

GOVERNMENT-WIDE ISSUES

2.**ACCOUNTABILITY INFORMATION AND REPORTING****BACKGROUND**

2.1 The need for quality accountability information and reporting on government's performance continues to be 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 25 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 Provincial public sector entities' 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 25 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 MLAs can hold government to account.

RESULTS IN BRIEF

2.5 The following are our principal observations this year.

- As a result of amendments to the Provincial Finance Act in June 2000, the provision of accountability information and reporting to the House of Assembly on government's plans and performance are now required by law. Performance information or reports provided by government should be relevant, reliable and understandable.
- The Auditor General's Report, required under Section 9B of the Auditor General Act, on the 2000-01 revenue estimates was tabled in the House on April 11, 2000. In addition, summary comments and suggestions as a result of our review procedures were communicated to the Department of Finance.

- The government's March 31, 2000 consolidated financial statements were released December 14, 2000 as part of the Public Accounts - Volume I. The auditor's report dated November 30, 2000 on the consolidated financial statements was qualified for a scope limitation due to the fact that the audited financial statements of Sydney Steel Corporation and the related pension plans for the year ended December 31, 1999, and the actuarial valuation reports on the pension plans, had not been finalized.
- A review of the Province's March 31, 2000 consolidated financial statements indicates that in total there are approximately \$30 billion of treasury and pension-related accounts or balances to be managed and controlled by government. The House could direct additional attention towards holding the government accountable for its longer-term plans and performance in these areas.
- The Procurement Branch of the Department of Finance (now part of the Department of Transportation and Public Works) reported on policy exceptions and the results of its monitoring of compliance with the government's procurement policies to the Priorities and Planning Committee. There was 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 on a timely basis.
- As part of efforts to modernize the Government of Nova Scotia's Management Manuals, applicability to Provincial public sector entities other than departments should be clarified.
- Disclosure of compensation arrangements for executive and senior management positions in all Provincial public sector entities should, as a minimum, meet the requirements that publicly-traded corporations have had to comply with for many years.

SCOPE OF REVIEW

2.6 This assignment represents an ongoing monitoring, 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 consolidated financial statements.

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 Consolidated Financial Statements

- Treasury Management
- 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 a standard framework in place. Such a standard has been defined in Nova Scotia.

2.10 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 outcomes at both the overall government and departmental or entity levels. The effective implementation and continued evolution of such information and reporting mechanisms represent a significant challenge, requiring a sustained commitment by government.

2.11 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 entity level. As a result of June 2000 changes to the Provincial Finance Act, there is now a statutory requirement for such information and reporting to be provided by government. These changes make Nova Scotia one of the few jurisdictions that has a legal requirement for the provision of performance planning and reporting to legislators. Further, business plans of crown corporations are specifically required to be tabled in the House under the provisions of the Provincial Finance Act.

2.12 Reporting on performance, by governments, is a topic of some significance and debate in virtually all Canadian jurisdictions. In July 1999, the CCAF-FCVI (i.e., a Canadian research and educational foundation dedicated to building knowledge for meaningful accountability and effective governance, management and audit) as part of its Public Performance Reporting Program published *Principles for Building a Public Performance Report - A Discussion Paper from Canada's Legislative Audit Community*.

2.13 Among other things, the publication indicates that decision-makers, whether assessing results as part of an accountability review or considering the impact of alternative courses of action, require performance information or reports that are relevant, reliable, and understandable. Exhibit 2.3 on page 26 includes additional summary information extracted from that publication.

Revenue Estimates in Budget Address

2.14 Section 9B (1) of the Auditor General Act provides the Auditor General with the following mandate with regard to the government's annual revenue estimates.

"The Auditor General shall annually review the estimates 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."

2.15 We first exercised this mandate (previously provided for in section 65A of the Provincial Finance Act), which is unique within the Canadian legislative audit community, in 1994.

2.16 The Auditor General's Report on the 2000-01 revenue estimates was tabled in the House along with the supporting information for the April 11, 2000 *Budget Address*. Exhibit 2.4 on page 28 is a copy of the Auditor General's Report on the 2000-01 revenue estimates.

