

Government-Wide Issues

2

ACCOUNTABILITY AND FINANCIAL 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 accountable. In its simplest terms, accountability means the obligation to answer for an assigned responsibility.
- 2.2 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. Exhibit 2.1 on page 26 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;
 - departmental and other 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 26 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 summary comments and observations on the quality of government's accountability information and reporting available to the MLAs, including the Province's annual financial statements.

RESULTS IN BRIEF

- 2.5 The following are our principal observations this year.
- Government released its *Annual Accountability Report* for the year ended March 31, 2002 on December 20, 2002. Reporting for the 2002-03 year is due by December 31, 2003.

- The Auditor General's Report on the 2003-04 revenue estimates, required under Section 9B of the Auditor General Act, was tabled in the House on April 3, 2003 along with the *Nova Scotia Budget*.
- The Province's March 31, 2003 consolidated financial statements were released November 13, 2003 as part of the *Public Accounts*. The financial statements were audited by our Office and the opinion was unqualified. On November 14, 2003, we released a summary report on the Province's March 31, 2003 financial statements and other financial reporting practices. A separate management letter on more detailed findings and observations is to be issued to government in December 2003.
- New regulatory and other standards for control and reporting will require significant and sustained attention by government.
- Reporting to the House on the planning for and performance of various retirement and other post-employment benefit plans should be enhanced. The related costs and obligations for these benefit plans are affected by a number of market and other risks over which government has limited control.
- Reporting 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. Current reporting practices are incomplete and untimely.

SCOPE

- 2.6** The following represents a summary of our ongoing monitoring, 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. In addition to considering the status of accountability-related initiatives undertaken by government, we provide commentary on selected matters, including the Province's summary consolidated financial statements.

PRINCIPAL FINDINGS

- 2.7** Our principal findings and summary comments on general or specific matters relating to the quality of accountability information and reporting by government to the House are presented under the following headings.
- Annual Accountability Report
 - Government's Revenue Estimates
 - Province's Consolidated Financial Statements
 - Pensions and Other Retirement Benefits

- Control of Electronic Information
- Other Matters

Annual Accountability Report

- 2.8** For the House of Assembly to hold government to account, and for government to hold departments and agencies accountable, there is a standard framework in place. Government, through the Treasury and Policy Board, requires departments and agencies to prepare annual business plans and to report on outcomes or performance against plans. The Provincial Finance Act includes statutory requirements for government to provide such information and reporting to the House.
- 2.9** The effective implementation and continued evolution of such information and reporting mechanisms represent a significant challenge, requiring a sustained commitment by government. It is important for MLAs to be provided sufficient, appropriate information on the government's progress towards its targets for program service and delivery levels. 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.
- 2.10** The government of Nova Scotia released its second report in response to the requirement under Section 83 of the Provincial Finance Act. The *Annual Accountability Report* for 2001-02 was issued on December 20, 2002 and reports performance against the spring 2001 planning document *The Course Ahead for the fiscal year 2001-02 - The Government Business Plan*. Government departments were also required to prepare individual accountability reports for 2001-02, and make them available through the government's website.
- 2.11** Government has indicated that its *Annual Accountability Report* for 2002-03 will be released prior to the December 31, 2003 statutory deadline.
- 2.12** In addition to the above required reporting, government has (each August) released a report on the status of action taken against the various promises made by its party during the 1999 election campaign. This reporting, although discretionary (i.e., not required by statute or government policy directive), is an additional element in the information available to hold government accountable.

Government's Revenue Estimates

- 2.13** The Auditor General's Report under Section 9B of the Auditor General Act on the 2003-04 Revenue Estimates was tabled in the House on April 3, 2003 along with the supporting information for the 2003-04 *Nova Scotia Budget*. Exhibit 2.3 on page 27 is a copy of the Auditor General's Report on the 2003-04 Revenue Estimates.
- 2.14** Exhibits 2.3(a) and 2.3(b) on pages 28 and 30 respectively are letters issued after the conclusion of our review of the 2003-04 revenue estimates. They provide

summary observations and comments on matters regarding the 2003-04 revenue estimates and the tabling of the Auditor General's Report thereon.

