



October 4, 2017

Honourable Kevin Murphy
Speaker
House of Assembly
Province of Nova Scotia

Dear Sir:

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

Respectfully,

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Chapter 1: Financial Audit Work Results: A Tool to Hold Government Accountable



Key Messages:

- Government presented financial information that meets accounting standards
- Most organizations across government have fairly presented financial statements
- Significant weaknesses across government on how finances are managed and controlled
- More needs to be done across government to manage fraud risk
- Travel expenses disclosed, but improvements needed
- Recommendation to Executive Council: ensure weaknesses and risks are addressed

Key Observations:

Weaknesses in How Government Manages Finances

- Serious deficiencies in internal controls at Housing Nova Scotia, IWK, and the Health Authority
- Weaknesses not being fixed quickly enough at some school boards and Housing Nova Scotia
- Internal control policy over the Government's financial reporting process still not complete
- Lessons to be learned from IWK CEO expense review when controls not followed

Other Weaknesses in How Government Manages Fraud Risk, Disclosures, and Boards of Directors

Fraud:

- In 2017, Government fraud policy put in place for all departments
- Only 14 of 48 government organizations have a fraud policy
- Only 3 departments and 6 government organizations have completed a fraud risk assessment
- No government department has a fraud tip hotline
- Nova Scotia Liquor Corporation is the only government organization using a hotline

Disclosures:

- 8 government organizations did not disclose travel expenses
- Most senior person at government organization discloses travel expenses, but more disclosure needed of other executive positions

Boards of Directors:

- 33% of government organizations have vacancies on boards
- Public Archives of Nova Scotia cannot achieve its five-member quorum
- Nova Scotia Crop and Livestock Insurance Commission Board at risk of not fulfilling its duties



1 Financial Audit Work Results: A Tool to Hold Government Accountable

Financial Audit Results



Government produced fairly-presented financial information

- 1.1 For the 17th year in a row, the Government of Nova Scotia received an unqualified opinion on the consolidated financial statements from the Auditor General of Nova Scotia. An unqualified opinion, or clean audit opinion, means that an auditor has no significant concerns about the accuracy of the information reported in the financial statements. The reader can rely upon the fact that the consolidated financial statements are fairly presented in accordance with Canadian Public Sector Accounting Standards. This is an accomplishment that the many governments over the past 17 years should be proud of and is now an expectation of all Nova Scotians, including elected officials.
- 1.2 The Government introduced a budget document on April 27, 2017 and we issued an unqualified report for the 2017-18 Revenue Estimates included in that document. The budget document did not make its way through the Legislature as an election was called by the governing party on April 30, 2017.
- 1.3 The newly-elected Government delivered the provincial budget on September 26, 2017. We reviewed the new Revenue Estimates to ensure changes were reasonable. Our review concluded that:
 - the assumptions used by Nova Scotia Department of Finance and Treasury Board management are suitably supported and consistent with the plans of the government, and provide a reasonable basis for the 2017-18 Revenue Estimates of Nova Scotia;
 - the 2017-18 Revenue Estimates of Nova Scotia as presented reflect such assumptions; and
 - we did not express an opinion as to whether the Revenue Estimates of Nova Scotia will be achieved, but the Revenue Estimates are worthy of belief and are reasonable based on the circumstances and facts at the time.
- 1.4 From April 1, 2017 to September 26, 2017, the Government had no approved budget for fiscal 2017-18 spending. However, under Section 26 of the Finance Act, government departments can spend up to half of their previous year's appropriation until a new budget is passed. To ensure the Government could continue to carry on business, additional funding of \$1 billion was approved



in July 2017, which enabled government departments to spend more than what was allowed initially under the Finance Act.

➔ Significant deficiencies in controls over Nova Scotia’s finances

1.5 The majority of government organizations received clean audit opinions, however, during 2016-17, significant deficiencies in internal controls were reported in three large government organizations. Significant deficiencies are serious issues relating to inadequate or ineffective internal controls. These weaknesses in internal controls did not impact the quality of the financial statements, but to strengthen financial management and controls, they need to be addressed.

1.6 We summarized the significant weaknesses presented to those charged with oversight of these organizations in the table below.

Large Government Organizations with Significant Weaknesses		
Government Organization	Control Weaknesses	Management Response
Housing Nova Scotia	<ul style="list-style-type: none"> Poor monitoring of user access and access not properly limited Finance staff can make and approve journal entries 	Will have observations fixed by December 2017
Izaak Walton Killam Health Centre (IWK)	<ul style="list-style-type: none"> Poor monitoring of user access and access not properly limited Inactive users need to be removed Accounts payable lack segregated controls 	Will have observations fixed by December 2017
Nova Scotia Health Authority	<ul style="list-style-type: none"> Improvements to policies and procedures needed Weak controls: <ul style="list-style-type: none"> over procurement payment processing payroll processing 	Will have observations fixed by March 2018

1.7 It is important that significant deficiencies be addressed on a timely basis, as these control weaknesses expose the organizations to unnecessary risks of improper or inaccurate payments and receipts, duplicate payments, and other intended or unintended errors. Management in these organizations have indicated that the significant deficiencies will be addressed.

➔ Repeat internal control observations not getting addressed

1.8 We expect that all internal control weaknesses identified by a government organization’s auditor be appropriately addressed within two years. Internal control deficiencies that remain outstanding for multiple years can diminish the effectiveness of the control environment. We noted three government organizations had observations that were first reported over two years ago.



Internal Control Observations	
Government Organization	Observations Reported Over Two Years Ago
Housing Nova Scotia	<ul style="list-style-type: none">• Poor monitoring of user access• Finance staff can make and approve journal entries
South Shore Regional School Board	<ul style="list-style-type: none">• Weak controls over school-based funds include:<ul style="list-style-type: none">• limited support for amounts received• weak controls with expenses• 2017 school-based funds balance of \$2.2 million
Tri-County Regional School Board	<ul style="list-style-type: none">• Finance staff can make and approve journal entries• Weak controls over school-based funds include:<ul style="list-style-type: none">• limited support for amounts received• weak controls with expenses• 2017 school-based funds balance of \$1.7 million

Government's Fraud Management Program

- 1.9 Globally, it has been reported that governments are victim to 15%¹ of all fraud cases each year with median financial loss of approximately \$90,000 USD¹ per case. Fraud within the public sector is concerning because it can result in the loss of public monies and reduce the public's confidence in government's financial reporting and its ability to safeguard public assets. Therefore, it is important for a government to have mechanisms in place to appropriately manage the risk of fraud.
- 1.10 On June 1, 2017, the Government adopted a zero-tolerance fraud policy with the objectives of aiding in the prevention and detection of government fraud, and promoting consistency across government. As part of adopting this policy, mandatory online training was required to be completed by all civil servants. This policy directly applies to all government departments and crown corporations, and although not required, it is recommended that other government organizations embrace the intent of the policy.
- 1.11 As indicated in the policy, specific components of the Province's fraud management program include:
- fraud policies and procedures
 - fraud risk assessment
 - fraud awareness education and training
 - fraud prevention and detection techniques
 - well-documented framework for reporting and investigating allegations of fraud

¹ Report to the Nations on Occupational Fraud and Abuse – 2014 Global Fraud Study, Association of Certified Fraud Examiners



Gaps exist in fraud management programs throughout Government

- 1.12 We inquired with government departments and organizations on the status of certain aspects of a fraud management program. Appendices II and III show the response from each government department and organization. The results are summarized below.

Fraud Inquiry Results		
Fraud Management Component	Government Departments	Government Organizations
Approved fraud policy in place	100%	29%
Fraud risk assessment completed	17%	12%

- 1.13 It is important that government departments and organizations have fraud policies in place and understand their exposure to fraud. Fraud risk assessments are an important component of a fraud management program, as they can identify an organization's vulnerability to fraud and assist an organization in developing strategies to reduce fraud risk exposure. A comprehensive fraud risk assessment identifies and assesses the likelihood and significance of specific fraud schemes and risks, evaluates control activities, and implements action to address fraud risks.
- 1.14 Within departments, department heads are responsible for the implementation of internal controls. Our inquiries of government departments revealed that only three departments completed a fraud risk assessment (Health and Wellness, Justice, and Transportation and Infrastructure Renewal). In addition, we also noted 42 of 48 (88%) government organizations have not completed fraud risk assessments and most do not plan on completing an assessment within the next two years. These organizations are identified in Appendix III.
- 1.15 Our inquiries with government organizations reveal that 34 of 48 (71%) do not have a fraud policy, even though 13 are required to follow the Province's new fraud policy. It is important that the following 13 government organizations be aware of and adopt the Province's new fraud policy.
- Art Gallery of Nova Scotia
 - Council of Atlantic Premiers
 - Halifax-Dartmouth Bridge Commission
 - Harbourside Commercial Park Inc.
 - Highway 104 Western Alignment Corporation
 - Nova Scotia Innovation Corporation
 - Nova Scotia Lands Inc.



- Nova Scotia Liquor Corporation
- Nova Scotia Municipal Finance Corporation
- Nova Scotia Power Finance Corporation
- Nova Scotia Utility and Review Board
- Sydney Steel Corporation
- Waterfront Development Corporation Limited

It is also important that the other government organizations without a fraud policy develop and implement one.

- 1.16 The Department of Internal Services is currently developing a tool to assist departments in assessing the areas of highest risk. The current lack of completed fraud risk assessments by government departments and organizations, regardless of size, is concerning as it diminishes their ability to appropriately manage vulnerabilities to fraud.

➡ Usefulness of fraud tip hotlines has not been evaluated

- 1.17 Research shows that tips account for about 40% of all fraud discoveries². Fraud tip hotlines can be an effective tool to detect and prevent fraud. The effectiveness of a hotline can be improved when an organization promotes awareness of the hotline to its employees and the public.
- 1.18 We noted that tip hotlines are used in other provinces. However, in Nova Scotia, no government department has a fraud tip hotline. We also noted that the Nova Scotia Liquor Corporation was the only government organization using a hotline.
- 1.19 Although the Ombudsman's Office has a hotline in place for reporting under the Disclosure of Wrongdoing Act, this may not be sufficient to identify instances of potential fraudulent activities. The Government should evaluate the usefulness of a dedicated fraud hotline that is easily accessible to employees and the public.

