

## **GOVERNMENT-WIDE ISSUES**

## 2.

# ACCOUNTABILITY INFORMATION AND REPORTING

## BACKGROUND

**2.1** Adequate information and reporting on government's plans and performance (i.e., results or outcomes) are required, so Members of the Legislative Assembly (MLAs) can hold government to account. The need for quality accountability information and reporting on government's performance continues to be a topic of consideration in a number of jurisdictions.

**2.2** 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.

**2.3** 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.

**2.4** 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.

**2.5** The purpose of this Chapter is to provide summary comments on the quality of accountability information and reporting to the MLAs, including the Province's financial statements.

## RESULTS IN BRIEF

**2.6** 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 is now required by law. The initial reporting on outcomes under this requirement, titled *Annual Accountability Report*, was released December 20, 2001.

Performance information or reports provided by government to MLAs should be relevant, reliable and understandable. The implementation and evolution of such

reporting, and the effective use of the information by government and MLAs for accountability purposes will require a significant sustained commitment.

- The Auditor General's Report, required under Section 9B of the Auditor General Act, on the 2001-02 revenue estimates was dated March 23, 2001 and tabled in the House on March 29, 2001 along with the Minister of Finance's *Budget Address*. In addition, summary comments and suggestions resulting from our review procedures were communicated to Finance.
- The government's March 31, 2001 summary consolidated financial statements were released November 16, 2001 as part of Volume I of the *Public Accounts*. Our Auditor's Report, dated September 28, 2001, on the consolidated financial statements was unqualified.
- A review of the Province's March 31, 2001 summary consolidated financial statements indicates that in total there were approximately \$31 billion of treasury-related balances and trusts to be managed by government. Additional attention could be directed towards holding the government accountable for its longer-term plans and performance in the various treasury functions or areas.
- One of the priority matters identified in the 2000-01 business plan of the Technology and Science Secretariat (TSS) was the development of a government-wide Business and Technology Strategy (BTS). This initiative was undertaken and coordinated by the Corporate Strategies Division of TSS, and Phase I was completed and reported upon in July 2000.
- In December 1996, the Public Accounts Committee (PAC) submitted a report to the House of Assembly which included a number of accountability-related recommendations flowing from the efforts of a PAC Sub-committee on the Public Accounts. Not all of the recommendations have been fully implemented yet.
- The terms of reference for the use and reporting of the taxes allocated to the Transportation Trust Fund under Section 10 of the Revenue Act should be clarified.
- The House receives limited information or reporting, on a regular basis, on the management of human resources utilized by government. Reporting by the new Public Service Commission should include summary information to address this area.

## SCOPE OF REVIEW

**2.7** 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.

**2.8** In addition to considering the status of accountability-related initiatives undertaken by government, we reviewed and provide commentary on selected matters, including the Province's summary consolidated financial statements.

## PRINCIPAL FINDINGS

**2.9** 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
- Treasury Management
- Management Control of Information Technology
- Other Matters

### *Planning and Accountability Framework*

**2.10** For the House of Assembly to hold government to account, and for government to hold departments and agencies accountable, there should be a standard framework in place. Such a standard has been defined, is being implemented, and will continue to evolve over the next few years.

**2.11** The *Planning and Accountability Framework* is a government-wide initiative now being coordinated through the Treasury and Policy Board (TPB). The information and reporting documents prepared as a result of the framework are to 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. How such information or reporting is presented to MLAs, and used by them as part of the parliamentary process to hold government to account, will have a significant impact on its effectiveness.

**2.12** As a result of June 2000 changes to the Provincial Finance Act (included in the Financial Measures 2000 Act), there is now a statutory requirement for such information and reporting on outcomes to be provided by government. The initial reporting on outcomes under this requirement, titled *Annual Accountability Report*, was released December 20, 2001. Supporting accountability reports for departments are to be available through their web-sites.

**2.13** As the quality of reporting on outcomes continues to evolve, it will be important for MLAs to be provided more sufficient appropriate information on the government's progress towards its targets for program service and delivery levels.

**2.14** Reporting on performance, by governments, is a topic of some significance and debate in virtually all Canadian jurisdictions. In July 1999, CCAF-FCVI Inc. (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*.

**2.15** 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***

**2.16** 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.”*

**2.17** 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.

**2.18** The Auditor General's Report on the 2001-02 revenue estimates was dated March 23, 2001 and was tabled in the House along with the supporting information for the March 29, 2001 *Budget Address*. Exhibit 2.4 on page 27 is a copy of the Auditor General's Report on the 2001-02 Revenue Estimates.

**2.19** At the conclusion of our review of the 2001-02 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 March 28, 2001 provided the following summary observations on matters regarding the 2001-02 revenue estimates included in the March 29, 2001 *Budget Address*:

*In addition to my report, I would like to draw your attention to the following summary comments or observations:*

- *The estimating of provincial economic performance and revenues is subject to a number of risk factors, not all of which are directly controllable to any significant extent by government. In such circumstances, it is not unreasonable for a prudent degree of caution or conservatism to be incorporated into the economic assumptions and revenue estimates.*

*Further, despite detailed models and data available which are used to project economic activities and revenue levels, ultimately a requirement remains for a significant amount of professional judgement (economic or otherwise). The exercise of professional judgement to determine the economic assumptions and revenue levels to be included in the estimates is an integral, important and appropriate element of your staff's process for estimating revenues.*

- *The Key Assumptions Outlook document which is included in your Budget Address provides summary information and commentary to readers to assist in assessing the assumptions used and the revenue estimates. In this regard, it is acknowledged that Nova Scotia continues to disclose more information on its economic assumptions and revenue estimates than other jurisdictions.*

