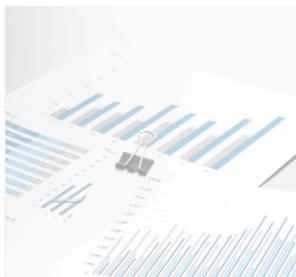


**Report of the Auditor General
to the Nova Scotia
House of Assembly**

2021 Financial Report



Independence • Integrity • Impact

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December 7, 2021

Honourable Keith Bain
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,

A handwritten signature in black ink that reads "Kim Adair".

Kim Adair, FCPA, FCA, ICD.D

Auditor General of Nova Scotia

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Chapter 1

Financial Audit Work

Key Messages

- Government provided reliable and timely financial information for 2020-21 and released the Public Accounts before the legislative deadline of September 30
- Province received a clean audit opinion on its financial statements
- Significant control weaknesses need to be fixed at two government departments and seven government organizations
- Government provides transparency by disclosing employee compensation and certain payments to vendors

Why We Did This Chapter

- To provide insights into the results of the financial audits of the Province and government organizations
- To report on significant control weaknesses identified within government
- To provide updates on important matters impacting the Province

Details Around Key Messages

Government provided reliable and timely financial information for 2020-21

- For the 21st year in a row, the Province of Nova Scotia received a clean audit opinion on its financial statements
 - Released before the legislated September 30th deadline
 - The financial statements meet Canadian public sector accounting standards
 - Users can place reliance on the Province's financial statements
 - Although accounting standards have been met, some underlying control weaknesses exist
 - Reported control weaknesses increase the risk of unreliable financial reporting and misuse of assets in the future
- Despite continued impact of COVID-19 and a provincial election, the Province, other government organizations, and auditors were able to adapt and provide timely financial reporting

Key audit matters reported in the 2020-21 Independent Auditor's Report

- Key audit matters are those matters that were of most significance in the audit and include matters that are complex, have a high degree of uncertainty or are important to the public
- Key audit matters in 2020-21:
 - Major tax revenues:
 - Major tax revenues of \$5 billion including personal income tax, corporate income tax, and harmonized sales tax account for 41% of the Province's revenues
 - Pension, retirement, and other obligations:
 - Totaled \$2.8 billion and include various employee future benefit plans where responsibility rests with the Province
 - Liabilities for contaminated sites:
 - The liability to clean up sites including Boat Harbour and abandoned mine sites has grown significantly over the past five years and this year is \$413 million
 - A further \$19 million recorded as the Province will undertake cleanup work on the Boat Harbour site that is the responsibility of Northern Pulp



Significant control weaknesses at two government departments and seven government organizations

- Department of Lands and Forestry (now Natural Resources and Renewables):
 - One weakness, previously reported
 - Insufficient site investigations and environmental testing of potentially contaminated abandoned mine sites on Crown lands means there is a risk of unaddressed human health and ecological concerns, as well as being unable to fully understand the potential financial exposure
- Department of Service Nova Scotia and Internal Services:
 - Six weaknesses in total, all of which have been previously reported
 - Insufficient purchase and payment processing controls, including purchasing goods and services without pre-approval and not monitoring established procedures
- Significant control weaknesses identified in the following organizations:
 - Canadian Sports Centre Atlantic, Harbourside Commercial Park Inc., Housing Nova Scotia, IWK Health Centre, Nova Scotia Liquor Corporation, Perennia Food & Agriculture Incorporated, Sherbrooke Restoration Commission
- Significant control weaknesses from prior years not resolved in the following organizations:
 - Canadian Sports Centre Atlantic, Housing Nova Scotia, IWK Health Centre

Other Matters of Interest

- COVID-19 PPE and vaccine inventory
 - COVID-19 vaccines received from the federal government at no cost to the Province; information on quantity received disclosed in the Notes to the Province's Consolidated Financial Statements
 - Purchased and donated personal protective equipment properly recorded in the Province's Consolidated Financial Statements
- COVID-19 infrastructure spending
 - Government planned \$228 million investment in infrastructure spending for grants and capital projects
- Disclosure of employee compensation and payments to vendors
 - The Finance Act and the Public Sector Compensation Disclosure Act enable transparency of employee compensation and payments to vendors from the General Revenue Fund
 - Other government organizations are not required to disclose payments to vendors
- Cybersecurity
 - Service Nova Scotia and Internal Services continues to work on regulations to the Shared Services Act, its government-wide risk register, and its training programs

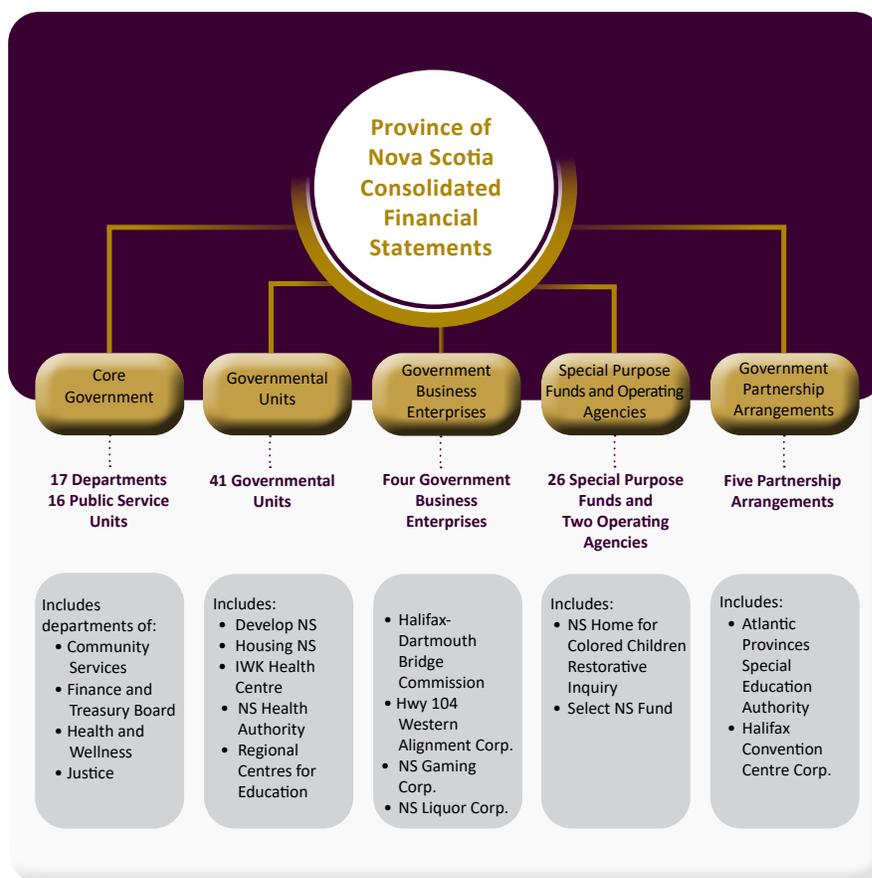
Questions Nova Scotians May Want to Ask

1. When will the Province have an estimate of the cost to clean up abandoned mine sites where contamination is expected to exceed an environmental standard?
2. When will the Province know with more certainty the cost to clean up Boat Harbour?
3. Why are organizations' payments to vendors not required to be disclosed?
4. How will Service Nova Scotia and Internal Services measure the effectiveness of its cybersecurity risk management program?
5. When will Service Nova Scotia and Internal Services fix the significant control weaknesses over departmental purchasing? Who is holding the Department accountable for fixing these weaknesses?

1 Financial Audit Work

Reporting on Financial Audit Engagements

- 1.1 The objective of this chapter is to provide information on the results of the financial audit of the Province's Consolidated Financial Statements and of the many organizations that are part of the Province of Nova Scotia, as well as provide updates on important matters impacting the Province.
- 1.2 The Auditor General Act establishes the Auditor General's mandate, responsibilities, and powers. The Act provides the Office with the mandate to audit all parts of the provincial public sector, which includes government departments and organizations. The Auditor General Act also stipulates that the Auditor General shall audit the annual Consolidated Financial Statements of the Province.
- 1.3 The Consolidated Financial Statements of the Province present an accumulation of the assets, liabilities, revenues, and expenses of all the activities and organizations under its control. They are published annually as part of the Public Accounts. The following diagram provides an overview of the many operations and organizations that are captured in the Consolidated Financial Statements of the Province.





- 1.4 We conduct the audit of the Province’s Consolidated Financial Statements, as well as the financial statement audits of the following government organizations:
- Nova Scotia Health Authority (Nova Scotia Health)
 - Izaak Walton Killam Health Centre (IWK Health Centre)
 - Nova Scotia Legal Aid Commission
- 1.5 For each of these engagements we provide information about the results of our work through communications to those charged with governance and management. The Independent Auditor’s Report is attached to the financial statements and includes the audit opinion and other details recommended and required by Canadian auditing standards. We issued unmodified, or “clean” audit opinions on the financial statements of each organization for the year ended March 31, 2021.
- 1.6 We also issue a report to those charged with governance that provides information on our assessment of audit risk, mitigation strategies, and areas of significance we feel are necessary to bring to the attention of the governing bodies. During our audits we sometimes identify observations and control weaknesses we feel management should address to protect the financial reporting of the organization. Those are detailed in a letter to management with recommendations.
- 1.7 We had no significant control weaknesses to report to those charged with governance at Nova Scotia Health or Nova Scotia Legal Aid Commission this year. During 2020-21, Nova Scotia Health resolved the two significant control weaknesses we reported in 2019-20. The IWK Health Centre also made progress, taking steps to address three significant control weaknesses which were outstanding from 2019-20. However, we did still report one remaining significant control weakness to the audit committee at the IWK Health Centre. Management’s response is provided in Appendix III Summary of Significant Control Weaknesses – Government Organizations.
- 1.8 To meet our mandate, we rely on private accounting firms to conduct the financial statement audits of most government organizations. As part of the Office’s audit of the Consolidated Financial Statements of the Province, we review the results of the financial audit work, including the results provided by private accounting firms for the audits they complete. Appendix I shows how the financial audit results are ultimately reported to the House of Assembly.



Government provided reliable and timely financial information during challenging circumstances

- 1.9 The Province of Nova Scotia received an unmodified opinion on its Consolidated Financial Statements from the Auditor General of Nova Scotia



in each of the past 21 years. An unmodified opinion, or what is commonly referred to as a “clean” audit opinion, means that an auditor has no significant concerns regarding the quality of the information reported in the financial statements. This is an accomplishment that governments over the past 21 years should take pride in. We believe it is reasonable for all Nova Scotians, including elected officials, to expect a clean audit opinion on the Province’s Consolidated Financial Statements.