Disclosure of Travel and Hospitality Expenses

➡ Some government organizations are not disclosing travel and hospitality expenses as required

- 1.20 Last year, in response to the Auditor General's 2015 recommendations, the Department of Finance and Treasury Board was in the process of issuing a directive to agencies, boards, and commissions requiring senior officials

² Report to the Nations on Occupational Fraud and Abuse – 2014 Global Fraud Study, Association of Certified Fraud Examiners



to disclose travel and hospitality expenses. This administrative directive was issued in September 2016. By December 31, 2016, all departments and government organizations were required to publicly disclose travel and hospitality expenses of their senior management retroactive to April 1, 2016. We noted that all departments are complying with the administrative directive as of March 31, 2017; however, the following eight government organizations are not disclosing travel and hospitality expenses of senior management as at June 30, 2017:

- Arts Nova Scotia
- Harbourside Commercial Park Inc.
- Nova Scotia Farm Loan Board
- Nova Scotia Fisheries and Aquaculture Loan Board
- Nova Scotia Lands Inc.
- Nova Scotia School Insurance Exchange
- Nova Scotia School Insurance Program Association
- Sydney Steel Corporation

1.21 To enhance accountability and transparency, these eight government organizations should disclose the travel and hospitality expenses of their senior management in accordance with this administrative directive.



In some cases, the disclosure of travel and hospitality expenses is only for one senior individual of the organization

1.22 Under the directive, senior management is defined as including “*Deputy Ministers, Associate Deputy Ministers, Deputy Heads, Chief Executive Officers and any other like position*”. In our view, this “*any other like position*” should include the chief financial officer, vice-president, or other executive-type position to ensure the spirit of openness and transparency is met.

1.23 In reviewing public disclosure statements, we noted that in several organizations where it is likely that there are multiple members of the senior management team incurring travel and hospitality expenses, only the expenses of the most senior person in the organization were disclosed.

1.24 To encourage more travel and hospitality disclosure in government organizations, the administrative directive should be expanded to include other executive-type positions. As well, government organizations should review their assessments on what constitutes senior management as it relates to the administrative directive to ensure that their disclosures meet the spirit and principles behind good public disclosure.



IWK – Opportunity for Learning

- 1.25 During the process of complying with the Province’s administrative directive, as recommended by the Auditor General in 2015, the IWK and the media identified discrepancies in the expenses of the IWK’s Chief Executive Officer (CEO). In response, the Board of Directors of the IWK requested an independent review of the transactions, key controls, and processes relating to the former CEO’s expenses for the period August 2014 to June 2017. The CEO expense review is complete and can be found on the IWK’s website. IWK officials have indicated the Board’s Finance, Audit and Risk Committee is overseeing the implementation of the recommendations arising from the review and the Board of Directors now receives weekly updates from management on progress.
- 1.26 The independent review identified that \$47,273 in potential personal expenses of the former CEO were charged to the IWK, of which \$38,219 (as of September 25, 2017) was reimbursed. IWK Board officials indicate that they expect the CEO to reimburse the amount owing in its entirety.
- 1.27 The review noted that operating controls were not always working and made recommendations to improve internal controls over:
- expense claim support and approvals;
 - timeliness of expense report submissions;
 - Board review and oversight of CEO-related expenditures; and
 - policies and procedures relating to expenses.
- 1.28 Following a request to conduct audit work, our Office met with IWK officials on several occasions. We determined that doing the annual financial statement audit (starting April 1, 2018) and the performance audit work is within our authority, and we believe it would serve the public interest to do so. The scope and extent of the performance audit is yet to be determined, as planning has just begun. The audit will not be a forensic audit as my Office and the IWK officials have agreed that the IWK will turn the information it currently has related to the former CEO’s expenses over to the police for their consideration on any possible legal matters. As well, if we uncover additional relevant information during the performance of our audit work, it will also be turned over to the police.
- 1.29 It is important that management in government departments and organizations review the control weaknesses and issues identified at the IWK and assess if their organization is exposed to similar risks. In addition, it is equally essential that those charged with governance over government departments and organizations – Ministers and Boards – look to the organizations they oversee and seek assurance that this has been done.



Board Vacancies

➡ 33% of organizations have board vacancies

1.30 The enabling legislation for many government organizations requires that a governing board be established. From our inquiries of government organizations, we noted board member vacancies as being a concern for some organizations.

1.31 Many board positions are provincial appointments, while other board positions are appointed by an industry organization or another level of government. Individuals apply for positions through the Executive Council Office. A department screening panel reviews applications to determine eligibility and presents a list of qualified applicants to the applicable Minister.

1.32 We examined the status of board vacancies as at June 30, 2017, and noted 16 of the 48 (33%) government organizations had board vacancies, and on average, these positions have been vacant for more than 13 months.

Government Organization Boards with Vacancies		
Name	Number of Vacancies	Vacant Since
Art Gallery of Nova Scotia	1 of 20	February 2017
Arts Nova Scotia	3 of 11	May 2017
Halifax-Dartmouth Bridge Commission	3 of 9	March 2017
Harbourside Commercial Park Inc.	1 of 6	October 2016
Invest Nova Scotia Board	2 of 9	July 2016
Izaak Walton Killam Health Centre	2*	Unknown
Nova Scotia Business Inc.	2 of 12	May 2016
NS Crop and Livestock Insurance Commission	3 of 6	October 2015
Nova Scotia Farm Loan Board	1 of 7	February 2017
Nova Scotia Health Research Foundation	4 of 10	July 2014
Nova Scotia Innovation Corporation	2 of 10	September 2016
Nova Scotia Legal Aid Commission	4 of 17	February 2016
Public Archives of Nova Scotia	4 of 8	March 2017
Resource Recovery Fund Board Inc.	2 of 10	October 2015
Tourism Nova Scotia	2 of 10	February 2017
Waterfront Development Corporation Limited	2 of 12	April 2014

* The Minister of Health has the authority to appoint two directors, but has historically not exercised this option.

1.33 We illustrate these vacancy issues with the following examples:

- The Public Archives of Nova Scotia cannot achieve its five-member quorum because four of its eight board positions are vacant. Therefore, the board is not able to fulfill its duty to advise the Provincial Archivist on the general direction of the Public Archives or perform its oversight role.



- The Nova Scotia Health Research Foundation has had board vacancies since July 2014. Management indicated that five of the six sitting board members are currently serving beyond their appointed terms.
- The Nova Scotia Crop and Livestock Insurance Commission currently has three of its six board positions vacant. Another board position expires at the end of 2017, which could then result in four vacancies. Quorum is achieved when three of its board members are present. Consequently, without quorum, there is a risk that the Board may not be able to fulfill its duties and key responsibilities, one of which is approving insurance claims of farmers.

1.34 It is important that board positions be filled in a timely manner to achieve the level of oversight that was envisioned when the board was established.

Recommendation 1.1

Executive Council should ensure those responsible for oversight of government departments and organizations address the weaknesses and risks to the Province in the following critical areas:

- Fraud management
- Travel and hospitality expenses
- Board vacancies

***Executive Council Response:** Government agrees that those responsible for oversight of government departments and organizations should continually address weaknesses and risks to the Province in the critical areas outlined. Government has zero tolerance for fraud in any form and remains committed to protecting government operations from fraudulent activity. The Province is also committed to transparency with respect to expense reporting. It also agrees with the importance of ensuring board vacancies in government organizations are filled in a timely manner.*

See additional comments at end of chapter.

Update on 2016 Observations



Tourism Nova Scotia in compliance with Finance Act reporting requirements for fiscal 2017

1.35 For fiscal 2016, in its first year of operations, Tourism Nova Scotia did not meet the reporting requirement of the Finance Act which required that the Corporation submit its audited financial statements to the Minister of Business by June 30. Tourism Nova Scotia finalized its 2016 financial statements in December 2016. Management of Tourism Nova Scotia advised that operational systems and procedures were not in place when the creation



of the Corporation was announced. It took the organization a significant amount of time to work through the changes required to produce the 2015-2016 financial statements.

- 1.36 For fiscal 2017, the Corporation met the Finance Act reporting requirement.
- 1.37 Last year we discussed the three recommendations from the November 2015 Report of the Auditor General to the House of Assembly that were not fully completed by September 2016. We provide an update below.

2015 Recommendation	Status
2.11 The Department of Internal Services should put in place a government hospitality policy that captures modern public sector expectations, and monitor that this policy is being met.	Complete
2.12 To enhance openness and transparency, the Department of Finance and Treasury Board should require senior management of government departments, agencies, boards and commissions, to publicly disclose travel and hospitality claims.	Complete
3.1 The Department of Finance and Treasury Board should have a central tracking system to monitor external auditor recommendation implementation results in government agencies, boards and commissions. Entities with low implementation rates should be monitored and encouraged to fix the deficiencies.	Not complete – The Department of Finance and Treasury Board continues to review options and ways to capture all the recommendations.

- 1.38 In addition, we regularly follow up on the Government’s implementation of our audit recommendations after two years. In February 2017, we provided an update on all recommendations from the January 2014 Report of the Auditor General to the House of Assembly. We provide a current update below of the recommendations from Chapter 2 that were reported as not complete at that time.

