

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

**2022
Financial Report**



Independence • Integrity • Impact

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December 6, 2022

Honourable Keith Bain
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,

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Chapter 1

Financial Audit Work

Key Messages

- Government provided reliable financial statements for 2021-22 within the legislated deadline
- Province received a clean audit opinion on its financial statements for 2021-22
- Significant control weaknesses need to be fixed at two government departments and five government organizations

Why We Did This Chapter

- To provide insights into the results of the financial audits of the Province and government organizations
- To report on significant control weaknesses identified within government
- To provide updates on important financial matters impacting the Province

Details Around Key Messages

Government provided reliable audited financial statements for 2021-22 within the legislated deadline of September 30th

- For the 22nd year in a row, the Province of Nova Scotia received a clean audit opinion on its financial statements
 - The financial statements meet Canadian public sector accounting standards
 - Users can place reliance on the Province's financial statements
 - Although accounting standards have been met, some underlying control weaknesses exist
 - Reported control weaknesses increase the risk of unreliable financial reporting and misuse of assets in the future

Key audit matters reported in the 2021-22 Independent Auditor's Report

- Key audit matters are those matters that were of most significance in the audit and include matters that are complex, have a high degree of uncertainty, or are important to the public
- Key audit matters in 2021-22:
 - Major tax revenues of \$6.1 billion including personal income tax, corporate income tax, and harmonized sales tax account for 44% of the Province's revenues
 - Pension, retirement and other obligations totaled \$2.9 billion and include various employee future benefit plans where responsibility rests with the Province
 - Liabilities for the clean up of contaminated sites including Boat Harbour and abandoned mine sites have grown significantly over the past five years and are now \$454.5 million

Significant control weaknesses at two government departments and five government organizations

- Department of Service Nova Scotia and Internal Services:
 - Six weaknesses in total, all of which have been previously reported
 - Insufficient purchase and payment processing controls, including purchasing goods and services without pre-approval and not monitoring established procedures
- Department of Natural Resources and Renewables (formerly Lands and Forestry):
 - One weakness; previously reported
 - Insufficient site investigations and environmental testing of potentially contaminated abandoned mine sites on Crown lands means there is a risk of unaddressed human health and ecological concerns, as well as being unable to fully understand the potential financial exposure
- Significant control weaknesses identified in the following organizations:
 - Housing Nova Scotia, Nova Scotia Crop and Livestock Insurance Commission, Nova Scotia Education Common Services Bureau, Perennia Food & Agriculture Incorporated, Sherbrooke Restoration Commission
- Significant control weaknesses from prior years not resolved in the following organizations:
 - Housing Nova Scotia, Perennia Food & Agriculture Incorporated, Sherbrooke Restoration Commission

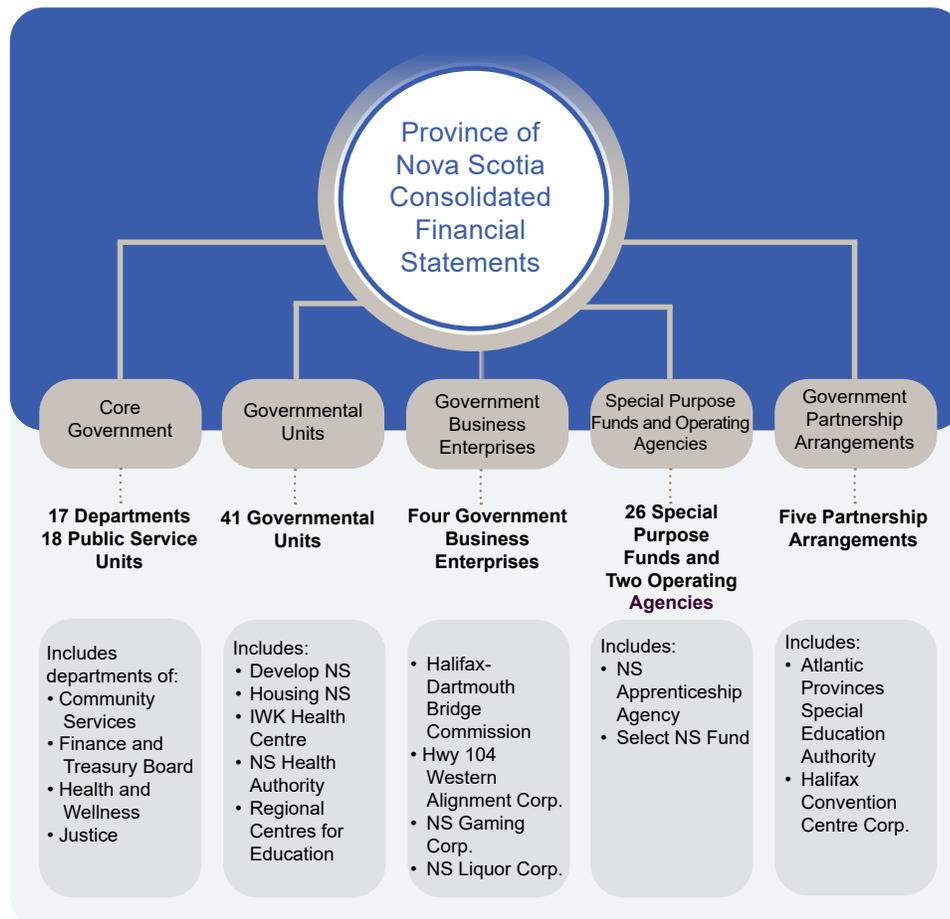
Questions Nova Scotians May Want to Ask

1. How much will it cost the Province to clean up abandoned mine sites where contamination is expected to exceed an environmental standard?
2. When will the Province know with more certainty the cost to clean up Boat Harbour?
3. Is the Province, as well as Nova Scotians' personal health and other information, safe from a cyber attack?
4. When will the Department of Service Nova Scotia and Internal Services fix the significant weaknesses within purchasing and payment processing that have been outstanding since 2016-17?

1 Financial Audit Work

Reporting on Financial Audit Engagements

- 1.1 The objective of this chapter is to provide information on the results of the financial audit of the [Province's Consolidated Financial Statements](#) and of the many organizations that are part of the Province of Nova Scotia, as well as provide updates on cybersecurity and IWK Health Centre financial management.
- 1.2 The [Auditor General Act](#) establishes the Auditor General's mandate, responsibilities, and powers. It provides the Office with the mandate to audit all parts of the provincial public sector, which includes government departments and organizations. The Act also stipulates that the Auditor General shall audit the annual Consolidated Financial Statements of the Province.
- 1.3 The Consolidated Financial Statements of the Province present an accumulation of the assets, liabilities, revenues, and expenses of all the activities and organizations under its control. The statements are published annually as part of the Public Accounts. The following diagram provides an overview of the many operations and organizations that are captured in the Consolidated Financial Statements of the Province.



- 1.4 We conduct the audit of the Province's Consolidated Financial Statements, as well as the audits of the financial statements of the Nova Scotia Health Authority (Nova Scotia Health) and the Izaak Walton Killam Health Centre (IWK Health Centre).
- 1.5 For each of these engagements we provide information about the results of our work through communications to those charged with governance and management. The Independent Auditor's Report is attached to the financial statements and includes the audit opinion and other details recommended and required by Canadian auditing standards. We issued unmodified, or "clean" audit opinions on the financial statements of each organization for the year ended March 31, 2022.
- 1.6 We also issue a report to those charged with governance that provides information on our assessment of audit risk, mitigation strategies, and areas of significance we feel are necessary to bring to the attention of the governing bodies. During our audits we have identified observations and control weaknesses we feel management should address to protect the financial reporting of the organization. Those are detailed in a letter to management with recommendations and when implemented often lead to an improved financial environment. This communication to those charged with governance also includes information on new accounting standards that impact the organization.
- 1.7 We had no significant control weaknesses to report to those charged with governance at the Nova Scotia Health Authority or the IWK Health Centre. The IWK Health Centre has made significant progress in recent years to improve their internal control environment and address previously identified recommendations including significant control weaknesses. In 2021-22, upon assessment of a previously reported significant control weakness, we determined it to no longer be significant.
- 1.8 To meet our mandate we rely on private accounting firms to conduct the financial statement audits of many government organizations. As part of the Office's audit of the Consolidated Financial Statements of the Province, we review the results of the financial audit work, including the results provided by private accounting firms for the audits they complete. [Appendix I](#) shows how the financial audit results are ultimately reported to the House of Assembly.

Government provided Nova Scotians with financial statements they can rely on

- 1.9 The Province of Nova Scotia received an unmodified opinion on its Consolidated Financial Statements from the Auditor General of Nova Scotia in each of the past 22 years. An unmodified opinion, or what is commonly referred to as a "clean" audit opinion, means that an auditor has no significant concerns regarding the reliability of the information reported in the financial statements. This is an accomplishment that governments over the past 22 years should take pride in. We believe it is reasonable for all Nova Scotians, including elected officials, to expect a clean audit opinion on the Province's Consolidated Financial Statements.
- 1.10 In addition, we would like to highlight that the Province released its annual Public Accounts within the legislative deadline of September 30th. These statements showed a surplus of \$351 million. More information on the Province's finances and this year's surplus is provided in [Chapter 3](#).
- 1.11 The Province's Consolidated Financial Statements were prepared in accordance with Canadian public sector accounting standards and we conducted our audit in accordance with Canadian auditing standards. Under these standards, an organization can receive a clean opinion while at the same time have weaknesses in its financial controls. This is because the objective of a financial statement audit is to provide an opinion on whether the financial statements are fairly

presented and are free from material misstatement(s). The clean audit opinion provided indicates we are satisfied that users can place reliance on the numbers and information contained within the Consolidated Financial Statements.

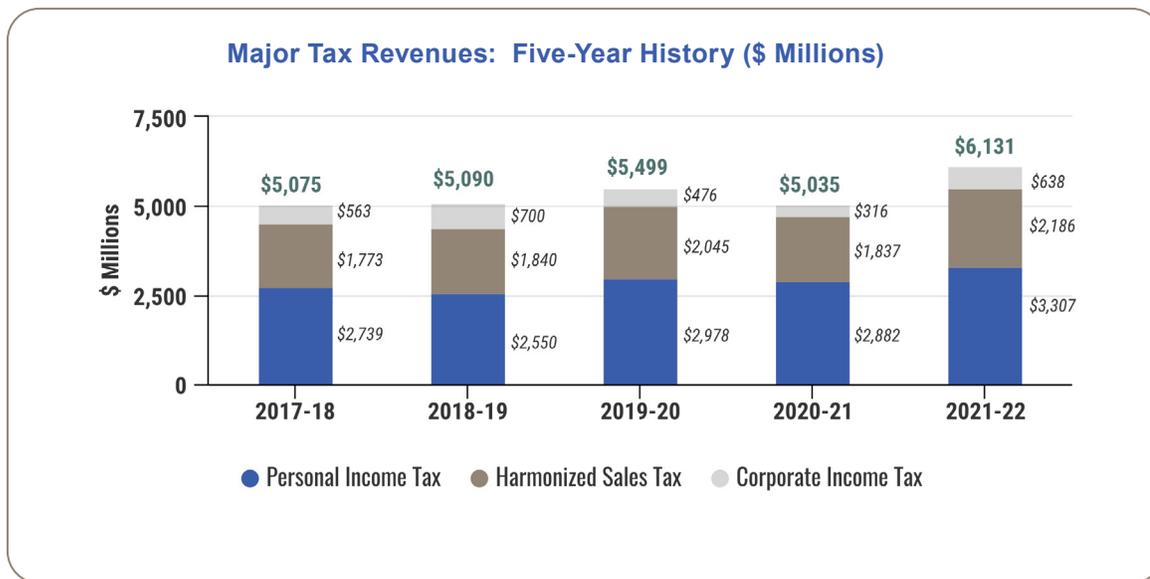
- 1.12 We would like to take this opportunity to express our appreciation to the Government for the cooperation, time, and effort provided to us by management and staff during the audit.

Key audit matters communicated in auditor’s report provide additional information

1.13 As auditors of the Province’s Consolidated Financial Statements, we communicate key audit matters to provide greater transparency about our audit and additional insight into how important items were addressed during the audit. Key audit matters are those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements. Matters that are complex, have a high degree of uncertainty, or are important to the public are highlighted as key audit matters.

1.14 Below are the key audit matters addressed in the 2021-22 Independent Auditor’s Report of the Province’s Consolidated Financial Statements. The key audit matters were addressed in the context of the Auditor General’s clean audit opinion on the Province’s Consolidated Financial Statements; the Auditor General does not provide a separate opinion on these matters.

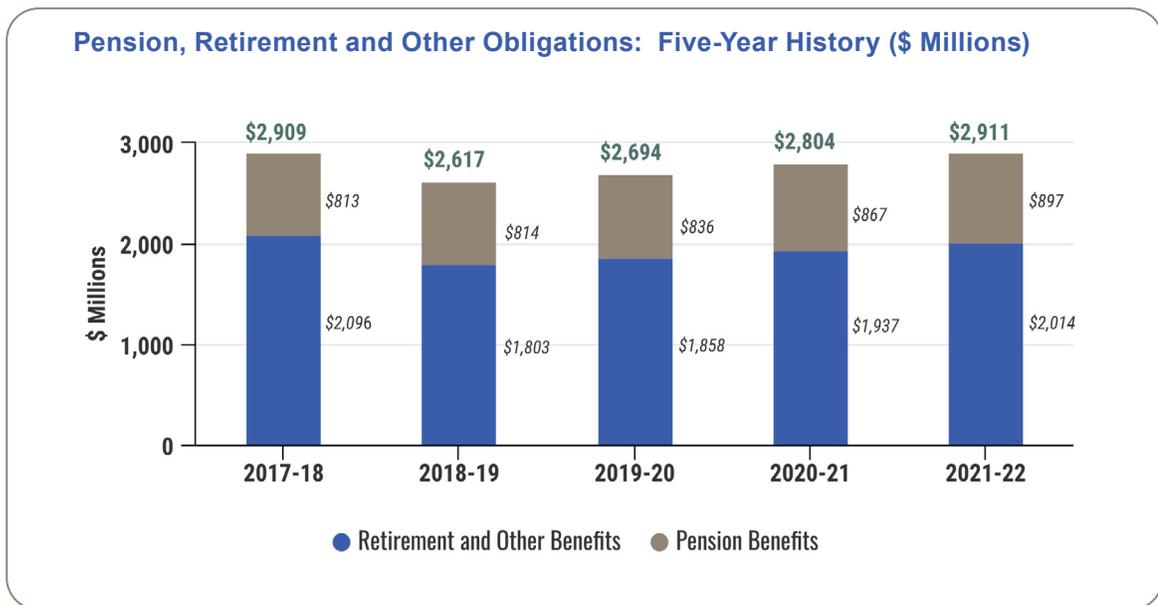
1.15 Major tax revenues, which include personal income tax (PIT), corporate income tax (CIT), and harmonized sales tax (HST) were reported as a key audit matter due to their significance and the degree of uncertainty, as they involve forecasting into the future. The chart below shows major tax revenues for the last five years.



Source: 2021-22 Public Accounts (Independent Auditor’s Report)

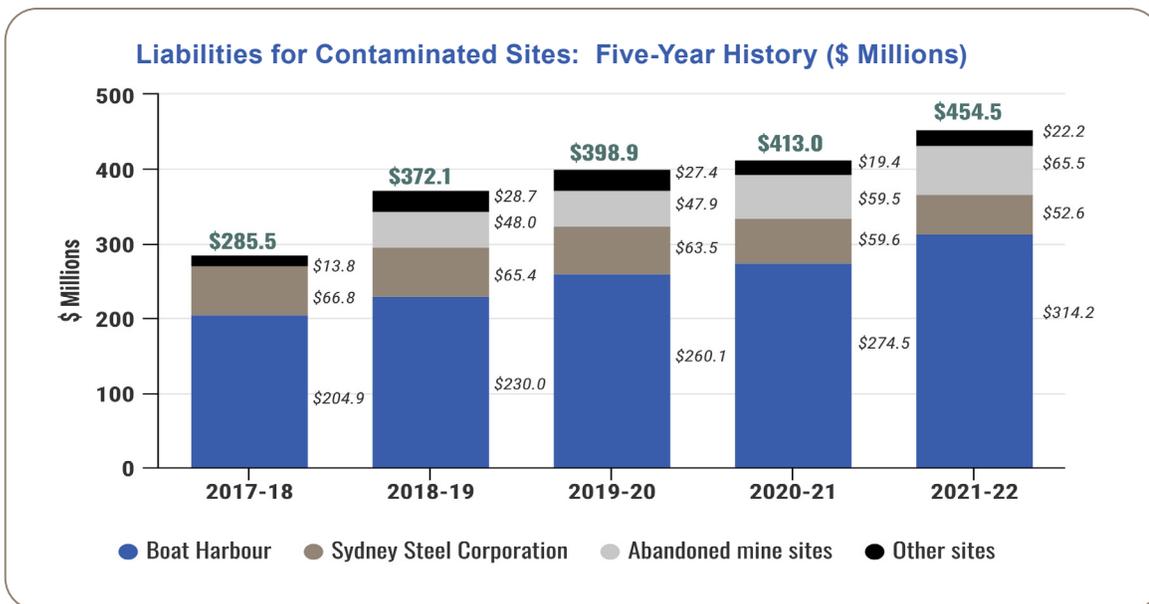
1.16 Since there is a delay in timing regarding when the Province receives actual tax filing data (i.e., once personal tax returns are filed), major tax revenues are calculated based on management’s best estimates. These estimates use complex forecasting models that rely considerably on historical data and trends, including data from the federal government, as well as the Province’s economic forecast. In 2021-22, major tax revenues totaled \$6.1 billion and accounted for 44 per cent of the Province’s total revenues.

- 1.17 We addressed this matter by testing the underlying data the Province inputs into its tax revenue forecasting models and reviewing evidence to support key inputs. Based on our audit work we were able to conclude they were fairly presented in the Province's Consolidated Financial Statements and were disclosed in accordance with Canadian public sector accounting standards. More information on the Province's finances and changes in major tax revenues from budget is provided in [Chapter 3](#).
- 1.18 Pension, retirement and other obligations were reported as a key audit matter because the Province's \$2.9 billion liability at March 31, 2022 is significant and is susceptible to uncertainty due to actuarial assumptions that are subject to change in the future. Pension, retirement and other obligations include various employee future benefits where the Province is responsible for the provision of benefits.



Source: 2021-22 Public Accounts (Independent Auditor's Report)

- 1.19 Actuarial assumptions include estimates for the future rate of inflation, future salary increases, retirement ages, life expectancy, and other variables. Calculating liabilities for pension, retirement and other obligations requires the use of actuarial experts.
- 1.20 We addressed this matter by testing the underlying data used in the calculation of the Province's liability for pension, retirement and other obligations and reviewing evidence to support the key long-term assumptions. We also relied on the work of the Province's consulting actuary. We were able to conclude that pension, retirement and other obligations were appropriately presented in the Province's Consolidated Financial Statements and were disclosed in accordance with Canadian public sector accounting standards.
- 1.21 Liabilities for contaminated sites are a key audit matter as these liabilities are significant estimates of future costs required to complete the necessary cleanup of contaminated sites falling under the Province's responsibility. At March 31, 2022, liabilities for contaminated sites were estimated at \$454.5 million. The chart below shows the five-year history of the liabilities for contaminated sites. This liability has grown significantly over the past five years driven by increases associated with liabilities for cleaning up Boat Harbour and certain abandoned mine sites.



Source: 2021-22 Public Accounts (Independent Auditor's Report)

- 1.22 A liability of \$48.0 million for abandoned mines was first recorded in 2018-19 when site investigations were completed at two former gold mine sites – Goldenville and Montague. As a result of further environmental investigation and assessment, the liability has grown to \$65.5 million at March 31, 2022 and is likely to continue to grow as additional site investigations are completed.
- 1.23 At March 31, 2022 year end, detailed site assessments were underway for five additional mine sites (three gold, one coal, and one celestite) and government is working its way through a prioritized list of other potentially contaminated sites. There is no liability yet recorded for these additional sites as further testing and evaluation is required to determine the extent of contamination and possible site management options.
- 1.24 We addressed this matter by obtaining a detailed understanding of the method for identifying and evaluating contaminated sites and assessing the reasonability of the cleanup costs for a sample of sites. This included ensuring that:
- an environmental standard exists
 - contamination had been identified
 - the government is either directly responsible for and/or accepts responsibility for the contamination liability
 - it is reasonable to expect that future economic benefits will be given up
 - a reasonable estimation of these costs can take place

Significant Control Weaknesses

- 1.25 The presence of significant control weaknesses does not mean that an organization's financial statements are materially misstated. A significant weakness in internal controls is a weakness or combination of weaknesses that are deemed by the auditor to be important enough to be reported to an organization's audit committee or those charged with governance. Even though we reported significant control weaknesses, we were able to address the associated risks through our audit work and provide a clean audit opinion on the Province's 2021-22 Consolidated Financial Statements.
- 1.26 The longer a significant weakness in internal control remains unaddressed, the higher the risk that financial statements could be misstated due to fraud, error, and/or the misuse of assets, both now and in future periods. Internal control weaknesses that remain unaddressed over multiple years can diminish an organization's internal control culture; therefore, significant weaknesses in internal controls should be addressed in a timely manner.

Significant control weaknesses reported previously at two departments remain unfixed

- 1.27 The table below summarizes the number of significant control weaknesses by government department. Seven significant control weaknesses identified and reported in prior years remain unresolved. [Appendix II](#) provides details of each weakness, including its potential impact and management's response.

Government Departments with Significant Control Weaknesses in 2021-22			
Government Department and Nature of Significant Control Weaknesses	Number Identified in Prior Years	Less: Number Resolved or No Longer Significant in 2021-22	Total Outstanding at March 31, 2022
Service Nova Scotia and Internal Services <ul style="list-style-type: none"> Insufficient purchase and payment processing controls, including purchasing goods and services without pre-approval and not monitoring established procedures 	6	-	6
Natural Resources and Renewables (formerly Lands and Forestry) <ul style="list-style-type: none"> Insufficient site investigations and environmental testing of potentially contaminated abandoned mine sites 	1	-	1
Total	7	-	7

- 1.28 As noted in the table above, the Department of Service Nova Scotia and Internal Services (SNS-IS) and the Department of Natural Resources and Renewables (formerly Lands and Forestry) did not fully address their significant control weaknesses reported in prior years.
- 1.29 The Department of Service Nova Scotia and Internal Services had a total of six significant control weaknesses related to purchases and procurement carried forward from prior years, some dating back to fiscal 2016-17. No new significant control weaknesses were identified in the current year, and none were resolved, leaving six significant control weaknesses still outstanding at March 31, 2022. SNS-IS has made progress in the current year by improving purchase and payment processing controls and formalizing policies to address certain significant control weaknesses. However, there is still work to be done to implement these policies to ensure that departmental purchases are authorized, appropriate, and achieve value for money.
- 1.30 The Department of Natural Resources and Renewables' significant weakness was identified in 2018-19. The Department has developed an initial risk-based inventory of potentially contaminated

sites taking into account human health risks, ecological impacts, and potential hazards (chemical and physical). At March 31, 2022 year end, detailed site assessments were underway for five additional mine sites; however, the Department has yet to complete sufficient, detailed site investigations on all sites identified with potential areas of contamination. There continues to be a risk of not identifying unaddressed human health or ecological concerns, as well as not fully understanding the potential financial exposure relating to future remediation and monitoring costs associated with abandoned mine sites.

