

6.

EDUCATION AND CULTURE - UNIVERSITY GOVERNANCE STUDY

BACKGROUND

6.1 The Province provides about \$187 million in operating grants to universities in Nova Scotia on an annual basis. This represented approximately 40% of revenue received from all sources by these institutions in 1995-96 (see Exhibit 6.3 for more details).

6.2 The quality of university governance is an important factor in maximizing the value from this significant Provincial expenditure. This point has been clearly stated by one person as follows:

“The provinces have the major responsibility for university support in Canada. The challenge for provincial governments is to find ways of ensuring that universities do contribute to public policy objectives, and do so efficiently, while at the same time enhancing their capacity to make choices. . . Provincial governments need to be more precise about what they want universities to do and not do, if they expect responsible compliance.

Government can certainly do its part to strengthen universities. But the main challenge faces the universities themselves. What should they be doing? My own conclusion is that the single most important step would be to strengthen governing boards. This is the body most likely to command public (including government) confidence, while at the same time being in a position to understand the true nature and mission of the university. In short, the board can justify state support while respecting academic self-government. It is the critical linchpin.” (David M. Cameron in *Institutional Management: How Should the Governance and Management of Universities in Canada Accommodate Changing Circumstances* as cited in *Public Purse, Public Purpose: Autonomy and Accountability in the Groves of Academe*, edited by James Cutt and Rodney Dobell, The Institute for Research on Public Policy and the Canadian Comprehensive Auditing Foundation, 1992, p. 179)

6.3 This Office undertook a study of board governance at Nova Scotia universities in the fall of 1996. The purpose of the study was to gain an understanding of the university governance arrangements in the Province and to solicit the views of board members on certain issues impacting the role and effectiveness of university boards. We distributed a survey to board members of Nova Scotia universities and interviewed each of the Board Chairs and Chairs of Audit Committees. Survey results were analysed, and each board has been provided with the results from their institution.

6.4 In the 1990 Report of the Auditor General (page 104), we reported the results of an audit of certain areas at seven universities in the Province. We followed up on the results of that audit in our 1992 Report (page 56). During the current study we followed up on the degree of progress made in addressing certain of our 1990 recommendations.

6.5 We wish to express our sincere thanks to each of the board members who completed our survey and to all those we interviewed. All of the board members are volunteers - for some even travel expenses are not paid. As one board member noted *“Pay is low (nil) and talent is high. A lot of busy people give a lot of time without hope of reward or enjoyment.”* Many of the people we interviewed commented on the extensive time commitment required to fulfill their responsibilities as university board members. Each of the people we approached for an interview consented to meet with us. Without exception, the board members were open and cooperative. They expressed

concern about important matters such as quality of education and university finances. Their insights were invaluable to us in completing this study.

RESULTS IN BRIEF

6.6 The following summarizes our principal findings.

- A number of respondents were unsure of their accountability relationships to the Province and to the Nova Scotia Council on Higher Education (NSCHE). Many board members expressed a lack of clarity with respect to the role of the NSCHE. We recommend that the NSCHE, in conjunction with the universities, develop an accountability framework for universities including descriptions of roles and responsibilities (including those of NSCHE, the Maritime Provinces Higher Education Commission, and the universities), objectives, outcome measures and standards, and a reporting framework.
- When asked whether they had seen the NSCHE's vision document *Shared Responsibilities in Higher Education*, 25% of those responding to our survey indicated they had not seen the document. In fact, 24% noted their board had not discussed this document. Many indicated that the interaction between the NSCHE and the university was with the university president, rather than the board. Documents of this nature should be clearly communicated by the NSCHE to all university boards so that they may be reflected in university strategic planning processes and accountability frameworks. Communication between the Council and university boards should be reviewed to ensure boards are aware of vision and policy with respect to post-secondary education in Nova Scotia.
- University board members are aware of their governance responsibilities and have identified priority areas for board involvement at their individual institutions that are consistent with accepted governance principles. They are conscious of the need to separate themselves from the day-to-day management of the university and deal with strategic issues.
- Our survey results indicate that most universities engage in strategic planning exercises. However, these plans may not be translated into clear operational plans and targets. In our opinion, the linkage of strategic plans to clear operational plans is an important element of good governance.
- The performance of university presidents is not reviewed on a regular basis at some universities and we recommend that this be done. Boards should also consider a regular self-evaluation exercise.
- The NSCHE and the Maritime Provinces Higher Education Commission (MPHEC) have a number of initiatives in progress to improve the performance of the university system. These include a study on performance indicators, a study on reporting comparable financial costing information, a discussion paper on options for quality assurance and proposed changes to the university funding formula. We believe there is a need for these projects to proceed on a timely basis.
- Some university board members are appointed by Order in Council. University board members expressed dissatisfaction with the length of time that it takes to fill a vacancy requiring an OIC appointment.

