Chapter 3
Workers' Compensation Board: Governance and Long-term Sustainability

Overall Conclusions

- **The Board of Directors has governance structures and processes to provide oversight and accountability in support of the achievement of the Workers' Compensation Board's goals and objectives**
- **The Workers' Compensation Board has a plan to become fully funded and has made continued progress in reducing the unfunded liability**

Governance, Oversight, and Accountability

The Board of Directors is carrying out its established roles and responsibilities

- The Board and committees meet regularly, including in camera
- An established agenda of reporting and meeting topics guides processes
- Performance evaluations of the CEO and Board of Directors occur annually

The governance manual is not up to date with some current practices

Long-term Sustainability

Many steps have been taken to achieve sustainability

- The Workers' Compensation Board publicly shares its plan to become fully funded. The plan is to become fully funded between 2020 and 2024
- The rate-setting process is in line with the funding strategy, clearly communicated to employers, and followed
- The annual average assessment rate target has been $2.65 per $100 of assessable payroll since 2005. The rate is set above annual funding requirements in order to reduce the unfunded liability, while maintaining stability for employers
- The Board of Director's Investment Committee monitors and evaluates the investment strategy which is managed externally by a third party

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Recommendations at a Glance

Recommendation 3.1
The Board of Directors of the Workers' Compensation Board should examine the process for reviewing the Corporate Governance Manual to ensure it is adequate to identify any changes or updates required.

Recommendation 3.2
The Board of Directors of the Workers' Compensation Board should review annual performance evaluation processes for the Board of Directors and the CEO to address weaknesses and ensure processes are efficient and effective.

Recommendation 3.3
The Worker's Compensation Board should evaluate and define the process for assessing, documenting, and reviewing changes to employer industry classifications.

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3 Workers' Compensation Board: Governance and Long-term Sustainability

Governance, Oversight, and Accountability

Governance roles and responsibilities support the mandate, mission, and vision

3.1 The mandate, mission, and vision of the Workers' Compensation Board (WCB) are consistent with meeting the needs of stakeholders and are aligned with governance roles and responsibilities. They have been clearly documented and communicated to stakeholders.

3.2 The primary stakeholders of the WCB are workers, employers, government, partner agencies, and advocacy groups. The needs of stakeholders are managed through a stakeholder representative Board of Directors, as well as through the WCB's annual engagement strategy.

3.3 The Board of Directors of the Workers' Compensation Board consists of 10 members – 4 employer and 4 worker representatives, a Chair, and a Deputy Chair. Through interviews with members of the Board, we found that:

- directors understand their roles and responsibilities, including who their stakeholders are, the information they need, and the types of decisions they are responsible to make;
- directors are comfortable challenging or debating other members or senior executives and describe the Board as open, collegial, and effective; and
- regular opportunities exist to discuss topics in camera without management present.

3.4 The WCB's Corporate Governance Manual defines the governance roles and responsibilities of the Board of Directors and the CEO. It also includes the:

- annual agenda,
- decision-making process,
- terms of reference for each committee of the Board of Directors,
- communications and stakeholder relations policy, and
- Board evaluation processes.

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Workers' Compensation Board's Corporate Governance Manual is not up to date

3.5 The Board of Directors conducts an annual review of the Corporate Governance Manual each December. Despite this review, we noted several instances where the manual is not updated to reflect current practices; it uses outdated terms of reference and meeting requirements.

3.6 The Board provided sufficient evidence to support that current practices were appropriate and in line with Board decisions. However, it is important that the manual be updated to reflect current practices as it is a means for stakeholders to hold the Board accountable. In addition, keeping the manual up to date will ensure governance roles and responsibilities remain clear and are executed appropriately.

Recommendation 3.1
The Board of Directors of the Workers' Compensation Board should examine the process for reviewing the Corporate Governance Manual to ensure it is adequate to identify any changes or updates required.

Workers' Compensation Board Response: Agree with this recommendation. This process will be reviewed in early 2019.

