and include numerous clauses such as confidentiality and conflict of interest that are intended to protect the Province.
- 2.39 Signed contracts with clearly-defined terms are important to the success of the Halifax Infirmity Expansion and the Community Outpatient Centre projects. For example, our February 2010 report on contract management of P3 schools identified several weaknesses in contract terms including a lack of audit access, measurable service levels, and documentation requirements. In order to contribute to the success of these approximately \$2 billion P3 projects, it will be important that the Province ensures these issues are not repeated in the final contracts for the Halifax Infirmity Expansion and the Community Outpatient Centre. Without strong contracts, it will be difficult for the Province to provide adequate oversight over these projects and protect public interest.



Recommendation 2.5

The Department of Transportation and Infrastructure Renewal should ensure the timely signing of contracts with private sector partners that are consistent with procurement documents and contain terms to ensure the public interest is protected.

Department of Transportation and Infrastructure Renewal Response: This recommendation is accepted. With both traditional and alternative procurement contracts, the project team will ensure that clear documented evidence of an agreement between the parties to the fundamental terms and conditions is established as early as possible in a contract relationship. NSTIR standard practice with traditionally procured contracts is to include specific project terms within the release of a Request for Proposal (RFP) tendered document. The evaluation and acceptance of a compliant bid indicates that the requirements outlined in the RFP submission have been met. This process allows NSTIR to formalize the contract through a “letter of award” and be confident the work will be initiated based on agreed upon terms and conditions. The formalized contract can be signed after without limiting the project and value of the work. The project team will continue to be mindful of ensuring the final contract document is signed by all parties within a timely matter and that clear documentation is in place in the event of a delay in finalizing the terms of a contract. For situations in which an alternative procurement strategy is determined to be appropriate, the Province will ensure that fundamental terms and conditions are agreed upon in writing prior to signing the formalized contract.



Additional Comments from the Department of Transportation and Infrastructure Renewal

All recommendations of the Office of the Auditor General are accepted and appreciated as we move through the early stages of this multi-year capital project. All original consultant recommendations related to governance and project capabilities have been completed or are well underway to completion.

The Department of Transportation and Infrastructure Renewal, Nova Scotia Lands Inc. and the QEII New Generation project team understand the magnitude and importance of this project to Nova Scotians and welcomes these early recommendations from the Auditor General. We will continue to work with the Auditor General's Office to complete this work and position the project team for success.



Appendix I

Reasonable Assurance Engagement Description and Conclusions

In fall 2019, we completed an independent assurance report of the Department of Transportation and Infrastructure Renewal. The purpose of this performance audit was to determine whether the Department of Transportation and Infrastructure Renewal ensured appropriate planning and analysis was performed for the initial key decisions regarding the Halifax Infirmary Expansion and the Bayers Lake Community Outpatient Centre portions of the QEII New Generation Project (the Project).

It is our role to independently express a conclusion about whether the Department of Transportation and Infrastructure Renewal complies in all significant respects with the applicable criteria. Management at the Department of Transportation and Infrastructure Renewal acknowledged their responsibility for the QEII New Generation Project, including the Halifax Infirmary Expansion and the Community Outpatient Centre.

The audit was performed to a reasonable level of assurance in accordance with the Canadian Standard for Assurance Engagements (CSAE) 3001 – Direct Engagements set out by the Chartered Professional Accountants of Canada; and Sections 18 and 21 of the Auditor General Act.

We apply the Canadian Standard on Quality Control 1 and, accordingly, maintain a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting the audit work, we complied with the independence and other ethical requirements of the Code of Professional Conduct of Chartered Professional Accountants of Nova Scotia, as well as those outlined in Nova Scotia's Code of Conduct for public servants.

The objectives and criteria used in the audit are below:

Objective:

To determine if the Department of Transportation and Infrastructure Renewal has established a project governance structure that will contribute to the successful completion of the Halifax Infirmary Expansion and the Community Outpatient Centre portions of the QEII New Generation Project.