*Further to the above general comments, we note that this year your staff have included comments in the Key Assumptions Outlook document on certain positive and negative risk considerations for selected economic assumptions or revenue line items. This is a constructive change, in that it further supports a reader's understanding and consideration of complexities inherent in the estimate process, and the potential volatility of revenue line items.*

- *The Province continues to receive 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 2001-02 (as well as the forecast for 2000-2001, which is not specifically covered during my review). However, it must still be acknowledged that PYAs will most likely be identified during 2001-02 for prior years and, with respect to the current year, in future years, and that they could be significant individually or collectively.*

*In this regard, further adjustments may be necessary to the PYAs or the other revenue forecasts for 2000-2001 included in the budget documents as a result of new updated information that becomes available prior to the finalization of the Province's March 31, 2001 consolidated financial statements.*

- *It is also important to acknowledge the Province continues to experience challenges as it relates to the timing and substance of some of the data provided by the Federal government that is relevant to Finance's economic and revenue modelling for forecast or estimate purposes. We urge Finance to continue its efforts and deliberations with Federal Finance and the Canada Customs and Revenue Agency (CCRA) to satisfactorily resolve such matters.*
- *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.*

*Again this year it is suggested 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. To the extent appropriate, my staff would be prepared to assist or provide advice during a review.*

### **Province's Financial Statements**

**2.20** 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. 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.

**2.21** For provincial governments in Canada, generally accepted accounting principles (GAAP) are 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.

**2.22** 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.

**2.23** The government's summary consolidated financial statements for the March 31, 2001 fiscal year were released November 16, 2001 along with the unqualified Auditor's Report of the Auditor General dated September 28, 2001, as part of Volume I of the *Public Accounts*. The Auditor's Report is reproduced in Exhibit 2.5 on page 28. Nova Scotia was the eighth of eleven jurisdictions (i.e., Provincial and Federal governments) to release its audited financial statements for the fiscal year ending March 31, 2001. Nova Scotia was tenth in 2000, when its *Public Accounts* were released December 14, 2000. Finance and this Office have agreed to collaborate in identifying practical means to work towards more timely reporting.

**2.24** During the course of our audit of the government's March 31, 2001 summary consolidated financial statements, various findings and observations were noted. A formal management letter has been drafted for discussion with Finance. 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 control by the Minister of Finance and Executive Council of financial management systems and significant transactions of all entities included in the government's reporting entity. Implementation and communication strategies for the above are critical in order to optimize the coordination and exchange of information required to achieve effective control.
- The Minister of Finance is responsible for the establishment of financial and accounting policies for government. The establishment of financial and accounting policies provides employees involved in those functions with a clear understanding of what is expected to be done and thus reduces the chance of error.

Controls could be improved if all approved policies were available in a financial management and accounting policy manual accessible by all staff involved in those functions. We understand that a draft manual has been compiled and has been given to Treasury and Policy Board for review and approval.

Using the internet as a source of the financial management policy manual of government will also easily allow all entities in the government reporting entity (GRE) to be aware of government's policy statements and to use them as a guideline when establishing or amending entity policies.

- 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.
- During 2000-01, the internal audit function in government was centralized in the Department of Finance. An effective internal audit function is an important control mechanism. Where appropriate, this Office has and will continue to coordinate our plans and coverage with that of internal audit.
- 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 future:
  - employee future benefits;
  - foreign currency translation;

- liabilities, commitments and contingencies;
  - reporting entity; and
  - reporting model.
- \$73.3 million was reported as restructuring costs in government's March 31, 2001 financial statements. Certain costs in this account could be linked to specific departments. Management and control of this account would be improved if there were formal criteria established for what should be recorded in the account and, as well, if there was a detailed budget for the account to aid in monitoring the actual expenses against budget. Further comments in this regard are included in Chapter 3 of this Report (see paragraph 3.99).

### *Treasury Management*

**2.25** A review of the Province's March 31, 2001 summary consolidated financial statements indicates that in total there were approximately \$31 billion of treasury-related balances and trusts managed by government. The volume (i.e., number or dollar value) of transaction activity during the fiscal year is not reflected in this amount, and it would provide a more complete context for considering the overall magnitude of the Province's treasury management activities.

**2.26** 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. See Chapter 11 of this Report for the results of our audit of the basic systems and controls in place over certain significant treasury transactions.

**2.27** There has been, and should continue to be, close 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 towards holding the government accountable for its longer-term plans and performance in the various treasury functions or areas.

### *Management Control of Information Technology*

**2.28** Exhibit 2.6 on page 29 depicts the current management structure for the use of information technology in government. The key authoritative body is the Business Technology Advisory Committee (BTAC) which is a sub-committee of Deputy Ministers which reports to the Chair of Treasury and Policy Board. The mandate of BTAC is to:

- provide advice on the strategic direction for government;
- provide advice on the selection of business improvement and change initiatives and the application and use of all business technologies;
- ensure that policy is developed and maintained for all forms of business technology; and
- review major and non-compliant technology initiatives and proposals to ensure they support the strategic plan and priorities of government.

**2.29** One of the priority matters identified in the 2000-01 Business Plan of the Technology and Science Secretariat (TSS) was the development of a government-wide Business and Technology Strategy (BTS). This initiative was undertaken and coordinated by the Corporate Strategies Division of TSS, and Phase I was completed and reported upon in July 2000.