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The Board of Directors is fulfilling its governance responsibilities

3.7 For 2016 and 2017, the Board of Directors and its committees fulfilled their established roles and responsibilities in a timely manner by holding regular meetings, preparing meeting minutes, and resolving all recorded action items. The Board of Directors has committees for:

- Governance and Policy;
- Finance, Audit and Risk;
- Investment, and;
- a subcommittee to oversee a current business transformation project.

3.8 The Board is responsible for setting the strategic direction of the WCB through the development and approval of strategic plans. The current strategic plan covers 2016-20 and includes five strategic goals. The Board is also responsible for the annual review and approval of the operational plan.

3.9 Quarterly, the Board monitors progress of the strategic goals through a balanced scorecard. The scorecard contains financial and non-financial performance measures for the organization in four categories: service, operations, employee, and financial. An example of the balanced scorecard from the WCB's 2017 Annual Report is shown in Appendix III.

3.10 The Board of Directors and its committees regularly review and approve requested performance reporting submitted by management. In addition to the balanced scorecard measures, the Board monitors quarterly performance through review of results of injured worker and employer satisfaction surveys, reports from the Client Relations Officer, and legal updates. It poses relevant questions to management and requests further education and reporting on items as deemed necessary. Questions and concerns raised by Board members were addressed fully by management and in a timely manner.

3.11 The Board does not receive any operations level reporting at the claims, benefits, or appeals administration level, such as the average time between a claim filing and issuance of a written decision. It asserts that the performance metrics included in the balanced scorecard are sufficient for the appropriate level of oversight required to identify significant or systemic issues.

3.12 Claims and benefits administration, appeals, return-to-work programs, and contract management are to be examined and reported in our Office's spring 2019 report.

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The Workers' Compensation Board Executive Team is completing its accountabilities to the Board of Directors

3.13 For 2016 and 2017, the Executive Team fulfilled its accountabilities in a timely manner to the Board of Directors. Committees of the Executive Team executed their roles and responsibilities by holding regular meetings, maintaining meeting minutes, and discussing matters relevant to their terms of reference.

3.14 The Executive Team has five members with the Chief Executive Officer (CEO), the Vice President Corporate Services and Chief Financial Officer, the Vice President Prevention and Service Delivery, the Vice President of People and Change, and the Executive Corporate Secretary. They each have extensive experience at the WCB and understand their governance role and responsibilities as defined in legislation and policy manuals. In interviews, members of the Executive Team indicated that Board reporting requirements have been clearly communicated to them, with sufficient time to prepare the information that is requested.

Evaluations of CEO and Board of Directors occur annually, with some weaknesses identified

3.15 CEO performance evaluations were conducted in accordance with the established internal process for 2016 and 2017.

3.16 The Chair and Deputy Chair of the Board of Directors are primarily responsible for conducting the annual performance evaluations of the CEO.

They seek input from all members of the Board through the completion of individual evaluation forms which include scoring on several attributes. The Chair compiles feedback from the evaluations into a memo that is provided to the CEO and reported back to the Board.

3.17 The Chair stated that the evaluation forms are destroyed following the review. The memo that is provided to the CEO does not contain the aggregate scoring results on each of the attributes and is kept at a high-level overview. As a result, we were unable to determine if the memo accurately reflected the scoring and opinions of directors or to determine the level of change in each attribute year over year.

3.18 The Board of Directors also conducted annual evaluations of its overall performance for 2016 and 2017 in accordance with its established process.

3.19 As with the CEO evaluations, the Chair is responsible for compiling feedback from the individual Board evaluation surveys into a consolidated summary for discussion at the Board meeting. Supporting data is maintained for these evaluations and we found it to be consistent with the summary prepared. The results were discussed in a timely manner amongst Board members with appropriate action taken based on comments made.

3.20 The response rate for the Board evaluation survey was 100 percent in 2016 and 80 percent in 2017. We did note that a large number of questions were skipped by those who participated. For example, several questions that were relevant to all Board members had only 50-60 percent participation. This is concerning as the performance evaluation results may not be an accurate representation of the opinions of all members. The Board should consider why questions are skipped and whether they are asking the number and mix of questions needed to meet the objective of the evaluation process.