Criteria:

1. The Department of Transportation and Infrastructure Renewal should complete a comprehensive analysis to assess the governance structures in place to manage the Project and make recommendations for improvements.
2. The Department of Transportation and Infrastructure Renewal should have detailed plans and schedules to ensure recommendations to improve the governance structures for the Project are completed in a timely manner.
3. The Department of Transportation and Infrastructure Renewal should address recommendations to improve the governance structure for the Project.
4. The Department of Transportation and Infrastructure Renewal should provide appropriate oversight of professional service providers used to assess the governance structures for the Project to ensure work was completed in accordance with contract terms.



Objective:

To determine if the Department of Transportation and Infrastructure Renewal followed a thorough process to select qualified professional service providers to advise on the Halifax Infirmary Expansion and the Community Outpatient Centre portions of the QEII New Generation Project.

Criteria:

1. The Department of Transportation and Infrastructure Renewal should procure professional service providers in compliance with provincial legislation and policies.
2. The Department of Transportation and Infrastructure Renewal should ensure procurement documents include evaluation criteria that are reasonable and consistent with the deliverables outlined in the procurement request.
3. The Department of Transportation and Infrastructure Renewal should consistently follow evaluation criteria defined in procurement documents when evaluating the proposals of professional service providers.
4. The Department of Transportation and Infrastructure Renewal should ensure final contract terms with professional service providers are consistent with the proposals evaluated during the procurement process.

Generally accepted criteria consistent with the objectives of the audit did not exist. Audit criteria were developed specifically for this engagement. Criteria were accepted as appropriate by senior management of the Department of Transportation and Infrastructure Renewal.

Our audit approach consisted of reviewing any relevant legislation, policies, and procedures, along with testing for compliance. We interviewed management and staff within the Department of Transportation and Infrastructure Renewal. We also reviewed procurement documentation, consultant reports, and supporting documentation provided by the Department. Our audit period covered August 1, 2016 to March 31, 2019. We examined documentation outside of that period as necessary.

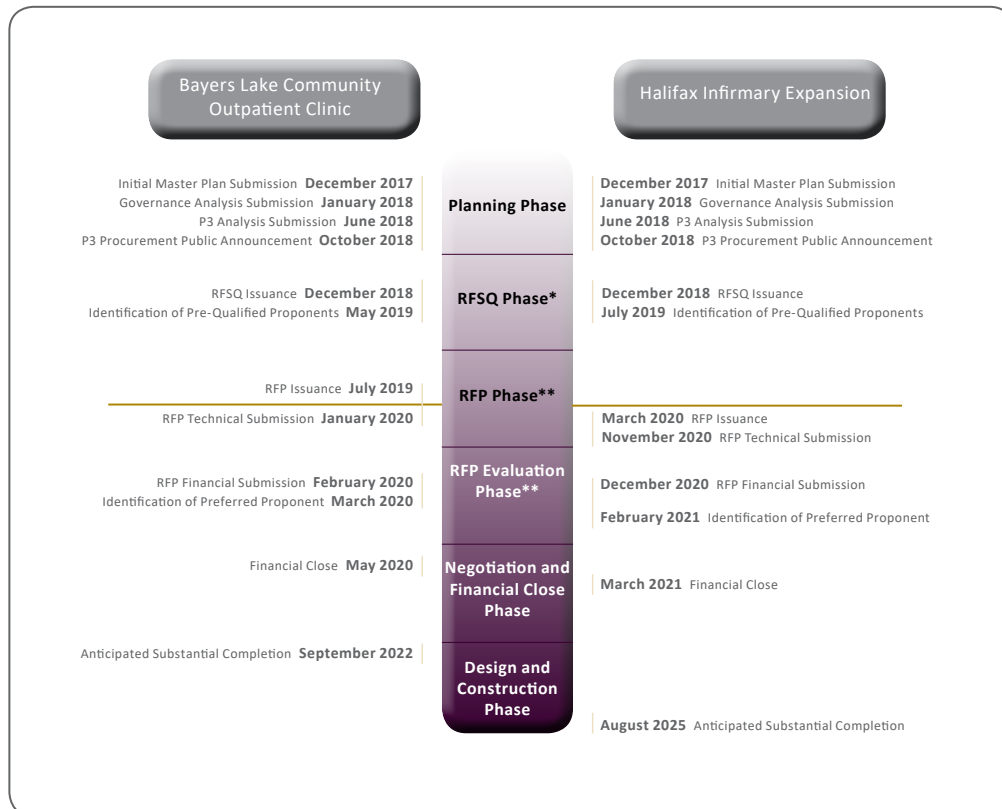
We obtained sufficient and appropriate audit evidence on which to base our conclusions on November 12, 2019, in Halifax, Nova Scotia.