2.17 At the conclusion of our review of the 2000-01 revenue estimates, we provided a copy of the Auditor General's Report on the Revenue Estimates for *Budget Address* printing purposes, and we also forwarded a letter to the Minister of Finance. That letter dated April 10, 2000 provided the following summary observations on matters regarding the 2000-01 revenue estimates included in the April 11, 2000 *Budget Address*:

In addition to my report, I would like to draw your attention to the following considerations with respect to the 2000-2001 revenue estimates:

- *The 2000-2001 revenue estimates are, in my view, based on assumptions which include an increased level of conservatism, when compared with the level of conservatism observed in prior years. However, there was support for the assumptions used and we were able to determine that they were reflected in the preparation of the revenue estimates. In this regard, we have suggested the level of conservatism be disclosed in the Key Assumptions Outlook document or discussed in other supporting information.*

For example, related to the above the following matters are highlighted.

- *Assuming that the 1999-2000 forecast is accurate (yet to be audited), the rate of growth in provincial source revenue has dropped from 8.6% to 2.6%, including no growth in personal income tax revenue despite the assumed increases in personal income and employment.*
- *The level of corporate tax credits used in the preparation of the estimate of corporate income tax revenue.*
- *Until late last week, we had not been provided information supporting the impact of planned cuts that had been used in the preparation of the revenue estimates. It was indicated to us that the impact of the planned cuts were taken into account when establishing the assumptions. In this regard, we note that for revenue estimates purposes the planned cuts were applied to the entire year. There was no information available on the timing or implementation of the planned cuts.*
- *In recent years the Province has received significant prior year adjustments (i.e., PYAs) through the various federal-provincial fiscal arrangements. It is our understanding that your staff used the most recent formal information from the Federal government - adjusted in certain instances for more current local conditions or considerations - in order to arrive at the estimates for 2000-2001 (as well as the forecast for 1999-2000, which is not specifically covered during our review). However, it must still be acknowledged that PYAs will most likely be identified during 2000-2001 for prior years and, with respect to the current year, in future years, and that they could be significant individually or collectively.*
- *The processes and practices for the measurement, recognition and recording of revenue (i.e., for estimate and accounting purposes) flowing to the Province from or through the various federal-provincial arrangements or agreements are complex and not well understood outside of the responsible division of your Department. This is not only due to the nature of the arrangements or agreements themselves, but also that information and support received from the Federal government is adjusted by Nova Scotia Finance staff for more current or local considerations. It is our understanding, these adjustments do not affect the total revenue ultimately*

received from the Federal government, but only when the revenue is recognized in the Province's accounts. We suggest the processes and practices for recognition and recording of tax and other revenue transfers from the Federal government be reviewed, including consideration of the related accrual accounting practices in other provinces.

Province's Consolidated Financial Statements

2.18 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.

2.19 In 1999, government made 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.

2.20 For provincial governments in Canada, generally accepted accounting principles (GAAP) is represented by recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), supplemented where appropriate by CICA's other accounting standards or pronouncements.

2.21 Government's decision to move to GAAP as a basis of accounting was significant, and provided for the removal of a number of long-standing concerns relating to the completeness of the Province's financial reporting. Further, the use of GAAP provides an authoritative foundation or source from which government can both choose and defend its accounting policy and practice decisions.

2.22 The government's consolidated financial statements for the March 31, 2000 fiscal year were released December 14, 2000 along with the report of the Auditor General dated November 30, 2000. The auditor's report, which was qualified due to a scope limitation, is reproduced in Exhibit 2.5 on page 29.

2.23 With regard to the scope limitation we encountered, it should be noted that for purposes of finalizing the government's March 31, 2000 consolidated financial statements, Finance utilized the unaudited information available to them relating to Sydney Steel Corporation and the related pension plans. We are not aware of any action or steps that Finance staff could have taken in order to resolve our scope limitation prior to the time the consolidated financial statements were released.