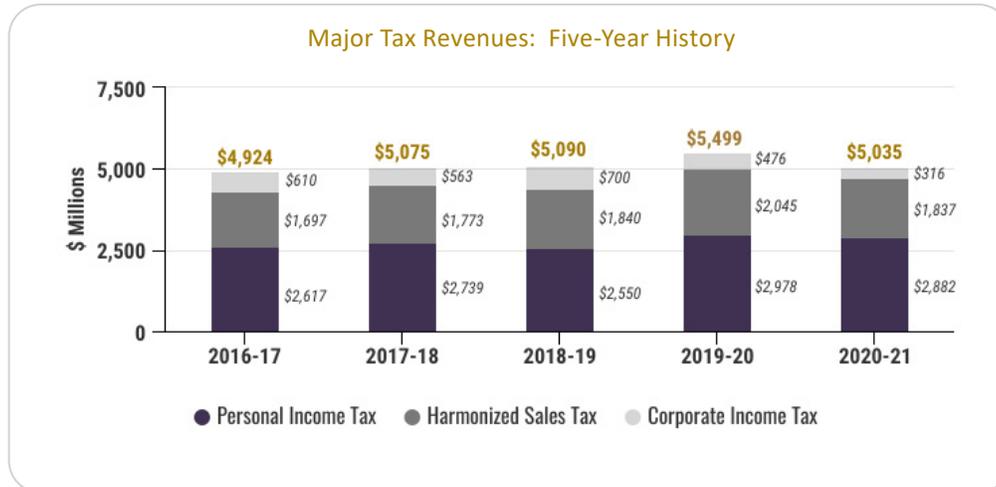
- 1.10 The Province’s Consolidated Financial Statements were prepared in accordance with Canadian public sector accounting standards and we conducted our audit in accordance with Canadian auditing standards. Under these standards, an organization can receive a clean opinion while at the same time have weaknesses in its financial controls. This is because the objective of a financial statement audit is to provide an opinion on whether the financial statements are fairly presented and are free from material misstatement(s). The clean audit opinion provided indicates we are satisfied that users can place reliance on the numbers and information contained within the Consolidated Financial Statements.
- 1.11 We are pleased to report that government departments and organizations worked in cooperation with our Office and component auditors through the changing COVID-19 environment, and a provincial election called on July 17, 2021, to provide timely information for financial statement reporting. Despite these challenges, the Province was still able to release its Public Accounts, which include the Consolidated Financial Statements, before the legislated deadline of September 30th. We appreciate the cooperation that was received throughout government as management and staff worked through these unusual circumstances.
- 1.12 Discussion of the Province’s response to COVID-19 and the 2020-21 financial impact to Nova Scotia is included in Chapter 2 of this report.



Key audit matters communicated in auditor’s report provide additional information

- 1.13 As auditors of the Province’s Consolidated Financial Statements, we communicate key audit matters to provide greater transparency about our audit and additional insight into how important items were addressed during the audit. Key audit matters are those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements. Matters that are complex, have a high degree of uncertainty, or are important to the public are highlighted as key audit matters.
- 1.14 The following are the key audit matters addressed in the 2020-21 Independent Auditor’s Report of the Province’s Consolidated Financial Statements. The key audit matters were fairly presented in accordance with Canadian public sector accounting standards.

1.15 Major tax revenues, which include personal income tax (PIT), corporate income tax (CIT), and harmonized sales tax (HST), were reported as a key audit matter due to their significance and the degree of uncertainty, as they involve forecasting into the future. The chart below shows major tax revenues for the last five years.



Source: 2020-21 Public Accounts (Independent Auditor's Report)

1.16 Since there is a delay in timing regarding when the Province receives actual tax filing data (i.e., once personal tax returns are filed), major tax revenues are calculated based on management's best estimates. These estimates use complex forecasting models that rely considerably on historical data and trends, including data from the federal government, as well as the Province's economic forecast. In 2020-21, major tax revenues totaled \$5 billion and accounted for 41% of the Province's revenues.

1.17 We addressed this matter by testing the underlying data the Province inputs into its tax revenue forecasting models and reviewing evidence to support key inputs. We also collaborated with other legislative audit offices across Canada to ensure our audit procedures reflected best practices, specifically in response to the continued increased uncertainty caused by COVID-19. We were able to conclude that major tax revenues were fairly presented in the Province's Consolidated Financial Statements and were disclosed in accordance with Canadian public sector accounting standards.

1.18 Pension, retirement, and other obligations were reported as a key audit matter because the Province's \$2.8 billion liability at March 31, 2021 is significant and is susceptible to uncertainty due to actuarial assumptions that are subject to change in the future. Pension, retirement, and other obligations include various employee future benefits where the Province is responsible for the provision of benefits.



Source: 2020-21 Public Accounts (Independent Auditor’s Report)

- 1.19 Actuarial assumptions include estimates for the future rate of inflation, future salary increases, retirement ages, life expectancy, and other variables. Calculating liabilities for pension, retirement, and other obligations requires the use of actuarial experts.

- 1.20 We addressed this matter by testing the underlying data used in the calculation of the Province’s liability for pension, retirement, and other obligations and reviewing evidence to support the key long-term assumptions. We also relied on the work of the Province’s consulting actuary. We were able to conclude that pension, retirement, and other obligations were appropriately presented in the Province’s Consolidated Financial Statements and were disclosed in accordance with Canadian public sector accounting standards.

- 1.21 Liabilities for contaminated sites are a key audit matter as these liabilities are significant estimates of future costs required to complete the necessary cleanup of contaminated sites falling under the Province’s responsibility. At March 31, 2021, liabilities for contaminated sites were estimated at \$413 million. The chart below shows the five-year history of the liabilities for contaminated sites. This liability has grown significantly over the past five years, driven mainly by increases associated with liabilities for cleaning up Boat Harbour and certain abandoned mine sites.



Source: 2020-21 Public Accounts (Independent Auditor's Report)

Note: The \$413 million charted above in 2020-21 does not include the \$19 million liability discussed in paragraph 1.27

- 1.22 A liability of \$48 million for abandoned mines was first recorded in 2018-19 when site investigations were completed, and the Province obtained consultant reports that estimated remediation costs at two former gold mine sites.
- 1.23 As additional environmental investigations are completed and remediation plans are developed, it is possible the Province's liability may differ significantly from the current estimates.
- 1.24 We addressed this matter by obtaining a detailed understanding of the method for identifying and evaluating contaminated sites and assessing the reasonability of the cleanup costs for a sample of sites. This included ensuring that
- an environmental standard exists
 - contamination had been identified
 - the government is either directly responsible for, and/or accepts responsibility for the contamination liability
 - it is reasonable to expect that future economic benefits will be given up
 - a reasonable estimation of these costs can take place



Province approved an additional \$19 million related to the Boat Harbour Remediation Project

- 1.25 The Province's largest contaminated site liability relates to the Boat Harbour Remediation Project to remove contaminated material from Boat Harbour.



Contamination occurred over many years as a result of the nearby pulp mill and a related industry discharging wastewater into the neighbouring tidal estuary. Responsibilities for cleaning up the contamination have been established in historical agreements between the mill operator and the Province. The Province has recorded a \$274.5 million liability for cleaning up the contamination for which it is responsible and this figure is included in the Province's \$413 million Liability for Contaminated Sites reported in the Province's Consolidated Statement of Financial Position at March 31, 2021.

- 1.26 Under the historical agreements, the mill operator, Northern Pulp Nova Scotia Corporation (Northern Pulp) also has certain responsibilities associated with the cleanup of the site. Northern Pulp is responsible for removal of sludge from the Boat Harbour effluent treatment facility aeration stabilization basins. However, as a result of Northern Pulp not providing an acceptable cleanup plan for the aeration stabilization basins, on March 22, 2021 the Province announced it was unable to move forward and begin its cleanup work on the site. As a result, to ensure the timelines for cleanup stayed on schedule, the Province approved an additional \$19 million to have Nova Scotia Lands Inc. complete work that is the responsibility of Northern Pulp. The Province is not accepting any legal liability associated with this additional work.
- 1.27 This additional \$19 million liability is not part of the current \$274.5 million liability for Boat Harbour and is not included as part of the Province's \$413 million liability for contaminated sites. The \$19 million was recorded as an accrued liability in Accounts Payable and Accrued Liabilities in the Province's Consolidated Statement of Financial Position at March 31, 2021.

Significant Control Weaknesses

- 1.28 The presence of significant control weaknesses does not mean that an organization's financial statements are materially misstated. A significant weakness in internal controls is a weakness or combination of weaknesses that are deemed by the auditor to be important enough to be reported to an organization's audit committee or those charged with governance. Even though we reported significant control weaknesses, we were able to address the associated risks through our audit work and provide a clean audit opinion on the Province's 2020-21 Consolidated Financial Statements.
- 1.29 The longer a significant weakness in internal control remains unaddressed, the higher the risk that financial statements could be misstated due to fraud, error and/or the misuse of assets, both now and in future periods. Internal control weaknesses that remain unaddressed over multiple years can diminish an organization's internal control culture; therefore, significant weaknesses in internal controls should be addressed in a timely manner.



Significant control weaknesses reported previously at two departments remain unfixed

1.30 The table below summarizes the number of significant control weaknesses by government department. All seven remaining significant control weaknesses were identified and reported in prior years. Appendix II provides details of each weakness, including its potential impact and management's response.

Government Departments with Significant Control Weaknesses in 2020-21			
Government Department and Nature of Significant Control Weaknesses	Number Identified in Prior Years	Less: Number Resolved or No Longer Significant in 2020-21	Total Outstanding at March 31, 2021
Service Nova Scotia and Internal Services <ul style="list-style-type: none"> Insufficient purchase and payment processing controls, including purchasing goods and services without pre-approval and not monitoring established procedures 	9	(3)	6
Lands and Forestry (now Natural Resources and Renewables) <ul style="list-style-type: none"> Insufficient site investigations and environmental testing of potentially contaminated abandoned mine sites 	1	–	1
Total	10	(3)	7

1.31 As noted in the table above, the Department of Service Nova Scotia and Internal Services (SNS-IS) and the Department of Lands and Forestry did not fully address their significant control weaknesses reported in prior years.

1.32 The Department of Service Nova Scotia and Internal Services had a total of nine significant control weaknesses related to purchases and procurement carried forward from prior years. Three were resolved or no longer considered significant in 2020-21, leaving six significant control weaknesses outstanding at March 31, 2021. No new significant control weaknesses were identified in the current year. We reported previously that SNS-IS may not be able to prevent and detect unauthorized or fraudulent payments or ensure purchases achieve value for money due to these significant control weaknesses. SNS-IS has made progress by improving the segregation of duties over the payments process and establishing committees and policies to address certain significant control weaknesses. However, there is still work to be done to ensure that departmental purchases are authorized, appropriate, and achieve value for money.

1.33 During fiscal 2020-21, the Department of Lands and Forestry developed a risk-based inventory of potentially contaminated sites taking into account



human health risks, ecological impacts, and potential hazards (chemical and physical). However, the Department has not yet completed sufficient, detailed site investigations on all abandoned mine sites identified with potential areas of contamination; therefore, there is a risk of not identifying unaddressed human health and ecological concerns, as well as not fully understanding the potential financial exposure relating to future remediation and monitoring costs associated with abandoned mine sites.

Significant control weaknesses reported at seven government organizations

- 1.34 Seven government organizations included in the Province's 2020-21 Consolidated Financial Statements had significant control weaknesses. Of those seven, three have not resolved weaknesses reported in prior years – Canadian Sports Centre Atlantic, Housing Nova Scotia and IWK Health Centre.
- 1.35 We note that improvements have been made at some organizations. Four organizations either resolved the significant control weaknesses reported last year or made progress that resulted in weaknesses no longer being considered significant.
- 1.36 Although some of the organizations noted below are not financially significant to the Province's Consolidated Financial Statements, their control weaknesses are significant to their operations, mission, and mandate. Appendix III provides details of each weakness, including its potential impact and management's response.