**2.30** The introduction of that report states, in part, the following.

*“Information and technologies in all forms are integral components in the delivery of services and operations of government generally. Successfully implementing change in government will increasingly depend on making the right choices in the management and use of Information and Technology (I &T) both in the common infrastructure and in individual program areas.”*

**2.31** The stated goal of the BTS was “...to establish a technology framework that will enable the government to use information and technology in a coordinated and effective manner to support and advance the Nova Scotia Government’s business vision.”

**2.32** The following was further stated.

*“The result of the BTS will be recommendations to establish an enabling framework consisting of Governance/Accountability, Organization, Policy/Standards and Methods/Tools. Once this framework is fully implemented and in operation, the result will be effective delivery of applications, information and infrastructure that will support and advance the Nova Scotia Government’s business vision.”*

**2.33** *How was this initiative structured?* - The first phase of the BTS focused on the Governance/Accountability and the Organization components of the defined enabling framework.

*“Business drivers and the Information and Technology vision were developed, and the current situation was analyzed and documented. Extensive research was conducted of other jurisdictions in both Canada and the United States, along with the research firm, Gartner Group. Focus groups were conducted with representation from both the business and IT communities in government.”*

**2.34** *What further progress has been made since the release of the Phase I report?* - The Phase I Report was reviewed and approved by BTAC in July 2000. Since that time further research and planning has taken place to help facilitate many of the recommended changes. Several of the recommendations with organizational impact have yet to be acted upon pending further research and the development of specific implementation plans.

**2.35** One of the major projects currently underway is the Infrastructure Shared Services Project. This project is focusing on the creation of a centralized shared service organization for the delivery of utility IT services across core government departments and agencies. In October 2001, a report was delivered outlining the current situation for the delivery of utility IT services, including the identification of several issues along with related recommendations. This is viewed as being the first step in developing a detailed business case.

**2.36** As well, in the past several months, Phase II of the BTS was started. This phase focuses on the remaining two components of the defined enabling framework - i.e., Policies/Standards and Methods/Tools. To date, the current situation in these two areas has been documented and research is being conducted to determine how these areas are managed in other jurisdictions.

**2.37** *What impact should this initiative have?* - The Business and Technology Strategy project represents a very significant initiative. This project has recognized I&T in the context of an integral component in the planning, delivery and support of most government services and operations.

**2.38** All future projects coming out of the BTS for both Phases I and II, as well as all future IT projects generally, need to be aligned with the vision, the business drivers and the guiding principles

as approved in the BTS. Further, when completed and fully implemented this project will provide both strategic and operational goals, objectives, standards and practices to be applied across government.

**2.39** Recently, Executive Council approved in principle the creation of the Office of Technology and Innovation as an office of the public service to replace the Technology and Science Secretariat. It is our understanding that the creation of the Office will formalize the mandate, governance and authority structure, and responsibilities of that new organization for the information management and technology component of government services and its relationship to BTAC, Treasury and Policy Board, and core agencies and departments of government in the context of I&T.

**2.40** *Data centre services* - In the early 1990s, the government entered into contractual 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.

**2.41** 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 2.7 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.

#### ***Other Matters***

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

**2.43** *PAC recommendations* - In December 1996, the Public Accounts Committee (PAC) submitted a report to the House of Assembly which included a number of accountability-related recommendations flowing from the efforts of a PAC Sub-committee on the Public Accounts.

**2.44** Exhibit 2.8 on page 31 provides a list of all of the PAC Sub-committee recommendations as well as a summary of our understanding on whether action has been taken or planned. Not all of the recommendations have been fully implemented yet.

**2.45** *Transportation Trust Fund* - On page 568 of Volume II of the March 31, 2001 *Public Accounts* is an unaudited continuity statement and summary of expenditures for the Transportation Trust Fund (TTF).

**2.46** A March 26, 1999 letter from the Clerk of the Executive Council to the Deputy Minister of Finance included the following which provides a historical summary and assessment of TTF's legal status.

*"Further to our telephone conversation of March 25, 1999, I enclose for your reference and information a short statutory history of the above noted Fund.*

*The Transportation Trust Fund was created in 1990 by an amendment to the Gasoline and Diesel Oil Tax Act by adding Section 6A thereto. In 1992 Section 6A was amended to qualify the statutory language establishing the Trust Fund by making it a part of the Consolidated Fund of the Province. In my view that amendment made the Transportation Trust Fund a trust fund in name only and made the gasoline and diesel oil tax contributed to it available for the general purposes of the Province. In 1996 the Gasoline and Diesel Oil*

*Tax Act, the Health Services Tax Act and the Tobacco Tax Act were combined and consolidated into the Revenue Act. The Transportation Trust Fund was continued by Section 10 of the Revenue Act but in the form by which it had been amended in 1992.*

*Therefore, my view is that the Transportation Trust Fund continues to be a trust fund in name only and the tax revenue contributed to it is not required to be used solely for the purpose of the construction and upgrading of all 100 series highways, which is also how I believe the Department of Finance presently administers the Fund.”*

**2.47** Section 10 of the Revenue Act reads as follows:

- 10 (1) The Transportation Trust Fund is hereby continued as part of the Consolidated Fund of the Province and shall be used for the purpose of the construction and upgrading of all 100 Series highways.*
- (2) Notwithstanding the Public Highways Act, there shall be paid into the Transportation Trust Fund*
- (a) two cents per litre of the tax levied pursuant to subsection 6(1); and*
  - (b) four and one-half cents per litre of the tax levied pursuant to subsection 8(1).*

**2.48** Exhibit 2.9 on page 36 shows the accumulated totals reported for the TTF since its inception based on the unaudited information reported in Volume II of the *Public Accounts*. The ending balance on the exhibit is different than the amount reported in the *Public Accounts* due to a clerical error in the latter.

