

GOVERNMENT-WIDE ISSUES

2.

ACCOUNTABILITY INFORMATION AND REPORTING

BACKGROUND

2.1 The need for quality accountability information and reporting, including the definition of basic accountability requirements in legislation, has been a topic of consideration in a number of jurisdictions. In its simplest terms, accountability means the obligation to answer for an assigned responsibility. An accountability relationship involves at least two parties, one who allocates or assigns responsibility, and one who accepts it, with an understanding to report upon results or outcomes.

2.2 Exhibit 2.1 on page 22 provides a relatively simple two-dimensional overview of the key elements of an accountability relationship, including the role the audit function serves within it. This overview or model can be used when considering accountability at various levels within Provincial operations. For example:

- government's accountability to the House of Assembly;
- departments' and crown agencies' accountability to government;
- deputy head's or board's accountability to a Minister; and
- management's accountability to a deputy head.

2.3 Exhibit 2.2 on page 22 provides an overview of the accountability organization with respect to the Provincial public sector. It is not intended to present all parties or relationships involved, but rather to emphasize the various levels that exist and that accountability to the public is relevant at all levels.

2.4 The purpose of this chapter is to provide updated summary comments on the quality of accountability information and reporting to the Members of the Legislative Assembly (MLAs), including the Province's financial statements. Adequate information and reporting on government's plans and performance (i.e., results or outcomes) are required, so that MLAs can hold government to account.

RESULTS IN BRIEF

2.5 The following are our principal observations this year.

- Government's plans and commitments for the continued evolution of the Planning and Accountability Framework should be formalized and communicated to the House. The provision of public performance information and reporting to the House of Assembly on a timely basis is to a large part discretionary (i.e., not required by statute).
- Auditor General's Reports on the 1999-2000 revenue estimates, required under Section 9B of the Auditor General Act, were tabled in the House on June 1, 1999

and October 14, 1999. In addition, summary comments and suggestions, as a result of our review procedures, were communicated to the Department of Finance.

- Improvements made to the Province's financial statements for the year ended March 31, 1999 have resulted in the Province's financial position and annual results being accounted for and reported more completely and understandably. Certain issues or concerns remain to be resolved for the year ended March 31, 2000.
- The Procurement Branch of the Department of Finance reports on policy exceptions and the results of its monitoring of compliance with the government's procurement policies to the Priorities and Planning Committee, but there is no requirement for the Priorities and Planning Committee to report to the House of Assembly. Accountability would be enhanced if a report on procurement policy exceptions was provided to the House of Assembly, and if such reporting was available on a timely basis.

SCOPE OF REVIEW

2.6 This assignment represents a continuous ongoing identification, review and consideration of various matters or issues relating to the status of action taken or planned by government to improve the quality of accountability information and reporting to the House of Assembly.

2.7 In addition to considering the status of accountability-related initiatives undertaken by government, we have reviewed and provided commentary on selected matters, including the Province's financial statements published in the *Public Accounts* for the fiscal year ended March 31, 1999.

PRINCIPAL FINDINGS

2.8 Our principal findings and summary comments on general or specific matters relating to the quality of accountability information and reporting are presented under the following headings:

- Planning and Accountability Framework
- Revenue Estimates in Budget Address
- Province's Financial Statements
- Other Matters

Planning and Accountability Framework

2.9 For the House of Assembly to hold government to account, and for government to hold departments and agencies accountable, there must be an adequate standard framework in place requiring the provision of sufficient, appropriate, understandable and timely reports. Such a standard has been defined and was being implemented in Nova Scotia. The *Planning and Accountability Framework* is a government-wide initiative being coordinated through the Priorities and Planning Secretariat. The information and reporting documents prepared as a result of the framework provide an increased focus on defined outcomes at both the overall government and departmental levels. The effective implementation and continued evolution of such information

and reporting mechanisms represent a significant challenge, requiring a sustained commitment by government.

2.10 The *Planning and Accountability Framework* is intended to support the provision of improved information and reporting on the plans and performance of government, including at the department or agency level. In this regard, we note that there is currently no statutory provision requiring such information on and reporting by government overall or by departments to be made available to MLAs on a predetermined and timely basis, or at all. For example, the information in the primary summary publications, *Government By Design* (i.e., the plans) and *Nova Scotia Counts* (i.e., the results, first released in fall 1998), is not required by statute, and was therefore provided to the members of the House of Assembly at the discretion of the government.

2.11 We understand that departments are expected to provide full versions of their business plans (including outcome measure tables) on their Internet web pages. Further, in addition to the *Government By Design* and *Nova Scotia Counts* publications, there are various other reports and publications currently available to the MLAs which can either directly or indirectly be utilized for accountability purposes. As noted in previous Reports, some of these are not required by legislation, and as such are also only available at the government's discretion. We do acknowledge that the business plans of crown corporations are required to be tabled in the House under the provisions of the Provincial Finance Act.

2.12 While as in previous years' Reports, we acknowledge government's initiatives under the *Planning and Accountability Framework*, we suggest that the government's plans and priorities for further implementation of this framework be formally documented and reported to the House.

2.13 In this regard, the October 7, 1999 *Speech from the Throne* and the October 14, 1999 *Budget Address* provided the following comments which provide evidence of the government's current overall commitments to accountability.