Significant control weaknesses reported at five government organizations

- 1.31 Five government organizations included in the Province's 2021-22 Consolidated Financial Statements had significant control weaknesses. Of those five, three had not resolved weaknesses reported in prior years – Housing Nova Scotia, Sherbrooke Restoration Commission, and Perennia Food & Agriculture Incorporated. Housing Nova Scotia had an additional significant control weakness for the year ended March 31, 2022. Two other entities had significant control weaknesses identified as part of March 31, 2022 year end audit work – Nova Scotia Education Common Services Bureau and Nova Scotia Crop and Livestock Insurance Commission.
- 1.32 We note that improvements have been made at some organizations. Four organizations (Canadian Sports Centre Atlantic, Harbourside Commercial Park Inc, Izaak Walton Killam Health Centre, and the Nova Scotia Liquor Corporation) have addressed all significant control weaknesses that were outstanding last year or made enough progress for weaknesses to no longer be deemed significant and did not have new weaknesses for the year ended March 31, 2022. While Sherbrooke Restoration Commission is reporting one unresolved weakness from the prior year, a second previously reported weakness had been addressed, thus, only one significant control weakness was reported at March 31, 2022.
- 1.33 Although some of the organizations noted below are not financially significant to the Province's Consolidated Financial Statements, these control weaknesses are still significant to their own individual operations, mission, and mandate.

Government Organizations with Significant Control Weaknesses in 2021-22				
Government Organization	Number Identified in Prior Years	Less: Number Resolved or No Longer Significant in 2021-22	Plus: Number Identified in 2021-22	Total Outstanding at March 31, 2022
Canadian Sports Centre Atlantic	3	(3)	-	-
Housing Nova Scotia	3	-	1	4
Sherbrooke Restoration Commission	2	(1)	-	1
Perennia Food & Agriculture Incorporated	1	-	-	1
Nova Scotia Education Common Services Bureau	-	-	5	5
Nova Scotia Crop and Livestock Insurance Commission	-	-	1	1
Harbourside Commercial Park Inc.	1	(1)	-	-
Izaak Walton Killam Health Centre	1	(1)	-	-
Nova Scotia Liquor Corporation	1	(1)	-	-
Total	12	(7)	7	12

- 1.34 [Appendix III](#) provides details of each weakness, including its potential impact and management's response.

Other Topics of Interest

Follow-up on Cybersecurity

Work remains to be done on the Province's cybersecurity risk management programs

1.35 In each of our annual Financial Reports since 2019 we have highlighted the status of the cybersecurity risk management programs for the Province and certain government organizations. We found that there was a varied understanding of cybersecurity responsibilities and that cybersecurity risk management programs were in various stages of development. The following paragraphs describe the status of those matters as of March 31, 2022 based on inquiries of management at the Department of Service Nova Scotia and Internal Services and Nova Scotia Health. We did not audit or verify the accuracy of management's responses and do not provide assurance on management's comments.

Service Nova Scotia and Internal Services has not updated its cybersecurity policy

1.36 In 2019 we reported that regulations under the [Shared Services Act of 2014](#) needed to be developed to define what shared services are to be provided; what departments, crown corporations, and government organizations are to receive those shared services, and which are not; as well as terms and conditions for providing the services.

1.37 The organizational structure and cyber-related responsibilities of SNS-IS have changed as a result of mergers and the creation of the Nova Scotia Digital Services branch. Management informed us that to deliver the required services, it has focused on establishing a partnership-based delivery model and is exploring governance models that will be sustainable as service offerings evolve.

1.38 In 2021 we reported that the Department of Service Nova Scotia and Internal Services had reviewed its cybersecurity environment and had planned to update the cybersecurity policy in government's Corporate Administrative Policy Manual in the spring of 2022. Management indicated the updated policy was expected to be published in the manual by September 2022 in the Common Services section. Upon review of the manual in October 2022, it was noted that the policy was still not updated.

1.39 Through its work on establishing partnership-based delivery models, management has determined that the regulations supporting the Shared Services Act are not necessary. We encourage the Department to work toward finalizing and implementing the policy within its stated timeframe. We also suggest the Department regularly assess the effectiveness of the partnership-based delivery model and the updated policy to ensure it continues to provide the necessary guidance to the entities it serves.

Service Nova Scotia and Internal Services continues to expand the government-wide cybersecurity risk register

1.40 Last year we reported that in addition to assessing cybersecurity threat risks and building mitigation strategies for all new systems, SNS-IS had started to include older systems for which no risk assessment had been performed previously. This year SNS-IS informed us that it has incorporated identifying existing key enterprise systems that require cybersecurity threat risk assessments as part of ongoing business practices.

Cybersecurity training programs are still in development

- 1.41 A key activity for managing cybersecurity risks is establishing processes for awareness and training. Providing cybersecurity awareness and training enhances the security environment and enables users to better understand their roles and responsibilities.
- 1.42 In prior years we reported that SNS-IS indicated it makes users aware of cybersecurity risks; however, it did not have a government-wide training program for all IT users. Mandatory training on cybersecurity was limited to only some employees. A new mandatory Cyber Awareness Training curriculum was expected to be procured in December of 2021, with training being rolled out in phases six to nine months following the vendor selection.
- 1.43 This year when we asked SNS-IS management about a province-wide training and awareness strategy for cybersecurity, they indicated that the training courseware has been procured and implementation efforts are in progress. The first phase was rolled out in September 2022 to SNS-IS's Nova Scotia Digital Services team. A second phase is expected to be rolled out in the winter of 2022-23 for all of government.
- 1.44 Every user of the Province's network needs to understand the potential cyberthreats and the cybersecurity policies put in place to protect against those risks. Training and awareness should be provided on a timely basis and updated as necessary to remain current.

Nova Scotia Health continues to move forward in developing a cybersecurity program

- 1.45 All government departments and organizations that own data, applications, servers, or manage networks have responsibilities and roles in relation to cybersecurity regardless of the services received from SNS-IS or other service providers.
- 1.46 In our [December 2021 Financial Report](#) we reported that Nova Scotia Health had started to implement a cybersecurity governance and operating model using a roadmap provided by an external consultant. Management indicated that it planned to establish an internal cybersecurity team as noted in the roadmap that could address the other recommended initiatives.
- 1.47 Since our 2021 Financial Report, Nova Scotia Health has created an internal cybersecurity team. Additionally, management has indicated that the Cyber Incident Readiness Response process has been developed and reviewed and it has launched a cyber awareness learning module. A multi-year plan to implement the other recommended components of the cybersecurity program was developed and Nova Scotia Health indicated that implementation of this plan will continue into 2023 and beyond.

Follow-up on IWK Health Centre Financial Management

Improvements in financial management made at the IWK Health Centre

- 1.48 As part of the December 2018 performance audit on IWK Health Centre's financial management controls and governance, our Office identified opportunities to enhance the IWK Health Centre's internal controls and financial reporting. Since then, the IWK Health Centre has made significant organization-wide progress within its control environment addressing most of these recommendations. During our 2021-22 financial statement audit engagement, we assessed the progress management made on the remaining two recommendations and found that significant progress had been made and that the IWK Health Centre is tracking appropriately for completion on both. The recommendations were as follows:

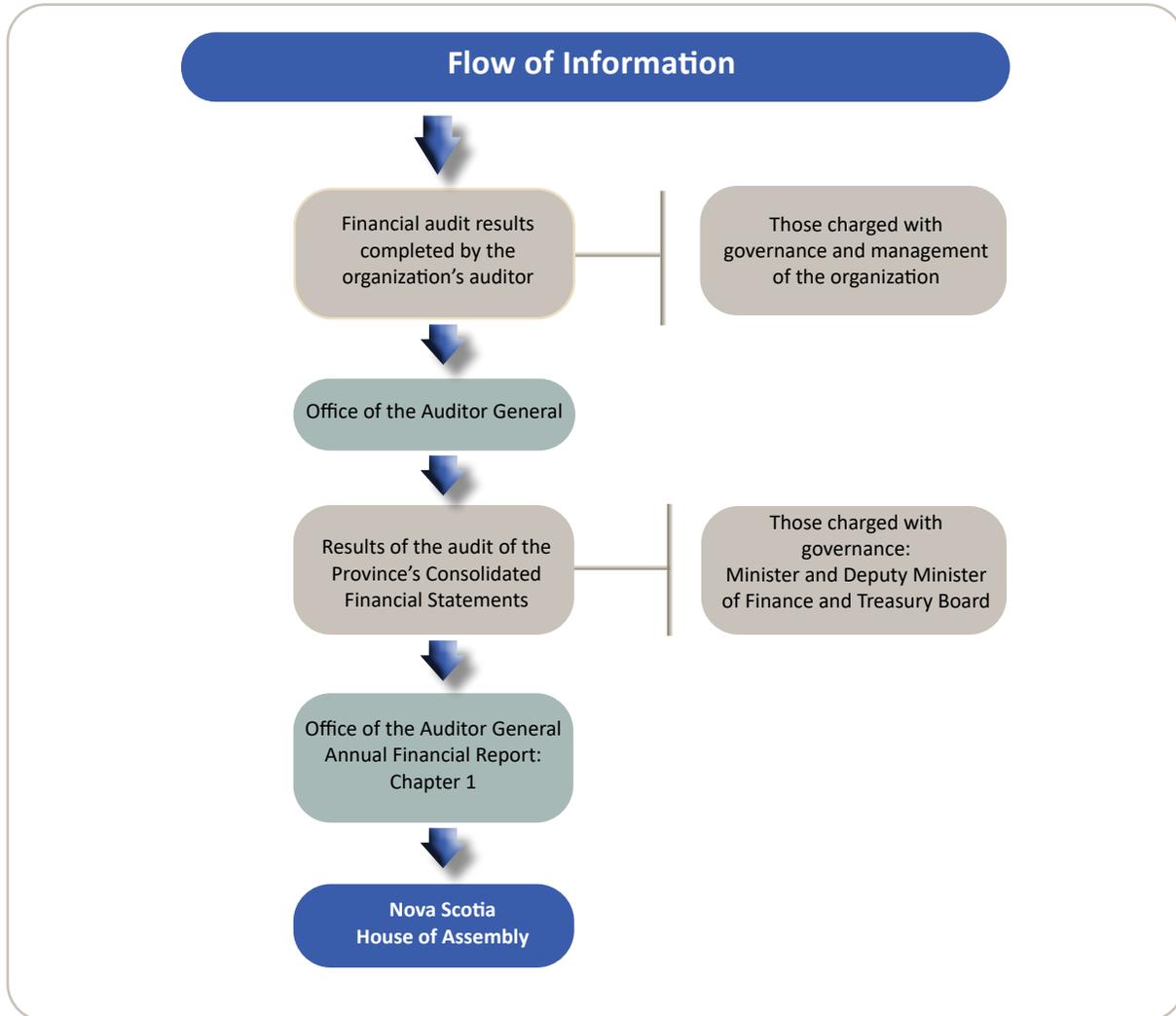
- The IWK Health Centre should complete a risk-based evaluation of its internal controls. Management should design, document, and implement appropriate internal controls and monitor to ensure the controls are operating effectively on a regular basis.
- The IWK Health Centre Board of Directors should oversee the development and implementation of internal controls and receive regular reporting on the effectiveness of internal controls.

1.49 In 2021-22 a comprehensive internal controls program and strategy was developed. It includes a risk-based approach for the documentation, monitoring, and assessment of internal controls design and operating effectiveness. A formal internal controls team and internal audit group were established to support this program and the development and implementation of internal controls. The internal controls team has developed an Internal Control over Financial Reporting (ICFR) Annual Plan which has been approved by management and presented to the Finance, Audit & Risk Management Committee.

1.50 The ICFR plan is a formalized approach for the achievement of key internal control objectives. It includes a roadmap that provides a timeline to document controls, evaluate control design, and monitor controls. Findings will be reported annually to the Finance, Audit & Risk Management Committee. The IWK Health Centre is on track to complete the implementation of the plan and resolve both recommendations by the end of fiscal 2022-23.

Reporting on Financial Audits

The results of the individual financial audits of government organizations are reported to their respective management teams and those charged with governance. The Office also uses this information to conduct the audit of the Province’s Consolidated Financial Statements and in the Office’s annual financial report to the House of Assembly



Summary of Significant Control Weaknesses – Government Departments

Department of Service Nova Scotia and Internal Services	
Significant Control Weakness	Potential Impact
1. Need for improved implementation, monitoring, and reporting of internal control procedures for the payments process.	Internal controls may not be operating effectively on a regular basis; inappropriate or unauthorized purchases and/or payments may be made.
2. No formal, written policies or procedures exist for the review and processing of vendor master file changes.	Unauthorized or inappropriate changes may be made to the vendor master file; payments may be issued to inappropriate vendors.
3. Lack of detailed procedures, incorporating internal controls, for the procurement process.	Inappropriate or unauthorized purchases may be made.
4. Procurement technicians create and issue purchase orders after goods and/ or services have been received.	Inappropriate or unauthorized purchases may be made; value-for-money may not be realized when purchasing goods and services.
5. The policy requirement, <i>“If a public sector entity anticipates making multiple purchases of the same requirement, the total value of all anticipated purchases must be used to determine the appropriate procurement process,”</i> is not being followed.	Inappropriate or unauthorized purchases may be made; value-for-money may not be realized when purchasing goods and services.
6. No documentation to show that the requesting department has received goods and/or services.	Payments may be made for goods and/or services that have not been received.
<p>Management’s response (unaudited) SNS-IS is committed to addressing all control weaknesses identified to support safeguarding of the Province’s assets.</p> <p>Operational Accounting is currently implementing the digitized signing authority tool across all departments to validate appropriate approvals on financial transactions. The Purchase Order Policy is anticipated to be added to government’s Corporate Administrative Policy Manual in the Winter 2023. The Vendor Management Policy is under review and will be updated to include the new process.</p> <p>Procurement Services has established the Procurement Control Excellence Program to deliver on the identified recommendations and reinforce the principles of the Nova Scotia Sustainable Procurement Policy. The program is anticipated to roll out in 2023-24. It has also established a Standard Operating Procedures (SOP) Committee. All SOPs will be circulated by end of 2022-23.</p> <p>Operational Accounting and Procurement Services internal and client SharePoint sites are monitored and updated with necessary changes to process documentation. They both continue to collaborate on interrelated matters regarding procurement.</p>	

Department of Natural Resources and Renewables (formerly Lands and Forestry)	
Significant Control Weakness	Potential Impact
1. Sufficient site investigations and detailed environmental tests on all abandoned mine sites have not been completed.	<p>The Province is unable to effectively assess its financial exposure relating to potential future remediation and monitoring costs associated with abandoned mine sites.</p> <p>There is a risk that potential contamination is not identified or managed, resulting in unaddressed human health or ecological concerns.</p>
<p>Management’s response (unaudited) Natural Resources and Renewables agrees with the findings. The Department will continue to work systematically on mine site evaluations, taking into account a number of factors including risk and site accessibility.</p>	

Summary of Significant Control Weaknesses – Government Organizations

Housing Nova Scotia	
Significant Control Weakness	Potential Impact
1. Lack of controls relating to user accounts and password expiry.	Increased risk of unauthorized access to information and financial errors.
2. Lack of user access controls for administrators in the production ICM database.	Increased risk of unapproved data changes or fraudulent activity going undetected.
3. Lack of user access controls for developers in the production environment.	Increased risk of unapproved data changes or fraudulent activity going undetected.
4. Lack of current and/or signed Rent Supplement Agreements with landlords.	Increased exposure to liability as the landlords do not have current contracts to provide programs as intended.
<p>Management's Response (unaudited) Housing Nova Scotia (HNS), as part of the Department of Municipal Affairs and Housing (DMAH), has shared the observations (items 1 through 3) with the Department of Service Nova Scotia and Internal Services (SNS-IS). SNS-IS has implemented practices to mitigate the control weaknesses noted. Specifically:</p> <ol style="list-style-type: none"> 1. This recommendation has a government-wide impact that affects all Province of Nova Scotia users. SNS-IS is responsible for maintaining and implementing network security controls and has recently implemented an updated Credential Standard (based on industry best practices) to make passwords easier to use and more secure. 2. Although shared administrator accounts will continue to be used, account permissions do not allow developers to make database schema changes and a configuration management process with verification and approval steps must be followed to deploy data fixes to production. Furthermore, an audit function for tracking shared administrator accounts has been added. 3. Access provided for developers is limited. A configuration management process and a source code management tool are being used to ensure that developers cannot promote changes to production without additional approvals. Approval and verification steps are required to promote changes between development, testing, and production environments. 4. All Rent Supplement Agreements with landlords are current and/or signed. 	
Sherbrooke Restoration Commission	
Significant Control Weakness	Potential Impact
1. Journal entries are not approved in a timely manner.	Increased risk of errors or inappropriate transactions going undetected.
<p>Management's Response (unaudited) Journal entries are approved on a weekly basis by a Director or Commission Member with signing authority before being posted, and approved again before payment.</p>	

Summary of Significant Control Weaknesses – Government Organizations

Perennia Food & Agriculture Inc.	
Significant Control Weakness	Potential Impact
1. Duties within the financial reporting process are not adequately segregated.	Increased risk of errors, fraud, and inappropriate or unauthorized payments being made and going undetected.
<p>Management's Response (unaudited)</p> <ul style="list-style-type: none"> Hiring a third finance position (Accounting Clerk) by end of 2022-23 to further ensure segregation of duties Supplier statement reconciliations All outgoing payments require two signatures Purchases are authorized as per Perennia's procurement policy Management review of master data setup and changes Weekly review of journal postings from the following subsidiary ledgers: vendor payments journal, vendor invoice journal, customer payments journal, customer invoice journal, general journal <p>Monthly management review of financial results, distribution to and meeting with Board Finance Committee until Perennia becomes a Crown Corporation and the Board transitions to an Advisory Board.</p>	

Nova Scotia Education Common Services Bureau	
Significant Control Weakness	Potential Impact
1. Lack of segregation of duties within the payroll and accounts payable functions.	Increased risk of fraud or error in payroll and operating expenses.
2. Bank reconciliations are not being performed on a monthly basis.	Increased risk for misappropriation of funds.
3. Lack of segregation of duties related to the receiving and recording of cash.	Increased risk of misappropriation, fraud or error.
4. Inadequate journal entry review process.	Increased risk of inappropriate or unauthorized journal entries being recorded and going undetected.
5. Inappropriate employees are listed as signing authorities on the general banking agreement. No distinction between NSECSB and Computers for Schools bank accounts.	Increased risk of fraud and misappropriation of cash.
<p>Management's Response (unaudited)</p> <p>The Nova Scotia Education Common Services Bureau (NSECSB) is a small but rapidly growing organization. Some of these comments can be attributed to the timing of the audit and the loss of a staff person who supported the finance function. Since the audit, the NSECSB has backfilled the position and restored internal controls providing for an appropriate segregation of duties within the payroll and accounts payable functions, duties related to the receiving and recording deposits, and the journal entry review process. The position is also responsible for the monthly bank reconciliations. For clarity, the Computer for Schools bank account is separate from the NSECSB account and access to the Computer for Schools account is limited to two NSECSB staff members. Any cheque issued by Computer for Schools requires two signatures.</p>	

Summary of Significant Control Weaknesses – Government Organizations

Nova Scotia Crop and Livestock Insurance Commission	
Significant Control Weakness	Potential Impact
1. Duties within the financial reporting process are not adequately segregated.	Increased risk of fraud or error in payroll and operating expenses.
<p>Management’s Response (unaudited)</p> <p>We agree with segregation of duties as a best practice. We note that payroll and all non-fund related operating expenses are recorded within the Province’s SAP system and follow provincial policies, and as such, duties are appropriately segregated. The only portion of the financial reporting process that does not have full segregation of duties is recording the fund balances into a separate fund accounting system. There are existing compensating controls in place to protect the Commission which include the entries into the fund accounting system being prepared by a data analyst and calculated through an independent crop insurance database, monthly reconciliations and approvals between the fund accounting system and the crop database, as well as all bank accounts and financial statements. The finance officer does not have any ability to initiate or receive any payments into or out of the fund.</p> <p>Previous annual audits including the 2020/21 audit where the same financial processes were in place did not identify segregation of duties as a significant control issue. The Commission is committed to reviewing the process for recording of fund balances by December 31, 2022 and implementing additional mitigating controls (ie. additional oversight).</p>	

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Chapter 2

Highlights from the Province's 2021-22 Financial Audit

Key Messages

- Transparency and accountability over additional appropriations process should be improved
- Spending on P3 projects increasing with more to come in future years
- Significant funding provided to Nova Scotia's universities
- Retirees of significant public sector pension plans not receiving increases from indexing at time of high inflation

Why We Did This Chapter

- To highlight important financial matters impacting the Province

Selected Financial Highlights

Additional Appropriations:

- [Nova Scotia's Finance Act does not require House of Assembly approval for budget overspending unlike other jurisdictions in Canada](#)
- [Additional appropriations process in Nova Scotia is less transparent than processes used in other provinces](#)
- [Additional appropriations significantly increased in recent years with \\$4.7 billion in additional appropriations approved in the last ten years](#)
- [The Auditor General recommends improved accountability and transparency over additional appropriations](#)

Significant Year-end Spending:

- [\\$1.4 billion in spending recorded in the last week of March 2022, the largest in the following departments:](#)
 - [\\$264 million by the Department of Health and Wellness](#)
 - [\\$224 million by the Department of Advanced Education](#)
 - [\\$137 million by the Department of Community Services](#)
 - [\\$131 million by the Department of Municipal Affairs and Housing](#)
 - [\\$121 million by the Department of Public Works](#)

Public-Private Partnership (P3) Projects Underway:

- [The Province currently has two major P3 projects underway – Construction of the outpatient clinic as part of the QEII Health Sciences Centre New Generation project and Highway 104 twinning project](#)
- [\\$200 million spent in 2021-22 and contractual obligations of \\$633 million disclosed for future years](#)
- [Unmatured debt of \\$333 million related to P3 projects](#)

Health Spending:

- [The Province spent \\$6 billion in health spending and capital asset acquisitions in 2021-22](#)
- [Annual healthcare operating expenses are up \\$1.1 billion since 2017-18](#)
- [2021-22 spending attributed to the following entities:](#)
 - [\\$2.7 billion to Nova Scotia Health](#)
 - [\\$1.6 billion in the Department of Health and Wellness](#)
 - [\\$1.0 billion in the Department of Seniors and Long-term Care](#)
 - [\\$310 million to the IWK Health Centre](#)
 - [\\$35 million to Office of Mental Health and Addictions](#)
- [Includes COVID-19 related spending on personal protective equipment, vaccination clinics, and salaries and wages](#)
- [Healthcare capital acquisitions mainly consist of construction and infrastructure projects at Cape Breton Regional Hospital, as well as the P3 QEII Health Sciences Centre New Generation project with work on the Halifax Infirmary and the Outpatient Clinic](#)

Provincial Funding to Universities:

- The Province provided funding of \$551 million in 2021-22 to nine universities in Nova Scotia
- Provincial funding accounts for an average of 35% of total university revenues for the five universities receiving the most funding

Public Sector Pension Plans:

- The Province is not responsible for the Nova Scotia Public Service Superannuation Plan and this plan is not recorded in the Province's financial statements
- Nova Scotia Public Service Superannuation Plan is currently 98.3% funded with retirees not expected to receive pension increases from indexing until 2026 at the earliest
- Nova Scotia Teachers' Pension Plan is currently 82.5% funded with teachers retired after August 1, 2006 not expected to receive pension increases for the foreseeable future
- The report of the independent Nova Scotia Teachers' Pension Plan Panel with recommendations to address challenges facing the plan not yet publicly released

Questions Nova Scotians May Want to Ask

1. Will the Government of Nova Scotia amend the Finance Act to ensure there is more transparency and accountability through the legislature over additional appropriations now and in the future?
2. What does the funded status of the Nova Scotia Teachers' Pension Plan and the Nova Scotia Public Service Superannuation Plan mean for retirees as well as current teachers and public servants?
3. How do Nova Scotians benefit from the use of Public-Private Partnership relationships to build assets?
4. How is provincial funding determined for each university?
5. How does the Province's spending on universities benefit Nova Scotians?
6. Given the large amount of health spending, are the Province's resources being used as efficiently and effectively as possible?

