February
2015

Report of the Auditor General to the Nova Scotia House of Assembly

Independence • Integrity • Impact

NOVA SCOTIA

February 12, 2015

Honourable Kevin Murphy
Speaker
House of Assembly
Province of Nova Scotia

Dear Sir:

I have the honour to submit herewith my Report to the House of Assembly under Section 18(2) of the Auditor General Act, to be laid before the House in accordance with Section 18(4) of the Auditor General Act.

Respectfully submitted

MICHAEL A. PICKUP, CA
Auditor General of Nova Scotia

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Office of the Auditor General

Our Vision

A relevant, valued and independent audit office serving the public interest as the House of Assembly's primary source of assurance on government performance.

Our Mission

To make a significant contribution to enhanced accountability and performance in the provincial public sector.

Our Priorities

Conduct and report audits that provide information to the House of Assembly to assist it in holding government accountable.

Focus our audit efforts on areas of higher risk that impact on the lives of Nova Scotians.

Contribute to a better performing public service with practical recommendations for significant improvements.

Encourage continual improvement in financial reporting by government.

Promote excellence and a professional and supportive workplace at the Office of the Auditor General.

Who We Are and What We Do

The Auditor General is an independent nonpartisan officer of the Legislature, appointed by the House of Assembly for a ten-year term. He or she is responsible to the House for providing independent and objective assessments of the operations of government, the use of public funds, and the integrity of financial reports. The Auditor General helps the House to hold the government to account for its use and stewardship of public funds.

The Auditor General Act establishes the Auditor General's mandate, responsibilities and powers. The Act provides his or her Office with a modern performance audit mandate to examine entities, processes and programs for economy, efficiency and effectiveness and for appropriate use of public funds. It also clarifies which entities are subject to audit by the Office.

The Act stipulates that the Auditor General shall provide an opinion on government's annual consolidated financial statements; provide an opinion on the revenue estimates in the government's annual budget address; and report to the House at least annually on the results of the Office's work under the Act.

The Act provides the Office a mandate to audit all parts of the provincial public sector, including government departments and all agencies, boards, commissions or other bodies responsible to the crown, such as regional school boards and district health authorities, as well as funding recipients external to the provincial public sector. It provides the Auditor General with the authority to require the provision of any documents needed in the performance of his or her duties.

In its work, the Office of the Auditor General is guided by, and complies with, the professional standards established by the Chartered Professional Accountants of Canada, otherwise known as generally accepted auditing standards. We also seek guidance from other professional bodies and audit-related best practices in other jurisdictions.

Table of Contents

1 Message from the Auditor General

Introduction

1.1 I am pleased to present my February 2015 Report to the House of Assembly. This Report focuses on financial reporting issues and includes work completed by my Office during 2014.

1.2 I wish to acknowledge the valuable efforts of my staff whose dedication and professionalism make this work possible. As well, I wish to acknowledge the cooperation and courtesy we received from staff in departments and agencies during the course of our work. Overall, we found that they answered our audit queries promptly and satisfactorily. Without their assistance, it would be difficult to complete our work on a timely basis.

1.3 Key senior personnel involved in these audits were:

Ann McDonald, CA – Assistant Auditor General
Shelley Creighton, CA – Audit Principal
Dana Jasper, CA – Audit Principal

Overview of Report

1.4 The Office of the Auditor General has a number of legislated responsibilities related to the financial management of government. These include:

- a review engagement report, including an opinion, on the reasonableness of government's revenue estimates in its annual budget;
- a report, including an opinion, on the fair presentation of government's annual consolidated financial statements;
- an audit of the financial statements of four provincial agencies;
- an audit of controls and compliance with respect to the House of Assembly Management Commission Act; and
- reviews of the audit opinions and management letters provided by external auditors on agencies included in the government reporting entity.

1.5 In addition, we may also conduct other financial audits in government as we consider appropriate. As a result of our work, we generally provide recommendations in all audits and reviews to improve financial management in government. We also provide information on financial matters we consider significant enough to bring to the attention of Members of the House of Assembly.

1.6 On April 1, 2015, the new Provincial Health Authority will be created with its first financial statement year-end being March 31, 2016. The results of this new entity will be the single most significant expense of the government, accounting for about 20% of annual expenditures. We are working cooperatively with government to arrange the details of our role as independent auditor of the annual financial statements. We look forward to working with the board and management of the new authority as we take on this important role.

1.7 This report contains six chapters in addition to this introduction.

1.8 Chapter 2 provides information on retirement and employment benefits, the most significant of which are post-retirement benefits such as health benefits and retirement allowances, and compensated absences such as sick leave. The liability for these benefits was $1.8 billion at March 31, 2014. The purpose of the chapter is to provide objective information on these long-term obligations, including details such as the amount, extent and contribution rates for each benefit. The chapter is for information purposes only and does not include any recommendations or conclusions related to the ongoing sustainability or merit of the benefits.

1.9 Chapter 3 is our annual information on indicators of government financial condition. We reported ten indicators related to the sustainability, flexibility and vulnerability of Nova Scotia's financial condition, and provided information on budget-to-actual and actual-to-actual variances for the year ended March 31, 2014. Several of these indicators show that the province is in poor financial shape. For example, net debt per capita has increased to $15,659 – the highest it has ever been. In addition, the province incurred a deficit of $679 million last year compared with $304 million in 2012-13.

1.10 We audited accountability reporting of 11 government agencies and reported the results in chapter 4. We concluded the following.

- Annapolis Valley Health and the IWK Health Centre followed guidance provided by the Department of Health and Wellness for preparation of their annual business plans, but these plans provided little information to assess what each entity wanted to achieve during the upcoming year. We acknowledged IWK's public reporting on several key performance indicators but suggested achievable targets need to be developed for each indicator.

- We concluded that accountability reports by two regional school boards required additional student-focused outcomes.

- Outcomes included in the remaining seven entities we tested did not follow best practices as many were not specific or measurable. However, several of these outcomes, with small changes, would provide clearer information as to whether an entity was achieving its mandate.

1.11 Chapter 5 provides the results of our financial audits and reviews. The opinion on the 2014-15 revenue estimates was unqualified, as was the opinion on the province's March 31, 2014 consolidated financial statements. We made recommendations for improvements to financial management processes as the result of both engagements, including improved internal controls. We also commented on our audits of four government agencies, and controls and compliance of member transactions with the House of Assembly Management Commission Act.

1.12 In our review of agency audit opinions and management letters, we reported that all school boards received an unqualified audit opinion for the year ended March 31, 2014. However, we continue to be concerned with the number of recommendations which remain outstanding from year to year in some entities, including health authorities and Housing Nova Scotia. These deficiencies need to be addressed by management and boards of these entities on a timely basis.

1.13 The implementation rate of recommendations reported in our January 2012 Report of the Auditor General is 70%. This is a decline of 7% from the 77% implementation rate reported last year. This reduction is disappointing as our recommendations were agreed to and we believe provide valuable input to government. In addition, we disagree with the implementation status of two recommendations. Government was unable to provide adequate support for us to establish that each of these had been fully implemented.

1.14 Departmental responses to recommendations have been included in the appropriate chapter. We will follow up on the implementation status of our recommendations in two years, with the expectation that significant progress will have been made.

At a Glance

2 Information on Unfunded Employee Retirement Benefits and Compensated Absences

Summary

Employee retirement benefits and compensated absences have existed for many years and have accumulated over time. These benefits and compensated absences represent a significant liability and pose major risks to Nova Scotia; the sustainability of these plans should be assessed on an ongoing basis.

As at March 31, 2014, the liability related to these plans totaled approximately $1.8 billion. These obligations are unfunded, meaning money has not been set aside by the province to pay for benefits. Payments made under these plans will have to be paid through future taxes and other revenues.

The obligation is subject to risks, including borrowing rates and rising health care costs. These risks impact the future finances of Nova Scotia as assumption changes can have a significant impact on the obligations and annual costs associated with these plans.

The liability for retirees' health benefits is the most significant component of the employee retirement benefits obligation. It represents $1.1 billion of the total $1.8 billion obligation. There are variances in the benefits across public service sectors. For example, the province pays 100% of retirement health benefit premiums for retired teachers but pays a portion of premiums for retired civil servants.

Retiring allowances accrued for both union and non-union management and staff in the public sector totaled $373 million and are fully paid by the province. Long-term workers could receive a significant one-time payment of as much as one half-year of pay upon retirement, in addition to their pension entitlements. There are differences in retiring allowances provided to retirees in the public service sector, health sector and education sector.

There is also a liability for earned, but unused, sick time in the health and education sectors, although the amount of unused sick time that may be carried over varies by sector. This obligation totaled $202 million at March 31, 2014. Although there is no cash payment associated with use of accumulated sick time, and unused amounts expire on retirement, there is still an obligation for these amounts that must be recognized while the individual is employed with the province.

Our intent with this chapter is to provide information to Nova Scotians on the details of benefits received by employees, how benefits are earned, and the risks and costs associated with providing these obligations.

2 Information on Unfunded Employee Retirement Benefits and Compensated Absences

Background

Employee retirement benefits and compensated absences have created a significant financial obligation

2.1 Government sponsors several employee benefit plans including a number which provide retirement benefits and compensated absences. Retirement benefits include retirement health benefits and retiring allowances. Compensated absences include accumulated sick leave, workers' compensation and long-term disability. These arrangements have arisen from various past agreements and decisions and have created a significant financial obligation to Nova Scotia.

2.2 The province's obligation for these plans totaled $1.8 billion at March 31, 2014. While appropriately accounted for, no funds have been set aside to pay these amounts, with the exception of long-term disability, which is paid from the province's fully-funded, long-term disability trust fund.

2.3 These plans represent almost 69% of the total obligation owed for all employee retirement benefits, including pensions. Contributions, interest costs, and the impact of changes in other assumptions related to these benefits were $156 million in 2013-14, about 24% of the total expense for all pension, retirement and other obligations. Employer contributions made by the province to other employee retirement benefits, and compensated absences, either directly or through health authorities and school boards, totaled $66 million for the year ended March 31, 2014.

2.4 Our Office conducts the annual audit of the province's consolidated financial statements. We are satisfied the obligation for these benefit plans is fairly presented in accordance with Canadian accounting standards for the public sector.

2.5 Most Canadian jurisdictions offer one or more of these benefits to their public sector employees. A summary of plans offered throughout the country, including by the federal government, is included in Appendix A.

Chapter Objective

2.6 We do not question the merit of having these programs, or the decisions made by past governments to put these benefits in place. These decisions and actions reflect government policy. Our objective in this chapter is to provide information on the ongoing impacts of such decisions, including the risks associated with the resulting obligations. This chapter is for information purposes only and is not as the result of an audit. We met with senior government staff to obtain information on government's short-term and long-term plans for these obligations, including information on whether government has considered their sustainability.

2.7 In this chapter, we provide detailed information on certain unfunded employee retirement benefits and compensated absences. These plans represent a significant liability to the province. As these plans are unfunded, there are risks associated with financing these plans, mainly due to the variability in their underlying assumptions. In addition, the annual cost of these plans, either through contributions, as interest costs resulting from these obligations, or as the valuation adjustment to recognize the impact of changes in assumptions, is significant and poses a risk both to their sustainability, and to the province's annual operating results.

2.8 The following table includes summary information on the province's employee benefit plans, including current year service costs related to each plan (that is, the cost accruing to the government for employees' service in the last fiscal year) and the interest charges in carrying these liabilities.

	Post-Employment Benefits				Compensated Absences		Total
(in thousands)	Retirement Health Benefits	Retiring Allowance	Employee Retirement Incentive Plans (1)	Other Employee Future Benefit Plans	Sick Leave Plans	Other (2)	
Liability, March 31, 2014	$1,094,319	$373,319	$133,349	$4,667	$202,319	$46,811	$1,854,784
Employer contributions	$19,907	$15,001	$2,221	$134	$15,149	$13,184	$65,596
Interest charges	$42,234	$16,055	$5,722	$164	$8,001	$680	$72,856
Pension valuation adjustment*	$14,917	$18,562	$3,418	$26	$6,475	$288	$43,686
Total Expense	$77,058	$49,618	$11,361	$324	$29,625	$14,152	$182,138

*Pension Valuation Adjustment is an adjustment due to changes to pension valuation not attributed to employer contributions or debt service costs. These generally consist of amortization of net actuarial adjustments and current service cost adjustments.

(1) Retirement incentive plans were offered to certain employees to bridge them to retirement. The last plan offered was in 1994.
(2) Other compensated absences consists of Long-Term Disability and Worker's Compensation.

Significant Observations

Unfunded Employee Retirement Benefits and Compensated Absences

2.9 *Introduction* – The most significant obligations associated with employee retirement benefits and compensated absences are unfunded plans such as:

- retirement health benefits ($1.1 billion);
- retiring allowances ($373 million); and
- accumulated sick leave ($202 million).

2.10 Other plans totaled about $125 million at March 31, 2014, making the total liability $1.8 billion.

2.11 It is important to note that, while the liability associated with allowing certain employees to accumulate unused sick days has been recognized, there is no payment (cash flow) when these days are used. The liability reduces by the amount of accumulated days used each year. Unused days are forfeited when employment ends.

2.12 Benefits are provided to union and non-union management and staff in the province's public sector for future health costs, service awards and other benefits. The liability represents the present value of future payments to be made over a future period of time, or at a single point in time in the future, under each of these arrangements. Several of these benefits are included in various collective agreements. These benefits are also provided to certain excluded and non-bargaining unit employees, including management and staff in government departments and agencies, health authorities and school boards.

2.13 Amounts have increased substantially over the past five years, particularly the obligation for retirement health benefits which has increased by almost 43%. Retiring allowances have increased almost 20% in the same period. Accumulated sick leave has only been recognized as an obligation since 2012-13; it has increased approximately 7% during this two-year period.

($ in millions)	2009-10	2010-11	2011-12	2012-13	2013-14
Retirement Health Benefits	$766	$928	$975	$1,040	$1,094
Retiring Allowances	$312	$323	$333	$360	$373
Accumulated Sick Leave	N/A	N/A	N/A	$188	$202

2.14 *Estimated costs to the province when an employee retires* – For information purposes only, we have provided an example of what an employee would receive in the initial year of retirement from the public service, using the following assumptions.

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- $75,000 salary at the time of retirement
- Worked in their respective sector for 30 years
- Not deferring their pension
- Retiring at age 55
- Estimated health benefit premiums of $1,800

Amount Received on Retirement	Public Sector
Retiring Allowance – one-time payment	$37,500
Pension – annual	$42,422
Retirement Health Benefits	$1,170

The $1.8 billion liability is unfunded and will be paid through future taxes and other revenues

2.15 *Unfunded plans* – With the exception of obligations for long-term disability recognized in the province's Long-Term Disability Plan Trust Fund, none of the plans discussed in this chapter are funded. This means no money has been set aside by the province to pay for these obligations as they become due. Each year, the net cost of offering these plans is included in operations and contributes to the annual surplus or deficit of the province. Payments made through these plans will have to be funded through taxes and other revenues. An increase in the liability also contributes to the province's total net debt position.

2.16 *Risks to unfunded plans* – As these plans are unfunded, investment risks such as credit risk and liquidity risk are not applicable. The most significant risks impacting these plans are borrowing rates and changes in assumptions.

These benefit costs carry risks to the future finances of Nova Scotia

2.17 The liability for each of these plans is determined by an actuary using assumptions approved by government, although actuarial practice is to assess these assumptions as reasonable. Significant assumptions include mortality, salary increases, and inflation rates. Changes to any of these assumptions can have an impact on the province's future liability, and on the current year's expense. Although the province's actuaries have not calculated the impact of changes to each assumption, there is information in the annual valuation reports on two assumptions – the discount rate, which is applicable to all these obligations, and the health care escalation factor, which is applicable to retirement health care benefits only (discussed later in the chapter).

2.18 *Discount rates* – The obligation for employee retirement benefits represents the current estimated costs today to provide these benefits at a date in the future, or as is the case for retirement health benefits, a series of payments over a period of time. As with any liability, there is a cost associated with carrying this debt over time. To determine the cost today associated with what employees have earned but will only be provided in the future, a discount rate is used. The discount rate is based on the province's cost of borrowing. This is because payments made on behalf of these plans are made through the province's daily operations, and these operations determine borrowing requirements. The annual cost of owing these benefits is included in the province's debt servicing costs. Small changes to the discount rate used to estimate the current obligation affect the debt servicing costs.

2.19 The province's actuaries have not provided a sensitivity analysis on changes to the cost of borrowing (the discount rate). However, the valuations for each of these plans for the year ended March 31, 2014 included the impact on the April 1, 2013 balances due to a change in the cost of borrowing from 4.3% to 4.1%. The following table notes the impact of the reduced cost of borrowing on retiring allowances, retirement health benefits and accumulated sick leave.

Experience Gain or Loss Due to Changes in Discount Rate on General Revenue Fund (in thousands)	
	2013-14
Retirement Health Benefits	$35,610
Retiring Allowances	$4,291
Accumulated Sick Leave	$2,802
Total	$42,703

2.20 *Planning* – We met with senior staff at the Department of Finance and Treasury Board and the Public Service Commission to discuss short-term and long-term planning for these benefits.

2.21 *Annual plans* – The Department obtains annual actuarial valuations for all pension, retirement benefits, and compensated absences. These valuations provide current service costs and other annual costs for each plan, as well as the year-end liability. The results are included in the province's annual consolidated financial statements. The Department of Finance and Treasury Board provides school boards and health authorities with information on their respective share of these costs because each of these entities must prepare annual financial statements separate from those of the government and must include these costs in their results.

2.22 Valuations also include cost estimates for the upcoming fiscal year. On a government-wide basis, the impact of these costs on the province's surplus or deficit, as well as on total net debt, is estimated for preparation of the annual budget. In addition, while the annual planning process for retirement health benefits includes the results and estimates from these valuations, each of the public service, health and education sectors also has a benefits committee which reviews the annual costs provided by the respective external benefit provider. The committees determine whether rate or benefit changes are needed. Staff indicated that the benefit use of these plans has been fairly consistent.

2.23 *Long-term planning* – Provision for retirement and sick leave benefits, are included in various public sector union agreements. Some retirement benefits are provided outside of union agreements for excluded or non-bargaining unit employees. These benefits apply to individuals who receive pension benefits from the Public Service Superannuation Plan. Provision for these benefits is provided by the Public Service Commission, subject to the approval of the Governor-in-Council, as noted in the Civil Service Act, section 7 and in the General Civil Service Regulations. Accordingly, any changes to the majority of these benefits would usually be achieved through cabinet approval. Changes to certain benefits covered in union agreements are often extended to non-bargaining employees if these employees receive a similar benefit. Benefits extended to the Canadian Union of Public Employees (CUPE) and similar to those provided to civil servants, are provided through a past Order-in-Council, not through the Civil Service Act.

2.24 *Sustainability* – Senior staff at the Department of Finance and Treasury Board informed us that government has recently begun a review of the long-term sustainability of certain benefits.

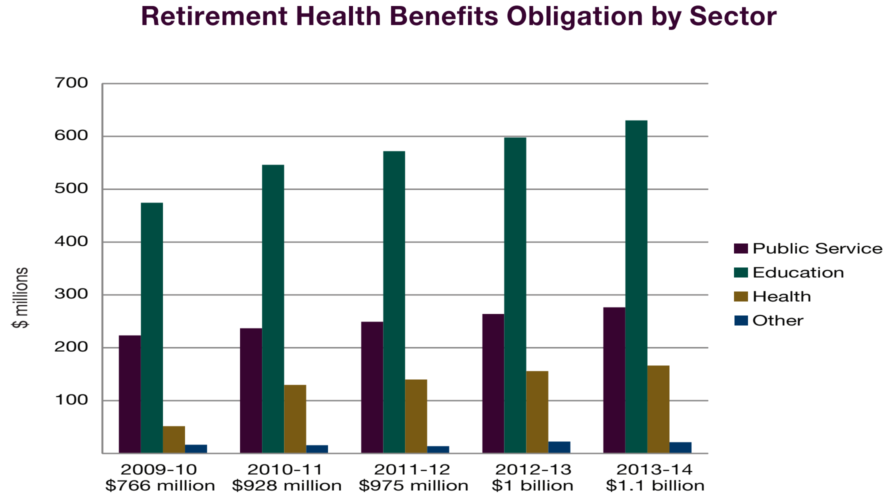
2.25 The long-term sustainability of these benefits is a critical component in government's efforts to balance the budget and in overall program planning. The sensitivity analysis provided by the province's actuaries on health care escalation, as noted below, and our summary of changes to the liability for these plans due to a change in the cost of borrowing between 2013 and 2014, indicates assumption changes can have a significant impact on the province's financial position.

2.26 We believe responsibility should be assigned for assessing the ongoing sustainability of these plans. Government needs to evaluate how these benefits will be addressed on an ongoing basis and develop a plan to mitigate the associated risks. For example, government may consider funding these plans – setting aside assets – so that risks associated with borrowing rates may be offset by changes in asset values. Any changes should come from a comprehensive analysis based on overall compensation packages.

2.27 *Sector composition* – Three sectors comprise the most significant portion of retirement benefit obligations: public service (union and non-union civil servants and CUPE highway workers), health and education. These sectors represent 88% of the total accrued benefit liability for non-pension benefits and compensated absences (86% of the net benefit plan expense for 2013-14). Eligibility, contributions and benefits vary by sector and, within each sector, by union agreement or employment terms and conditions.