2.24 In our view, in order to be considered timely, the government's consolidated financial statements should be available for release no later than six months after year end. That would require draft statements and other year-end accounting support to be available for audit no later than approximately four months after year-end. Finance's government accounting staff and this Office have agreed to collaborate in identifying practical means to resolve known contributors to delays and to work towards more timely reporting.

2.25 During the course of our audit of the government's March 31, 2000 consolidated financial statements, various more detailed or specific findings and observations were noted. Due to the delays encountered in finalizing the year's audit, we will be preparing a separate document for discussion with Finance management in early 2001. The following overall summary comments or observations are provided at this time.

- The June 2000 changes to the *Provincial Finance Act* provide for more oversight and control by the Minister of Finance relating to financial management systems and activities of entities included in the government's reporting entity.

Implementation and communication strategies related to the above will be critical in order to optimize the coordination and exchange of information required to achieve effective control.

- The scope and mandate of Finance's controllership function as it relates to implementation of accounting policy decisions and reporting standards within the government's reporting entity need to be clearly defined and communicated.
- The preparation of year-end accounting support files by departments was more timely and thorough than in 1999. The audited financial statements and additional year-end supporting information requested from government service organizations and government business enterprises were for the most part more timely than in the past.
- There are certain accounting policy or statement presentation areas where further adjustment may be necessary in order to more fully comply with PSAB. However, such matters notwithstanding, in the absence of significant new pronouncements from PSAB or changes to generally accepted practice by sovereign governments in Canada, we would support a decision to maintain the current accounting policy and statement presentation regime for the next two to three years in order to provide reporting stability.
- The following are the more significant matters that PSAB is working on where new formal pronouncements or guidance could require accounting policy or statement presentation changes in the next few years:
 - employee future benefits;
 - foreign currency translation;
 - liabilities, commitments and contingencies;
 - reporting entity; and
 - reporting model.
- Completion of the March 31, 2000 consolidated financial statements was delayed for a number of reasons, including delays in completion of the financial statements for various pension funds.
- The government's annual budget is not, and ideally in our view should be, presented on the same basis as the financial statements. This would allow more detailed and specific budget-actual comparisons. However, we acknowledge that a move to a fully consolidated budget will require further education, and adjustment to the annual budget process of departments and agencies. Further, such a move would need to be considered along with other improvements to information provided to the House on government's fiscal and financial plans (e.g., capital infrastructure plans, treasury management plans).

Treasury Management

2.26 A review of the Province's March 31, 2000 consolidated financial statements indicates that in total there are approximately \$30 billion of treasury-related accounts or balances to be managed and controlled by government. These include the following account totals or balances as at March 31, 2000 reported in the consolidated statement of financial position, supporting schedules and notes to the financial statements.

Public Accounts References	Description	(\$ millions)
Statement of Financial Position	Cash and Short-Term Investments	\$445.4
	Loans and Investments	\$994.1
	Bank Advances and Short-Term Borrowings	\$738.9
Schedule 4 - Unmatured Debt	Gross Debt	\$14,981.9
	Sinking Funds, Public Debt Retirement Fund and Defeasance Assets	\$4,401.0
Schedule 6 - Direct Guarantees	Total - Direct Guarantees (Authorized)	\$1,010.0
Note 7 (d) - Pension, Retirement and Other Obligations	Market Value of Assets, including 100% of Public Service Superannuation Plan	\$6,677.3
Note 11(b)(i) - General Commitments	Various	\$192.4
Note 11(b)(ii) - Environmental Sites	Sysco & Sydney Tar Ponds	\$318.5
Note 11(b)(iv) - School Maintenance and Development Agreements	Net present value of \$703.5 million total lease payments at 6.5%	\$380.0

2.27 The volume (i.e., numbers or dollar value) of transaction activity during the fiscal year is not reflected above and it would provide a more complete context for considering the overall magnitude of the Province's treasury management activities.

2.28 Most, but not all, of the Province's day-to-day treasury and management activities for such accounts or balances are to some extent (directly, or at least indirectly) the responsibility of the Investments, Pensions & Treasury Services Branch of the Department of Finance.