- Although most universities offer orientation and professional development sessions for board members which are viewed as useful by the board members, there are some areas where improvements could be made. We recommend more emphasis on key governance literature, issues associated with conduct of board members (such as conflict of interest and fiduciary duties), and the relationship between universities and government.
- Universities have been addressing the significant recommendations made by their external auditors over the past three years according to the management letters written by the auditors. Some progress has been made in implementing our 1990 recommendations relating to increased comparability among financial statements, but there is still room for improvement in certain areas. Again, we recommend compliance with Canadian Association of University Business Officers' guidelines to increase comparability of financial information among universities.

SCOPE OF STUDY

6.7 The objectives of this assignment were to:

- gain an understanding of university governance arrangements in the Province;
- solicit the views of university board members on certain issues impacting the role and effectiveness of university boards, including:
 - board composition and development;
 - responsibilities and accountabilities of boards and board members;
 - board structures and processes; and
 - adequacy and timeliness of information received by the board; and
- gain an understanding of the degree of progress made in addressing our 1990 recommendations with respect to university financial statement matters.

6.8 Criteria for this assignment were taken from recognized sources such as those described further in paragraph 6.11.

6.9 In addition to the surveys, we interviewed board chairs and the chair of the audit (or finance) committee of the board. Their responses to our questions provided further insight into the issues under study. We also had discussions with management of the Nova Scotia Council on Higher Education.

PRINCIPAL FINDINGS

Background - Key Thoughts on Governance

6.10 In the not-for-profit sector, *governance is the fulfilment of responsible ownership on behalf of the community. It is the exercise, by the board of directors, of authority, direction and control over the entity.* (CCAF-FCVI Inc.)

6.11 The importance of governance in both public and private sector institutions has been widely addressed in many important publications in recent years. These include:

- Canadian Institute of Chartered Accountants' (CICA) *Guidance for Directors - Governance Processes for Control*
- John Carver's governance model for public sector and not-for profit organizations as documented in *Boards That Make a Difference*
- CCAF-FCVI Inc.'s *Six Characteristics of Effective Governance*
- Toronto Stock Exchange's (TSE) *Guidelines for Improved Corporate Governance in Canada*

6.12 Many of these publications have a private sector (for-profit) focus and some people believe that public sector (not-for-profit) organizations (including universities) are different from the private sector; that the governance principles included in these works are not as relevant to the public sector. John Carver in *Boards That Make A Difference* clearly articulates the major differences between public and private sector governance:

“From a governance perspective, then, the relevant factor that sets most nonprofit and public organizations apart from profit organizations is not in the essence of managing, for the principles of management are the same in each setting. The difference is not in distribution of earnings, for this is a matter of accounting rather than substance. What is different - with profound effects - is the lack of a behavioural process [market for its products] to aggregate the many individual evaluations of product and cost. The organization is adrift from the foundation that would enable it to define success and failure, to know what is worth doing, and in the largest sense, even to recognize good performance.

So the typical public or nonprofit board is faced with a challenge business boards never have to face...” (p. 7)

Survey Instrument

6.13 The survey instrument used in our study was based on a questionnaire developed by the Office of the Auditor General of British Columbia for use in its *Crown Corporations Governance Study* which was tabled in the British Columbia Legislative Assembly in November 1996. The B.C. questionnaire was modified to reflect the context of Nova Scotia universities. The survey was distributed to each of the university presidents for their input prior to mailing and their comments were incorporated.

6.14 The survey included 43 questions organized under the following headings:

- background information;
- board composition and development;
- responsibilities and accountabilities;
- board structures and processes; and
- comments.

Response Rate

6.15 We mailed 310 surveys and received 197 responses, a return rate of 64%. Our surveys were mailed to all the board members of eleven universities in the Province excluding those board members who are administrative employees of the university. (Since this survey was focussed on governance, we excluded those with management responsibilities in the university.) Note that the Nova Scotia Agricultural College does not have a board, and was therefore excluded from our survey. After excluding non-voting members of the boards, and also those who had been with the board for less than a year, we analysed 143 responses, or 73% of those received.

6.16 Exhibit 6.1 shows the distribution of responses from the universities surveyed. About 41% of those who responded had served with their board for between four to ten years, and 32% had served three years or less. A minority (9%) had served for over ten years and 18% gave no indication of their term of service.

6.17 Many of the board members who responded to the questionnaire were experienced as board members in other sectors. The majority (89%) had served on the boards of other not-for-profit organizations, while 44% had served on the boards of private companies and 28% had served on the boards of public companies.

Board Composition and Development

6.18 *Orientation and development* - The TSE Report recognizes the importance of board orientation as a means of providing information on governance-related issues to new members. *Guideline (4)* notes the following:

“Every corporation, as an integral element of the process for appointing new directors, should provide an orientation and education program for new recruits to the board.”