2 Highlights from the Province's 2021-22 Financial Audit

Financial Audit Highlights

- 2.1 The objective of this chapter is to highlight and provide information on important financial matters impacting the Province. These include significant areas of government spending in fiscal 2021-22 including the additional appropriations needed for program spending, significant year-end spending, P3 projects underway, health spending, funding to universities and the funding status of major public sector pension plans.

Additional Appropriations



Nova Scotia's additional appropriations process lacks accountability

- 2.2 The [Finance Act of Nova Scotia](#) requires the Province to prepare a budget annually which includes estimates of the expenses for each department and public service unit for the next fiscal period. The budget is tabled, debated, and then voted on in the House of Assembly. Once the budget is passed, these approved amounts represent the annual budget appropriations for departments. The annual appropriation spending limits function as the House of Assembly's control on government spending.
- 2.3 During the year, if a department determines it cannot stay within its annual appropriation, the provincial Finance Act states that approval for additional appropriations must be obtained. Under the Finance Act, additional funding is approved by the Governor in Council.
- 2.4 The Governor in Council is the Lieutenant Governor of Nova Scotia acting by and with the advice of Executive Council. Executive Council is the decision-making authority for the Government and its decisions are shown in Orders in Council (OICs). Executive Council members are chosen by the Premier who serves as its President, meaning requests for additional appropriations are submitted to the decision-making members of Government and are not voted on by the House of Assembly.



Additional appropriations process in Nova Scotia lacks accountability through the legislature

- 2.5 In Nova Scotia under the Finance Act there is no requirement for the legislature to review, vote on, or approve additional appropriations. While there are nuances in legislation, in almost all other jurisdictions in Canada (this includes the provinces and federal government), there is a requirement for additional appropriations to return to the legislature for debate and approval through a supplementary estimate or other process. In some jurisdictions, if the legislature is not in session, additional appropriations may be approved temporarily by Governor in Council through special warrants, but there is still a requirement in most cases for additional appropriations to be approved by the legislature once the next session convenes.

Jurisdictional Comparison of Finance Acts for Additional Appropriations

Jurisdiction	Additional Appropriations Required to be tabled in the Legislature (Legislature in Session)	Special Warrants Required to be tabled in the Legislature (Legislature not in Session)
Nova Scotia	No	No
Newfoundland and Labrador	Yes	Yes
New Brunswick	Yes	Yes
Prince Edward Island	Yes	Yes
Quebec	Yes	Yes
Ontario	Yes	Yes
Manitoba	Yes	No
Saskatchewan	Yes	Yes
Alberta	Yes	No
British Columbia	Yes	Yes
Canada	Yes	Yes

Source: *Provincial and Federal Acts*

- 2.6 While the Province is correctly following the requirements as set out in the Finance Act for additional appropriations, unlike other provinces Nova Scotia currently has no requirement for additional appropriations to be brought to the House of Assembly for debate and approval. This means the legislature has limited ability to hold the government accountable for overspending.
- 2.7 The process is also less transparent than processes used in other provinces. OICs are the public record of Executive Council approval for additional appropriations. However, they often do not provide details on spending. Unlike other jurisdictions, where additional appropriations are reviewed and approved by the Legislative Assembly, these details may not be subject to transparent public discussion through the legislature.
- 2.8 Included below is [OIC 2021-232](#) which is the public record of approval of \$424 million in additional appropriations.



**Executive
Council**

*A certified copy of an Order in Council dated
September 29, 2021*

2021-232

The Governor in Council on the report and recommendation of the Minister of Finance and Treasury Board dated September 28, 2021, and pursuant to Section 27 of Chapter 2 of the Acts of 2010, the *Finance Act*, is pleased to order that the supplemental sums identified in Column II of Schedule “A” attached to and forming part of the Report and Recommendation and this Order are hereby appropriated for the appropriated entities appearing opposite thereto for the fiscal year ending the 31st day of March, 2022, effective September 29, 2021.

2.9 Government updates the public regularly on the Province's finances through regular budget forecast updates throughout the year, and on an annual basis in the Public Accounts. The financial statement discussion and analysis section of the Public Accounts provides information on the Province's finances, the Nova Scotia economy, and comparative financial information. The Province reports on additional appropriations for the year in the [Public Accounts](#). Information provided by OICs, budget forecast updates, or within the Public Accounts could be raised by members of the House of Assembly during question period when the legislature is sitting. However, the information Government provides on additional appropriations still comes after approval has already been obtained through Executive Council.



Certain sections of the Nova Scotia Finance Act improved in 2010

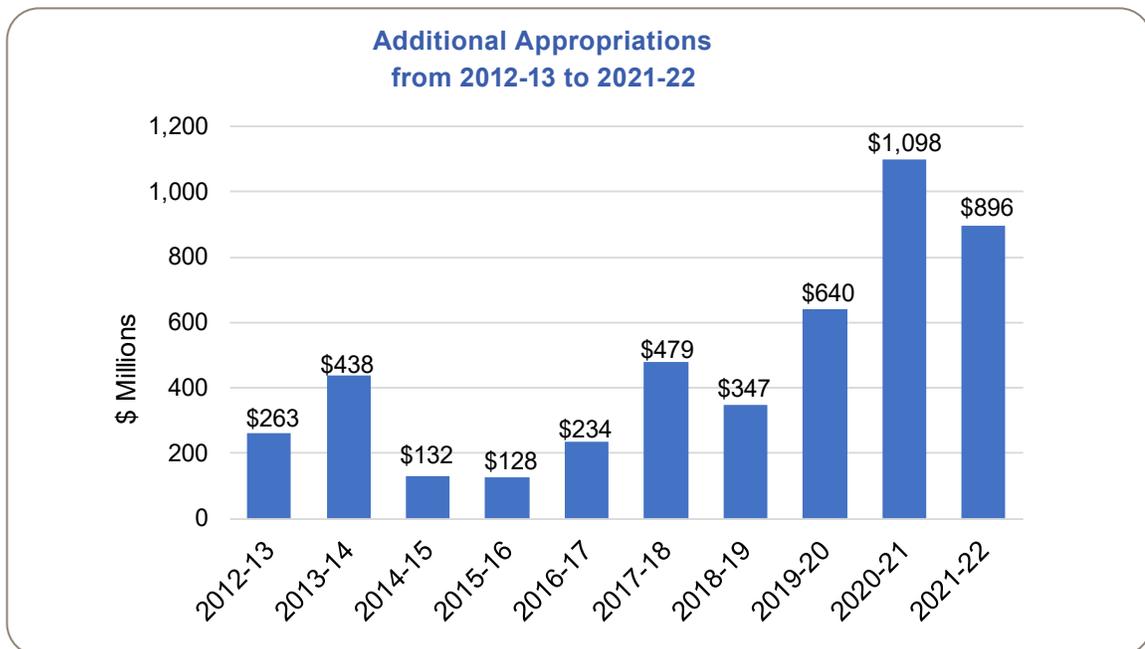
2.10 In 2010, a new Finance Act was passed by the House of Assembly. The new provisions in the updated Finance Act clarified the timeline and the approvals process for additional appropriations. While improvements to the Finance Act were made in 2010 the Act still does not require additional appropriations to return to the House of Assembly. Under the 2010 Finance Act, decision-making authority over additional appropriations remains with the executive branch of Government and not with the legislature.

2.11 It should be noted that the 2010 Finance Act, including the process for decision-making authority over additional appropriations, was tabled in the House of Assembly as a public bill and was passed by the House of Assembly in 2010.



Additional appropriations have more than tripled in the past 10 years

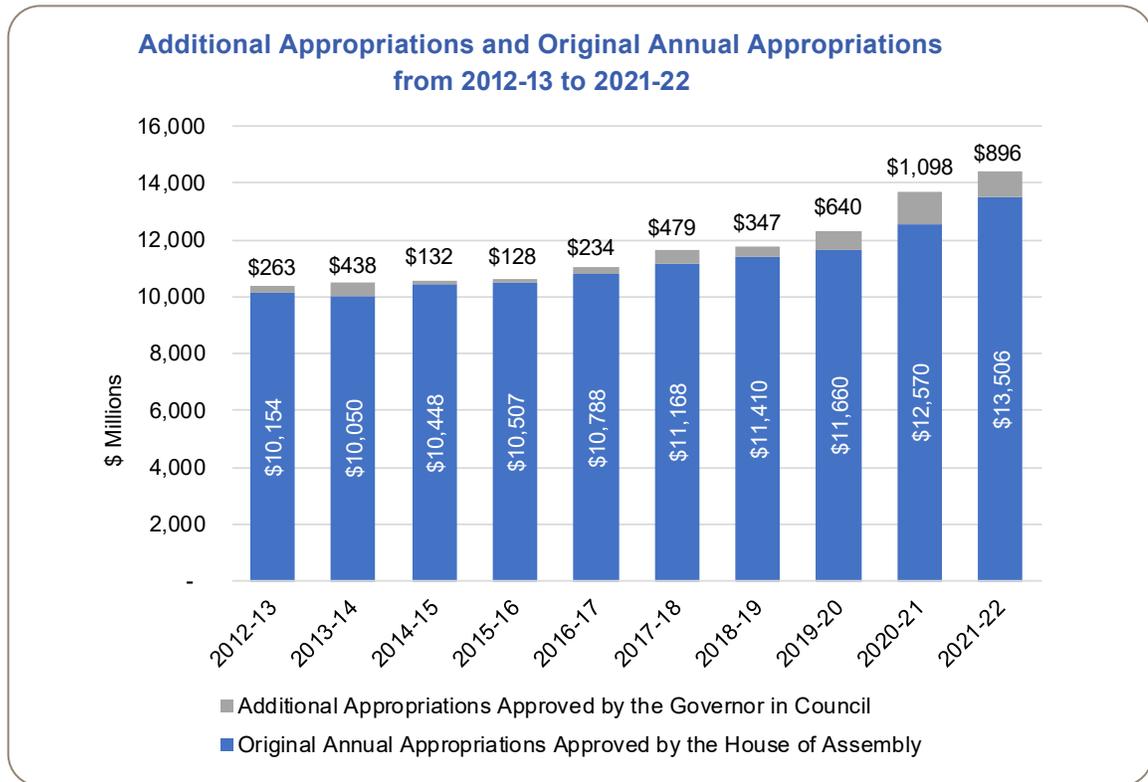
2.12 In fiscal 2021-22, there was \$896 million in additional appropriations approved by Governor in Council which represents significant spending for providing services impacting Nova Scotians. Recent years have seen an increase in the use of additional appropriations. In 2021-22, additional appropriations were 6.5 per cent of the Province's total expenditures compared to 2.6 per cent in 2012-13.



Source: 2012-13 to 2021-22 Public Accounts

\$4.7 billion in additional appropriations approved over last ten years

2.13 Additional appropriations increased by \$633 million or 240 per cent in 2021-22 to \$896 million from 2012-13 when additional appropriations were only \$263 million. In that ten-year period, \$4.7 billion in additional appropriations were approved.



Source: 2012-13 to 2021-22 Public Accounts

Note: The Original Estimates include departmental expenses, debt servicing costs, refundable tax credits, pension valuation adjustments, capital purchase requirements, and sinking fund instalments and serial retirements.

2.14 Additional appropriations are allocated to individual departments as required. The departments with the greatest additional appropriations in 2021-22 were the departments of Advanced Education; Municipal Affairs and Housing; Communities, Culture, Tourism and Heritage; and Health and Wellness. These additional appropriations were passed through three Orders in Council dated September 29, 2021, December 23, 2021, and March 29, 2022.

2.15 Final additional appropriations required are the difference between the departments' actual expenditures for the year and the sum of the original estimates and additional appropriations. The Finance Act requires these to be approved through OIC within 15 days of the tabling of the Public Accounts.

2021-22 Additional Appropriations (\$ Millions)					
Appropriation by OIC	2021-232 September 2021	2021-294 December 2021	2022-81 March 2022	Final Additional Appropriation Required September 2022	Total
Advanced Education	\$8	\$2	\$133	\$6	\$149
Communities, Culture, Tourism and Heritage	51	3	61	-	115
Communications Nova Scotia	-	-	-	-	-
Economic Development	34	-	13	-	47
Education and Early Childhood Development	53	-	-	-	53
Elections Nova Scotia	13	-	-	-	13
Environment and Climate Change	2	-	-	-	2
Freedom of Information and Protection of Privacy Review Office	-	-	-	-	-
Health and Wellness	87	-	-	16	103
Justice	5	-	11	15	31
Labour, Skills and Immigration	11	3	65	-	79
Municipal Affairs and Housing	105	9	20	-	134
Natural Resources and Renewables	7	39	-	5	51
Office of Addictions and Mental Health	1	-	-	-	1
Office of Equity and Anti-Racism Initiatives	2	-	-	-	2
Office of Healthcare Professionals Recruitment	-	1	-	-	1
Public Prosecution Service	1	-	1	-	2
Public Service Commission	3	-	-	-	3
Public Works	9	-	-	29	38
Seniors and Long-Term Care	29	40	-	-	69
Service Nova Scotia and Internal Services	3	-	-	-	3
Sinking Fund Instalment and Serial Retirements	-	-	-	-	-
Total	\$424	\$97	\$304	\$71	\$896

Source: 2021-22 Public Accounts

- 2.16 The Department of Advanced Education obtained additional appropriations in the amount of \$149 million. This is mostly attributable to infrastructure maintenance provided to universities, specific funding for the Centre for Discovery and Innovation at Cape Breton University, and funding to the Research Opportunities Fund managed by Research Nova Scotia. Additional funding was also required for expenses related to COVID-19 and programs at Nova Scotia Community College.
- 2.17 The Department of Municipal Affairs and Housing obtained additional appropriations in the amount of \$134 million. This is mostly attributable to costs incurred for the Canada Community Building Fund and an increase in Municipal Capacity grants. Additional funding was also required for the Investing in Canada Infrastructure Program, costs incurred for the Affordable Housing Commission, Disaster Financial Assistance, and the Disaster Mitigation Fund.
- 2.18 The Department of Communities, Culture, Tourism and Heritage obtained additional appropriations in the amount of \$115 million. This is mostly attributable to increases in funding for the Nova Scotia Film and Television Production Incentive Fund, tourism initiatives, and community grants for several community organizations.
- 2.19 The Department of Health and Wellness obtained additional appropriations in the amount of \$103 million. This is mostly attributable to additional costs related to COVID-19 and the Health Care

Workers collective agreement. Additional funding was also required for the Physician Services Academic Funding Plan and Alternative Payment Plan.

2.20 Additional appropriations in other departments were largely attributable to costs and funding related to COVID-19, Energy Efficiency Programming support, upgrades and maintenance for long-term care facilities, the Health Care Workers collective agreement, and the Workers' Compensation Board to expand presumptive cancer coverage for firefighters.

2.21 In fiscal 2020-21 there was a total of \$1.1 billion in additional appropriations approved by Governor in Council, including \$32 million approved after year end. The departments with the greatest additional appropriations in 2020-21 were the departments of Health and Wellness; Education and Early Childhood Development; and Municipal Affairs and Housing. There were also additional appropriations related to capital purchase requirements in the amount of \$149 million.

2020-21 Additional Appropriations (\$ Millions)						
Appropriation by OIC	2020-172 June 2020	2020-209 July 2020	2021-338 December 2020	2021-88 March 2021	Final Additional Appropriation Required September 2021	Total
Agriculture	\$-	\$-	\$-	\$5	\$-	\$5
Business	38	7	-	-	-	45
Communities, Culture and Heritage	-	4	6	11	-	21
Community Services	4	13	22	-	-	39
Education and Early Childhood Development	-	63	41	-	-	104
Energy and Mines	-	-	-	3	-	3
Environment	-	-	3	-	-	3
Government Contributions to Benefit Plans	-	-	-	-	4	4
Health and Wellness	35	339	88	-	-	462
Justice	-	6	6	4	-	16
Labour and Advanced Education	-	8	32	-	-	40
Assistance to Universities	-	-	-	42	-	42
Lands and Forestry	-	-	5	8	14	27
Municipal Affairs and Housing	-	-	77	-	-	77
Public Prosecution Service	-	-	-	1	-	1
Service Nova Scotia and Internal Services	-	1	-	7	-	8
Transportation and Infrastructure Renewal	2	2	20	14	14	52
Capital Purchase Requirements	149	-	-	-	-	149
Total	\$228	\$443	\$300	\$95	\$32	\$1,098

Source: 2020-21 Public Accounts

2.22 The Department of Health and Wellness obtained additional appropriations in the amount of \$462 million. This is mostly attributable to additional public health expenses related to COVID-19 and increases in Nova Scotia Health operational expenses. There were also additional expenditures related to Pharmaceutical Services.

2.23 The Department of Education and Early Childhood Development obtained additional appropriations in the amount of \$104 million. This is mostly attributable to additional childcare sector expenses related to COVID-19 and additional funding to support the reopening of schools. There was also an increase in expenditures related to the French Federal funding agreements.

- 2.24 The Department of Municipal Affairs and Housing obtained additional appropriations in the amount of \$77 million. This is mostly attributable to costs incurred for the Federal Restart Agreement, emergency shelter beds, and Housing Nova Scotia grants for costs incurred due to Public Health COVID-19 protocols.
- 2.25 Additional appropriations in other departments were largely attributable to costs and funding related to COVID-19, investments to improve infrastructure and stimulate the economy, and additional funding for the Workforce Development Agreement. The \$149 million in additional appropriations for capital purchase requirements was related to an increase in expenditures on buildings, highways, and structures.



The Auditor General recommends improved accountability and transparency over additional appropriations process

- 2.26 The budget process allows Nova Scotians to have input on government spending through their elected officials. During the budgetary process there are several rounds of questioning and debate that ultimately leads to the House of Assembly voting on whether to pass the year's annual appropriations. Since additional appropriations are not subject to this process, there is less accountability and a lack of transparency on these additional expenditures which represent increasingly significant amounts of public funds being spent. Without this process, a sitting government in Nova Scotia can, and have, approved large amounts of spending without being questioned by opposing elected representatives or in a forum which allows Nova Scotians to better understand the intent of the spending.
- 2.27 The lack of accountability and transparency through the House of Assembly over the additional appropriations process is not new. This issue has been raised by Auditors General of Nova Scotia in prior years, including in the [February 2008 Report of the Auditor General, paragraph 6.42](#). The Auditor General at the time, Jacques Lapointe, noted that debate and challenge are integral to the budget process and are absent from the approval process for additional appropriations.

Recommendation 1.1

We recommend the Department of Finance and Treasury Board assess whether the current practice for the authorization of additional appropriations provides for adequate accountability and transparency over expenditure of public funds by Members of the Legislative Assembly and consider whether changes are necessary to align with legislated practices elsewhere in Canada.

Department of Finance and Treasury Board Response: The Department of Finance and Treasury Board (FTB) has carefully considered this matter and would take further action if directed by government. FTB is pleased to see that the Auditor General has noted that the processes and accountabilities established by the Finance Act (passed in the Legislature spring 2010) have been followed. With respect to improving accountability and transparency, FTB will work with Executive Council Office to proactively have "Schedule A" accessible via the Order In Council database (by electronic link) rather than available by request. Further, FTB will ensure the fact sheet, which is prepared for members of the media and summarizes the reasons why appropriated entities require the additional appropriations approved by the Governor In Council, is also readily available on the department's website. FTB considers the spending authorities as established in the Finance Act to be appropriate and is of the view that these were well understood by the Legislature when the Finance Act was passed. While other jurisdictions may have different processes, FTB is confident the spending authorities and processes permitted under the Finance Act are appropriately transparent and support public accountability. It is worth noting that Nova Scotia's budget process includes Auditor General scrutiny over the revenue estimates, and this is unique in Canada. FTB believes this process lends additional credibility to the

Estimates published, therefore as variances are experienced through the year (and reported through the public forecast updates) the explanations to the public are anchored against a fiscal plan that included more scrutiny than other jurisdictions.