2.28 The following paragraphs provide detailed information of each for these plans, by sector, including growth over the past five years.

Retirement Health Benefits



Retirees' health benefits obligation totals $1.1 billion

2.29 Retirement health benefits have an accrued benefit obligation of $1.1 billion, or 59% of all other employee retirement benefit obligations, representing the most significant component of all post-employment benefits. In 2013-14, debt servicing costs associated with retirement health benefits were $42 million or almost 58% of total non-pension debt servicing costs. The total annual cost, including employer contributions, related to retirement health benefits for 2013-14 for the public service, health and education sectors was $77 million. This obligation has increased by almost 44% over 5 years.

Nova Scotia Teachers' Pension Plan retirees pay 0% of health care premiums; other public sector retirees pay a portion of premiums

2.30 As can be seen from the table above, the majority of the obligation at March 31, 2014 relates to those in the education sector. Although there are variations in the number of active and retired members in the various sectors, as seen in the table below, the amount owing per member is almost double for the education sector in relation to the public sector, and 2.5 times that of those in the health sector. The significant difference in the obligation related to the education sector is presumed to be because annual premiums are funded 100% by the province, as compared to the province funding a portion of premiums in the other sectors.

	2013-14 Retirement Health Obligation	Number of Members Used in Valuation	Estimated Retirement Health Benefit Obligation per Member 2013-14
Public Sector	$276 million	25,731	$10,726
Health Sector	$166 million	20,164	$8,232
Education Sector	$630 million	30,222	$20,846

2.31 There are two components of health benefits provided to retired public sector employees: the annual premium paid to an external service provider to deliver these benefits, and the total liability to the province for future costs related to these amounts. The annual cost to the province varies by the collective agreement governing the various members, or by the Civil Service Act or Order-in-Council in the case of the public service (including CUPE). The province's share of annual premiums for retired employees receiving benefits is identified in the table below.

Sector	Authority	Who Pays Premiums	Administrator
Public Service	Civil Service Act Order-in-council	65% funded by the province and 35% funded by the retiree	Public Service Commission
Health	CAW/CUPE	Province pays fixed amount of $1,055 for single coverage, $2,144 for couple coverage and $2,713 for family coverage – any excess of premium is paid by the retiree.	Health Association Nova Scotia and some district health authorities
	NSGEU/NSNU	65% funded by the province and 35% funded by the retiree	
	Non-union Employment Terms and Conditions	The premium paid by the province varies between fixed rate coverage and 65% depending on personnel type	
Education	Nova Scotia Teachers Union Agreement	100% funded by the province	Johnson Insurance Inc.

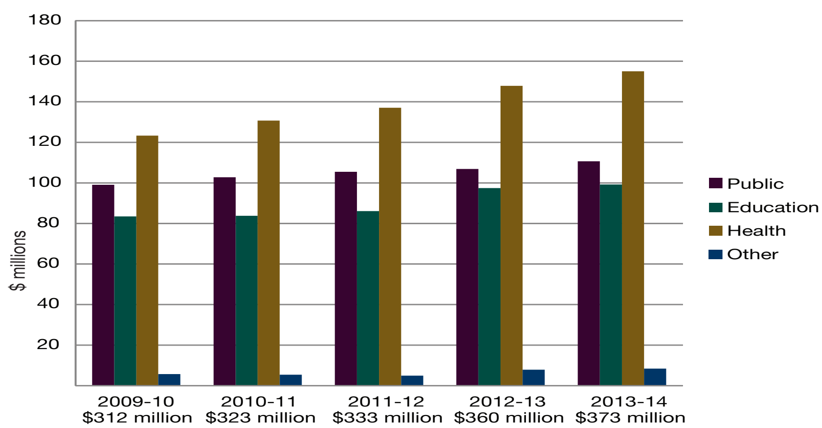
2.32 *Health care escalation factor* – The obligation related to retirement health benefits is estimated using several assumptions, including mortality rates and health care inflation assumptions. As people live longer and health care costs rise, so do the costs associated with providing retirement health benefits in the future, and in turn the related obligation.

2.33 In their valuation reports, actuaries indicate that different assumptions or scenarios could result in very different conclusions. Actuaries generally do not provide sensitivity analyses. However, the actuaries' reports on retirement health benefits at March 31, 2014 included a sensitivity analysis related to the rising costs of health care. These costs impact the escalation factor (or inflation factor) used in determining the liability for retirement health benefits. The reports include a high-level sensitivity analysis demonstrating the impact of a 1% increase in the escalation factor. This would result in an increase to the province's obligation of approximately $224 million, as shown in the table below.

Effect of 1% Increase in Health Care Cost Trend on Obligation of the Province (in thousands)	
	2013-14
Public Sector	$49,769
Health Sector	26,953
Education Sector	147,356
Total	**$224,078**

Retiring Allowances

Retiring Allowance Obligations by Sector



The province's liability for retiring allowances (long service awards) was $373 million at March 31, 2014

2.34 The second biggest component of retirement benefits is the province's retiring allowance obligation which totaled $373 million, or approximately 20% of employee retirement benefit and compensated absences obligations at March 31, 2014. Debt servicing costs related to retiring allowances were $16 million in 2013-14, or 22% of total other employee retirement benefit and compensated absences debt servicing costs. The table above provides a five-year history of the liability for these allowances, by sector. The total liability has increased from $312 million to $373 million in that period, with 52% or $32 million, related to increases to retiring allowances in the health sector. This obligation has increased almost 20% over five years.

Retiring allowances are fully paid by the province

2.35 Retiring allowances, or long service awards, provide a lump sum payment to an employee on retirement, and are in addition to pension benefits. These awards are fully paid by the province. Retirement allowances form part of an overall compensation package.

2.36 Each of the public service, health and education sectors offers various retiring allowances. Benefits accrue during an employee's career, and the amount received on retirement varies slightly by sector. However, all are the same in that a retiring allowance can only be obtained once an employee retires under applicable pension rules and upon immediate acceptance of their pension. Retiring allowances can result in an employee receiving a one-time lump sum payment amounting to as much as 50% of his or her annual salary.

2.37 The following table details various retiring allowance provisions by sector and enabling authority, and notes each benefit's administrator.

<table>
<tr><th>Sector</th><th colspan="2">Authority</th><th>Benefit</th><th>Administrator</th></tr>
<tr><td>Public Service*</td><td colspan="2">Civil Service Master Agreement

CUPE Highway Workers Collective Agreement

Crown Attorneys' Agreement

General Civil Service Regulations</td><td>One week's pay for each year of full-time service to a maximum of 26 weeks of benefits</td><td>Department of Finance and Treasury Board</td></tr>
<tr><td>Health</td><td colspan="2">Various collective agreements</td><td>One week's pay for each year of full-time service to a maximum of 26 weeks of benefits</td><td>District health authorities</td></tr>
<tr><td rowspan="2">Education</td><td rowspan="2">Various collective agreements</td><td>Teachers (hired after July 31, 2002)</td><td>1% of annual salary at retirement multiplied by years of service, to a maximum of 30 years</td><td rowspan="2">Regional school boards and Nova Scotia Community College</td></tr>
<tr><td>Teachers (hired before August 1, 2002)</td><td>Benefits determined by provisions of the collective agreement with the applicable school board</td></tr>
<tr><td colspan="5">* Includes a small number of Health and Education sector employees grandfathered into the plan.</td></tr>
</table>

2.38 *Transition allowances to deceased or former Members of the Legislative Assembly* – A transition allowance is payable to any member who dies while being a member, does not re-offer, resigns, or who is defeated. The allowance is payable in equal amounts over twelve months, or as a lump sum payment. These allowances are not included in the employee retirement benefit obligation and are outside of any pensions members may receive.

2.39 Regulations to the House of Assembly Act note that the entitled member

"shall be paid a transition allowance equal to the product of:

a) one twelfth of the person's number of months of service as a member of the House; and

b) one twelfth of the annual indemnity and allowance for a member at the rate in force immediately before the person ceased to be a member,

c) but in any case not less than twenty-five per cent or greater than one hundred per cent of the annual indemnity and allowance referred to in clause (b)."

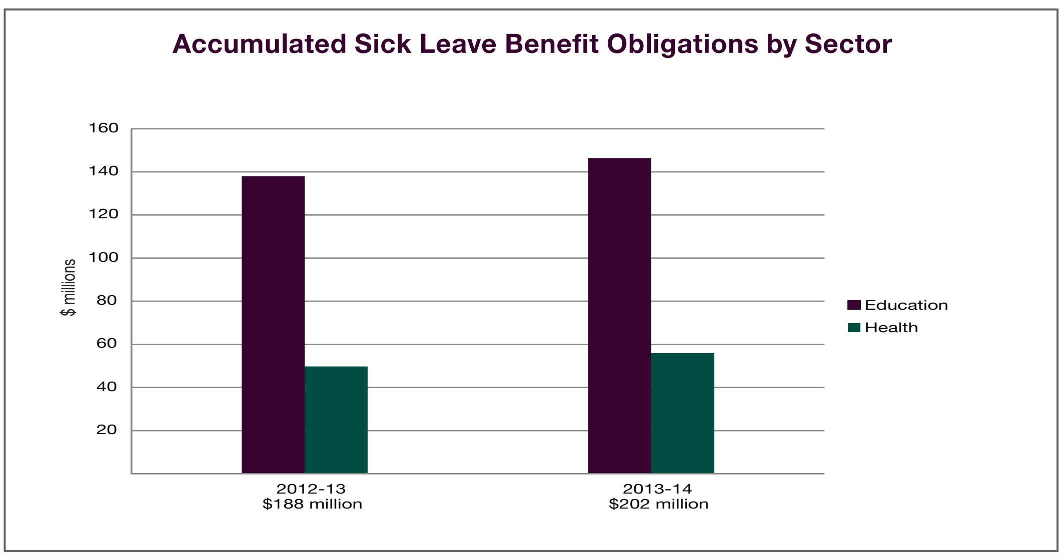
2.40 The impact of these regulations can best be shown through the following examples.

- Example 1: A Member making $89,235 and with 15 years of service would get $111,544 (180 months x 1/12) x (1/12 x $89,235). However, a Member is not entitled to more than the annual indemnity of $89,235.

- Example 2: A Member making $89,235 and with 4.5 years of service would receive $33,463 (54 months x 1/12) x (1/12 x $89,235).

2.41 For the year ended March 31, 2014, transition allowances of $1,657,818 were paid to 29 MLAs, an average of $57,166. These transition allowances are not accrued as liabilities.

Sick Leave



Unused sick days accrued in the health and education sectors have resulted in a $202 million liability

2.42 Certain employees in the health and education sectors are able to accumulate unused annual sick leave days in an accumulated bank to a specified maximum number of days to be used in the future. Accumulated days are not paid out at any time and cannot be cashed out upon retirement. There is no cash payment if banked days are used during a year, except to the extent an organization, for example a hospital or school, pays to back-fill a position. However, accumulated sick days result in a financial obligation for Nova Scotia.

2.43 The accumulated benefit obligation related to unused sick days in the health and education sectors is $202 million, or almost 11% of all other employee retirement benefit and compensated absences obligations. Annual debt servicing costs related to accumulated non-vesting sick leave benefits are $8 million or almost 11% of total other employee benefit and compensated absences debt servicing costs. The obligation, which was recognized for the first time at March 31, 2012, for employees in both the health and education sectors has increased by 7% or $14 million in the past two years.

2.44 The following table provides details of eligibility and benefits by sector.

Sector	Authority	Benefit	Administrator
Public Service	N/A – no non-vesting sick leave	N/A – no non-vesting sick leave	N/A – no non-vesting sick leave
Health	Various collective agreements	There are variations from union to union and DHA to DHA. The main benefit is as follows. • Full time employees accrue 1.5 sick days for every month, or 18 days per year • Employees may accrue up to 150 days total Unused sick leave at termination or retirement is lost	District health authorities
Education	Various collective agreements	There are slight differences for each school board. The main benefit is as follows. • Full time teachers are entitled to 20 sick days per school year • Teachers may accumulate a maximum of 195 days total Unused sick leave at termination or retirement is forfeited.	Regional school boards

2.45 Individuals in the public service are entitled to 18 sick days each year; unused days do not accumulate. In the event of illness extending beyond 3 days, employees automatically transfer to short-term illness benefits. These total 100 days per occurrence and the salary reduces to 75% after the 40th day for employees with one or more years of service. Accumulated sick leave banks provide a greater benefit after the 40th day of illness because there is no reduction in salary. Both short-term illness and accumulated sick leave banks can bridge an employee to long-term disability provisions if needed.

Appendix A

Additional Information

Comparison to other jurisdictions – Most provinces and the Federal government offer retirement benefits in addition to pensions. The following table provides an overview of non-pension benefits by Canadian jurisdiction.

Jurisdiction	Retirement Allowances	Retirement Health Benefits	Accumulated Sick Leave
Newfoundland and Labrador	✓	✓	✓
Prince Edward Island	✓	x	✓
Nova Scotia	✓	✓	✓
New Brunswick	x	x	✓
Quebec	✓	x	✓
Ontario	✓	✓	✓
Manitoba	✓	x	✓
Saskatchewan	✓	✓	✓
Alberta [1]	x	x	x
British Columbia	✓	✓	✓
Nunavut	✓	✓ Yes under federal government	✓ Yes, but not booked as amount is insignificant
North West Territories	✓	✓ Yes under federal government	✓ Yes, but not booked as amount is insignificant
Yukon	✓	✓	✓
Canada	✓	✓	✓

[1] There may be some small entities and groups that are entitled to these benefits; however, they are not material to the Public Accounts.

Recent changes in some jurisdictions' public sector pension plans and the increasing burden plans place on government finances have prompted audits by legislative audit offices. Both the Office of the Auditor General of Canada and the Auditor General of Alberta have recently completed audits on the sustainability of plans in their respective jurisdictions.

For information purposes only, the following paragraphs provide information on recent benefit changes in other Canadian jurisdictions.

Retirement health benefits – These benefits were recently under review by the federal government. The 2014-15 federal budget included results of recent cost-sharing changes to these benefits. These changes doubled the amount retired federal civil servants will pay (transitioning the cost-sharing ratio from 75% government/25% retiree contributions to 50%/50%).

Retiring allowances – In recent years, two Canadian jurisdictions have made changes to retiring allowances.

In 2011, certain federal civil servants who are members of the Public Service Alliance of Canada were given the option to accept payout of accumulated benefits, keep the pay until retirement, or a combination of both. However, benefits will no longer be earned under a new collective agreement and arrangements with other employees. The estimated annual savings to the federal government is $500 million per year.

In New Brunswick, retiring allowances were discontinued for new entrants to the non-bargaining group of employees as of April 1, 2013. Retiring allowance benefits ceased to accumulate at March 31, 2013 for management and non-union employees.

Accumulated sick leave – The federal government is currently attempting to negotiate changes to existing benefits with one of its largest unions, the Public Service Alliance of Canada. The government proposes to reduce annual sick leave to 5 days per year and introduce an unpaid seven-day waiting period before employees qualify for a new short-term illness program. The proposal also involves eliminating the accumulated sick leave bank which is estimated to be a $1.5 billion obligation.

Sick leave banks were recently removed from Ontario teachers' contracts and have been identified as an issue in municipal government operations as well.

It is evident that unfunded employee retirement benefits and compensated absences are a significant public sector issue across jurisdictions.

At a Glance

3 Indicators of Financial Condition

Summary

The purpose of this chapter is to provide further information on the province's financial health by reporting on certain accepted indicators of financial condition. Although the province's consolidated financial statements provide a fair snapshot of its financial position at its fiscal year end (March 31) and the results of its operations for that year, they do not provide a complete indication of the province's health nor how well it is performing in relation to its economic and fiscal environment. The indicators reported in this chapter are meant to provide additional information on the province's financial condition, but are not intended to comment on the impact of government policies on financial results.

Ten key indicators show that Nova Scotia is in poor financial condition. There was a serious decline in the financial position of the province from the prior year, particularly with respect to budget to actual operating results. Budget to actual results is a measure of financial performance and shows the extent to which government adhered to its fiscal plan as detailed in its budget. The province's deficit of $679 million for the year ended March 31, 2014 was a $695 million variance from the $16 million surplus included in the 2013-14 budget. Of this variance, $318 million was attributed to changes in the governance structure of the Public Service Superannuation Plan which resulted in the removal of the liability for the Plan from the province's consolidated financial statements. This necessitated the one-time recognition of previously deferred Plan losses. The variance can also be explained by a $313 million downward revision in estimated tax revenue.

Net debt continues to increase. Since 2011, net debt has increased by $2 billion, or 16%. Net debt per capita also increased by 6% to $15,659 per capita, the largest annual increase in the past five years. Further, there was a significant increase during the year in the percentage of net debt to total revenue, going from 138% in 2013 to 147% in 2014, a concerning increase of 9%. Finally, because provincial net debt is at 38% of the province's GDP, it is placing an increasing burden on the economy. These sustainability indicators demonstrate that there are real risks to future programs and services provided to Nova Scotians.

Although debt servicing costs as a percentage of total revenue have remained fairly constant over the past five years, Nova Scotia's debt servicing costs – to – revenues compares unfavourably to four of the five jurisdictions we selected for comparison purposes. The level of debt servicing costs is an indicator of government's limited flexibility in improving programs and services because of the annual impact of outstanding debt.

Finally, federal government transfers as a percentage of total provincial revenues have stayed constant over the past five years. Although stable, this demonstrates that Nova Scotia is vulnerable to changes in federal policies which may change the amount and timing of these transfers.

3 Indicators of Financial Condition

Introduction

3.1 One factor in assessing the financial condition of the government is the province's consolidated financial statements. The statements provide a snapshot of the province's financial position at its fiscal year end (March 31) and the results of its operations, and changes in both cash flow and net debt for the preceding fiscal year. However, they do not provide a complete indication of the province's health nor how well it is performing in relation to its economic and fiscal environment. Although there is information on the economy, including several indicators, in Volume 1 of the Public Accounts, there is no comparison with other jurisdictions.

3.2 The purpose of this chapter is to provide further information on the province's health through reporting on certain indicators of financial condition. These indicators are among those recommended for reporting by the Public Sector Accounting Board's Statement of Recommended Practice 4: Indicators of Financial Condition. The Statement is not part of generally accepted accounting principles for the public sector, and there is no requirement for government to implement its recommendations.

3.3 Our report includes a comparison, where appropriate, to five other provinces. New Brunswick, Prince Edward Island, and Newfoundland and Labrador, are compared because they operate in the same regional economic environment; Manitoba and Saskatchewan are compared because of similar population. The information in this chapter's exhibits has been taken from these jurisdictions' Public Accounts from 2010 to 2014 for all provinces except Prince Edward Island which has not yet released its Public Accounts for the year ended March 31, 2014.

3.4 There are numerous indicators to assess a government's financial condition. The Statement of Recommended Practices recommends that, at a minimum, indicators related to sustainability, flexibility and vulnerability are considered. We have included several of these indicators as well as other information we feel is useful in demonstrating the province's financial condition. Definitions of sustainability, flexibility and vulnerability follow, as well as a selection of indicators related to each.

NOVA SCOTIA

Overall Financial Condition

Indicators show that Nova Scotia is in poor financial shape

3.5 The following table provides an overview of the province's financial performance for the year ended March 31, 2014, and a summary of the financial indicators included in this chapter. As can be seen, the trend in the majority of indicators is unfavourable.

Type	Indicator	1-year Trend	5-year Trend	Page #
Financial Performance	Budget-to-actual Variance	Unfavourable	N/A	32
	Actual-to-actual Variance	Unfavourable		33
Sustainability	Net Long-term Debt	Unfavourable	Unfavourable	34
	Net Debt	Unfavourable	Unfavourable	35
	Net Debt Per Capita	Unfavourable	Unfavourable	35
	Net Debt as a Percentage of Total Revenues	Unfavourable	Unfavourable	36
	Annual Surplus or Deficit	Unfavourable	Unfavourable	37
	Net Debt as a Percentage of Provincial GDP	Unfavourable	Stable	39
Flexibility	Debt Servicing Costs as a Percentage of Total Revenues	Stable	Stable	40
Vulnerability	Federal Government Transfers as a Percentage of Total Revenues	Unfavourable	Favourable	41

Favourable/Unfavourable – theoretical concept due to nature and direction of indicator, not a comment on performance
N/A – increase or decrease of this indicator is not considered indicative of either favourable or unfavourable
Stable – a change of 1% or less

Financial Performance 2013-14

Budget-to-actual deficit variance of $695 million

Budget-to-actual Variance ($ millions)			
Element	**2013-14 Estimates**	**2013-14 Actual**	**Variance**
Provincial Source Revenue	$6,570	$6,292	($278)
Federal Source Revenue	$3,346	$3,392	$46
Expenses	($10,250)	($10,714)	($464)
Government Business Enterprises (Net Income)	$350	$351	$1
Deficit	**$16**	**($679)**	**($695)**

3.6 *Budget-to-actual variance* – One measure of financial performance is the extent to which government adhered to the fiscal plan detailed in its budget. For the year ended March 31, 2014, the Province of Nova Scotia estimated a surplus of $16 million. The actual result for the year was a deficit of $679 million, an unfavourable variance of $695 million. The table above provides an overview of the variance by significant financial element, after consolidation adjustments, that contributed to the negative result.