2014 Recommendation	Status
2.7 The Department of Finance and Treasury Board’s Capital Markets Administration, Taxation and Fiscal Policy, and Liability Management and Treasury Services divisions, and the division responsible for Treasury Board functions, should each sign a statement of management responsibility that the information submitted for audit by their respective divisions is complete, accurate and in accordance with public sector accounting standards. These statements should also be signed by the Deputy Minister of Finance and Treasury Board.	Complete



2014 Recommendations	Status
2.9 The Controller's Office should prepare an appropriate and effective assessment of the risk of material misstatement to the consolidated financial statements, due to fraud or error. This assessment should include identifying risks of fraud and error, estimating the significance of each risk, assessing the likelihood of each risk, and documenting the action, if any, required to address the identified risks.	Not complete – Internal Controls over Financial Reporting program continued for 2016-17 and will continue for 2017-18. Draft guidelines and policy on internal controls over financial reporting are under review by management for inclusion in the Corporate Policy Manuals.
2.10 The Controller's Office should prepare a description of the process for monitoring of internal controls to be included in Government's Management Manuals. The results of monitoring activities should be communicated to the Province's Audit Committee. Any control deficiencies identified as a result of monitoring should be addressed on a timely basis.	Not complete – Internal Controls over Financial Reporting program continued for 2016-17 and will continue for 2017-18. Draft guidelines and policy on internal controls over financial reporting are under review by management for inclusion in the Corporate Policy Manuals.

- 1.39 When we first reported these observations regarding the lack of risk assessment and monitoring of controls in January 2014, the Controller's Office agreed with these recommendations. We urge the Controller's Office to complete these recommendations so that management identifies and assesses risks in order for them to design, implement, and ultimately monitor controls to mitigate the risks of fraud and error in the consolidated financial statements.



Executive Council: Additional Comments

The Province responds more fully as follows:

- *Fraud management: The Province will continue the implementation of its new Fraud Policy and required fraud training for all public servants. Introduced on June 1, 2017, the policy has a companion online training program entitled “Understanding Fraud in the Public Sector” that became available to public servants on July 3, 2017. The goal is to have all civil servants complete the training by the end of the fiscal year 2018-19. Additionally, managers are required to complete “Fraud Management Training for Managers” to learn more about the incident reporting process. The Province will monitor the completion of this training and will continue its support of the development of a fraud risk assessment tool for use by government departments and organizations. The Province will also encourage and support government organizations to implement appropriate fraud management practices, and will identify the Province’s Fraud Policy as the appropriate reference point for the creation of their entity-specific policies and programs. Moreover, the Province commits to continued support of the processes available through the Public Interest Disclosure of Wrongdoing Act. The Province will also evaluate the usefulness of a dedicated fraud hotline.*
- *Board vacancies: Executive Council Office, through its administrative support for the making of board appointments by government organizations, will continue its work to support the filling of board vacancies. To expedite these appointments, on September 7, 2017, the Executive Council Office rolled out an online application system for appointments to provincial agencies, boards, and commissions.*
- *Travel and hospitality expenses: In respect of this recommendation, the Province undertakes as follows:*
 - *Any organizations which fail to disclose travel and hospitality expenses of senior officials will be directed to comply with the administrative directive issued in September, 2016.*
 - *Organizations will be directed to review their definition of senior management as it relates to the administrative directive to ensure that their disclosures meet the spirit and principles behind good public disclosure.*



Appendix I

Who We Are and What We Do

Who we are

- 1.1 The Auditor General is an independent nonpartisan officer of the Legislature, appointed by the House of Assembly for a ten-year term. The current Auditor General, Michael A. Pickup, CPA, CA, began his ten-year term on July 4, 2014. He is responsible to the House for providing independent and objective assessments of the operations of government, the use of public funds, and the integrity of financial reports. The audit work of the Office of the Auditor General helps the House hold the government to account for its use and stewardship of public funds.

What financial audit work does the Office of the Auditor General do?

- 1.2 The Auditor General Act (the Act) establishes the Auditor General's mandate, responsibilities and powers. The Act also provides the Office with a mandate to audit all parts of the provincial public sector, including government departments and all agencies, boards, commissions or other bodies responsible to the Crown, such as regional school boards, as well as funding recipients external to the provincial public sector. In addition, other legislation appoints the Auditor General, or a person designated by the Auditor General, as the auditor of an entity's financial statements.
- 1.3 Sections 19 and 20 of the Act stipulate that the Auditor General shall audit the annual consolidated financial statements of the Province; and conduct a review of the estimates of revenue used in the preparation of the budget address of the Minister of Finance and Treasury Board.
- 1.4 The consolidated financial statements of government are an accumulation of the assets, liabilities, revenue, and expenses of all the activities that it controls. This includes many parts of the provincial public sector. Schedule 10 of the consolidated financial statements shows 77 active entities that include special operating agencies, special purpose funds, governmental units, government business enterprises, and government partnerships.
- 1.5 In its work, the Office of the Auditor General is guided by, and complies with, the professional standards established by Chartered Professional Accountants (CPA) Canada. We also seek guidance from other professional bodies and audit-related best practices in other jurisdictions.
- 1.6 The Office of the Auditor General audits the consolidated financial statements of the Province. We provide an audit opinion which lets users know that the financial statements are fairly presented. In addition, as auditors, we



make recommendations to improve or strengthen internal controls. Internal controls are important as they may reduce the risk of asset loss, improve the completeness and accuracy of financial information, or ensure that the organization complies with laws and regulations.

1.7 The Province's audited consolidated financial statements add value and serve the following purposes:

- Elected officials use financial information to make decisions, including the allocation of scarce resources.
- Nova Scotians and elected officials use this information to assess the Government's stewardship over the resources entrusted to it.
- Other users, such as lenders and credit rating agencies, use financial reports to meet their specific needs.

1.8 The Auditor General also issues a report on the reasonableness of the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance and Treasury Board to the House of Assembly.



Appendix II

Analysis of Responses from Government Departments Regarding Certain Aspects of a Fraud Management Program

We inquired of the 18 government departments listed in Schedule 10 of the 2017 Public Accounts on the status of certain aspects of a fraud management program and obtained the following information:

Government Department	Fraud Policy	Fraud Risk Assessment
Agriculture	Yes	No
Business	Yes	No
Communities, Culture and Heritage	Yes	No
Community Services	Yes	No
Education and Early Childhood Development	Yes	No
Energy	Yes	No
Environment	Yes	No
Finance and Treasury Board	Yes	No
Fisheries and Aquaculture	Yes	No
Health and Wellness	Yes	Yes
Internal Services	Yes	No
Justice	Yes	Yes
Labour and Advanced Education	Yes	No
Municipal Affairs	Yes	No
Natural Resources	Yes	No
Public Service	Yes	No
Seniors	Yes	No
Transportation and Infrastructure Renewal	Yes	Yes
Total	18 Yes (100%)	3 Yes (17%) 15 No (83%)



Appendix III

Analysis of Responses from Government Organizations Regarding Certain Aspects of a Fraud Management Program

Of the 52 active government organizations (governmental units, government business enterprises, government partnership arrangements) listed in Schedule 10 of the 2017 Public Accounts, we obtained the following information from 48 organizations. We did not include the Gambling Awareness Foundation of Nova Scotia or Trade Centre Limited as these organizations have or will wind up, nor the Law Reform Commission of Nova Scotia as it no longer receives government funding.

Nova Scotia Primary Forest Products Marketing Board is the only government organization that did not respond to our inquiries.

Government Organization	Fraud Policy	Fraud Risk Assessment
A. Education Sector		
Annapolis Valley Regional School Board	No	No
Atlantic Provinces Special Education Authority	No	No
Cape Breton-Victoria Regional School Board	No	No
Chignecto-Central Regional School Board	No	No
Conseil scolaire acadien provincial	No	No
Halifax Regional School Board	Yes	No
Nova Scotia Community College	Yes	No
Nova Scotia School Boards Association	No	No
Nova Scotia School Insurance Exchange	No	No
Nova Scotia School Insurance Program Association	No	No
South Shore Regional School Board	No	No
Strait Regional School Board	No	No
Tri-County Regional School Board	No	No
B. Health Sector		
Izaak Walton Killam Health Centre	No	No
Nova Scotia Health Authority	No	No
Nova Scotia Health Research Foundation	No	No
C. Sizeable Organizations		
Art Gallery of Nova Scotia	No	No
Canada-Nova Scotia Offshore Petroleum Board	Yes	Yes
Halifax-Dartmouth Bridge Commission	No	Yes
Harbourside Commercial Park Inc.	No	No
Highway 104 Western Alignment Corporation	No	No
Housing Nova Scotia	Yes	No



Appendix III – Continued

Government Organization	Fraud Policy	Fraud Risk Assessment
C. Sizeable Organizations		
Nova Scotia Business Inc.	Yes	No
Nova Scotia Crop and Livestock Insurance Commission	Yes	Yes
Nova Scotia Farm Loan Board	Yes	No
Nova Scotia Fisheries and Aquaculture Loan Board	Yes	No
Nova Scotia Innovation Corporation	No	No
Nova Scotia Lands Inc.	No	No
Nova Scotia Legal Aid Commission	Yes	No
Nova Scotia Liquor Corporation	No	No
Nova Scotia Municipal Finance Corporation	No	No
Nova Scotia Power Finance Corporation	No	No
Nova Scotia Provincial Lotteries and Casino Corporation	Yes	Yes
Nova Scotia Utility and Review Board	No	No
Public Archives of Nova Scotia	No	No
Tourism Nova Scotia	Yes	No
Waterfront Development Corporation Limited	No	Yes
D. Others		
Arts Nova Scotia	No	No
Canadian Sports Centre Atlantic	No	No
Council of Atlantic Premiers	No	No
Creative Nova Scotia Leadership Council	No	No
Invest Nova Scotia Board	Yes	Yes
Nova Scotia Strategic Opportunities Fund Incorporated	Yes	No
Perennia Food & Agriculture Incorporated	No	No
Resource Recovery Fund Board Inc.	No	No
Schooner Bluenose Foundation	Yes	No
Sherbrooke Restoration Commission	No	No
Sydney Steel Corporation	No	No
Total	14 Yes (29%) 34 No (71%)	6 Yes (12%) 42 No (88%)

Chapter 2: Nova Scotia's Finances from 2017 Public Accounts



Key Messages:

2017 Results

- Financial condition improved
 - Surplus of \$150 million
 - Net long-term debt down \$400 million
 - Annual interest costs down \$28 million
- For each Nova Scotian:
 - \$550 decrease in debt
 - \$34 decrease in interest
- Departments got extra \$234 million
- Better government reporting on finances