Significant Year-end Spending

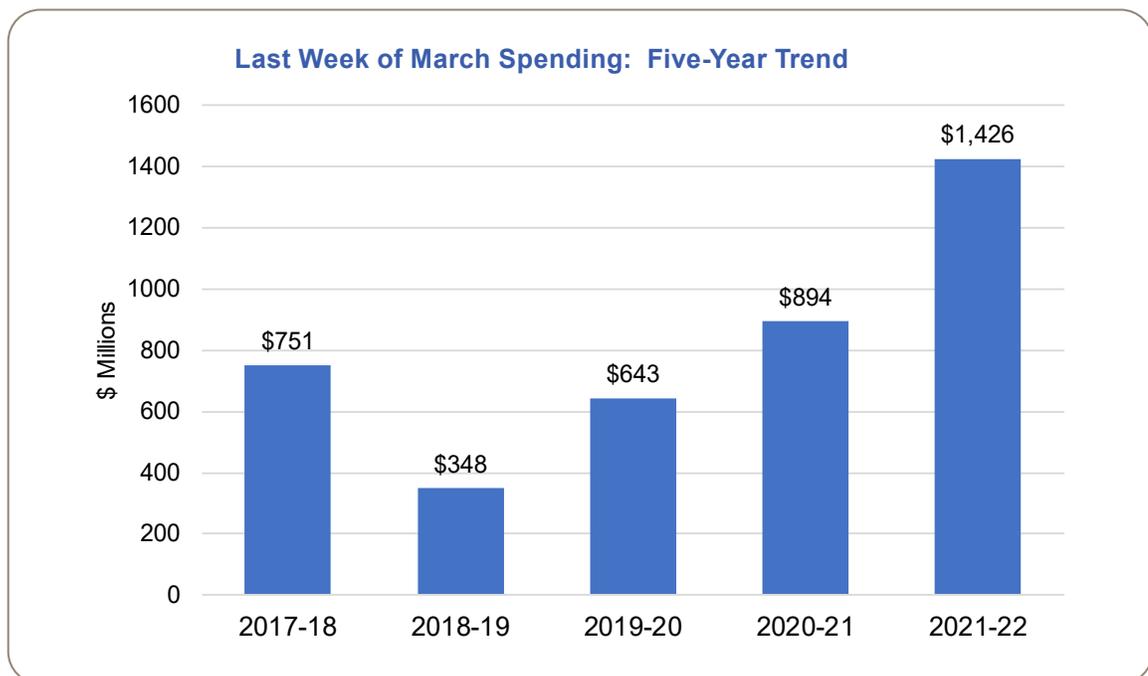
2.28 It is not unusual for organizations, provincial and otherwise, to have an increase in the number of transactions recorded near the end of their fiscal year. These transactions often represent accruals, estimates, reallocations between departments, and other expenses for which a final figure is only available at year end and are processed in the normal course of business.



\$1.4 billion in spending recorded in the last week of March 2022

2.29 The following chart displays specific year-end spending transactions that occurred during the final week of each of the past five fiscal years. These transactions are an area of focus annually as part of our financial audit work. Significantly more spending was recorded during the final week of fiscal 2021-22 than during the same period of the previous four years.

2.30 Management indicated that a change in Government during the year, along with higher than anticipated Provincial revenues, impacted spending and led to an increase in fiscal 2021-22. As the year progressed and more certainty was gained, Government was able to reconsider how its priorities could be advanced.

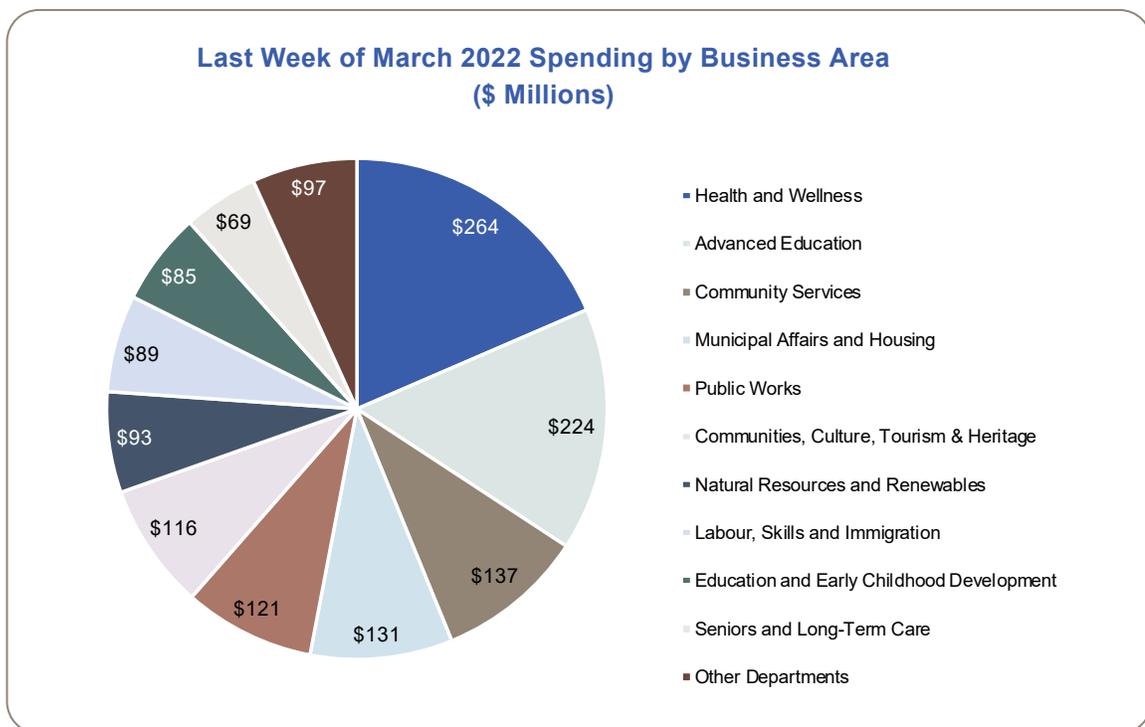


Source: Office of the Auditor General analysis

2.31 As part of our audit of the 2021-22 financial statements, in response to the increased year-end spending transactions recorded during the last week of March, we performed additional procedures that included analysis and testing. Specific emphasis was placed on transactions recorded close to the Province's fiscal year end and those which are not related to salaries and

employee benefits or amortization. The purpose of this analysis was to identify any unusual transactions and ensure that transactions were properly approved, recorded in the appropriate period at the correct amount, and aligned with Canadian Public Sector Accounting Standards.

- 2.32 We tested a sample of the transactions recorded in the last week of fiscal 2021-22 and found that all transactions tested were recorded appropriately, approved, and in accordance with Canadian Public Sector Accounting Standards.
- 2.33 We limited our analysis to General Revenue Fund transactions. The General Revenue Fund is comprised of the core operations of government and includes transactions of all government departments and public service units, but excludes other governmental units owned or controlled by the Province and government partnership arrangements. Financial results from other governmental units and government partnership arrangements, such as the health authorities and regional centres for education, are brought into the Province's financial statements upon consolidation and were not part of this analysis.
- 2.34 The following chart summarizes by business area the \$1.4 billion in year-end spending that was part of our analysis.



Source: Office of the Auditor General analysis

- 2.35 The largest portion of this year-end spending was recorded by the departments of Health and Wellness, Advanced Education, Community Services, Municipal Affairs and Housing, and Public Works, with less than half of these expenses being made up by other departments within the General Revenue Fund. Individually significant transactions within these departments have been highlighted below.

 **Department of Health and Wellness recorded transactions worth \$264 million in the last week of March 2022**

2.36 The Department of Health and Wellness made up 19 per cent, or \$264 million, of \$1.4 billion in spending in the last week of March 2022, primarily due to year-end adjustments of \$73 million for COVID-19 rapid test kit inventory consumption and \$24 million for inventory revaluation of personal protective equipment (PPE) to recognize decreased value since the time of purchase or receipt as part of the Province's ongoing response to the COVID-19 pandemic. [Health spending for the entire 2021-22 fiscal period is discussed in greater detail later in this chapter.](#)

Department of Advanced Education recorded transactions worth \$224 million in the last week of March 2022

2.37 The Department of Advanced Education made up 16 per cent, or \$224 million, of \$1.4 billion in spending recorded in the last week of March 2022. It provided funding for the following:

- \$35 million to the Centre for Discovery and Innovation at Cape Breton University for efforts to improve infrastructure, foster research, and enhance healthcare and training at the University, as well as \$14 million for infrastructure maintenance
- \$25 million to the Research Opportunities Fund managed by Research Nova Scotia to support research opportunities in Nova Scotia linked to government priorities like economic growth, population growth, health innovation, and mental health
- \$23 million to St. Francis Xavier University for infrastructure maintenance which will allow the rural university to address a significant backlog of infrastructure upgrades and improvements such as electrical upgrades, roof replacements, and accessibility and mechanical upgrades

[Provincial funding to universities for the entire 2021-22 fiscal period is discussed in greater detail later in this chapter.](#)

Department of Municipal Affairs and Housing recorded transactions worth \$131 million in the last week of March 2022

2.38 The largest component of the Department of Municipal Affairs and Housing March transactions relates to an \$89.5 million grant to Housing Nova Scotia for housing programs covering items such as home repairs, rent supplements, and affordable housing.

Department of Public Works recorded transactions worth \$121 million in the last week of March 2022

2.39 The Department of Public Works recorded spending and accruals for work performed onsite related to infrastructure improvements throughout the province for buildings, healthcare sites, highways, and restoration and maintenance projects.

Other departments recorded \$686 million in the last week of March 2022

2.40 The largest component relating to the expenses of the Department of Natural Resources and Renewables is a \$57 million accrual to Efficiency Nova Scotia to expand its energy efficiency programs for homes and businesses across the province to become more energy efficient and reduce greenhouse gas emissions.

- 2.41 Communities, Culture, Tourism and Heritage accrued \$51 million for eligible productions based on project costs under the Nova Scotia Film and Television Production Incentive Fund. The fund, which is administered by the Department, provides support for productions in film within Nova Scotia.
- 2.42 The Department of Labour, Skills and Immigration accrued \$67 million for the firefighters' cancer liability in response to changes in the Firefighters Compensation Regulations arising from the Province's commitment to protect firefighters. The increase includes coverage of thirteen additional cancers to a total of nineteen, as well as heart attacks that occur within 24 hours of an emergency call. With these legislative changes, the Province is responsible to cover the cost of treatments for firefighters who suffer from these ailments.
- 2.43 Other items which contribute to the increase in transactions noted at year end include inter-entity items such as year-end funding to government units, as well as the absorption of Tourism Nova Scotia by the Department of Communities, Culture, Tourism and Heritage.

P3 Projects and Net Debt

- 2.44 A Public-Private Partnership (P3) is a contract between government and a private sector entity to deliver services or to build infrastructure such as roads, hospitals, or schools. P3s integrate multiple phases of a project into one contract where the private sector partner is obligated to design, build, acquire, or improve new or existing infrastructure; finance the transaction; and/or operate and maintain the infrastructure. This differs from a traditional project where the government entity is responsible for all phases of the project and the associated risks. With a P3 arrangement, risks and responsibilities for the different phases are allocated to the private sector partner who typically bears the risk of construction delays. To date, all of the Province's P3 projects require the private sector partner to also maintain and/or operate the asset upon completion of construction.
- 2.45 A P3 arrangement is typically structured so that a government entity makes payments to the private sector partner based on project milestones and contract specified timelines. This differs from traditional procurement arrangements where payments are made to contractors as work is completed and billed. Ultimately, the type of arrangement and timing of payment does not change the impact on government's net debt when accounting for infrastructure. Under traditional procurement, the infrastructure is recognized as an asset as the costs for construction are incurred. Similarly, under a P3 arrangement the infrastructure is typically recognized as an asset as it is constructed, with an offsetting liability recognized at the same amount as the related asset.

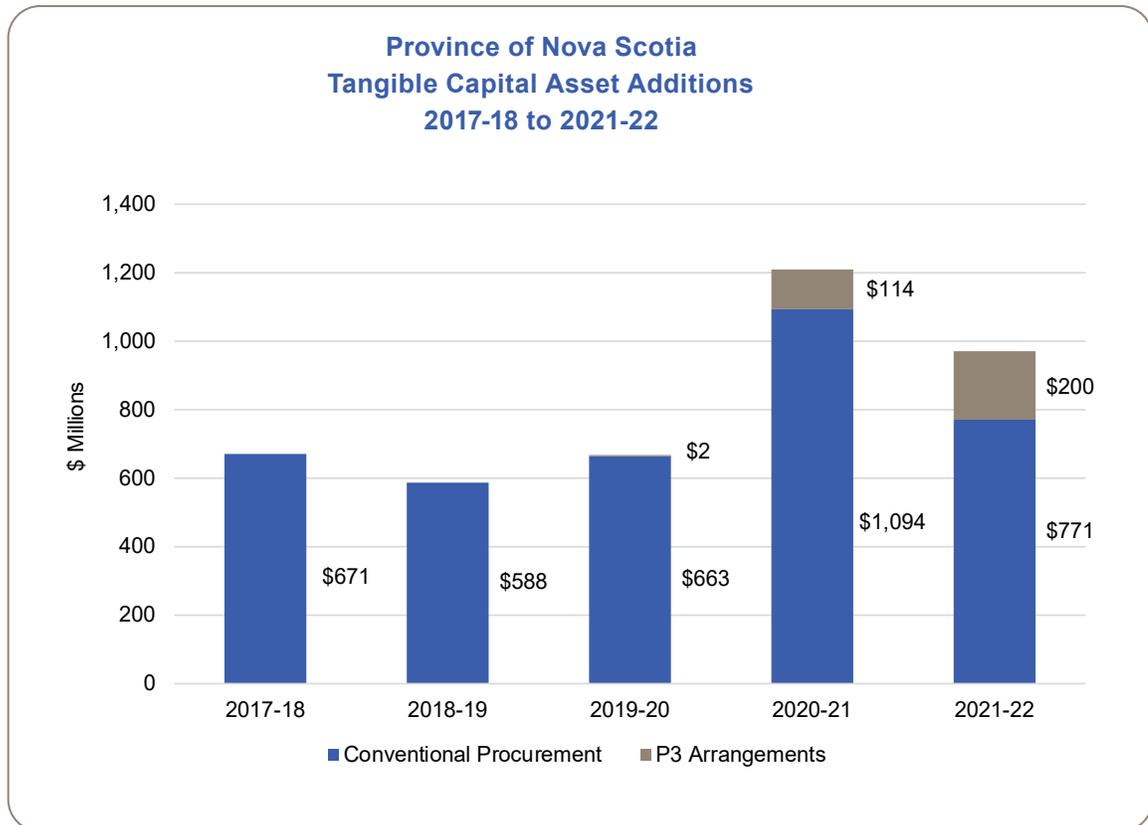


The Province currently has two major P3 projects underway

- 2.46 [The QEII Health Sciences Centre New Generation project consists of many phases, including the redevelopment of the Halifax Infirmary and expansions and renovations at various locations around the province.](#) The Province has entered into a P3 contract for the construction of the outpatient clinic phase of the New Generation Project. The redevelopment of the Halifax Infirmary is still in the procurement stage but is also expected to be a P3 arrangement. It was announced in October of 2018 that the total New Generation project would have an estimated cost of over \$2 billion. However, due to inflation, supply chain issues, and general labour availability, the cost of all construction projects have significantly risen over the last two years, and will mean that the New Generation project could be well above the current estimate. A second major P3 project underway is the twinning of Highway 104 from Sutherland's River in Pictou County to Antigonish, with an estimated cost of \$718 million as of April 2021.

The Province spent \$200 million on P3 projects in 2021-22

2.47 The Province acquired a total of \$971 million of tangible capital assets (TCA) in 2021-22, of which \$200 million (20.6 per cent) was related to P3 arrangements. Of the \$200 million, \$41 million related to the QEII Health Sciences New Generation Project and \$159 million related to the twinning of Highway 104. The chart below illustrates the Province's total TCA acquisitions broken down by conventional procurement and P3 arrangements from 2017-18 to 2021-22.



Source: 2017-18 to 2021-22 Public Accounts

Contractual obligations related to P3 projects totaled \$632.7 million in 2021-22

2.48 P3s also impact the Province's contractual obligations. Contractual obligations are not accrued as a liability but are disclosed in the notes to the financial statements. They are not accrued because these obligations relate to the terms of a contract that have not yet been completed by the private partner. The contractual obligations will become liabilities in the future when the terms of the contracts or agreements are met. Contractual obligations of the Province in 2021-22 include \$233 million for the capital portions (\$45 million for health and \$188 million for highways) and \$400 million in operating/maintenance portions of P3 projects (\$149 million for health and \$251 million for highways).

The Province currently has \$333 million in unmatured debt related to P3 Projects

2.49 In a P3 arrangement, the costs to construct the asset are recorded by the Province based on the percentage of completion as the asset is constructed. This can differ from the cash outflow

of payments to the private partner which are made according to contract terms, which are not necessarily on the same basis as the percentage completion of the project. As work is completed and the asset is constructed, the province recognizes an asset and an offsetting liability as unmatured debt to represent its financial obligation to the private sector partner.

- 2.50 The Province has accrued \$333 million in unmatured debt as at March 31, 2022 related to P3 projects. With significant work remaining on both the QEII Health Sciences New Generation Project and the twinning of Highway 104, the ultimate financial impact to the Province in future years will be much higher.

Health Spending



Province incurred \$6 billion in health spending and capital asset acquisitions in 2021-22

- 2.51 While healthcare-related spending is taking place by entities throughout government in its consolidated financial statements, there are six entities that together reported \$5.7 billion in healthcare operational expenses for 2021-22. Additionally, \$222 million was spent on health-related capital assets during that same period, bringing the total spending to almost \$6 billion.

Health Spending (\$ Millions)	2021-22
Nova Scotia Health	\$2,726
Department of Health and Wellness	1,640
Department of Seniors and Long-term Care	1,031
Izaak Walton Killam Health Centre	310
Office of Mental Health and Addictions	35
Office of Healthcare Professionals Recruitment	1
Total Healthcare Operating Spending 2021-22	5,743
Health-related Capital Asset Acquisitions	222
Total	\$5,965

Source: 2021-22 Public Accounts

- 2.52 Nova Scotia Health provides health services through the operation of hospitals, health centres and community-based programs across Nova Scotia. Some of the \$2.7 billion in spending for 2021-22 was to establish COVID-19 assessment centers across the province, increase virtual care, further enhance lab testing capacities, ensure personal protective equipment supply was sufficient to meet demand, and coordinate vaccination clinics throughout the province. Additional costs were incurred to implement mandatory screening protocols and visitor restrictions at health facilities across the province.
- 2.53 The Department of Health and Wellness provides leadership to the provincial health system as a whole and played a significant role in the Province's response to COVID-19. The expenses incurred by the Department were \$1.6 billion in 2021-22. COVID-19 related expenses cover various items including personal protective equipment supplies, rapid test kits, additional COVID-19 testing, vaccination costs, and salaries and wages in continued response to COVID-19 relief efforts. It also includes non-COVID specific services to the public, such as Physician Services Alternative Payment Plan contracts and Emergency Health Services (including a new Emergency Medical transport contract).

- 2.54 The Department of Seniors and Long-term Care supports the social and economic well being of older adults including the implementation of initiatives that help them live healthy lives in their own communities. In 2021-22, the Department incurred \$83 million in expenses to support ongoing COVID-19 response efforts by using Long-term Care nurses and assistants to cover the shortage of Continuing Care Assistants, paying for Travel Nursing to ensure appropriate staffing was available throughout the province, and securing additional personal protective equipment. Non-COVID-19 health costs relate to the Seniors Care Grant; Expanded Home First and Direct Funding Programs; the Work and Learn Initiative; and wage increases.
- 2.55 The Izaak Walton Killam Health Centre provides highly specialized healthcare and primary care services to children, women, and families in the Maritime provinces and beyond. Almost \$310 million was spent in 2021-22 and included costs related to enhanced lab testing for COVID-19, screening protocols for visitors to the centre, and vaccination clinics.
- 2.56 Health-related funding to the Office of Mental Health and Addictions provides mental health and addictions education, prevention, treatment, and recovery programs throughout the province.
- 2.57 The Office of Healthcare Professionals Recruitment is mandated to support the environment for recruitment and retention of healthcare professionals in Nova Scotia.

 **The Province incurred \$661 million in expenses related to COVID-19**

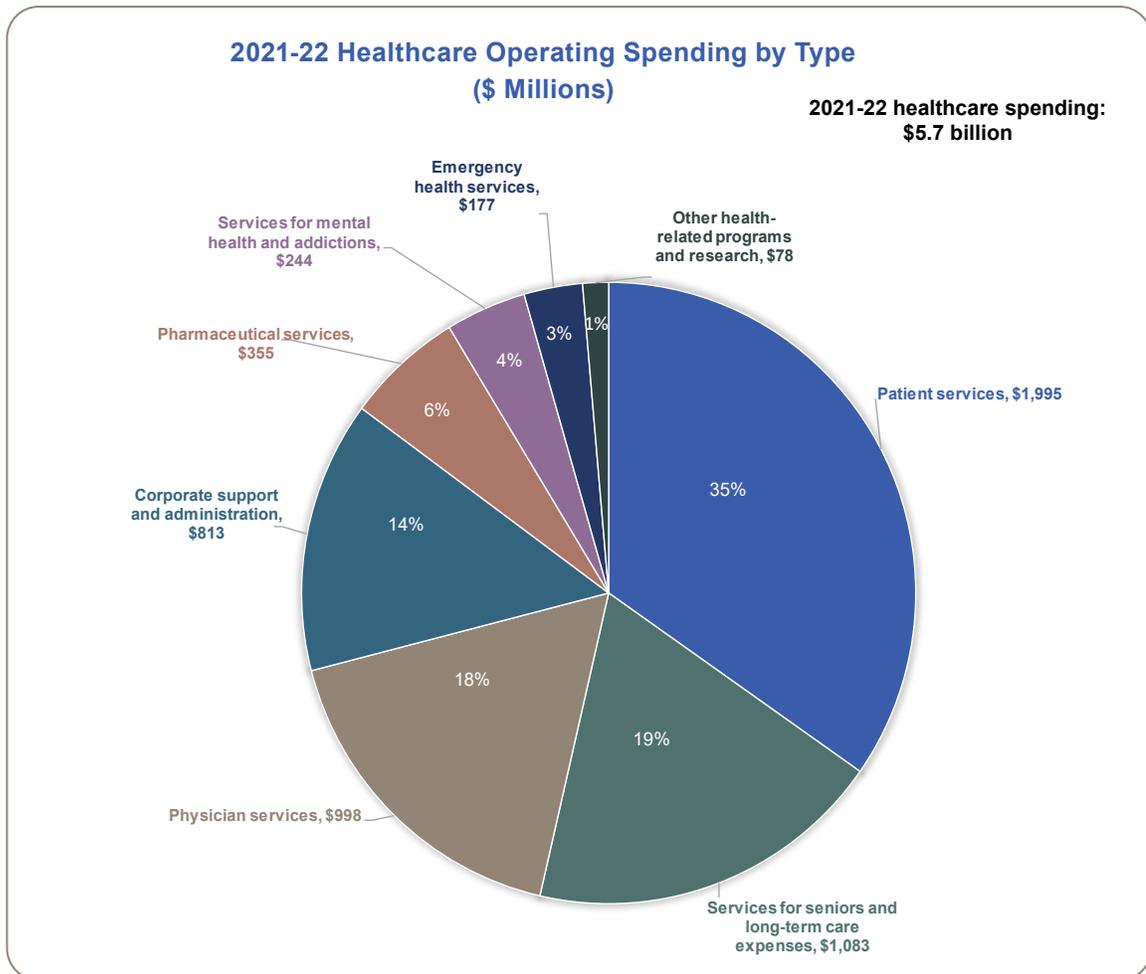
- 2.58 The Province continued to experience operational impacts and costs in 2021-22 due to COVID-19, including delays and deferrals in most non-urgent healthcare services, and surgeries and clinic closures. The following table details COVID-19 related expenses by Department for 2021-22.