**2.49** An analysis of the expenditures reported against the TTF indicates that approximately 52% were directed to Highway 104 and 15% to Highway 101. Highways 102 and 103 were each allocated approximately 7% of the expenditures reported against the TTF.

**2.50** The \$30.5 million of transfers to Consolidated Fund have all been reported in the last three fiscal years. In this regard, it is unclear when or if such transfers must ultimately be returned to the TTF for use against series 100 highway expenditures in order to be compliant with Section 10 of the Revenue Act.

**2.51** In addition, refund of payments (i.e., of taxes paid on gas/fuel) reported against the TTF are not allocated to the fund based on the taxes allocated as per Section 10 of the Revenue Act. We are not aware of the rationale for reporting refunds against the TTF, as opposed to a portion equivalent to the share of taxes that would have been applicable under the Act.

**2.52** Although the TTF is a notional or memo fund for purposes of accounting and reporting of the Consolidated Fund, it does appear to be an internally restricted fund. As such, the terms of reference for use and reporting should be clarified.

**2.53** *Pension funds* - The Pension Services Group (PSG) of the Department of Finance has responsibilities for the administration of the funds of the Public Service Superannuation Plan (PSSP) and the Nova Scotia Teachers Pension Plan (NSTPP). The Minister of Finance is the Trustee for both funds. PSG also administers the Members Retiring Allowances Account (MRAA) and, as of February 2001, the Sydney Steel Corporation Superannuation Fund.

**2.54** Members of the PSSP and NSTPP are supposed to be sent annual statements by the PSG. While NSTPP members received the required statements, due to system implementation and other problems, PSG has not been able to meet this annual reporting requirement to PSSP members in the past two years. It was indicated that statements will be sent out to PSSP members by April 2002.

**2.55** For PSSP actuarial valuation purposes, a three-year investment average valuation technique was implemented during 2000-01. Such an approach is used by many pension plans/funds in order to smooth short-term swings in the market value of investments. This change was not implemented for the NSTPP fund and, as such, additional care needs to be exercised when comparing the reported results and positions of these funds. Exhibits 2.10 (a) and 2.10 (b) on pages 37 and 38 are the most recent actuarial opinions on the plans or accounts.

**2.56** *Workforce demographics* - Provincial public sector employees represent a significant resource and cost, critical to the delivery and management of public programs or policies of government. Included in the most recent actuarial valuation reports of the PSSP and the NSTPP were tables profiling the active members of those plans. See Exhibit 2.11 on page 39 for summary totals by age extracted from these two reports.

**2.57** While not encompassing all employees of the Provincial public sector, the information on these plans should be of interest as it relates to two significant components of the Provincial government workforce. For example, 67.6% of PSSP active members and 71.6% of NSTPP are 40 years of age or older.

**2.58** The House receives limited information or reporting, on a regular basis, on the management of human resources utilized by government. Reporting by the new Public Service Commission should include summary information to address this area.

**2.59** *Follow-up matters* - In previous years, the Auditor General's Report has included various recommendations in Chapter 2. Action has been taken on many of these. The following is a summary highlighting areas where we believe action is still warranted.

- Approvals for additional spending authority required (e.g., additional appropriations) and for write-offs should be in place on a timely basis.
- Accountability would be enhanced if the reporting to Treasury and Policy Board on procurement policy exceptions was provided to the House.
- The applicability of the Management Manuals to Provincial public sector entities other than core departments and agencies should be clarified. 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.
- 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.

## CONCLUDING REMARKS

**2.60** 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.

**2.61** 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. Finance and the Treasury and Policy Board have taken, and are still taking, steps to improve the nature and quality of the information and reports available.