2.29 There has been, and should continue to be, closer scrutiny of government's annual budget and results (i.e., surplus or deficits) as well as the Province's net direct debt. However, in our view, additional attention could be directed by the House towards holding the government accountable for its longer-term plans and performance in the various treasury functions or areas. Other related considerations are the longer-term plans and requirements to develop and maintain the capital infrastructure necessary to support the quality of public services intended.

Other Matters

2.30 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.

2.31 *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. The arrangements call for annual review by an independent audit function of the control procedures in place for the resources used for the processing of Provincial systems.

2.32 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 2.6 on page 30 is a copy of the most recent *Auditors' Report on Control Procedures* as it relates to the Province's outsourced Data Centre services.

2.33 *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, now part of the Department of Transportation and Public Works (T&PW) which subsequently must report to the Priorities and Planning Committee.

2.34 *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 (T&PW) must be formally notified.

2.35 To ensure Section 12 is complied with, the Procurement Branch performs biweekly audits of transactions processed through the government's internal corporate financial management system. 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.

2.36 *Supplement to the Public Accounts* - The *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. 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 and certain agencies of government. Similar information is not published for a number of significant crown corporations, agencies or other Provincial public sector entities.

2.37 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

2.38 These reporting thresholds have not been updated or amended in a number of years. 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.

2.39 *Public sector compensation disclosure* - Compensation arrangements, including salaries, wages, benefits, etc., represent a significant portion of the costs of government.

2.40 At the current time, there is no statutory or policy requirement for information on compensation arrangements to be reported publicly (i.e., to the House). However, as discussed above, government has traditionally published, among other information in the *Public Accounts Volume III - The Supplements*, the salary information for core departments and agencies (i.e., for individuals earning \$25,000 or over per year).

2.41 We requested information as at March 31, 2000 on compensation arrangements for executive or senior management positions from organizations included within the government financial reporting entity. Further, we gathered general background information on such compensation reporting requirements in other jurisdictions. The following are our initial overall observations based on a review of the information provided.

- Compensation arrangements for deputy heads and senior management positions of non-departmental entities (e.g., crown corporations, health boards and hospitals, school boards) on average are more generous than those for departments and central agencies.
- Market adjustment and bonus arrangements have been used to enhance the compensation for selected positions.
- There were instances where the deputy head position of an entity was compensated less than certain positions reporting to it.
- The use of vehicle allowances as part of compensation arrangements for positions below the deputy head level appears to no longer be linked to travel requirements.
- Generous benefit programs form part of virtually all compensation arrangements.

2.42 Information from other jurisdictions indicates a move towards reporting of senior management compensation. Certain jurisdictions actually have statutory requirements for such information to be made public.

2.43 While interested parties could request information on compensation arrangements under the Freedom of Information Act, we believe that such information should be available to the House as a matter of course. In this regard, we can see no rationale why compensation arrangements for positions responsible for the management, control and use of public funds should not be subject to at least the same or similar disclosure requirements as those applicable to corporations traded publicly on various stock exchanges.

2.44 The Department of Human Resources' response to the above comments is noted on page 31 at the end of this chapter.

2.45 *Management Manuals* - Traditionally, the Government of Nova Scotia Management Manuals had been used as the repository of approved administrative policies, directives and related guidance. However, in recent years, the maintenance of the Management Manuals has not kept pace with various policy changes or adjustments. Policy statements or guidance has been provided through various alternative means, while the Management Manuals have not been formally updated.

2.46 It is our understanding that the Management Manuals are being revitalized and should be

updated within the next six to twelve months. While we acknowledge this initiative, it is suggested that clarification be provided as to the applicability of the policies and guidance provided. For example, do they apply to all Provincial public sector entities, or just to core government departments and central agencies?

2.47 For instance, an updated Travel Policy statement (i.e., section 7.1 of Management Manual 500) was released with an effective date of October 1, 2000. That statement indicates:

This Policy applies to all civil servants whose terms and conditions are set out in accordance with the Civil Service Act and Regulations and all bargaining unit staff who are employed by the Government of Nova Scotia, in addition to Ministers, Deputy Heads and other persons traveling on government business, including training. It does not apply to those persons whose travel is governed by other authorities.

