

Chapter 1

Financial Audit Work and Other Topics of Interest

Key Messages

- Province received a clean audit opinion in 2022-23 providing reliable financial information within the legislated deadline
- Transparency and accountability over additional appropriations still needs to improve
- Boat Harbour remediation cost growing while project awaits federal approval

Why We Did This Chapter

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

Details Around Key Messages

Government provided reliable financial information for 2022-23 within the legislated deadline of September 30th

- For the 23rd year in a row, the Province of Nova Scotia received a clean audit opinion on its financial statements
 - The financial statements meet Canadian public sector accounting standards
 - Users can place reliance on the Province's financial statements
 - Accounting standards related to the fair and reliable presentation of financial information have been met, however some underlying control weaknesses exist
 - Significant control weaknesses at one government department and three government organizations increase the risk of unreliable financial reporting and misuse of assets in the future

Key audit matters reported in the 2022-23 Independent Auditor's Report

- Key audit matters are those matters that were of most significance in the audit and include matters that are complex, have a high degree of uncertainty, or are important to the public
- Key audit matters in 2022-23:
 - Major tax revenues of \$7.7 billion including personal income tax, corporate income tax, and harmonized sales tax account for 49% of the Province's revenues
 - Pension, retirement and other obligations totaled \$3.0 billion and include various employee future benefit plans where responsibility rests with the Province
 - Liabilities for the clean up of contaminated sites including Boat Harbour and abandoned mine sites have grown significantly over the past five years and are now \$539.4 million
 - Boat Harbour remediation cost growing while the project awaits federal approval
 - Liabilities for asset retirement obligations of \$608.2 million recognized this year due to new accounting standard effective April 1, 2022

Additional Appropriations:

- Nova Scotia's *Finance Act* does not require House of Assembly approval for budget overspending unlike other jurisdictions in Canada
- Additional appropriations process in Nova Scotia lacks accountability and transparency through the Legislature
- Additional appropriations significantly increased in recent years with \$6 billion in additional appropriations approved in the last 10 years and \$1.66 billion in 2022-23
- The Nova Scotia Legislature has fewer sitting days than national average
- Third Auditor General to raise the issue of additional appropriations
- Prior year recommendation from the Auditor General on improved accountability and transparency over additional appropriations not yet addressed by Government

Health Spending:

- The Province spent \$6.7 billion in health spending and capital asset acquisitions in 2022-23
- Annual healthcare operating expenses are up \$1.69 billion over the last five years
- The Province spent \$257 million on its retention and incentive program aimed at retaining and attracting nurses and other healthcare workers
- The Province wrote off \$22.5 million worth of PPE and rapid test kit inventory in 2022-23

Nova Scotia Teachers' Pension Plan:

- Nova Scotia Teachers' Pension Plan is 75.1% funded as of December 31, 2022
- The 2022 report and recommendations addressing challenges of the Pension Plan from the independent Nova Scotia Teachers' Pension Plan Panel not yet publicly released