Based on the reasonable assurance procedures performed and evidence obtained, we have formed the following conclusions:

- As of October 24, 2019, the Department of Transportation and Infrastructure Renewal had not implemented all of its own consultant's recommendations meant to address gaps in governance and key project capabilities for the projects. While progress has been made towards many recommendations, gaps remain.
- The Department of Transportation and Infrastructure Renewal had not developed detailed plans and schedules to guide the implementation of its own consultant's recommendations to address gaps in governance and key project capabilities.
- The Department of Transportation and Infrastructure Renewal followed a thorough process to select qualified consultants to advise on the Halifax Infirmary Expansion and the Community Outpatient Centre projects.



Key Milestones



* Request for Supplier Qualifications (RFSQ): To prequalify suppliers in the first stage of a two-stage open competition. Bidders who meet the requirements of the RFSQ are eligible to participate in the second stage and are invited to respond to a subsequent Request for Proposal.

** Request for Proposal (RFP): Used to procure goods, services, and construction where specifications or requirements are well defined, contract terms are clear, and bidder ranking is based on highest score.



Appendix III

Status of Consultant’s Recommendations to Improve Governance and Key Project Capabilities

The Department of Transportation and Infrastructure Renewal hired a consultant in September 2017 to perform an assessment of the existing governance structures and capabilities of key project functions essential to the successful delivery of the projects. The consultant made 18 recommendations in their January 2018 report which we have summarized below.

Consultant’s Recommendation	OAG Assessment of Status	Impact of Recommendation (assessed by TIR’s consultant)
Establish preliminary project budget and track budget	Complete	Moderate
Develop comprehensive project charter and ensure buy in from project team and project governors	Complete	High
Enable Department of Health and Wellness’ accountability	Incomplete	High
Develop project charter	Complete	High
Establish controls to track performance	Incomplete	Moderate
Formalize as a project and establish project controls	Incomplete	High
Ensure role/responsibility clarity	Incomplete	High
Establish performance management criteria	Incomplete	Low
Work stream-based project team	Incomplete	High
Co-locate project team	Complete	Moderate
Streamline governance structure	Complete	Moderate
Develop terms of reference	Incomplete	Moderate
Appoint experienced individuals to key project roles	Incomplete	High
Enable external advisors	Complete	High
Use template procurement documents	Complete	Moderate
Develop detailed project resource plan	Incomplete	High
Increase resource capacity	Incomplete	High
Understand critical roles and skill sets and develop succession plan	Incomplete	Moderate

The consultant used the following assessment scale to describe the impact of the recommendation on the likelihood of efficiently and successfully delivering the project.

- **Low:** Limited impact expected on ease of project implementation or project timeline. Benefits will be isolated and will have a limited impact on overall project delivery.
- **Moderate:** Some impact on project implementation, which will reasonably facilitate more efficient execution, mitigate risk of delays, or improve delivery quality.
- **High:** Critical to project implementation. Will materially impact delivery timelines and project success. Benefits are expected across the Project.

• • • **Office of the Auditor General** • • •

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