Over the Last 10 Years

- Trend concerning
 - Net results show \$486 million deficit
 - Net long-term debt up \$3 billion
 - \$7.5 billion interest on long-term debt
- For each Nova Scotian:
 - Increase of \$2,986 in debt
 - Decrease of \$102 in interest
- Revenues not keeping pace with expenses

Key Observations:

Analysis of 2008-2012 Results

- \$502 million surplus
- Net debt up \$1.0 billion (8%)
- Net debt per person up \$940 (7%)
- Long-term debt up \$2.6 billion (26%)
- \$746 million average annual interest on long-term debt

Revenues: From 2007 to 2017

- Revenues up \$2.9 billion (35%)
- HST and other taxes up \$854 million (57%)
- Per tax filer, personal income tax up \$1,134 (49%)
- Federal transfers relatively consistent as a percentage of total revenues

Analysis of 2013-2017 Results

- \$988 million deficit
- Net debt up \$1.6 billion (12%)
- Net debt per person up \$1,594 (11%)
- Long-term debt up \$400 million (3%)
- \$754 million average annual interest on long-term debt

Expenses: From 2007 to 2017

- Expenses up \$3 billion (37%)
- Expenses up \$2,997 (35%) per person
- Health expenses are 40% of total
- Health expenses up \$1.4 billion (46%)
- Education expenses up \$109 million (7%)



2 Nova Scotia's Finances from 2017 Public Accounts

Purpose

- 2.1 The Province's finances are an area that all Nova Scotians should have an interest in. The purpose of this chapter is to inform Nova Scotians on some aspects of the Province's finances to promote discussion.
- 2.2 Providing information on the Province's current level of revenues and expenditures against levels from 10 years ago provides insight into how the Government is fostering sustainability. The information presented below is only part of the story. Additional information and context is presented in Volume 1 of the Public Accounts of Nova Scotia.

Financial Condition and Trends



Province's annual expenditures up \$3 billion (37%) from 10 years ago

- 2.3 The Province's annual expenditures increased by 37% over the past 10 years from \$8 billion in 2007 to \$11 billion in 2017.



Government spends 40% of its annual budget on health

- 2.4 \$7 billion of the Province's \$11 billion annual expenditure is incurred by the departments of Community Services, Education, and Health; health-related expenses account for 40% of total provincial expenditures.
- 2.5 The table below shows health-related expenses have increased by \$1.4 billion since 2007. The increase in expenses may be attributable to the 36% increase in the number of Nova Scotians over the age of 65 (see Appendix I for Nova Scotia population changes since 2007).

Change in Total Expenses from 2007 to 2017				
Expenses by Function	2007 \$ millions	2017 \$ millions	Change \$ millions	Change %
Community Services	\$836	\$1,079	\$243	29%
Education	\$1,510	\$1,619	\$109	7%
Health	\$3,055	\$4,462	\$1,407	46%
Other	\$2,710	\$3,919	\$1,209	45%
Total Expenses	\$8,111	\$11,079	\$2,968	37%

- 2.6 The Province's expenses per Nova Scotian have increased by \$2,997 (35%) from 2007. Expenses per capita changes were primarily driven by changes in the expense amounts because Nova Scotia's population increased only 2% since 2007.



Expenses per Capita from 2007 to 2017				
Expenses by Function	2007	2017	Change	Change %
Community Services	\$891	\$1,136	\$245	27%
Education	\$1,610	\$1,705	\$95	6%
Health	\$3,257	\$4,700	\$1,443	44%
Other	\$2,913	\$4,127	\$1,214	42%
Total Expenses per Capita	\$8,671	\$11,668	\$2,997	35%

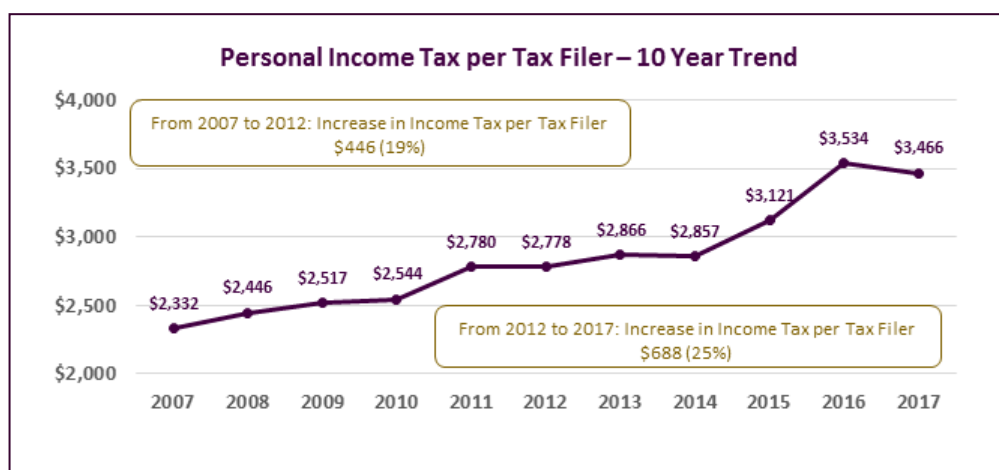
➔ Increase in revenues over past 10 years not enough to cover increase in expenses

2.7 The table below shows revenue by type for 2007 and 2017. The Province's revenues increased by \$2.9 billion (35%) from 2007. This 35% increase in revenue growth is not keeping pace with the 37% increase in expenses over the same 10-year period and has been financed partially through an increase in long-term debt.

Change in Total Revenues from 2007 to 2017				
Revenue Type	2007 \$ millions	2017 \$ millions	Change \$ millions	Change %
Personal Income Tax	\$1,679	\$2,617	\$938	56%
Corporate Income Tax	\$393	\$610	\$217	55%
HST and Other Taxes	\$1,495	\$2,349	\$854	57%
Other Revenues	\$2,120	\$2,152	\$32	2%
Federal Transfers	\$2,606	\$3,500	\$894	34%
Total Revenues	\$8,293	\$11,228	\$2,935	35%

➔ Province receives 49% more in personal income tax revenues than 10 years ago

2.8 Personal income tax revenue per capita is the average amount of personal income tax collected from each tax filer. During 2017, the Province earned, on average, \$3,466 from each tax filer, which is a 49% increase over the past 10 years.



Source: Tax filer data provided by the Department of Finance and Treasury Board



The Province's financial condition improved in 2017, but overall it has worsened since 2007

- 2.9 There are numerous indicators that can be used to assess a government's financial condition. The indicators we have included in this chapter are among those recommended for reporting by the Public Sector Accounting Board's Statement of Recommended Practice 4: Indicators of Financial Condition. The indicators reported in this chapter are meant to provide additional information on the Province's financial condition but are not intended as commentary on the financial impact of government policies.
- 2.10 The Statement of Recommended Practice recommends that, at a minimum, indicators related to sustainability, flexibility, and vulnerability are considered. We have included these types of indicators, along with other information we feel is useful in demonstrating the Province's financial condition.
- 2.11 The following table provides an overview of the Province's financial performance for the year ended March 31, 2017. Further information is found in the Financial Statement Discussion and Analysis section of the 2017 Public Accounts Volume 1. Although the following table shows that the overall financial condition of the Province improved over the past year, the 10-year trend reveals an overall worsening condition in net debt and net long-term debt.

Financial Highlights		
Indicator	1-Year Trend	10-Year Trend
Sustainability		
Annual surplus or deficit	Surplus this year	Fluctuating
Net debt	Slight decrease	Increasing
Net debt per capita*	Slight decrease	Increasing
Net long-term debt	Slight decrease	Increasing
Net long-term debt per capita*	Slight decrease	Increasing
Flexibility		
Interest on long-term debt	Decreasing	Fluctuating
Interest on long-term debt per capita*	Decreasing	Fluctuating
Vulnerability		
Federal Government Transfers as a Percentage of Total Revenues	Decreasing	Stable

*Nova Scotia's population totals are found in Appendix I

Sustainability

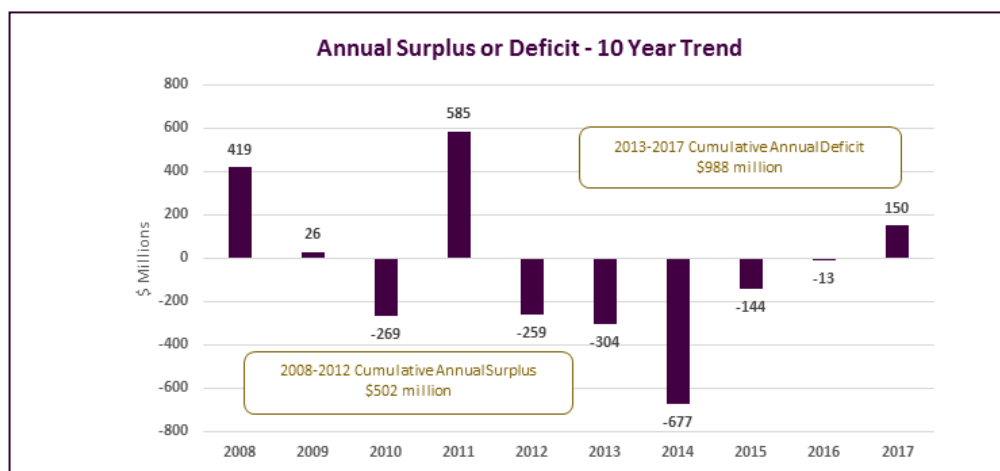
- 2.12 Sustainability measures the ability of a government to maintain its existing programs and services, including maintaining its financial obligations to creditors, without having to introduce revenue and expenditure adjustments,



such as increased debt or tax rates. Sustainability indicators provide insight into how a government balances its commitments and debts.