COVID-19 Expenses by Department (\$ Millions)	
Health and Wellness	\$414
Seniors and Long-term Care	\$83
Education and Early Childhood Development	\$41
Communities, Culture, Tourism and Heritage	\$34
Economic Development	\$34
Community Services	\$24
Other Departments	\$31
Total COVID-19 Related Expenses	\$661

Source: 2021-22 Public Accounts

 **Healthcare operating spending by service type**

- 2.59 The following chart provides insight into healthcare operating spending by type of service based on information from the Province's financial accounting system and the consolidated financial statements (Public Accounts).

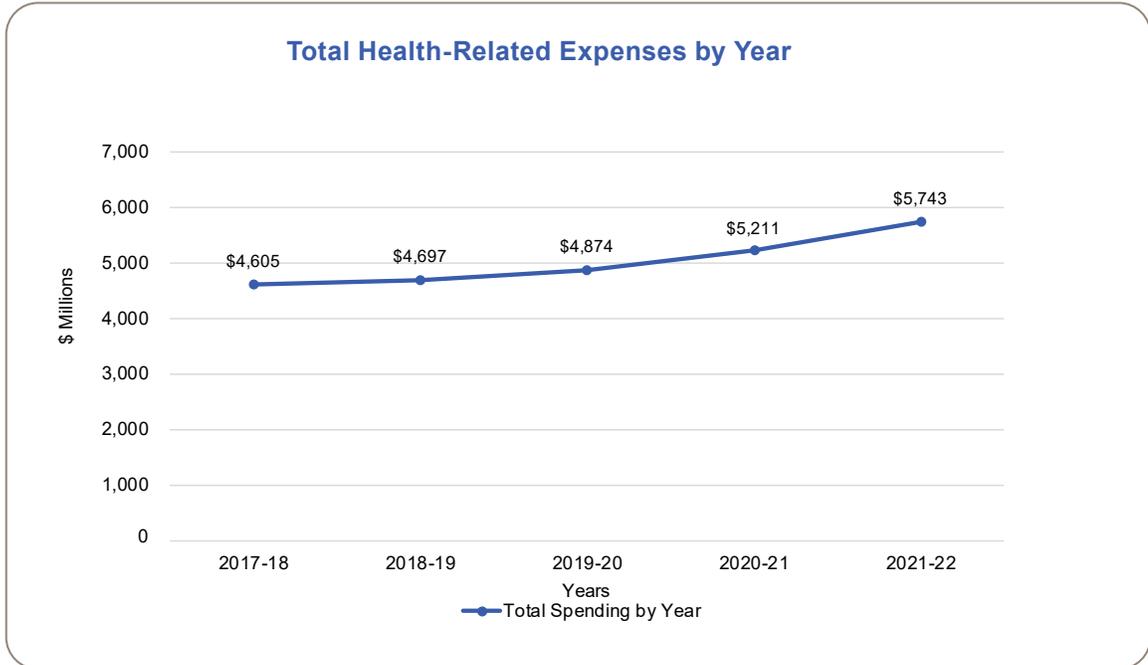


Source: Breakdown of funding obtained from the Province's financial accounting system; Office of the Auditor General analysis

- 2.60 The majority of healthcare spending, 35 per cent, (\$2 billion) is to fund patient related services at the Nova Scotia Health and the Izaak Walton Killam Health Centre. Services provided by the health authorities include but are not limited to the following: inpatient services, ambulatory care, diagnostic imaging and therapy, acute care expenses, public health services, and primary health care.
- 2.61 The Province spent 19 per cent (\$1.1 billion) of total healthcare spending for 2021-22 on services such as adult protection, home care, grants to facilities, and other program supports for those individuals under the Department of Seniors and Long-term Care's mandate.
- 2.62 Physician services amounted to 18 per cent (\$1 billion) of healthcare related expenditures. Physician services represent payments to physicians for radiology/pathology/internal medicine diagnostics, academic funding plans, alternative payment plans, fees for service, patient visits with primary care physicians, physician residents, on call services, and other Master Agreement initiatives.
- 2.63 The remaining 28 per cent (\$1.6 billion) of spending was on administrative costs, pharmaceutical services, provision of emergency services via ground ambulance and air transportation, mental health and addictions programs, and other health-related programs.

Health-related operational spending increased \$1.1 billion over five years

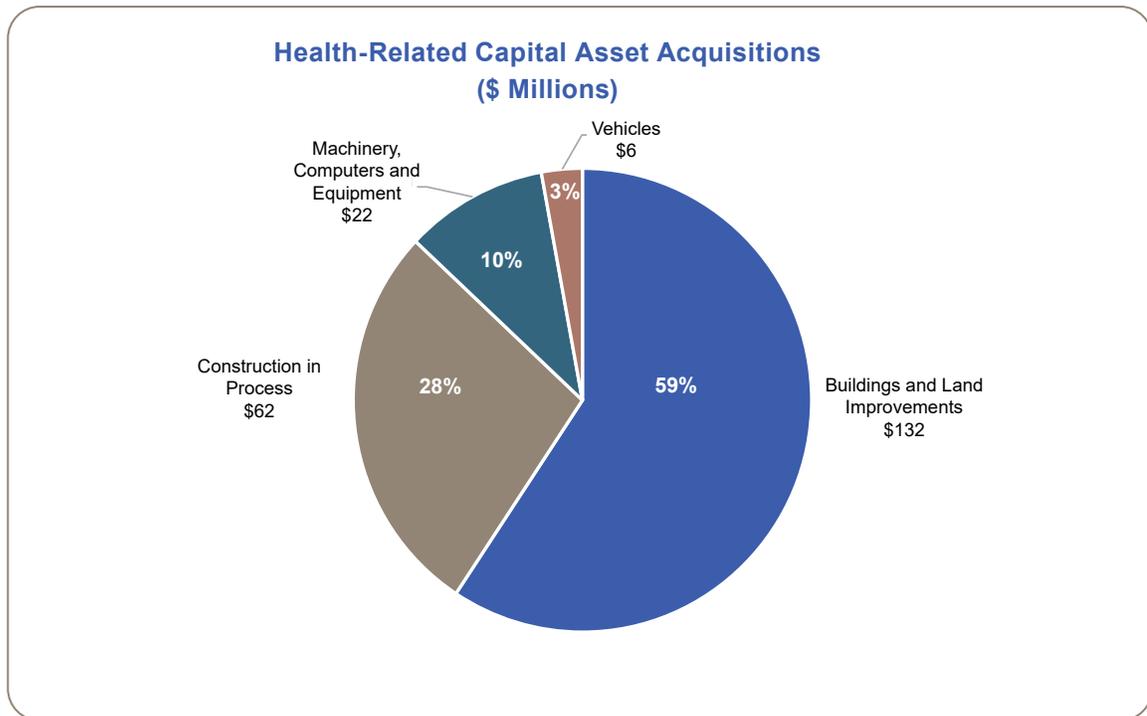
2.64 Since 2017-18, annual health-related operating spending has increased by \$1.1 billion. The chart below details the related annual spending on healthcare by the Province for the last five years. This includes funding to hospitals, long term care facilities, and payments to physicians.



Source: 2017-18 to 2021-22 Public Accounts

In 2021-22, \$222 million was spent on health-related capital assets

2.65 The Province spent a total of \$222 million in health-related capital asset acquisitions in 2021-22 as detailed in the chart below.



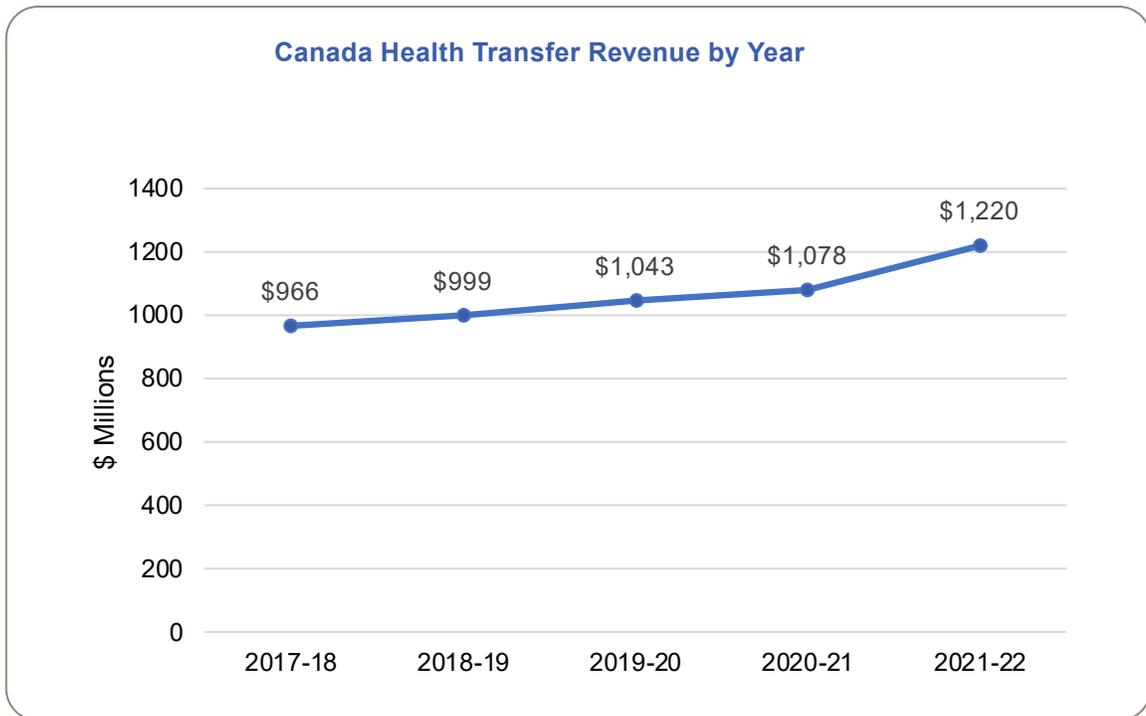
Source: 2021-22 Public Accounts, Audited Financial Statements of 2021-22 for Nova Scotia Health and IWK Centre

2.66 Healthcare capital acquisitions mainly consist of building and land improvements, and ongoing construction. These acquisitions include the infrastructure projects at the Cape Breton Regional Hospital, as well as the Halifax Infirmary and the outpatient clinic P3 project located within the Halifax Regional Municipality as part of the QEII Health Sciences New Generation Project (\$41 million).

 **Canada Health Transfer increased by \$142 million in 2021-22 to \$1.2 billion**

2.67 The Canada Health Transfer (CHT) is the largest federal transfer to the Province. It provides long-term funding for healthcare and supports the principles of the Canada Health Act. CHT payments are made on an equal per capita basis to each province to provide comparable treatment for all Canadians regardless of where they live.

2.68 During 2021-22, the Province received CHT of \$1.2 billion. This included the Province's share of a one-time top up payment of \$103 million from the federal government to assist provinces and territories with increased healthcare costs in response to COVID-19. Over the past five years the CHT has increased by \$254 million, with the largest growth between 2020-21 and 2021-22 (\$142 million). Previous to 2021-22, annual increases were on average \$37 million.



Source: 2017-18 to 2021-22 Public Accounts

Provincial Funding to Universities

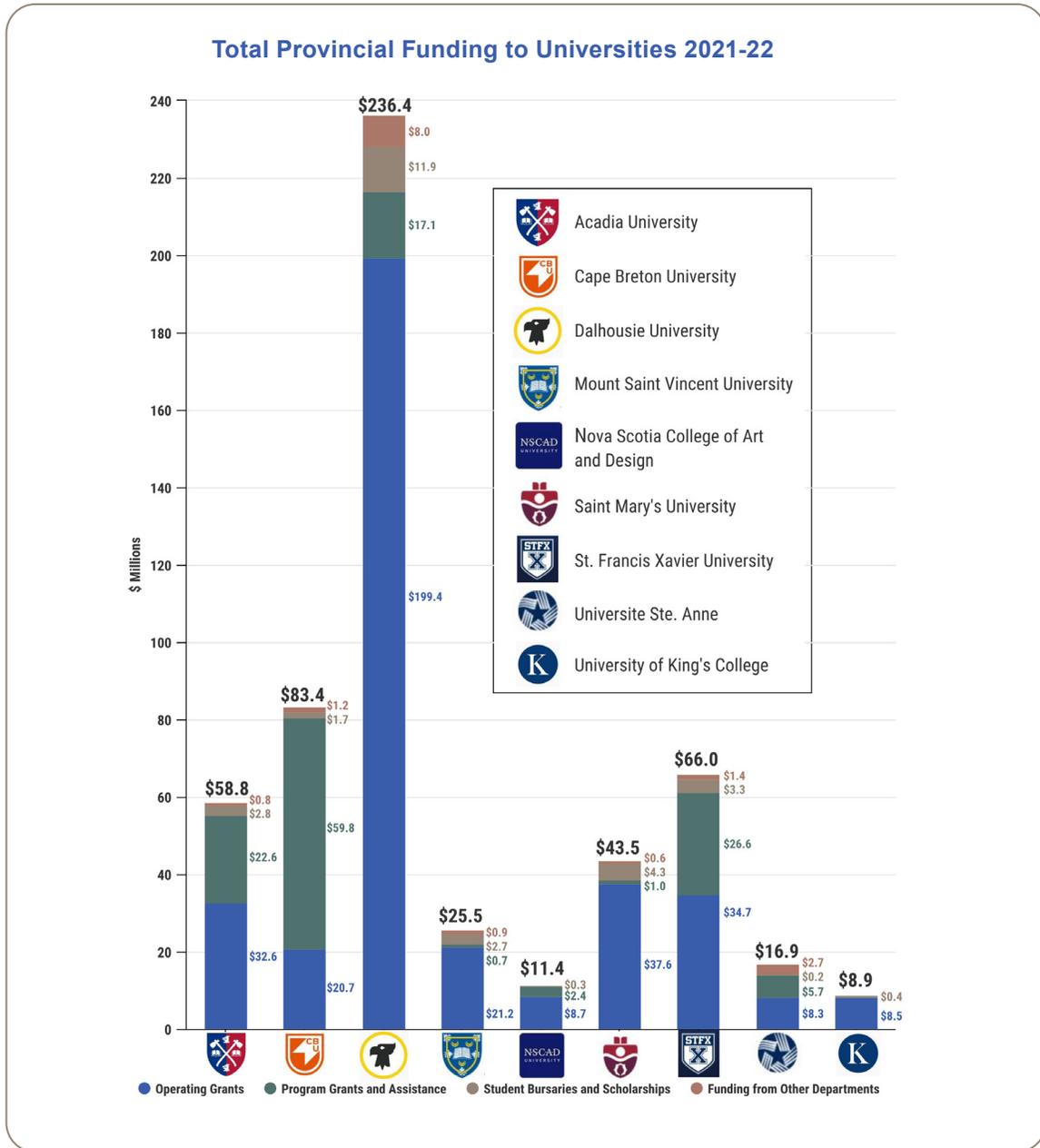
2.69 The Province of Nova Scotia provides funding to Nova Scotian universities and colleges in the form of operating grants, infrastructure grants, scholarships, and other specific project funding. This assistance is to help the university sector “contribute to quality education, inclusive economic growth, population growth, safe and connected communities and healthy population and system.” The Province recognizes that the universities play a key role in the communities and lives of Nova Scotians.

2.70 The nine significant universities of Nova Scotia discussed in this chapter are independent institutions operating separately from each other and from the Province. The Province does not have the power to govern the financial and operating policies of the universities. Funding from the Province is governed by agreements and an over-arching Memorandum of Understanding. As such, the financial statements of the universities are not consolidated into the Public Accounts of the Province.

2.71 The Nova Scotia Community College (NSCC), by contrast, is fully controlled by the Province, and its financial statements are consolidated into the Public Accounts. NSCC is not discussed in this chapter.

Province provided \$551 million in total funding to Nova Scotia universities in 2021-22

2.72 The Province provides significant funding to Nova Scotia universities through the Department of Advanced Education in combination with funding from other departments. This total funding amounted to \$551 million in total for 2021-22. The chart below shows the total provincial funding provided to each university.



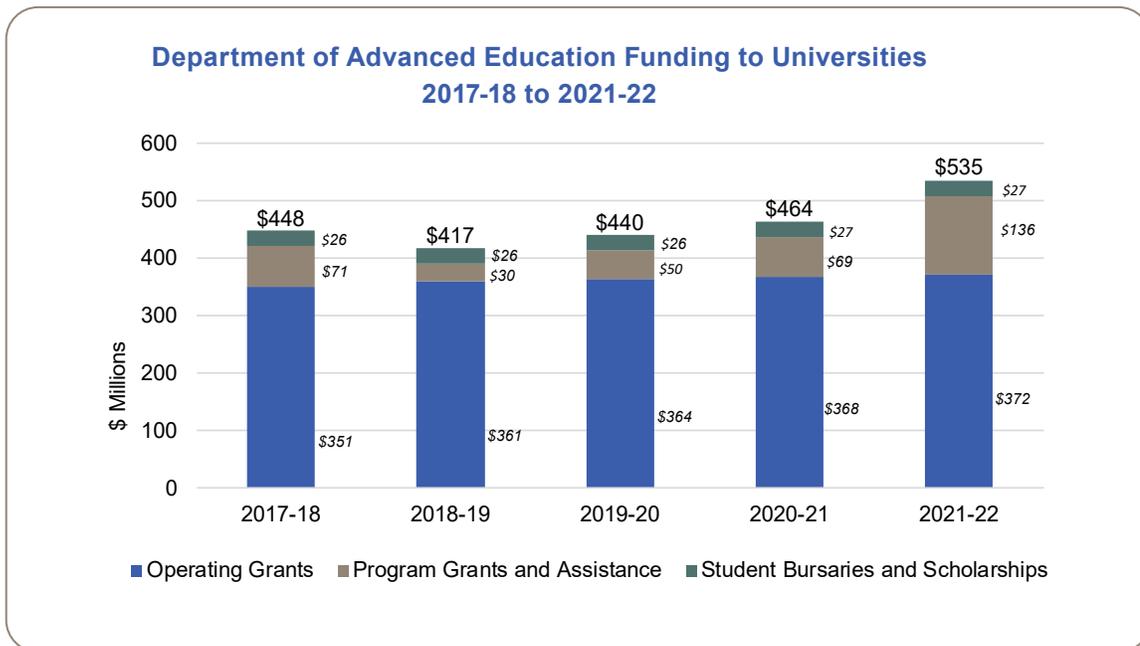
Source: 2021-22 Public Accounts Volume 3 – Supplementary Information with detail from the Province's financial accounting system



The Department of Advanced Education provided \$535 million to Nova Scotia universities in 2021-22

2.73 The Province provides funding to the universities mainly through the Department of Advanced Education. Operating grants to the universities are governed by the current Memorandum of Understanding which is valid for the years 2019-20 to 2023-24 and provides for a minimum increase of 1 per cent per year for the duration. In addition to operating grants, the Memorandum discusses support for areas including infrastructure renewal and student bursaries.

2.74 Funding provided by the Department of Advanced Education to the province's universities is shown in the chart below. From 2017-18 to 2021-22, annual funding rose from \$448 million to \$535 million, an increase of 20 per cent, the majority of which can be attributed to the increases in program grants and assistance between 2020-21 and 2021-22. As noted earlier, in 2021-22 the Department recorded transactions worth \$224 million in the last week of March 2022 and required additional appropriations of \$149 million.



Source: 2017-18 to 2021-22 Public Accounts Volume 3 – Supplementary Information; Office of the Auditor General analysis

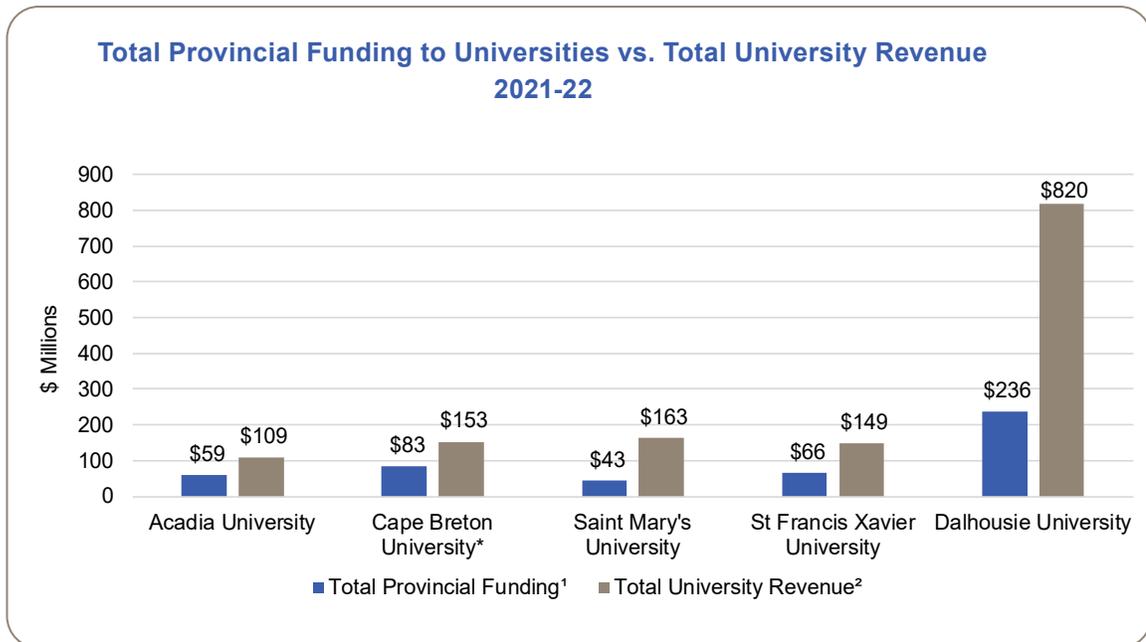
The Province paid an additional \$15.6 million to the universities in 2021-22 from departments other than Advanced Education

2.75 In addition to the Department of Advanced Education, other departments also provide funding to the universities for grants and contributions and other miscellaneous payments. In 2021-22 payments from departments other than Advanced Education totaled \$15.6 million. This includes funding for grants and contributions of:

- \$3.5 million from the Department of Health and Wellness to Dalhousie University;
- \$1.7 million from the Department of Education and Early Childhood Development to Université Sainte-Anne; and
- \$1 million from the Department of Labour, Skills, and Immigration to St. Francis Xavier University.

Provincial funding accounts for an average of 35% of the total university revenues for top five funded universities

2.76 In 2021-22 total provincial funding provided to the universities accounted for 35 per cent of the total university revenues reported by the five universities that received the most provincial funding.