6.19 Our survey results indicate that most universities in Nova Scotia consider orientation important as well. The responses indicated that 71% of the board members were provided with an initial orientation. Although we noted that issues associated with conduct as a board member (such as fiduciary duties and conflict of interest) were not dealt with by all universities, 91% of the respondents indicated they understood their duties and personal responsibilities as a board member.

6.20 Continuing education is also important in the development of board members. The majority of respondents (60%) were provided some form of information session during the past two years, and 87% of those who attended found the sessions to be useful.

6.21 Our analysis showed that those board members who had orientation and development sessions indicated a greater degree of understanding of the decision-making powers of the board, the president, and the senate or academic council than those who were not provided such sessions.

6.22 We asked board members to indicate their familiarity with governance publications such as the TSE and CICA reports. They indicated that they were generally unfamiliar with these documents (no more than 30% of respondents were familiar with any of the publications noted in paragraph 6.11). Those who attended orientation and continuing education sessions did not indicate a greater degree of familiarity.

6.23 These governance publications provide detail on the roles and responsibilities of board members. Accordingly, we believe that it would be beneficial to increase the exposure of board members to accepted governance principles during orientation and development sessions.

6.24 *Board composition* - Universities in Nova Scotia are governed by boards who are appointed through their respective enabling legislation. Appointees may be representatives of faculty, students, alumni, sponsoring or founding organizations such as churches, or they may be appointed by a board nomination process or the Executive Council. Exhibit 6.2 details the nature of appointment for those who responded to our survey. There are wide variations in the relative proportions of each type of appointment at individual universities.

6.25 As noted in Exhibit 6.2, 21% of the respondents indicated that they had been appointed by the government (Executive Council). When asked whether there should be government-appointed

members on university boards, it was evident that there are divergent points of view on this issue. Forty-one percent disagreed with the concept while 34% agreed. Many of those we interviewed did not think there was a difference in the roles of government appointees to the board and other board members as demonstrated in paragraph 6.65. One board member indicated that government appointees should be civil servants. Another survey respondent noted the following:

“I think it would be helpful to have a representative of the Government of Nova Scotia, specifically a person in authority and knowledgeable in government/policy on the Board. This would facilitate better communication between government or the council and the Board so as to improve decisions. There is a void now and much is left to the interpretation of the administration.”

6.26 Several interviewees noted that there is a problem with the process for appointments made by Executive Council. One board member made the following comment:

“The government has taken far too long in making OIC appointments and has left us with unnecessary vacancies. These positions would already have been filled by qualified persons if the Board itself made these appointments.”

6.27 Another board member noted that it may take six months to make an OIC appointment. We believe that Executive Council appointments to university boards should be made on a timely basis to ensure that boards are adequately staffed to perform the important tasks for which they are responsible.

6.28 *Members’ liability* - One of our survey respondents expressed the following serious concerns about the issue of directors’ liability.

“The impact of the societal trend to blaming others and litigation is to make the position of a director less tenable as time goes on...”

The public - if it wants good boards for public institutions, should indemnify board members except in cases of blatant disregard of public safety.”

6.29 The Toronto Stock Exchange has addressed the issue of directors’ liability. As the TSE *Guidelines for Improved Corporate Governance in Canada* notes, “The concern for corporate governance is that increasing personal liability of directors compounds the difficulty of recruiting qualified individuals to serve as directors.” A recent revision to the *Government of Nova Scotia Management Manuals* (Manual 500) indicates that:

“Where specifically stated in the appointment, the Province will defend, negotiate, or settle claims or charges made against a person appointed by the Province to any board, including board of directors of a corporation, commission or agency, and indemnify them from personal liability, provided the Province is satisfied the claim arises out of the person’s activities in relation to the appointment, and is not based on fraud or criminal activity.”

6.30 Currently, the decision to provide directors’ liability insurance rests with the individual university.

Responsibilities and Accountabilities

6.31 *Whose interests do board members represent?* - During our interviews, many alluded to the makeup of university boards as an inherent difficulty in achieving good governance. One person drew the analogy between university boards and a manufacturing company where the board would

be made up of consumers (students in a university setting), representatives from the employees' trade unions (faculty and other employees), government and others. The typical corporate board is comprised of owners and others selected by the owners to represent their interests. Obviously, governance would be more difficult in the hypothetical manufacturing company because of the multitude of stakeholders and interests. In the corporate world, profit for the owners is usually the dominant interest, but once the board membership is broadened the ultimate goal becomes less clear.

6.32 One survey respondent made the following comment with respect to the composition of the board:

"I find that the fact that individuals are appointed to the Board on behalf of particular interest groups results in individuals sometimes acting in those interests rather than the broader public interest.

A Board which is diverse in nature by selection rather than divided by accountability of its members would be more effective."

6.33 Our survey asked university board members whose interests they thought they must primarily represent. The top three responses were:

- the university as a whole;
- students; and
- the public at large.

6.34 However, when responses to this question were analysed by source of appointment (Exhibit 6.2), it became obvious that faculty and alumni answered this question differently from other board members. Eighty-eight percent of faculty listed faculty as one of the top three interests they must represent, and 64% of alumni listed alumni as one of the top three interests.