Recommendation 3.2
The Board of Directors of the Workers' Compensation Board should review annual performance evaluation processes for the Board of Directors and the CEO to address weaknesses and ensure processes are efficient and effective.

Workers' Compensation Board Response: Agree with this recommendation. These processes will be reviewed during their next evaluation cycles in 2019.

Appointments and re-appointments to the Board of Directors were appropriate

3.21 All seven appointments and re-appointments to the Board of Directors made between January 1, 2016 and July 31, 2018 followed the established appointment process, with the successful applicants deemed qualified by the required selection committee or screening panel and recommended by the Minister for appointment by the Governor in Council.

3.22 All directors stated in interviews that they received adequate and timely orientation and training upon appointment.

3.23 One of three re-appointments examined was for a board member to serve a fourth term. The Statement of Principles and Objectives of the Workplace Safety and Insurance System and the Corporate Governance Manual indicates directors may serve up to a full third term. Legislation does not indicate a re-appointment limit. In this case, it was determined that circumstances required re-appointment beyond three terms and justification for the decision was documented. A reduced term of two years was granted instead of the usual four years.

3.24 Currently, there are two Board members who are serving their fourth terms. It is important to consider limits to the number of terms for which a Board member may serve to ensure appropriate rejuvenation on the Board. New Board members can encourage new ideas and ensure fresh perspectives are provided to strategic planning.

Board of Director positions were not filled before the term expired

3.25 Members of the Board of Directors raised concerns related to the timeliness of filling Board vacancies. None of the seven appointments we examined were determined before the previous term expired. Reasonable explanations for the delays were provided for the two appointments that took longer than nine months to fill. Of the remaining five appointments, four were made between two and three months post-expiry and one was made just under five months post-expiry.

3.26 Executive Council Office conducts appointment campaigns in the spring and fall, each covering a 12-month period for existing and anticipated vacancies. However, formal timelines for filling vacancies do not exist and the process typically is expected to take between three to six months.

3.27 Director appointments are four years; therefore, expirations are known immediately when a new director is appointed, except for instances of early vacancies. There is sufficient time for planning of the next appointment, and not filling positions before the incumbent term expires does not allow for a smooth transition process.

3.28 Members of the Board of Directors also raised concerns regarding the diversity of the Board. There are many dimensions to creating a diverse Board of Directors with one dimension being gender. The current gender composition of the Board is shown in the following table.

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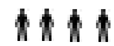
Board of Directors	Representatives	
	Male	Female
Chair		
Deputy Chair		
Employer Representatives		
Worker Representatives		

3.29 Following the screening process, the Minister is responsible for selecting which qualified candidate to recommend for appointment. A communications plan is prepared for the recommended appointee. The plan includes the impact on the composition of the Board and confirms that affirmative action and gender equity policies of the government are met.

3.30 Our Office's October 2017 report on financial audit work included a review of board vacancies and noted 33 percent of government organizations surveyed at the time had vacancies, and that on average, these positions had been vacant for more than 13 months. We recommended that Executive Council Office address the weaknesses related to filling board vacancies.

3.31 When following up on the recommendation in our October 2018 report, we found that Executive Council Office indicated they had taken action to address board vacancies and diversity. These actions included:

- launching an online application process where applicants are encouraged to self-identify;
- expanding recruitment and outreach methods;
- engaging with advocacy groups to improve diversity on boards, and;
- enhancing tracking of board vacancies.

3.32 It is important that Executive Council Office continue their work to address board vacancies and fill positions in a timely manner.

Long-term Sustainability

The Workers' Compensation Board has a strategy to become fully funded

3.33 As of December 31, 2017, the WCB reported a funded ratio of 89 percent, with an unfunded liability of $217 million. The funded ratio is a key measure of the organization's ability to fulfill all obligations, including payment of future benefits to injured workers, with existing assets in the Accident Fund. With a funded ratio of 89 percent, the WCB does not have sufficient assets

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to pay all future obligations, and this is a risk to Nova Scotians who rely on receiving the benefits they are owed.

3.34 The WCB has a funding strategy to support the goal of becoming financially stable and sustainable; it is outlined in the organization’s five-year strategic plan. The strategy defines the WCB’s financial needs and outlines actions to achieve the goal of becoming fully funded.