2.48 The first sentence of the above refers to "...persons traveling on government business...", but the scope of *government business* is not defined. Further, a review of travel policy statements gathered from various Provincial public sector entities, including those considered part of the reporting entity for purposes of the government's consolidated financial statements, indicates a variety of travel policy limits or practices in place.

2.49 The concern or issue is not only the fact that staff involved in the performance of *government business* may be reimbursed for travel expenses at different rates or under differing policy arrangements depending on where they work within the Provincial public sector. Rather, it is a broader and more fundamental issue. All Provincial public sector entities are involved in the use and control of public funds or property. There is only one public purse, so why should different administrative policy statements, guidance or limits need to be developed, maintained and applied across the Provincial public sector? Should not a public dollar expended in a crown corporation, a hospital or a school board be subject to the same limits as that applied to departmental staff or elected representatives?

2.50 Our suggestion is that the Government of Nova Scotia Management Manual policy statements be applicable to all Provincial public sector entities. The starting point for such an initiative would be a clear and concise listing of the basic or fundamental principles to be met when public funds or property are involved.

2.51 As a minimum, this would avoid the unnecessary duplication of effort in cases where specific entities (with Board or senior management involvement) develop and maintain their own administrative policy statements. Further, in those situations where Provincial public funds are used in partnership with other levels of government (e.g., regional economic development entities), appropriate efforts should be taken to ensure that administrative policies and practices are consistent with those in the Management Manual.