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Exhibit 2.1

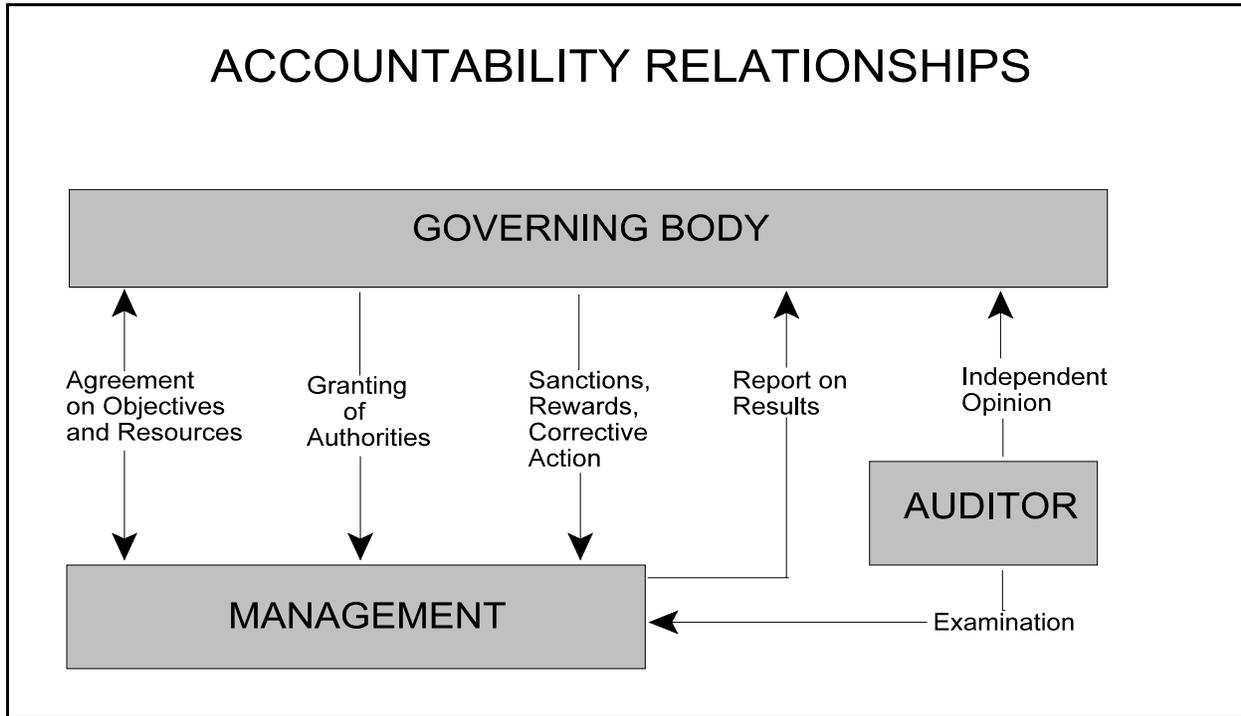
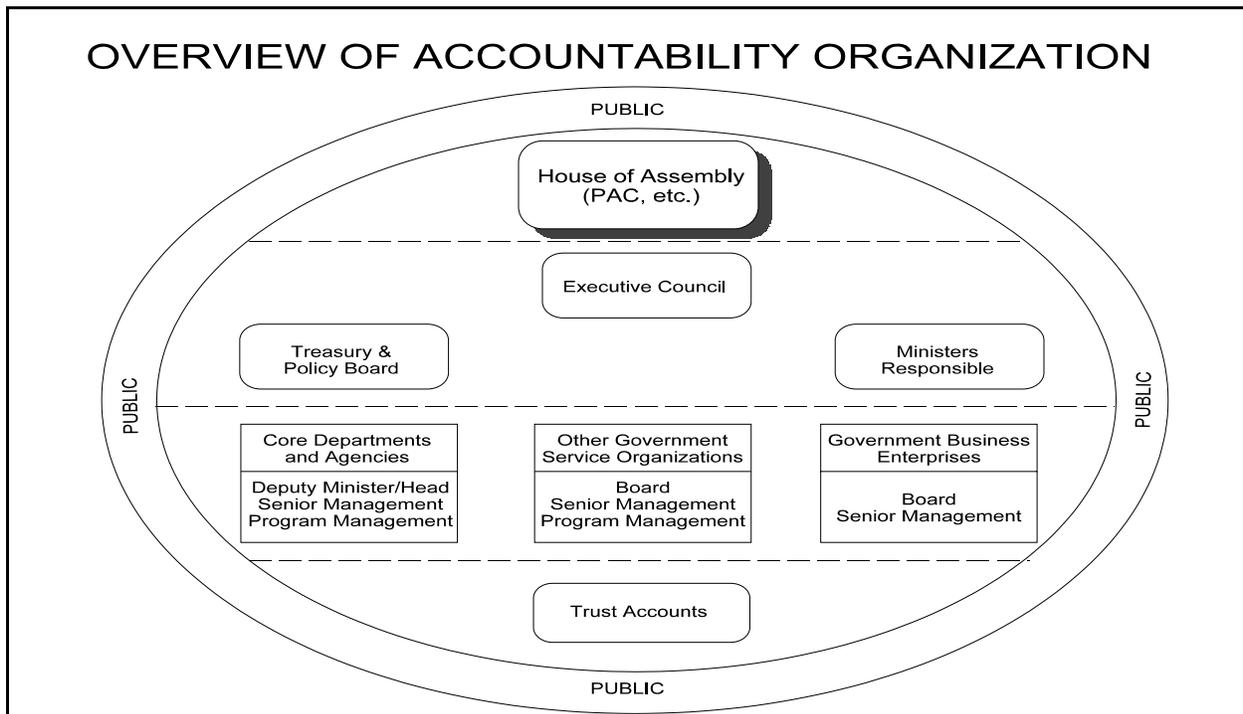


Exhibit 2.2



*Exhibit 2.3***EXTRACTS FROM CCAF-FCVI INC. 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, 2002  
USED IN THE PREPARATION OF THE MARCH 29, 2001 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, 2002 (the 2001-2002 revenue estimates) are the responsibility of the Department of Finance and have been prepared by departmental management using assumptions with an effective date of February 27, 2001. I have examined the support provided by the department for the assumptions, and the preparation and presentation of the 2001-2002 revenue estimates of \$5,134,771,000 for total ordinary revenue. My opinion does not cover the 2000-2001 forecast, the 2001-2002 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 accounting principles generally accepted for the public sector in Canada. Consistent with prior years, the 2001-2002 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 2001-2002 revenue estimate for total ordinary revenue, but included elsewhere in the 2001-2002 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 2001-2002 revenue estimates; and
- the 2001-2002 revenue estimates as presented reflect fairly such assumptions.

Since the 2001-2002 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 2001-2002 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  
March 23, 2001

*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, 2001 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.