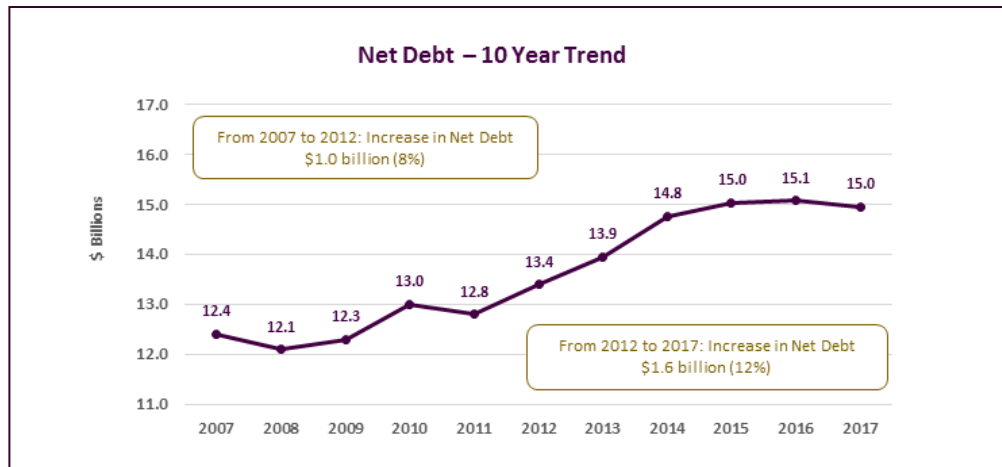
- 2.13 The annual surplus or deficit indicates the extent to which revenues are more or less than expenses during the year. A surplus occurs when revenues exceed expenses. The Province reported a surplus of \$150 million in 2017, the first since 2011. The 2017 surplus reduced the Province's borrowing needs which in turn decreased net debt and interest on long-term debt. The Government discusses changes in revenues and expenses in detail in Volume 1 of the Public Accounts.

- 2.14 Although the Government realized a \$150 million surplus in 2017, if you add up the annual surpluses and deficits during the past ten years, the total is a \$486 million deficit. This 10-year cumulative annual deficit may impact sustainability, as it shows that the Province's revenues are not keeping pace with its expenses.

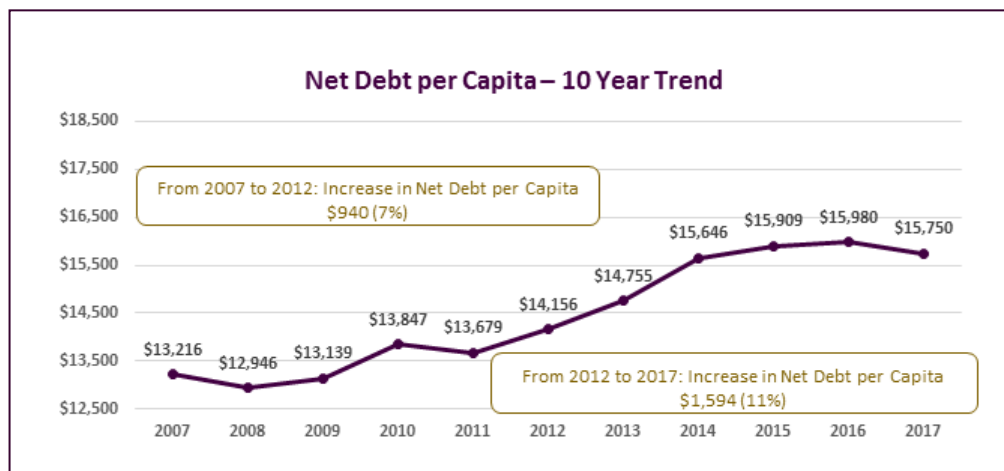


- 2.15 Net debt is used to define the difference between financial assets and liabilities and informs the reader as to whether there are enough financial assets to cover the liabilities for future generations. In other words, it is the amount of future revenue that is needed to pay for past transactions. The Government talks further about net debt in the Financial Statement Discussion and Analysis section of Volume 1 of the Public Accounts.

- 2.16 While the 2017 change in net debt was relatively stable, net debt increased by \$2.6 billion (21%) since 2007. The following chart shows that in the 2007 to 2012 period net debt increased by \$1.0 billion, and in the 2012 to 2017 period net debt increased by an additional \$1.6 billion.



2.17 Net debt per capita shows the amount of net debt attributable to each person living in the province. The Province of Nova Scotia owes \$15,750 for each Nova Scotian for past decisions that resulted in spending exceeding revenues. Despite a marginal reduction in net debt per capita in the current year, since 2007 net debt increased \$2,534 per capita, with 63% of this increase occurring in the 2012 to 2017 period.

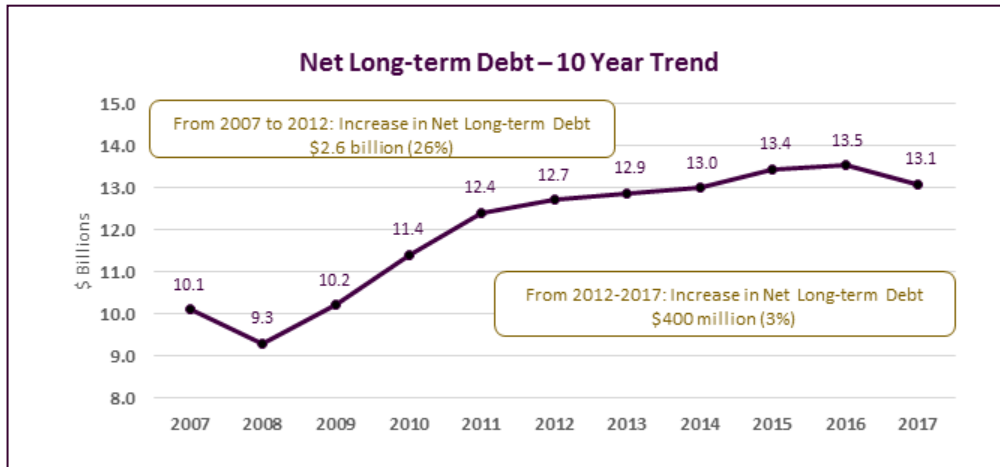


2.18 Unmatured debt is the total debt the Province owes to outsiders and consists primarily of debentures and long-term loans. Net long-term debt is the Province's unmatred debt less the amount that is set aside to fully fund specific debt when it becomes due. Schedule 4 of the 2017 Public Accounts Volume 1 contains more details on unmatred debt.

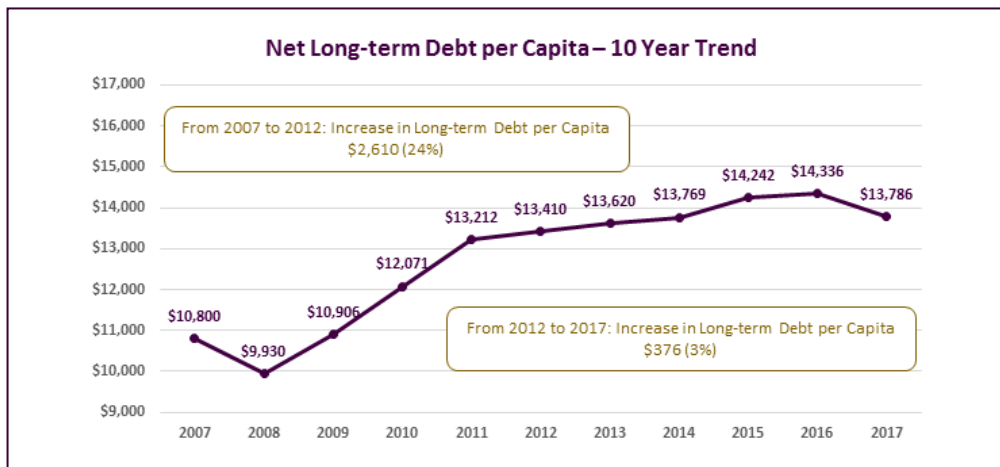
2.19 We have commented in prior years that the increasing trend in net long-term debt is a significant indicator of fiscal sustainability because the costs of servicing this debt takes priority over program expenses and reduces the ability of the Government to expand services or reduce taxes. Net long-term debt decreased by \$400 million over the prior year; however, over the past 10



years, net long-term debt increased by \$3.0 billion (30%) since 2007. 87% of this \$3.0 billion increase in net long-term debt occurred in the 2007 to 2012 period.



2.20 Net long-term debt per capita measures the burden of the Province’s debt owing to third parties attributable to each Nova Scotian. Net long-term debt per capita decreased in 2017 by \$550 to \$13,786 per person. Over the past 10 years, net long-term debt per capita increased by \$2,986 (28%) per Nova Scotian with 87% of this increase occurring in the 2007 to 2012 period.



Flexibility

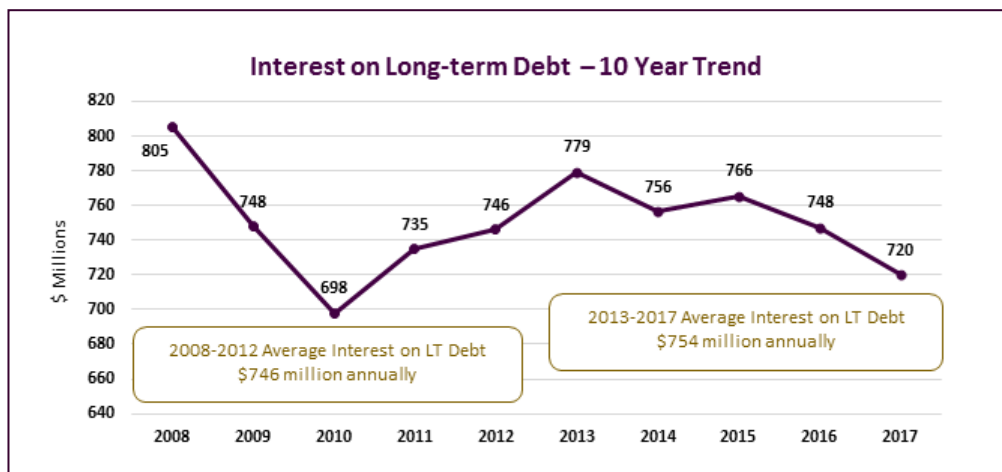
2.21 Flexibility is the degree to which a government can change its debt burden or raise taxes within its economy to meet its existing financial obligations. Flexibility provides insights into how a government manages its finances. Increasing debt obligations and interest costs reduce a government’s future flexibility and ability to respond to changing circumstances.