Tax revenue was under budget by $313 million

3.7 Provincial source revenue decreased by $278 million from the 2013-14 Estimates, due mainly to a $313 million downward adjustment to tax revenue estimates. Actual expenses were $464 million over budget. A significant portion of this is due to a one-time, $318 million increase to the pension valuation adjustment resulting from the change in the governance structure of the Public Service Superannuation Plan at April 1, 2013 which eliminated the province's obligation for the Plan. These variances were offset by a $46 million increase in federal-source revenue.

3.8 *Actual-to-actual variance* – The following table details variances in revenues and departmental expenses to explain the $375 million change in operating results, from a deficit of $304 million in 2012-13 to a deficit of $679 million in 2013-14.

Actual-to-actual Variance ($ millions)			
Revenues and Departmental Expenses	**Revenues**	**Expenses**	**Surplus (Deficit)**
2012-13 Deficit	**$10,104**	**$10,408**	**($304)**
Decreased Provincial Tax Revenue	($110)		
Increased Federal Revenue	$129		
Decreased Net Income from GBEs	($3)		
Decreased Other Provincial Revenue	($93)		
Increased Investment Income	$8		
Decreased Economic and Rural Development Expenses		($24)	
Increased Education Expenses		$19	
Increased Health and Wellness Expenses		$115	
Increased Restructuring Costs		$12	
Restructuring of NSAC *		($37)	
Increased Pension Valuation Adjustment		$280	
Decreased Debt Servicing Costs		($35)	
Decrease – Other		($24)	
2013-14 Deficit	**$10,035**	**$10,714**	**($679)**

* Operations of the Nova Scotia Agricultural College (NSAC) were included in the Department of Agriculture to March 31, 2012, at which time they were transferred to Dalhousie University

$318 million write-off of deferred losses of the Public Service Superannuation Plan increased the deficit

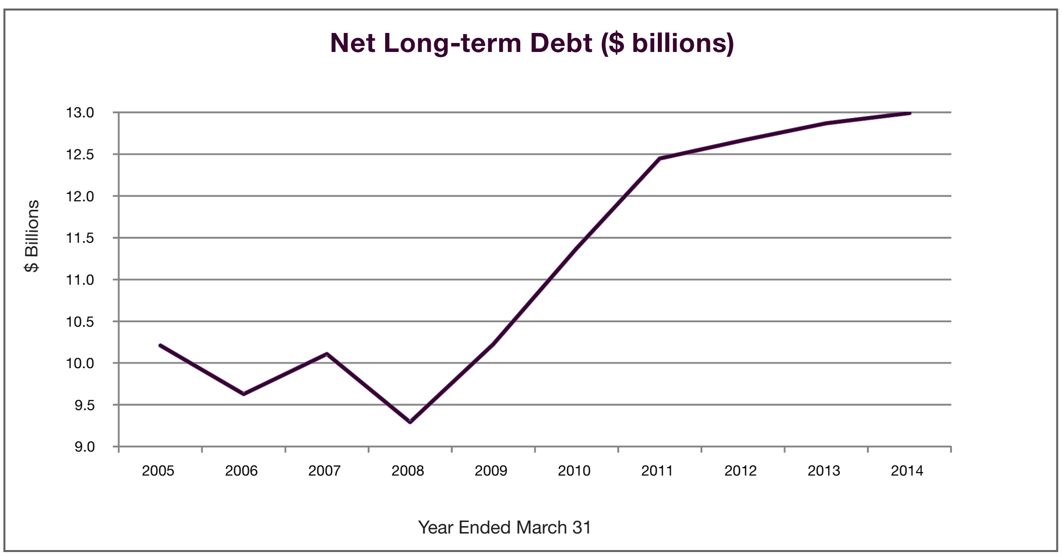
3.9 The province's March 31, 2014 deficit was $679 million. This was an increase of $375 million over the prior year deficit of $304 million. The most significant variance related to the pension valuation adjustment which increased $280 million from the previous year. This was due mainly to the $318 million adjustment to fully recognize deferred losses of the Public Service Superannuation Plan, as discussed above, offset by reduced valuation adjustments in other obligations. Provincial-source revenue also declined by $206 million; this was partially offset by a $129 million increase in federal transfers.

Financial Indicators

Sustainability

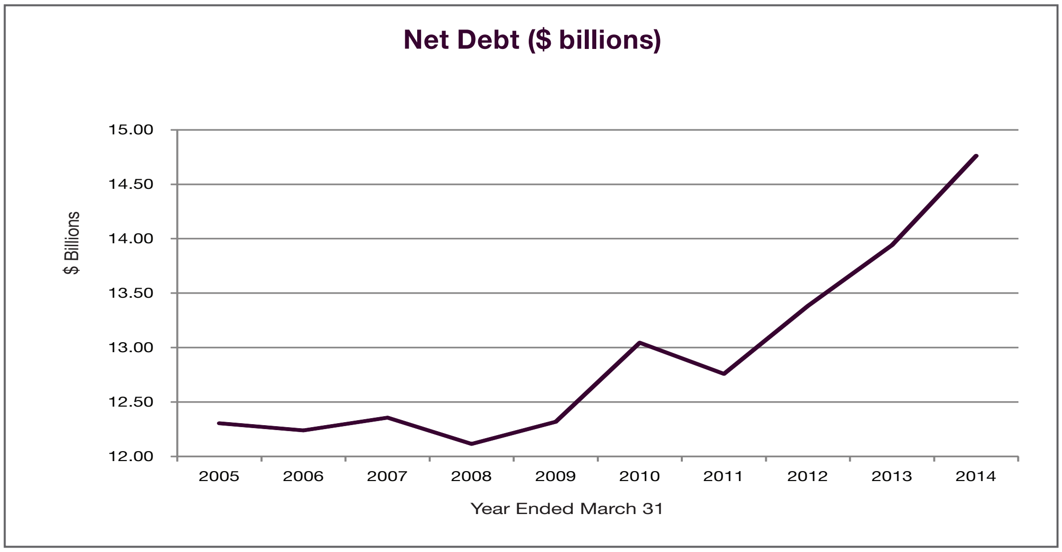
3.10 Sustainability measures the ability of a government to maintain its existing programs and services, including maintaining its financial obligations to creditors, without having to introduce revenue and expenditure adjustments such as increased debt or tax rates. Sustainability indicators provide insight into how a government balances its commitments and debts. The following indicators have been selected to assess sustainability.

Indicators of Debt Position



3.11 *Net long-term debt* – Details of the province's long-term debt are included in Schedule 4 of the March 31, 2014 Public Accounts. Gross long-term debt is $16 billion which is consistent with the prior year. This includes the debt of all organizations in the government reporting entity. The majority of this debt ($15 billion or 93%) is assumed by core government, i.e. not through government agencies. Gross long-term debt is offset by sinking fund assets of $3.4 billion.

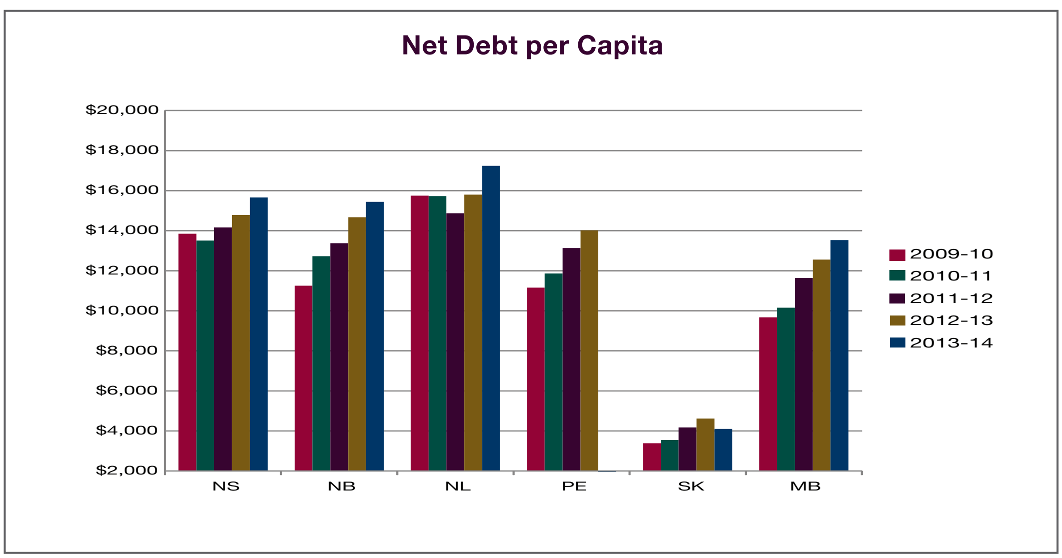
3.12 The increasing trend in net long-term debt is a significant indicator of fiscal sustainability because the cost of servicing this debt takes priority over program expenses and reduces the ability of government to expand services or reduce taxes. The graph above shows actual growth of net long-term debt over the past ten years, with an increase of approximately $4 billion since 2008.



3.13 *Net debt* – Net debt is the difference between the province's financial assets and financial liabilities. It is an indication of the government's current obligations that must be funded through future revenues, including taxation. Nova Scotia's net debt is approximately $15 billion.

Net debt increased by $2 billion or 16% since 2011

3.14 Net debt has increased by over 16% or $2 billion over the past three years, including an increase of $819 million or 6% in the current year. Net debt has grown each year since 2008 except for the year ended March 31, 2011. The surplus of $585 million reduced net debt in that year.

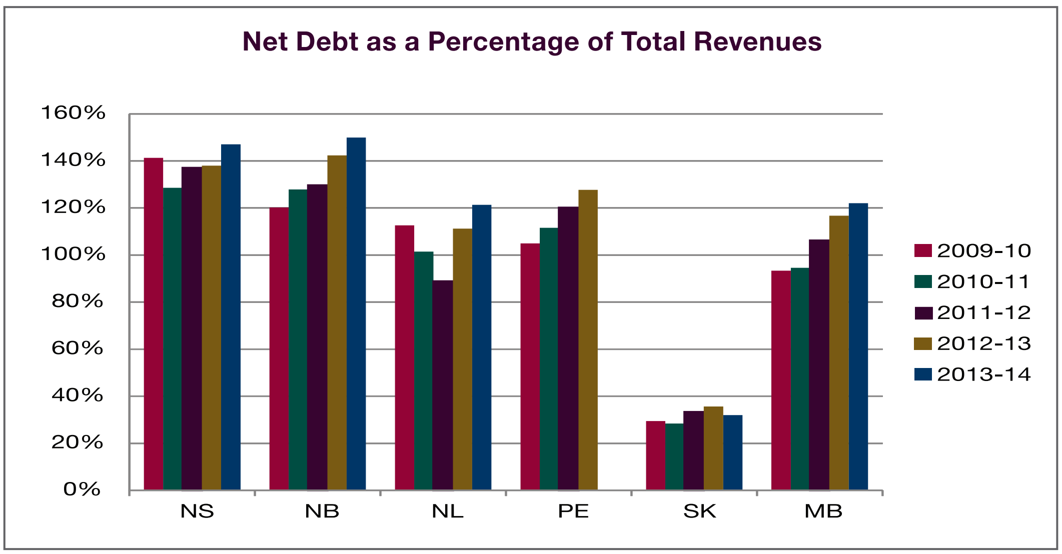


Net Debt per Capita – Nova Scotia					
	2010	2011	2012	2013	2014
Net Debt ($ thousands)	$13,045,146	$12,758,315	$13,382,946	$13,942,372	$14,761,747
Population (thousands)	942.1	944.5	944.8	942.9	942.7
Net Debt per capita	$13,847	$13,508	$14,165	$14,787	$15,659

Government of Nova Scotia debt increased almost 6% to $15,659 per Nova Scotian

3.15 *Net debt per capita* – Another indicator of sustainability is net debt per capita. This shows the amount of net debt attributable to each person living in the province. This indicator shows net debt is increasing at a rate exceeding population growth, and therefore may not be sustainable. Essentially, the indicator shows that each Nova Scotian owes the government of Nova Scotia $15,659 for past decisions that resulted in spending exceeding revenues.

3.16 Net debt per capita has increased every year over the past five years except 2011. The amount of net debt per capita ranges from a low of $13,508 in 2011 to a high of $15,659 in 2014. Net debt per capita increased almost 6% during 2013-14, the largest increase over the past five years. Nova Scotia has had the second highest net debt per capita for the past five years when compared to New Brunswick, Newfoundland and Labrador, Prince Edward Island, Saskatchewan and Manitoba; it is second only to Newfoundland and Labrador.

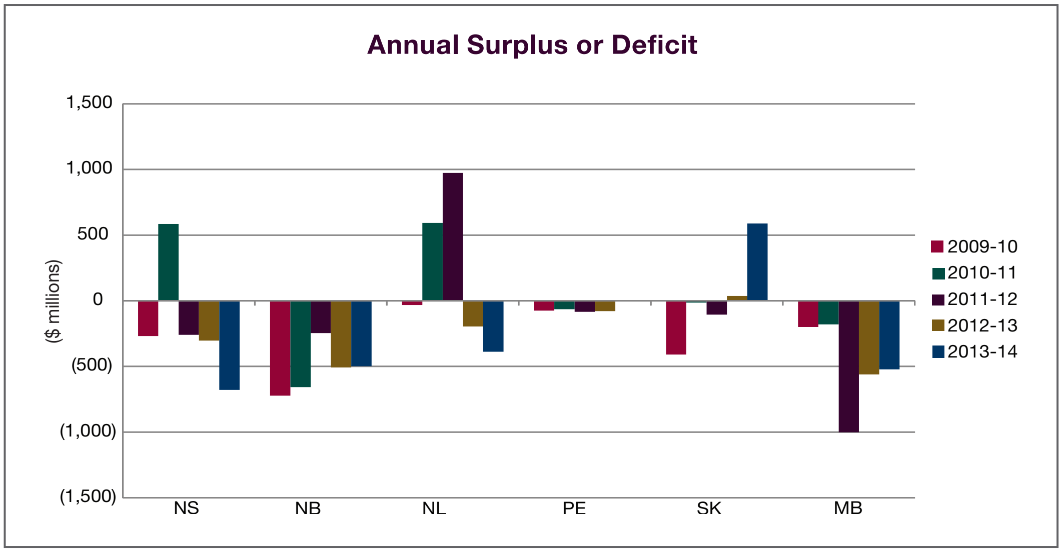


Net Debt as a Percentage of Total Revenues – Nova Scotia					
Year Ending March 31	2010	2011	2012	2013	2014
Net Debt ($ millions)	$13,045	$12,758	$13,383	$13,942	$14,762
Total Revenues ($ millions)	$9,231	$9,919	$9,760	$10,104	$10,035
Net Debt/Revenue	141%	129%	137%	138%	147%

Amount of net debt as a percentage of total revenues increased by 9% in 2014

3.17 *Net debt as a percentage of total revenues* – Net debt provides a measure of future revenue which will be required to pay for past transactions and events. Therefore, total revenues are a key indicator of sustainability. An increasing trend in this ratio means it will take longer to repay this debt and shows that debt is growing faster than revenues.

3.18 During 2014, the percentage of net debt over total revenue increased by 9%. In Nova Scotia, over the past five years, net debt as a percentage of total provincial revenues has increased from 141% in 2010 to a high of 147% in 2014. This means there is $1.47 debt for every $1 revenue. Over the same period, four of the five compared jurisdictions have shown an increasing trend in this ratio as well, although results for the year ended March 31, 2014 were not yet available for Prince Edward Island. Saskatchewan's ratio is significantly lower than any of the other jurisdictions.

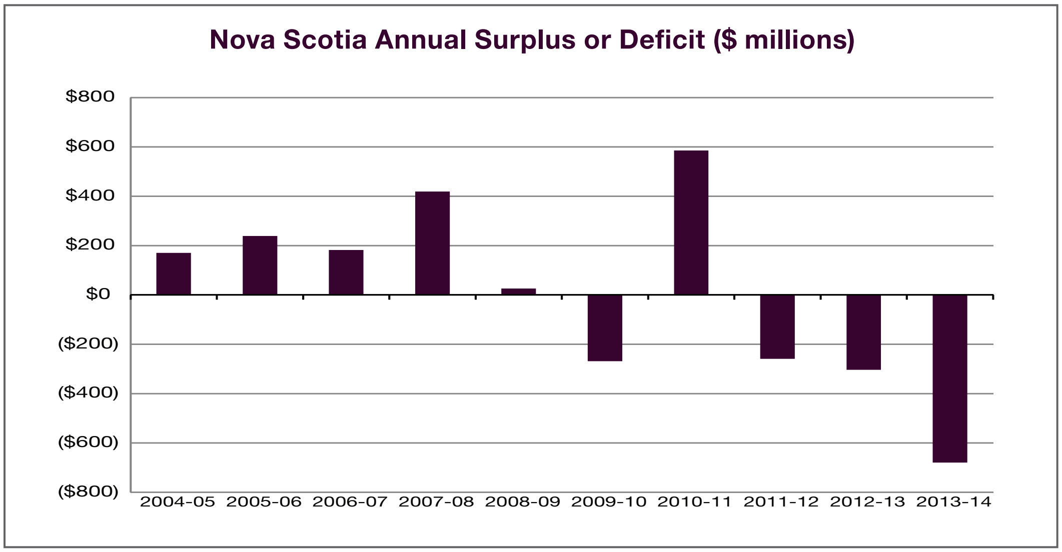


Total Expenses (in billions)					
Jurisdiction	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**
Nova Scotia	$9.5	$9.3	$10.0	$10.4	$10.7
New Brunswick	7.8	8.2	8.1	8.3	8.3
Newfoundland and Labrador	7.3	7.5	7.8	7.7	7.9
Prince Edward Island	1.6	1.6	1.7	1.7	1.6[1]
Saskatchewan	12.5	13.3	13.7	14.3	13.8
Manitoba	12.8	13.4	14.7	14.2	14.7

[1] 2013-14 estimated expenses

3.19 *Annual surplus or deficit* – This annual result indicates the extent to which the government's revenues are more or less than its expenses during the year. A surplus means revenues exceed expenses while a deficit indicates that government has overspent its budgeted targets.

3.20 The chart above shows there are significant fluctuations in jurisdictions' results or trends over the past five years. With the exception of a few years, most provinces have been experiencing deficit positions over the past five years. It is important to consider the annual surplus or deficit in relation to the amount of expenses for each jurisdiction. Therefore, we included the total expenses for each jurisdiction below the chart.

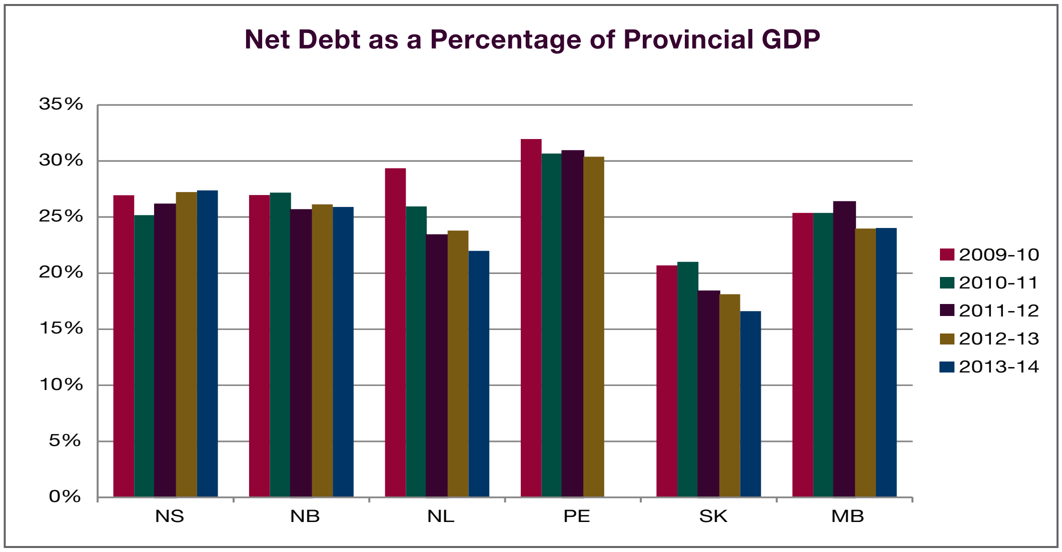


3.21 There are significant fluctuations in the Province of Nova Scotia's annual results from 2005 to 2014, ranging from a surplus of $585 million in 2011 to a deficit of $679 million in 2014. The significant deficits have occurred in four of the past five years. In 2014, Nova Scotia had the largest deficit of the six provinces we compared although expenses in both Saskatchewan and Manitoba were 40% higher than those in Nova Scotia.

Sustainability Indicators Related to GDP

3.22 Gross domestic product (GDP) is one of the primary indicators used to measure a province's or country's economy. GDP can be measured by either summing the value of the income generated in an economy (income approach) or by the total dollar value of all goods and services purchased by households and the government (expenditure measure).

3.23 GDP is usually stated as a rate of change in a three-month period over the prior three-month period. An economy with two consecutive periods of reduced growth is said to be in recession. GDP values used in our analyses are expenditure-based.