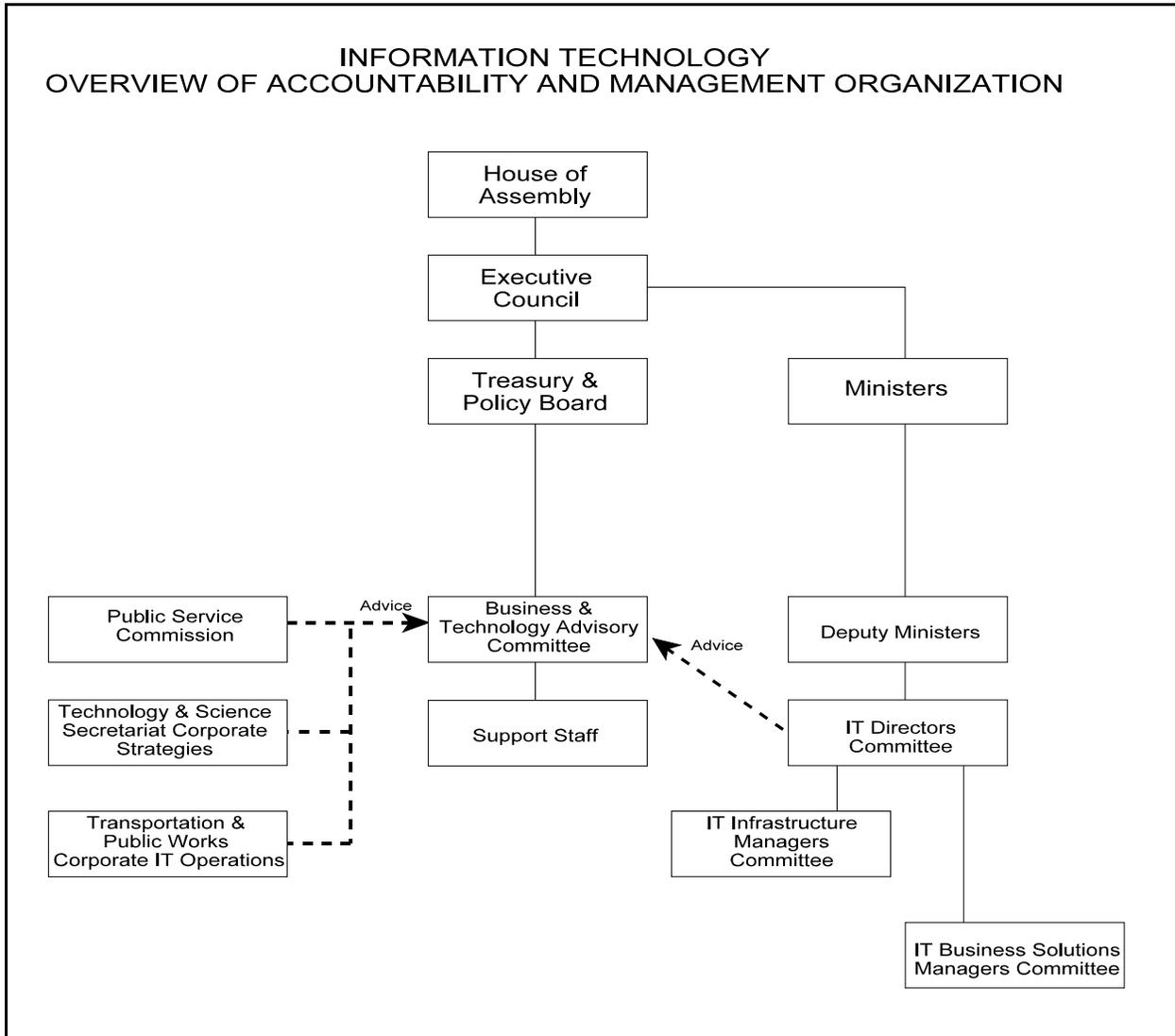
I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting 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.

In my opinion, 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, 2001 and the results of its operations, changes in net direct debt and cash flow for the year then ended in accordance with Canadian generally accepted accounting principles for the public sector.

E. Roy Salmon, FCA  
Auditor General

Halifax, Nova Scotia  
September 28, 2001

*Exhibit 2.6*



*Exhibit 2.7***AUDITORS' REPORT ON CONTROL PROCEDURES**

To Halifax Service Delivery Center  
EDS Canada Inc.

We have examined the accompanying description (pages 2-6) of the stated internal control objectives of the Halifax Service Delivery Center of EDS Canada Inc. ("*HSDC*") and the control procedures designed to achieve those objectives and have performed tests of the existence of those control procedures as at February 28, 2001. 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 partitions used by the Government of Nova Scotia.

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 28, 2001.

As we tested the existence of the control procedures only as at February 28, 2001, we do not express an opinion on whether the control procedures existed at any other time.

The description of stated internal control objectives at the HSDC, and the control procedures designed to achieve those objectives is as of February 28, 2001. Any projection of that description 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 HSDC is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that changes may alter the validity of such conclusions.