2.22 Interest on long-term debt assists in assessing flexibility, as it is the cost associated with servicing past borrowing decisions. These costs represent a

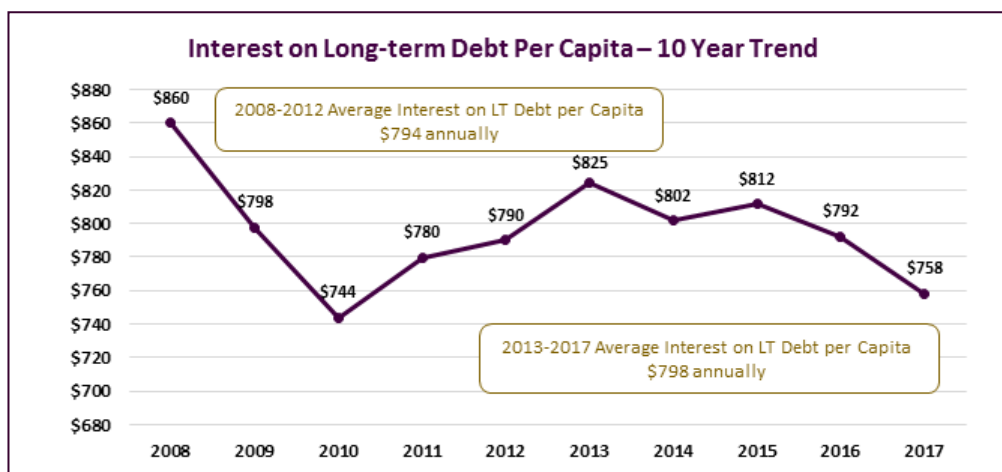


fixed cost once debt is issued. Failure to pay interest impacts the ability to raise future debt and would further increase costs of borrowing. Interest on long-term debt represents funds which cannot be used for general operations, such as providing programs and services to Nova Scotians. The Province has paid over \$7.5 billion in interest on long-term debt in the past 10 years.

2.23 Although the chart below shows fluctuations in the annual interest on long-term debt over the past 10 years, the amount of interest paid in the last five years is about the same as what was paid between 2008 and 2012. However, the annual interest on long-term debt, for the most part, declined over the past five years.



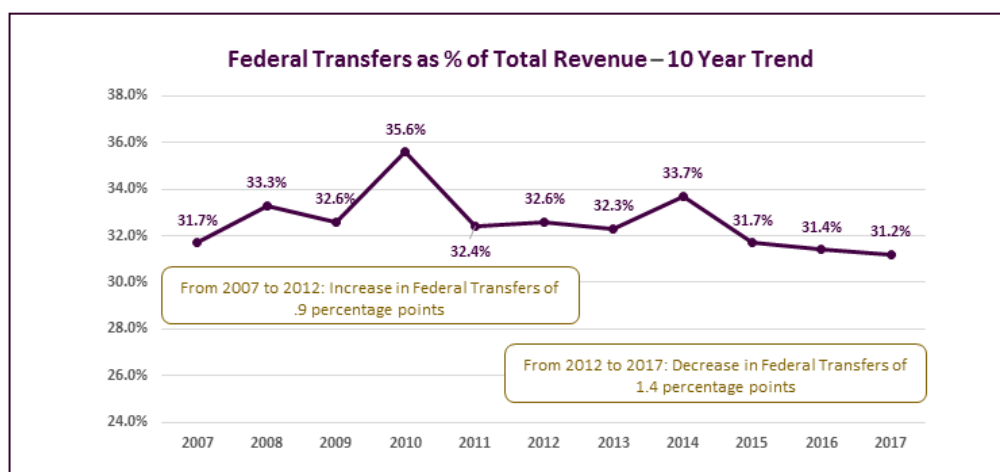
2.24 Interest on long-term debt per capita represents the interest the Province pays for every Nova Scotian each year on unmatured debt. In the current year, the Province paid \$758 in interest costs on long-term debt for every Nova Scotian.





Vulnerability

- 2.25 Vulnerability indicators measure the amount a government is dependent on sources of revenue outside its control and its exposure to risks which might affect a government's ability to meet its commitments. The lower a government's own-source revenue, the more it relies on the fiscal decisions of others.
- 2.26 As indicated below, Nova Scotia continues to rely on the federal government equalization payments and other transfers. Overall reliance on federal government funding has remained relatively consistent over the past 10 years.



Other Observations



Additional appropriations almost doubled what was approved last year

- 2.27 Public sector entities are held to a high standard of accountability as they spend funds raised from taxpayers to provide public services. As a result, the public expects the use of those funds to be transparent.
- 2.28 An Appropriations Act of Nova Scotia is passed each year and details what the Government is authorized to spend during the fiscal year. When an original appropriation is determined to be insufficient, the Finance Act of Nova Scotia requires that an additional appropriation be obtained. The original budget is challenged by all members of the Legislature and additional appropriations are approved by Executive Council.
- 2.29 Executive Council approved additional appropriations totaling \$221 million for 10 departments during the year and a final appropriation of \$13 million for nine departments. This \$234 million in additional appropriations for 2016-17 is almost double the amount that had been approved in 2015-16.
- 2.30 The table below details \$190 million of the \$234 million in additional appropriations and the reasons why some of the departments required



additional funding. Further details are found in the Financial Statement Discussion and Analysis section of the 2017 Public Accounts Volume 1.

Departments Requiring Additional Appropriations		
Department	Additional Funding	Why additional appropriation needed
Transportation and Infrastructure Renewal	\$62 million	<ul style="list-style-type: none"> • \$45 million for Boat Harbour • \$17 million: <ul style="list-style-type: none"> • snow and ice removal • October 2016 rain storm • land purchases
Assistance to Universities	\$61 million	<ul style="list-style-type: none"> • \$25 million for Research NS Trust • \$20 million for Post-Secondary Investment Fund • \$16 million: <ul style="list-style-type: none"> • Ocean Frontier Institute • St. FX Mulroney Institute • Other post-secondary infrastructure • Operating grants
Municipal Affairs	\$46 million	<ul style="list-style-type: none"> • \$46 million: <ul style="list-style-type: none"> • October 2016 Disaster Flood Relief • Clean Water and Wastewater Fund
Labour and Advanced Education	\$21 million	<ul style="list-style-type: none"> • \$10 million investment in the Centre for Employment Innovation • \$11 million for Labour Market Programs and other commitments
Total	\$190 million	

➔ Enhanced government reporting on financial highlights

2.31 In 2017, the Government enhanced its discussion on its performance in the Financial Statement Discussion and Analysis section of the 2017 Public Accounts Volume 1 by:

- including a financial highlight summary table that shows the five-year trend of specific financial statement items categorized by performance measures (i.e., sustainability, flexibility, and vulnerability, as well as other financial indicators), and
- comparing departmental expenses to both estimates and prior year amounts.

This improved financial reporting provides the reader with more useful information concerning the Province's finances.

➔ Sensitivity analysis would enhance government's disclosure of financial information

2.32 To further enhance financial reporting, the Government could incorporate sensitivity analysis into its financial statements and in the Financial Statement Discussion and Analysis section of the Public Accounts. Sensitivity analysis



is an effective way to show how different events or variables can impact the financial health of a government. Some provinces, as well as the federal government, use sensitivity analysis to demonstrate how different rate changes in GDP, interest, discount rates, and inflation will impact their budget and fiscal health. For example, in its Public Accounts, Newfoundland and Labrador presents the impact a one cent change in foreign exchange rates would have on foreign borrowings.

- 2.33 The Province's pension, retirement, and other obligations totaled \$2.8 billion as at March 31, 2017. Assumptions, such as discount, inflation, and salary escalation rates, are used in valuing this liability. Financial reporting would be improved if the Government included an analysis on how changes in these assumptions would impact the obligation (i.e., how a 1% change in the discount rate would impact obligations).
- 2.34 We urge the Government of Nova Scotia to consider including sensitivity analysis in its Financial Statement Discussion and Analysis section of its public accounts.



Appendix I

Nova Scotia's Population

Nova Scotia's population remains relatively unchanged with an increase of 2% from 2007; however, the age demographics have shifted.

Change in Population from 2007 to 2017 (000's)				
Population	2007	2017 Forecast	Change in Population from 2007	% Change in Population from 2007
0 to 17 years	183	163	(20)	(11%)
18 to 64 years	612	599	(13)	(2%)
65+	140	190	50	36%
Total	935	952	17	

Shift in Age Demographic from 2007 to 2017 (%)			
Population	% of 2007 Total	% of 2017 Total	Shift in Age Demographic
0 to 17 years	20%	17%	(3%)
18 to 64 years	65%	63%	(2%)
65+	15%	20%	5%
Total	100%	100%	0%

Chapter 3: Public Sector Pensions: Promoting Public Discussion



Key Messages:

- People and economy count on healthy pension plans in their retirement
- Three large plans are: health care workers plan, public service plan, teachers' plan
- Pension plans directly impact 110,000 members and their families
- Plans received \$2.6 billion in contributions from Province and its employees over five years
- Plans paid \$4 billion in pension benefits over five years
- The three plans have \$17 billion in total assets
- Plans are in very different financial condition
- Unique risks with the three plans; the Teachers' Plan with a \$1.4 billion deficit is a big risk
- Members face uncertainty relating to increases in their pension benefit and contributions

Key Observations:

Nova Scotia Teachers' Pension Plan (teachers' plan)

- Deficit of \$1.4 billion
- The Province and teachers share deficit equally
- Teachers' contributions up 33% since 2014 but plan deficit the same
- Teachers retired after August 1, 2006: last increase in annual pension 2008
- Retiring teachers may not get pension increase for the foreseeable future
- Teachers retired before August 1, 2006: increases
- The Province typically pays \$1 for every \$1 contribution made by teacher
- The Province paid \$93 million in matched contributions to the plan in 2017
- The Province also paid \$52 million in special contributions in the past five years
- Maximum pension: 70% after 35 years of service
- Plan to members: action is needed to address the plan's serious financial condition