"Government must meet the highest standard in delivery of certain vital, well-defined public services." (page 2 of *Speech from the Throne*)

"Government must live within its means and ensure that Nova Scotians get the maximum benefit from every tax dollar spent." (page 2 of *Speech from the Throne*)

"Government must lead the way by setting an example of openness and accountability." (page 11 of *Speech from the Throne*)

"When our next budget is submitted to this House, this government will issue four-year targets for the public sector, including our partners in the health care and education systems." (page 13 of the *Budget Address*)

"We will give them the responsibility to provide Nova Scotians with essential services at a cost within taxpayers' ability to pay, and to submit a four-year business plan showing how they will meet that challenge." (page 13 of the *Budget Address*)

"..... the spring budget will include new legislation on fiscal accountability....." (page 13 of the *Budget Address*)

2.14 The impact or implications of the above, in terms of how or what the effect will be on the existing elements of the *Planning and Accountability Framework*, including the publication of accountability reports like *Government By Design* and *Nova Scotia Counts*, are yet to be determined.

Revenue Estimates in Budget Address

2.15 Section 9B of the Auditor General Act provides the Auditor General with the mandate below with regard to the government's annual revenue estimates. Until June 1998 this mandate had been included in Section 65A of the Provincial Finance Act. We first exercised this mandate, which is unique within the Canadian legislative audit community, in 1994. The Auditor General's unqualified reports on the 1999-2000 revenue estimates were tabled along with the supporting information for the June 1, 1999 *Budget Address* and the October 14, 1999 *Budget Address*. Our coverage and report on the 1999-2000 revenue estimates did not extend to the government's revenue projections for subsequent fiscal periods, nor did it include consideration of the expenditure estimates.

"The Auditor General shall annually review the estimate of revenue used in the preparation of the annual Budget Address of the Minister of Finance to the House of Assembly and provide the House of Assembly with an opinion on the reasonableness of the revenue estimates."

2.16 At the conclusion of each of our reviews of the 1999-2000 revenue estimates, in addition to providing a copy of the Auditor General's report on revenue estimates for Budget printing purposes, we also forwarded a letter to the Minister of Finance. For example, our letter dated October 12, 1999 provided the following summary comments on matters regarding the 1999-2000 revenue estimates included in the October 14, 1999 *Budget Address*.

I would like to draw your attention to the following considerations with respect to the 1999-2000 revenue estimates:

- *There is a formal HST/GST dispute between the Nova Scotia Gaming Corporation and the casino operator. A resolution of this dispute in favour of the casino operator could have a negative impact of more than \$25 million on the 1999-2000 revenues.*
- *The tobacco tax revenue for 1999-2000 has been estimated taking into account a planned tax increase effective during fall 1999, which is not specifically disclosed in the assumptions and outlook information to be released with your budget address. Based on the information provided to us, the planned increase is expected to contribute approximately \$3.4 million additional tobacco tax revenue in 1999-2000. In our view, it is preferable for such revenue measures to be specifically highlighted as part of the supporting information for the revenue estimates. However, we understand the circumstances and rationale for limiting, at this time, the nature and extent of the disclosure of this planned tobacco tax increase.*

In addition to the above specific matters, certain of the more significant line items of the revenue estimates are prepared using, to some extent, information from the Federal government. As you know, formal updates to Federal government information are received at various times during the year. It is our understanding that your staff prepared the 1999-2000 revenue estimates using the most current information available to them from the Federal government or other sources. Formal updates to certain of the Federal government information may be available later this month or early next. In this regard, at this time it is not possible to reliably predict what affect this new information will have on the 1999-2000 revenue.

Province's Financial Statements

2.17 The Members of the Legislative Assembly (and the public) require financial information on and reporting of the Province's financial position and results - both plans and performance - on a complete, understandable and timely basis. This view is consistent with the recommendations made by the Public Accounts Committee (PAC) in its sub-committee report which was tabled in the House of Assembly in December 1996. Among other things, that report provided recommendations dealing with improvements to the Province's financial statements, including consolidation and timely release.

2.18 As a result of amendments to the Provincial Finance Act and the Auditor General Act passed in June 1998, the Auditor General audits and reports to the House of Assembly on the Province's annual financial statements beginning with the year ended March 31, 1999.

2.19 Since 1993, the Report of the Auditor General has included commentary on the Province's annual financial statements, one of government's primary financial accountability documents. We have previously identified concerns relating to the completeness and adequacy of the Province's financial statements. Improvements made to the March 31, 1999 statements have resulted in the Province's financial position and results being accounted for and reported more completely and understandably. Exhibit 2.3 on page 23 provides summary information on the status of action taken or planned for the more significant issues identified in last year's Report.

2.20 During May and June 1999, the Office conducted detailed audit procedures directed at reporting on the Province's traditional non-consolidated financial statements by the end of July. The June 17, 1999 election call delayed the finalization of the 1999 financial statements.

2.21 On September 28, 1999, the government released a *Year End Forecast Update*, which included then current forecast information for the 1998-99 fiscal period. Prior to the release of this report, the government had decided to make significant changes to the accounting policies and practices used to determine and report the Province's financial position and results of operations for a fiscal period.

2.22 In summary, the initial paragraph of the *Update* indicated that the "*Government of Nova Scotia is making significant changes in the way it presents its budgets and financial statements. The commitment is to present the information in a complete and straightforward manner...prepared in accordance with Generally Accepted Accounting Principles, with one consolidated final "bottom line."* For provincial governments in Canada, generally accepted accounting principles (GAAP) include the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), supplemented where appropriate by CICA's private sector accounting standards or other pronouncements.