Net Debt as a Percentage of Provincial GDP – Nova Scotia					
Year Ending March 31	**2010**	**2011**	**2012**	**2013**	**2014**
Net Debt ($ millions)	$13,045	$12,758	$13,383	$13,942	$14,762
Provincial GDP ($ millions)	$35,254	$37,073	$38,349	$38,214	$39,145
Net Debt/GDP	37%	34%	35%	37%	38%

Provincial net debt is placing an increasing burden on the economy

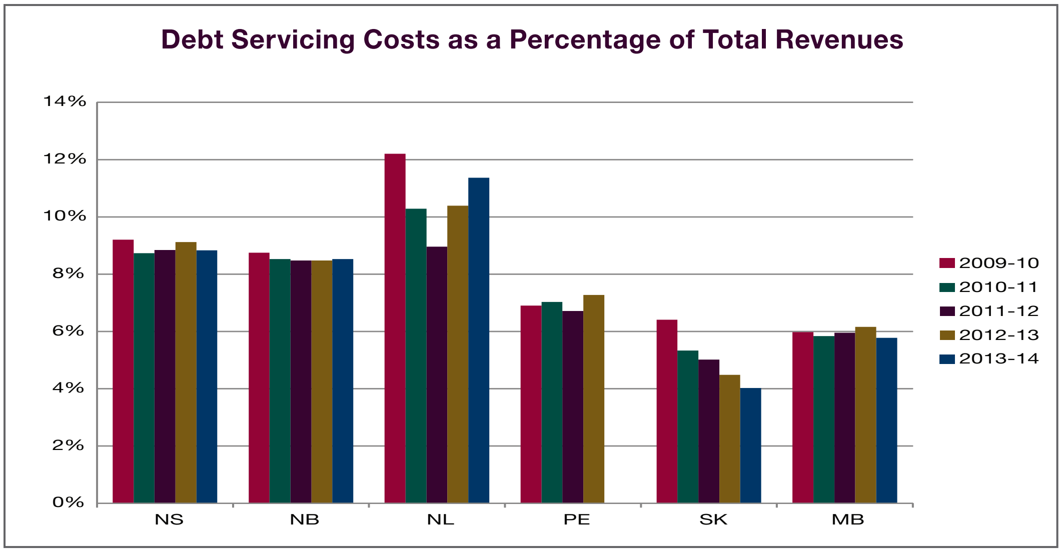
3.24 *Net debt as a percentage of provincial GDP* – Net debt as a percentage of provincial GDP provides insight into the ability of an economy to support government's debt. A higher percentage indicates that a government's debt is becoming an increasing burden on the economy and may not be sustainable. A decreasing percentage shows the growth of the net debt is equal to, or less than, the growth of the economy and is likely sustainable. In theory, a larger economy should be able to absorb a higher amount of government debt. Nova Scotia's net debt as a percentage of provincial GDP has increased to its highest rate in the past five years.

3.25 Provincial net debt is placing an increasing burden on the economy. In the past five years, two jurisdictions had an overall decrease in this ratio and the remaining jurisdictions experienced an increase. The ratio for Nova Scotia has been higher than the other jurisdictions over this time period, with the exception of 2011-12, when only one jurisdiction was higher than Nova Scotia.

Flexibility

3.26 Flexibility describes the extent to which a government can change its debt burden or raise taxes within its economy. Increasing debt and taxation reduces flexibility and the government's ability to respond to changing circumstances. Assessing flexibility provides insight as to how government manages its finances. The following indicator has been selected to assess flexibility.

3.27 *Debt servicing costs-to-revenues* – The ratio of debt serving costs-to-revenues indicates the amount of current revenue that is required to service past borrowing decisions and, as a result, is not available for current and future programs and services. Debt servicing costs are variable only to the extent they fluctuate with the amount of debt issued. However, once debt is issued, interest payments on that debt are a fixed cost of government, and are its first commitment. Failure to pay interest impacts the ability to raise future debt, and can also increase government's borrowing rate. As debt increases, government is less able to respond to economic changes.



Debt Servicing Costs as a Percentage of Total Revenues – Nova Scotia					
Year Ending March 31	2010	2011	2012	2013	2014
Debt Servicing Costs ($ millions)	$850	$866	$863	$921	$886
Total Revenues ($ million)	$9,231	$9,919	$9,760	$10,104	$10,035
Debt Servicing Costs as a % of Revenue	9%	9%	9%	9%	9%

Nova Scotia's debt servicing costs-to-revenues is higher than four of the five compared jurisdictions

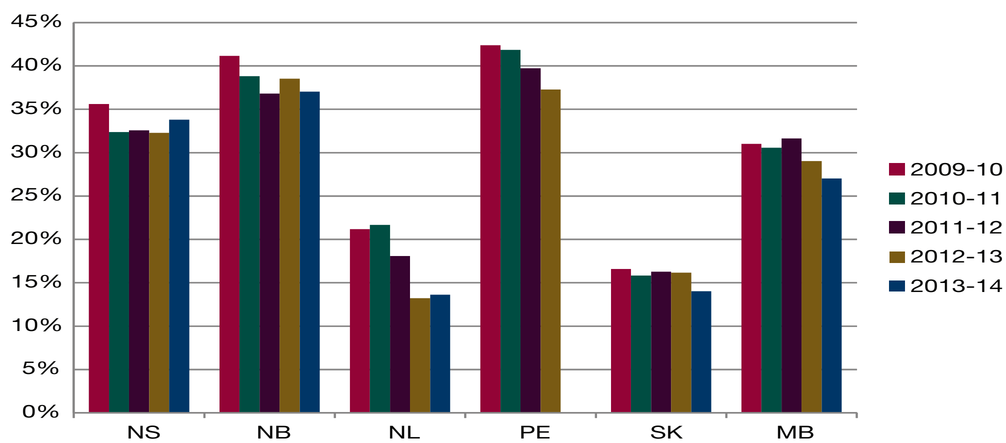
3.28 In Nova Scotia, this ratio has remained constant over the past five years. This indicates that debt servicing costs have increased or decreased at approximately the same rate as revenue. The ratio for Nova Scotia has been consistently higher than four of the other five jurisdictions.

Vulnerability

3.29 Vulnerability indicators can measure the amount government is dependent on sources of revenue outside its control and its exposure to risks which might affect government's ability to meet its commitments. The lower government's own-source revenue, the more it relies on fiscal decisions of others.

3.30 *Federal government transfers as a percentage of total revenues* – This indicator demonstrates the level of federal government transfers compared to total government revenues. The higher the percentage, the more reliance the provincial government puts on receipt of funds from the federal government. These transfers are dependent on policy decisions at the federal level and outside the control of the provincial government.

Federal Government Transfers as a Percentage of Total Revenues



Federal Revenue as a Percentage of Total Revenues – Nova Scotia					
Year Ending March 31	**2010**	**2011**	**2012**	**2013**	**2014**
Federal Revenues ($ millions)	$3,287	$3,212	$3,179	$3,263	$3,392
Total Revenues ($ millions)	$9,231	$9,919	$9,760	$10,104	$10,035
Federal Revenues as a % of Total Revenue	36%	32%	33%	32%	34%

Federal government transfers have remained stable over the past five years at approximately $3 billion (34% of total revenues)

3.31 This ratio remained mostly stable for Nova Scotia over the past five years with a slight increase in the percentage of federal government transfers in 2010 and again in 2014. The province relied more on federal transfers than on its own-source revenue in 2014 than it did the previous three years. Overall, federal transfers as a percentage of the total revenues have fluctuated slightly in four jurisdictions, and more significantly in one.

3.32 As noted in the previous chart, federal transfers as a percentage of total revenues for the province can vary significantly from year to year. The percentage for Nova Scotia has been at a high of 36% in 2010 to a low of 32% in 2013.

Sources:

1. *Nova Scotia – Public Accounts for March 31, 2005 – March 31, 2014*

2. *New Brunswick, Newfoundland and Labrador, Saskatchewan, and Manitoba – Public Accounts March 31, 2010 - March 31, 2014*

3. *Prince Edward Island – Public Accounts March 31, 2010 to March 31, 2013 (2013-14 Public Accounts not released at the time this chapter was written.)*

4. *Statistics Canada – Gross domestic product, expenditure-based, by province and territory (2008-2013)*

5. *Statistics Canada – Population by year, by province and territory (July 2008 – July 2014)*

6. *Statistics Canada – Annual population estimates (July 2012 – July 2014)*

Note: Income from Government Business Enterprises has been included in the calculation of own source revenue, and total revenue for all provinces. This change ensures that information presented is comparable among provinces and is consistent with the way in which most provinces report financial indicators.

At a Glance

4 Agencies, Boards and Commissions: Accountability Reporting

Summary

Accountability reporting provides information to government and other users on what provincial agencies want to achieve in the upcoming year, and a corresponding evaluation of what has been accomplished. We observed that not all legislation requires accountability reports including business plans and annual reports be prepared, and we suggested that government review each entity's legislation and address this, or expand the Finance Act to provide increased authority to obtain accountability reports from all entities within the government reporting entity.

Annapolis Valley Health's and the IWK Health Centre's accountability reporting is not currently providing the required information for a user to determine if these entities are fulfilling their mandate. Both entities followed Department of Health and Wellness guidance in preparing their 2013-14 business plans. However, that guidance is not sufficient to ensure robust accountability reporting and we recommended the Department improve this process. Neither entity's business plan included specific and measurable goals, and neither reported on outcomes or impacts expected during the current year, and only reported activities. We note that the IWK Health Centre reports on key performance indicators in a quarterly public report. The IWK should include realistic and achievable targets for each of these indicators so that performance against these can be evaluated later.

We examined the 2013-14 business plans of the South Shore Regional School Board and the Cape Breton-Victoria Regional School Board and noted that not all priorities were student-focused making it difficult to assess whether each board is fulfilling its mandate. Both business plans included targets for improved education results.

The Department of Education and Early Childhood Development provides business plan and annual report guidance to school boards that generally captures key components of accountability reporting. We recommended the guidance be strengthened to require boards to report on common goals in education, such as student achievement.

The Department of Finance and Treasury Board provides clear business plan and annual report guidance to crown corporations and other agencies. This guidance promotes strong accountability reporting. Reported outcomes are to be specific, measurable, achievable, relevant, and time bound.

We examined the business plans and annual reports of an additional seven entities and found that most reported outcomes were not specific and measurable. However, minor

changes in outcome reporting by the Nova Scotia Farm Loan Board, Film and Creative Industries Nova Scotia and the Art Gallery of Nova Scotia would result in improved reporting on the extent to which these entities are fulfilling their mandate. Trade Centre Limited's business plan included targets, but the targets were for negative growth, and the plan lacked sufficient explanation. Nova Scotia Lands Inc. and the Halifax Dartmouth Bridge Commission included several activities as their 2013-14 outcomes; however, activity-based reporting does not demonstrate the impact of an entities' actions to stakeholders. Finally, the Nova Scotia Legal Aid Commission is not legislated to prepare a business plan but is required to complete an annual report. We recommended that the Department of Justice require the Commission prepare an annual business plan, including outcomes and performance measures to be evaluated in a subsequent accountability report.

4 Agencies, Boards and Commissions: Accountability Reporting

Background

4.1 The Organization for Economic Cooperation and Development, in its 2009 publication Measuring Government Activity, notes:

> *"How government activities are measured matters. The size and the economic significance of the public sector make it a major contributor to economic growth and social welfare. The goods and services government provides, its redistributive and regulatory powers, and how those are exercised affect the way business is conducted and people live their lives in every country. Citizens are entitled to understand how government works and how public revenues are used."*

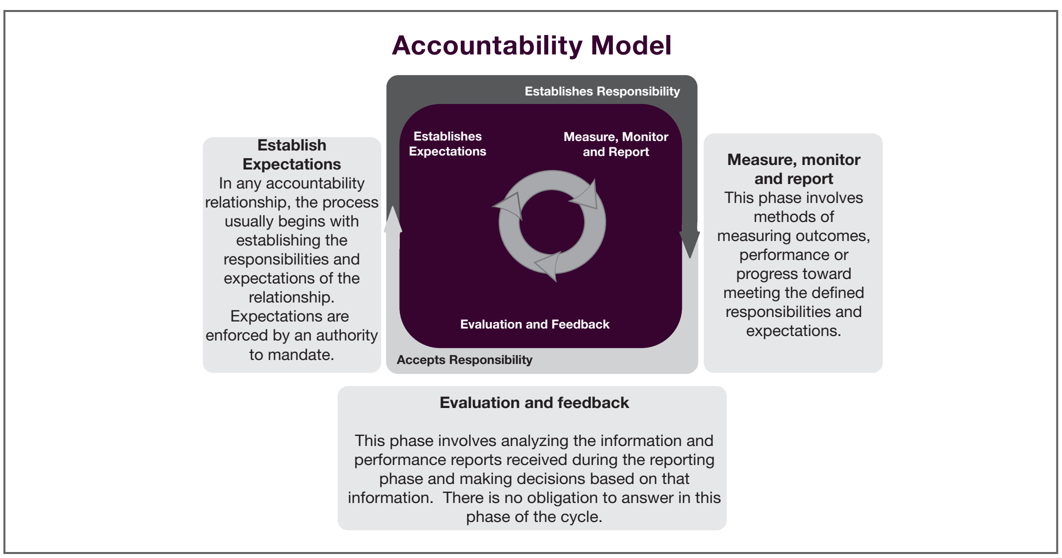
4.2 There are accepted practices for measuring government performance and reporting results. Users should be able to understand what government, or a government entity, wanted to achieve in the upcoming year through review of its business plan. As well, progress against those goals should be evaluated through accountability reporting often as part of an annual report. In doing this, governments should report SMART outcomes to facilitate the subsequent evaluation of progress toward planned objectives.

Criterion	Definition
Specific	Should be clear to people with a basic knowledge of the issue, program or initiative and clearly articulated, well-defined and focused
Measurable	Should be able to determine the degree to which there is completion or attainment Using the same (ideally quantifiable) methodology and information, findings should be able to be replicated
Achievable	Should be realistic, practical and attainable within operational constraints dependent upon availability of resources, knowledge and timeframe
Relevant	Should be tied to the entity's mandate and help to bring about desired outcomes in the Nova Scotia society, economy, or environment
Time-bound	Should have clear deadlines expressed
Source: Adapted from Environment Canada, Federal Sustainable Development Strategy, 2011 Progress Report	

4.3 While the above discussion focuses on outcome-based reporting, it must be recognized that a single outcome-based framework may not be appropriate for all government organizations as those organizations are established for various purposes. Some may be established to provide programs for a particular sector (for example, Nova Scotia Farm Loan Board) while others may be established to remediate contaminated sites (for example, Nova Scotia Lands Inc.). Regardless of the purpose of the organization, accountability reporting is vital to know whether those organizations have the desired impact on Nova Scotians and support the use of public funds.

4.4 In the current fiscal environment, with the government of Nova Scotia having incurred a deficit of $679 million for the year ended March 31, 2014, and forecasting a deficit of $221 million for fiscal 2014-15, the effective use of limited government resources is important to Nova Scotians. While government departments and central operations incurred a total of $7 billion in expenses during the prior fiscal year, government organizations accounted for approximately $4 billion of approximately $11 billion in total government expenses.

4.5 These government organizations are the province's crown corporations, health authorities, and school boards which exist to provide services to Nova Scotians. Appropriate performance reporting in the form of annual business plans and accountability reports is required to provide Nova Scotians with information on how specific entities are measuring up against their stated mandate. It also provides users with information related to the effectiveness of an entity's programs and services. Accountability reporting for government, including government organizations, is a critical component in demonstrating stewardship of resources, and the measurement of the impact and effectiveness of programs and services is critical for decision makers to have adequate information in deciding how to use resources.



Source: Achieving Health System Accountability 2009 Getting There Together, Manitoba Health and Healthy Living

Audit Objectives and Scope

4.6 In fall 2014, we completed a performance audit of accountability reporting by government organizations for the period April 1, 2013 to March 31, 2014. The purpose of this audit was to determine whether government entities such as crown corporations, other governmental units, and government business enterprises provide relevant information in accountability reports for decision makers and other users to determine if those entities are fulfilling their mandates.

4.7 The audit was conducted in accordance with sections 18 and 21 of the Auditor General Act and standards adopted by the Chartered Professional Accountants of Canada.

4.8 The objectives of the audit were to assess whether:

- government provides government organizations with guidelines or instructions for preparation of business plans and accountability reports with a focus on outcome measurement of programs or services;
- entity accountability reports provide information to enable users to reasonably determine if the entity is fulfilling its mandate through a review of entity accountability reports; and
- existing legislation provides the relevant minister with the authority to require government-approved accountability reporting by the entities.

4.9 Certain audit criteria for this engagement were developed by our Office while other criteria were adapted from the SMART approach often used to develop outcomes and performance measures. These criteria were accepted as appropriate by senior staff responsible for accountability reporting at Finance and Treasury Board, Department of Health and Wellness, and Department of Education and Early Childhood Development. Entities selected for this audit were as follows.

Department of Education and Early Childhood Development:

- Cape Breton-Victoria Regional School Board
- South Shore Regional School Board

Department of Health and Wellness:

- IWK Health Centre
- Annapolis Valley Health

Other entities:

- Art Gallery of Nova Scotia

- Nova Scotia Legal Aid
- Film and Creative Industries Nova Scotia
- Nova Scotia Farm Loan Board
- Nova Scotia Lands Inc.
- Trade Centre Limited
- Halifax Dartmouth Bridge Commission

4.10 Our audit included examination of relevant legislation, guidelines, business plans and annual or other accountability reports.

4.11 As a result of past audits in several of these entities, we are aware that there are internal processes that provide boards and management with information on progress toward achieving strategic goals. The purpose of this audit was to examine public reporting, both in terms of providing specific and measurable outcomes, and reporting results against those outcomes. We did not audit internal processes in any entities we tested. In addition, we did not audit whether entities were achieving their mandates; rather, we audited whether there was sufficient information for users to assess whether entity mandates were achieved.

4.12 We expect that following amalgamation, district-specific recommendations will be applicable to the newly formed district health authority and the IWK Health Centre.

Significant Audit Observations

Legislation and Guidance

Conclusions and summary of observations

Not all legislation requires accountability reports including business plans and annual reports be prepared. We suggested that government review legislation of each entity to ensure this is done, or expand the Finance Act to provide increased authority to obtain accountability reports from all entities within the government reporting entity. The guidance provided by the Department of Finance and Treasury Board to crown corporations and certain other entities for the preparation of business plans and accountability reports is clear and concise and follows the SMART approach for accountability reporting by focusing on the measurement of outcomes of core business areas, programs and services. We also noted that guidance being provided by the Department of Education and Early Childhood Development generally captures key components of accountability reporting. We recommended this guidance be strengthened to require boards to report on common goals in education, such as student achievement. The Department of Health and Wellness is not providing district health authorities and IWK Health Centre with sufficient guidance for them to create business plans or accountability reports that meet accountability reporting best practices. We concluded that the lack of guidance contributed to inadequate accountability reporting in the two entities we tested. We recommended that the Department develop business plan and accountability report guidance that requires health authorities and the IWK to develop and report on specific and measurable outcomes for their core business activities.

4.13 *Background* – Most crown corporations and agencies issue an annual business plan. In order to obtain consistent reporting and ensure entities are meeting legislative or established reporting requirements, we believe guidance and instruction should describe the content of the annual business plan. The guidance should also describe the intended audience, deadlines, responsibilities, and approval processes. To ensure that entities are reporting on those issues and items that are most relevant to their business model, it is important that guidance direct entities to report on those business areas and activities that are closely linked to their mandate and reason to exist.

Legislation does not always require accountability reporting

4.14 *Legislation* – Not all entities included within the scope of this audit have enabling legislation. Neither Nova Scotia Lands Inc. nor Trade Centre Limited has enabling legislation; however, both prepared 2013-14 business plans and annual reports. Of the nine remaining organizations, there is no legislative requirement for Halifax Dartmouth Bridge Commission and Nova Scotia Legal Aid Commission to prepare a business plan, although we note that the Bridge Commission provided a plan for 2013-14.

4.15 Legislation for all other entities specifies some form of reporting, although not all legislation requires that such reports be approved by the respective minister. The Health Authorities Act gives the minister broad powers to obtain information on programs, including that health authorities report against performance targets established in their business plans, for that fiscal year.

4.16 The Education Act requires that school boards develop a business plan. Boards must submit to the minister an annual report containing such information as required by the minister; however, there is no specific requirement that the minister approve either the business plan or the annual report.

4.17 Legislation establishes the powers, responsibilities and requirements of a government organization and identifies the minister to whom the organization reports. Although the Department of Finance and Treasury Board provides guidance to several of these entities, it has no authority to compel each to provide accountability reports. Government should consider reviewing all entities' legislation to ensure there is a requirement for accountability reporting, or expanding the Finance Act to provide increased authority to obtain accountability reports from all entities within the government reporting entity.

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4.18 *Guidance* – We evaluated information provided to entities by the following departments to assess whether it provided sufficient guidance on accountability reporting.

- Finance and Treasury Board – to various entities within the government reporting entity
- Education and Early Childhood Development – to school boards
- Health and Wellness – to district health authorities and the IWK Health Centre

4.19 When assessing entity guidance we looked for the use of a proven methodology such as the SMART approach as a best practice. In addition, one of the key elements of accountability reporting is to have appropriate business plans that lay out goals for the organization which can then be evaluated in a future accountability report.