Nova Scotia Health Employees' Pension Plan (health care plan) and Public Service Superannuation Plan (public service plan): two separate plans as summarized below

- Surplus of the health care plan: \$1.7 billion
- Surplus of the public service plan: \$239 million
- Province not responsible if plans have deficits
- Province has no claim on any surpluses
- Contributions by members were stable in the last five years
- The Province pays to the health care plan \$1 for every \$1 paid by worker plus 1.4% of pay
- The Province pays to the public service plan \$1 for every \$1 paid by worker
- The Province paid \$97 million in contributions to the health care plan in 2017
- The Province paid \$82 million in contributions to the public service plan in 2017
- Retirees getting increases in both plans as per rules of the plans
- Maximum pension under both plans: 70% after 35 years of service

Members of Legislative Assembly Plans

- \$109 million owing to 186 people
- Both MLA plans are unfunded with no actual assets
- The Province pays \$5 for every \$1 contribution made by MLAs
- Maximum pension: 70% after 20 years of service, members first elected after 2013
- Retirees getting increases in annual pension at the same rate as the public service plan

3 Public Sector Pensions: Promoting Public Discussion

Purpose

- 3.1 The purpose of this information chapter is to inform Nova Scotians on key matters related to pensions in the public sector in Nova Scotia. This chapter is not intended to comment on the merits of Government policy decisions relating to these plans. Furthermore, we are not commenting on any decisions taken by the respective pension plans, financial performance of these plans, or any of the entitlements these pensions provide.
- 3.2 The information in this chapter should be of interest to all Nova Scotians, but may not be all the information Nova Scotians may want to know. Plan members could use this information, as one tool, to assess how the financial position of their pension plan may impact their plans for retirement.
- 3.3 Additional information is available on the websites of the Nova Scotia Health Employees' Pension Plan, Public Service Superannuation Plan, and the Nova Scotia Teachers' Pension Plan.

The importance of pensions in the public sector

- 3.4 Pensions are critical for Nova Scotians and their families, because employees of the public sector, and other organizations, count on their pension being there when they retire. Many Nova Scotians have a direct or indirect interest in pensions. These include:
 - employees in the public sector who are entitled to a pension, and the spouses and dependents of those in the pension plans;
 - taxpayers of the Province who assume some legal liability for unfunded pensions; and
 - all people that rely on the impact that \$900 million in annual pension payments has on the economy.

Health Care, Public Service, and Teachers' Pension Plans

The three largest public sector pensions in Nova Scotia

- 3.5 Receiving an agreed-upon pension when you retire may be a significant factor that an individual considers relating to employment in the public sector, as it is an important component of the overall public sector compensation package.



3.6 Most employees of the Nova Scotia public service are members of a pension plan. The three pension plans providing pension benefits covering most of the Province’s employees are identified below.

- Health care employees working in the public sector typically belong to the Nova Scotia Health Employees’ Pension Plan (health care plan)
- Employees of public sector employers are generally members of the Nova Scotia Public Service Superannuation Plan (public service plan)
- Teachers participate in the Nova Scotia Teachers’ Pension Plan (teachers’ plan)

3.7 The total plan membership is shown in the following table.

Pension Plan Membership Information				
	Health Care	Public Service	Teachers’	Total
Future retirees	30,528	17,028	12,832	60,388
Retirees*	10,674	15,751	13,165	39,590
Inactive **	1,244	2,105	5,847	9,196
Total members	42,446	34,884	31,844	109,174
Active member for every 1 retiree	2.86	1.08	.97	NA

* Retirees include surviving spouses/ex-spouses, children and dependents

**Inactive employees have terminated employment, but have not yet retired or removed their funds from the plan

3.8 With membership at 110,000 people, a significant number of Nova Scotians are therefore impacted by these pension plans, directly or indirectly, and rely on them for retirement income.



Trustees responsible for overall plan operations and investing decisions

3.9 The public service and teachers’ pension plans are governed by the Public Service Superannuation Act and the Teachers’ Pension Act, respectively. The health care plan is administered under the Pension Benefits Act and its “Plan Text”, and is monitored and protected by the Nova Scotia Office of the Superintendent of Pensions.

3.10 The plans’ oversight structures have all evolved over recent years. The Minister of Finance transferred sole governance responsibility of the teachers’ and public service plans to trustee organizations jointly controlled by the Province and employees in 2005 and 2013, respectively. This transfer in responsibility resulted in the new trustee organizations inheriting the assets and liabilities of the plans. During 2012, health care employees became jointly responsible for the health care plan.

3.11 The oversight of these three pensions is the responsibility of trustee organizations that oversee the administration of the pension plans and are



responsible for the overall operations, including investing decisions. Trustee membership is generally represented by an equal number of employee and employer representatives.

➔ Contributions and benefits paid are critical components of plans

3.12 The health care, public service, and teachers’ plans are all defined benefit plans; employees and employers contribute a percentage of the employee’s salary, and employees earn a benefit that provides a pension upon retirement. A member’s pension benefit is based on their annual salary during employment, years of service, and if applicable, some inflation adjustments.

➔ \$2.6 billion paid into pension plans by public servants and the Province over the last five years

3.13 Both employees and the Province contribute a significant amount annually in pension contributions. The Province’s contributions to the public service and teachers’ plans generally match the amounts paid by employees; however, in the case of the health care plan, the terms of the plan require the Province to contribute an additional 1.4% of earnings.

3.14 During 2017, the Province’s contributions to the three plans totaled \$272 million.

- Health care plan \$97 million
- Public service plan \$82 million
- Teachers’ plan \$93 million

3.15 In addition to the mandatory annual contributions to these three pension plans, the Province also agreed to make a special contribution under the Teacher’s Pension Plan Regulations when the plan’s liabilities exceed the plan assets by more than 10%. Over the past five years, the Province has made over \$50 million in special contributions to the teachers’ plan, and this amount is anticipated to increase over the foreseeable future.

2013 to 2017 Pension Contributions (millions)				
Contributions	Health Care*	Public Service*	Teachers’	Total
Province – Employer				
Matched	\$486	\$416	\$387	\$1,289
Unmatched			\$52	\$52
Total	\$486	\$416	\$439	\$1,341
Employee				
Matched	\$416	\$416	\$385	\$1,217
Total Contributions	\$902	\$832	\$824	\$2,558

* Approximate employee contributions based on the terms of the pension plan and the Province’s contributions



➔ Teachers' contributions have increased by 33% over the past three years

3.16 Employee contributions are a percentage of their salary and are paid through regular payroll deductions. The following table shows the current member rates and what the rates were four years ago.

Employee Contribution Rates						
Year	Health Care		Public Service		Teachers'	
	Earnings up to YMPE*	Earnings above YMPE	Earnings up to YMPE*	Earnings above YMPE	Earnings up to YMPE*	Earnings above YMPE
2017	7.82%	10.18%	8.4%	10.9%	11.3%	12.9%
2013	7.82%	10.18%	8.4%	10.9%	8.3%	9.9%

* YMPE – Yearly maximum pensionable earnings is an amount established by the Government of Canada –\$55,300 in 2017

3.17 As noted above, in 2013, the teachers' annual contribution rates were comparable to the rates of the other plans. However, in 2014, to improve the financial position of the plan, the Nova Scotia Teachers' Union and the Province agreed to increase both employee and employer contribution rates by 1% in each of the next three years. As a result, working teachers in 2017 contribute 33% more to their pension plan than in 2013. For example:

- in 2013, a teacher earning \$70,000 contributed \$6,112 in annual pension contributions; and
- in 2017, a teacher earning \$70,000 will contribute \$8,145 in annual pension contributions.

3.18 The scenario above shows that the monthly take-home pay of a teacher earning \$70,000 per year has decreased over the past three years by approximately \$170 per month due to the increases in pension contribution rates.

3.19 Contribution rates for members of the health care and public service plans have not increased over the past five years. The following are the annual pension contributions that active members earning \$70,000 currently would contribute: health care plan – \$5,821; public service plan – \$6,248.

➔ \$4.2 billion in pension benefits paid out by plans over the past five years

3.20 Up to the age of 65, the pension benefit formula is similar in all three pension plans: 2% for each year of service times a salary base, as determined by the plan provisions. At age 65, the pension benefit is reduced subject to Canada Pension Plan integration rules. These three pension plans are paying pensioners approximately \$900 million a year, and in total paid out \$4.2 billion over the past five years. These pension payments contribute significantly to the Nova Scotian economy.



Pension Benefits Paid Out by Each Plan (millions)				
	Health Care	Public Service*	Teachers'	Total
2016	\$208	\$340	\$388	\$936
2015	\$186	\$323	\$384	\$893
2014	\$157	\$294	\$380	\$831
2013	\$148	\$279	\$374	\$801
2012	\$136	\$266	\$364	\$766
Total	\$835	\$1,502	\$1,890	\$4,227

* Information from April 1, 2013 to March 31, 2017



Province is responsible for half of the \$1.4 billion teachers' plan deficit

- 3.21 On June 22, 2005, the Province and the Nova Scotia Teachers Union agreed to joint and equal participation in the governance of the teachers' plan. The trust agreement clearly indicates that the Province is responsible for half of the pension plan, including pension plan deficits and surpluses. This means the Province is responsible for 50% of the \$1.4 billion teachers' pension plan deficit shown in the 2016 Teachers' Pension Plan financial statements.

Financial Information from Teachers' Pension Plan (billions)			
	Pension Obligation	Assets Available for Benefits	Deficit
2016	\$6.3	\$4.9	(\$1.4)
2015	\$6.1	\$4.7	(\$1.4)
2014	\$6.1	\$4.7	(\$1.4)
2013	\$6.1	\$4.6	(\$1.5)
2012	\$5.9	\$4.2	(\$1.7)

- 3.22 The Province's responsibility to the health care and public service plans is limited to its annual contributions.