2.23 Government's decision to move to GAAP as a basis of accounting is significant, and consistent with the intentions outlined in *Financial Accountability: Blueprint for Success* which was released along with the *Budget Address* on June 4, 1998. It will remove a number of long standing concerns relating to the completeness of the Province's financial reporting. GAAP provides an authoritative foundation or source from which government can both choose and defend its accounting policy and practice decisions. Further, the use of GAAP, along with a short-form auditor's report from the Auditor General on the Province's financial statements, should allow Members of the Legislative Assembly and other interested readers to focus more on *what* the reported financial position and results are, rather than on *how* they are reported.

2.24 The implementation of many of the changes for the March 31, 1999 financial statements, a year earlier than intended in *Blueprint*, afforded government accounting staff at Finance and our

audit staff an interesting and at times complex challenge during fall 1999. The commitment and effort of the staff involved are acknowledged. The results of their contribution and sacrifice (i.e., in terms of additional hours and effort) should represent a lasting legacy in terms of improved financial reporting by government. As indicated in the notes to the March 31, 1999 statements, further changes or adjustments will be implemented as at March 31, 2000 so the Province's financial statements are more fully prepared and presented in accordance with GAAP. The following is a summary of the more significant accounting policy related matters that government has yet to fully resolve. To the extent appropriate, we will be providing support or advice to Finance staff in their efforts to resolve these for purposes of the March 31, 2000 financial statements.

- Pension costs and obligations
- Long-term disability plan deficiency
- Other post-employment benefit costs and obligations
- Tangible capital assets
- Environmental site clean-up costs & obligations
- Statement presentation and disclosure considerations

Other Matters

2.25 The comments in this section relate to a variety of matters of an accountability or control perspective that may be of interest to the Legislative Assembly.

2.26 *Emerging financial accounting and reporting issues* - Standards and practices for accounting and financial reporting are not static. They have and will continue to change, and this will impact upon what constitutes appropriate financial accounting and reporting for provincial governments.

2.27 There are usually various topics or issues being reviewed and studied by accounting standard setting bodies. At this time, there are issues being considered (or reconsidered) by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants which may have an impact on financial accounting and reporting by the Province including government partnership arrangements; employee future benefits; consolidation; foreign currency translation; and leases.

2.28 Finance recognizes the need to consider emerging issues, and it has a strategy in place to deal with such topics. Further, staff from Finance and this Office monitor, and in certain instances make individual contributions to, these standard setting activities.

2.29 *Nova Scotia Gaming Corporation* - Under the heading *Contingencies*, in Note 9(c) to its March 31, 1999 financial statements the Nova Scotia Gaming Corporation (NSGC) provided background information on a significant dispute between NSGC and the casino operator. The dispute, which is the subject of arbitration under the casino operating contract, relates to the fact that since "April, 1, 1998, the Operator has taken the position that neither HST nor GST is payable out of casino revenues, and therefore, must be paid by the Corporation out of its net income." As at March 31, 1999 the amount in dispute totalled \$20,896,113. Further as discussed in paragraph 2.16 of this chapter, if this matter is resolved in favour of the casino operator, the negative impact

on NSGC's (and therefore the Province's) results for fiscal year ending March 31, 2000 would be more than \$25 million.

2.30 During the course of the audit of NSGC's March 31, 1999 financial statements, it was determined that \$10 million had been transferred from the casino account and invested with a related party of the Operator. As a result of additional supporting information we obtained from the Operator, NSGC management was able to complete its investigation of the discrepancy. Note 3 to NSGC's financial statements provides the following information on this matter and its resolution.

“On March 19, 1999 Metropolitan Entertainment Group invested \$10,000,000 of the Cash and Short Term Investments in Casino Accounts in a short-term investment with Starwood Canada Corp., the majority partner in Metropolitan Entertainment Group. The investment is evidenced by a promissory note in the principal amount of \$10,000,000 and bears interest at a rate of 5.15% per annum with principal and interest payable on September 2, 1999. The amount invested represented a portion of the amounts in dispute between the Corporation and Metropolitan Entertainment Group (see Note 9(c)); however, the investment was not specifically provided for under the Operating Contract. By agreement between the Corporation and Metropolitan Entertainment Group the note was fully repaid to the Casino Accounts on June 22, 1999.”

2.31 As this matter dealt with the receipt and disbursement of public funds, in our view, the Operator's decision to invest surplus funds from the casino account should have been subject to advance review and approval by NSGC management and Board.

2.32 *Corporate financial management system (CFMS)* - On April 1, 1997, the Department of Finance implemented a new corporate financial management system (CFMS) running on its in-house Hewlett Packard resources.

2.33 The CFMS consists of a number of integrated modules for general ledger, budgeting, funds management, cash management, accounts payable, project accounting, procurement, goods receipt, inventory, and accounts receivable. Personnel, payroll and related administrative functions continue to be processed through the Province's existing human resource management system (HRMS), which runs at the Systemhouse Limited Halifax Outsourcing Centre.

2.34 The 1997 Report of the Auditor General included observations and comments from a preliminary review of CFMS and the CFMS project. The objective of that review was to gather project-related documentation and information, and to identify and develop lines of inquiry to support planning for more detailed audit coverage. Our primary concern expressed in that Report related to several significant control issues that had not been dealt with prior to implementation of the CFMS on April 1, 1997 and still had not been addressed at the time of writing that Report, some six months later. We commented that those control issues “...may represent significant risk to the system of internal control as it relates to the accounting for public funds.”