6.35 The TSE Report provides clarification regarding whose interests directors on private sector boards should represent. It notes "*The business corporations statutes require directors to act 'with a view to the best interests of the corporation.'*" We were encouraged to see that this attitude exists among those who govern Nova Scotia universities, although there may be specific instances where certain board members put the interests of the group they represent first.

6.36 *What areas do board members identify as important for overseeing the direction of the university?* - When asked this question, more than 90% of board members responded that the following areas were very important or somewhat important:

- selecting the President;
- setting strategic directions and goals;
- ensuring the university has adequate resources;
- evaluating the performance of the President;
- participating actively on committees;
- monitoring the achievement of goals and objectives;
- ensuring accountability obligations are discharged;
- lobbying for change in government policy; and
- acting as "watchdog" on behalf of the public interest.

6.37 We concluded that board members who responded to our survey were largely consistent with governance literature in terms of what they considered to be important in their role as governors.

6.38 Overall, it appears that board members view themselves as strategists. They recognize that their role is to provide direction to the university president. They consider it important to monitor

the achievement of goals and objectives and to leave the administration of the university to management, which is appropriate.

6.39 We determined through our interviews with board and audit committee chairs that most universities engage in strategic planning exercises and that these plans are revisited and updated on a regular basis. One respondent noted that “... *planning strategies...will enable the university to continue to provide and improve the best post-secondary education to its students.*”

6.40 The survey results provide some indication that strategic plans may not be translated into clear operational plans. Specifically, about 35% of the respondents disagreed with the statement or were not sure when asked to reflect upon whether performance targets had been identified for the university or whether operational plans were closely linked to the university’s strategic plan. In our opinion, the linkage of strategic plans to clear operational plans is an important element of good governance.

6.41 Finally, the importance of the relationship between the president and the board is evidenced by the fact that 99% of those who responded thought it was very important or somewhat important that the board be involved in selecting the president. Although most also thought the board should evaluate the performance of the president, only 54% of the respondents noted that the performance of the president *is* reviewed on a periodic basis, and through interviews we determined that this review usually takes place when the term of the president is up for renewal. In our view, there should be a formal evaluation of the president on a regular basis with mutually agreed-upon objectives, action plans and target dates resulting from that process. Boards should also consider undertaking periodic self-evaluations as most respondents indicated this should be done but presently was not.

6.42 *To whom are university boards accountable?* - The accountability relationship is clearly defined in a private sector corporation; the board is accountable to the shareholders. In a university setting, the relationship is not as clearly defined and in fact there are many groups to whom individual board members may feel they are accountable.

6.43 When asked about their present accountability to various stakeholders, board members ranked the possibilities as follows (in order of most to least support by board members):

- the university;
- the students;
- the public;
- the government;
- faculty;
- the Nova Scotia Council on Higher Education; and
- management and staff.

6.44 Only about 64% of the respondents believed they were clear as to their accountability responsibilities. We noted that there were some significant differences between board members’ views on accountability which appeared to relate to the source of the appointment to the board. For example, fewer faculty members indicated that boards are accountable to students, faculty, the university, and the public than other respondents. Alumni were more likely to indicate accountability to students, and less likely to indicate accountability to government than other sectors of the population. Eighty-three percent of those appointed by the Governor in Council thought they were accountable to the government whereas only 64% of the total responses recognized that accountability.

6.45 *How do university boards discharge their accountability obligations?* - CCAF-FCVI Inc. in its *Six Principles for Effective Governance* notes the following “*Governing bodies fulfill their accountability obligations to those whose interests they represent by reporting on their organization’s performance.*”

6.46 Responses to the survey indicate that many board members are unclear as to how their board’s accountability obligations are discharged. Most (a total of 64%) disagreed with or were unsure whether their board had developed guidelines for information to be provided to key stakeholders, and only 38% thought the information provided was sufficient to provide an evaluation of how well the university had performed. Those we interviewed thought their university’s annual report (if prepared) was the key accountability document provided to stakeholders. However, we have seen little evidence of comprehensive performance reporting. For example, as universities do not generally track outputs such as graduate satisfaction, post-graduate study and employment results, we question the ability of any reports currently produced to provide substantive support for an institution’s effectiveness. We recommend that guidelines be developed by individual boards to facilitate the provision of adequate information to stakeholders including the NSCHE. This is discussed further in paragraph 6.61.

6.47 In 1995 the Maritime Provinces Higher Education Commission (MPHEC) funded a study to determine the information requirements for Maritime universities in light of growing demands for enhanced accountability of public institutions. The report resulting from that study recommends a significant number of performance indicators, some of which will measure outcomes. A consultant has been hired by the MPHEC to further discuss information requirements, including performance indicators, with governments and universities in the Maritimes. MPHEC recently released a discussion paper on “*Options for Quality Assurance in Higher Education in the Maritimes*”.