¹Source: 2021-22 Public Accounts Volume 3 – Supplementary Information

²Source: Total Operating Revenue obtained from the universities' respective financial statements for 2021-22

*Total University Revenue for Cape Breton University includes \$54 million in funding from the Province recorded as deferred revenue by the university to fund capital expenditures and to develop a plan for the university's health initiatives.

2.77 Acadia University received a total of \$59 million from the Province in 2021-22. The majority of the funding is attributable to:

- \$32.6 million in operating grants;
- \$22 million in funding for infrastructure maintenance; and
- \$2.8 million in student bursaries and scholarships.

2.78 Cape Breton University received a total of \$83 million from the Province in 2021-22. The majority of this funding is attributable to:

- \$20.7 million in operating grants;
- \$14 million in funding for infrastructure maintenance;
- \$35 million for the Cape Breton University Centre for Discovery and Innovation;
- \$5 million for a strategic health initiative;
- \$4.1 million for the Nursing Education Program; and
- \$1.7 million in student bursaries and scholarships.

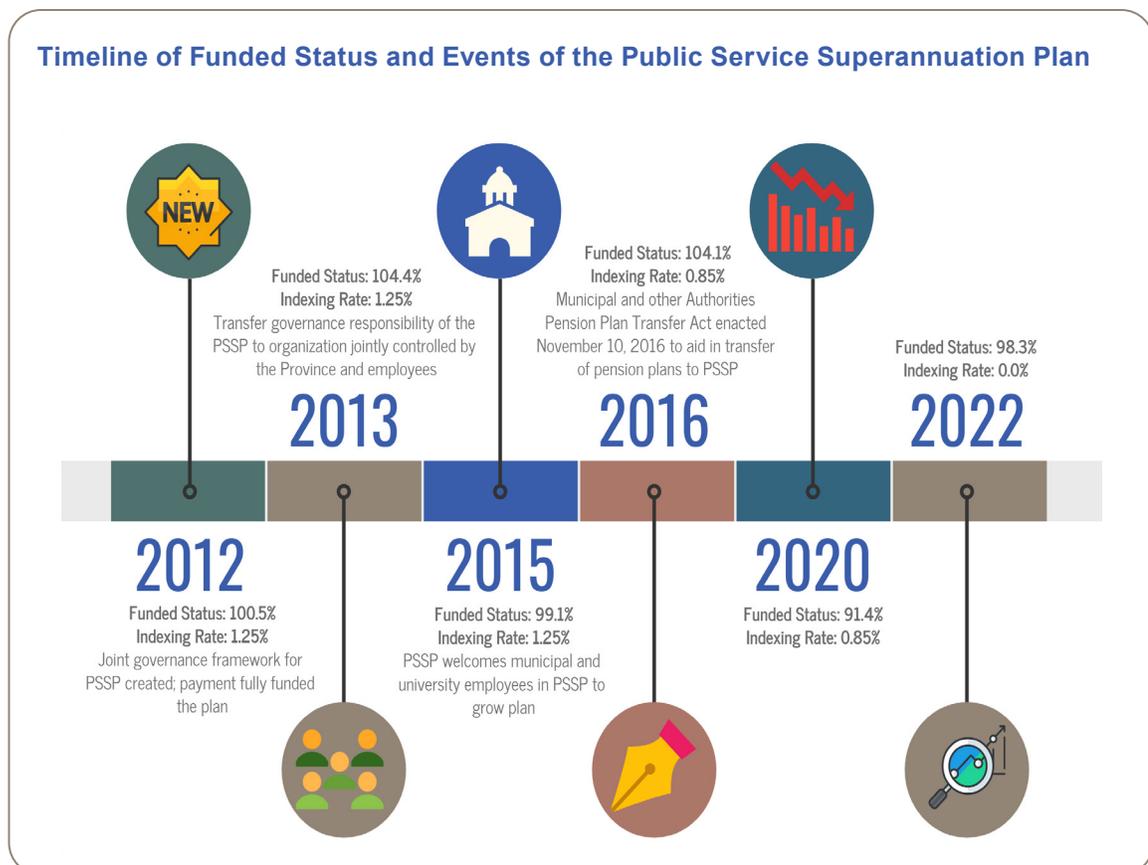
- 2.79 Saint Mary's University received a total of \$43 million from the Province in 2021-22. The majority of the funding is attributable to:
- \$37.6 million in operating grants; and
 - \$4.3 million in student scholarships and bursaries.
- 2.80 St. Francis Xavier University received a total of \$66 million from the Province in 2021-22. The majority of the funding is attributable to:
- \$34.7 million in operating grants;
 - \$23.4 million in funding for infrastructure maintenance; and
 - \$3.3 million student scholarships and bursaries.
- 2.81 Dalhousie University received a total of \$236 million from the Province in 2021-22. The majority of the funding is attributable to:
- \$199.4 million in operating grants; and
 - \$11.9 million in student scholarships and bursaries.

Information Update on the Funded Status of Significant Public Sector Pension Plans

- 2.82 The Province of Nova Scotia participates in a variety of pension plans; the most significant of these plans are the Nova Scotia Public Service Superannuation Plan (PSSP) and the Nova Scotia Teachers' Pension Plan (TPP).
- 2.83 The Nova Scotia Public Service Superannuation Plan is a registered defined benefit pension plan; employees and employers contribute a percentage of the employee's salary and employees earn a benefit that offers PSSP members a lifetime pension benefit when they retire. The PSSP provides retirement benefits to individuals who work in a Nova Scotia government department or at a participating municipality, university, agency, board, or commission. The pension benefit is based on annual salary during employment, years of service, and if applicable, inflationary adjustments. It is one of the largest public sector pension plans in Atlantic Canada.
- 2.84 The [2012 Public Service Superannuation Act](#) (PSSA) implemented a detailed joint governance framework for the PSSP, removing the Province's ultimate responsibility for the plan over and above their employer contributions. The impact of this change resulted in the Province making a one-time payment to fully settle the Province's obligation for past service costs to the Public Service Superannuation Plan.
- 2.85 Effective April 1, 2013, the Minister of Finance transferred sole governance responsibility of the Nova Scotia Public Service Superannuation Plan to the Public Service Superannuation Plan Trustee Incorporated (PSSPTI), a trustee organization jointly controlled by the Province and plan members. This transfer in responsibility resulted in the new trustee organization inheriting all assets and liabilities of the plan, administration of the plan, and its overall operations including

investing decisions, meaning that the Province no longer assumes responsibility for obligations associated with the plan over and above its employer contributions, nor does the Province carry a liability for the plan in its financial statements. Trustee membership is represented by both employee and employer representatives.

- 2.86 Additionally on this date, the Nova Scotia Pension Services Corporation (NSPSC) was established. NSPSC is a non-profit corporation independent from the Province which provides investment and pension administration services. The Pension Services Corporation is not controlled by the Province and thus does not form part of the Provincial Government's reporting entity and is not consolidated as part of the Province's consolidated financial statements. NSPSC administers the Public Service Superannuation Plan under the direction and oversight of the joint trustee board.
- 2.87 Growing the Public Service Superannuation Plan membership to promote long-term financial sustainability has been a key strategic focus for the trustee organization. In 2015, the plan started welcoming members from other organizations including university and municipal employees. The PSSPTI has stated that these transfers into the plan are beneficial to the long-term sustainability of the plan and cost neutral to its existing members.
- 2.88 Since the membership growth initiative began in 2015, several universities, such as Acadia University, Université Sainte-Anne, University of King's College, and Cape Breton University joined or transferred to the Public Service Superannuation Plan. Additionally, the Cape Breton Regional Municipality, South Shore Public Libraries, the Town of Truro, the DIRECTIONS Council for Vocational Services Society, and the Municipality of the District of Lunenburg also joined or transferred to the plan.

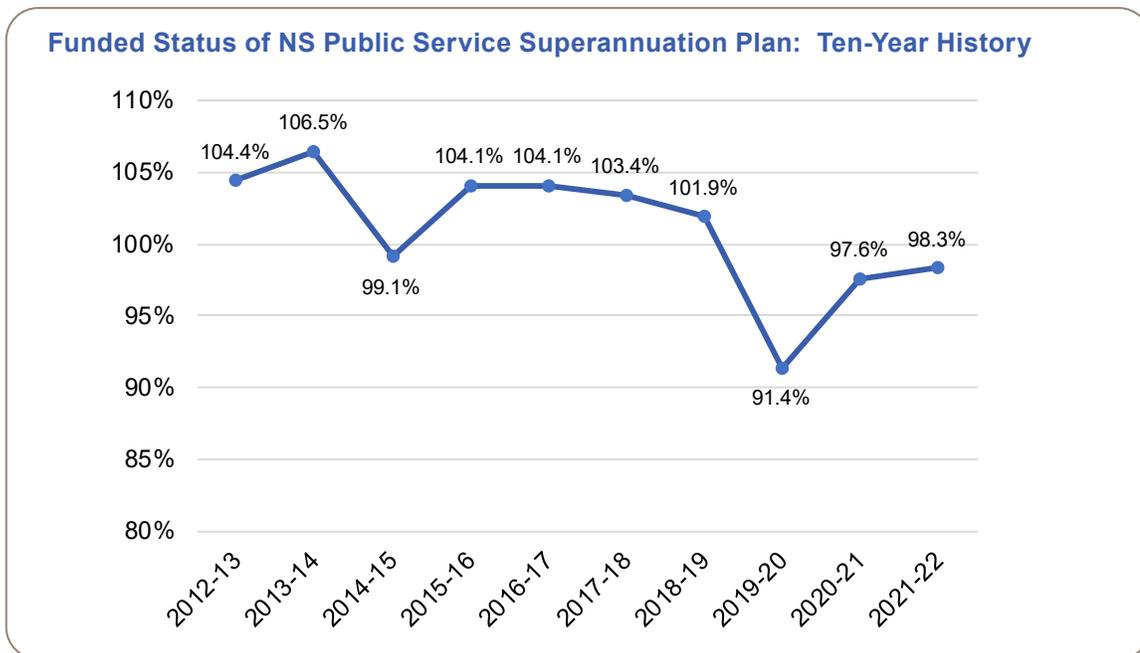


Source: Nova Scotia Public Service Superannuation Plan Annual Reports

PSSP funding status declined from 104.4% in 2013 to 98.3% in 2022

2.89 The funded status of a pension plan is a primary indicator of a pension plan's financial health. A fully funded pension plan means its plan assets can cover its pension benefit liabilities. The current funded status of the Public Service Superannuation Plan as at March 31, 2022 was 98.3 per cent, an increase of .7 per cent from March 31, 2021 when it had been 97.6 per cent.

2.90 The chart below outlines the Public Service Superannuation Plan's funded status over the previous ten years.



Source: Public Service Superannuation Plan Trustee Inc. Annual Reports 2013 to 2022

2.91 While the plan remains nearly 100 per cent funded, its funded status has declined over the past ten years. The PSSPTI indicated that the fluctuations in the funded status are attributable to market conditions, most notably a drop in asset values that began in March 2020.

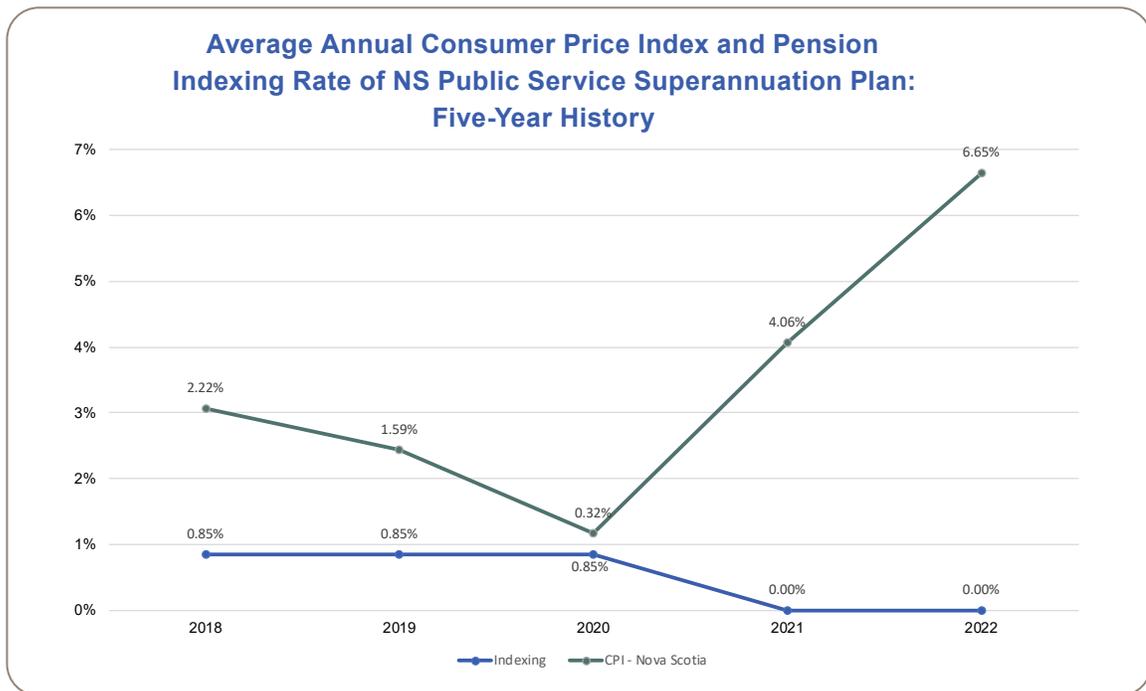
2.92 Since the Province no longer assumes responsibility for the Public Service Superannuation Plan, changes to the funded status of the plan including a funding deficit, do not have an impact on the Province's financial statements. However, the plan being in a funding deficit position does matter to public servants and retirees as the indexing of their pension payments will be impacted.

Pension indexing in Public Service Superannuation Plan not expected until after 2025

2.93 The Nova Scotia Public Service Superannuation Plan is a pension plan with provisions governing employee contributions, retirement eligibility, and the determination of pension benefits for members. The financial position of a pension plan often determines if members will receive a cost of living (indexing) increase on their pension. Indexing a pension provides pensioners with an increase to their cash flow to help keep up with overall cost increases in goods and services or inflation. This plan has indexing available to its members, however there are set terms under which indexing applies.

2.94 Subject to the conditions outlined in the Public Service Superannuation Act, pension payments to retirees are subject to indexing if the Plan's funded status is above 100 per cent on the stipulated valuation date. The Public Service Superannuation Act prescribes that a review of the funded status of the plan must be completed every five years. The purpose of the review is to determine the Plan's capacity to afford indexing for the next five years and to review the adequacy of contribution rates. The recent review was based on the plan's funded status at the stipulated date of December 31, 2019, which was 98.5 per cent (below 100 per cent) and was prior to the notable drop in asset values occurring in March 2020. Therefore, retirees' pensions cannot be indexed from January 1, 2021 through to December 31, 2025. This is despite the fact that Statistics Canada has reported Nova Scotia's inflation as high as 9.3 per cent in June 2022.

2.95 The following chart shows the indexing received by retirees over the past five years.



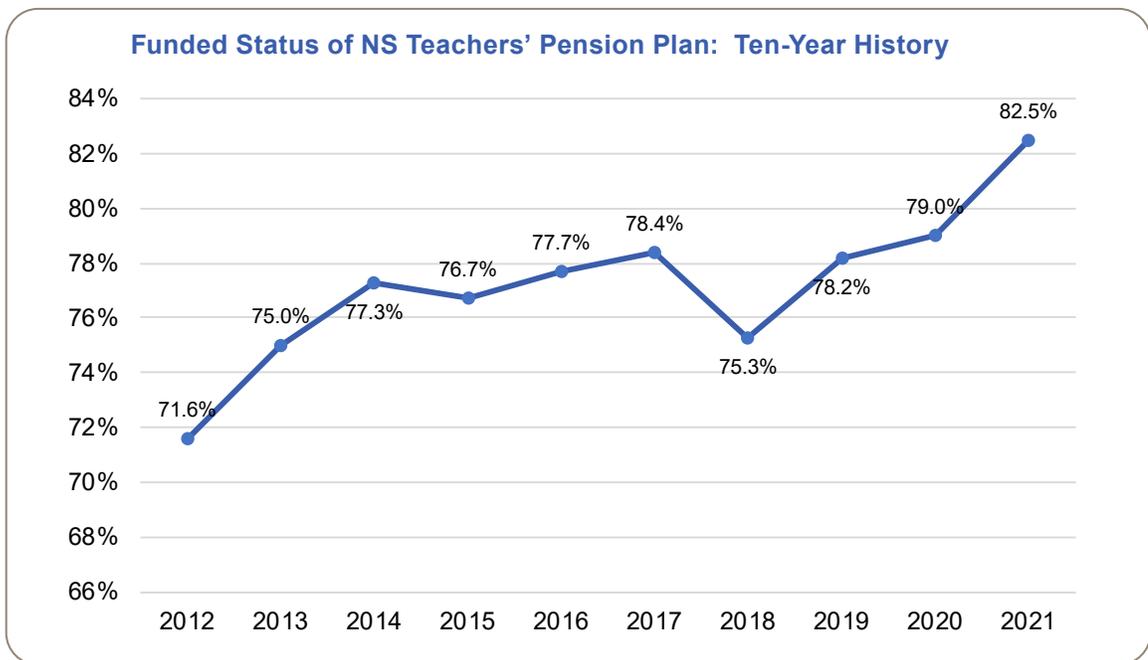
Source: Public Service Superannuation Plan Trustee Inc. Annual Reports 2018 to 2022
 Statistics Canada, Consumer Price Index Portal

2.96 The indexing rate of the Public Service Superannuation Plan should be concerning to all plan members because it directly impacts the pension payments they receive, and assists pensioners to maintain purchasing power. The Consumer Price Index (CPI) for Nova Scotia is an indicator of changes in consumer prices experienced by Nova Scotians. The Province's 2022 Public Accounts reports that the cumulative Nova Scotia Consumer Price Index increased a total of 14.8 per cent over the past five years, meaning that pensioners have been losing spending power as the PSSP pension indexing has not kept up with the rate of inflation.

2.97 Pension retirement benefits are critical to public servants, and we will continue to monitor the funded status of this plan. The PSSPTI should ensure the Public Service Superannuation Plan is properly funded to support public servants appropriately into retirement as costs increase.

Nova Scotia Teachers' Pension Plan is underfunded

- 2.98 The Nova Scotia Teachers' Pension Plan is governed by the [Teachers' Pension Act](#). Sole governance responsibility of the Teachers' Pension Plan lies with a trustee organization jointly controlled by the Province and the Nova Scotia Teachers Union (NSTU).
- 2.99 The Teachers' Pension Plan deficit is equally shared by the Province and NSTU plan members. The plan deficit at December 31, 2021 was approximately \$1.2 billion, of which the Province's share is \$600 million. (December 31, 2020 – \$733 million). The Province's share of the TPP deficit impacts the Province's statement of financial position, increasing its net debt.
- 2.100 The funded status of the Teachers' Pension Plan as of December 31, 2021 was 82.5 per cent. As the ten-year trend below shows, funded status has improved; however, the plan remains significantly underfunded.



Source: Nova Scotia Teachers' Pension Plan Annual Report 2021

Teachers retiring on or after August 1, 2006 have not received pension indexing since 2008

- 2.101 The terms in which indexing applies under the Teachers' Pension Plan varies, and only occurs if the funded status of the plan is more than 90 per cent. As the Teachers' Pension Plan remains in a funded status below the 90 per cent threshold, teachers retiring on or after August 1, 2006 have not received an increase to their pension payments since 2008 and this is unlikely to change for the foreseeable future. Teachers who retired before August 1, 2006 continue to have their pensions indexed in accordance with their plan provisions.

The Province and NSTU have not publicly released the report from the independent panel

- 2.102 In late 2020 the Province and the Nova Scotia Teachers Union announced the creation of an independent panel of three pension experts to address the ongoing challenges facing the Teachers' Pension Plan. The creation of the panel is outside the teachers' collective agreement

with a mandate to review the pension plan, educate, and consult with stakeholders, and make non-binding recommendations to fully fund the Teachers' Pension Plan within a reasonable period.

- 2.103 The Panel's report and non-binding recommendations were submitted to the Nova Scotia Government and the Nova Scotia Teachers Union on August 15, 2022. The Province and the NSTU are responsible for the report and future communication of its content, as well as any actions to take in response to the recommendations made by the Panel. As of September 1, 2022 neither the Province nor the NSTU have publicly released details related to the report or recommendations stemming from it.
- 2.104 We will continue to monitor the funded status of the Teachers' Pension Plan including whether any corrective action is deemed necessary in the report from the independent panel. The Teachers' Pension Plan has a significant impact to the Province's financial statements since one-half of the accrued benefit liability is accounted for by the Province. As at March 31, 2022 the accrued benefit liability recorded by the Province was \$482 million (2021 – \$449 million).

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Chapter 3

Nova Scotia's Finances from the 2022 Public Accounts

Key Messages

- Nova Scotia's economy and finances are rebounding to pre-COVID-19 levels
- 2021-22 operating surplus of \$351 million
- Net debt to GDP ratio of 32.2% below pre-pandemic level
- Federal transfers as a percentage of total revenues remain at the top of the five-year trend but improved over 2020-21

Why We Did This Chapter

- To provide important information to Nova Scotians on the Province's finances and promote discussion

Financial Condition of the Province of Nova Scotia

Government's financial condition can be assessed by ratios and indicators of sustainability, flexibility, and vulnerability. These indicators are suggested by Canada's CPA independent Public Sector Accounting Board.

Sustainability indicators show the Province's ability to maintain existing services and financial requirements without needing to increase revenues or debt

- 2021-22 operating surplus of \$351 million driven by increased revenues following a deficit in 2020-21
- Net debt increased to \$16.6 billion since 2017-18 but rate of growth year over year is back to pre-pandemic levels
- Net debt to GDP ratio of 32.2% in 2021-22 is below pre-pandemic levels
- Actual borrowings were less than budgeted in 2021-22 but unmatured debt increased by \$35 million to \$14.85 billion and remains on the high end of the five-year trend
- Overall: while indicators have fluctuated over the past five years, operating surplus and net debt to GDP have improved over 2020-21

Flexibility indicators show the Province's ability to increase revenues or debt borrowings within its economy

- Interest on unmatured debt has decreased from 2017-18 levels, specifically by \$51 million to \$576 million in 2021-22 compared to the prior year, and a five-year low
- In 2021-22 provincial source revenue to GDP ratio increased by 1.3 percentage points to 17.7% but is still relatively stable from years prior
- Overall: flexibility indicators have shown improvement in the Province's ability to increase debt borrowings within its economy

Vulnerability indicators show the Province's reliance on revenues outside of its control

- Dependency on federal government transfers increased over past five years to 35.2% in 2021-22
- Overall: federal transfers as a percentage of total revenues improved over the prior year but remain at the high end of the five-year trend

Selected Financial Highlights

Revenue:

- [At \\$9.1 billion, provincial source revenue was \\$961 million higher than budget with \\$389 million resulting from prior year adjustments](#)
- [Personal income tax revenue of \\$3.1 billion was higher than both the budget and prior year amounts, and has risen 13% since 2017-18](#)
- [Harmonized sales tax revenue of \\$2.1 billion was higher than both the budget and prior year amounts and has risen 16% since 2017-18](#)
- [Corporate income tax revenue of \\$518 million rebounded from 2020-21 but remains on the low end of the five-year trend](#)
- [Net income from government business enterprises of \\$406 million is the peak of the five-year trend](#)

Questions Nova Scotians May Want to Ask

1. Why was the 2021-22 ending surplus so much more than expected?
2. What does the decrease in net debt to GDP ratio mean for me?
3. Personal income tax and harmonized sales tax revenues have both increased over the past five years whereas corporate income tax has not. Why is this?
4. What will happen to the Province's interest payments as rates go up?