4.20 We recognize there are challenges in performance reporting. Without the benefit of surveys or other feedback, it can be difficult for an entity to assess how well it is performing with respect to its goals and mandate. In addition, while goals should reflect the entity's mandate, the process to achieve such goals is not always under the entity's control. An example is student achievement in standardized testing. Teacher training to deliver the curriculum to be tested, and periodic evaluation of student knowledge prior to the assessment, can facilitate the desired standardized testing result. However, student preparation and motivation are ultimately out of control of the school.

Finance and Treasury Board guidance on accountability reporting is clear and concise

4.21 *Department of Finance and Treasury Board* – In December of each year, the Department of Finance and Treasury Board releases guidance to crown corporations and certain other entities to be used in developing their business plans. This guidance sets forth what is required in the entity's business plan and provides specific instructions. Entities are requested to complete a business plan annually before the beginning of the reporting period.

4.22 The guidance is clear and well-documented. It explains the need to state the entity's mandate, key activities, core business areas, and outcomes and performance measures related to these. Accordingly, we concluded it leads to the development of a robust business plan. Entities are directed not to report on operational matters such as human resource activities. The guidance is further strengthened by the use of examples to explain subjective or abstract concepts, such as the following example for measurements under a program for influenza inoculations.

- Service quality measure: client feedback questionnaire that focuses on client satisfaction

- Cost efficiency measure: cost per inoculation
- Outcome measure: decreased incidence of influenza

4.23 In addition, the business plan guidance establishes that the outcomes provided in the business plan are to be included in the accountability report prepared after year end. This emphasizes the need to establish realistic outcomes and targets.

4.24 Although the Department's guidance does not specifically refer to the SMART methodology as a means of reporting, it includes all the relevant criteria to allow outcomes included in entity business plans to be SMART in nature. We suggest the guidance could be strengthened if the SMART methodology, or some other accepted methodology, was detailed for user reference.

4.25 The Department provides accountability reporting guidance to entities in early May. Accountability reports, which are also referred to as annual reports, are published once a year. Accountability reports should address the goals set by the entity in its business plan for the same fiscal year. Entities are to report on the outcomes set in the business plan, and provide rationale if any of these outcomes, targets or performance measures are no longer valid. This allows entities the flexibility to explain outcomes that are no longer relevant or are not possible to complete. Further, the use of plain language to increase understandability is encouraged, as well as providing explanations for complex calculations or measures. The timing and approval process (by the appropriate minister) is noted.

4.26 *Department of Education and Early Childhood Development* – The Department provides school boards guidance to be used for both business plans and accountability reporting. Accountability reporting is included in boards' business plan document and is referred to as progress towards achievement; that is, progress towards achieving goals identified in the prior year business plan.

4.27 The guidance describes the relationship between long-term goals and the annual priorities each board will use towards achieving those goals in the next year. Priorities are to be linked to provincial goals which establish the direction of education in the province.

4.28 The guidance includes further instruction with respect to performance measures – that they include targets and baseline data to allow the measure to be evaluated later. There is also a statement that the board consider including performance measures for which there will be readily-obtainable data. Finally, the guidance requires that when evaluating the prior year's performance measures in the current year business plan, the board should note what was accomplished or explain what was not accomplished.

Guidance to school boards does not promote comparability among school boards on student results

4.29 The guidance notes that goals reflect desired change and performance. In accountability reporting, such goals would be considered outcomes. However, we note that the guidance does not require school boards to report on what we believe to be common goals, or outcomes, such as results on provincial assessments in numeracy and literacy. Required reporting on student-based outcomes would promote comparability among boards and allow the public and other users to evaluate strengths and weaknesses in student achievement.

Recommendation 4.1
The Department of Education and Early Childhood Development should improve accountability guidance provided to school boards by requiring that each board report on common goals in education, such as student achievement.

Department of Education and Early Childhood Development Response: The Department agrees with this recommendation.

The Department is reviewing and revising business planning guidance to reflect the direction of the recently-released Education Action Plan, including a suite of measures that can be used to assess student performance within, and across, Boards. The Minister has requested the Auditor General audit the school boards in four key areas to provide guidance on improved accountability and reporting.

4.30 *Department of Health and Wellness* – The Department of Health and Wellness provides a template for the preparation of annual business plans to district health authorities and the IWK Health Centre. However, the Department does not provide guidance on public accountability reporting.

Health and Wellness guidance does not promote robust accountability reporting

4.31 The business plan guidance is a template response for health authorities and the IWK to complete for their business plans. The guidance requests that each health authority, and the IWK, include government's and the Department's priorities in their plans. The guidance notes that planning must align with those priorities. Organizational priorities should be included and the direction of change should be noted – that is, increase, decrease or remain stable. However, there is no requirement for health authorities and the IWK to develop and report on outcomes over time, or to develop performance measures, targets or benchmarks. There is no requirement that information included in the business plan be verifiable or understandable, or that it should explain what is to be accomplished over the next year. There is no link to subsequent accountability reporting. We concluded that the lack of guidance contributed to inadequate accountability reporting in the two entities we tested.

Recommendation 4.2
The Department of Health and Wellness needs to develop business plan and accountability reporting guidance for district health authorities and the IWK Health Centre that requires these entities to develop and report on specific and measureable outcomes for their core business activities.

Department of Health and Wellness Response: The Department of Health and Wellness (DHW) agrees with this recommendation. The recently amended *Health Authorities Act* establishes the requirement for DHW to establish an accountability framework for the health system in Nova Scotia. The accountability framework will contain specific and measurable outcomes and regular monitoring and reporting on progress to meet those outcomes.

4.32 School boards, health authorities and the IWK are required to provide programs and services as specified in their respective legislation. While there may be differences in program delivery, there is a basic requirement for school boards to deliver the provincial education curriculum and for health authorities and the IWK to deliver health services specified by the Department of Health and Wellness. Therefore, guidance from the Departments of Education and Early Childhood Development, and Health and Wellness, should require that school boards and health authorities and the IWK, respectively, develop performance measures addressing the delivery of core programs. This would promote comparability among entities. It would also provide specific direction to individual schools and hospitals on what is to be achieved in those sectors.

Health Accountability Reporting

Conclusions and summary of observations

Annapolis Valley Health and the IWK Health Centre accountability reporting is not currently providing the required information for a user or decision maker to determine if these entities are fulfilling their mandate. While both are releasing the reports required by legislation in a timely fashion, they are currently only reporting on the activities or outputs expected during the current year. There is no requirement to demonstrate how these outputs will benefit stakeholders. Further, targets are not provided for these activities and consequently there can be no later evaluation of progress made. It is not possible to determine how one health authority is performing in relation to another. We note that the IWK Health Centre reports on key performance indicators in its quarterly, public KPI progress report. The IWK should include realistic and achievable targets for each of these indicators so that performance against these can be evaluated later.

4.33 *Background* – Legislation requires that health authorities and the IWK release both an annual business plan and an annual report. The annual report should include information on results achieved on any performance objectives established, including those established in their business plan. As noted above, we found that the Department of Health and Wellness was not providing appropriate instruction to health authorities and the IWK on what was to be included in business plans in relation to accountability reporting requirements. We also determined that no guidance was provided related to annual reporting.

4.34 The Health Authorities Act is explicit in describing the objects and duties of a health authority. Along with the requirements to govern, plan, manage, monitor, evaluate and deliver health services in a district, the objects also require the authority to endeavour to maintain and improve the health of the residents of the health district. We believe that a response to this objective can be demonstrated, in part, by robust accountability processes, including business plans and accountability reports.

4.35 Best practices in accountability reporting require entities to develop outcomes that demonstrate the impacts these entities' operations have on their target population, in this case, residents in the health district. While outcomes may be short or long term, it is important that the authority be able to demonstrate progress toward achieving outcomes each year. For example, while a health authority's strategic plan may include a long-term outcome of keeping patients safe, the annual business plan should include a more achievable outcome related to patient safety. An annual outcome could be to decrease the incidence of *C. difficile* in patients; the outcome can be made more specific by detailing the hospitals, wards, and types of patients it intends to focus on. Further, it can be made measureable by determining the current number of incidents within the specific population being targeted for reduction and setting a decreased target.

4.36 The success of achieving this type of outcome can be measured and should be reported in an accountability document such as an annual report. Residents of the health authority can then readily assess the extent to which hospitals have ensured patient safety. To the extent patients can access services in other districts, this could be a factor in the allocation of services among hospitals, given reduced patronage at one hospital, or district, considered to be less safe than another.

4.37 *Audit results* – We tested accountability reporting at Annapolis Valley Health and the IWK Health Centre. We had previously identified that health authorities and the IWK are not being provided with sufficient guidance from the Department of Health and Wellness to prepare their annual business plans. We concluded that both entities adhered to the guidance. However, it was difficult to determine what each entity planned to achieve in 2013-14 as the business plan template required each entity to list overall government goals, without specifically requiring that entity outcomes be established. The business plans noted activities, or outputs, but no targets were provided for later evaluation. We also concluded that the accountability reporting is not providing the required information for a user of this information to determine if these entities are fulfilling their mandate.

Health and Wellness has not required annual reports from health authorities and the IWK although required by legislation

4.38 Both Annapolis Valley Health and the IWK prepared a report to the community but neither prepared an annual report to the Minister of Health as required by the Act. The Department of Health and Wellness did not request these reports. Staff from the Department further indicated they did not request annual reports from any health authorities.

Recommendation 4.3
The Department of Health and Wellness should request that annual reports be prepared by district health authorities and the IWK Health Centre.

Department of Health and Wellness Response: The Department of Health and Wellness agrees with this recommendation. As part of the accountability framework being established under the recently amended *Health Authorities Act*, the Nova Scotia Health Authority and the IWK will provide for the evaluation of their progress toward the established outcomes through regular reporting in the form prescribed by the minister.

4.39 The Health Authorities Act notes that the annual report should include results achieved with respect to the authority's performance objectives, including those identified in its business plan. This further strengthens the need for guidance from the Department of Health and Wellness to reflect best practices for accountability reporting in business plans and annual reports.

4.40 The annual community reports produced by the entities we tested provided information on financial results. In the case of Annapolis Valley Health, there were two instances in which a priority noted in the business plan could be traced to the annual report. However, what was achieved was noted without comparison to what was planned. The IWK has quarterly reporting on key performance indicators, but its annual report to the community does not assess performance against measures.

4.41 *Annapolis Valley Health* – In accordance with the Department's template, Annapolis Valley Health noted government priorities, and identified several entity-specific priorities. However, there were no easily identifiable outcomes related to these priorities, and there were no performance measures or targets in the 2013-14 business plan. There were some comments that appeared to be outcomes; however, they were not identified as such in the business plan which made it difficult to relate them to the authority's mandate.

4.42 We identified three activities in Annapolis Valley Health's business plan.

- Transition 25 long-term care beds from Veterans Affairs
- Implement a unit dose medication distribution system
- Achieve a balanced budget

4.43 None of these noted the impact of the action, although achieving a balanced budget can likely be seen as a positive outcome. For example, the impact of transitioning 25 long-term care beds from Veterans Affairs may be to provide additional long-term care beds to the general community, not exclusive to veterans, and to meet an identified need. The annual report did not evaluate whether this had been done.

4.44 Annapolis Valley Health's business plan focused on activities that had been completed in the previous year and those intended to be completed in the upcoming year. However, there was no linkage in the discussion to how these activities would help meet its objectives.

4.45 Without established SMART outcomes it is difficult for a business plan user to determine which objectives Annapolis Valley Health was working towards completing during its upcoming year. It also makes it unlikely that the authority will report on progress towards objectives over time in its subsequent annual report. Improved direction from the Department of Health and Wellness should result in a more robust public accountability process.

4.46 *IWK Health Centre* – The IWK Health Centre prepared a 2013-14 business plan in accordance with the Department of Health and Wellness's guidance. The plan does not include specific or measurable targets. However, the IWK has also prepared a strategic plan which includes outcomes.

4.47 We had difficulty obtaining information from the IWK. Our only response from them was that there was no requirement for annual reports under the current Health Authorities Act. We obtained information for the audit by examining their website for instances of accountability reporting. Subsequent to completion of our audit fieldwork, we received comments from the IWK, through the Department of Health and Wellness, on our audit findings, including additional information on the IWK's key performance indicators (KPI) reporting.

4.48 The KPI progress report measurements generally do not include targeted levels of activity. Progress on all KPIs is reported in terms of change from the prior report and trends over time. For example, the outcome of helping families be healthy and get the best care was measured by wait time performance. The measurement is whether established wait time standards were successfully achieved; that is, whether patients were seen within the established timeframe. While the report indicates the percentage of patients seen within, and outside of, the timeframe, we could not determine what the target timeframe was.

4.49 The late information provided to us included an addition to the IWK's strategic plan identifying the KPIs forming the basis of the quarterly reporting. Targets are identified for the five KPIs noted. However, with respect to the example noted above on wait times, a user still does not know what the wait time is – whether a day, week or month.

IWK Health Centre's targets for some key performance indicators are not achievable

4.50 In addition, the target in two of the five indicators – wait times and recruitment – is 100%. As noted in chapter 4 of the December 2014 Report of the Auditor General (Surgical Waitlist and Operating Room Utilization), the IWK had not set realistic organizational performance targets for surgeries. Recommendation 4.3 of that report noted that specific, short-term surgery wait time performance targets should be set and regularly reported against publicly. Although the KPI we reviewed does not refer to surgeries, but rather to wait times in general, we believe the same standard should apply and that realistic and achievable targets should be established for this indicator. Doing so would allow the IWK to assess progress over time and provide explanation of whether targets are met, rather than report on why there is a change in wait times from one quarter to the next. Further, the IWK did not reference any of the performance measures in the KPI progress report in its business plan or strategic plan. This decreases the level of accountability in the outcomes as it allows the IWK to include or not include performance measures.

4.51 The IWK's KPI progress report was not easily accessible. The quarterly KPI progress reports are included on a webpage which is only found through a link at the bottom of their strategic plan website page. Performance reporting should be readily available to the public.

Education Accountability Reporting

Conclusions and summary of observations

The 2013-14 business plans of the South Shore Regional School Board and the Cape Breton-Victoria Regional School Board, do not provide sufficient information needed for Nova Scotians to assess whether these entities are fulfilling their mandate. There were limited instances in which performance measures included within business plans were directly related to student achievement or development. Both business plans included targets for improved education results. Improvements to the guidance provided by the Department of Education and Early Childhood Development should assist in promoting better accountability reporting.

4.52 *Background* – School boards exist to deliver education to students in accordance with the provincial program of studies. School board duties, as explained in the Education Act, also include, among other things, transportation, and identification of staff development needs.

4.53 School boards generate an annual business plan that functions as both a business plan and an accountability report. While the Department of Education and Early Childhood Development provides guidance on what to include in the business plan, the guidance needs improvement.

4.54 As part of our audit of the Tri-County Regional School Board (Chapter 3, December 2014 Report of the Auditor General), we determined that the outcomes included in the Board's annual business plan are to be used by individual schools within the Board to develop school goals and strategies. The need for clear Board priorities is therefore important in delivering education. As part of this accountability audit, we considered whether outcomes were specific and measurable.

Reported information does not demonstrate impacts on student education

4.55 *Audit results* – We found that of the six goals included in the school boards' business plans (three goals for each board), only two were related to student achievement (one in each board). These included short-term to medium-term performance measures on improved scores in education results such as provincial assessments that would allow a user to determine the outcomes the boards were trying to achieve. For example, the South Shore Regional School Board identified communications initiatives and effective board governance as two of its three goals. Similarly, the Cape Breton-Victoria Regional School Board included a goal related to collaborative work among Board departments to maximize student access to programs. While it is understandable that each school board may have goals which are not focused on program delivery and duties as specified in the Act, we believe the business plans should include more performance measures related to the core mandate of educating students. Improvements to the guidance provided by the Department of Education and Early Childhood Development should assist in promoting better accountability reporting.

South Shore Regional School Board's 2013-14 goals did not include sufficient student-focussed objectives

4.56 *South Shore Regional School Board* – The South Shore Regional School Board's 2013-14 business plan identified three goals: to achieve equitable student learning and engagement in all schools across the Board; to engage the public through strategic communications initiatives; and effective board governance. Only one of these outcomes was clearly linked to education. The performance measures and targets related to the first goal dealt with issues of student literacy, student behavior and professional learning. Measures for the other goals included communications plans, the use of social media, and development of peer and self-evaluation tools for the Board.

4.57 We spoke with the current Board Superintendent who assumed the role in August 2013. The Board has had significant issues in the past few years; the previously elected board was dissolved by the Minister of Education in 2011. Consequently the new board, elected in November 2012, was not involved in the development of the 2013-14 business plan. We believe the goals of the 2013-14 business plan reflected the need to re-establish the Board and strengthen its community ties through increased communication. However, we believe future business plans should include more outcomes to evaluate student performance.

Cape Breton-Victoria Regional School Board's 2013-14 goals were not evaluated

4.58 *Cape Breton-Victoria Regional School Board* – Cape Breton-Victoria Regional School Board's 2013-14 business plan included three goals. All had a high-level student focus, but only one related to student achievement. The long-term nature of these goals was consistent with guidance provided by the Department. For example, the first goal was "*To prepare students for the 21st century by providing highly skilled staff and integrated curriculum*." Each goal included several priorities for 2013-14, and certain priorities had associated performance measures and targets. We noted that some priorities and performance measures addressed operational issues such as unqualified financial statements and developing a new procurement policy.

4.59 Some of the measures associated with priorities were more specific, including current year targets for improvement in student literacy and math assessments. Targets such as these are essential to evaluating performance in a subsequent year. They are also important to the schools within the Board in understanding how they are to contribute to achieving the overall Board outcome. We noted that the 2013-14 performance measures were not specifically evaluated in the Board's 2014-15 business plan; however, they were discussed in general terms. As noted above, the subsequent year's business plan for all boards includes reporting on the prior year's achievements. There is no separate accountability report.

Entity Accountability Reporting

Conclusions and summary of observations

The crown corporation and other entity business plans and accountability reports we tested are not providing outcomes and performance measures that are specific and measurable. However, minor changes in several entities' outcomes and performance measures would lead to reporting in accordance with best practices and provide useful information to users. Nova Scotia Farm Loan Board, Film and Creative Industries Nova Scotia, and the Art Gallery of Nova Scotia require further details included in their outcomes to ensure they meet SMART criteria. Trade Centre Limited would benefit from updating the presentation of its outcomes, as well as providing more measures and explanation for their listed priority, including why the related targets were for negative growth. Nova Scotia Lands Inc. needs to provide more context surrounding the reasoning and impact of its planned activities so users can determine how these activities help to fulfil its mandate. The Halifax Dartmouth Bridge Commission also needs to better demonstrate the impact of its activities on stakeholders. The Nova Scotia Legal Aid Commission does not prepare an annual business plan but is required to prepare an annual report. We have recommended that the Department of Justice require the Commission to prepare an annual business plan, including outcomes and performance measures to be evaluated in a subsequent accountability report.

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4.60 *Background* – Crown corporations generally submit an annual business plan. The Department of Finance and Treasury Board provides guidance on the content of these business plans. Business plans are intended to detail what the crown corporation intends to accomplish in the upcoming year and establish outcomes by which the entity can assess its performance in future accountability reports.

Outcomes and performance measures generally not specific or measurable; minor changes could result in better accountability

4.61 *Audit results* – We found deficiencies related to the inclusion of SMART outcomes in business plans in the entities we tested; generally, outcomes were neither specific nor measurable. However, in some entities we concluded that, with minor changes, an entity could develop outcomes that were SMART and provide more useful information to users. We also found that subsequent accountability reports generally allowed a user with knowledge of the business area to determine that progress was being made toward achieving the outcomes noted in business plans.

4.62 Entities generally incorporated the same outcomes and performance measures in their accountability reports as those included in their business plans with the exception of Film and Creative Industries Nova Scotia, and Halifax Dartmouth Bridge Commission. Film and Creative Industries Nova Scotia did not carry one measure from their business plan to their accountability report, and Halifax Dartmouth Bridge Commission did not include either outcomes or performance measures stated in their business plan through to their accountability report.

4.63 *Nova Scotia Farm Loan Board* – Nova Scotia Farm Loan Board stated four outcomes in its business plan that were subsequently included in its accountability report. The Board included measures, base year data, targets, trends and strategies, as suggested by Finance and Treasury Board guidance.

4.64 Certain reported outcomes were outputs rather than outcomes. However, we suggest that minor changes would provide outcomes that are more in line with best practices, and provide users with clearer information on what the Board plans to achieve in the current year (through its business plan), and the progress made toward achieving that goal.

4.65 Client satisfaction was noted as one of the outcomes related to the core business area of lending. We do not believe client satisfaction, which is indicated to be measured by survey results on courtesy and promptness, is related to the effectiveness of lending on agriculture in Nova Scotia. Rather, it is more related to staff performance. However, if a survey was directed toward client satisfaction with the programs being offered by the Board, this would better relate to the mission of the Board, which is to support the development of agriculture in Nova Scotia.

4.66 *Art Gallery of Nova Scotia* – The Art Gallery of Nova Scotia included outcomes, measures, targets, and strategies for achievement of its stated outcomes in its 2013-14 business plan. Three of the eight performance measures included were either not specific enough to be measurable, or were not valid measures but rather operational activities such as identifying, recruiting and interviewing candidates.