Positive financial position for health care and public service plans; negative financial position for teachers' plan

- 3.23 The funded status of a pension plan is a primary indicator of the plan's financial health. A fully funded pension plan means its plan assets can cover its pension benefit liabilities.
- 3.24 The following is a five-year funded status comparison of the three plans which assumes the plans will continue to operate in the foreseeable future. As the table shows, the three plans have very different financial positions. Since 2012, the health care plan has consistently been fully funded; the public service plan has been mainly fully funded; and the teachers' plan has remained significantly underfunded.



Five-Year Comparison of the Pension Plans' Funded Status			
	Health Care	Public Service*	Teachers'
2016	131.7%	104.1%	77.7%
2015	132.1%	99.1%	76.7%
2014	126.4%	106.5%	77.3%
2013	118.5%	104.4%	75.0%
2012	108.0%	100.5%	71.6%

* For fiscal periods March 31, 2013 through March 31, 2017

- 3.25 The seriousness of the teachers' plan deficit position is addressed in the Nova Scotia Teachers' Pension Plan 2016 Annual Report. In the message from the Trustee Chair, he indicates

“The Plan’s maturity continues to increase with the number of retirees continuing to grow. There is no immediate risk that the Plan will be unable to meet its ongoing pension obligations; however, actions should be considered by the Plan sponsors to improve the long-term health of the Plan. Without such actions, the Plan’s financial position is likely to further deteriorate going forward.”

➡ Retiring teachers unlikely to get a pension increase for many years to come

- 3.26 The health care, public service, and teachers' plans are unique pension plans with provisions governing employee contributions, retirement eligibility, and the determination of pension benefits for members. The financial position of a pension plan can determine if members will receive a cost of living (indexing) increase on their pension.
- 3.27 Indexing a pension provides pensioners with an increase to their cash flow to help keep up with overall cost increases in goods and services. All three pension plans have indexing available to their members; however, the terms under which indexing applies vary between the three plans.
- 3.28 Teachers retiring after August 2006 last received a cost of living adjustment in 2008. In accordance with the terms of the pension plan, this group of retired teachers may be entitled to a cost-of-living increase if the funded status of the plan is more than 90%.
- 3.29 The following table shows the indexing received by retirees over the past five years.



2013 to 2017 Actual Indexing Rates				
	Health Care	Pension Public Service*	Teachers Pre-2006**	Teachers Post-2006
2017	1.30%	.85%	.6%	0%
2016	1.00%	.85%	.3%	0%
2015	2.00%	1.25%	.7%	0%
2014	1.10%	1.25%	.2%	0%
2013	1.20%	1.25%	0%	0%
Total 2013 to 2017	6.60%	5.45%	1.8%	0%

* Rates set to 2020 by Public Service Superannuation Plan Trustee Inc.

** Pre-2006 – For pensions with an effective date before August 1, 2006, indexing is available

3.30 As detailed in the Province’s 2017 Public Accounts, the cumulative Consumer Price Index (CPI) increases over the past five years totaled 6.3%. Therefore, as shown in the exhibit above, the health care plan is the only plan that has kept up with inflation.

3.31 Indexing rules vary between the plans. The plans measure the change in the CPI index differently, which can result in different inflationary adjustments. The following is a summary of the indexing provisions of each plan.

Indexing Rules				
	Health Care	Public Service	Teachers Pre-2006	Teachers Post-2006
Indexing guaranteed	Yes	No	Yes	No
Amount of indexing	CPI (3% maximum)	If funded status ≥ 100%, discretionary increase based on CPI	CPI less 1% to a maximum of 6%	If funded status ≥ 100%, discretionary increase based on CPI If funded status >90% and <100% • 50% of CPI • discretion of Trustee
Review timeframe	Annually	Every 5 years	Annually	Annually



Employees need to continually examine and understand their pensions when planning for retirement

3.32 The ability of a retiree to keep up with the increase in the cost of living may be contingent on how their annual pension benefit gets indexed. It is critical that employees understand how indexing works with regard to their pensions.

3.33 The 4,320 members of the teachers’ plan who retired after August 1, 2006 have not received an increase in their pension for nine years. For this group of retirees, their annual pension benefits can be indexed if the plan’s funded



status is greater than 90%. The last time the teachers’ plan reported a funded status greater than 90% was December 31, 2007.

3.34 To illustrate this indexing issue, we projected what the annual pension benefit would be in 10 years under each of the three plans for an individual that retires today. We make the following assumptions for illustrative purposes only.

- Health care plan indexed at Province’s projected long-term inflation rate of 2% (CPI guaranteed)
- Public service plan receives indexing at 2017 rates, assuming plan is fully funded
- Teachers’ plan remains below 90% funded for the next 10 years (no indexing)
- \$42,000 is the annual pension benefit

Retiree Pension – 10 Years Out			
	Health Care	Public Service	Teachers’
Retire today – current annual pension	\$42,000	\$42,000	\$42,000
Assumed indexing rate %	2.0%	.85%	No indexing
Projected pension in 10 years	\$51,000	\$46,000	\$42,000

3.35 In this example, after 10 years of no indexing, the retired teacher’s annual pension benefit is \$4,000 to \$9,000 less than a retired member of the health care or public service plan initially earning the same annual pension at retirement. Consequently, working teachers and teachers who retired since August 1, 2006 may want to plan for no increases to their pensions because their plan is not expected to be in a position to offer indexing for the foreseeable future.

3.36 While the public service pension plan is currently financially healthy enough to provide a level of indexing to its retirees, based on the Province’s projected long-term inflation rate of 2%, as noted above, public servants would receive \$5,000 less in pension benefits than a retired member of the health care plan.

Other Pension Plans in the Public Sector

3.37 In this chapter, we outline the three pension plans covering the majority of public sector employees in Nova Scotia. There are a number of other smaller public sector pension plans that are individually important to members; we have not included them in the earlier analysis. These plans, although smaller than the others discussed earlier, still have an impact on the Province’s finances. These plans include, but are not limited to:



- Members' Retiring Allowances Plan
- Members' Supplementary Retiring Allowances Plan
- Sydney Steel Corporation Superannuation Fund

3.38 The following table highlights the pension obligation of each plan as of March 31, 2017.

How Much is Owed to these Pension Plan Members	
MLA – Members' Retiring Allowances Plan	\$40 million
MLA – Members' Supplementary Retiring Allowances Plan	\$69 million
Total MLA pensions	\$109 million

Sydney Steel Corporation Superannuation Fund (Sydney Steel Fund)	\$153 million
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3.39 The Nova Scotia Minister of Finance and Treasury Board is the Trustee of the MLA plans. The two pension plans are governed by legislation called the Members' Retiring Allowances Act. The Act sets out the plan details, including contribution and benefit amounts. However, unlike the health care, public service, and teachers' plans, the MLA plans do not own segregated plan assets that would assist in providing retirement benefits to MLAs. Pension benefits are paid directly from the accounts of the Province.

3.40 Some key aspects of the two MLA plans are outlined below.

How Many People are Covered by the MLA Plans	
Current members of the House	51
Pensioners and Survivors	127
Other	8
Total plan membership	186

3.41 The total pension obligation owing is \$109 million and covers 186 people made up of current and former MLAs and their survivors.

3.42 In accordance with the Act, Members contribute 10% of their pay towards the plan. The Province contributes a matching amount, plus additional contributions to cover plan obligations as calculated annually. The March 31, 2017 audited financial statements show the contributions by each contributing group.



How Much are Members and the Province Contributing to MLA Plans Annually			
	Plan 1: Members' Retiring Allowances	Plan 2: Supplementary Retiring Allowances	Total Contributions
MLA contributions	\$543,000	-	\$543,000
Province's contributions	\$1,223,000	\$1,558,000	\$2,781,000

3.43 For the March 31, 2017 year end, the Province, as the employer, paid \$2.8 million toward MLA pensions, while MLAs paid \$543,000 toward the plans. The Province paid five times what the members paid toward their pensions in order to fully cover the pension obligation of the plans.

3.44 MLAs are entitled to a pension after two years of service and receive pension benefits in accordance with the provisions of the MLA pension plans. At a high level, this means that for members first elected on or after October 8, 2013 the benefits are:

- 3.5% earned per year-of-service time as a MLA, and
- 20 years-of-service time will provide the maximum pension (or 70% of salary).

MLA Pension		
MLA Salary	Serve 10 Years	Serve 20 Years
\$90,000	\$31,500 annual pension (3.5% x 10 years = 35%)	\$63,000 annual pension (3.5% x 20 years = 70%)

3.45 The increases that retired MLAs receive is tied into the indexing that public service plan pensioners receive. This means that from now to 2020, a retired MLA will receive a 0.85% annual increase to their pension.

3.46 Sydney Steel Fund was established in 2001 with the objective to fund the pensions of former employees of the Sydney Steel Corporation. There are no contributing members in this plan. The Minister of Finance and Treasury Board is responsible for the Fund and all benefit payments and administration expenses are funded by the Province.



Appendix I

Highlights of Nova Scotia's Pension Plans

Key Aspects of the Health Care, Public Service, Teachers' and MLAs Pension Plans				
	Health Care*	Public Service	Teachers'*	MLAs**
Plan assets (investments)	\$6.6 billion	\$6.0 billion	\$4.9 billion	-
Surplus (Deficit)	\$1.7 billion	\$239 million	\$(1.4) billion	-
Members contribute percent of salary	≤YMPE 7.82% >YMPE 10.18%	≤YMPE 8.4% >YMPE 10.9%	≤YMPE 11.3% >YMPE 12.9%	10%
Maximum pension (percent of salary)	70%	70%	70%	70%
Maximum years of service	35 years	35 years	35 years	20 years
Indexing in 2017	Yes – currently	Yes – currently	No – post 2006 Yes – pre 2006	Yes – same as Public Service
Province's contribution to plans	Match 1:1 + 1.4% of pay	Match 1:1	Generally Match 1:1	Unmatched 5:1
Active member for every 1 retiree	2.86 health care worker	1.08 public sector employee	.97 teacher	.40 current members

* For year ended December 31, 2016

** For members first elected on or after October 8, 2013