2.52 The Department of Human Resource's response to above comments is noted on page 31 at the end of this chapter.

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

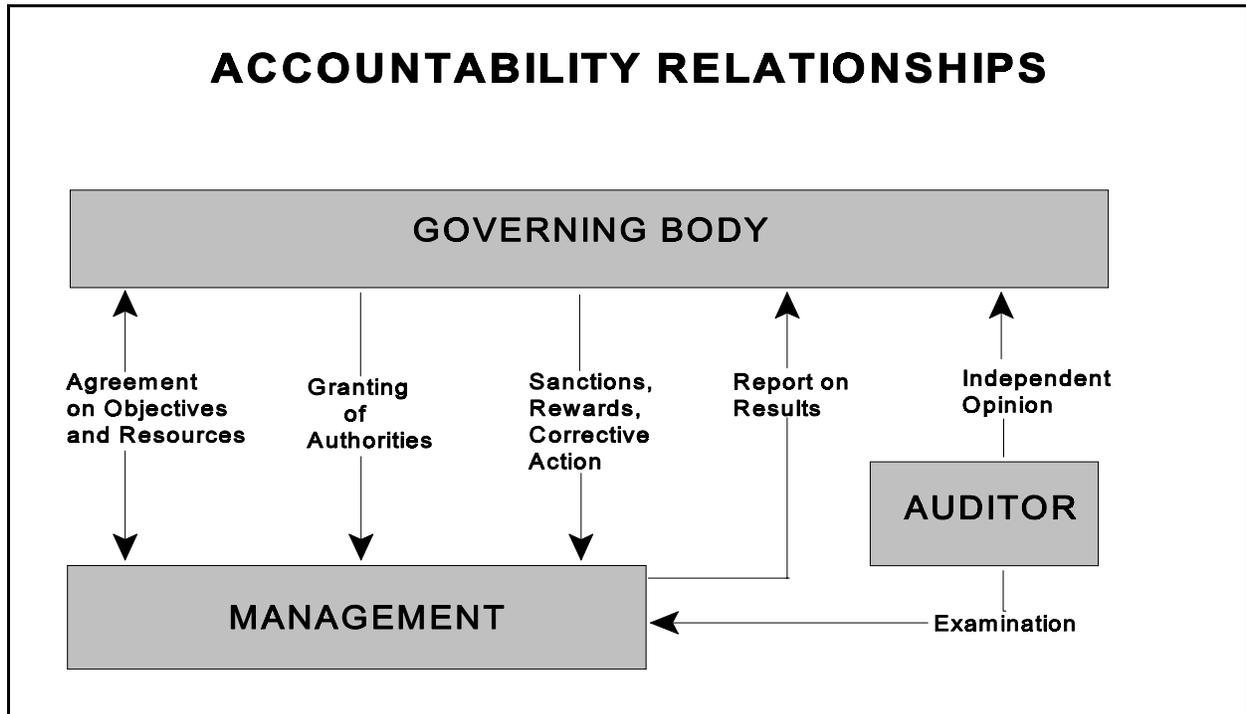
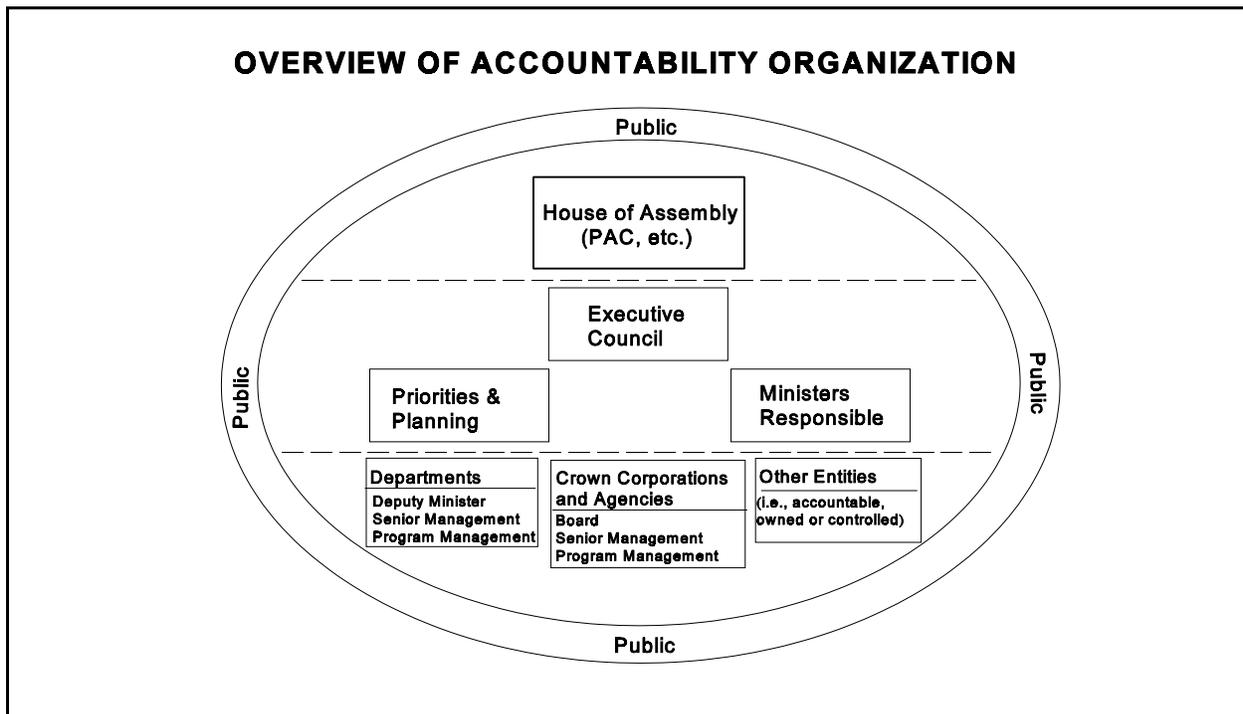


Exhibit 2.2



*Exhibit 2.3***EXTRACTS FROM CCAF-FCVI PUBLICATION**

“Principles for Building a Public Performance Report - A Discussion Paper from Canada’s Legislative Audit Community”

Performance information is **relevant** if it has the following characteristics:

- it relates to the stated objectives of the organization and its strategies and programs, and enables an assessment of the extent to which the objectives are being achieved;
- it is reported in sufficient time to influence decisions;
- it measures something that is significant in that it is used in forming assessments and judgements; and
- it is aggregated at an appropriate and meaningful level.