Province's Consolidated Financial Statements

- 2.15** The Members of the Legislative Assembly (and the public) require financial information and reporting of the Province's financial position and results – both plans and performance – on a complete, understandable and timely basis. The use of generally accepted accounting principles (GAAP) as a basis of accounting provides an authoritative foundation or source upon which government can both choose and defend its accounting policy decisions.
- 2.16** The government released the Province's March 31, 2003 consolidated financial statements on November 13, 2003 as part of Volume I of the *Public Accounts*. The Auditor General's Report on the statements required under Section 9 of the Auditor General Act was unqualified, and is reproduced in Exhibit 2.4 on page 31.
- 2.17** Based upon the audit procedures completed, we concluded that the March 31, 2003 consolidated financial statements, which are the responsibility of the Minister of Finance on behalf of the government of Nova Scotia, present fairly, in all material respects, the financial position of the Province as at that date and the results of its operations, changes in net direct debt and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles for the public sector.
- 2.18** While auditing the March 31, 2003 statements, various findings and observations were noted. A summary report on such matters was released on November 14, 2003. Further comments and observations from that audit work follow. As in our prior audit, a detailed management letter will be issued to Finance, likely in December 2003.
- 2.19** **Compliance with GAAP** - Nova Scotians should recognize and have reason to be proud of the progress that has been made in the past five years through government's implementation of GAAP for purposes of the Province's annual financial statements. The implementation of GAAP as the basis of government's financial reporting, most notably its annual consolidated financial statements, has allowed Nova Scotia to move from the bottom of the pack, as it relates to Canadian provincial government financial statement reporting, to that of a leader.
- 2.20** However, it is likely that there will be additional challenges or difficulties for government in its efforts to comply with GAAP. GAAP is not static. There will be additional requirements for government to implement and these may place additional pressure on the statutory requirement for government to plan for and report balanced annual results.
- 2.21** The government, with Finance's leadership, needs to continue monitoring the Public Sector Accounting Board's initiatives, as well as relevant accounting recommendations from the Canadian Institute of Chartered Accountants (CICA)

and any international recommendations, in order to ensure adjustments necessary to government's financial planning, budgeting and reporting are taken into account and implemented on a timely and effective basis.

- 2.22** As a result of a number of large corporate failures in North America and internationally, accounting and auditing standards and practices are being subject to significant review, update and adjustment. Most notably, the Sarbanes-Oxley Act in the U.S. has resulted in the development of significant new Securities and Exchange Commission (SEC) filing requirements. The collateral impacts on standards and practices in Canada are yet to be fully determined. However, there is reason to believe new challenges will be put on an already-burdened financial management and control staff within government. The government now needs to ensure that all its public financial information and reporting are prepared and presented in a manner that meets certain fundamental attributes.
- 2.23** **Control systems and processes** - It is in the Province's best interest for government to have control systems and processes that support the optimal utilization of public funds and resources, while effectively mitigating associated risks. Government and public service management are responsible for ensuring there are adequate controls in place and that they operate effectively.
- 2.24** As part of the audit of the Province's annual financial statements, internal controls were reviewed only to the extent necessary under Canadian generally accepted auditing standards to establish a basis for determining the audit coverage necessary to express an opinion on those statements. The audit work was not designed to determine whether internal controls are adequate for management's purposes and will not necessarily disclose all conditions requiring attention by management.
- 2.25** While conducting the 2003 financial statement audit, areas were identified where internal controls should be strengthened or operating improvements could be achieved. Certain matters identified during the current year have implications which warrant government's attention. These matters will be discussed with government management staff as part of post-audit review and reporting meetings and, if appropriate, reported upon more formally in the management letter referred to previously. At this time, the following summary observations are provided.
- The Provincial Finance Act assigns responsibility for selection of accounting policies to the Minister and Deputy Minister of Finance. In addition, it assigns responsibility for systems and controls to Finance. In this regard, it is important to note that while the Act assigns responsibilities, it does not provide any direction as to whether the accounting policies or systems and controls should be selected or implemented in a manner consistent with established best practices or expectations.
 - This year, as in the past, we noted that Finance's government accounting staff often had to deal with identified accounting matters on a reactive, after-the-fact, basis. The information flow to government accounting on significant

financial transactions or decisions across government should be improved so accounting policy considerations can be effectively dealt with on a more timely and proactive basis.

Again this year, a number of Provincial entities missed the June 30th deadline to provide financial statements and other information to Finance. Chapter 15 of this Report on page 235 includes a list of entities that missed the statutory deadline.

Recommendation 2.1

We recommend that government take necessary steps to ensure all entities covered by the Provincial Finance Act meet the June 30 deadline for financial statements to be provided to Finance.