2.35 During 1998, this Office and the Department of Finance jointly commissioned a national public accounting and consulting firm (the consultants) to conduct a review of the business control environment surrounding CFMS and the CFMS implementation project. This review, performed in March 1998, identified a number of areas or opportunities, some significant, for improving the level of control over the CFMS and related processes and functions.

2.36 In our 1998 Report we commented on the resulting report by the consultants, which was finalized in September 1998, and included the following principal observations:

- *“Government requires significant improvement to the level of automated and manual controls to achieve control objectives. Improvements to the controls are required to ensure the integrity of information and allow for proper management trails to support recorded transactions.”*
- *“Government has implemented appropriate controls in several key areas, such as system startup parameters. However, we also noted several opportunities for improving the SAP [CFMS] control environment.”*
- *“We identified several areas where improvements to the IT environment could be considered.”*
- *“Most users have not achieved an acceptable level of understanding of the system required for their position, and still have a number of misunderstandings and questions about the system.”*
- *“It is not possible, as at the time of this review, to judge whether CFMS has resulted in benefits for the government.”*

2.37 The consultants’ report provided more than 220 specific recommendations for consideration by Finance and government generally. These recommendations were listed in Exhibit 9.1 on page 105 of our 1998 Annual Report.

2.38 Senior management of the Department of Finance recognized that a formalized and structured approach was required to effectively deal with each of the recommendations. On October 29, 1998 a Project Manager was appointed for a four-month period to analyze the requirements associated with each recommendation and to prioritize them and report back to the CFMS Steering Committee.

2.39 This appointment was extended by approximately one month and an updated status report was provided to the CFMS Steering Committee dated March 29, 1999. Subsequently, responsibility for coordinating and monitoring the status of the recommendations was assigned to staff of Finance’s Corporate Information Systems (CIS) Division. Information contained in the March 29, 1999 status report indicated that 61 of the recommendations had been completed.

2.40 We recently met with management of the CIS Division and obtained a detailed status update as at October 1, 1999. This most recent status update indicates that 104 items had been completed. In addition we were informed that senior Department management have established a goal for completing all remaining items by December 31, 1999. In order to support this renewed effort, the CIS Division seconded a senior computer services officer from the Technology and Science Secretariat to coordinate the remaining activities on a full-time basis. As well, Finance’s Internal Audit Division has been assigned the responsibility to review and sign-off on each of the implemented solutions in an effort to fulfill a quality assurance role.

2.41 In closing, we repeat our comments of last year that specific strategies and plans need to be formulated, approved and acted upon, if government is to make appropriate progress towards realizing the potential business process improvements and other benefits from a system like CFMS.

2.42 *Provincial data centre services* - In the early 1990s, the government entered into contract arrangements to outsource its Provincial Data Centre processing requirements. Those arrangements were renewed effective October 1998 for a five-year term with EDS Systemhouse Inc. The arrangements call for annual review by an independent audit function on the control procedures in place for the resources used for the processing of Provincial systems.

2.43 Since the programs, processing and data for significant Provincial systems reside at the data centre (e.g., including HRMS, RMV, OASIS, JOIS), we believe that the results of an independent control review would be of interest to the Members of the Legislature. Exhibit 2.4(a) on page 25 is a copy of the most recent *Auditors' Report on Control Procedures* as it relates to the Province's outsourced data centre services, and Exhibit 2.4(b) on page 26 is the *Description of Control Objectives and Procedures for the Government of Nova Scotia Mainframe Partition* to which that report refers.

2.44 *Procurement policies and reporting* - It is our understanding that, while planned statutory provisions relating to authority of the government's procurement policy are not yet in place, all Provincial bodies are expected to adhere to the procurement policies established by the Province. Further, all exceptions from the procurement policy are to be reported to the Procurement Branch of the Department of Finance, which subsequently must report to the Priorities and Planning Committee.

2.45 To assist in the attainment of the policy objective on procurement (see Exhibit 2.5(a) on page 30), the Procurement Branch has undertaken several initiatives. During the year, two new policies and procedures were developed by the Procurement Branch to assist in the procurement process. There were also four policies finalized and made available during the year. Exhibit 2.5(b) on page 31 provides a summary listing of the current publications of the Procurement Branch as well as the status of the publications for the government and Provincially-funded entities such as academic institutions, school boards, hospitals and crown corporations commonly referred to as the ASH sector.

2.46 *The Province of Nova Scotia, Policy on Government Procurement, Section 12, Information and Reporting*, issued January 1, 1996 states "where a procurement is to be undertaken that is an unsolicited proposal, is sole sourced, or is to be for a price other than the lowest tender, the Deputy Minister in the client department or equivalent officer must submit it to the Priorities and Planning Committee for approval." Section 12 further requires that if the Priorities and Planning Committee grants approval, the Minister and Deputy Minister of the Department of Finance must be formally notified.

2.47 To ensure Section 12 is complied with, Finance's Procurement Branch undertakes bi-weekly audits of transactions processed through the government's internal corporate financial management system (CFMS). Irregularities noted are provided to departments for explanation and action. The Procurement Branch reports exceptions to the Priorities and Planning Committee. At present there is no requirement for the Priorities and Planning Committee to report to the House of Assembly. Accountability would be enhanced if a report on procurement policy exceptions was provided to the Members of the House of Assembly, and if such reporting was available on a timely basis.