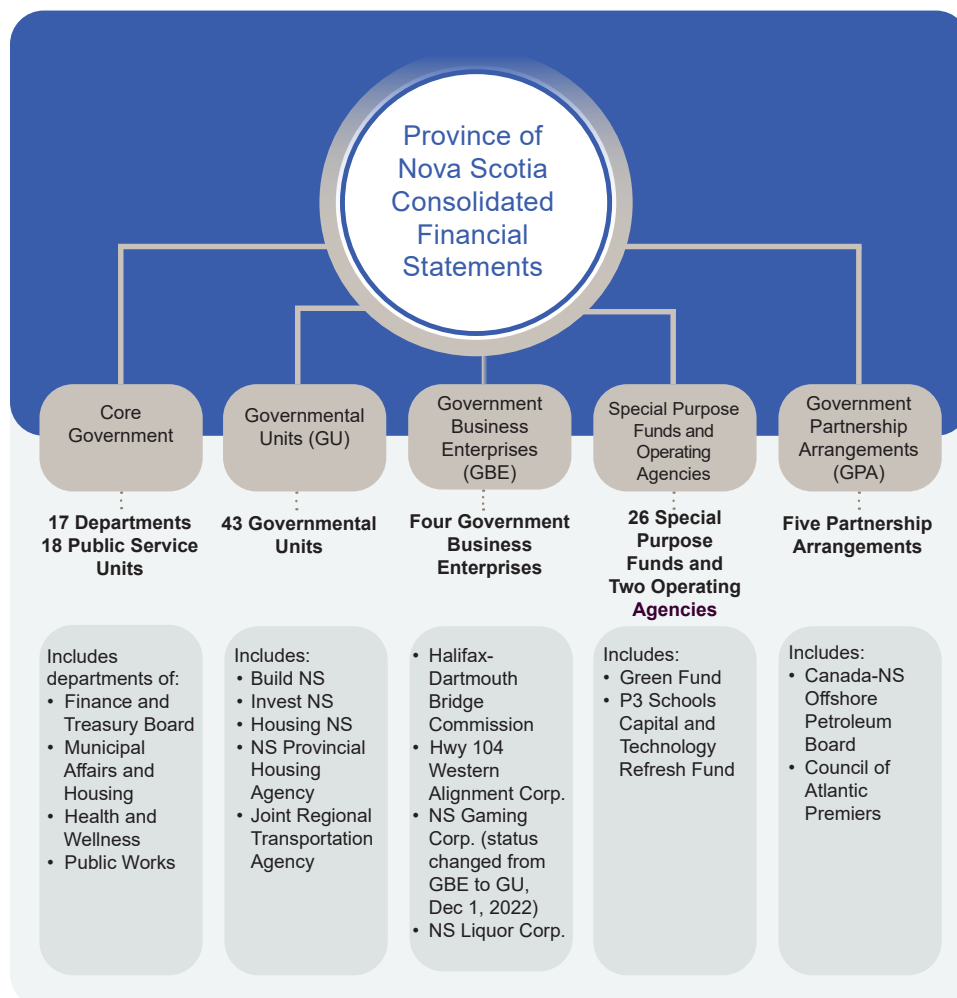
Questions Nova Scotians May Want to Ask

1. Who holds Government accountable for the additional appropriations of \$1.66 billion?
2. Will the Government of Nova Scotia amend the *Finance Act* to provide more transparency and accountability through the Legislature over additional appropriations now and in the future?
3. When will the Province know (with certainty) the cost to clean up Boat Harbour and when will work begin?
4. When will the Department of Service Nova Scotia and Internal Services fix the significant weaknesses within purchasing and payment processing that have been outstanding since 2016-17?
5. Why were actual amounts for retention bonuses and incentives for health sector employees \$97 million below what was originally announced? Was the program effective?
6. Will the Teachers' Pension Plan ever be fully funded?

1 Financial Audit Work and Other Topics of Interest

Reporting on Financial Audit Engagements

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



Note: The Province has gone through some restructuring during the year, the numbers shown in the above diagram are based on the organization existing during the fiscal year and Schedule 10 as presented in the 2022-23 Public Accounts.

- 1.4 In addition to conducting the audit of the Province's Consolidated Financial Statements, we also perform financial statement audits of the Nova Scotia Health Authority (Nova Scotia Health) and the Izaak Walton Killam Health Centre (IWK Health Centre).
- 1.5 For each of these engagements, we provide information about the results of our work through communications to those charged with governance and management. An Independent Auditor's Report is attached to the financial statements that includes our audit opinion on the presentation of the financial statements. We issued unmodified, or "clean" audit opinions on the financial statements of each organization for the year ended March 31, 2023.
- 1.6 We also issue a report to those charged with governance that provides information on the results of our audit and can include significant control weaknesses that management should address to protect the financial reporting and controls of the organization. These areas for improvements are also then detailed in a letter to management with recommendations that when implemented often lead to an improved financial control environment. We had no significant control weaknesses to report to those charged with governance at the Nova Scotia Health Authority or the IWK Health Centre.
- 1.7 To meet our mandate, we rely on private accounting firms to conduct the financial statement audits of most government organizations. As part of the Office's audit of the Consolidated Financial Statements of the Province, we review the results of the financial audit work, including the results provided by private accounting firms for the audits they complete. Appendix I shows how the financial audit results are ultimately reported to the House of Assembly.