Government Organizations with Significant Control Weaknesses in 2020-21

Government Organization	Number Identified in Prior Years	Less: Number Resolved or No Longer Significant in 2020-21	Plus: Number Identified in 2020-21	Total Outstanding March 31, 2021
Canadian Sports Centre Atlantic	3	(1)	1	3
Housing Nova Scotia	3	–	–	3
Sherbrooke Restoration Commission	–	–	2	2
Harbourside Commercial Park Inc.	2	(2)	1	1
Izaak Walton Killam Health Centre	4	(3)	–	1
Nova Scotia Liquor Corporation	–	–	1	1
Perennia Food & Agriculture Incorporated	–	–	1	1

Government Organizations with Significant Control Weaknesses in 2020-21 (continued)

Government Organization	Number Identified in Prior Years	Less: Number Resolved or No Longer Significant in 2020-21	Plus: Number Identified in 2020-21	Total Outstanding March 31, 2021
Nova Scotia Education Common Services Bureau	1	(1)	–	–
Nova Scotia Health	2	(2)	–	–
Nova Scotia Innovation Corporation	1	(1)	–	–
Sydney Steel Corporation	1	(1)	–	–
Totals	17	(11)	6	12

COVID-19 Matters

1.37 As a result of the COVID-19 pandemic, significant amounts of personal protective equipment (PPE), vaccine inventory, and monetary support were required by the Province; much of which was provided by the federal government as part of its COVID-19 support initiatives.


Nova Scotia Health procured PPE on behalf of the Department of Health and Wellness

1.38 Nova Scotia Health procured PPE on behalf of the Department of Health and Wellness for the Province's pandemic stockpile. The stockpile was used not only by Nova Scotia Health, but also the IWK Health Centre, long-term care facilities, and other smaller organizations to support operations as well as re-opening plans.

1.39 A Memorandum of Understanding (MOU) between the Province and Nova Scotia Health was created which outlines the details of how the Department of Health and Wellness appointed Nova Scotia Health to administer the inventory on its behalf. The Department owned the inventory, was responsible for any costs, and established base levels of inventory.


COVID-19 vaccines received from the federal government at no cost to the Province

1.40 In support of vaccine roll-out plans, the federal government provided COVID-19 vaccines to the Province at no cost. Due to the confidentiality clauses embedded in contracts between the federal government and the various COVID-19 vaccine manufacturers, the federal government was unable to share information on the cost of vaccines donated. Therefore, COVID-19 vaccines received from the federal government at no cost could



not be valued and are not recorded in the Province's Consolidated Financial Statements.

- 1.41 The Province did however disclose in the Notes to the Consolidated Financial Statements the number of vaccines received and held at March 31, 2021. During fiscal 2020-21 the Province received 186,000 COVID-19 vaccines and held 70,200 in inventory at March 31, 2021.
- 1.42 The federal government also provided PPE and related supplies to the Province at no cost. The Province was able to record this inventory in its financial statements as sufficient information was available to value it. The recorded value of this PPE and related supplies was \$18.4 million at March 31, 2021.
- 1.43 To ensure proper presentation in the Consolidated Financial Statements of the Province, we attended COVID-19 vaccine and PPE inventory counts. We also verified that PPE donated by the federal government was recorded at the appropriate cost. We concluded that both vaccine and PPE inventory were presented fairly in accordance with Canadian public sector accounting standards. Additional details on the federally donated inventory can be found in Note 15 of the Consolidated Financial Statements.

Infrastructure spending invested in projects to stimulate the economy

- 1.44 As part of its response to COVID-19, the Province provided a number of relief measures offering financial help and support to individuals, families, and businesses facing hardship as a result of COVID-19. One of the planned initiatives was spending of \$228 million to stimulate the Nova Scotia economy by creating jobs through more than 200 infrastructure projects across the Province.
- 1.45 We tested a sample of projects to gain an understanding of the projects, their impact to the Province's 2020-21 Consolidated Financial Statements, and to ensure these projects were correctly recorded. Projects were either grants to organizations providing services to the public, or capital project investments spent primarily on the Province's own infrastructure such as highways and school buildings. Grants to organizations have an immediate impact on the Province's total expenses and its annual deficit. Investments in the Province's capital assets do not immediately impact expenses; they are initially recorded as increases to the value of the Province's tangible capital assets and are amortized to expense over future years. We concluded the projects we sampled were recorded properly in the Province's Consolidated Financial Statements.

Public Disclosure of Compensation and Payments



Public disclosure of employee compensation and payments to vendors promotes transparency

- 1.46 In Nova Scotia, the Finance Act and the Public Sector Compensation Disclosure Act enable transparency of payments to employees and to vendors.
- 1.47 In accordance with the Finance Act of Nova Scotia, the Province annually reports on sums paid from the Province's General Revenue Fund during the fiscal year. Payments from the General Revenue Fund are payments by government departments and public service units. This information is provided in Public Accounts Volume 3 – Supplementary Information where the Province publishes accumulative payments made to individuals and suppliers by departments and public service units that meet the following thresholds:
- salaries over \$25,000
 - travel exceeding \$3,500
 - all other payments exceeding \$5,000
- 1.48 In 2010, the Province passed the Public Sector Compensation Disclosure Act (the Act) to promote further transparency and provide Nova Scotians with additional information on compensation paid to any person by a public sector body that is not already reported in the Public Accounts Volume 3 – Supplementary Information. Examples include Nova Scotia Health and the Nova Scotia Liquor Corporation.
- 1.49 Some other non-profit organizations may be required to report under the Act if they meet certain funding criteria, for example Boys and Girls Clubs of Greater Halifax and the Canadian Red Cross Society. Regulations to the Act have also designated postsecondary institutions such as the Atlantic School of Theology and Mount Saint Vincent University as entities that must report on compensation.
- 1.50 The Act requires public sector bodies to publicly disclose compensation paid to any person in the fiscal year, if the amount of compensation to that person is \$100,000 or more. This includes compensation paid to, or for the benefit of, each of its board members, officers, employees, contractors, and consultants. Compensation includes the total cash and non-cash salary, wages, payments, allowances, bonuses, and commissions other than a pension.
- 1.51 Details for how and when the disclosure must be made are also defined in the Act. The disclosure must be included in the organization's audited financial statements or in a separate statement prepared for the purposes of



the Act and certified by an auditor. As an example, our Office provides an assurance report on disclosure made by Nova Scotia Health and the IWK Health Centre. The disclosure must be made within six months after the end of each fiscal year, include the first and last name and compensation of each person for whom disclosure is required, and must be published in a way so that it is accessible by any person without cost. The Department of Finance and Treasury Board provides a public website listing reports of the entities that have submitted their disclosure reports.

 **Payments to corporations made by other government organizations not publicly disclosed**

- 1.52 Payments made to corporations are not included in the public reporting required under the Public Sector Compensation Disclosure Act; only payments to individuals are included in the public disclosures under this Act.
- 1.53 While payments to corporations, such as vendors, made from the General Revenue Fund are disclosed publicly under the Finance Act in Public Accounts Volume 3, the General Revenue Fund payments do not include those made by other government organizations such as crown corporations. Payments made to corporations by other government organizations are not publicly disclosed.

Follow-up on Cybersecurity

- 1.54 We first discussed cybersecurity in Chapter 3 of our October 2019 Financial Report. We highlighted the status of the Province's and certain government organizations' cybersecurity risk management programs. We found there was a varied understanding of cybersecurity responsibilities and that cybersecurity programs were in various stages of development. The following paragraphs describe the status of those matters as of March 31, 2021 based on inquiries of management at government departments and organizations. We did not audit or verify the accuracy of management's responses and do not provide assurance on management's comments.

 **Service Nova Scotia and Internal Services has not finalized regulations which govern cybersecurity**

- 1.55 In previous years, we reported that regulations under the Shared Services Act of 2014 were not yet finalized by the Department of Service Nova Scotia and Internal Services (SNS-IS).
- 1.56 SNS-IS management indicated that as of March 31, 2021, these regulations were not finalized. They indicated that in addition to continuing to focus efforts and resources to respond to the impacts of COVID-19, they had reviewed the cybersecurity environment and plan to update the cybersecurity policy in government's Corporate Administrative Policy Manual in the spring of 2022.

- 1.57 Updating the policy will support government in achieving its cybersecurity goals, but finalizing the regulations is necessary as they will outline what cybersecurity support services the Department will provide to crown corporations, other departments, and public sector entities. Finalizing the regulations will assist organizations in understanding their responsibilities for addressing cybersecurity risks.



Service Nova Scotia and Internal Services continues to expand the government-wide cybersecurity risk register

- 1.58 Last year we reported that SNS-IS indicated it had developed a process to assess cybersecurity risks for new IT projects. It planned to make major changes to existing IT systems for all government departments and agencies and in the future would consider assessing cybersecurity risks of these older existing systems.
- 1.59 This year, SNS-IS management informed us that they are continuing to assess cybersecurity threat risks and build mitigation strategies for all new systems and any new development on existing systems. In addition, they indicated they have started assessing cybersecurity risks for older systems for which no risk assessment had been performed previously. Although a risk assessment process has been put in place for new systems and progress has been made towards old systems, the overall risk assessment is still not complete, and this may expose the Province to unaddressed cybersecurity risks.



Cybersecurity training programs are still in development

- 1.60 A key activity for managing cybersecurity risks is establishing processes for awareness and training. Providing cybersecurity awareness and training enhances the security environment and enables users to better understand their roles and responsibilities.
- 1.61 In prior years, we reported that although SNS-IS indicated it makes users aware of cybersecurity risks, it did not have a government-wide training program for all IT users. Mandatory training on cybersecurity was limited to only some employees.
- 1.62 This year, when we asked SNS-IS management about a province-wide training and awareness strategy for cybersecurity, they indicated:
- a new mandatory Cyber Awareness Training curriculum will be released for procurement following appropriate approvals; expected by December 31, 2021
 - training will be rolled out in phases beginning six to nine months following vendor selection



- the rollout strategy includes the following groups:
 - Phase 1 – SNS-IS’s Nova Scotia Digital Services team
 - Phase 2 – All government
 - Phase 3 – Nova Scotia Health IT professionals

1.63 Every user of the Province’s network needs to understand the potential cyberthreats and the cybersecurity policies put in place to protect against those risks. Training and awareness should be provided on a timely basis and updated as necessary to remain current.



Organizations indicate they are moving forward in managing their cybersecurity programs

1.64 All government departments and organizations that own data, applications, servers, or manage networks have responsibilities and roles in relation to cybersecurity regardless of the services received from SNS-IS or other service providers. In previous years, we surveyed significant government organizations in the area of cybersecurity and reported that some did not have a cybersecurity governance structure in place and/or had not implemented a cybersecurity risk management program.

1.65 In 2021, management of the following two organizations indicated they were moving forward in managing their cybersecurity risks.

- Housing Nova Scotia – Previously, the Department of Municipal Affairs and Housing was working towards developing a shared model approach which included Housing Nova Scotia. Due to changes in the organizational structure, that approach was no longer applicable. The Cyber Security & Risk Management group within SNS-IS drafted a formal Cyber Security Response Plan to support the new structure. If this plan is approved, it is expected to be adopted by Housing Nova Scotia and extended to the housing authorities.
- Nova Scotia Municipal Finance Corporation – Management indicated that they researched to determine their role and identify actions needed to assist the Province in managing cybersecurity risks. A cybersecurity strategies policy was approved by the Board of Directors on November 26, 2020.

1.66 In our December 2020 Financial Report, we reported that Nova Scotia Health did not have a cybersecurity governance structure in place but it had begun a review to identify supports needed for a cybersecurity risk management program that would align with the Province’s cybersecurity program. An external consulting firm was engaged to conduct an independent review of Nova Scotia Health’s cybersecurity environment.