Halifax, Canada  
February 28, 2001

Ernst & Young LLP  
Chartered Accountants

*Exhibit 2.8*

<b>PUBLIC ACCOUNTS COMMITTEE - DECEMBER 1996 REPORT SUB-COMMITTEE ON PUBLIC ACCOUNTS - RECOMMENDATIONS</b>	
<b>Summary of Recommendations</b>	<b>Action Taken/ Planned Notes and Comments</b>
<b>Overall Accountability Information and Reporting</b>	
<p>i. <i>The provision of sufficient, appropriate, understandable and timely (i.e. quality) accountability information and reports to the House of Assembly should be required by statute, but with the specific form and nature determined by government policy or other directives.</i></p>	<p>Yes <i>Quality of information and reports provided will need to be assessed.</i></p>
<p>ii. <i>Accountability information and reports should be available to the House of Assembly on the plans and performance of government overall as well as individual departments and agencies, both from a financial and a program delivery or service perspective.</i></p>	<p>Yes <i>Initial reporting on outcomes required by June 2000. Amendments to Provincial Finance Act released December 20, 2001.</i></p>
<p>iii. <i>A comprehensive review and analysis of accountability related statutory provisions in place in other jurisdictions should be considered, and could support the development of draft statutory provisions/proposals for Nova Scotia.</i></p>	<p>Yes <i>Provincial Finance Act amendments</i></p>
<p>iv. <i>Departments and crown corporations or agencies (including inter-provincial crown entities with head-office operations outside of Nova Scotia) should be required to provide accountability information and reports to the House through a responsible Minister. For inter-provincial crown entities with head-office operations outside Nova Scotia the application of the provisions of the Auditor General Act and other provincial statutes need to be clarified.</i></p>	<p>Yes <i>Application of NS statutory (including the AG Act) or policy requirements remains an issue re: interprovincial crown entities with head offices outside Nova Scotia.</i></p>

*Exhibit 2.8 (Cont'd)*

Summary of Recommendations	Action Taken/ Planned	Notes and Comments
<b>Overall Accountability Information and Reporting</b>		
v. <i>If accountability information or reports will not be tabled when required, the House (i.e. to the Clerk of the Legislative Assembly) should be notified with a full and complete explanation, so Members will be made aware of the delay. This explanation should state an approximate date as to when the report requirement will be met.</i>	Unknown	
vi. <i>The statutory framework or standard shall also provide for timely interim reporting by government against its overall plans and budgets. The sub-committee recognizes the May 1996 amendments to the Provincial Finance Act require quarterly financial reporting on the state of public finances.</i>	Yes	
vii. <i>Information in the Supplement to the Public Accounts, which traditionally has only included information about departments and agencies using Finance's central financial systems, should be required for crown corporations and agencies, and other Provincial public sector entities. Given the varied functions of such corporations, agencies and other entities, practical reporting requirement limits may vary from those required by government departments.</i>	Unknown	

*Exhibit 2.8 (Cont'd)*

Summary of Recommendations	Action Taken/ Planned	Notes and Comments
<b>Estimates and Budgeting</b>		
viii. Additional appropriations and special warrants need to be reviewed by the House of Assembly on a more timely and effective basis. Where a department or agency has been allocated an additional appropriation the appropriation should be tabled in the House of Assembly or if the House is not sitting it shall be deemed tabled with the clerk of the House. The amount of the appropriation must also be included.	Unknown	Timing of additional appropriation approvals reduces House's effective control over spending authorities.
<b>Province's Financial Statements (i.e. the Public Accounts)</b>		
ix. Full consolidated financial statements for the Province should be a primary financial accountability report for government, and there should be consolidated estimate or budget information against which the actual financial position and results can be assessed by the House of Assembly.	Yes	Consolidated financial statements implemented in 1999. Estimates focus primarily on Consolidated Fund revenue and expenses, with adjustment to get budgeted surplus/deficit on consolidated basis.
x. In determining the reporting entity for purposes of the Province's financial statements, as well as other accounting policy and disclosure decisions, the government should adopt the public sector accounting recommendations issued by the Canadian Institute of Chartered Accountants.	Yes	
xi. The annual surplus or deficit, in the absence of extraordinary or retroactive adjustments due to changes in accounting policies, should be the only factor causing a change in the Province's net direct debt.	Yes	

*Exhibit 2.8 (Cont'd)*

Summary of Recommendations	Action Taken/ Planned	Notes and Comments
<p>xii. <i>The Provincial Finance Act should be amended so that the full Public Accounts (including full consolidated financial statements) are released at the same time as the annual Financial Report, or at least within nine months of year-end.</i></p>	Yes	<p><i>Public Accounts, including government's summary consolidated financial statements (SCFS), must be released by December 31.</i></p>
<p>xiii. <i>The Auditor General should provide an opinion on the Provinces's financial statements to the House of Assembly on a timely basis. If the House is not sitting the report should be deemed tabled with the Clerk of the House.</i></p>	Yes	<p><i>Auditor General began auditing and reporting on the government's SCFS in 1999.</i></p>
<p><b>Annual Reporting</b></p>		
<p>xiv. <i>Annual reports (i.e. whether for government overall, its departments, crown or other agencies) should be tabled or deemed tabled in the House of Assembly within six months after the end of the fiscal year to which the reports apply.</i></p>	Yes	<p><i>In process - government is working on new policy statements and guidelines re: accountability reporting and annual reports.</i></p>
<p>xv. <i>If an annual report is not tabled by a defined deadline, a full and complete explanation should be tabled or deemed tabled in the House of Assembly. (See recommendation v. for further details.)</i></p>	Unknown	
<p>xvi. <i>There must be adequate policy direction and provision of government guidelines provided by the government to departments, crown or other agencies including direction on format and content of annual reports and other information to be provided to the House of Assembly.</i></p>	Yes	<p><i>In process - see above comments.</i></p>