Performance information is **reliable** when it has the following characteristics:

- it is neutral and fair, in that judgements made on performance by users are not influenced by the way information is provided;
- it is reasonably accurate and complete - that is, free from material error or omissions;
- it is capable of being replicated or verified by independent and knowledgeable observers; and
- it faithfully represents the event, results or situation it is measuring.

Performance information is **understandable** if it has the following characteristics:

- it provides the minimum level of detail needed to enable users to gain a proper understanding of the activities and performance;
- it focuses on a small set of key performance measures;
- it provides comparative information over time and it explains the context as to what happened and why it happened, to enable users to judge whether performance is improving or declining over time; and
- it includes comparative information from similar organizations, when reliable, and information regarding best practice, to provide users with a frame of reference for assessing performance.

Further, the CCAF publication suggests that public reporting of performance must have the following six main attributes if the information is to meet accountability requirements fully:

- performance reports should be focused on results and achievements;
- reporting on performance should be done in the context of expectations;
- performance reports should be complete and unbiased;
- performance reports should, as far as possible, explain the linkages between achievements and activities;
- performance reports should relate costs to results; and
- performance reports should clearly describe the strategies, risks, and external context.

Exhibit 2.4

**REPORT OF THE AUDITOR GENERAL TO THE HOUSE OF ASSEMBLY ON THE
ESTIMATES OF REVENUE
FOR THE FISCAL YEAR ENDING MARCH 31, 2001
USED IN THE PREPARATION OF THE APRIL 11, 2000 BUDGET ADDRESS**

I am required by Section 9B of the Auditor General Act to provide an opinion on the reasonableness of the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly.

The estimates of revenue for the fiscal year ending March 31, 2001 (the 2000-2001 revenue estimates) are the responsibility of the Department of Finance and have been prepared by the departmental management using assumptions with an effective date of March 7, 2000. I have examined the support provided by the department for the assumptions, and the preparation and presentation of the 2000-2001 revenue estimates of \$4,794,941,000 for total ordinary revenue. My opinion does not cover the 1999-2000 forecast, the 2000-2001 expenditure estimates, sinking fund earnings, nor the recoveries, user fees or other income netted against expenditures for appropriation purposes. My examination was made in accordance with the applicable Auditing Guideline issued by the Canadian Institute of Chartered Accountants. I have no responsibility to update this report for events and circumstances occurring after the date of my report.

Commencing with the fiscal year ending March 31, 1999, the Government implemented summary consolidated financial statement reporting in accordance with generally accepted accounting principles. Consistent with prior years, the 2000-2001 revenue estimates have been presented including the total ordinary revenue of the Consolidated Fund established under the provisions of the Provincial Finance Act. As a result, sinking fund earnings and revenue of certain government organizations, which are now reported as revenue in the Province's financial statements, are excluded from the 2000-2001 revenue estimate for total ordinary revenue, but included elsewhere in the 2000-2001 estimates and have not been included in my examination.

Except for the effect of adjustments, if any, which might have been necessary as a result of the matter discussed in the preceding paragraph, in my opinion:

- as at the date of this report, the assumptions used by the Department are suitably supported and consistent with the plans of the Government, as described to us by departmental management, and provide a reasonable basis for the 2000-2001 revenue estimates; and
- the 2000-2001 revenue estimates as presented reflect fairly such assumptions.

Since the 2000-2001 revenue estimates are based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. Accordingly, although I consider, except for the matter discussed above, the 2000-2001 revenue estimates to be reasonable, I express no opinion as to whether they will be achieved.

E.R. Salmon, FCA
Auditor General

Halifax, Nova Scotia
April 7, 2000

*Exhibit 2.5***AUDITOR'S REPORT**

*To the Members of the Legislative
Assembly of Nova Scotia*

I have audited the consolidated statements of financial position and tangible capital assets of the Province of Nova Scotia as at March 31, 2000 and the consolidated statements of operations, net direct debt and cash flow for the year then ended. These statements are the responsibility of the Government of Nova Scotia, represented by the Minister of Finance. My responsibility is to express an opinion on these financial statements based on my audit.