6.48 In addition, a survey of 1995 graduates of 17 universities in the Maritimes one year after graduation was conducted on behalf of the MPHEC in 1996. Its objectives included providing additional information on outcomes including labour markets, student debt loads and graduate satisfaction. The survey results were released in late 1996. Although this study included graduates of all Nova Scotia universities, the results were not reported by university.

Board Structures and Processes

6.49 *Board committees* - Establishing the proper committees is critical to effective board operations. Our interviews revealed that a significant amount of board work is delegated to committees and our survey results indicate that the vast majority feel the authority of the board and that of committees is clearly defined.

6.50 Board members in our survey said it was a board member’s responsibility to participate actively on committees and 75% of the respondents indicate that they also sit on one or more board committees. We observed that those who did sit on committees were more inclined to think that the board had established proper committees and that those committees were doing a good job of carrying out their responsibilities.

6.51 *Board information* - Our survey results indicate that there is a high level of satisfaction with the information being provided to boards for use in decision-making. Information is considered to be sufficient and relevant by 81% of respondents, and received in a timely manner. They generally feel they can request, and do receive, information they require from management.

6.52 *Financial information* - Board members are generally satisfied with the detail they are provided with on the costs of programs and faculties, and administrative and academic costs, but are

less satisfied with the information provided on the costs of courses. One board member noted he would like a better breakdown of course and program costs to benchmark against other similar institutions.

6.53 We are aware from our interviews and survey results that universities are not providing information on the costs of individual courses, and therefore these inputs are not being monitored by boards. Only 20% of board members responded that monitoring other inputs such as enrolment levels and class sizes is very important to overseeing the direction of the university. Information on these inputs would seem relevant to decision-making at these institutions, especially in view of the fact that outputs are not being tracked as noted in paragraph 6.46 above.

6.54 Despite the fact that there is general satisfaction with the financial information produced, some board members indicated a need for major changes. For example, one board member responded as follows:

“The rationalization efforts of government have lacked any clear definition, have not been based on empirical analysis. With no clear objective and no meaningful cost analysis of how various universities use the funding provided the rationalization process can only result in uninformed change...”

In the rationalization process and consideration of funding formula changes government must ensure that the process rewards efficiency and effectiveness. I have no confidence that this will happen. It can't happen until there is accurate comparative costing information available.”

6.55 Universities maintain that the provision of cost information for individual courses is a complex issue. Although direct costs may not be difficult to produce, allocation of overhead and capital costs on a comparable basis is a major problem for the universities. MPHEC commissioned a study, reported upon in January 1996, which recommends that comparable financial information be reported by the universities. For example, direct costs of courses along with descriptors such as class sizes and teaching load would be reported. Phase II of this project will be initiated in the spring of 1997 and will include the further development of standards, and the implementation of the report's recommendations at selected Maritime universities in order to test the validity of recommendations. We support this initiative and hope that it is completed on a timely basis.

Role of Government in Universities

6.56 The Province of Nova Scotia, through the NSCHE, contributed \$203 million to universities in 1995-96, \$187 million of which was in the form of operating grants. As can be seen from Exhibit 6.3, the Province provided the most significant portion of revenue when compared with all other sources of revenue for universities in 1995-96.

6.57 Several questions in our survey were designed to provide insight into board members' perceptions of their relationship with the government, and with the Nova Scotia Council on Higher Education in particular.

6.58 Accountability for the use of public funds is not well understood by some board members. Only 64% of those who responded to our survey thought their board was accountable to the government, and even less (34% on one question and 50% on another) thought they were accountable to the NSCHE. Perhaps this is because, as one board member noted, the link between the Council and the boards has yet to be formally established.

6.59 Although the function and duties of the Council are described in its legislation, many of the board and audit chairs we interviewed were unsure of the role of the Council. There are no terms of reference for the Council. In virtually every interview we conducted, board members commented on a lack of clarity with respect to the role of the NSCHE, and the accountability relationship between the universities and NSCHE. Most indicated that the existing relationship is informal and that it is between the university presidents and NSCHE, rather than between the boards and the NSCHE. The boards appear, therefore, to feel somewhat removed from the accountability loop. Many also commented that the lack of clarity may be due to the constantly evolving role of the NSCHE. The CICA's *Guidance for Directors - Governance Processes for Control* indicates that overseeing external communications is one of the major roles of governing bodies. Accordingly, the lack of interaction between the boards and a major external stakeholder is a problem which should be rectified.

6.60 Those we interviewed indicated their institutions provide NSCHE with information it requests, but generally, with respect to accountability for public funds, the situation appears to be as described by one individual:

"It is not clear to me to whom the Board reports on any regular basis, although legislatively we are a creature of the province and therefore the public. What does this mean on a month-to-month basis?"