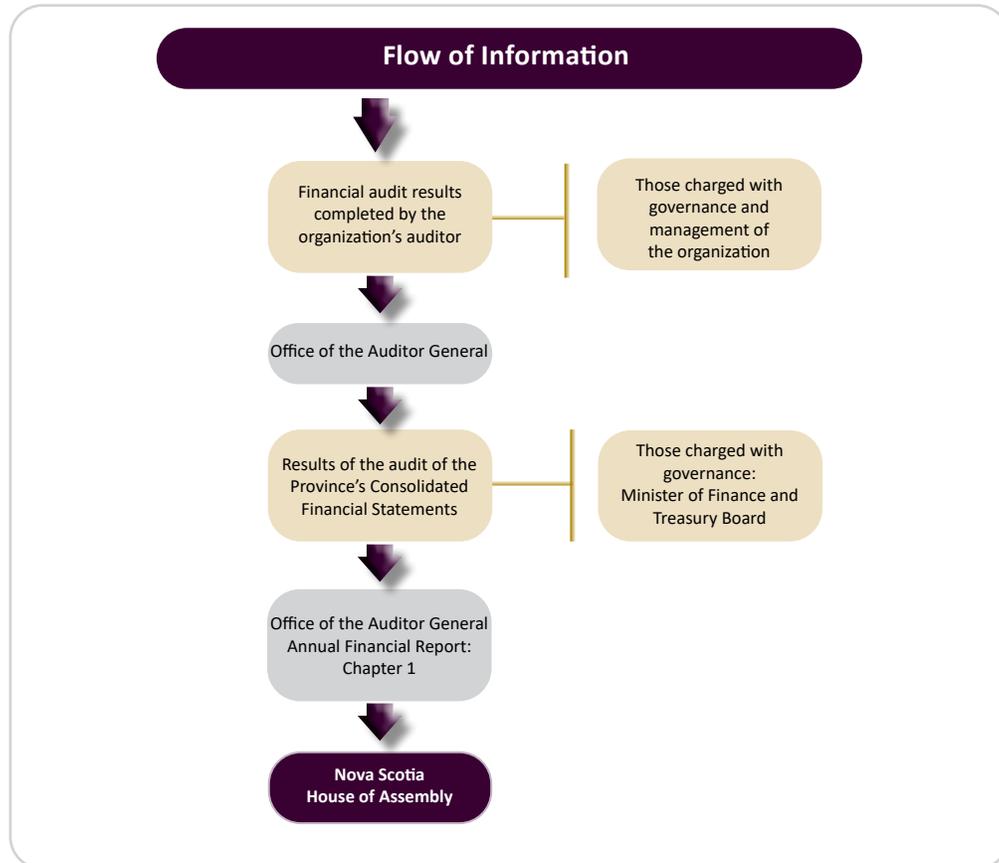


- 1.67 Nova Scotia Health indicated they now have a cybersecurity governance and operating model and a roadmap that includes recommendations to improve their cybersecurity environment. Management indicated that they plan to address the primary recommendation to establish an internal cybersecurity team. In addition, according to management, Nova Scotia Health has developed an overarching Information Security Policy but is waiting on addressing the other recommended initiatives until the creation of the internal cybersecurity team.



Reporting on Financial Audits

The results of the individual financial audits of government organizations are reported to their respective management teams and those charged with governance. The Office also uses this information to conduct the audit of the Province's Consolidated Financial Statements and in the Office's annual financial report to the House of Assembly.





Summary of Significant Control Weaknesses – Government Departments

Department of Service Nova Scotia and Internal Services	
Significant Control Weaknesses	Potential Impact
1. Need for improved implementation, monitoring, and reporting of internal control procedures for the payments process.	Internal controls may not be operating effectively on a regular basis; inappropriate or unauthorized purchases and/or payments may be made.
2. No formal, written policies or procedures exist for the review and processing of vendor master file changes.	Unauthorized or inappropriate changes may be made to the vendor master file; payments may be issued to inappropriate vendors.
3. Lack of detailed procedures, incorporating internal controls, for the procurement process.	Inappropriate or unauthorized purchases may be made.
4. Procurement technicians create and issue purchase orders after goods and/or services have been received.	Inappropriate or unauthorized purchases may be made; value for money may not be realized when purchasing goods and services.
5. The policy requirement, <i>“If a public sector entity anticipates making multiple purchases of the same requirement, the total value of all anticipated purchases must be used to determine the appropriate procurement process,”</i> is not being followed.	Inappropriate or unauthorized purchases may be made; value for money may not be realized when purchasing goods and services.
6. No documentation to show that the requesting department has received goods and/or services.	Payments may be made for goods and/or services that have not been received.
<p>Management’s response (unaudited) SNSIS is committed to addressing all weaknesses identified to ensure continued security.</p> <p>Procurement is creating the Procurement Control Excellence program which will focus on a compliance framework, a supplier performance management program, and the completion of additional protocols to assist public sector entities. It is anticipated to roll out to all clients in 2021-22 and 2022-23.</p> <p>Procurement has also established a Standard Operating Procedures (SOP) Committee. The committee has developed a master list of documentation requirements. All SOPs will be circulated by end of 2021-22.</p> <p>Operational Accounting – Procurement team implemented a SharePoint site in March 2021 for all staff. This provides access to procedures and resources. Version and access control has been implemented.</p> <p>Operational Accounting removed payment processing access from the vendor team to prevent unauthorized payments. Full implementation of a streamlined vendor management process is anticipated by November 30, 2021.</p>	



Department of Service Nova Scotia and Internal Services (Continued)
<p>An IT solution has been developed to digitize the current signing authority process of approvals for Operational Accounting. Full implementation of this solution is targeted for Winter 2022.</p> <p>Operational Accounting and Procurement have established a joint steering committee to enhance collaboration between branches. A Purchase Order Policy has been developed to ensure appropriate approvals prior to the issuance.</p>

Department of Lands and Forestry (now Natural Resources and Renewables)	
Significant Control Weaknesses	Potential Impact
<p>1. Sufficient site investigations and detailed environmental tests on all abandoned mine sites have not been completed.</p>	<p>The Province is unable to effectively assess its financial exposure relating to potential future remediation and monitoring costs associated with abandoned mine sites.</p> <p>There is a risk that potential contamination is not identified or managed, resulting in unaddressed human health or ecological concerns.</p>
<p>Management's response (unaudited)</p> <p>The Department of Natural Resources and Renewables continues to work with Nova Scotia Lands to implement a plan for evaluating and, if necessary, remediating potential contamination on abandoned mine sites on Crown lands on a risk basis. A site risk ranking process, addressing human health risks and ecological concerns, has been completed and additional environmental site assessments are anticipated to be initiated in 2022.</p>	



Summary of Significant Control Weaknesses – Government Organizations

Canadian Sports Centre Atlantic	
Significant Control Weaknesses	Potential Impact
1. No evidence of review and approval of invoices, expense reports and payroll.	Increased risk of inappropriate or unauthorized payments made to vendors and/or employees.
2. Lack of general internal controls in the financial reporting process.	Increased risk of inappropriate or unauthorized journal entries being recorded.
3. Staff must select the bank account that funds received via e-transfers are deposited.	Increased risk for misappropriation of funds.
<p>Management's Response (unaudited) Procedures have been put in place to address the auditor's comment in number 1. Due to the small size of the organization, there is limited opportunity to implement all internal controls, so the organization has arranged for the periodic review of the financial records by the Chair of the Finance Committee as a compensating control. Every invoice will be individually reviewed and signed by the CEO as well as reviewed as a collective by both the CEO and the Chair of the Finance Committee.</p>	

Housing Nova Scotia	
Significant Control Weaknesses	Potential Impact
1. Lack of controls relating to user accounts and password expiry.	Increased risk of unauthorized access to information and financial errors.
2. Lack of user access controls for administrators in the production ICM database.	Increased risk of unapproved data changes or fraudulent activity going undetected.
3. Lack of user access controls for developers in the production environment.	Increased risk of unapproved data changes or fraudulent activity going undetected.
<p>Management's Response (unaudited) The recommended solutions to the control weaknesses noted in this chapter have a government wide impact that affects all Province of Nova Scotia users. Housing Nova Scotia (HNS), as part of the Department of Municipal Affairs and Housing (DMAH), has shared these observations with the Department of Service Nova Scotia Internal Services (SNS-IS).</p> <p>SNS-IS, in its corporate role, has assumed responsibility and has implemented practices or developing practices to mitigate the control weaknesses noted. Specifically:</p> <ul style="list-style-type: none"> • SNS-IS is developing a new Credential Standard to address the limited controls relating to user accounts and password expiry. All data changes require business confirmation, and SNS-IS management is notified when a business partner requests a data change. • An upgraded Oracle Database has been implemented to support some audit capabilities for user accounts. • To mitigate this deficiency, approval and verification processes are in place for changes to non-production and production environments, and no one team member can promote directly to production without additional approvals. DMAH will continue to communicate any relevant observations and recommendation(s) to SNS-IS. 	



Sherbrooke Restoration Commission	
Significant Control Weaknesses	Potential Impact
1. Journal entries are not approved in a timely manner.	Increased risk of errors or inappropriate transactions going undetected.
2. The accounting software is installed on a laptop that is shared through common credentials between multiple people.	Increased risk of fraud and errors going undetected and lack of accountability for system users.
Management's Response (unaudited)	
1. All journal entries over \$ 2000.00 must be approved before posting. All Journal entries under \$2000.00 are approved prior to payment.	
2. Credentials have been set up for each user.	

Harbourside Commerical Park Inc.	
Significant Control Weaknesses	Potential Impact
1. Invoices are approved and authorized for payment by the same individual.	Increased risk of inappropriate or unauthorized payments.
Management's Response (unaudited)	
We agree with the recommendation and our procurement process states that payments are approved by those who purchase goods and services, and payments are authorized by the Finance Division after receiving all required approvals. This separates the invoice approval function from the accounts payable function. Management is confident this addresses the identified risk.	

Izaak Walton Killam Health Centre	
Significant Control Weaknesses	Potential Impact
1. Managers do not consistently review and approve attendance data.	Time may be recorded incorrectly resulting in inappropriate payments being made to employees and reflected in the corresponding leave banks.
Management's Response (unaudited)	
Due to complexities with having two time recording systems, a full implementation of an organization-wide time approval process was always intended to extend into fiscal 2021-22. A project team was formed in Q4 2019-20 to action a time entry and approval policy and process, including a monitoring process. The project was postponed as the result of the pandemic, but resumed in July 2021. The project team has been actively working to determine the best approach for supporting its leaders in reviewing and approving time. While some leaders are currently approving time, formal time approval (including monitoring) is planned to commence in January 2022, with select leaders involved as early adopters through October to December 2021.	



Nova Scotia Liquor Corporation	
Significant Control Weaknesses	Potential Impact
1. User access is not removed in a timely manner following employee departures.	Unauthorized access to information and an increased risk of unauthorized or inappropriate payments.
<p>Management's Response (unaudited) The NSLC accepts the recommendation. We will review and update our current process around the communication of employee departures to IT to ensure timely termination in system access.</p> <p>Status</p> <ul style="list-style-type: none"> Review of current process is complete. Identified gaps in process are being mitigated including discussions of further opportunities to tighten controls. Action items: <ul style="list-style-type: none"> Inventory of all systems with employee access; priority is SAP, Beanstore & WMS. Completion target Q4 Document current process overall – Completion target Q4 Quarterly monitoring of system access for those employees still active but have not worked in the past quarter; IT review to ensure systems were not accessed by these employees after last day worked. – Monitoring has commenced. 	