- In early 2003, government lost its senior, experienced treasury executive when the individual took a position in another Provincial government. Subsequent to that individual's departure, Finance was reorganized and the senior executive's responsibilities were split between the Assistant Deputy Minister, the Controller and a new Executive Director of Pension and Investments position. While this supports better segregation of duties and improved analysis of budget impacts by Finance senior management, the responsibilities of the senior treasury executive have now been allocated to public servants with significantly less treasury-related experience.
- The reporting relationship and positioning of the Corporate Information Systems (CIS) division within Finance (i.e., reporting to the Controller) does not reflect the current significance of that function's roles and responsibilities for providing information services and support for SAP to the broader public sector in the Province. The function's reporting relationship should reflect its importance to the overall systems and control of the broader Provincial public sector, and the government's plans and intentions with respect to the role of SAP.
- Serious concerns, in relation to best practices, have been identified in the general and environmental control activities of the CIS group's management of SAP central security and control-related functions (see Chapter 3 on page 34).

Appropriate arrangements need to be made for an independent third party service audit of the SAP functions, performed by the CIS division and central government, for the broader Provincial public sector. The results of such an annual audit should be made available to the governance, management and audit functions of the various Provincial public sector entities (i.e., including school boards, Regional Housing Authorities, municipalities and District Health Authorities in the future), in order to adequately support them in the performance of their various roles.

- There need to be formal standards or a framework for management and staff within the Provincial public sector to use as a reference when designing, implementing or assessing the appropriate level of control. New U.S. SEC regulatory reporting requirements will represent significant challenges for government as well as the Office of the Auditor General. The Province is an SEC registrant, and as a foreign issuer may find itself having to meet many of the same reporting requirements now being faced by U.S. public companies.
- In prior Reports, we suggested that the accounting policies and practices for Federal-Provincial revenue streams be subject to review. Experiences on this year's audit of the Province's statements have provided more support for such a review.

Recommendation 2.2

We again recommend that policies and practices, used during the budgeting and accounting processes for recognition and measurement of Provincial taxes and other revenue transfers from the Federal government, be reviewed.

Recommendation 2.3

We recommend that the management/audit trail, supporting the accounting for Provincial taxes and other revenue transfers from the Federal government, be improved.

Pensions and Other Retirement Benefits

- 2.26** **Introduction** - The purpose of the following paragraphs is to provide an introduction to aspects of the administration and accounting for pension and other retirement benefits. During the upcoming year, in addition to further exploring and clarifying the governance arrangements surrounding these obligations, this Office will review and report on additional matters with respect to pension and other retirement obligations.
- 2.27** The Province has fully adopted the recommendations of the Public Sector Accounting Board (PSAB) with respect to accounting for pensions and other retirement benefits. The most recent recommendations were issued in September 2001 after a number of years of research and development.
- 2.28** Pension and other retirement benefits are a significant liability to the Province, second only to unmatured debt. On a consolidated basis, the accrued liability as at March 31, 2003 was \$1.3 billion (2002 - \$1.5 billion). Interest costs related to retirement benefits (and included in debt servicing costs on the statement of operations) totaled \$65 million in 2003 (\$78 million in 2002). These interest costs were offset by a retirement benefit expense credit (or pension valuation

adjustment, as it is described in the statement of operations) of \$152 million in 2003 (\$245 million in 2002).

- 2.29** Note 6 to the Province's March 31, 2003 consolidated financial statements describes the various pension and retirement benefit obligations included in the liability. The Note provides further details of the financial activity throughout the year, summarized between activity in pension plans, and activity in other benefit plans. By far, the most significant of the pension plans are the Public Service Superannuation Plan and the Teachers Pension Plan (PSSP and TPP). The most significant 'other' benefits are those related to retirement health benefits provided to members of the TPP and PSSP.
- 2.30** **Governance arrangements** - Section 6(2) of the *Teachers Pension Act* designates the Minister of Finance as trustee of the Fund established under the Act. The Act further notes that the Minister of Finance has general supervision and management of the Act, and is responsible for its day-to-day administration.
- 2.31** The Teachers Pension Plan is further governed by an agreement between the Province and the Nova Scotia Teachers Union (NSTU) which establishes, among other things, a Teachers' Pension Board, and an Investment Advisory Committee. The agreement notes that the Teachers' Pension Board "... will be responsible for matters including Plan administration, including the determination of benefit entitlement" Our limited review of the governance arrangements of the TPP for this year's Report did not include determining the ongoing role of the Teachers' Pension Board.
- 2.32** The *Public Service Superannuation Act* designates the Department of Finance as administrator of that Act under Section 3(1). Although the PSSP Act does not specify that the Minister of Finance is trustee of the Superannuation Fund, Note 7 to the financial statements included in Volume 1 of the March 31, 2003 Public Accounts indicates the Fund is held in trust by the Minister of Finance.
- 2.33** The daily administration of these Funds is performed by management and staff of the Pension Services Group (PSG) at the Department of Finance. Responsibilities of the PSG include accounting for contributions and benefit payments, preparation of financial and other reports (including the annual report of each Plan as required under legislation), and liaison with active and retired members of the Plans.
- 2.34** Daily management of the investment portfolio is the responsibility of a division of the Department of Finance - the Investment Management Division. The Division has prepared a *Statement of Investment Policies and Goals* which details, among other items, the following:
- "The Funds' assets will be managed on an ongoing basis, with the primary objective of maximizing returns at an acceptable rate of risk.