*Exhibit 2.8 (Cont'd)*

Summary of Recommendations	Action Taken/ Planned	Notes and Comments
<b>Auditor General's Mandate and Reporting</b>		
<p>xvii. <i>The release of the Report of the Auditor General should not be restricted or tied to specific actions or events the timing of which are controlled by government. In this regard, changes should be made to the Auditor General Act allowing the Auditor General to report to the House (table or deemed tabled) at least once, but no more than three times, each year, with the timing to be established at the discretion of the Auditor General.</i></p>	<p>Yes</p>	<p><i>Auditor General Act amended in 1998.</i></p>
<p>xviii. <i>The results of any independent professional standards and/or peer review functions of the audit activities of the Auditor General should be made available to the PAC on a timely basis, along with the Auditor General's comments on action taken or planned to address improvements necessary.</i></p>	<p>Yes</p>	<p><i>Results of such reviews included in Auditor General Report.</i></p>

*Exhibit 2.9***TRANSPORTATION TRUST FUND  
SUMMARY CONTINUITY TOTALS REPORTED MARCH 31, 1991 TO 2001**

Opening Balances - April 1, 1990	\$ -
Revenue collected	<u>382,639,002</u>
	<u>382,639,002</u>
Refund of Payments	12,612,029
Transportation and Public Works Expenditures	339,480,481
Transfers to Consolidated Fund	<u>30,561,188</u>
	<u>382,653,698</u>
Ending Balance - March 31, 2001	<u>\$ (14,696)</u>

**Exhibit 2.10(a)**

**ACTUARIAL OPINION WITH RESPECT TO  
THE ACTUARIAL VALUATION AS AT DECEMBER 31, 2000  
OF THE NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN**

This opinion is given with respect to the Nova Scotia Public Service Superannuation Plan (the "Plan"), Registration number 0284521 under the Canada Customs and Revenue Agency.

We performed a valuation of the Plan as at December 31, 2000 based on the Plan provisions and data as at that date. The Province has confirmed that no modifications or extraordinary changes to the membership, that would materially affect the results of this actuarial valuation, have occurred during the period from December 31, 2000 to the date of this report.

We hereby certify that, in our opinion, as at December 31, 2000:

- a) The Plan is fully funded. The actuarial value of assets exceeds the actuarial liabilities, on a going-concern basis, by \$21.2 million.
- b) The Plan's liabilities would exceed the Plan's assets by \$87.7 million if the Plan were to be wound up on the valuation date.
- c) The total normal actuarial cost for the 12 months starting January 1, 2001 is \$88.3 million, which compares with the employee's and matching employer contributions of \$67.8 million, resulting in a deficit of \$20.5 million or 3.4% of covered pay.

In our opinion:

- a) The data on which the valuation is based are sufficient and reliable for the purposes of the valuation.
- b) The assumptions used are, in aggregate, appropriate for the purposes of the valuation.
- c) The methods employed in the valuation are appropriate for the purposes of the valuation.

This report has been prepared, and our opinion given, in accordance with accepted actuarial practice. The assumptions that form each actuarial basis used in the report were reasonable at the time this actuarial valuation report was prepared and contributions were determined.

The calculations in the actuarial valuation report have been prepared in accordance with subparagraph 147.2(2)(a) of the Income Tax Act.

The recommendations and opinions are given exclusively from a financial viewpoint. This valuation report does not constitute a legal opinion on the rights or duties of the Plan administrator, the Province or the members over the pension funds.

Actuarial valuations are performed based on assumptions and methods that are in accordance with sound actuarial principles. Emerging experience differing from these assumptions may result in gains or losses, which may affect future contribution levels. These will be revealed in future actuarial valuations.

Due to the current service cost contribution deficit, the Plan's financial position, and the financial market performance during the first 6 months of 2001, we recommend that the next actuarial valuation be performed no later than as at December 31, 2001.

*Exhibit 2.10(b)*

**ACTUARIAL OPINION WITH RESPECT TO  
THE ACTUARIAL VALUATION AS AT DECEMBER 31, 2000  
OF THE NOVA SCOTIA TEACHERS' PENSION PLAN**

Based on the results of this valuation, we hereby certify that, as at December 31, 2000,

- The plan's current service cost for 2001 and subsequent years, up to the next actuarial valuation should be calculated as 15.54% of teachers' pensionable earnings.
- The estimated teachers' required contributions and matching Government contributions are expected to be \$51,253,000 each, which will exceed the current service cost for the 12 months following the valuation date, \$91,138,000, by \$11,368,000 which will be applied against the unfunded liability.
- The plan would be fully funded on a going-concern basis if its assets were augmented by \$212,191,000.
- In our opinion,
  - the data on which the valuation is based are sufficient and reliable for the purposes of the valuation,
  - the assumptions are, in aggregate, appropriate for the purposes of determining the funded status of the plan as at December 31, 2000 on a going concern basis and determining the funding requirements, and
  - the methods employed in the valuation are appropriate for the purposes of determining the funded status of the plan as at December 31, 2000 on a going concern basis and determining the funding requirements.
- This report has been prepared, and our opinions given, in accordance with accepted actuarial practice.
- All assumptions made for the purposes of the valuation were reasonable at the time the valuation was prepared.

*Exhibit 2.11***DISTRIBUTION OF ACTIVE MEMBERS AS AT DECEMBER 31, 2000**

Age	PSSP		NSTPP	
	#	%	#	%
20 - 24	91	0.7	47	0.3
25 - 29	1,414	10.6	418	2.9
30 - 34	1,456	10.9	1,286	8.8
35 - 39	1,365	10.2	2,349	16.2
40 - 44	1,869	14.0	2,973	20.4
45 - 49	2,680	20.0	3,095	21.3
50 - 54	3,457	25.9	2,645	18.2
55 - 59	874	6.5	1,288	8.9
60 plus	162	1.2	441	3.0
Total	13,368	100.0	14,542	100.0



# **FINANCIAL PLANNING AND BUDGETING**