6.61 We recommend that the NSCHE develop an accountability framework in conjunction with the universities which includes descriptions of roles and responsibilities, objectives, outcome measures and standards, and a reporting framework.

6.62 In December 1995 the NSCHE released a Report to the Minister of Education and Culture titled *Shared Responsibilities in Higher Education*. That document sets out the vision and goals for the university system in the Province and recommends rationalization of academic programming among certain institutions. The Report calls on government to confirm policy in certain areas and *"underscores the importance of using public funding to achieve public policy goals"* (p. vi). One survey respondent commented on the government's responsibility to articulate policy for the university sector in the Province as follows:

"There is a lack of clear government strategic plans and actions concerning post-secondary education. The N.S. Council on Higher Education should be given the Executive authority to clearly implement government policy once it has been determined."

6.63 One university president indicated to us that *Shared Responsibilities in Higher Education* has been *"superseded by other documents and activities that now more closely reflect the government's policy direction."* Therefore, it appears that there is some uncertainty regarding the status of *Shared Responsibilities in Higher Education* as the government's vision for the university system. There appears to be a need to confirm the vision.

6.64 When asked whether they had seen *Shared Responsibilities in Higher Education*, 25% of those responding to our survey indicated they had not seen the document. In fact, 24% note their board has not discussed this document. Documents of this nature should be clearly communicated by the NSCHE to all university boards so that they may be reflected in university strategic planning processes, accountability frameworks and rationalization efforts. Many of the board chairs referred to the important role played by the board chairs themselves in the process of establishing the Business Plan for the Metro Halifax Universities which indicates a cost-saving of \$5 to \$7 million annually. To participate effectively in rationalization efforts, board members need to be familiar with government's vision for the university system.

6.65 Over 80% of respondents said that university board members have a role to play in the university rationalization process and many noted that this role included maintaining the characteristics of their respective institutions. We compared the responses to this question according to the source of the appointment to the board (as described in paragraph 6.24) and we determined that the source of appointment had no significant impact on the response to the question. For example, government-appointed board members' responses are not significantly different from those of other groups.

6.66 The NSCHE has been having discussions with the universities regarding significant changes to the funding formula which has been relatively unchanged since 1990-91 (aside from funding decreases). Large changes in enrollments since that time have not been recognized by the funding formula, giving rise to perceived inequities in funding by various universities. Many board members were anxious to learn of changes to the funding formula - one board member noted "*Uncertainty as to funding causes uncertainty in planning and implementation.*"

Review of Financial Statements and Management Letters

6.67 We requested and received the March 31, 1996 audited financial statements for the 11 institutions involved in our survey. All universities received an unqualified audit opinion.

6.68 The operating fund balance for five of the eleven universities has been in a deficit position for the past two fiscal periods.

6.69 We also wished to determine the extent to which each university had implemented any recommendations made by its external auditors in the last three fiscal years. We requested copies of the management letters provided by the external auditors for all universities for the fiscal years ended March 31, 1994-1996. One institution did not provide us with this information for the year ended March 31, 1996.

6.70 In all cases where information was provided, we concluded that there were no recommendations or that university management has addressed or is continuing to address the significant recommendations made by their external auditors.

Follow-up on 1990 Audit

6.71 In 1990 we reviewed aspects of the operations of the seven largest universities in the Province and made specific recommendations relating to the financial statements of each university in an effort to increase comparability. During the current assignment, we followed up on the status of the more significant of these recommendations. Our conclusions are based on a review of the financial statements for each of these universities for the year ended March 31, 1996.

6.72 The Canadian Association of University Business Officers (CAUBO) has issued a set of guidelines relating to the financial statement accounting and disclosure practices of Canadian universities. While the March 31, 1996 financial statements of all seven of the largest universities indicate that they have been prepared in accordance with generally accepted accounting principles, only three of the seven statements make specific reference to CAUBO guidelines.

6.73 During our 1990 review we noted that most of the universities had attempted to comply with CAUBO guidelines. We made certain recommendations based on these guidelines to increase comparability among financial statements. Our review of the March 31, 1996 financial statements indicated the following with respect to the status of our 1990 recommendations.

- We noted in 1990 that certain universities recorded encumbrances (outstanding purchase orders and commitments for goods and services yet to be received) and unspent budget allocations as expenditures and liabilities. This resulted in expenditures being recorded in a fiscal period to which they did not apply. At March 31, 1996, we noted improvement in this area. However, two universities continue to allow unspent budget allocations to be expensed and carried forward.
- CAUBO supports the use of appropriations and reserves to provide for specific future plans or commitments and recommends adequate note disclosure of the purposes of these amounts. As at March 31, 1996 two universities continue to use appropriations for unspecified purposes.
- In 1990 we noted that fixed asset policies and disclosure practices varied among universities. Not all of the universities were capitalizing and disclosing major renovations as part of their plant asset fund. At least one university has improved its practices in this area, but we could not determine the implementation status for other universities from the information provided to us.
- CAUBO recommends that ancillary operations be separated from operating fund results. Three of the seven universities we reviewed in 1990 were not following this recommendation. This recommendation has been implemented in all but one university which has indicated disagreement with the basic recommendation.
- We had reported in 1990 that, although not significantly affecting the reporting results, most universities were not reporting tuition and/or residence fee revenues in the fiscal year in which they were earned. All universities have now adopted the recommended practice.