- The basic goal is to ensure that the assets of the Funds, together with expected contributions, shall be invested in a prudent manner so as to meet the liabilities of the Funds.”

- 2.35** Governance arrangements with respect to retirement health benefits for TPP and PSSP retirees are not specified in legislation. A review of these arrangements is being undertaken by this Office, and results are to be reported in the 2004 Report of the Auditor General.
- 2.36** **Funding position** - Both the TPP and the PSSP are considered ‘funded’ plans because each has related assets, and because each requires annual contributions to a trust by both employers and employees. The majority of these assets are in the form of equities, fixed income securities (e.g., bonds), money market investments, and real estate. At March 31, 2003, the fair market value of these assets was \$2.5 billion for the PSSP (March 31, 2002 - \$2.9 billion) and \$3.2 billion for the TPP (March 31, 2002 - \$ 3.6 billion).
- 2.37** With the adoption of a new accounting policy for the year ended March 31, 2003, pension assets are recorded in the Province’s financial statements at a ‘smoothed’ market value for accounting purposes rather than the fair market value basis used previously. At March 31, 2003, there is a difference of \$1.2 billion between the fair market value and the smoothed value. This will be amortized to operating results over an average period of approximately 15 years.
- 2.38** While TPP and PSSP are ‘funded’ plans, there are no assets set aside to support the liability associated with retirement health benefits and certain other pension obligations. These liabilities are therefore unfunded. (Note that the term ‘unfunded’ can also refer to any situation where assets are not sufficient to cover the related obligation in a plan. This is the case for TPP; PSSP continues to be in an accounting surplus position for the year ended March 31, 2003.)
- 2.39** Contribution levels related to TPP and PSSP for both employers and employees are specified in respective legislation. Generally, contributions by employees are matched by government as the employer. As noted in paragraph 2.35 above, there is no legislation directly governing retirement health benefits, as these benefits were negotiated through labour contracts. Contributions for these benefits are in the form of premiums collected. For PSSP related health benefits, these premiums are shared 65%/35% between the government and retirees, respectively. For TPP related health benefits, the government bears 100% of the total cost of the premiums. Exhibit 2.5 provides a summary analysis of these obligations of \$518 million as at March 31, 2003.

Control of Electronic Information

- 2.40** The growth in the collection of electronic personal information and concerns about the protection of privacy led the Federal government to enact the *Personal Information Protection and Electronic Documents Act* (PIPEDA). Additionally, the European Union restricts trade with jurisdictions that lack privacy legislation similar to their

own. The core of PIPEDA was the adoption of Canadian Standards Association's (CSA) *Model Code for the Protection of Personal Information* (see Exhibit 2.6).

- 2.41** PIPEDA does not apply to Provincial governments. In Nova Scotia, the *Freedom of Information and Protection of Privacy Act* (FOIPOP) is the primary governing legislation regarding the protection of personal information in government. A number of other statutes, for example, the Hospital Act and the Social Assistance Act, govern particular departments, with specific rules concerning privacy of particular information.
- 2.42** These acts all speak of personal information in general terms, not distinguishing between paper records and electronic information. While the legal rules regarding paper records and electronic information are substantially identical, the methods used to protect them are significantly different. In this regard, it is government's responsibility to ensure that adequate security and control policies and practices are in place and functioning.
- 2.43** In fall 2002, we conducted a survey of the information technology sections of the government's Corporate Service Units (CSUs). We identified approximately 100 computer systems that might contain some personal information, half of which appear to contain significant personal information.
- 2.44** In 2003 we had intended to follow up on the survey results to more precisely identify the nature and extent of personal information stored on government computer systems but were unable to complete the follow-up due to resource demands of other audit projects. We now plan to conduct this follow-up work in 2004 to confirm which systems have significant personal information, and then examine the related controls.