4.67 The Art Gallery's outcomes, measures, targets, and strategies generally did not meet the best practice criteria established. The following example demonstrates how an outcome reported in the 2013-14 business plan could be better stated and provide more specific information on the business of the Gallery.

	Outcome	Measure	Target
As currently reported	Enhance exhibitions and public programming	Retention rate of memberships Parental feedback of summer school and March break programs	Increase membership retention to 80% 70% of students returning from 2012-13 summer school and March break
Suggested change	Enhance exhibitions and public programming	Increased number of exhibits depicting a particular theme Increased number of family days Evaluate exhibit narrative or interpretive materials and expand as needed	Two exhibits added in 2013-14 One additional Sunday per month in 2013-14 Five exhibit narratives evaluated in 2013-14

4.68 While increased membership or returning students may be indications that the Art Gallery's exhibits and public programming have been enhanced, there is no direct link. Parents may decide to send their children to Art Gallery day camps because they are creative. In other words, they would have returned regardless of enhanced programs. Further, there is no information on how the exhibitions and public programming are to be enhanced. Although simplistic, the suggested change demonstrates how these enhancements may occur.

4.69 *Film and Creative Industries Nova Scotia* – Film and Creative Industries Nova Scotia was created on April 1, 2013. The new entity encompassed the role of the former Film Nova Scotia, but expanded on its mandate to include all creative industries. A new chief executive officer was hired, and new members were added to the former board of directors.

4.70 The 2013-14 business plan is for the newly-expanded entity. However, it is apparent that, at the time it was prepared, information on additional programs was not available. Measures, data and targets for music and book publishing were not reported, with the explanation that these would result from a strategic planning initiative for the new entity.

4.71 With respect to the outcomes that were reported, it was not clear how the selected performance measure would address the outcome. For example, one of the outcomes noted is to ensure skills development and innovation, and a related measure is workshop attendance. However, workshop attendance does not ensure skills development. Unless there is a measure of the success of offering these workshops, Film and Creative Industries Nova Scotia cannot know whether skills have been improved through workshop attendance.

4.72 Film and Creative Industries Nova Scotia's 2013-14 accountability report noted that the Agency would work towards establishing meaningful measures to assess the economic impact and performance of the creative industries. The use of such measures is a significant step towards reporting on the effectiveness of its programs and services.

4.73 *Trade Centre Limited* – Trade Centre Limited is not legislated to release a business plan or accountability report. However, it released both a business plan and annual report, and its internally-generated guidance includes a statement indicating reporting is to be based on Finance and Treasury Board guidance.

4.74 The business plan indicates priorities for Trade Centre for 2013-14. Three relate to priorities as established by the jobsHere initiative of the then-government, and three areas of focus are noted for these priorities. Four activities are noted which appear to be the specific priorities for Trade Centre. However, only one of these latter priorities is included in the section of the plan titled Outcomes and Performance Measures. No explanation is provided noting why there are no outcomes associated with the other three priorities for 2013-14. Per Trade Centre management, this was at the direction of the Department of Economic and Rural Development and Tourism which instructed Trade Centre to focus only on critical priorities.

4.75 The selected priority has two components – financial and growth. The financial component includes measures and targets; however, the targets noted are less than the results of the prior year. In other words, Trade Centre has targeted a reduction in its results, with no explanation provided. With respect to the second component – growth – Trade Centre established a target of attracting 20% of the anticipated events expected to take place in the new convention centre, in 2013-14. However, there is no discussion of the strategy to deliver this target. Additional information would help users assess the Centre's planned outcomes.

4.76 *Nova Scotia Legal Aid Commission* – The Nova Scotia Legal Aid Commission does not prepare a business plan. It is not required to do so by legislation, and the Department of Justice does not request one.

4.77 The Commission has developed a three-year strategic plan which is available on its website. The strategic plan focuses on service delivery, operations, financial and technology. There are statements associated with each area of focus, but only one statement has a stated target.

4.78 As part of this audit, we were provided with a strategic work plan that is not publicly available. This internal document details what is to be accomplished in each of the three years. As these work plans are not available to the public, external assessment of whether outcomes have been achieved is not possible.

4.79 The Legal Aid Act requires that an annual report be completed as may be prescribed by the Attorney General or the Governor-in-Council. We examined the Commission's 2013-14 annual report and note that it includes statistics on the services provided, and the executive director's comments indicate activities during the year.

4.80 The report also includes testimonials regarding the high quality of services delivered during the year. We have been informed by senior management of the Commission that these comments were not gathered as a result of exit interviews or a survey. If such methods are used in the future to gather this information, the full statistics of number of respondents and range of satisfied to dissatisfied clients should be noted.

4.81 The Nova Scotia Legal Aid Commission provides what we believe to be a significant service to the public. Each year, Legal Aid receives a grant of approximately $22 million through the Department of Justice. The Commission should prepare a business plan detailing what it expects to achieve in the current year and how these goals will be met. Further, its annual report should include commentary on the extent to which planned outcomes have been met.

Recommendation 4.4
The Department of Justice should require that the Nova Scotia Legal Aid Commission prepare an annual business plan. The business plan should include goals for the upcoming year and targets to achieve these goals. The Department should require that the Commission's annual report reflect progress toward achieving these goals.

Department of Justice Response: It is our intention to implement the recommendations for the fiscal year beginning April 1, 2016.

4.82 *Halifax Dartmouth Bridge Commission* – Halifax Dartmouth Bridge Commission's mandate is to be a self-supporting entity that operates two toll bridges.

4.83 The 2013-14 business plan includes a number of activities and outcomes related to the Commission's core business areas. Best practices in developing outcomes indicate that activities are not outcomes, but are the process an entity undertakes to achieve an outcome. The following is an example of a reported outcome and its measure and target, as well as our suggested change. Rewording of this outcome would better demonstrate the impact of the Commission's activities on stakeholders.

	Outcome	Measure	Target
As currently reported	Guide signage upgrade	Final inspection report	2013: 100%
Suggested change	Improved safety resulting from guide signage upgrade	Reduced traffic incidents (at locations requiring improved signage)	X% reduction from 2013 data

4.84 The Commission prepared a 2013-14 annual report. However, the report did not report on the outcomes and performance measures identified in the 2013-14 business plan.

4.85 *Nova Scotia Lands Inc.* – Nova Scotia Lands Inc.'s business plan and accountability report both included the same outcomes, measures and targets; however, nine of the 10 outcomes were activities rather than outcomes. These activities could be considered outcomes if they provided explanation of how their completion would demonstrate a measurable impact on the environment. The following example demonstrates how an activity reported in the 2013-14 business plan could be better stated and provide more specific information on what Nova Scotia Lands Inc. wants to achieve.

Core Business Area 2 – Support to the Tar Ponds Project			
	Outcome	Measure	Target
As currently reported	Manage operation of contaminated material cell	(none provided)	Work ongoing
Suggested change	Material cell contamination maintained (or perhaps reduced)	Contamination parts per million maintained or contamination parts per million reduced	2012-13 contamination level or revised (reduced) contamination level

4.86 Further, we believe the above change would better illustrate how Nova Scotia Lands Inc. is upholding its mission of remediating provincially-owned properties, with the objective of returning these lands to reusable condition, with no substantial safety or environmental concerns.

At a Glance

5 Results of Audits and Reviews

Summary

The review report on the 2014-15 revenue estimates was unqualified. Nova Scotia is the only province in Canada to have an annual review report on its revenue estimates, an accomplishment for the province of Nova Scotia. However, we found that certain tax model assumptions are not subject to periodic review. We recommended that the Department of Finance and Treasury Board develop a process to review all tax model assumptions on a periodic basis, especially those that are not subject to annual review as part of the estimate process. We also found that petroleum royalty inputs were not adequately reviewed for accuracy; we recommended that the Department of Energy develop a process to review inputs and calculations used in estimating petroleum royalties to ensure assumptions are the most current.

During the year, the Department of Finance and Treasury Board's Taxation and Fiscal Policy Division kept us informed of changes in models to calculate tax revenue and we found significant improvement in their change management process.

The audit opinion on the province's 2013-14 consolidated financial statements was unqualified. However, we experienced issues in completing the audit engagement as efficiently as we would like due to a lack of accurate supporting documentation for debt servicing costs. We have made recommendations to improve the audit process. We are pleased to report no significant deficiencies were identified in internal controls during the audit.

We issued unqualified audit opinions for three of four audits we conducted in government agencies for the year ended March 31, 2014. The audit opinion on Trust Funds Administered by the Public Trustee was qualified due to the inability to verify that all assets that came under the Public Trustee's administration, or income related to these assets, were recorded by the Public Trustee. This is because clients referred to the Public Trustee can be accepted prior to the physical transfer of such assets to that Office. Therefore, asset verification was limited to recorded amounts.

We recommended again that the Public Trustee put in place an accounting system to better support the administration of the $45 million in estates and trusts under that Office's control. We also recommended that the Public Trustee implement our prior year recommendations on the administration of the Common Fund and the Special Reserve Fund.

We recommended that the Nova Scotia Crop and Livestock Insurance Commission discuss with government officials the appropriateness of its processes to ensure members, many who are also producers, avoid conflicts of interest in performing their duties. Management should ensure the operations manual is kept up to date to ensure federal portion of premium revenue is collected on a regular basis.

We acknowledged the efforts of the Nova Scotia Legal Aid Commission's review of six key areas of the process to estimate legal fees, addressing our prior year recommendation of testing the reasonableness of the system. Management suggested more review and analysis be done and we recommended a complete review be conducted to ensure the liability reflects management's best estimate.

We recommended to the Nova Scotia Provincial Lotteries and Casino Corporation that the statement of retained deficit be expanded to detail all changes in equity. As part of our audit on compliance and controls related to members' expenses at the House of Assembly, we recommended that improvements be made in the systems and controls over Commission assets.

5 Results of Audits and Reviews

Background

5.1 Government financial reporting consists of two distinct components – reporting on financial condition, and reporting on financial performance. The province's consolidated financial statements, included in Volume 1 of the Public Accounts, include both these components.

5.2 Financial condition provides information on government's financial health at a point in time. One of the most significant reports on financial condition is government's balance sheet – or statement of financial position – at its fiscal year end. Two key measures of government's financial health are the extent to which government can honour its future obligations through realizing its financial assets, such as cash, investments, and accounts receivable, and its non-financial assets, such as buildings and other fixed assets. Net debt is used to define the deficiency between financial assets and liabilities. Accumulated surplus or deficit is the result of subtracting non-financial assets from net debt. In other words, accumulated surplus or deficit shows how much of net debt was used to purchase assets that will be used to provide government services.

5.3 The statement of operations provides summary level information on annual financial performance. It also includes government's approved budget for the year. Financial statement users can evaluate the extent to which government has met its fiscal plan. The statements of changes in net debt and cash flow provide additional information to users on how government has financed its operations and capital acquisitions.

5.4 While providing summary level information on financial condition and performance, the province's consolidated financial statements also serve the following purposes.

- Elected officials use financial information to make decisions regarding the allocation of scarce resources.
- Taxpayers use financial reports to assess government's stewardship over the resources entrusted to them.
- Other users, such as lenders and credit rating agencies, use financial reports to meet their specific needs.

5.5 In Nova Scotia, the Finance Act specifies financial reporting requirements for the province, including tabling of the Public Accounts. Other requirements are the annual estimates (budget), and periodic forecast updates comparing forecasted results at a point in time during the year with the budget. These reporting requirements are part of the government's accountability framework and contribute to oversight and the efficient use of resources.

5.6 Under section 19 of the Auditor General Act, this Office is the legislated auditor of the province's Public Accounts. Further, under section 20 of the Act, the Auditor General conducts a review of the estimates of revenue used in preparing the Minister of Finance and Treasury Board's budget address to the House of Assembly. The primary purpose of this chapter is to provide the results of our legislated requirements with respect to government financial reporting, and to make recommendations for improvements to government processes related to financial reporting.

5.7 In addition to the above, the Auditor General is the legislated auditor of four government entities.

- Nova Scotia Crop and Livestock Insurance Commission
- Nova Scotia Legal Aid Commission
- Nova Scotia Provincial Lotteries and Casino Corporation
- Trust Funds Administered by the Public Trustee

5.8 In 2014, the Auditor General conducted an audit under section 22 of the House of Assembly Management Commission Act. This audit was to express opinions on the following:

- whether expenses incurred by the Assembly are in accordance with the policies of the Commission and, where applicable, Nova Scotia's public service policies; and
- whether the Chief Clerk's assessment of the effectiveness of internal controls of the House of Assembly is fairly stated and whether the internal controls are operating effectively.

5.9 At its February 27, 2014 meeting, the House of Assembly Management Commission approved removing the requirement for annual audited financial statements from the Commission's Act. We agree with this decision. Consequently, the Commission did not prepare financial statements for the year ended March 31, 2014, and accordingly no audit was performed.

5.10 The government reporting entity includes numerous boards, agencies and commissions. Many of these produce annual budgets and provide financial statements. These individual results, which are consolidated with departmental results in the province's consolidated financial statements, provide further information through which users can assess stewardship of public funds. In the conduct of our audits, we communicate with those charged with governance and management at each entity.

Chapter Objective

5.11 The objective of this chapter is to provide summary comments and recommendations on government financial reporting.

- Results of our review of the revenue estimates for the year ended March 31, 2015, included in the April 3, 2014 budget address
- Information resulting from our audit of the province's March 31, 2014 consolidated financial statements
- Results of financial statement audits conducted by our Office at certain government agencies
- Results of our audit of controls and compliance of member transactions with the House of Assembly Management Commission Act and regulations

Significant Observations

Review of 2014-15 Revenue Estimates

Conclusions and summary of observations

The review report on the 2014-15 revenue estimates was unqualified. Nova Scotia is the only province in Canada to have an annual review report on its revenue estimates, a significant accomplishment in demonstrating stewardship and accountability. However, we found that certain tax model assumptions are not subject to review. Therefore, we recommended that the Taxation and Fiscal Policy Division of the Department of Finance and Treasury Board develop a process to review all tax model assumptions periodically, especially those which are not analyzed by Department staff as part of the annual estimates process. This would help better ensure tax revenues reflect management's best estimate of all factors in their calculation. We also noted that petroleum royalty inputs were not adequately reviewed for accuracy, so we recommended that the Department of Energy develop a process to review inputs and calculations used in the models to estimate petroleum royalties to ensure assumptions are the most current and reflect approved factors. The Taxation and Fiscal Policy Division kept us informed of changes in models used to calculate tax revenue. We noted a significant improvement in their change management process.

Unqualified report on 2014-15 revenue estimates

5.12 *Unqualified opinion* – Under section 20 of the Auditor General Act, the Auditor General is required to provide a report on the reasonableness of the revenue estimates included in the budget tabled with the House of Assembly. We issued an unqualified report on the 2014-15 revenue estimates. This was included in the

April 3, 2014 budget address provided by the Minister of Finance and Treasury Board.

5.13 The review report covers the 2014-15 revenue estimates, including all those components of the budget that meet the definition of revenue for purposes of financial reporting in accordance with Canadian generally accepted accounting principles (GAAP). Under this definition, the 2014-15 revenue estimates encompass the following components included in the government's budget.

- Ordinary revenues
- Sinking fund earnings
- Recoveries and fees
- Revenue of government units included in the Consolidation and Accounting Adjustments for government units section of the budget summary
- Net income from government business enterprises

5.14 Nova Scotia is the only province in Canada to have an annual review report on its revenue estimates. This is a significant accomplishment in stewardship and accountability.

5.15 *Assumptions* – Certain tax revenues (Personal Income Tax, Corporate Income Tax and Harmonized Sales Tax) and Petroleum Royalties are estimated using statistical models. Various economic assumptions are used as part of the modeling process, including gross domestic product, employment rate, the consumer price index, and interest and exchange rates. Other assumptions are based on past events such as results of prior year tax filings and the growth in tax rebates.

5.16 Some assumptions, such as interest and exchange rates and the consumer price index, are updated annually. Other assumptions are not subject to annual review and certain of these have not been examined in over 10 years, including the tax elasticity assumption which measures the extent to which Nova Scotia's taxable income share changes compared to corporate profits.

5.17 The Department of Finance and Treasury Board's Taxation and Fiscal Policy Division does not have a process to review assumptions not subject to change each year and to periodically assess whether each remains appropriate. This review process would ensure tax and other model-derived revenues reflect management's best estimate of all factors used in their calculation.

Recommendation 5.1
The Taxation and Fiscal Policy Division should develop a process to periodically review all tax model assumptions to ensure model-derived revenues reflect management's best estimate, especially those assumptions which are not subject to annual review as part of the estimates process.

Department of Finance and Treasury Board Response: The Department of Finance and Treasury Board agrees with this recommendation. Work is in progress to implement this recommendation. The Department is pleased that its change management process improvements with the tax models have been found to be satisfactory and timely.

5.18 *Petroleum royalties* – There were numerous issues noted with the review of petroleum royalties, specifically around the natural gas price assumptions used in the estimate. Natural gas prices used to calculate royalties were not those approved by Treasury Board; the inflation rate was not appropriately updated; price changes estimated for 2015 were not used; and a conversion factor for natural gas measurements was applied twice. The number of deficiencies suggests improvements are needed in the process to ensure the estimates reflect the most accurate assumptions and calculations.

Petroleum royalty model inputs not adequately reviewed

5.19 In the past, we have reported the need for a review of inputs used in the models to determine petroleum royalties. This would ensure assumptions are the most current and reflect approved factors. The review should also include a review of model calculations. This would confirm the accuracy of amounts included in the final revenue estimates presented in the budget, and address the issues we identified with petroleum model inputs.

Recommendation 5.2
The Department of Energy should develop a process to review inputs and calculations used in the models to estimate petroleum royalties.

Department of Energy Response: The Department of Energy agrees with this recommendations. In order to ensure that the key inputs in the royalty forecast are accurate, on a go-forward basis, the Department has developed a policy whereby the Manager will prepare the key inputs and royalty forecast, and the Director will review the key inputs before the forecast is released to Finance.

5.20 *Change management* – There are best practices for making changes to information systems. In prior years, we have recommended that management and staff in the Taxation and Fiscal Policy Division follow these change management best practices when updating models used to calculate tax revenue or when a new application is adopted. These practices include approval, and isolating the impact of each change to assess its significance. This provides a management trail to ensure the integrity of revenue estimates.

Changes to tax models were well-managed

5.21 During the current year, Division staff kept us informed of model changes and we found significant improvement in the change management process. We want to acknowledge the improvement made to this process over the past year, and particularly the Division's efforts to keep us informed of changes on a timely basis.

Audit of the March 31, 2014 Consolidated Financial Statements

Conclusions and summary of observations

The Public Accounts were released on July 31, 2014. The audit opinion on the 2013-14 consolidated financial statements was unqualified. We are pleased to report no significant deficiencies in internal controls were identified during the audit. However we noted the following concerns.

- We experienced issues in completing the audit engagement as efficiently as we would like due to a lack of accurate supporting documentation for debt servicing costs.
- An incorrect payment for $10.9 million was made from sinking funds rather than the general revenue fund.
- Our testing at the Department of Community Services identified problems in conducting reassessments of eligibility of Employment Support and Income Assistance clients and Services for Persons with Disabilities clients.
- The Department of Health and Wellness was unaware of the internal control deficiencies at Medavie, the private sector service provider which administers significant provincial medical programs.

5.22 *Introduction* – Our Office is the legislated auditor of the province's consolidated financial statements. We are required by section 19 of the Auditor General Act to perform the annual audit of the province's consolidated financial statements. Our overall objectives as auditors of the statements are to:

- obtain reasonable, but not absolute, assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- report on the consolidated financial statements, and communicate our audit findings, as required by Canadian Auditing Standards.

Unqualified opinion on province's March 31, 2014 consolidated financial statements

5.23 *Unqualified audit opinion* – The Auditor General issued an unqualified opinion on the province's March 31, 2014 consolidated financial statements, which were released by the province on July 31, 2014. The unqualified audit opinion indicates the consolidated financial statements are presented fairly, in all material respects, in accordance with Canadian generally accepted accounting principles for the public sector, which are issued by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. The unqualified audit opinion also indicates there were no quantitative findings, either individually or cumulatively, which were material enough to impact the opinion.

5.24 Our office provided a letter to the Minister of Finance and Treasury Board on August 7, 2014. It included required communications to those charged with governance under Canadian Auditing Standards, and other matters that came to our attention during the course of the audit, which we believe the minister should be aware of. We also provided a management letter to the deputy minister of Finance and Treasury Board in November 2014. This communication included detailed audit findings, recommendations and other comments related to the March 31, 2014 Public Accounts. The more significant information included in the management letter is noted below under the following headings.

- Audit completion
- Internal control
- Other matters

Audit Completion

5.25 Canadian Auditing Standards require that we communicate to those charged with governance, such as the Minister of Finance and Treasury Board or Executive Council, the following information:

- significant matters, if any, arising from the audit that were discussed or subject to correspondence with management; and
- other matters, if any, arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

5.26 As part of the audit, we also provide specific information about the findings of our audit in a management letter to the deputy minister of Finance and Treasury Board. The management letter communicates difficulties encountered during the audit, audit findings, and any other matters arising from the audit that we feel should be communicated to management. Issues that directly impacted audit completion and that, in our judgment, are important to oversight of the financial reporting process are noted below.