3 Nova Scotia's Finances from the 2022 Public Accounts

Purpose

- 3.1 The purpose of this chapter is to inform Nova Scotians on some aspects of the Province's finances and to promote discussion.
- 3.2 In this chapter, we look at numbers from the perspective of sustainability, flexibility, and vulnerability and provide information on the current level of revenues against levels over the previous five years to provide insight into the Province's financial condition.

Limitations

- 3.3 We are not assessing or commenting on the financial decisions made by Government or the effectiveness of those decisions. The information presented below is only part of the story and does not consider such factors as policy decisions, actual programs and services, inflation, performance of the provincial economy, and other elements that may impact revenues and expenses. Certain figures and information in this report including information on entities not consolidated in the Province's financial statements is not audited. Additional information, including economic highlights, is presented in the [Financial Statement Discussion and Analysis section in Volume 1 of the 2022 Public Accounts of Nova Scotia](#) where there are almost fifty pages of detailed analysis and explanation.

Financial Indicators – What They Show

Some indicators returned to pre-pandemic levels

- 3.4 There are various indicators that can be used to assess the Province's financial condition. The indicators included in this chapter are among those recommended for reporting by the Public Sector Accounting Board's Statement of Recommended Practice – 4: *Indicators of Financial Condition*. The indicators reported are meant to provide additional information on the Province's financial condition but are not intended as commentary on the financial impact of government policies or fiscal management.
- 3.5 The Statement of Recommended Practice recommends that, at a minimum, indicators related to sustainability, flexibility, and vulnerability be considered. We have included these types of indicators, along with other information we feel is useful in demonstrating the Province's financial condition. These tools can assist users of the Province's consolidated financial statements to interpret its financial information.
- 3.6 The financial indicators presented in this chapter provide an overview of the Province's financial performance for the five-year period ending March 31, 2022 and are summarized in the table below as well as in the 2021-22 Public Accounts.

Financial Highlights	
Indicator	Five-Year Trend
Sustainability	
Annual surplus or deficit	Improved
Net debt	Worsened
Net debt to GDP	Improved
Budget to actual borrowing requirements	Fluctuated
Unmatured debt	Worsened
Flexibility	
Interest on unmaturred debt	Improved
Own source revenue to GDP	Improved
Vulnerability	
Federal government transfers as a percentage of total revenue	Worsened

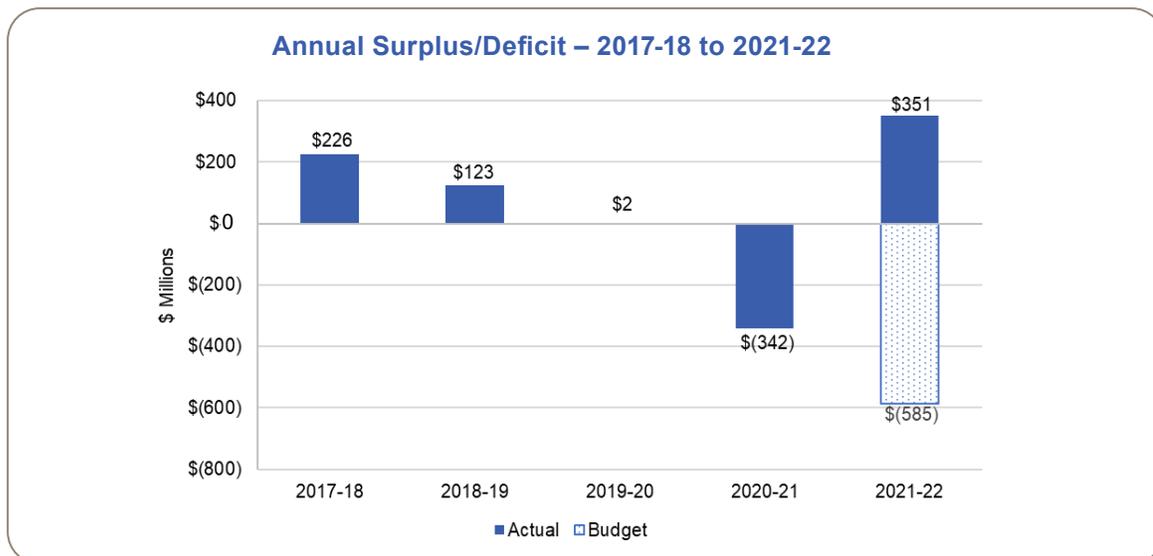
3.7 Individual sustainability indicators show a range of impacts on sustainability. Based on the indicators reported, the results also show the Province's flexibility has improved but it appears to be more vulnerable as it relies more on federal revenues.

Sustainability

3.8 Sustainability measures the ability of a government to maintain its existing programs and services, including maintaining its financial obligations to creditors, without having to increase debt or tax rates. Sustainability indicators provide insight into how a government balances its commitments and debts.

The Province reported an annual operating surplus of \$351 million for 2021-22

3.9 The annual surplus/deficit measures the extent to which revenues cover expenses. A surplus occurs when revenues are greater than expenses. A deficit occurs when expenses are greater than revenues.



Source: 2021-22 Public Accounts

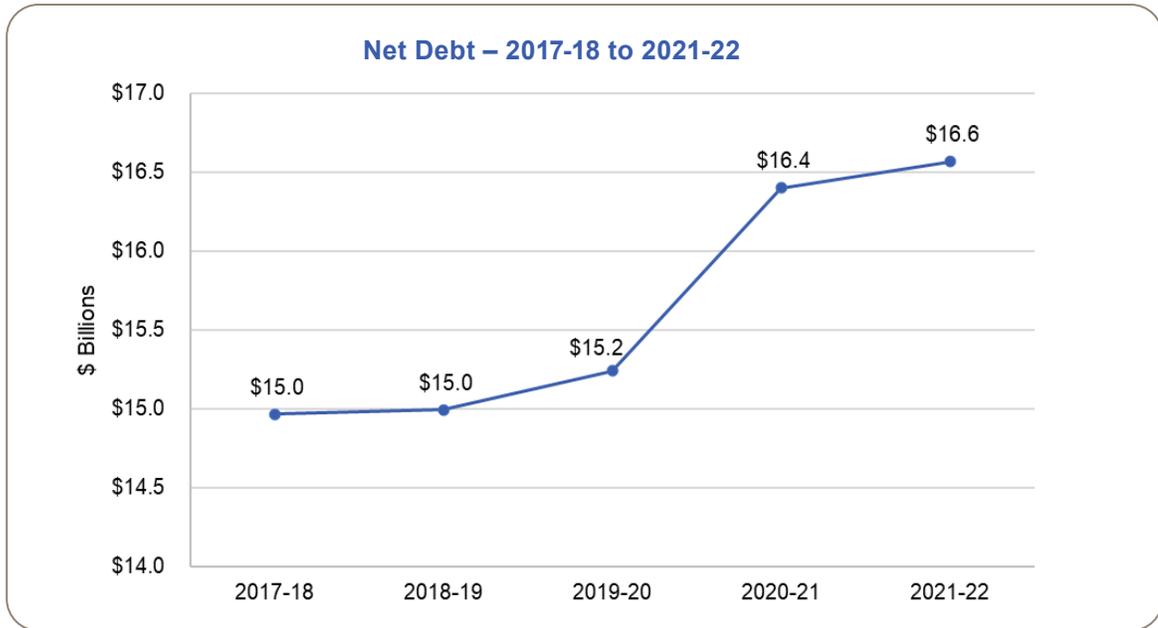
- 3.10 Reported results in 2021-22 show significant improvement over both the initial 2021-22 budget estimates and the 2020-21 actuals. The resulting surplus of \$351 million was \$936 million higher than the budgeted deficit of \$585 million and \$693 million higher than the prior year's deficit of \$342 million. This was the largest budget to actual change in surplus in the past 20 years.
- 3.11 The large swing from budgeted deficit to actual surplus was mainly driven by a \$961 million increase in Provincial source revenues including:
- Increase in major tax revenues of \$272 million from budget:
 - Personal income tax revenue increased \$179 million
 - Harmonized sales tax revenue increased \$75 million
 - Corporate income tax revenue increased \$18 million

These increases were mainly as a result of the Provincial economy rebounding stronger than anticipated; higher taxable income and projected yield rates; and greater residential housing investment and consumer expenditures.

- Prior year adjustments (PYAs) of \$389 million added to major tax revenues. Prior year adjustments are not budgeted. They are recorded in the current year as actual or more current information becomes available and impact the accounting estimates for tax revenues recorded in prior years. [Prior year adjustments are discussed in further detail later in this chapter.](#)
- Offshore license forfeitures of \$125 million. Offshore license forfeiture is not unusual given the unpredictable nature of the offshore industry. The Province records forfeiture revenue when a notice of forfeiture is given by a license holder. Offshore license forfeitures are not budgeted because the amount and timing cannot be reasonably predicted. Revenue in 2021-22 was from forfeiture of exploration licenses from BP Canada and Equinor Canada.

The Province's net debt increased \$1.6 billion since 2017-18

- 3.12 Net debt measures the degree to which the Province's financial assets cannot cover its liabilities. As the chart below shows, net debt was fairly stable at approximately \$15 billion prior to the pandemic. It increased significantly in 2020-21 to \$16.4 billion but has returned to pre-pandemic year-over-year growth levels and was \$16.6 billion at the end of 2021-22.



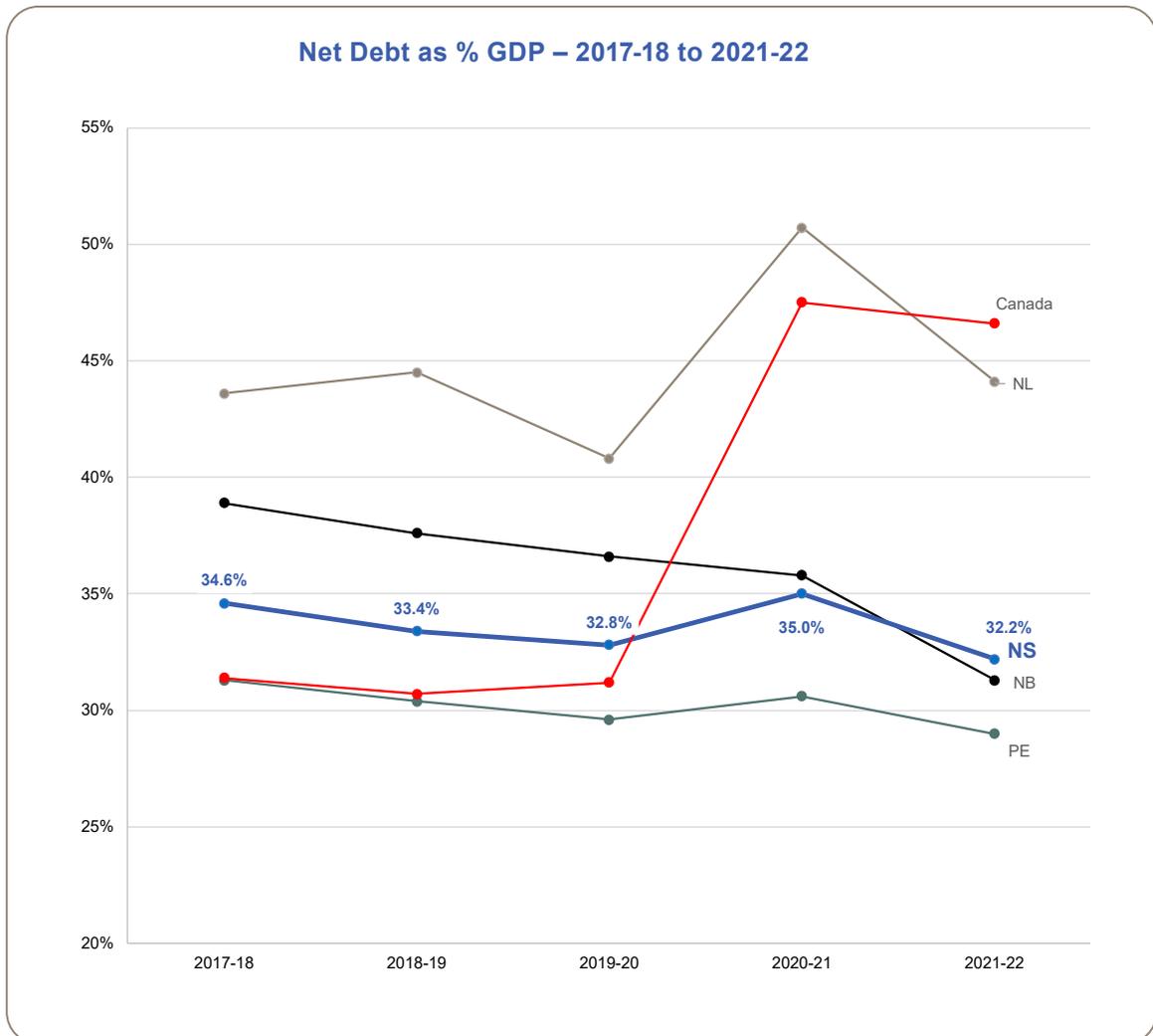
Source: 2021-22 Public Accounts

The Province's net debt to GDP ratio is below pre-pandemic level

- 3.13 Gross domestic product (GDP) is the amount of value added from production of all goods and services within the Province in a given year, and is one of the primary measures used to evaluate the economic condition of a province or country.

- 3.14 The net debt to GDP ratio is used to assess the Province's ability to pay its financial obligations and render services. A low ratio indicates a level of economic output that supports debt repayment. The higher the ratio, the more difficult it may be for the Province to pay its debt while maintaining the same service levels.

- 3.15 The following chart shows that Nova Scotia's net debt to GDP ratio decreased over the past five years, except for 2020-21 which is when major impacts due to COVID-19 occurred. Net debt to GDP ratio was 32.2 per cent in 2021-22, which is below pre-pandemic levels.



Source: 2021-22 Public Accounts and RBC Economics Canadian Federal and Provincial Fiscal Tables

- 3.16 While the percentages are not strictly comparable between provinces due to accounting and reporting differences, the above chart shows Nova Scotia's net debt to GDP ratio against other Atlantic provinces and Canada to illustrate the trend that net debt to GDP peaked in 2020-21. All Atlantic provinces, except Newfoundland and Labrador, reported ratios below pre-pandemic levels in 2021-22.
- 3.17 The following paragraphs show the actual results of the Province's annual borrowing requirements and net unmatured debt.

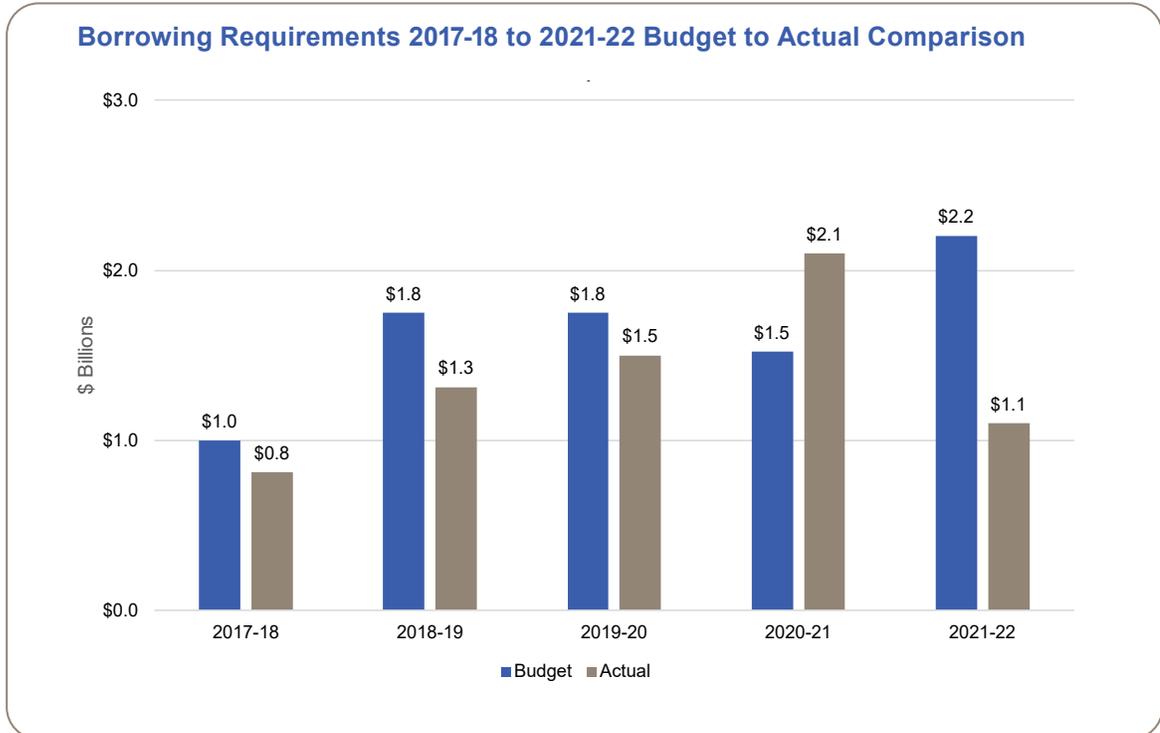


The Province's actual debt borrowings in 2021-22 were less than budgeted

- 3.18 The Province's annual borrowing program presented in the annual budget document represents the amount of new debt that can be issued in a fiscal year by the General Revenue Fund. In 2021-22, the Province borrowed \$1.1 billion, which was \$1.1 billion lower than the budgeted borrowing

program. The \$2.2 billion budget was released in March 2021 when there was great uncertainty in the midst of the COVID-19 pandemic and with consideration to the fact that the Province had borrowed \$2.1 billion in 2020-21. The 2021-22 borrowings were comprised of 30-year and 10-year debentures at coupon rates between 2.00 and 3.15 per cent.

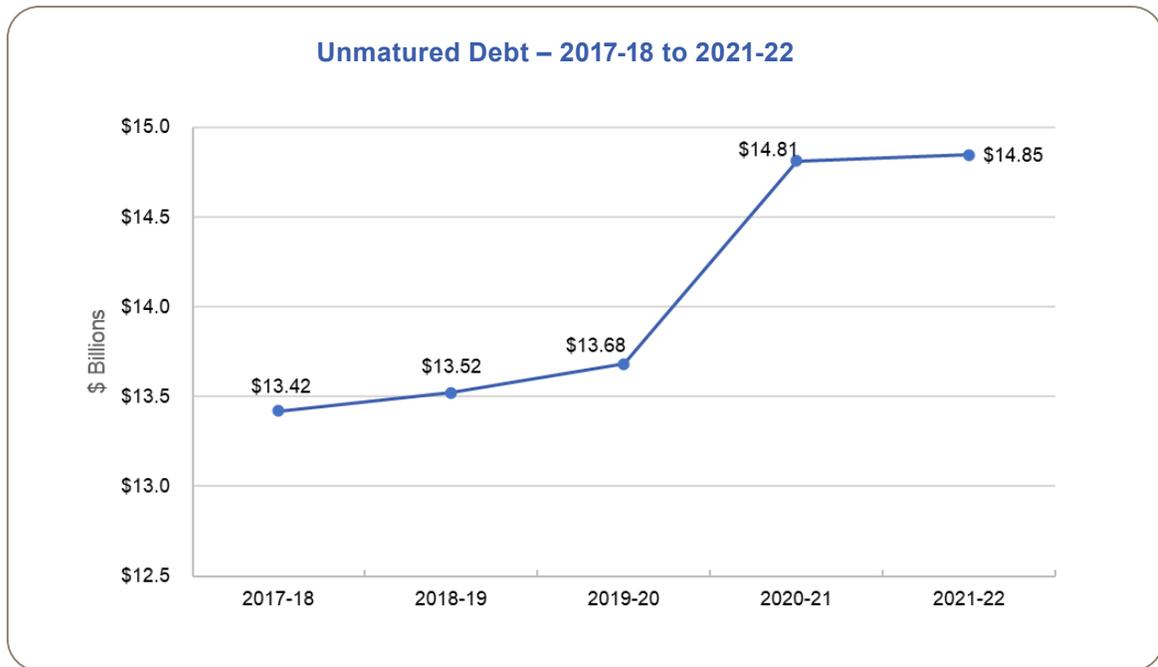
- 3.19 When the Province issues debt, it often does so in the domestic public market but maintains the ability to issue internationally. The Province sells its bonds to a syndicate, a group of investment dealers, primarily consisting of Canadian banks. The investment dealers then sell the bonds to investors, including Canadian pension plans, insurance companies, and banks.



Source: Public Accounts 2017-18 to 2021-22

 **The Province's unmatured debt increased by \$35 million to \$14.85 billion in 2021-22**

- 3.20 The Province's unmatured debt is primarily made up of long-term debentures and various loans. It includes new debt issuances and those from prior years and is net of sinking funds.
- 3.21 Unmatured debt increased \$35 million from \$14.81 billion in 2020-21 to \$14.85 billion in 2021-22 and has increased \$1.43 billion since 2017-18.