Other Matters

- 2.45** 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.
- 2.46** In order to effectively fulfill the Auditor General's mandate under Sections 9 and 9B of the Auditor General Act (i.e., audit of annual financial statements and review of annual revenue estimates), it is necessary for the Auditor General to have access to information on decisions made by the Executive Council, Treasury and Policy Board and other government committees. During 2003, discussions continued with government senior management on how best to effectively achieve the required access by the Auditor General while at the same time preserving the confidentiality of the associated information. Temporary arrangements have been put in place which avoid any scope limitation in the Auditor General's review under the mandates noted above. The Auditor General was able to access and review information necessary in order to fulfill the mandates of sections 9 and 9B.
- 2.47** Some of the entities which are part of the public sector within the Province use accounting policies which are not in accordance with GAAP. For example, school

boards and municipalities are required to prepare their annual financial statements on a disclosed basis of accounting consistent with accounting manuals issued under the direction of their respective Ministers. Recent changes to professional auditing standards will place significant reporting limitations on such entities' auditors in the future. Generally accepted auditing standards (GAAS) will restrict the auditor's ability to provide an unqualified report on statements prepared on a basis other than GAAP. As a result, it would be appropriate for government, with involvement of the Department of Finance and other pertinent departments, to ensure that any direction provided to such entities requires the application of generally accepted accounting principles appropriate in the respective circumstances. This issue, as it relates to school boards, is discussed further in Chapter 5.

2.48 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. Such reporting on a timely basis could be helpful to the House in its role to hold government and various agencies accountable, by highlighting certain matters. For example:

- bonus arrangements for deputy heads and other senior officials; and
- car allowances integrated with base salary resulting in higher pensionable earnings.

Recommendation 2.4

We recommend government implement a requirement for annual compensation reporting by all Provincial public sector entities for executive and senior management positions.

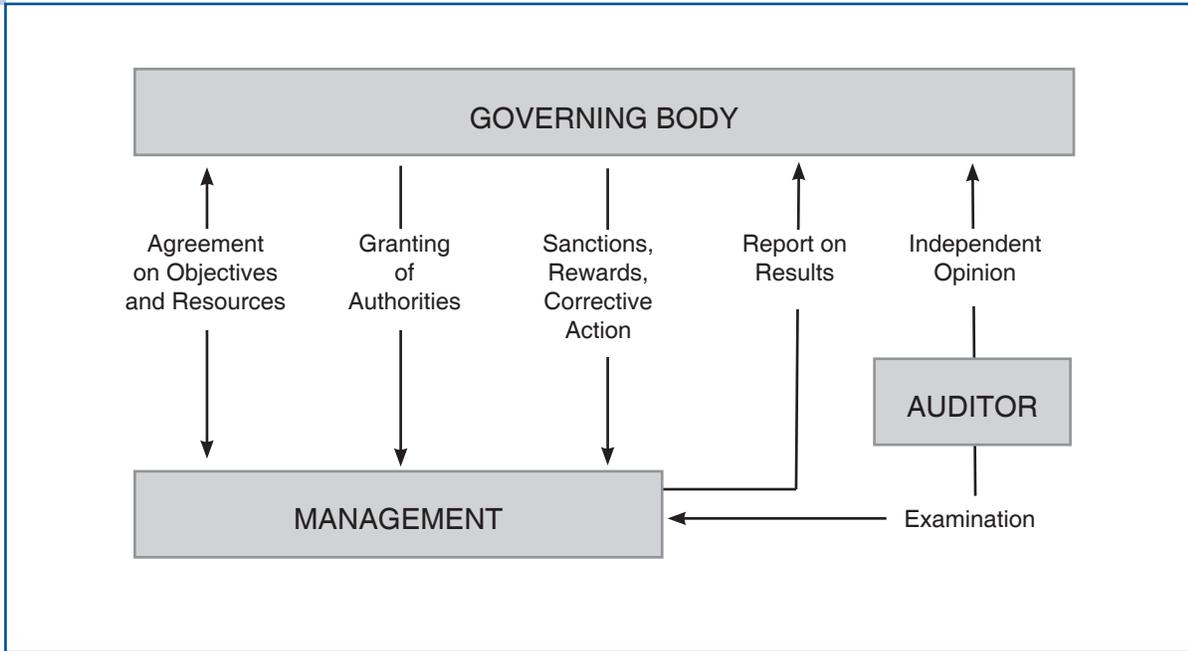
CONCLUDING REMARKS

2.49 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 program delivery or service perspective. The goal is better information and reports, not just more.