2.48 *Supplement to the Public Accounts - The Supplement to the Public Accounts* (Supplement) includes detailed information on staff salaries and other payments made for government departments and certain agencies which use the government's corporate financial management system (CFMS). We are not aware of any statutory provision or current policy directive requiring this level of detail to be published. Further, we note that the *Supplement* only covers departments of government (i.e., similar information is not published for all crown corporations, agencies or other Provincial public sector entities).

2.49 The reporting thresholds (i.e., the amounts above which detailed information is provided) for the *Supplement* were as follows:

Salaries	\$ 25,000
Travel	\$ 3,500
All other payments	\$ 5,000

2.50 These reporting thresholds have not been updated or amended in a number of years, and as a result the *Supplement* continues to grow.

2.51 We suggest that after consideration of the information and accountability needs of MLAs and other interested parties, government establish compensation and other disclosure standards applicable to all departments, crown corporations, agencies and other Provincial public sector entities. For example, implementation of disclosure standards similar to those established by security or other financial regulatory bodies for executive and management compensation would provide meaningful information to MLAs and other interested parties.

2.52 Finance indicated that in addition to continued availability on the government's Internet website (<http://www.gov.ns.ca>), the Department is considering improvements to the content and presentation of the *Public Accounts*, including the *Supplement*. Finance's goal is the provision of useful information, using what other jurisdictions provide as a reference point.

CONCLUDING REMARKS

2.53 An effective accountability framework should provide or result in an appropriate balance of information and reports to the House of Assembly on the plans and performance of government overall and individual departments or agencies, both from a financial and a program delivery or service perspective. The goal is better information and reports, not just more.

2.54 There have been a number of significant initiatives undertaken to improve the quality and timeliness of information and reports available on the government's plans and priorities. The Department of Finance and the Priorities and Planning Secretariat have taken, and are still planning to take, steps to improve the nature and quality of the information and reports available.