Perennia Food & Agriculture Incorporated	
Significant Control Weaknesses	Potential Impact
1. Duties within the financial reporting process are not adequately segregated.	Increased risk of errors, fraud, and inappropriate or unauthorized payments being made and going undetected.
<p>Management's Response (unaudited) Management agrees that with the size of the finance department at Perennia that segregation of duties presents a risk however, compensating controls are in place to mitigate the risk associated with segregation of duties weaknesses identified.</p> <p>Compensating controls include:</p> <ul style="list-style-type: none"> Supplier statement reconciliations All outgoing payments require two signatures Purchases are authorized as per Perennia's procurement policy Management review of master data setup and changes Weekly review of journal postings from the following subsidiary ledgers: vendor payments journal, vendor invoice journal, customer payments journal, customer invoice journal, general journal Monthly management review of financial results, distribution to Board Finance Committee followed by quarterly Board Finance Committee meetings 	

Chapter 2

Financial Impacts of COVID-19 on the Province of Nova Scotia, 2020-21

Key Messages

- Nova Scotia's economy and finances were significantly impacted by COVID-19
- COVID-19 relief spending was significant at \$698 million in expenses
- The Province increased its borrowing as a result of the financial impact of COVID-19 with unmatured debt increasing \$1.1 billion

Why We Did This Chapter

- To provide an update on the impact of COVID-19 on the Province's finances
- To provide additional important information about the Province's financial response to COVID-19

Significant Impact to the Province's Economy and Financial Results

- Nova Scotia's economy was negatively impacted by COVID-19 with a nominal GDP decline of 2.2% in 2020
- The Province ended 2020-21 with an actual deficit of \$342 million – considerably less than the \$55 million surplus originally budgeted
- Net debt increased \$1.2 billion to \$16.4 billion in 2020-21
- The Province's net debt-to-GDP ratio was 3.3 percentage points higher than prior year
- Unmatured debt increased \$1.1 billion to \$14.8 billion in 2020-21
- Overall, the Government approved \$1.1 billion in additional appropriations for extra 2020-21 spending not covered by the 2020-21 Budget

COVID-19 Specific Relief Measures

- COVID-19 specific relief measures included \$698 million in expenses and \$242 million in capital spending in 2020-21
- Department of Health and Wellness (DHW) incurred \$392 million in expenses in 2020-21 mostly related to income stabilization and virtual care fees for doctors and Essential Health Care Workers Program
- Department of Municipal Affairs and Housing incurred \$78 million in expenses in 2020-21 related primarily to funding municipalities through the Federal Safe Restart Agreement
- Department of Education and Early Childhood Development incurred \$67 million in expenses in 2020-21 mostly for the safe reopening of schools and childcare sector supports



Negative Impact on Provincial Source Revenue During the Pandemic

- Provincial source revenue was \$505 million lower in 2020-21 than originally budgeted
- Major tax revenues were significantly impacted by COVID-19:
 - Personal income tax revenue was \$52 million less than budget
 - Corporate income tax revenue was \$131 million less than budget
 - Harmonized sales tax was \$103 million less than budget

Questions Nova Scotians May Want to Ask

1. What steps has the Province taken to ensure COVID-19 spending is achieving government's intended outcomes?
2. Are there industries in the Province that are not expected to fully recover from the impacts of COVID-19 and what does this mean for Nova Scotians?
3. How will the Province pay for the increased debt?
4. What is the Province's long-term economic recovery plan?
5. Who provides oversight for additional appropriations since they are not approved by the House of Assembly?

2 Financial Impacts of COVID-19 on the Province of Nova Scotia, 2020-21

Purpose

- 2.1 The purpose of this chapter is to provide an update on the financial impacts of COVID-19 to the Province and additional important information about the Province's financial response to COVID-19.

Limitations

- 2.2 This report does not assess or comment on the effectiveness of the Province's response on COVID-19. The financial measures and funding allocations presented in this chapter are unaudited. The information presented was obtained from the Province's Public Accounts from 2016-17 to 2020-21 which include the consolidated financial statements of the Province which received clean audit opinions for all years, and the 2020-21 Budget tabled on February 25, 2020. Further details on COVID-19 relief measures were obtained from the Department of Finance and Treasury Board.
- 2.3 COVID-19 is not unique to Nova Scotia; it has impacted jurisdictions across the globe. As the pandemic is ongoing, there remains a considerable amount of uncertainty around the long-term financial impacts on the Province. As a result, the information presented in this chapter is subject to change.

Background and Timeline

- 2.4 The World Health Organization (WHO) declared the COVID-19 outbreak a global pandemic on March 11, 2020 and the Government of Nova Scotia declared a provincial state of emergency to help contain the spread of COVID-19 on March 22, 2020. A state of emergency provides the Province with additional powers to implement safety measures to protect Nova Scotians, such as imposing travel restrictions and limiting the size of public gatherings.
- 2.5 Throughout 2020-21, the pandemic continued to have various impacts on the lives of Nova Scotians. Travel restrictions and other public health measures like gathering size limits were implemented and adjusted throughout the year. Below is a high-level timeline of certain events impacting the Province's finances from the first provincial forecast update after the pandemic was declared to the release of the 2020-21 Public Accounts on September 16, 2021.



2020-21 Timeline

Date	Description
July 29, 2020	<ul style="list-style-type: none"> Minister of Finance and Treasury Board provided a public forecast update on the 2020-21 budget
September 2, 2020	<ul style="list-style-type: none"> Students and staff expected to return to in-person learning environment with restrictions Province allocated \$40 million of federal funding to support the safe return to school of students and staff
September 16, 2020	<ul style="list-style-type: none"> Federal-Provincial Safe Restart Agreement finalized; promising Nova Scotians approximately \$289 million through federal funding to safely restart the economy
October 15, 2020	<ul style="list-style-type: none"> Province announced it will take advantage of the Government of Canada's COVID-19 Resilience Infrastructure Stream. Value of \$57.7 million to Nova Scotia
November 24, 2020	<ul style="list-style-type: none"> New travel restrictions announced for Nova Scotians around non-essential travel outside of the municipalities, with increased restrictions on out-of-province travel
January 12, 2021	<ul style="list-style-type: none"> Province announced \$25 million investment to help Nova Scotian universities manage the impact of the pandemic
March 23, 2021	<ul style="list-style-type: none"> Province announced they are on track to provide every Nova Scotian who wants a COVID-19 vaccine their first dose by the end of June 2021
May 28, 2021	<ul style="list-style-type: none"> The Province announced a gradual COVID-19 reopening plan: <ul style="list-style-type: none"> Plan included five different phases to lift restrictions gradually Phase 1 to begin June 2, 2021 Travel no longer restricted within most of Nova Scotia More social connections permitted, businesses started to reopen
June 2, 2021	<ul style="list-style-type: none"> Nova Scotia entered Phase 1 of its reopening plan



2020-21 Timeline (Continued)

Date	Description
June 16, 2021	<ul style="list-style-type: none"> Nova Scotia entered Phase 2 of its reopening plan: <ul style="list-style-type: none"> 60% of eligible Nova Scotians vaccinated with at least one dose of the COVID-19 vaccine Personal services businesses can open (appointments only)
June 30, 2021	<ul style="list-style-type: none"> Nova Scotia entered Phase 3 of its reopening plan: <ul style="list-style-type: none"> 65% of eligible Nova Scotians vaccinated with at least one dose of the COVID-19 vaccine Increased capacity for businesses
July 14, 2021	<ul style="list-style-type: none"> Nova Scotia entered Phase 4 of its reopening plan: <ul style="list-style-type: none"> 75% of eligible Nova Scotians vaccinated with at least one dose of the COVID-19 vaccine Masks and social distancing still required Increased gathering limits at restaurants, retail businesses, fitness facilities and arts venues
September 14, 2021	<ul style="list-style-type: none"> Nova Scotia delayed Phase 5 of its reopening plan <ul style="list-style-type: none"> The 75% fully-vaccination target was not met Active cases were increasing
September 16, 2021	<ul style="list-style-type: none"> Nova Scotia released the 2020-21 Public Accounts comprising the Consolidated Financial Statements of the Province with an unmodified audit opinion from the Auditor General

Impact to the Province's Economy and Financial Results

**Nova Scotia's economy significantly impacted by COVID-19**

2.6 The Province's 2020-21 budget was approved before COVID-19 was deemed a global pandemic. As COVID-19 evolved and restrictions changed, economic activity has varied. The effects on the economy are reflected in the most recent economic outlook issued in the 2020-21 Public Accounts. The economic outlook projected that nominal GDP shrink by 2.2 per cent in 2020, compared to growth of 2.4 per cent as budgeted. The table below compares the 2020-21 budgeted economic outlook figures to those reported in the 2020-21 Public Accounts demonstrating the significant impact of COVID-19 on the economy in 2020.

Economic Outlook

Per cent change, except where noted*	2020-21 Budget		2020-21 Public Accounts	
	2020	2021	2020	2021
Nominal GDP	2.4%	3.2%	-2.2%	5.6%
Unemployment Rate*	8.1%	7.6%	9.8% ^A	8.0%
Household Final Consumption	2.8%	3.3%	-7.0%	4.9%
Exports of Goods to Other Countries	-1.7%	3.1%	-10.8%	8.8%
Imports of Goods and Services	3.2%	3.1%	-10.0%	5.8%

* – Annual Average

A – Actual

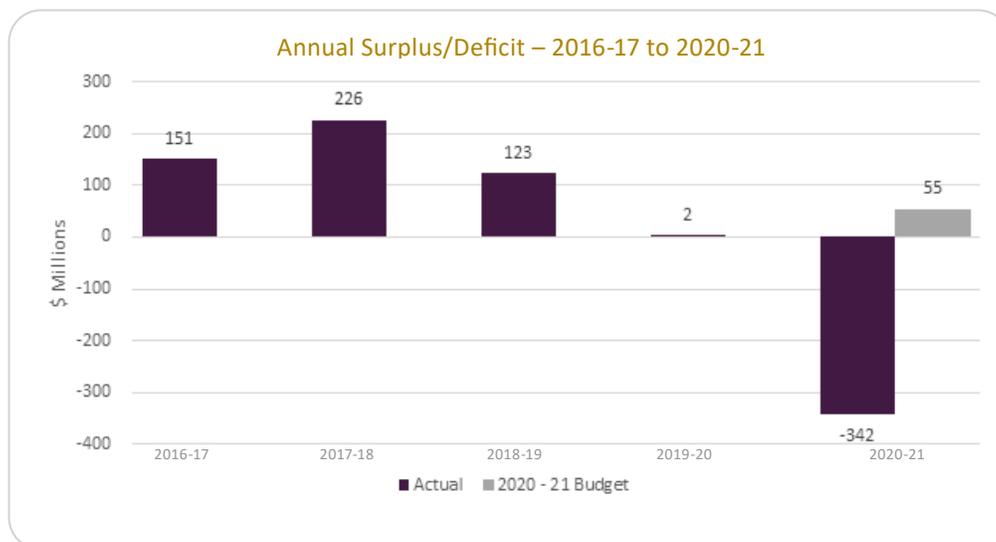
Sources: 2020-21 Budget and 2020-21 Public Accounts

2.7 Government provides economic highlights and a detailed discussion of the Province’s economic outlook in the Financial Statement Discussion and Analysis section in Volume 1 of the 2021 Public Accounts of Nova Scotia.



The Province reported an annual operating deficit of \$342 million for 2020-21

2.8 The annual surplus/deficit measures indicate the extent to which revenues cover expenses. A surplus occurs when revenues are greater than expenses. A deficit occurs when expenses are greater than revenues.



Source: 2020-21 Public Accounts and 2020-21 Budget

2.9 The Province reported an audited deficit of \$342 million in 2020-21. This deficit is attributed to overall declines in provincial revenues partially offset by increases in federal revenues, and an increase in total expenses compared to the prior year.