5.27 *Capital Markets Administration – debt servicing costs* – In 2013-14, debt servicing costs totaled $886 million or almost 9% of total revenues. Within the Department of Finance and Treasury Board, the Capital Markets Administration Division supports the Liability Management and Treasury Services Division by accounting for debt, debt servicing costs, short term investments, short term borrowings, foreign exchange impacts and sinking funds.

Inaccurate support for debt servicing costs

5.28 The Capital Markets Administration Division processes both debt servicing transactions and sinking fund transactions. Sinking funds are set aside for the repayment of debt. The Division provided us with multiple versions of schedules supporting interest costs for Canadian debt issues, all containing errors with sinking fund swaps, which affected the debt servicing costs. This led to additional audit work and delayed the efficient completion of the audit of that section.

Recommendation 5.3
The Department of Finance and Treasury Board's Capital Markets Administration Division should verify the accuracy of supporting schedules provided as audit evidence.

Department of Finance and Treasury Board Response: The Department of Finance and Treasury Board agrees with this recommendation and will ensure that all documentation provided as audit support is verified for accuracy.

Internal Control

5.29 *Responsibility for internal control* – The Finance Act includes general references to the roles and responsibilities of the minister and deputy minister relating to internal control. The Controller prepares the consolidated financial statements of the province of Nova Scotia on behalf of the minister and deputy minister of the Department of Finance and Treasury Board as noted in the statement of responsibility for the consolidated financial statements. The statement of responsibility also notes *"The government is responsible for maintaining a system of internal accounting and administrative controls in order to provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded, and financial records are properly maintained."*

5.30 Our audit is planned and conducted to enable us to express an audit opinion on the annual consolidated financial statements, not to express an opinion on the internal controls of government, or to determine whether internal controls are adequate for management's purposes.

No significant internal control deficiencies identified

5.31 Certain matters related to internal controls and other financial reporting issues which came to our attention during the conduct of the audit, were communicated to the Department of Finance and Treasury Board in a management letter. Implementation of the recommendations in the management letter and this chapter will facilitate better preparation of the consolidated financial statements.

However, none of the identified internal control matters was significant, and we reported that there were no significant deficiencies in internal controls noted during the audit that required communication with those charged with governance, as would be required by Canadian Auditing Standards.

5.32 *Risk assessments related to the consolidated financial statements* – A strong internal control framework includes control and governance practices and other processes that enable the organization to achieve its objectives. One identified element is an assessment of risks to the fair presentation of the consolidated financial statements. Each year, we enquire about risk assessment practices, specifically those risks that relate to preparation of the consolidated financial statements.

5.33 Financial reporting risks include the risk of material misstatement due to error or fraud. These risks can be reduced by standard management practices such as documented policies and procedures and monitoring of internal controls.

5.34 In the past, we have reported that departments have not conducted assessments of risks to the fairness of consolidated financial statements. We had requested these risk assessments as part of our audit information but because they were not available, we asked the Controller's Office to identify the significant risk areas to the general revenue fund's financial statements as well as the consolidated financial statements. The Controller's Office pointed to an annual Internal Controls over Financial Reporting program that is being conducted in phases, in response to our request for these risk assessments. We are aware the Department has hired a consultant to evaluate risks to the consolidated financial statements at numerous entities within the government reporting entity. We await the results of this work and will review results.

5.35 In addition, we are aware that efforts have been made at the Department level with the implementation of risk control checklists. These risk control checklists contain predetermined control objectives and control activities that address the control objectives. Departments are to identify applicable control activities and provide details specific to their department. We will meet with the Department during the March 31, 2015 audit to discuss the results of this process.

Incorrect payment made from sinking funds

5.36 *Capital Markets Administration – debt servicing costs* – During the year, a journal entry to record a debt maturity was entered in the general ledger incorrectly, and a $10.9 million payment for interest was made from sinking funds rather than the general revenue fund. This payment contravenes the Finance Act, which states that only payment on debt, not interest, can be made from the sinking fund. In an effort to correct this matter, an entry was made during the audit. However, this entry had to then be reversed because it resulted in a $10.9 million understatement of debt servicing costs.

5.37 These transactions demonstrate that additional review is required when preparing and approving journal entries. Such review provides assurance that amounts recorded in the general ledger are complete and accurate.

Recommendation 5.4
The Department of Finance and Treasury Board's Capital Markets Administration Division should increase the extent to which support for transactions is reviewed for accuracy and appropriateness.

Department of Finance and Treasury Board Response: The Department of Finance and Treasury Board agrees with this recommendation and will ensure that support for transactions is accurate and appropriate.

5.38 *Employment support and income assistance programs* – During our testing of employment support and income assistance payments, and services for persons with disabilities payments at the Department of Community Services, we noted several instances in which client eligibility was not reassessed as required by Departmental procedures. Periodic eligibility reassessment helps to ensure that a client receiving assistance is still entitled to it and is receiving the correct amount. It would also help to ensure that clients are considered for all eligible and suitable programs should their situation change.

Inadequate eligibility reassessments at Department of Community Services

5.39 We tested a total of 23 payments consisting of employment support and income assistance payments and payments for services for persons with disabilities. Of the 23 samples tested, seven (30%) of those samples did not have a current eligibility reassessment in accordance with Departmental procedures. In one instance, the eligibility reassessment was almost four years past due.

5.40 Departmental staff were helpful in explaining the reassessment process to us using a sample client file. However, this client's file exhibited the following errors.

- The last eligibility reassessment was completed in 2011.
- Unreported income was identified during that reassessment, and confirmed by the client.
- Although the client was flagged for the Department's overpayment processes, the information had not been forwarded as of June 2014.
- Payments to the client have continued at the same rate.

5.41 Eligibility and the amount of assistance to be provided by the Department are determined as a result of the initial assessment process and supported through reassessments. As we were not testing internal controls as part of our audit procedures at the Department, we are not aware of the full extent of the processes to verify eligibility and calculate the amount of assistance. However, we understand through discussions with Departmental staff that our findings indicated there were deficiencies in these controls and that improvements are required.

Recommendation 5.5
The Department of Community Services should reassess eligibility of clients as required by the Department's procedures to ensure ongoing validity of payments.

Department of Community Services Response: The Department of Community Services agrees with this recommendation. We have a program requirement to reassess a client's eligibility at least once per year and to update the client consent forms and other required documentation. Staff in the Employment Support and Income Assistance (ESIA) Program division have taken immediate steps to address the outstanding annual reviews. Specifically, reports identifying the overdue annual reviews have been sent to each region with a requirement that the regions assign staff to complete the reviews and report the progress to the Program division on a monthly basis. Program division staff will continue to monitor the status of the overdue reviews.

Recommendation 5.6
Department of Community Services' management should monitor the operating effectiveness of controls to reassess client eligibility on a regular basis.

Department of Community Services Response: The Department of Community Services agrees with this recommendation. A number of processes are in place to help identify when there are issues related to the eligibility of clients. We are undertaking a major initiative of benefit reform that will modernize benefits, systems, and processes. All recommendations and findings from this audit will be considered as part of this initiative.

Health and Wellness has not been provided report on internal control deficiencies at Medavie

5.42 *Medavie Inc.* – Medavie has been contracted by the Department of Health and Wellness to administer certain programs including medical services insurance and pharmacare. As part of the contract, Medavie provides audited financial statements to the Department for the programs administered under the agreement. Medavie's auditor also provides Medavie with a report noting internal control deficiencies identified during the audit. However, the Department of Health and Wellness has not received this report.

5.43 As Medavie is administering $917 million in claims on behalf of the Department of Health and Wellness, the Department should be aware of reported audit issues, especially any internal control deficiencies which may impact the completeness and accuracy of program payments. It is important that the Department is aware of these risks and can assess their potential impact.

Recommendation 5.7
The Department of Health and Wellness should obtain all auditor correspondence resulting from the audit of the medical services insurance program. The Department of Health and Wellness should follow up with the service provider (Medavie) to ensure internal control deficiencies identified by the auditor are addressed on a timely basis.

Department of Health and Wellness Response: The Department of Health and Wellness agrees with this recommendation and is working with Medavie to ensure internal control deficiencies are being appropriately addressed by Medavie and that the Department of Health and Wellness will receive this information on a timely basis in the future.

Other Matters

5.44 *Required communication of audit results* – The engagement letter provided to the Minister of Finance and Treasury Board in May 2014, identified responsibilities of management and those charged with governance (that is, the Minister of Finance and Treasury Board, and Executive Council) with respect to the preparation and oversight of the consolidated financial statements. The letter also communicated our responsibilities as auditors of these statements. The report to those charged with governance – issued to the minister on completion of the audit – communicated requirements under Canadian Auditing Standards and other matters that came to our attention during the course of the audit. The report included a summary of unadjusted differences, and our conclusion on the fair presentation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles for the public sector. A management letter was issued to the deputy minister of the Department of Finance and Treasury Board in October 2014. This letter detailed audit findings and results, and provided recommendations for improvement.

5.45 *New accounting standards* – Some of the more significant issues on which the Public Sector Accounting Board has recently released new pronouncements include liability for contaminated sites (in effect for the current year), foreign currency translation, and financial instruments. New standards or guidance could require changes to government's financial reporting in the future. The nature and impact of required or planned accounting changes should be disclosed as soon as practical, ideally no later than during the presentation of the budget for the fiscal year in which the changes will take effect.

5.46 *Liability for contaminated sites* – The liability for contaminated sites standard provides guidance on how to account for and report a liability associated with the remediation of contaminated sites. It is effective for fiscal years beginning on or after April 1, 2014. Management believes there will be no significant impact on future financial reporting as a result of adopting this standard due to the Contaminated Sites Regulations that came into effect this year.

5.47 *Foreign currency translation and financial instruments* – The most significant change related to new standards for foreign currency translation and financial instruments is the requirement for a new financial statement – the statement of remeasurement gains and losses. This will include gains and losses from holding items denominated in a foreign currency at year-end, as well as certain other financial instruments. The effective date for these sections was extended to April 1, 2016 for governments.

Audit of Government Agencies

Conclusions and summary of observations

- We issued unqualified audit opinions for three of four audits we conducted in government agencies for the year ended March 31, 2014.

- The audit opinion on Trust Funds Administered by the Public Trustee was qualified due to the inability to verify that all assets that came under the Public Trustee's administration, or income related to these assets, were recorded by the Public Trustee. This is because clients are referred to the Public Trustee and if accepted, a process to determine all assets belonging to that client is begun. This process takes time, and may be ongoing at year end. Therefore, asset verification was limited to recorded amounts.

- We recommended again that the Public Trustee put in place an accounting system to support the administration of the $45 million in estates and trusts under that Office's control. We also repeated prior year recommendations with respect to the Common and Special Reserve Funds administered by the Public Trustee.

- Nova Scotia Crop and Livestock Insurance Commission should discuss with government officials the appropriateness of its processes to ensure board members avoid conflicts of interest in performing their duties. We also recommended increased efforts be made to ensure the timely collection of the federal portion of insurance premium revenue.

- We acknowledged the efforts of the Nova Scotia Legal Aid Commission's review of six key areas of the process to estimate unbilled legal fees and recommended a complete review be conducted to ensure the liability reflects management's best estimate.

- Nova Scotia Provincial Lotteries and Casino Corporation's Statement of Retained Deficit should be expanded to incorporate all changes in equity during the year.

- Finally, we issued an unqualified opinion on compliance and controls related to members' expenses as required under the House of Assembly Management Commission Act. We recommended that improvements be made in the systems and controls over Commission assets.

5.48 *Introduction* – The Auditor General is the legislated financial statement auditor of four government agencies.

- Nova Scotia Provincial Lotteries and Casino Corporation
- Nova Scotia Legal Aid Commission
- Nova Scotia Crop and Livestock Insurance Commission
- Trust Funds Administered by the Public Trustee

5.49 Audits of other government agencies are conducted by private sector auditors. Under section 23 of the Auditor General Act, the private sector auditor is to provide us with a copy of the audit report and audited financial statements of the government agency, along with a copy of the report to management or the board of findings and recommendations. Our office also has the authority to request all records, working papers, and other documents as we deem necessary. This information is communicated to all private sector auditors. The results of those audits and our comments on the recommendations made by their auditors are included in chapter 6 of this report.

5.50 In addition, the Auditor General conducted an audit under section 22 of the House of Assembly Management Commission Act during fall 2014. The audit objective was to express opinions on: whether expenses incurred by the Assembly are in accordance with the Commission's policies and, where applicable, the province's public service policies; whether the Chief Clerk's assessment of the effectiveness of internal controls of the House of Assembly is fairly stated; and whether the internal controls are operating effectively. The House of Assembly Management Commission approved removing the requirement for an annual financial statement audit; therefore, an audit on the financial statements of the House of Assembly was not required in the current year. We agreed with this decision.

▶ Audit opinions for three of four government agency audits we conducted for the year ended March 31, 2014 were unqualified

▶ Qualified opinion on Trust Funds administered by the Public Trustee

5.51 *Audit results* – Unqualified audit opinions were issued in three of the four agencies we audited. The audit opinion of the Trust Funds Administered by the Public Trustee was qualified. Clients are referred to the Public Trustee and if accepted, the Public Trustee will begin a process to determine all the assets belonging to that client. The process takes time, and may be ongoing at year end, therefore we were unable to verify that all assets, or income related to these assets, were recorded by the Public Trustee. Asset verification was therefore limited to assets recorded in the records.

5.52 The opinions related to our audits under the House of Assembly Management Commission Act were unqualified.

5.53 *Audit findings and observations* – We issue a letter to management or, if applicable, to the chair of the board or audit committee, in each of the agencies we audit which details our audit findings, observations, and recommendations for improvement. We seek input from management to ensure that recommendations can be implemented, and we follow up the implementation status of these recommendations during the subsequent year's audit. The following paragraphs describe the findings and observations from each audit as well as the recommendations made.

Nova Scotia Provincial Lotteries and Casino Corporation

5.54 We provided a management letter to the chair of the audit committee of the Nova Scotia Provincial Lotteries and Casino Corporation in July 2014, and reported that we found no significant errors or deficiencies during our audit. We noted that the consolidated statement of retained deficit does not detail all changes in equity during the year, as required by International Financial Reporting Standards. We recommended the statement be revised in future years.

Nova Scotia Legal Aid Commission

5.55 We provided a management letter to the chair of the Audit Finance Committee of Nova Scotia Legal Aid Commission in September 2014. In prior years, we recommended a review of the certificate liability system, used to estimate the liability for unbilled legal services performed on cases undertaken by a private sector solicitor, to ensure the liability is reasonable. Nova Scotia Legal Aid Commission conducted a system review in six key areas, fully implementing our prior year recommendation. Management has indicated that more review and analysis should be conducted. We acknowledged their efforts and recommended a complete review be conducted to ensure the liability reflects management's best estimate.

Nova Scotia Crop and Livestock Insurance Commission

5.56 We provided a management letter to the Chair of the Nova Scotia Crop and Livestock Insurance Commission in September 2014. The Commission's Board members are appointed because of their knowledge of agriculture, but many are also producers, which may give the appearance of a conflict of interest with respect to decisions made by members on all crops, including those they produce. We recommended the Commission Board discuss with government officials the appropriateness of its processes to ensure members avoid conflicts of interest in appearance and in fact while performing their duties.

5.57 We noted premium revenue receivables from the federal government were outstanding for over a year, with some outstanding since at least 2009-10. We recommended that management ensure the operations manual is kept current to ensure the federal portion of premium revenue is fully collected on a regular basis.

5.58 In the prior year, we reported several issues related to errors in insurance premiums found during the audit. We are pleased to report this decreased significantly during this year's audit. We are also pleased to report that our recommendation in the prior year to establish an audit committee has been implemented. This year we suggested that the committee develop terms of reference detailing its mandate and conduct.

Trust Funds Administered by the Public Trustee

5.59 We provided a management letter to the acting Public Trustee in December 2014. In prior years and in our May 2012 Report of the Auditor General, we recommended that an accounting system be acquired due to the entity administering over $45 million in estates and trusts. We have been informed that progress has been made towards implementing this recommendation. We continue to recommend the Public Trustee develop and implement a fully-functioning and comprehensive accounting system.

5.60 We recommended the Public Trustee implement the recommendations made in the prior year with respect to the Common and Special Reserve Funds administered by the Public Trustee. The Common Fund acts as a general bank account for clients and is used for disbursements of estates, as required. The Special Reserve Fund is intended to act as insurance to meet deficiencies in the Common Fund. The Common Fund, with a balance of $3 million as at March 31, 2014, and the Special Fund, at $2.9 million, are almost equal and therefore we believe the Special Reserve Fund has exceeded its intent as insurance to the Common Fund.

Compliance and controls at the House of Assembly

5.61 As a result of our audit of controls over transactions incurred by Members of the House of Assembly, and compliance of those transactions with the House of Assembly Management Commission Act, we provided communications to both the chair of the Commission's Audit Committee, and to Commission management. In the letter to Commission management, we suggested improvements be made to the systems and controls over Commission assets.

At a Glance

6 Review of Audit Opinions and Management Letters

Summary

As part of their communication of audit results, auditors provide significant information on internal control-related issues they identified during the audit. This communication is provided to management and those charged with governance, such as boards of directors. Each year, we conduct a review of these communications by private sector auditors under section 23 of the Auditor General Act and report matters of interest. Comments and observations from the 2014 financial statement audits conducted by our Office are noted in chapter 5 of this report.

We are pleased to report an overall improvement in the results of our review of independent auditors' reports, as the number of qualified audit opinions has reduced. Qualified audit opinions were issued on the 2013-14 financial statements for six agencies, down from the prior year in which ten agencies were issued qualified opinions. The significant improvement is due to unqualified opinions at five school boards; these entities received qualified opinions in the prior year due to the inability to verify completeness of certain revenues.

A total of 86 internal control-related issues were identified, only 41 of which were identified and reported in 2013-14 for the first time. The overall number of internal control-related issues identified decreased 10% from 2012-13. Despite a decrease in new internal control issues, the number of deficiencies that remain outstanding from one year to the next in several agencies is increasing. As we have reported previously, responsibility for addressing the issues reported in communication of audit results rests with management of these entities.

6 Review of Audit Opinions and Management Letters

Background

6.1 The Office of the Auditor General is the legislated auditor for the following entities.

- The Province of Nova Scotia
- Nova Scotia Crop and Livestock Insurance Commission
- Nova Scotia Legal Aid Commission
- Nova Scotia Provincial Lotteries and Casino Corporation
- Nova Scotia Public Trustee

6.2 The financial statement audits of the remaining crown corporations, agencies, funds, and trusts administered by the province, are generally conducted by private sector auditors.

6.3 Section 23 of the Auditor General Act permits our Office to conduct additional reviews of those agencies in which financial statement audits are conducted by private sector auditors. Although we have not considered it necessary to conduct additional reviews of the work performed by these auditors, we have reviewed their audit opinions and audit communications. This chapter summarizes the issues those auditors identified.

6.4 Comments and observations from the audits of the 2014 financial statements conducted by our Office, including the audit of the consolidated financial statements of the province, are noted in chapter 5 of this report.

Chapter Objective

6.5 The objective of this review of the independent auditors' reports and communications of audit results is to identify matters of interest to the users of public sector financial statements, which have been reported to management and boards.

Independent Auditors' Reports

Results of Review

Conclusions and summary of observations

We are pleased to report an overall reduction in the number of qualified audit opinions issued by independent auditors of public sector entities. Qualified audit opinions were issued on the 2013-14 financial statements for six agencies, compared to ten agencies in the prior year. The significant improvement is due to unqualified opinions at five school boards; these had previously received qualified opinions due to their auditors' inability to verify completeness of certain revenues. We also noted that two entities which had not been following public sector accounting standards, in accordance with government policy, have now adopted these standards.

6.6 *Background* – The objective of an audit is to form an opinion on whether financial statements present fairly, in all material respects, the financial position of the entity at its fiscal year end, and the results of its operations for the year then ended, in accordance with Canadian generally accepted accounting principles. This includes accounting principles issued for the public sector. Where there are qualified audit opinions, or situations in which it is not possible to render an opinion, we believe it is appropriate to report on such matters.

All school boards received unqualified audit opinions on their financial statements

6.7 *Qualified audit opinions* – Last year, we reported that five of the school boards received a qualified audit opinion because their auditors were unable to attest to the completeness of revenues related to school-based funds. On their March 31, 2014 financial statements, all school boards received unqualified audit opinions. The auditors of several of the boards continue to make recommendations for improvements to internal controls over school-based funds.

6.8 As noted in chapter 7, we made a recommendation in January 2012 to the Department of Education and Early Childhood Development to work with the school boards to implement their auditors' recommendations and develop the appropriate controls to ensure the accuracy, completeness and safeguarding of school-based funds revenue. The unqualified audit opinions indicate this recommendation has been completed.

6.9 As was the case with the school boards, qualifications can arise due to an inability to audit the completeness of revenue, including revenue from donations or other contributions. The following two entities continue to receive a qualified opinion on the completeness of their revenue.

- Art Gallery of Nova Scotia
- Nova Scotia Primary Forest Products Marketing Board

6.10 Qualified audit opinions can also result from insufficient evidence to support financial statement balances or disclosures, as well as departures from generally accepted accounting principles. Qualified audit opinions were issued by the auditors of the following entities, and are consistent with the qualifications issued in the prior year.