Exhibit 2.1

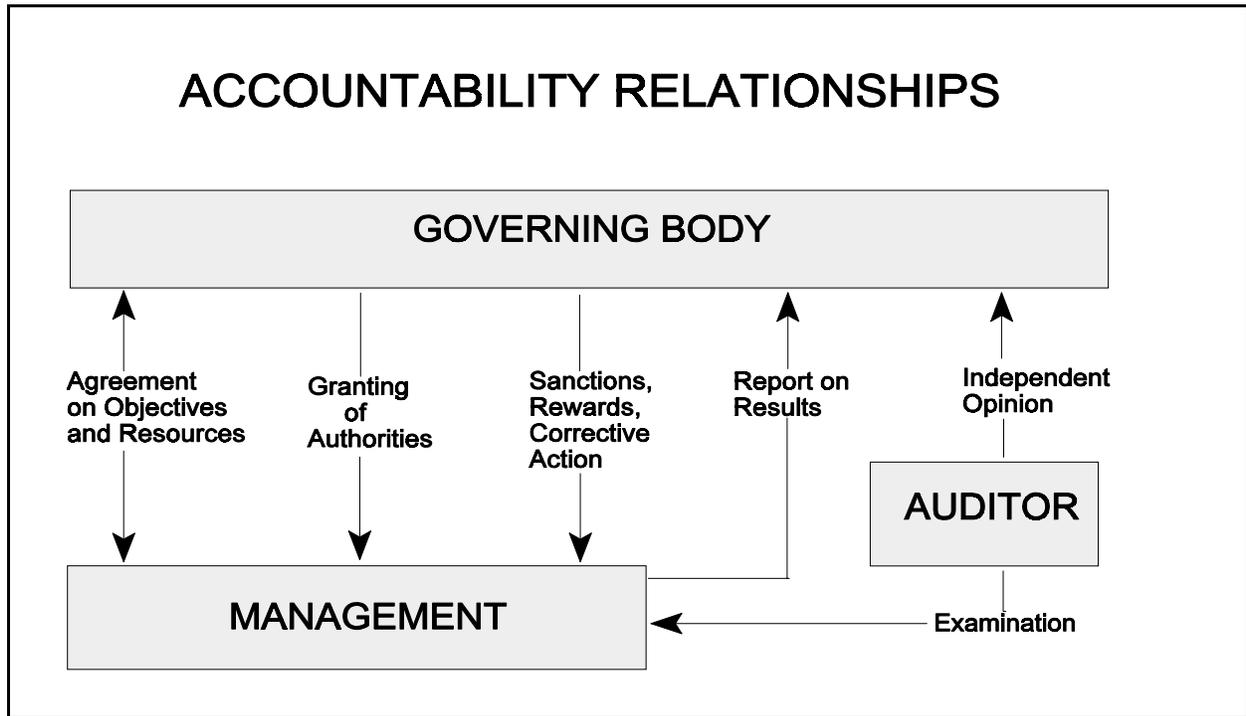


Exhibit 2.2

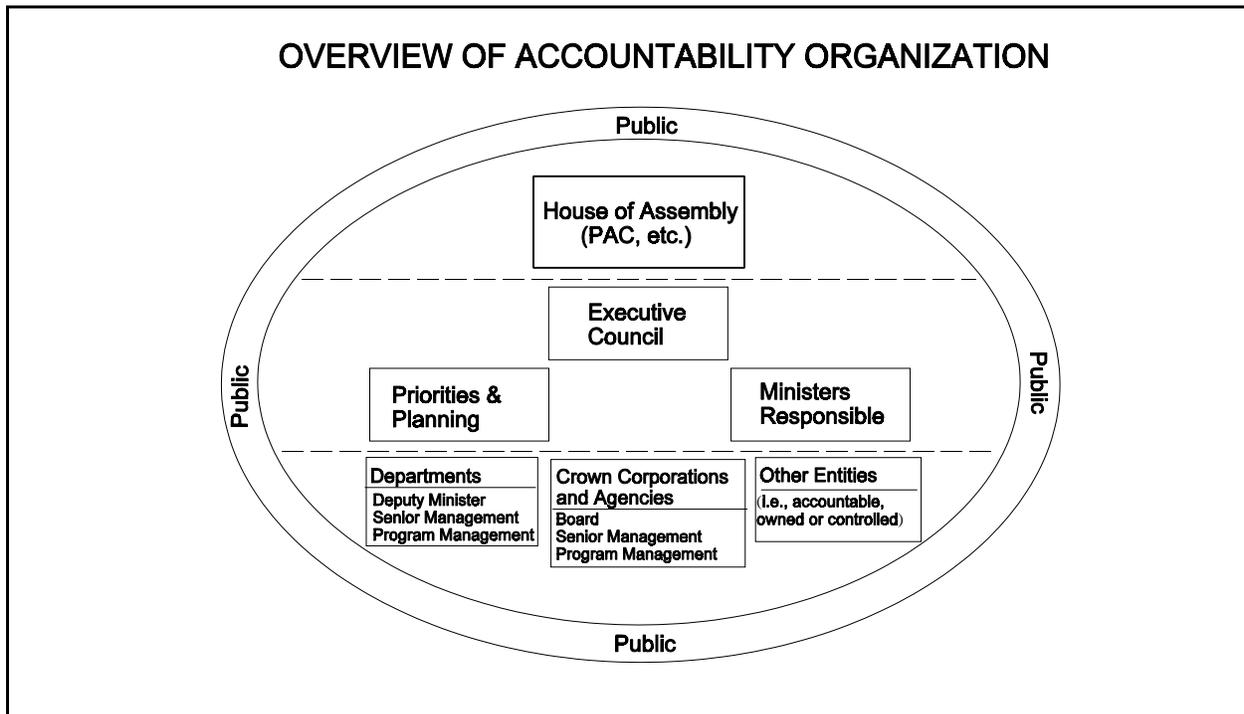


Exhibit 2.3

PROVINCE'S FINANCIAL STATEMENTS STATUS OF PREVIOUSLY IDENTIFIED OPPORTUNITIES FOR IMPROVEMENT		
1998 AG Observations	Status	Notes or Comments
<p>Consolidated financial statements - Full consolidated financial statements should be a primary financial accountability report for government. Consolidated financial statements, should be available publicly on a timely basis. The need for consolidated budget information will require further consideration as part of the move to full consolidated financial statements.</p>	Planned for 1999	Decision announced in September 1999, to move to generally accepted accounting principles, including consolidated financial statements for the year end March 31, 1999.
<p>Reporting entity - Finance continues to review the Province's reporting entity for financial statement purposes. Among other considerations, this involves assessing which Provincial public sector entities should be included for consolidated financial reporting, and which of those will be accounted for as government organizations or alternately as government business enterprises. The implementation of a financial reporting entity in accordance with current CICA recommendations will result in the Province's financial position and results being presented on a more complete and appropriate basis.</p>	Planned for 1999	As part of meeting the requirements for the above decision by government, Finance management and staff undertook an extensive review to determine which public sector entities should be included in the government's reporting entity (GRE) for financial statement purposes.
<p>Reporting of annual results - ...in the absence of extraordinary or retroactive adjustments due to changes in accounting policies, the annual surplus or deficit should be the only factor causing a change in the Province's net direct debt. All other items should flow through the <i>Statement of Revenue and Expenditures</i>, and be included in the determination of the reported surplus or deficit for a fiscal year. ...implementing such a policy would represent some further challenges to the annual budget preparation process.</p>	Planned for 1999	Other than the changes planned for 2000 re: tangible capital assets and pension costs or obligations, this concern is to be addressed in the 1999 financial statements.

Exhibit 2.3 (cont'd)

1998 AG Observations	Status	Notes or Comments
<p>Accounting for pension costs and obligations - The accounting for annual pension costs is currently done based on contributions, which may or may not result in an accurate measure of the cost of services. Finance has previously indicated that since items such as annual or periodic pension valuation adjustments do not lend themselves to accurate and reliable budgeting, it is appropriate for them to be recorded to net direct debt rather than in the calculation of the annual surplus or deficit. While such items may be challenging to determine, both from a budgeting and an accounting perspective, they still represent items that should be considered when assessing the government's fiscal performance.</p>	Planned for 2000	<p>Current and emerging accounting recommendations and practices for employee and post-employment benefits will need to be more fully considered prior to a decision on changes to be made in this regard.</p> <p>Move to summary consolidated financial statement expands the scope of this consideration to public sector entities and considerations not previously incorporated into the government's accounting.</p>
<p>Accounting for tangible capital assets - Alternatives and issues relating to the... accounting for and reporting of tangible capital assets by governments are being studied and worked on by Finance, with input from this Office and departments.</p>	Planned for 2000	<p>Initial note disclosure of the government's tangible capital assets (TCA) is planned for the 1999 statements, with more complete implementation intended for the 2000 financial statements. How the implementation of TCA accounting will affect the annual budget process is yet to be finalized.</p>

*Exhibit 2.4(a)***AUDITORS' REPORT ON CONTROL PROCEDURES**

To Halifax Outsourcing Centre
SHL Systemhouse Inc.