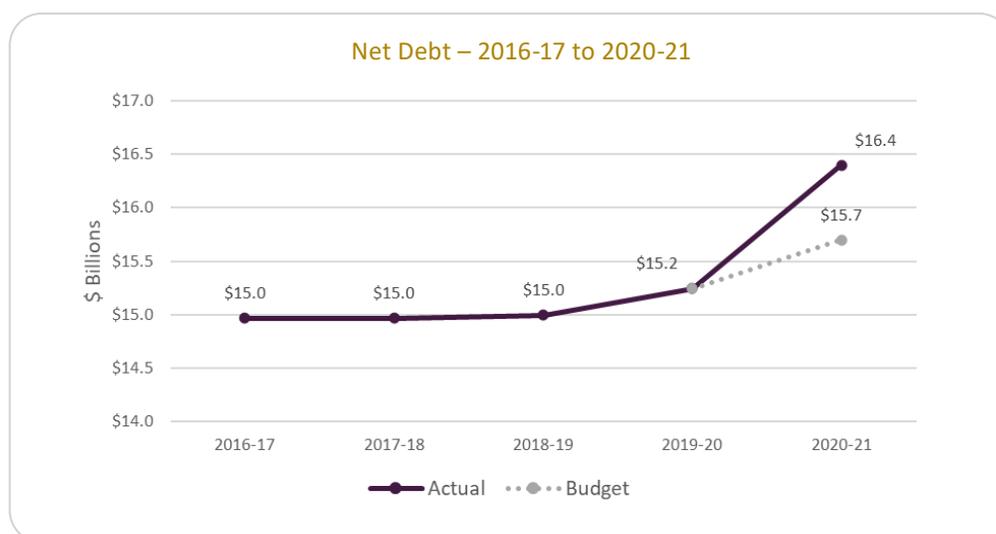


- 2.10 The impact of COVID-19 on revenues and expenses was significant in comparison to the Province's original budget. The resulting deficit of \$342 million was \$397 million lower than the budgeted surplus of \$55 million and \$344 million lower than the prior year's surplus of \$2 million.

Impact to the Province's Financial Position

The Province's net debt increased \$1.2 billion in 2020-21

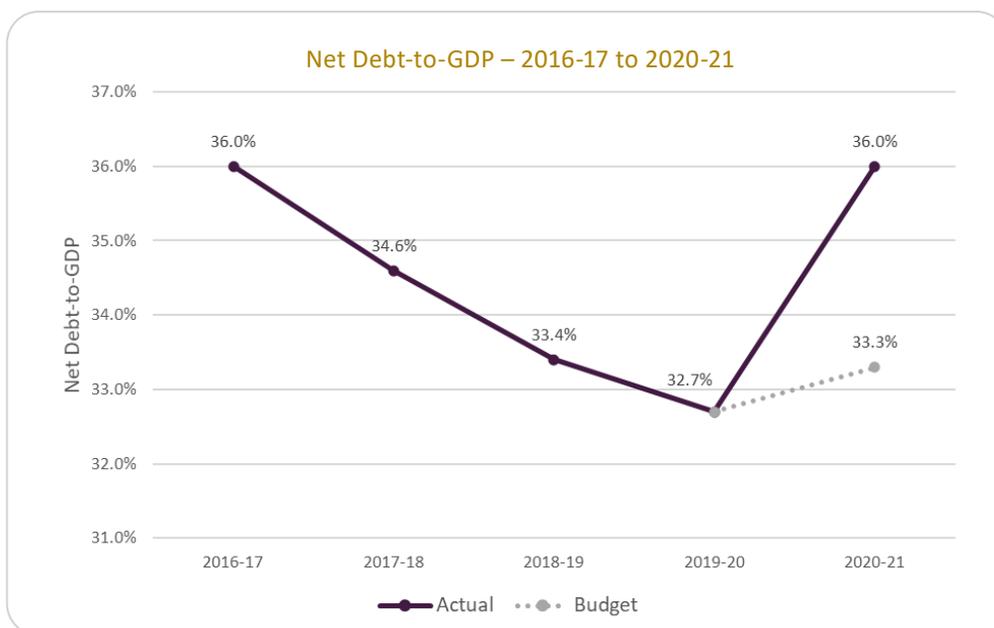
- 2.11 Net debt measures the degree to which the Province's financial assets cannot cover its liabilities. As the graph below shows, net debt remained stable over the past four years at around \$15 billion. Net debt grew by \$1.2 billion in 2020-21 compared to the prior year actuals as a result of the provincial deficit impacted by COVID-19 and additional capital spending.



Source: 2020-21 Public Accounts and 2020-21 Budget

The Province's net debt-to-GDP ratio was 3.3 percentage points higher than prior year

- 2.12 Gross domestic product (GDP) is the total value of all goods and services produced within the province in a specific year and is one of the primary measures used to evaluate the economic condition of a province or country.
- 2.13 The net debt-to-GDP ratio is used to assess the Province's ability to pay its financial obligations. A low ratio indicates a level of economic output that supports debt repayment. The higher the ratio, the more difficult it may be for the Province to pay its debt.
- 2.14 The following chart shows that the Province's net debt-to-GDP ratio consistently decreased over the past four years but increased in 2020-21. Actual net debt-to-GDP ratio was 36 per cent in 2020-21, the same percentage as in 2016-17. The progress made over the past few years was wiped out.



Source: 2020-21 Public Accounts and 2020-21 Budget

Impact on Unmatured Debt

2.15 This section shows the actual results of the Province’s annual borrowing requirements, unmatured debt, and debt servicing costs.

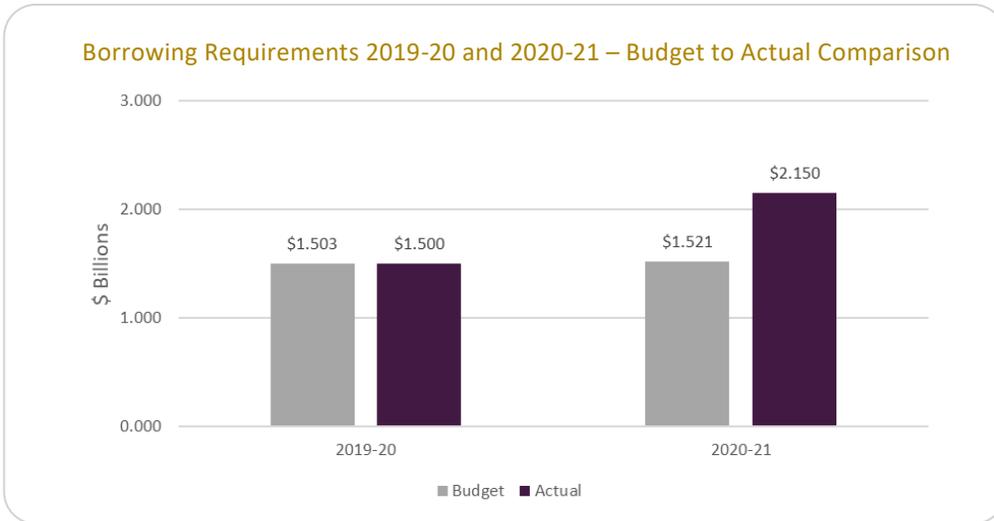


The Province’s debt borrowing requirements increased in 2020-21

2.16 The Province’s annual borrowing plan represents the amount of new debt that can be issued in a fiscal year by the General Revenue Fund. Prior to the onset of COVID-19, the Province had budgeted new debt borrowing requirements of \$1.521 billion for 2020-21, which would have been within the limits of the initial approved annual borrowing plan of \$1.75 billion.

2.17 The original borrowing plan was prepared prior to the global COVID-19 pandemic resulting in a need to be revised in December 2020 to include an additional \$1.0 billion for a total authorized borrowing of up to \$2.75 billion; this revision was approved by the Governor in Council. The Province’s actual debt issuances for 2020-21 were \$2.15 billion and were used to finance this year’s deficit, activities of crown corporations, acquire tangible capital assets, and refinance maturing debt.

2.18 When the Province issues debt, it often does so in the domestic public market but maintains the ability to issue internationally. The Province sells its bonds to a syndicate, a group of investment dealers, primarily consisting of Canadian banks. The investment dealers then sell the bonds to investors, including Canadian pension plans, insurance companies, and banks.

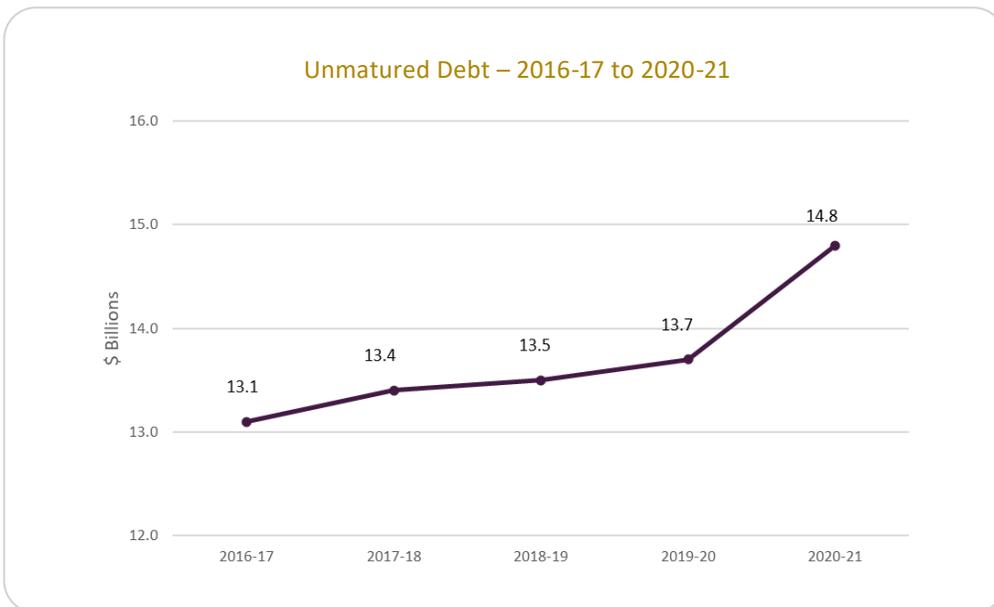


Source: 2019-20 Public Accounts and Budget; 2020-21 Public Accounts Budget



Province’s unmatured debt increased by \$1.1 billion to \$14.8 billion in 2020-21
Public Accounts and Budget

- 2.19 The Province’s unmatured debt is primarily made up of long-term debentures and various loans. It includes new debt issuances and those from prior years and is net of sinking funds.
- 2.20 Unmatured debt increased \$1.1 billion from \$13.7 billion in 2019-20 to \$14.8 billion in 2020-21. Unmatured debt has increased \$1.7 billion since 2016-17.