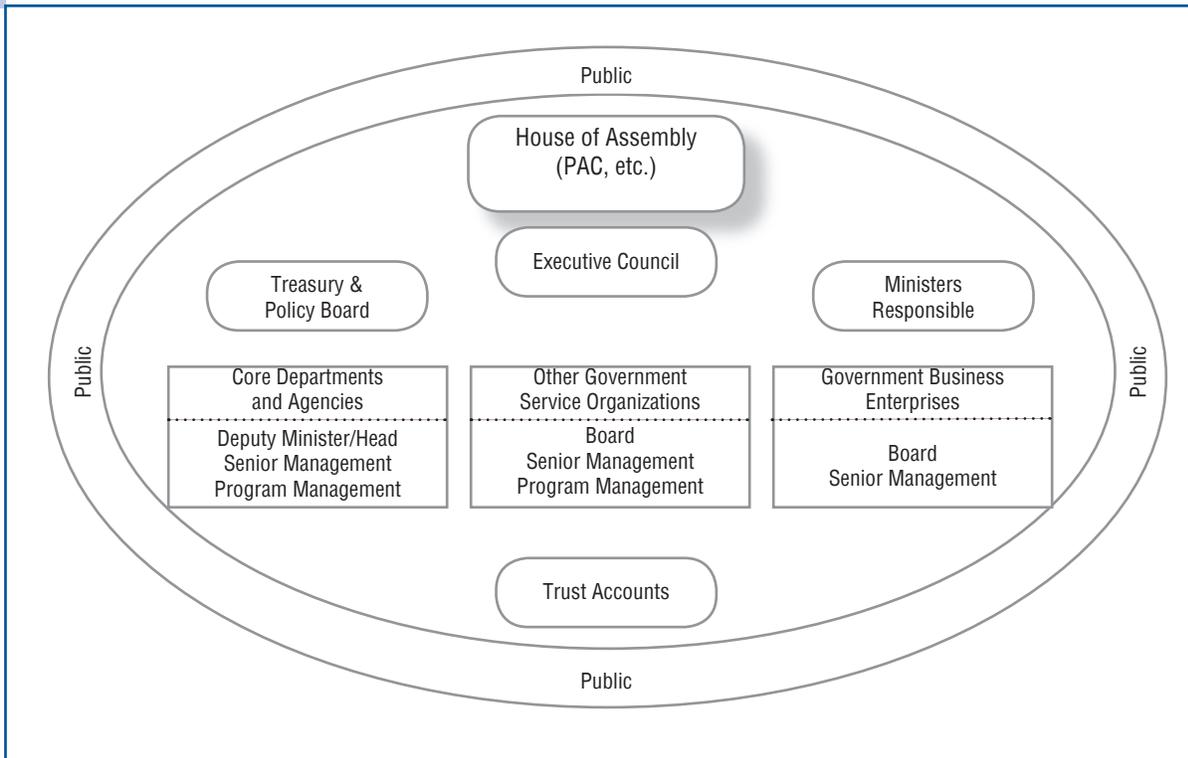
2.50 The government's implementation, in order to comply with generally accepted accounting principles, of new and pending accounting recommendations from the Canadian Institute of Chartered Accountants and its Public Sector Accounting Board will likely continue to put significant pressure on government's fiscal planning.

2.51 Since the Province makes use of U.S. and International capital markets for debt, derivatives and other treasury purposes, government needs to consider new and evolving regulatory and reporting requirements, including those related to reporting on controls.

Accountability Relationships



Overview of Accountability Organization



Report of the Auditor General to the House of Assembly on the Estimates of Revenue for the Fiscal Year Ending March 31, 2004 used in the preparation of the April 3, 2003 Budget Address

Exhibit 2.3

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 ended March 31, 2004 (the 2003-04 revenue estimates) are the responsibility of the Department of Finance and have been prepared by departmental management using assumptions with an effective date of March 6, 2003. I have examined the support provided by the department for the assumptions, and the preparation and presentation of the 2003-04 revenue estimates of \$5,628,516,000 for total ordinary revenue. My opinion does not cover the budget address, the 2002-2003 forecast, the 2003-04 spending estimates, sinking fund earnings, nor the recoveries, user fees or other income netted for annual 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 consolidated financial statement reporting in accordance with Canadian generally accepted accounting principles for the public sector. Consistent with prior years, the 2003-04 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 reported as revenue in the Province's consolidated financial statements are excluded from the 2003-04 revenue estimate for total ordinary revenue, but included elsewhere in the 2003-04 estimates, and have not been included in my examination.