We have examined the accompanying description (pages 16-21) of the stated internal control objectives of the Halifax Outsourcing Centre ("HOC") of SHL Systemhouse Inc. and the control procedures designed to achieve those objectives and have performed tests of the existence of those control procedures as at February 24, 1999. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Our examination was limited to control objectives relating to the mainframe partition used for the Government of Nova Scotia processing.

In our opinion, the control procedures included in the accompanying description were suitably designed to provide reasonable, but not absolute, assurance that the stated internal control objectives described therein were achieved and the control procedures existed as at February 24, 1999.

The description of stated internal control objectives and control procedures at Halifax Outsourcing Centre of SHL Systemhouse Inc. is as of February 24, 1999, and information about tests of operating effectiveness of specific controls is only as at February 24, 1999. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the control procedures in existence. The potential effectiveness of specific control procedures at the Halifax Outsourcing Centre of SHL Systemhouse Inc. is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions to future periods, based on our findings, is subject to the risk that changes required because of the passage of time, such as systems changes to accurately process data in the year 2000, may alter the validity of such conclusions.

As our testing of control procedures was limited to a point in time, our opinion on the effective operation of those control procedures is similarly limited.

Halifax, Canada
February 24, 1999

Ernst & Young, LLP
Chartered Accountants

*Exhibit 2.4(b)***DESCRIPTION OF CONTROL OBJECTIVES AND PROCEDURES
FOR THE GOVERNMENT OF NOVA SCOTIA MAINFRAME PARTITION****Information Security Administration****Control Objective**

- An information security organization exists to develop and institute policies and procedures to protect facilities, operations and client information.

Control Procedures

- An information security policy defining security responsibilities exists.
- An information security administrator has been appointed with specific monitoring and policing responsibilities.
- The organization structure is consistent with good information security practices.

Logical Access**Control Objectives**

- The capability exists to restrict access to the client's data and programs.

Control Procedures

- Effective logical information security to prevent inadvertent or unauthorized access to application programs and client data exists and is monitored.
- The information security administrator manages the definition of userIDs, access privileges and access rules for major security related software products.
- Access rules to sensitive information security control files are periodically reviewed by the information security administrator.
- Information security violations are detected and reported daily to the information security administrator.

Business Continuity Planning**Control Objective**

- A business continuity plan is in place and tested regularly.

Control Procedures

- A business continuity plan for the HOC has been developed.
- The HOC has established guidelines for its clients in determining the priority of recovery for their programs and data in the event of a disaster.
- The plan is updated as the environment changes.
- A test schedule has been established, with tests conducted twice a year.
- Clients are encouraged to participate in testing programs along with the HOC operations personnel.

Exhibit 2.4(b) Cont'd**Personnel****Control Objective**

- Controls provide reasonable assurance that procedures for the hiring and termination of employees are adequate.

Control Procedures

- Prospective employee's previous employment record is verified and missing or inconsistent data is investigated.
- Documentation, manuals, access cards and logical access privileges are returned by resigning or terminated employees.

Operations**Control Objective**

- Procedures exist to prevent or detect accidental errors within the operations area.

Control Procedures

- The master console for each processing system is under control of a qualified systems operator.
- Procedures exist to notify operations staff of changes to practices or problems occurring while they are off shift.
- Requests for shipping tapes to off-site locations are validated and logged.

Facilities**Control Objective**

- Adequate facilities and physical security exist over computer hardware, programs and files.

Control Procedures

- Fire alarms and fire extinguishers are situated throughout the building and are highly visible.
- Visitors are issued visitor badges, required to sign in and out and must be escorted while at the HOC. By prearrangement with HOC management, regular visitors may be issued badges allowing unescorted access to the computer operations and office areas.
- The air cooling system is adequate to handle the generated heat load.
- The cooling system is inspected regularly and measurements are taken to ensure performance is within specifications.
- The uninterruptable power source is of sufficient capacity to meet peak load demand and withstand a protracted outage of local electrical service. The equipment is tested regularly.

Data Communications**Control Objective**

- Controls provide reasonable assurance over the integrity of data in the telecommunications network.

Control Procedures

- Modifications to the existing network configuration must go through a formal change control procedure.
- Access to the Network Operations area and Modem Room requires management authorization.
- Inactive sessions on leased lines are logged off after a period of inactivity.

*Exhibit 2.4(b) Cont'd***Systems Development****Control Objective**

- Controls provide reasonable assurance over the development, testing, implementation and maintenance of system software.

Control Procedures

- New system software is tested internally on a test environment prior to being put into the production environment.
- Updates to production software are approved by management and follow a formal documentation and change control process.
- The creation of new APF libraries is authorized by the Operations Director.
- SAF exits are activated for all products in which the vendor has provided the facility.
- All changes to the operating system code or exits are made under the control of SMP/E.
- System modifications require management approval before introduction into production systems.