3.35 Controls are in place to address the risks related to the funding strategy, including monitoring by management, reporting to the Board of Directors, and semi-annual actuarial reviews of data and assumptions used.

3.36 Historically, the existence of an unfunded liability has been an area of ongoing concern for the WCB. In 1995, the WCB was only 41 percent funded, which at the time meant the Fund was short $368 million. Legislation was enacted in 1995 that required the Accident Fund to be fully funded and included a provision for time to address the existing unfunded liability.

3.37 The Accident Fund is currently at its strongest financial position since the strategy began. The most recent update to the funding strategy, published in summer 2018, states the WCB has a target of reaching full funding between 2020 and 2024. The funding strategy established in 1995 targeted the Accident Fund to be fully funded by 2039.

3.38 Since the initial funding strategy, there have been challenges, such as the financial market crash in 2008 which saw significant investment losses, and the legislation of various extended benefits; however, the funded ratio has consistently improved over the long-term. The WCB’s ability to improve its funded ratio and decrease the total unfunded liability are key metrics of the success of the funding strategy.

Funded Ratio – 20 Year Trend

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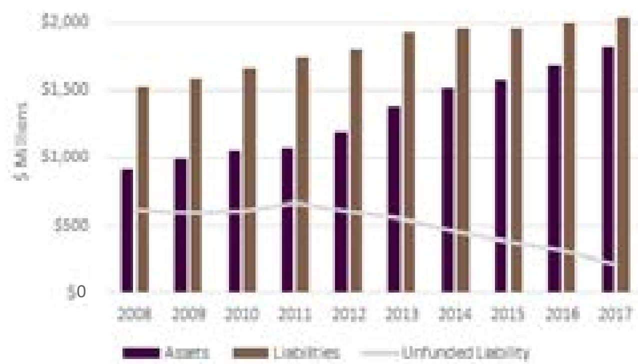
Financial Information – 10 Years



3.39 Since the beginning of the funding strategy in 1995, a primary component has been to ensure the WCB is collecting sufficient funds to cover the current and future expenses associated with claims for the year, plus an additional amount to contribute to the unfunded liability. The Board of Directors sets the target average assessment rate annually based on achieving this objective.

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3.40 Rates charged to employers in Nova Scotia are set above current year requirements and the average rate has remained stable at $2.65 per $100 of assessable payroll since 2005. Although the contribution to the unfunded liability varies by year, this rate stability provides consistency for employers while the liability is addressed. For the past five years, 2013-17, the average contribution to the unfunded liability has been 15 percent of employer contributions.

Rate-setting process is communicated to employers and is in line with the funding strategy

3.41 We examined the application of the rate-setting process for 30 employers from various industries and found it was applied consistently for all employers.

3.42 The rate-setting process is outlined in policy and communicated to stakeholders. The rate model uses the target average assessment rate set by the Board of Directors to create the revenue target. The rate model then allocates base assessment rates by industry and rate group, based on claims experience.

3.43 Industries experiencing lower than average costs pay lower than average premiums and industries experiencing higher than average costs pay higher than average premiums. Additional factors like merit, demerit, surcharge, and association levies are also applied. A detailed breakdown of the various factors impacting individual employer premiums is available to employers on request.

The Workers' Compensation Board does not have adequate processes for employer classification changes

3.44 There is no clear or defined process on the approach to assessing and documenting a rate change based on a change in the industry classification of an employer. Employers are categorized based on the Standard Industrial Classification system. When there is a significant change to the type of product or service a business produces or performs, it may result in an employer being reclassified, which may have a direct impact on the rate it is assessed.

3.45 Although documentation was inconsistent in location and format, some form of support for the change was identified in 9 of the 10 rate changes we examined. A monthly review is performed on industry classification changes as a quality assurance process. However, there is no clear documentation to support what the review process includes.

3.46 During 2016 and 2017, 5054 new employers were classified, and 242 classifications were changed. The 30 initial industry classifications we examined were well documented.