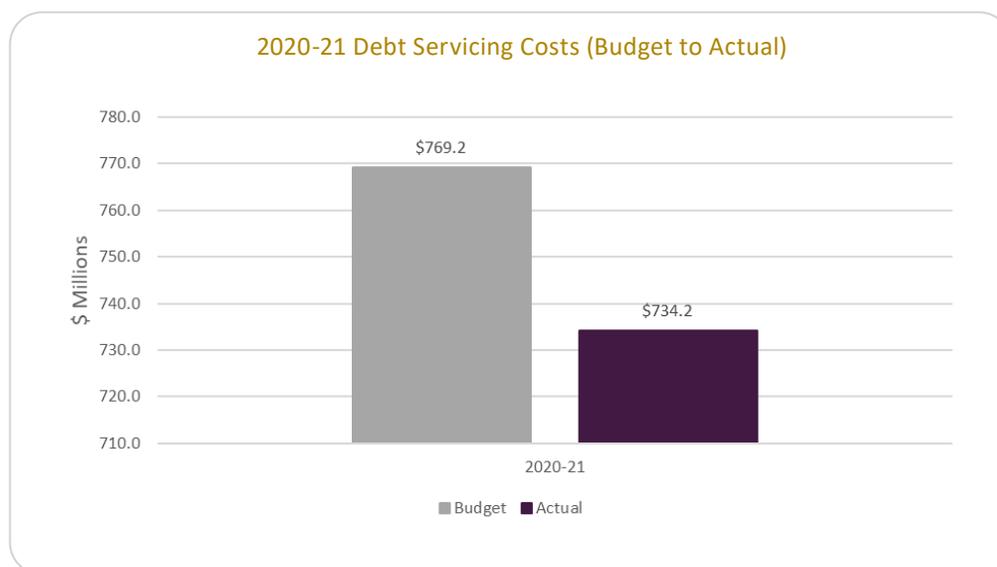


Source: 2020-21 Public Accounts



The Province's annual debt servicing costs for 2020-21 were \$35 million lower than budget

- 2.21 Debt servicing costs are the costs incurred by the Province to pay interest on outstanding loans, interest on the Province's unfunded pension and post-retirement benefit obligations, and other costs related to debt financing. Higher debt servicing costs means the Province is using more of its revenue to pay for interest and is therefore not able to use that money to provide services or reduce taxation. Lower debt servicing costs allows the Province greater flexibility in meeting its service and financial commitments.
- 2.22 Prior to the onset of COVID-19, the Province budgeted annual debt servicing costs to be \$769.2 million. Actual debt servicing costs in 2020-21 were \$734.2 million, which was \$35 million lower than the budget. This decrease is primarily due to high interest rate debt maturing during the year and lower than expected interest rates on outstanding debt, partially offset by an increase in interest on pension, retirement and other obligations.



Source: 2020-21 Public Accounts

Looking Forward as the Province Recovers

- 2.23 The significant increase seen in net debt and the net debt-to-GDP ratio is understandable given the impact of the COVID-19 pandemic and the need for government intervention to address specific short-term needs of businesses and individuals and manage the impact to the Province's economy. This shows the need for a long-term provincial economic recovery plan.
- 2.24 Last year, we reported that some provinces, including Alberta and British Columbia, had released economic recovery plans. Additionally, Yukon, Newfoundland and Labrador, and New Brunswick have released economic



recovery plans since that time. In those plans, the provinces outline strategies for creating jobs, increasing investment within the province, focusing attention on healthcare, and introducing new initiatives to increase the resiliency of their provinces. It is expected that many jurisdictions will have long-term economic recovery plans to help them regain their health, both physically and economically. Information related to investment and support as a response to COVID-19 is publicly available, however the Province of Nova Scotia has not yet released its own long-term economic recovery plan.

Increased Costs Due to COVID-19 in 2019-20 and 2020-21

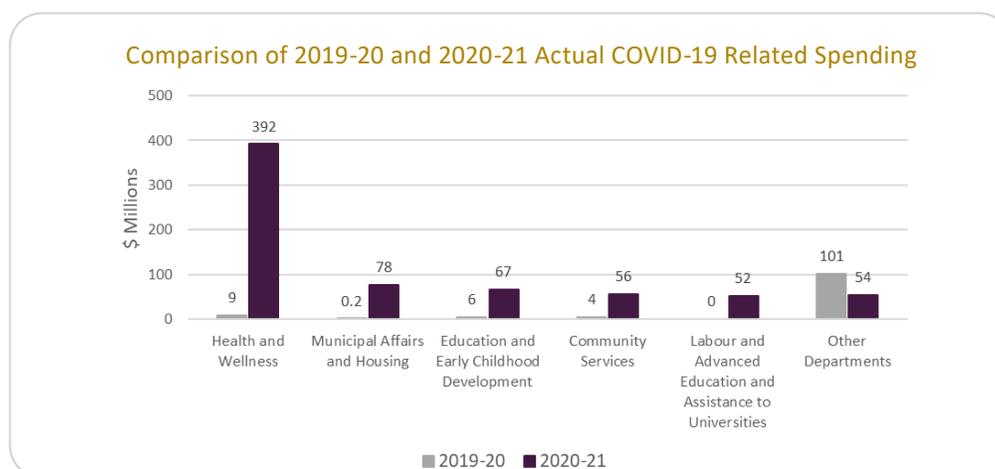
2.25 The COVID-19 pandemic has had a significant impact on Nova Scotians. As a result, the Province has responded with numerous relief measures and shovel-ready capital projects.

COVID-19 related capital asset spending of \$242 million in 2020-21

2.26 The Province reported \$242 million in spending on capital asset projects related to COVID-19 relief measures in 2020-21. These projects were related to new buildings, bridge repairs and replacements, highway construction, and major equipment purchases.

COVID-19 relief measures for 2019-20 were \$120 million and for 2020-21 were \$698 million

2.27 The following graph compares expenses in 2019-20 to 2020-21 for departments with significant COVID-19 related spending. The total spending this year of \$698 million was \$578 million more than the \$120 million spent last year. Some of the departments that incurred significant COVID-19 related costs also had cost savings related to COVID-19. These cost savings totaling \$248 million for all departments are primarily due to lower utilization of programs and services. The COVID-19 related cost savings are not included in the graph presented below.



Source: COVID-19 Costs Fact Sheets – Finance and Treasury Board (August 2020 and August 2021), and 2020-21 Public Accounts



Department of Health and Wellness reported \$392 million in COVID-19 costs in 2020-21

- 2.28 The Department of Health and Wellness provides leadership to the health system and has played a significant role in the Province's response to COVID-19. The department reported \$9 million in COVID-19 related costs during 2019-20 and \$392 million for 2020-21.
- 2.29 The largest component of the Department of Health and Wellness's COVID-19 expenses for 2020-21 is \$127.9 million attributed to income stabilization and virtual care fees for doctors. Other major costs included \$72.8 million for federal Safe Restart initiatives and \$70.7 million for the Essential Health Care Workers Program.



Department of Municipal Affairs and Housing reported \$78 million in COVID-19 costs in 2020-21

- 2.30 The Department of Municipal Affairs and Housing provides programs, grants and funding, and services and guidance to municipalities and community groups. The department also helps municipalities govern and provide municipal services in times of emergency and is responsible for the Emergency Management Office and the Office of the Fire Marshal.
- 2.31 The largest component of the Department of Municipal Affairs and Housing's COVID-19 related expenses for 2020-21 is attributed to the federal Safe Restart Agreement. Through the Department of Municipal Affairs and Housing, the Province provided municipalities with \$67.5 million from the program for COVID-19 related operational expenses. A further \$7.2 million was incurred by Housing Authorities for adherence to Public Health protocols.



Department of Education and Early Childhood Development reported \$67 million in COVID-19 costs in 2020-21

- 2.32 The Department of Education and Early Childhood Development is responsible for children's education, licensing, and funding of the childcare sector, as well as providing subsidies to help families with the cost of childcare. The Department plays a significant role in ensuring that education continues to be delivered while responding to COVID-19.
- 2.33 The largest component of the Department of Education and Early Childhood Development's COVID-19 expenses for 2020-21 was related to facilitating the safe reopening of schools at a cost of \$39.7 million. The Department of Education and Early Childhood Development also spent \$22.3 million in 2020-21 for childcare sector supports (2019-20 – \$5.5 million).



 **Department of Labour and Advanced Education and Assistance to Universities reported \$52 million in COVID-19 costs in 2020-21**

- 2.34 The Department of Labour and Advanced Education helps people prepare for job opportunities and build the skills they need. It also supports post-secondary education and training. Assistance to Universities provides operational grants and program funding to the Province's universities.
- 2.35 The Department of Labour and Advanced Education incurred higher COVID-19 related expenses in 2020-21 than 2019-20 due to additional support provided for recovery efforts. This included \$20 million under the Federal Workforce Development Agreement/Labour Market Agreement in 2020-21 to provide training supports to eligible Nova Scotians.
- 2.36 Assistance to Universities provided funding of \$25 million to universities as support to help them manage the impact of the pandemic.

 **Department of Community Services reported \$56 million in COVID-19 costs in 2020-21**

- 2.37 The Department of Community Services provides foundational social programs and services that respond to the needs of individuals, children, youth, and families. The department's COVID-19 related costs are focused on direct support to the people they serve.
- 2.38 Increased funding requirements for programs including Disability Support; Employment Support and Income Assistance; and Children, Youth and Family Supports related to COVID-19 was \$26.1 million in 2020-21.
- 2.39 The Department of Community Services also reported other COVID-19 related costs in 2020-21 including \$9.8 million in funding under the Essential Workers Program; \$6.4 million in Federal Safe Restart Funding-Vulnerable Populations; \$5.7 million of funding under the Federal Workforce Development Agreement/Labour Market Agreement; and \$4.4 million in funding for four small option homes.

 **Other departments reported \$54 million in COVID-19 costs in 2020-21**

- 2.40 Other major departmental COVID-19 related expenses for 2020-21 were \$24.6 million at the Department of Business which included programs such as the Tourism Accommodations Real Property Tax Rebate Program (\$6.8 million) and \$9.4 million at the Department of Communities, Culture, and Heritage which included funding provided to organizations to provide relief, and help them plan for the future under the Federal Sport Canada Bilateral Agreement for emergency support (\$3.8 million). The remaining expenses were spread across a number of other departments.



- 2.41 In fiscal 2019-20, the Province signed a contract with Dalhousie University for \$100 million in relief measures designed to support small businesses and Nova Scotians. This accounted for the majority of spending in other departments in 2019-20.

Additional Appropriations

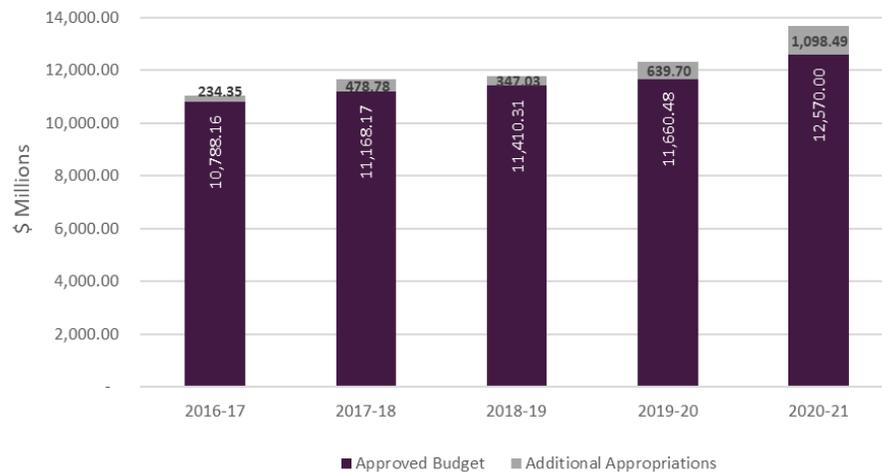
- 2.42 The Finance Act of Nova Scotia requires the Province to prepare a budget annually which includes estimates of the expenses for each department and public service unit for the next fiscal period. When the budget is tabled, these amounts are voted on by the House of Assembly. Once the budget is passed, these approved amounts represent the annual appropriations for departments.
- 2.43 During the year, if a department determines it cannot stay within its annual appropriation, the provincial Finance Act states that approval for additional appropriation must be obtained. Under the Finance Act, additional funding is approved by the Governor in Council.
- 2.44 The Governor in Council is the Lieutenant Governor of Nova Scotia acting by and with the advice of Executive Council. Executive Council is the decision-making authority for the Government. Executive Council members are chosen by the Premier who serves as its President, meaning requests for additional appropriations are submitted to the decision-making members of Government and are not voted on by the House of Assembly.