The personal income taxes (PIT) revenue for 2003-04 was estimated based on national level taxable income and provincial share information determined by the federal government. The extent to which the economic and other assumptions used by the federal government to determine this information agrees to or differs from the Nova Scotia government's assumptions for 2003-04 has not been determined. As a result, the impact of any differences on the PIT estimate can not be adequately assessed.

Except for the effect of adjustments, if any, which might have been necessary as a result of the matters discussed in the preceding paragraphs, 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 Government, as described to us by departmental management, and provide a reasonable basis for the 2003-04 revenue estimates; and
- The 2003-04 revenue estimates as presented reflect fairly such assumptions.

Since the 2003-04 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 matters discussed above, the 2003-04 revenue estimates to be reasonable, I express no opinion as to whether they will be achieved.

(original signed by)
E. Roy Salmon, FCA
Auditor General

Halifax, Nova Scotia
April 2, 2003

April 2, 2003

Honourable Neil J. LeBlanc
Minister of Finance
Province of Nova Scotia
Halifax, Nova Scotia

Dear Honourable Neil J. LeBlanc:

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.

My report to the House of Assembly on the estimates of revenue for the fiscal year 2003-04 (i.e., the 2003-04 revenue estimates) used in the preparation of your April 3, 2003 budget address was provided to your senior departmental management today for printing purposes. Attached is the official signed copy of my report.

As per earlier correspondence, my report relates only to the 2003-04 revenue estimates of \$5,628,516,000 for total ordinary revenue. Once outstanding matters have been addressed, as in the past, my report is to be published and can be tabled along with other material provided to the House with your budget address.

If my report on the 2003-04 revenue estimates is to be used or referred to in any other publications or communications by the Government or its representatives, I should be provided with sufficient advance notice and afforded an opportunity to review the nature and content of such publications or communications.

Further to my report, various observations identified during this year's review will be communicated to your departmental management in the near future as part of a post-assignment process. In the meantime, I would like to draw your attention to the following summary comments.

- Summary information available at the time of our review supports the proposed accounting for Nova Scotia's share of new federal funding – CHST Supplement, Health Reform Fund, Diagnostic/Medical Equipment – announced in February by the Federal government. However, when more detailed information and formal support for these funding arrangements becomes available the accounting for them will need to be more fully assessed.
- The base case for government's economic assumptions used in the preparation of the 2003-04 revenue estimates was developed by your department's economic policy staff without full knowledge of significant aspects of government's tax, spending and fiscal plans for 2003-04 and beyond. Certain, but not all, of these assumptions were approved by Executive Council on March 6, 2003. It is unclear what the impact of fuller knowledge of these plans would have been on your staff's economic modeling and resulting base case assumptions. Our discussions in this regard with your senior staff indicated that while including these plans more fully in the economic modeling may have resulted in higher values being output, other (some external national and international) factors or considerations would have offset those changes.

At this time, I would also like to draw your attention to the following matters, previously brought to your departmental management's attention, which may bear directly on the level of government's compliance with generally accepted accounting principles (GAAP).

It is our understanding that the financial accounting and reporting practices used in the March 31, 2002 consolidated financial statements for the net proceeds of SYSCO disposal activities and the retirement health benefit obligations are to be carried forward for the 2002-03 and 2003-04 fiscal periods. We are not aware of any GAAP provisions that would support;

- the net proceeds of SYSCO disposal activities (e.g., sale of scrap) being included in the determination of the government's annual surplus or deficit, or
- the costs and obligations of government's retirement health benefit programs being excluded from the determination of the government's annual surplus or deficit.

As a result, it is our view, the planned accounting and reporting for these items is not in accordance with GAAP.

In closing, the cooperation and assistance of departmental management and staff at Finance and across government is acknowledged and appreciated. If you have any questions or wish to discuss my report on the 2003-04 revenue estimates or the contents of this letter, please contact me.

Yours truly,

(original signed by)

E. R. Salmon, FCA
Auditor General

c. Mr. Howard Windsor - Deputy Minister

April 8, 2003

Honourable Murray Scott
Speaker
House of Assembly
Province of Nova Scotia
Halifax, Nova Scotia

Dear Honourable Murray Scott:

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.