3.47 There should be a consistent approach for documenting the rationale and support for a change in industry classification and adequate review processes to ensure improper changes are not made. Without adequate processes, an employer may be assigned to the wrong industry, which may result in the employer paying the wrong rate.

Recommendation 3.3
The Worker's Compensation Board should evaluate and define the process for assessing, documenting, and reviewing changes to employer industry classifications.

Workers' Compensation Board Response: Agree with this recommendation. This process will be documented in 2019 when a new Guidewire assessment system is in place.

The Investment Committee monitors performance of the investment strategy

3.48 In 2017, the WCB achieved a one-year return on investment of 10.3 percent, with a five-year average return on investment of 9.6 percent. Investment assets at December 31, 2017 totalled $1.8 billion. Achieving a target return on investments is a key aspect of the funding strategy.

3.49 Since 2015, the WCB manages its investment strategy through an Outsourced Chief Investment Officer model, with governance and oversight provided by the Investment Committee of the Board of Directors.

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3.50 The Investment Committee monitors performance of the investment strategy and reports to the Board of Directors quarterly and annually, based on quarterly reporting provided by an external service provider and summary information prepared by the Workers' Compensation Board staff. Committee members examine such information as compliance with risk tolerance and approved asset mix, fund returns, comparison to benchmarks, and overall effectiveness of the strategy.

3.51 The Investment Committee also completes an annual evaluation of the external service providers, and in June 2017 completed a detailed evaluation, reviewing the first two years of the outsourcing model. The evaluation of the Outsourced Chief Investment Officer found that contractual obligations were met and included a qualitative review of service and advice to staff, a quantitative review of performance and risk tolerance, and a qualitative review of the relationship with the Investment Committee.

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Appendix I

Reasonable Assurance Engagement Description and Conclusions

In fall 2018, we completed an independent assurance report of governance practices and plans for the long-term sustainability of the Workers' Compensation Board. The purpose of this performance audit was to determine whether the Workers' Compensation Board has established governance practices to support the long-term sustainability of the Workplace Injury Insurance program and the meeting of its objectives. This audit is the first of a two-phase audit at the Workers' Compensation Board.

It is our role to independently express a conclusion about whether governance and long-term sustainability complies in all significant respects with the applicable criteria. Management at the Workers' Compensation Board acknowledged their responsibility for governance and long-term sustainability.

This audit was performed to a reasonable level of assurance in accordance with the Canadian Standard for Assurance Engagements (CSAE) 3001 – Direct Engagements set out by the Chartered Professional Accountants of Canada; and Sections 18 and 21 of the Auditor General Act.

We applied the Canadian Standard on Quality Control 1 and, accordingly, maintained a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting the audit work, we complied with the independence and other ethical requirements of the Code of Professional Conduct of Chartered Professional Accountants of Nova Scotia, as well as those outlined in Nova Scotia's Code of Conduct for public servants.

The objectives and criteria used in the audit are below:

Objective:

1. To determine whether governance structures and processes are in place and are working to provide oversight and accountability in support of the achievement of the Workers' Compensation Board's goals and objectives.

Criteria:

1. The mandate, mission, and vision of the Workers' Compensation Board should be clearly defined and communicated, and consistent with addressing the needs of stakeholders.

2. Roles and responsibilities of the Board of Directors and its Committees, the CEO, and management should be clearly defined, and consistent with the mandate, mission, and vision.

3. The Board of Directors and its Committees, the CEO, and senior management should complete required actions to fulfil their established roles and responsibilities.

4. The Workers' Compensation Board should have specific and measurable goals and objectives to evaluate performance.

5. The Workers' Compensation Board should have a process in place to monitor whether the program is achieving its goals and objectives.

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Objective:

1. To determine if the Workers' Compensation Board has a plan for long-term sustainability of the Workplace Injury Insurance program.

2. To determine if the Workers' Compensation Board follows a process for setting rates charged to employers which supports sustainability of the Workplace Injury Insurance program.

Criteria:

1. The Workers' Compensation Board should have a plan for long-term financial sustainability, which includes a completed risk assessment for the Workplace Injury Insurance program.

2. The Workers' Compensation Board should have a long-term investment plan and strategy that is monitored and evaluated regularly.