Additional appropriations of \$1.1 billion in 2020-21

- 2.45 The Governor in Council approved additional appropriations of \$1.07 billion (2019-20 – \$441 million) during the 2020-21 year and another \$32 million (2019-20 – \$199 million) was approved at the end of the year.
- 2.46 2020-21 Public Accounts Volume 1 includes a variance analysis for departmental expenses as well as rationale for the additional expenses.



Approved Budget Amounts and Additional Appropriations – 2016-17 to 2020-21



Source: 2016-17 to 2020-21 Public Accounts

Impact on Revenue During the Pandemic: Budget and Actual

- 2.47 The economic disruptions from COVID-19 have continued to impact the Province's revenues and as such, total provincial revenue during 2020-21 was lower than budgeted.
- 2.48 The Province tabled its 2020-21 budget on February 25, 2020 prior to the declaration of the global COVID-19 pandemic. The July 2020 forecast update provided the initial insight into the impact of COVID-19 on the Province's finances. We now have actual results based on the March 31, 2021 Public Accounts, which were released September 16, 2021. These figures demonstrate the uncertainty of COVID-19 and show how the Province's revenues were impacted during the pandemic.



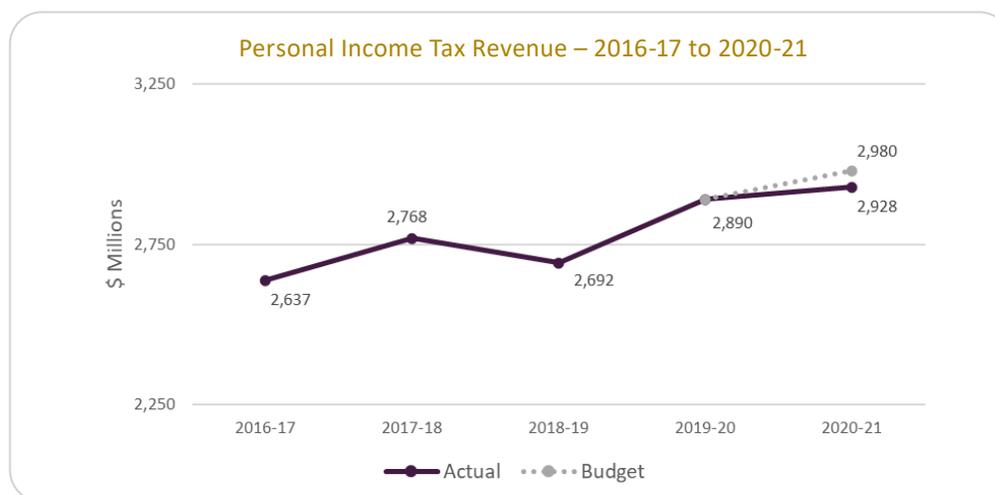
Provincial source revenue for 2020-21 was \$505 million less than budget

- 2.49 The Province budgeted \$8.2 billion in revenue from provincial sources in 2020-21. The actual revenue collected from provincial sources in 2020-21 was \$7.7 billion, \$505 million lower than budgeted.
- 2.50 Four of the largest provincial revenue sources in 2020-21 were:
- Personal Income Tax revenue
 - Corporate Income Tax revenue
 - Harmonized Sales Tax revenue
 - Income from Government Business Enterprises (GBEs)



Personal income tax revenue was \$52 million less than budget

- 2.51 In 2020-21, personal income tax revenue was \$52 million¹ lower than budget due to lower taxable income and projected yield rates primarily as a result of COVID-19.
- 2.52 Actual personal income tax revenue increased slightly in 2020-21 over 2019-20 actuals. This is mainly a result of income support programs, which are taxable, including those offered by the federal government such as the Canada Emergency Response Benefit (CERB) and Canada Emergency Student Benefit (CESB).
- 2.53 Over the past five years, even with the impacts of COVID-19, personal income tax revenue has risen \$291.7 million or 11.1 per cent since 2017.



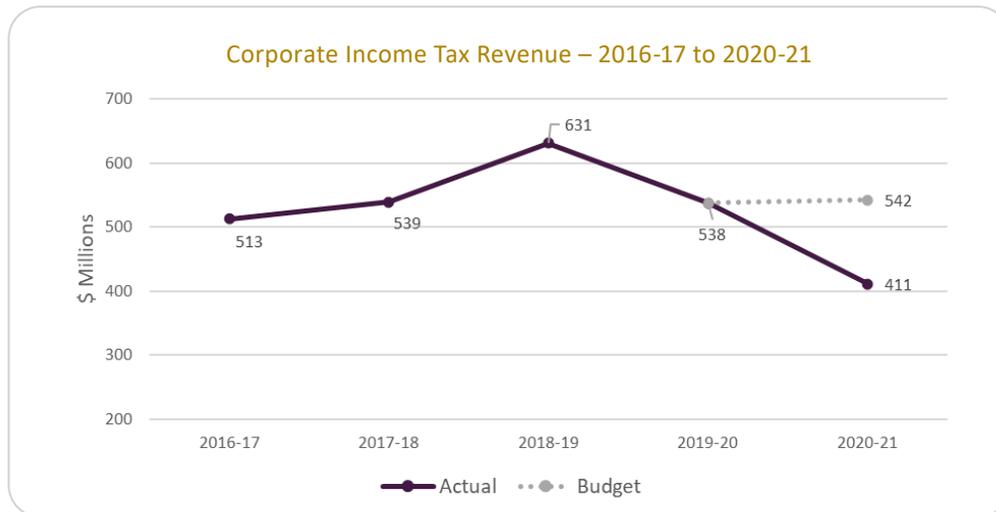
Source¹: 2017-18 to 2020-21 Public Accounts and 2020-21 Budget



Corporate income tax revenue was \$131 million less than budget

- 2.54 Corporate income tax revenue was \$131 million¹ lower in 2020-21 compared to the budget due to a reduction in Nova Scotia's share of national taxable income and a decline in provincial corporate taxable income.
- 2.55 Over the past five years corporate income tax revenues decreased \$102.1 million or 19.9 per cent from \$513 million in 2016-17 to \$411 million in 2020-21. This decrease occurred primarily in fiscal years 2019-20 and 2020-21, as the Province's share of national taxable income and provincial corporate taxable income declined. Corporate income tax revenue was estimated to remain constant for 2020-21 before the effects of the pandemic were known.

¹ Amounts do not include the impact of prior year adjustments which are not budgeted and result from adjustments to actual administrative data received for open taxation years.

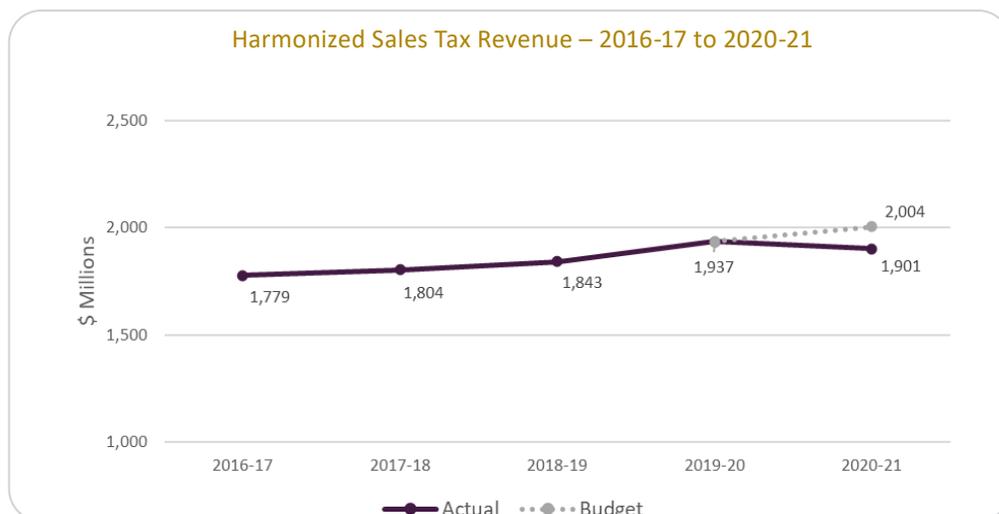


Source¹: 2017-18 to 2020-21 Public Accounts and 2020-21 Budget

Harmonized sales tax was \$103 million less than budget

2.56 Harmonized sales tax revenue was \$103.1 million¹ lower in 2020-21 compared to the budget primarily due to lower taxable consumer expenditures resulting from the public health restrictions during the pandemic.

2.57 Despite the impacts of COVID-19, harmonized sales tax actual revenue remained relatively consistent with the results of the past five years.



Source¹: 2017-18 to 2020-21 Public Accounts and 2020-21 Budget

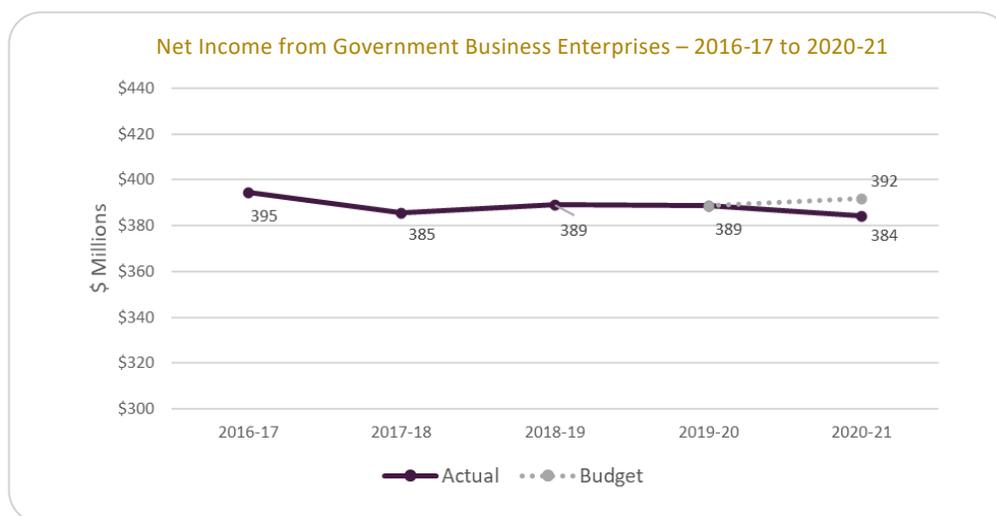
¹ Amounts do not include the impact of prior year adjustments which are not budgeted and result from adjustments to actual administrative data received for open taxation years.



Total net income from government business enterprises not significantly impacted by COVID-19

2.58 Total net income from government business enterprises was consistent with prior years at \$384 million. Net income from Nova Scotia Liquor Corporation remained strong at \$274.5 million for 2020-21 and actually increased over the \$247.3 million amount reported in 2019-20. The increase was due primarily to higher alcohol and cannabis sales. The increase in net income of Nova Scotia Liquor Corporation was partially offset by decreases at other government business enterprises including Nova Scotia Gaming Corporation which reported net income of \$103 million in 2020-21, down from the \$121 million in 2019-20 mainly due to suspension of video lottery terminals and temporary closure of casinos due to COVID-19.

2.59 Total net income from government business enterprises has remained consistent over the past five years. The COVID-19 pandemic did not have a significant impact on the total figures for 2020-21.



Source: 2017-18 to 2020-21 Public Accounts and 2020-21 Budget

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