Insurance**Control Objective**

- Appropriate insurance coverage, as determined by senior management at the corporate level, is maintained.

Control Procedures

- Insurance policies and procedures are developed and maintained for all SHL locations (including the HOC).
- MCI has umbrella insurance coverage for all its facilities which exceeds the coverage required for the HOC.

Problem Management**Control Objective**

- A facility is maintained to accept problem reports and log and track their resolution.

Control Procedures

- Problem reports are logged and promptly assigned to a qualified person for resolution.
- Open problems are reviewed daily by Operations Services personnel and reviewed by management weekly.

Change Management**Control Objectives**

- All proposed changes to system software, communications and hardware are documented and approved by management prior to acceptance and installation.

Control Procedures

- Weekly change control meetings are held to review all proposed changes. This meeting is attended by departmental managers.
- Emergency changes may be made when conditions warrant. Following an emergency change, a change control document must be completed and discussed at the next weekly change control meeting.

Exhibit 2.4(b) Cont'd

- A change administrator is responsible for coordinating all changes with affected parties and providing fallback procedures.

CLIENT CONTROL CONSIDERATIONS

The HOC's control procedures cover only a portion of the total transaction processing systems; clients perform other portions. It is not feasible for all of the control objectives relating to the processing of transactions to be completely achieved in any one portion of the system. It is necessary for client organizations to apply the internal control structure policies and procedures contemplated in the design of the HOC's policies and procedures to achieve the control objectives specified in this description. Clients and their auditors when making assessments of control risk at client organizations should take the information below into consideration. Control objectives applicable only to client's applications systems are defined by the individual clients and must be achieved solely by the client.

- Unless specific arrangements have been made, clients are responsible for their own application development and maintenance.
- It is the responsibility of clients to ensure that only authorized personnel from their entities have on-line access capabilities.
- System access through the on-line network relies heavily upon the integrity of userIDs and passwords. Each client is responsible for establishing procedures to ensure that on-line input transactions and file maintenance transactions originating from its terminals are authorized, accurate and processed correctly. Such controls should include:
 - Restricting access to on-line terminals and keys
 - Establishing and monitoring procedures to ensure that only appropriately authorized individuals have userIDs and passwords and that they are confidential
 - Requiring periodic changes to user passwords
 - Restricting terminals to specific sensitive application functions
 - Ensuring that individuals are authorized to submit only those transactions necessary to perform their assigned duties.
- In the event of a complete system failure at the HOC, clients are responsible for re-entering, at a minimum, transactions in process at the time of the system failure. Additionally, clients should have a plan to process transactions manually until data processing has been restored at the back-up site. The HOC's clients should develop business continuity plans to recover their own operations in the event of a disaster that affects them but does not disable the HOC's primary facility.
- Clients are responsible for establishing a schedule for periodic application and data file back-ups and should have their own policies, procedures and contingency plans for their applications and data files.
- Clients are responsible for defining critical jobs and for insuring that the HOC has an up-to-date list in order of priority.
- Clients are responsible for notifying the HOC of data set names required for recovery from a disaster and to ensure that timely back-ups of these critical data sets are maintained at the off-site location.

Exhibit 2.5(a)

**EXTRACT FROM
POLICY ON GOVERNMENT PROCUREMENT**

POLICY OBJECTIVE

The objective of this policy statement is to establish and maintain a high level of confidence in the procurement process by ensuring that procurement is carried out in an open, fair, consistent, efficient, and competitive manner.

The Government of Nova Scotia is committed to

- *ensuring that the government's requirements for goods, services, construction, and facilities are met through an open and fair process that provides the highest degree of competition and value to the Province*
- *ensuring that all bidders have reasonable notice and opportunity to tender*
- *fostering economic development by giving every capable Nova Scotia supplier the opportunity to do business with the government*
- *encouraging Nova Scotia businesses to be competitive and to sustain quality product development*
- *adhering to the Agreement on Internal Trade and the Atlantic Procurement Agreement, which create economic opportunities for Nova Scotians*
- *being accountable to the public for procurement decisions*

Exhibit 2.5(b)

POLICIES AND GUIDELINES FOR PROCUREMENT		
(As of November 1999)		
<u>Document</u>	<u>Status</u>	<u>Date Released or Estimated Release</u>
Policy on Government Procurement	Available	January 1996
Environmentally Responsible Procurement Policy	Available	December 1996
Government Procurement Process	Available	January 1997
Government Procurement Process - ASH Sector	Available	January 1997
Procurement and the Nova Scotia Economy	Available	January 1997
Departmental Guide to the Preparation of a RFP	Available	January 1997
Departmental Guide to the Evaluation of a RFP	Available	January 1997
How to Complete a RFP - The Proponent's Guide to RFP Preparation	Available	January 1997
Guide to the Submission & Evaluation of Unsolicited Proposals	Available	July 1997
A Process to Develop Cooperative Business Solutions	Available	October 1997
Procurement Manual Policies and Procedures	Available	October 1997
Engineering/Architect Procurement Process	Available	March 1998
Facilities Procurement Guide	Available	April 1998
Construction Contract Guidelines	Available	December 1998
Availability of Surplus Government Assets for Non-Profit Organizations	Available	December 1998
Supplier Complaint and Dispute Settlement Process	Available	January 1999
A Procurement Process to Support the Development of Public Private Partnerships	Draft	January 1999
Tenders - Procurement Branch Brochure	Available	July 1999