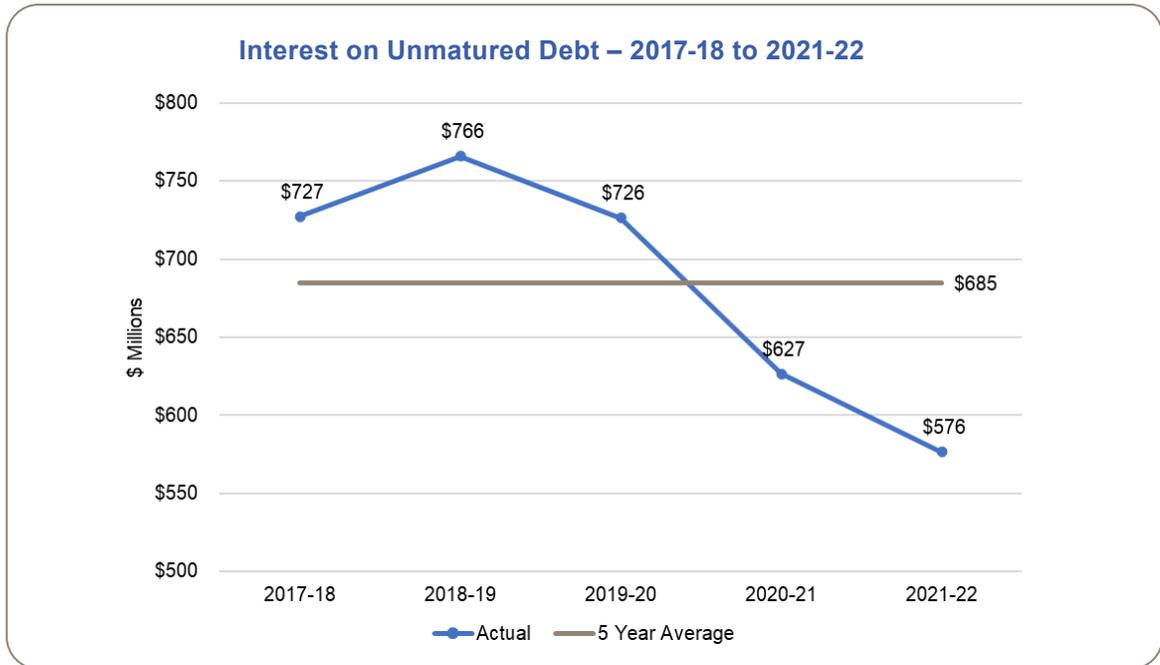
Source: Public Accounts 2021-22

Flexibility



The Province's annual interest on unmaturred debt decreased \$51 million in 2021-22

- 3.22 Flexibility is the degree to which a government can change its debt burden or raise taxes within its economy to meet its existing financial obligations. Flexibility provides insights into how a government manages its finances. Increasing debt obligations and interest costs reduce a government's future flexibility and ability to respond to changing circumstances.
- 3.23 Interest on unmaturred debt is the cost incurred by the Province to pay interest on outstanding loans, interest on the Province's unfunded pension and post-retirement benefit obligations, and other costs related to debt financing. Higher debt servicing costs mean the Province is using more of its revenue to pay for interest and is therefore not able to use that money to provide services or reduce taxation. Lower debt servicing costs allow the Province greater flexibility in meeting its service and financial commitments.
- 3.24 Despite unmaturred debt increasing in the past five years, debt servicing costs decreased in 2021-22. This is due to high interest rate debt maturing in recent years.
- 3.25 The average amount of interest paid over the past five years was \$685 million. The interest on unmaturred debt for 2021-22 was \$576 million; a decrease of \$51 million from \$627 million in 2020-21 and a five-year low.

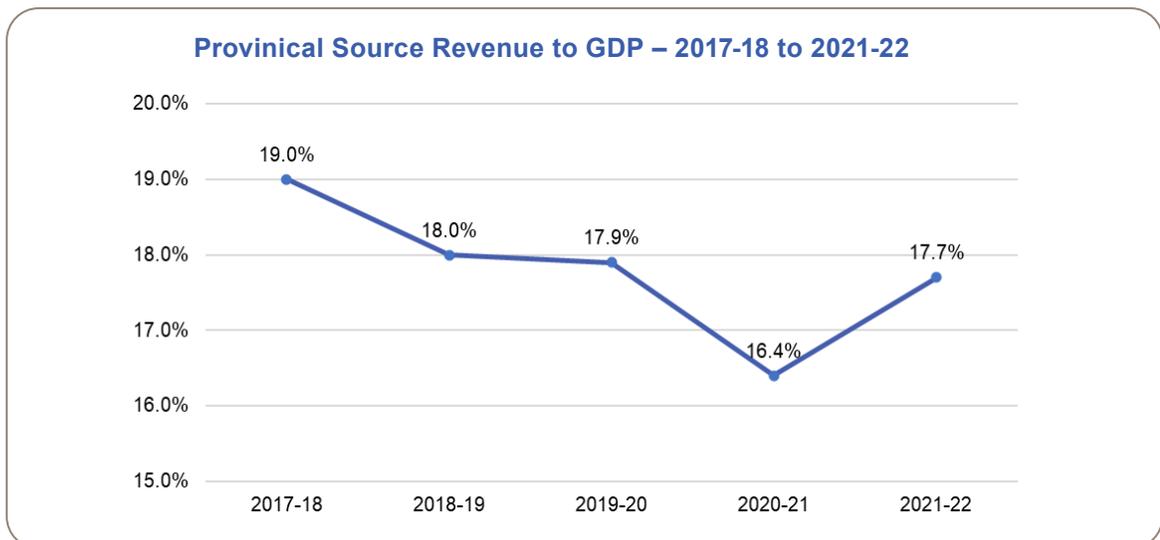


Source: Public Accounts 2018-19 to 2021-22

Provincial source revenue to GDP increased to 17.7 per cent in 2021-22

3.26 Provincial source revenue as a percentage of GDP measures the extent to which the Province derives income from the provincial economy, either through taxation, user fees, recoveries, or other provincial revenues. Increases in this ratio suggest reduced flexibility and this indicator helps a government determine the extent to which it can access own source revenues in the future.

3.27 Provincial source revenue as a percentage of GDP increased to 17.7 per cent in 2021-22, which is 1.3 percentage points higher than 2020-21 but still relatively stable from the years prior. This is due to increases in revenue from taxes and other provincial sources.



Source: 2021-22 Public Accounts

Vulnerability

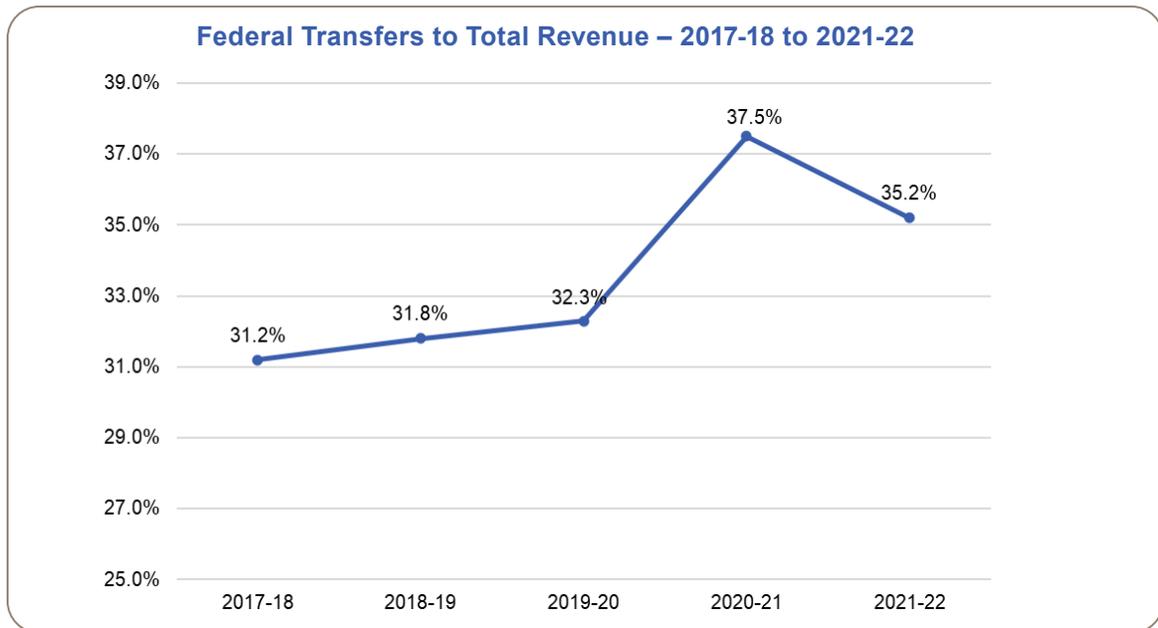
3.28 Vulnerability indicators measure a government's dependency on sources of revenue outside its control and its exposure to risks which might affect a government's ability to meet its commitments. The more a government relies on revenue from other sources, the more dependent it is on the fiscal decisions of others.

Dependency on federal government transfers increased over the past five years

3.29 As illustrated below, Nova Scotia continues to rely on federal government equalization payments and other transfers. More than \$1 in every \$3 of the Province's revenue comes from the federal government.

3.30 Federal transfers as a percentage of total revenues decreased 2.3 percentage points to 35.2 per cent from its five-year peak of 37.5 per cent in 2020-21. This decline is attributable to provincial source revenue growing more than federal transfers. Provincial source revenue and federal source revenue both peaked in 2021-22.

3.31 Federal transfers increased in fiscal 2020-21 as a result of COVID-19 related funding received from the Federal Government. The Province reported total COVID-19 related federal revenue of \$211 million in 2021-22 and \$462 million in 2020-21.



Source: 2021-22 Public Accounts

Revenue Highlights

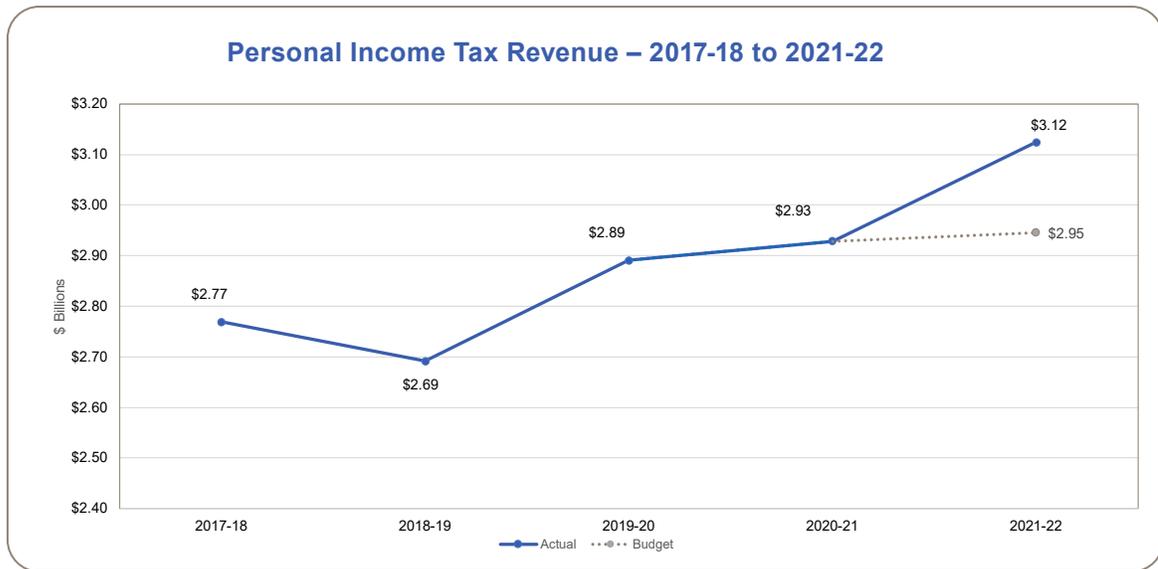
3.32 The financial trends and comparisons presented below do not consider the impact that factors such as policy decisions, actual programs and services, inflation, and other elements have had on revenues.

Provincial source revenue was \$961 million over budget

- 3.33 The Province budgeted \$8.155 billion in revenue from provincial sources in 2021-22. The actual revenue collected from provincial sources in 2021-22 was \$9.116 billion, \$961 million higher than budgeted.
- 3.34 A large portion of the nearly \$1.0 billion in revenues over-budget is attributed to adjustments from prior year estimates. Prior years' adjustments are recorded as more current information becomes available. For example, the tax revenues for the year are estimated based on forecasting future economic and tax filing data since there is a delay in when the Province receives actual results (i.e., once personal tax returns are filed and assessed). Once actual filing data is received, the Province records a PYA for the difference between the original estimate and the most recent actual data. PYAs are generally recorded for personal income tax, corporate income tax, and harmonized sales tax revenues. The PYAs are not budgeted; therefore, the \$389 million in PYAs recognized in 2021-22 resulted in revenues being over budget. PYAs from provincial sources are comprised of \$183.4 million for personal income tax, \$120.1 million for corporate income tax, \$85.3 million for harmonized sales tax and were partially offset by a negative PYA of \$0.1 million for large corporations tax.
- 3.35 Four of the largest provincial revenue sources in 2021-22 were:
- Personal income tax – \$3.1 billion
 - Harmonized sales tax – \$2.1 billion
 - Corporate income tax – \$518 million
 - Income from government business enterprises – \$406 million

Personal income tax revenue was higher than both the budget and prior year amounts

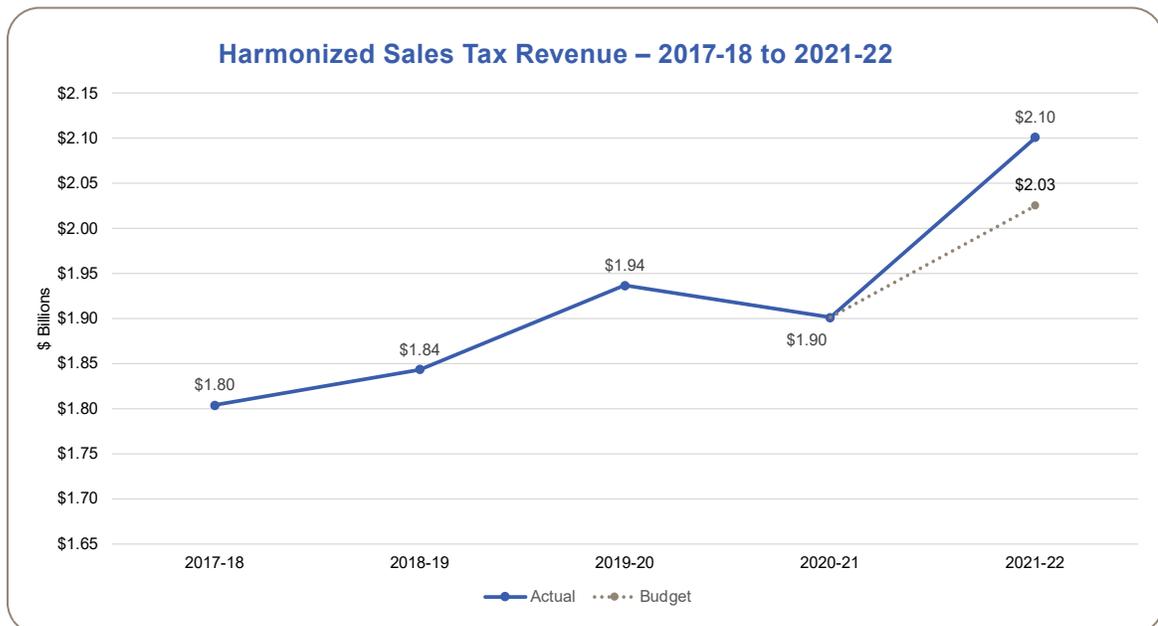
- 3.36 Personal income tax revenue of \$3.1 billion was the largest source of provincial revenue reported in 2021-22; higher than both the 2021-22 budget and 2020-21 actual amounts. It was \$179 million higher than budget primarily due to higher taxable income and projected yield rates. Federal measures like the Canada Recovery Benefit (CRB), the Canada Recovery Sickness Benefit (CRSB), and EI Caregiving Benefit raised incomes in 2021-22. These measures were also responsible for most of the \$200 million increase over prior year actuals.
- 3.37 Personal income tax revenue has risen by close to \$350 million or 13 per cent since 2017-18.



Source: Public Accounts 2018-19 to 2021-22

Harmonized sales tax revenue exceeded both the budget and the prior year amounts

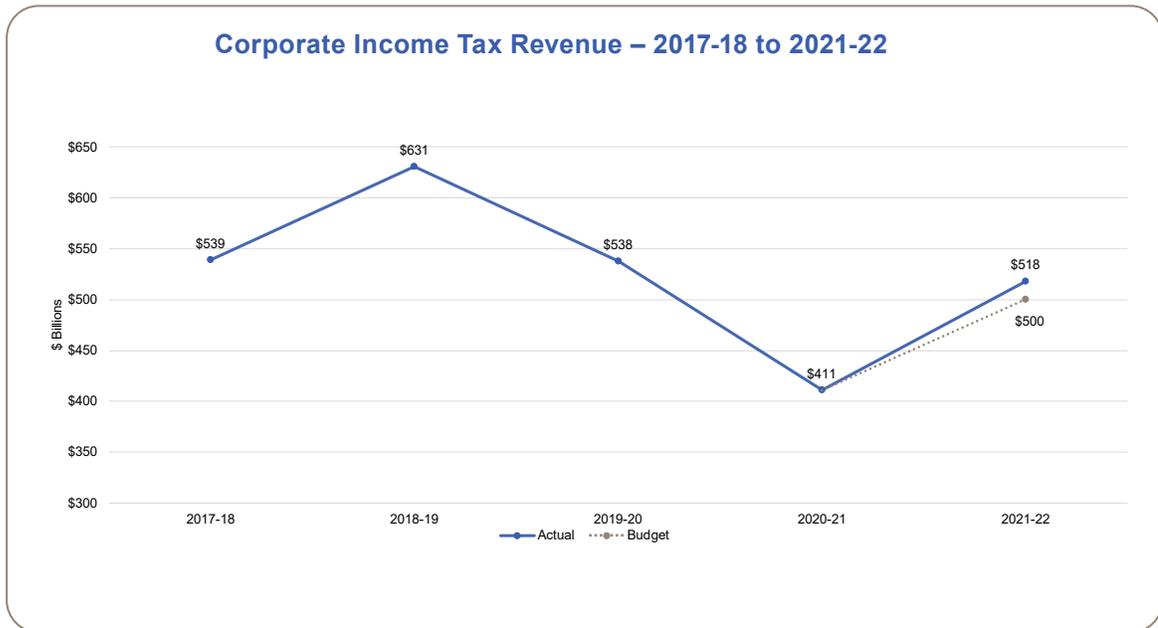
- 3.38 Harmonized sales tax revenue was \$75 million higher in 2021-22 compared to the budget, primarily due to greater residential housing investment and consumer expenditures.
- 3.39 With the exception of lower taxable consumer expenditures resulting from the public health restrictions in place during the pandemic in 2020-21, harmonized sales tax revenue increased in each year since 2017-18 and has grown by \$297 million or 16 per cent since 2017-18 to \$2.1 billion in 2021-22.



Source: Public Accounts 2018-19 to 2021-22

Corporate income tax revenue rebounded from 2020-21

- 3.40 Corporate income tax revenue was close to \$20 million higher than budget in 2021-22 due to increases in national taxable income offset by a decline in Nova Scotia's share of national taxable income and an increase in the small business share of taxable income.
- 3.41 Although actual corporate income tax revenue rebounded over 2020-21 actual results by more than \$100 million, it is still lower than 2017-18. The decrease in corporate income tax revenues occurred primarily in fiscal years 2019-20 and 2020-21 due to negative impacts of COVID-19 on national corporate taxable income and the decline of the Province's share of national taxable income.

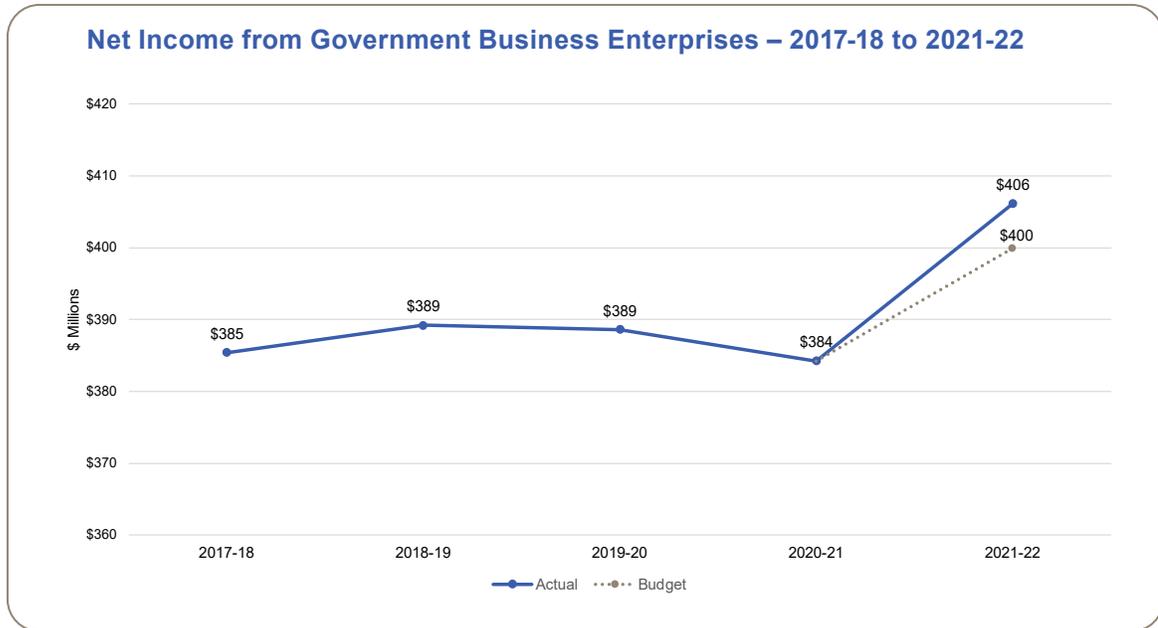


Source: Public Accounts 2018-19 to 2021-22

Net income from government business enterprises of \$406 million in 2021-22 is the peak of the five-year trend

- 3.42 Total net income from government business enterprises reached \$406 million in 2021-22 and is comprised of the following:
- Net income from Nova Scotia Liquor Corporation of \$268.7 million. This represents a decline of \$5.8 million from the prior year and is attributable to increased costs including wages and salary expenses for new cannabis stores. Although net income declined from 2020-21, it remains significantly above pre-pandemic levels.
 - Net income from Nova Scotia Gaming Corporation of \$130.0 million. This is \$27.0 million higher than the prior year due to fewer COVID-19 restrictions. Although some restrictions remained through 2021-22 including reduced gaming capacity, limited food and beverage services, there were more operational days than the prior year, resulting in increased revenue.

- Net income from Halifax-Dartmouth Bridge Commission of \$5.5 million. This is a \$4.8 million increase over the prior year and is due to increased traffic volumes, including the return of traffic levels as COVID-19 restrictions eased, as well as a toll increase of 25 per cent in January 2022.
- Net income from Highway 104 Western Alignment Corporation of \$1.9 million. This represents a decline of \$4.1 million and is primarily attributable to toll exemptions for Nova Scotia registered vehicles beginning in December 2021.



Source: Public Accounts 2018-19 to 2021-22

3.43 The five-year high net income from government business enterprises (GBE) is attributable to increased net income from the Nova Scotia Liquor Corporation which increased by more than \$30 million since 2017-18 while other GBEs had decreased revenues since 2017-18.

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