On April 2, 2003, my Report to the House of Assembly on the Estimates of Revenue for the fiscal year 2003-04 (i.e., the 2003-04 Revenue Estimates) used in the preparation of the Minister of Finance's April 3, 2003 Budget Address was provided to the Department of Finance's senior management for printing purposes.

During the printing of the Budget Address, certain adjustments were made to the presentation of my report, one of which resulted in my opinion being combined with another paragraph. Further, the copy of my signature published in the Budget Address was not the one provided on the copy of my official Report.

Upon noticing the adjustments, the Department of Finance was requested to correct the Report on its website and in hard copies subsequently distributed. They were also asked to have the correct version of my Report tabled in the House of Assembly as soon as possible. Finance has indicated that this latter aspect of our request will not be done.

As a result, the Members of the House of Assembly do not yet have a copy of my Report on the 2003-04 Revenue Estimates as it was intended to be presented to them. Therefore, attached is a copy of my Report under Section 9B of the Auditor General Act on the 2003-04 Revenue Estimates used in the preparation of the Minister of Finance's April 3, 2003 Budget Address.

This presents an unusual and unfortunate situation, but in my view the lack of separation between my opinion on the Revenue Estimates and the rest of my Report is a matter of some professional significance. As a result, I request that my Report be tabled in its intended form.

Yours truly,

(original signed by)

E. Roy Salmon, FCA
Auditor General

Auditor's Report

Exhibit 2.4

To the Members of the Legislative Assembly
of Nova Scotia

I have audited the consolidated statement of financial position of the Province of Nova Scotia as at March 31, 2003 and the consolidated statements of operations, change in 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 financial statements present fairly, in all material respects, the financial position of the Province of Nova Scotia as at March 31, 2003 and the results of its operations, changes in net direct debt and cash flows 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
July 15, 2003

Estimated Additional Retirement Benefit⁽¹⁾ Obligations to be Accounted for under Revised Accounting Standard PS3250

	Actuarial Obligation March 31/03	% Allocation of Premiums		Actuarial Estimates of Current Service Cost 2002-03	Actual Interest Cost 2002-03
		Employer	Pensioner		
Public Service Superannuation Plan	\$170,177,549	65%	35%	\$ 5,240,000	\$ 9,911,000
Members' Retiring Allowance Act	1,091,052	65%	35%	59,200	70,095
Teachers' Pension Plan	326,375,829	100%	0%	9,821,000	19,890,000
Sydney Steel Corporation Superannuation Plans	<u>20,373,000</u>	100% ⁽²⁾	0%	<u>-</u>	<u>1,056,706</u>
	<u>\$ 518,017,430</u>			<u>\$ 15,120,200</u>	<u>\$ 30,927,801</u>

- (1) Includes health and dental benefits and, for certain Sysco pensioners, life insurance coverage as well.
- (2) Sysco pensioners contribute a nominal amount each month toward their prescription drug plan. Coverage under this plan ceases at age 65. Life insurance benefits are fully paid by the Province.

The Canadian Standards Association's Model Code for the Protection of Personal Information.

Exhibit 2.6

This Code lays out ten principles for the protection of personal information:

1. **Accountability:** An organization is responsible for personal information under its control and shall designate an individual or individuals who are accountable for the organization's compliance with the following principles.
2. **Identifying Purposes:** The purposes for which personal information is collected shall be identified by the organization at or before the time the information is collected.
3. **Consent:** The knowledge and consent of the individual are required for the collection, use or disclosure of personal information, except when inappropriate.
4. **Limiting Collection:** The collection of personal information shall be limited to that which is necessary for the purposes identified by the organization. Information shall be collected by fair and lawful means.
5. **Limiting Use, Disclosure, and Retention:** Personal information shall not be used or disclosed for purposes other than those for which it was collected, except with the consent of the individual or as required by law. Personal information shall be retained only as long as necessary for fulfillment of those purposes.
6. **Accuracy:** Personal information shall be as accurate, complete, and up-to-date as is necessary for the purposes for which it is to be used.
7. **Safeguards:** Personal information shall be protected by security safeguards appropriate to the sensitivity of the information.
8. **Openness:** An organization shall make readily available to individuals specific information about its policies and practices relating to the management of personal information.
9. **Individual Access:** Upon request, an individual shall be informed of the existence, use and disclosure of his or her personal information and shall be given access to that information. An individual shall be able to challenge the accuracy and completeness of the information and have it amended as appropriate.
10. **Challenging Compliance:** An individual shall be able to address a challenge concerning compliance with the above principles to the designated individual or individuals for the organization's compliance.