6.11 *Harbourside Commercial Park Incorporated* – Harbourside Commercial Park Incorporated's financial statements are prepared on a non-consolidated basis. Under generally accepted accounting principles, the results of its wholly-owned subsidiary, Sydney Utilities Limited, should be consolidated with those of Harbourside. Instead, the investment in Sydney Utilities Limited is recorded at cost in Harbourside's financial statements

6.12 *Nova Scotia E911 Cost Recovery Fund* – The completeness of expenses was not subject to satisfactory audit verification.

6.13 *Nova Scotia Power Finance Corporation* – The entity was not able to provide all required disclosure items related to financial instruments.

6.14 *Atlantic Provinces Special Education Authority* – The March 31, 2014 financial statements were issued subsequent to the Public Accounts. The financial statements were qualified because the liability for compensated sick leave had not been recorded. The information required to calculate this liability was not available at the date of the audit report. The March 31, 2013 financial statements for Atlantic Provinces Special Education Authority, which were not issued until March 10, 2014, were also qualified due to this liability not being recorded. The communication of audit results was not available for Atlantic Provinces Special Education Authority when this chapter was written.

6.15 The March 31, 2014 financial statements and communications of audit results for 3052155 Nova Scotia Limited were not available when this chapter was written.

6.16 *Accounting framework for government not-for-profit entities* – It is the province's policy that government not-for-profit organizations apply public sector accounting standards. In the prior year, we noted two not-for-profit organizations – Gambling Awareness Foundation of Nova Scotia, and Nova Scotia Health Research Foundation – were not complying with this policy. In the current year, both entities have adopted public sector accounting standards in compliance with government policy.

Communications of Audit Results

Results of Review

Conclusions and summary of observations

Responsibility for addressing the issues reported in communication of audit results rests with management. The number of reported deficiencies that remains outstanding from one year to the next in several agencies is increasing. Last year, we recommended that the Department of Finance and Treasury Board consider establishing a process to determine entities' implementation progress. We will follow up on the implementation status of this recommendation next year. The overall number of internal control-related issues identified decreased by 10% from 2012-13. A total of 86 internal control-related issues were identified, 41 of which were identified and reported in 2013-14 for the first time.

6.17 *Background* – Auditors are required to communicate significant deficiencies in internal control identified during financial statement audits to individuals in entities who are charged with governance. In government agencies, governance is typically provided by an independent board or other oversight body. Auditors are also responsible to report significant difficulties encountered during the audit and other matters that are significant to the oversight of financial reporting. These audit results are typically communicated in documents presented to, and discussed with, management and boards.

6.18 *Overall results* – Audits were completed for 70 of the 71 government agencies during the past year; the remaining entity received a review engagement. Four of those agencies are audited by our Office and the results of those audits are discussed in chapter 5.

6.19 We contacted the auditors and reviewer of the remaining 67 entities. At the time we wrote this chapter, the auditors of two entities – 3052155 Nova Scotia Limited and the Atlantic Provinces Special Education Authority – had not responded to our request for their audit communication.

6.20 Auditors for 35 of the remaining 65 entities identified deficiencies in financial reporting, internal controls and other matters, and reported these to management. There were no matters to report for the remaining 30 entities.

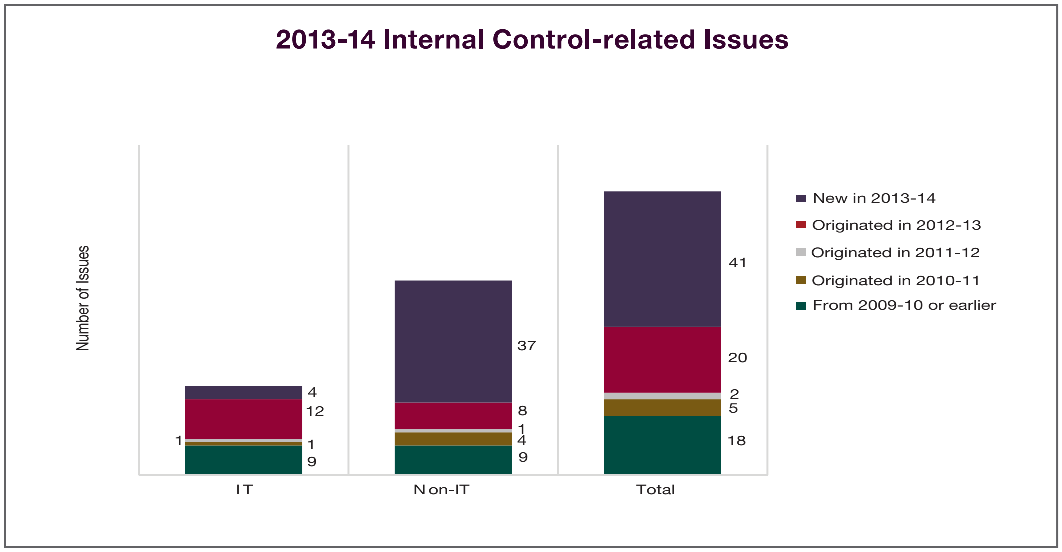
6.21 The following table illustrates the number of issues found in the communications of audit results, along with those reported in prior year.

Number of Government Entities with:	2012-13	2013-14
Five or more reported deficiencies	9	7
One to four reported deficiencies	28	28

The number of deficiencies that remain outstanding from one year to the next in several agencies is increasing

6.22 *Outstanding deficiencies* – We have previously reported our concern with the number of recommendations that are not addressed and continue to be reported. Responding to issues identified by auditors is the audited entity's responsibility. The number of issues that remain outstanding from one year to the next in several agencies is increasing.

6.23 Internal control deficiencies are of particular concern, as poor internal controls, including those related to IT operations, can hinder the ability of an entity to achieve its objectives. The following chart shows when the issues reported this year were originally identified and reported by the entity auditors. 52% of the issues were originally identified and reported by entity auditors in prior years, with 40% of those reported as far back as 2009-10.



6.24 We are particularly concerned with the number of internal control-related issues that remain outstanding. In 2013-14, 86 internal control issues were identified in 31 of the 35 entities with reported deficiencies. 52% of these issues had been reported before, some as early as 2009-10. Overall, in 2012-13, there were 30 internal control-related issues that originated in prior years. This increased to 45 in 2013-14.

6.25 In addition, the following paragraphs identify four entities in which findings and recommendations have not been addressed year over year.

6.26 Cape Breton District Health Authority's auditors reported nine of the same issues in the prior year, and seven of these date back to at least 2009-10. Six of these seven issues relate to information technology deficiencies, including inappropriate access rights and change management controls. One deficiency relates to the need for management to review a one-time vendor account to ensure amounts

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paid are to valid suppliers. The number of times these deficiencies have been reported indicates that the Authority's auditor considers them to be important.

6.27 Housing Nova Scotia's auditors repeated seven recommendations. Five of these related to IT deficiencies, including system access and monitoring issues. The auditors of Housing Nova Scotia continued to note that business users have administrative-level access to the mortgage management information system. As well, password controls may not be sufficient to restrict unauthorized access, and access privileges to a financial application are not reviewed on a regular basis to ensure access is appropriate. The remaining deficiencies related to financial reporting and internal control matters.

6.28 Pictou County Health Authority had six issues repeated from the prior year. These included concerns with information system access controls that go back as far as 2009-10.

6.29 Colchester East Hants Health Authority's auditors reported six of the same issues as in the prior year.

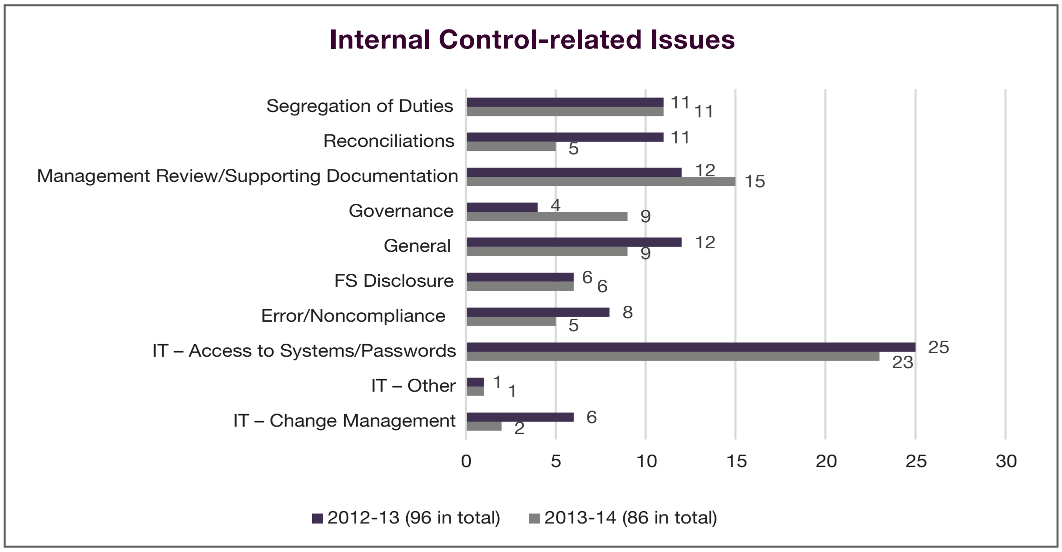
6.30 *Responsibility for addressing issues identified by auditors* – Management has the responsibility to address issues identified by their auditors and report progress of such to their boards or other governing bodies.

6.31 In chapter 5, we note government's response following recommendations made as a result of our audit of government's financial statements, as well as their plans for implementing the recommendations. We conduct follow-up on these recommendations after two years.

6.32 There is no similar process for reporting on the status of recommendations made to government agencies by their auditors or for the smaller entities audited by our Office. We have not determined if management of these entities have such a reporting process. With the number of internal control-related issues and the fact that some are repeated year after year, there should be a process to hold those entities to account for addressing issues reported by their auditors.

6.33 Last year, we recommended that the Department of Finance and Treasury Board communicate with boards of government entities that these deficiencies be addressed on a timely basis. This would likely involve coordination with the departments to which individual entities report. We will follow up on the status of implementing this recommendation next year.

6.34 *Internal control-related issues* – In their communications of audit results, auditors reported issues with internal control-related systems or procedures, including those related to IT systems. Approximately one-third of the internal control-related issues were specific to IT. The following exhibit compares 2013-14 and 2012-13 internal control-related issues by theme.



Internal control-related issues identified decreased 10% from 2012-13

6.35 Despite the concerns we have with the number of issues outstanding from year to year, the overall number of internal control-related issues identified decreased 10% from 2012-13. Eighty-six internal control-related issues were identified, only 41 of which were identified and reported in 2013-14 for the first time.

6.36 The decrease is substantially attributed to a decrease in reconciliation issues, IT change management, general control deficiencies, and error or noncompliance issues. Reconciliations are an important part of internal control as these identify discrepancies between accounting records and supporting documentation. Errors or noncompliance issues can be attributed to data entry errors or noncompliance with policy.

6.37 There were no issues reported by the auditors of the following entities.

- Acadia University Foundation
- Archival Ancillary and Trust Funds of the Public Archives
- Art Gallery of Nova Scotia
- Cape Breton University Foundation
- Capital Health
- Council of Atlantic Premiers
- Dalhousie University Foundation
- Film and Creative Industries Nova Scotia
- Gambling Awareness Foundation of Nova Scotia

- Halifax Dartmouth Bridge Commission
- Highway 104 Western Alignment Corporation
- Members' Retiring Allowances Act
- Nova Scotia Business Inc.
- Nova Scotia Community College
- Nova Scotia Community College Foundation
- Nova Scotia Credit Union Deposit Insurance Corporation
- Nova Scotia Health Research Foundation
- Nova Scotia Municipal Finance Corporation
- Nova Scotia Power Finance Corporation
- Nova Scotia Primary Forest Products Marketing Board
- Nova Scotia School Boards Association
- Nova Scotia School Insurance Program
- Nova Scotia Strategic Opportunities Fund Incorporated
- Nova Scotia Utility and Review Board
- Provincial Drug Distribution Program
- St. Francis Xavier University Foundation
- Sydney Steel Corporation
- Sydney Steel Superannuation Plan
- Sydney Utilities Limited
- Waterfront Development Corporation Limited

At a Glance

7 Finance Follow-up

Summary

The overall implementation rate of the recommendations from our January 2012 report is only 70%. This is a decline from the 77% implementation rate for 2010 financial recommendations reported in the January 2014 Report of the Auditor General, and it is disappointing that the overall implementation rate has decreased. Of 27 recommendations made in that report, 19 have been fully implemented.

We disagree with the implementation status reported by the Department of Finance and Treasury Board for two recommendations, both of which relate to internal control. One is to assess the design and effectiveness over model-based tax revenue processes and the other is to complete a risk assessment of roles and responsibilities in three divisions within the Department and to ensure controls exist to mitigate the identified risks. Based on review of the documentation we were provided, we disagree with the Department's view that implementation of these recommendations is complete. We intend to meet with the Department to provide additional information on what is required to fully implement these recommendations.

Details of all financial recommendations included in our January 2012 report along with their current status can be found on our website at oag-ns.ca.

7 Finance Follow-up

Background

7.1 Financial reporting is a key component of government's accountability framework; it is a means through which government fulfills its accountability responsibilities regarding the use of public funds and demonstrates its stewardship over those funds. We report annually on government financial reporting to the House of Assembly. Each chapter contains recommendations which we believe provide practical, constructive advice to address issues raised by our audits or reviews.

7.2 We follow up the implementation status of our recommendations after two years. We believe two years is sufficient time for auditees to address our recommendations.

7.3 This chapter reports the status of recommendations concerning financial reporting and other financial management issues, and how responsive departments and agencies have been in implementing the recommendations from audits reported in our January 2012 report. We note that in 2011 we did not make financial reporting recommendations as the timing of our reporting changed and thus recommendations related to 2011 were released in our January 2012 report.

7.4 We requested that government management complete a self-assessment of their progress in implementing the outstanding 2012 recommendation in the Department of Finance and Treasury Board's Tracking Auditor General Recommendations (TAGR) system. We also asked management to provide supporting information. Our review process focused on whether the self-assessments and information provided by management were accurate, reliable and complete. This chapter includes summary level information on implementation status; more detailed information, including specific recommendations can be found on our website at oag-ns.ca.

Review Objective and Scope

7.5 The objective of this assignment was to provide moderate assurance on the implementation status of recommendations concerning financial reporting and other financial management issues included in the January 2012 Report of the Auditor General. This level of assurance is less than for an audit because of the type of work performed. An audit would have enabled us to provide high assurance, but the required audit procedures would have required a significant increase in the resources devoted by our Office to this follow-up assignment. Therefore, readers should note that moderate level assurance allows us to conclude on the plausibility of statuses reported.

7.6 Each department is expected to document its self-assessment of progress on the implementation of our Office's recommendations in the TAGR system. Our review was based on information included in the TAGR system as of December 15, 2014. This is the date we chose during this year's review to enable us to complete our work and meet our deadlines.

7.7 Our review was based on representations by government management which we substantiated through interviews and review of documentation. Moderate assurance, in the context of this assignment, means performing sufficient work to satisfy us that the implementation status as described by government is plausible given the circumstances. Further information on the difference between high and moderate assurance is available in the *CPA Canada Handbook – Assurance, Section 5025 – Standards for Assurance Engagements other than Audits of Financial Statements*.

7.8 Our criteria were based on qualitative characteristics of information as described in the *CPA Canada Handbook*. Management representations on implementation status were assessed against three criteria.

- Accurate and neither overstate nor understate progress
- Reliable and verifiable
- Complete and adequately disclose progress to date

Significant Observations

Review Results

Conclusions and summary of observations

The overall implementation rate for financial recommendations made in 2012 decreased from 77% reported last year to 70% during the past year. This is a disappointing reduction in the implementation rate. 19 of the 27 recommendations made in the January 2012 Report of the Auditor General have been fully implemented. There were two recommendations for which we disagreed with the implementation status reported by the Department of Finance and Treasury Board, both of which related to internal control. One was to assess the design and effectiveness over model-based tax revenue processes and the other was to complete a risk assessment of roles and responsibilities in three divisions within the Department, and ensure controls exist to mitigate the identified risks. Based on review of the documentation we were provided, we could not agree that implementation was complete. We intend to meet with the Department to provide additional information on what is required to fully implement these recommendations.

7.9 *Review results* – We performed a review of departments' self-assessments, including an evaluation of supporting documentation. We provide moderate assurance to readers of this chapter. Nothing came to our attention to cause us to believe that the representations made by government are not complete, accurate and reliable. We wish to emphasize that the work performed during this follow-up assignment is not an audit; therefore we provide only moderate assurance that these recommendations have been implemented. Only during a subsequent audit can we say, with high assurance, that the reported implementation status is accurate.

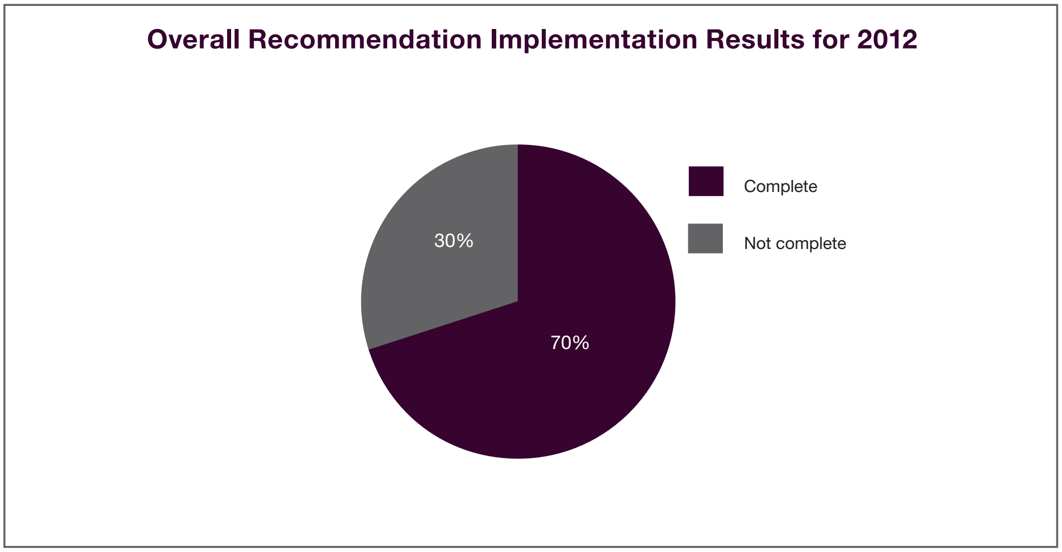
7.10 *Scope of review* – We made a total of 27 recommendations in our January 2012 report. During this assignment, we followed up on the status of 26 recommendations identified by the responsible department as complete. The one recommendation we did not follow up was indicated to be work in progress. Of the 27 recommendations made, 25 were addressed to the Department of Finance and Treasury Board. The remaining two recommendations were the responsibility of the Department of Education and Early Childhood Development.

Disappointing 70% recommendation implementation rate

7.11 *Implementation status* – The overall implementation rate of our recommendations this year is 70%, a disappointing decline over the implementation rate of 77% in the prior year. The following exhibit summarizes the status of the 27 recommendations made in the January 2012 report.

Chapter	Entity	Complete	Not Complete	Total
Chapter 2: Results of Financial Audits and Reviews	FTB	11	7	18
Chapter 2: Results of Financial Audits and Reviews	EECD	1	–	1
Chapter 3: Governance and Control Framework	FTB	6	1	7
Chapter 5: Review of Audit Opinions and Management Letters	EECD	1	–	1
Total Number of Recommendations		**19**	**8**	**27**
		70%	**30%**	**100%**

FTB Department of Finance and Treasury Board
EECD Department of Education and Early Childhood Development



We believe two recommendations are not complete while Finance and Treasury Board believes they are

7.12 *Disagreement on implementation status* – There were two recommendations for which we disagreed with the implementation status reported by the Department of Finance and Treasury Board, both of which relate to internal control.

7.13 In January 2012, we made a recommendation to the Department of Finance and Treasury Board's Fiscal Policy Division to assess the design and effectiveness of controls over model-based tax revenue processes, including the preparation of journal entries. We disagree with the status of complete. We were not provided documentation to support the assessment of design and effectiveness of controls. The Division has indicated the assessment has been completed.

7.14 As part of chapter 3, Governance and Control Framework, reported in January 2012, we recommended that management of the Department's Liability Management and Treasury Services, Capital Markets Administration, and Compliance and Reporting Divisions should complete a risk assessment of roles and responsibilities and ensure controls exist to mitigate identified risks. The Department reported the status of this recommendation as complete. We were provided documentation of the process and the key controls in place. However, we were unable to identify that a risk assessment of the roles and responsibilities had occurred. Without the initial risk assessment, there is concern that the controls in place are not addressing identified risks. Therefore, we assessed this recommendation as not complete.

7.15 We intend to meet with the Department to provide additional information on what is required to fully implement these recommendations.

7.16 *Other comments* – One of the eight recommendations that remains incomplete from the January 2012 report is that the Department of Finance and Treasury

Board's Controller's Office should provide guidance to departmental, board, and agency management on documentation of internal controls. This was to assist in assigning roles and responsibilities to individuals throughout government for the design, implementation, operation and maintenance of internal controls as part of the documentation of internal controls. The Department has indicated that draft policies exist and will be added to Corporate Policy Manuals after appropriate review and approval. We encourage the Department to continue with its progress toward accomplishing this recommendation.