3. The Workers' Compensation Board should have a defined process for setting insurance rates to meet the financial needs of the program.

4. The process for setting rates should be clearly communicated to employers.

5. Rates should be calculated and charged to employers based on the process.

Generally accepted criteria consistent with the objectives of the audit did not exist. Audit criteria were developed specifically for this engagement. Criteria were accepted as appropriate by senior management at the Workers' Compensation Board.

Our audit approach consisted of interviews with members of the Board of Directors, management and staff of the Workers' Compensation Board, reviewing policy, examining processes for governance and long-term sustainability, and detailed file review. We examined relevant processes, plans, reports, and other supporting documentation. Our audit period covered January 1, 2016 to December 31, 2017. We examined documentation outside of that period as necessary.

We obtained sufficient and appropriate audit evidence on which to base our conclusions on October 29, 2018, in Halifax, Nova Scotia.

Based on the reasonable assurance procedures performed and evidence obtained, we have formed the following conclusions:

- Overall, the Workers' Compensation Board has governance structures and processes in place to provide oversight and accountability in support of the achievement of its goals and objectives.

- The Workers' Compensation Board has a plan for the long-term sustainability of the Workplace Injury Insurance program. It has a formal process for setting rates charged to employers, which is followed, and supports the sustainability of the program.

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Appendix II

Background Information on the Workers’ Compensation Board

1. Workers’ insurance systems in Canada are based on the Meredith Principles, which include a historic trade-off between workers and employers. In the event of a work-related injury, workers surrender their right to pursue legal action in exchange for benefits defined in legislation. Employers are responsible for funding the cost of the system in exchange for immunity when work-related injuries occur.

2. The Workers’ Compensation Act established by government provides the framework for the administration of workplace insurance in Nova Scotia, including injuries covered and benefit levels.

3. The Workers’ Compensation Board is responsible for administering workers’ compensation in line with the Act and operates at arm’s length from government. The WCB provides regular reporting to the Department of Labour and Advanced Education and collaborates by providing input in areas of mutual interest, such as legislative changes ultimately decided by government.

4. Employers are required to register for coverage if they are conducting business in a mandatory industry and have three or more workers at one time. Compensation is paid to injured workers out of the Accident Fund which is funded by annual assessments collected from employers.

	2017	2016
Number of Covered Employers	19,500	19,100
Labour Force Covered	75%	75%
Number of Claims Registered	23,952	24,311

Source: WCB 2017 Annual Report

5. The WCB must balance providing benefits and services in an efficient manner, while also delivering programming and considering the impact of raising premiums. This challenging reality emphasizes the importance of a high functioning board of directors.

Appendix III

Workers' Compensation Board: Balanced Scorecard (unaudited)

	Actual 2016	Actual 2017	Target 2017	Target 2018	Target 2022
Service					
Worker Satisfaction Index	74%	76%	70%	70%	70%
Employer Satisfaction Index	79%	78%	70%	70%	70%
Operations					
Time-Loss Injuries per 100 Covered Workers	1.74	1.76	1.72	1.76	1.62
Composite Duration Index (in days)	110	117	110	117	114
Time-Loss Days Paid per 100 Covered Employees	232	241	229	241	220
Cost of New EERBs ($ millions)	$59.2	$67.8	$59.6	$57.7	$63.2
Return to Employability	95.2%	94.4%	95.4%	95.4%	95.3%
Employee					
WCB Employee Satisfaction Index	71%	70%	70%	70%	70%
Financial					
Claims Payments for the past 3 years per $100 of Assessable Payroll	$0.664	$0.667	$0.673	$0.665	$0.654
Administration costs per $100 of assessable payroll (excluding prevention costs)	$0.40	$0.41	$0.45	$0.48	$0.37
Five-year Rate of Return on Investment (as measured by the Benchmark Portfolio Return)			Exceed Benchmark Portfolio Return	Exceed Benchmark Portfolio Return	Exceed Benchmark Portfolio Return
Five-Year Return	9.8%	9.6%			
Five-Year Target	9.3%	9.3%			

Source: WCB 2017 Annual Report

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