6.74 Our general conclusion with respect to implementation of our 1990 recommendations relating to increased comparability among financial statements is that some progress has been made, but that there is still room for improvement in certain areas. Again, we recommend compliance with CAUBO guidelines to increase comparability of financial information among universities.

CONCLUDING REMARKS

6.75 In the 1990 Report of the Auditor General we commented that the accountability of universities to the Province, particularly with respect to outcomes and results, had not been adequately defined. Now, six years later, we are repeating the same point. As noted in paragraph 6.2 above “*Provincial governments need to be more precise about what they want universities to do and not do, if they expect responsible compliance*” (i.e., government needs to clearly articulate its policy for the university sector).

6.76 The Nova Scotia Council on Higher Education’s *Shared Responsibilities in Higher Education* document was released in December 1995. That document sets forth NSCHE’s vision for the university system in this Province, and is a first step towards completion of the required accountability framework. However, there is still a need for government to confirm this vision and supplement it with more detailed objectives, standards and targets; to communicate it appropriately to governing bodies and other university stakeholders; and to incorporate it into a comprehensive accountability framework for the university sector.

6.77 We support the current NSCHE and MPHEC initiatives to improve reporting of university outcomes and provide more comparable financial information. Outcome measures and financial information are two of the necessary components of an accountability framework. The successful

completion of these initiatives should contribute to provision of better information for use in decision-making by those responsible for university governance, as well as government and other university stakeholders.

6.78 The establishment of an appropriate accountability framework, in conjunction with the enhancements to university governance suggested above, should help to ensure that maximum value is obtained from the Provincial expenditure on universities.