Except as explained in the following paragraph, I conducted my audit in accordance with auditing standards generally accepted in Canada. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The audited financial statements of Sydney Steel Corporation and the related pension plans for the year ended December 31, 1999 and the final actuarial valuation reports on those pension plans, had not been finalized at the time of my reporting on the Province's March 31, 2000 consolidated financial statements. Since the preliminary versions of this information available during my examination may be changed, I was unable to determine whether adjustments to the net income from government business enterprises or the unusual item reported on the statement of operations might be necessary.

In my opinion, except for the effect of adjustments, if any, which I might have determined to be necessary had I been able to examine the audited financial statements of Sydney Steel Corporation and the related pension plans for the year ended December 31, 1999 and the final actuarial valuation reports on those pension plans, these consolidated financial statements present fairly, in all material respects, the financial position and tangible capital assets of the Province of Nova Scotia as at March 31, 2000 and the results of its operations, changes in net direct debt, and cash flow for the year then ended in accordance with accounting principles generally accepted for the public sector in Canada.

E. Roy Salmon, FCA
Auditor General

Halifax, Nova Scotia
November 30, 2000

*Exhibit 2.6***AUDITORS' REPORT ON CONTROL PROCEDURES**

To Halifax Outsourcing Centre
EDS Canada Inc.

We have examined the accompanying description (pages 15-20) of the stated internal control objectives of the Halifax Outsourcing Centre of EDS Canada Inc. ("*HOC*") and the control procedures designed to achieve those objectives and have performed tests of the existence of those control procedures as at March 24, 2000. 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 March 24, 2000.

The description of stated internal control objectives and control procedures at the HOC is as of March 24, 2000, and information about tests of operating effectiveness of specific controls is only as at March 24, 2000. 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 HOC 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
March 24, 2000

Ernst & Young LLP
Chartered Accountants

DEPARTMENT OF HUMAN RESOURCES' RESPONSE

Thank you for providing the Department of Human Resources with the opportunity to review and comment on those sections of the Auditor General's Report which pertain to human resource management in Government. The relevant sections and our comments are as follows:

[refers to comments made in paragraphs 2.39, 2.40, 2.42, 2.43]

We do not disagree with having statutory requirements for reporting senior management salaries within government departments, but the term "compensation arrangements" is very broad, as is the phrase "all provincial public sector activities". Therefore, we will be investigating the ramifications of publishing the salary and contract arrangements for non-departmental entities.

The Department of Human Resources is pleased to provide the following response to the comments provided in paragraph 2.41 and paragraphs 2.43 through 2.50 of the report.

[refers to comments made in paragraph 2.41]

The government also shares your concern about the range of compensation packages and approaches found throughout the broader public sector.

As a result, the Department of Human Resources was asked to review all aspects of senior government officials' compensation in the fall of 2000. A committee has been established and research is currently underway including market research of compensation and benefits for similar positions in the private sector and other jurisdictions across Canada. The review and recommendations will assist with recruitment and retention while at the same time ensuring fair and transparent compensation processes.

The government is also interested in establishing a pay for performance system for senior officials as indicated in its platform and its commitments. The Department of Human Resources has developed a model for performance evaluation which is currently being implemented in departments.

In addition, comprehensive reviews are currently underway of both management and bargaining unit classification systems.

[refers to comments made in paragraphs 2.43 to 2.50]

While you are right in noting that not all of the Management Manuals have been updated, it is important to note that the Department of Human Resources has maintained and regularly updated the Management Manual 500 of corporate human resources policies. It is anticipated that the development of corporate human resource policy will remain as a centralized function in the Department of Human Resources and that the Treasury and Policy Board will oversee Government-wide policy development and publication of all the Management Manuals.

We also note, in particular, the point made in your 2.8 regarding broader application of certain policies and agree that this should be explored further and particularly for those human resources

policies which have an easily quantifiable financial impact. Having said that, we are also mindful that arrangements which have been the subject of collective bargaining in the broader public service would have to be carefully assessed, as would the appropriateness of extending certain policies to the broader public sector entities.