Exhibit 6.1

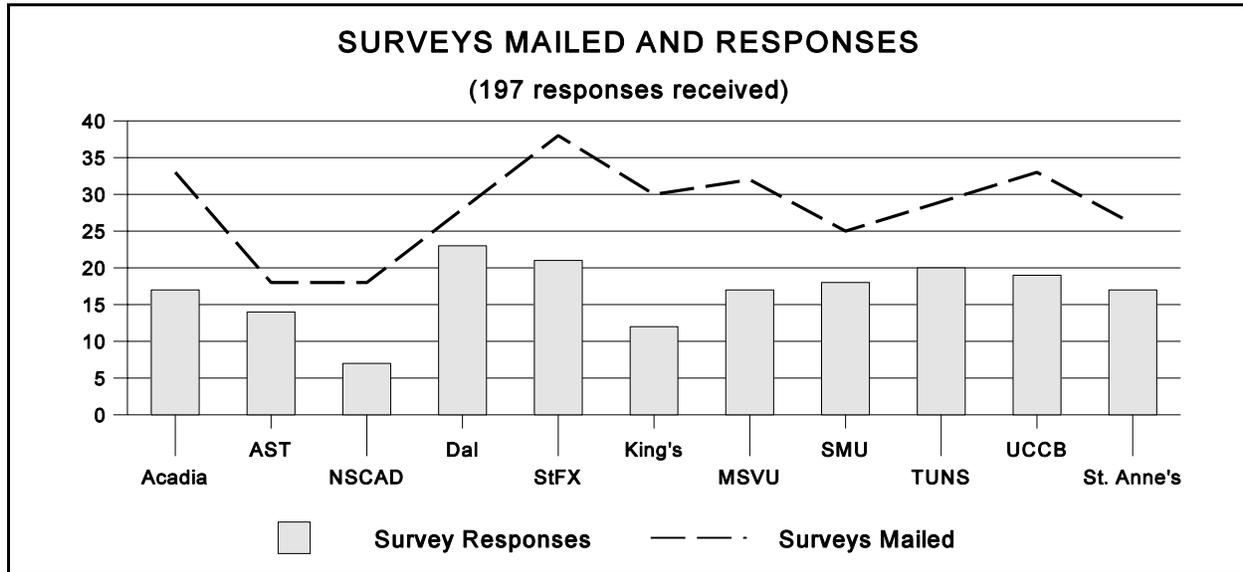


Exhibit 6.2

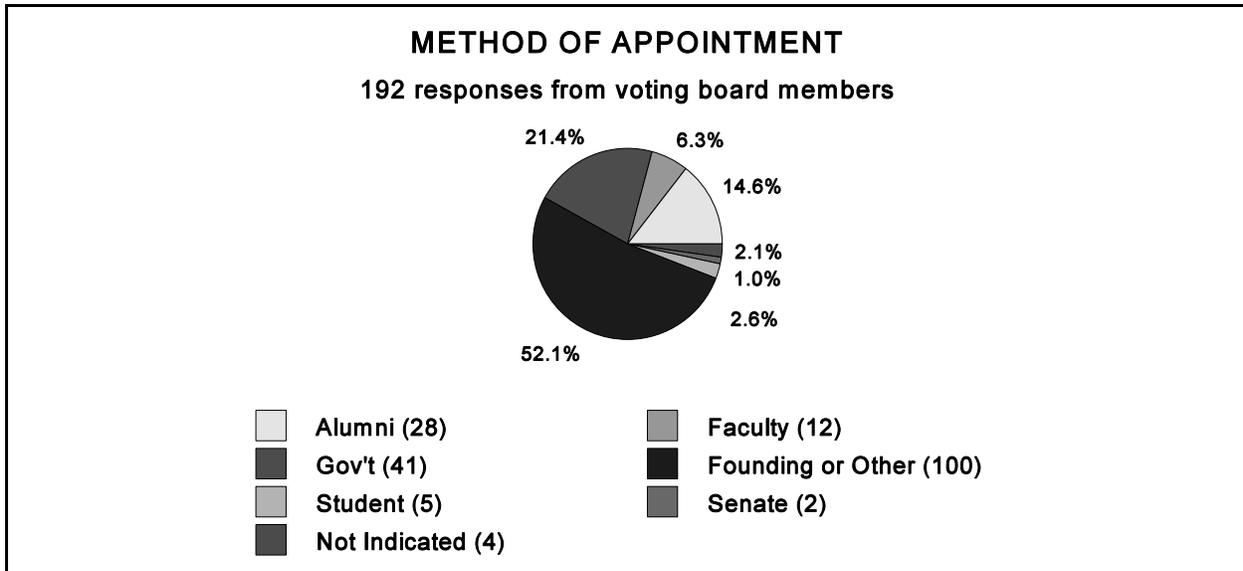
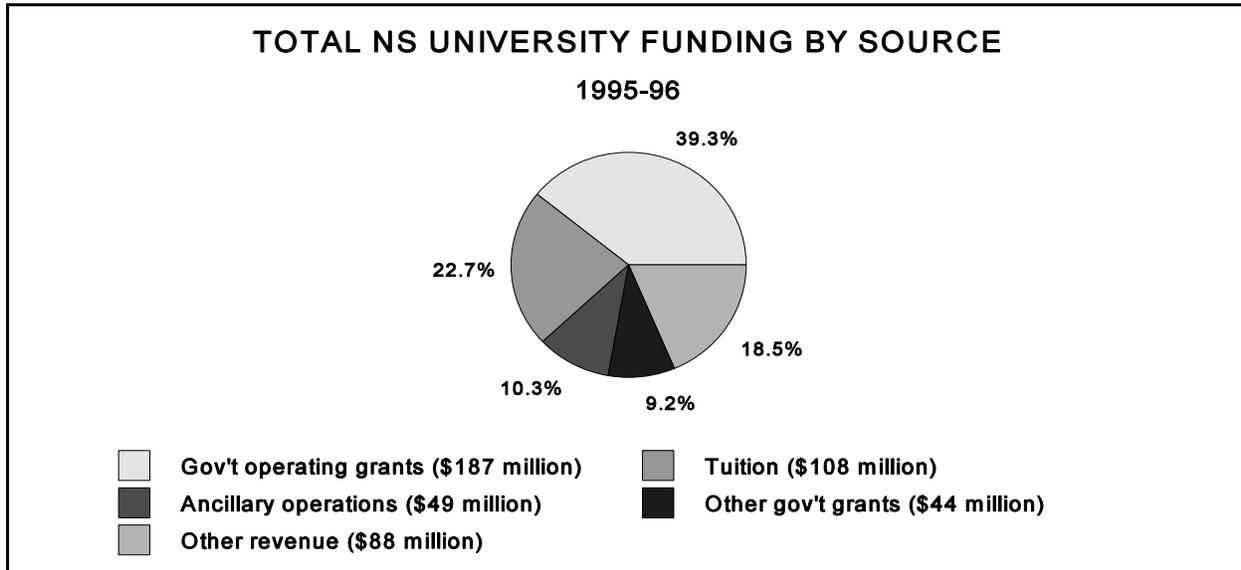


Exhibit 6.3

NOVA SCOTIA COUNCIL ON HIGHER EDUCATION'S RESPONSE

The chapter provides some very useful insights into the state of university governance in Nova Scotia based on a mailed out survey of all university Board members in the Province, supplemented by interviews of each Board Chair and Audit Committee Chair to solicit their views on certain aspects of university governance including the relationship of university Boards and Government.

I have noted the comments which relate directly to the Nova Scotia Council on Higher Education and will be discussing with staff and Council members how the issues raised can be addressed.

I congratulate the Office of the Auditor General on this initiative which follows the 1990 recommendations with respect to university Financial Statement matters.