Government provided Nova Scotians with financial information they can rely on

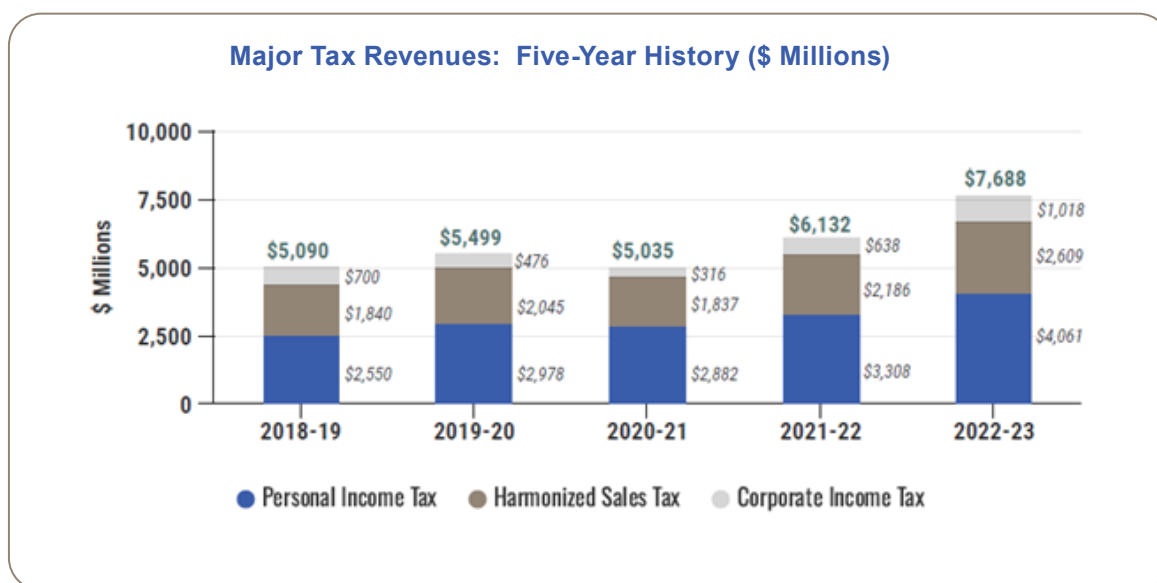
- 1.8 The Province of Nova Scotia received an unmodified opinion on its Consolidated Financial Statements from the Auditor General of Nova Scotia in each of the past 23 years. An unmodified opinion, or what is commonly referred to as a "clean" audit opinion, means that an auditor has no significant concerns regarding the reliability of the information reported in the financial statements. This is an accomplishment that governments over the past 23 years should take pride in. We believe it is reasonable for all Nova Scotians, including elected officials, to expect a clean audit opinion on the Province's Consolidated Financial Statements.
- 1.9 In addition, we would like to highlight that the Province released its annual Public Accounts within the legislative deadline of September 30th. These statements showed a surplus of \$115.7 million. More information on the Province's finances and this year's surplus is provided in Chapter 2.
- 1.10 The Province's Consolidated Financial Statements were prepared in accordance with Canadian public sector accounting standards and we conducted our audit in accordance with Canadian auditing standards. Under these standards, an organization can receive a clean opinion while at the same time have weaknesses in its financial controls. This is because the objective of a financial statement audit is to provide an opinion on whether the financial statements are fairly presented and are free from material misstatement(s). The clean audit opinion provided indicates we are satisfied that users can place reliance on the numbers and information contained within the financial statements.
- 1.11 We would like to take this opportunity to express our appreciation to the Government for the cooperation, time, and effort provided to us by management and staff during the audit.

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

- 1.12 As auditors of the Province’s Consolidated Financial Statements, we communicate key audit matters to provide greater transparency about our audit and additional insight into how important items were addressed during the audit. Key audit matters are those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements. Matters that are complex, have a high degree of uncertainty, or are important to the public are highlighted as key audit matters.
- 1.13 Below are the key audit matters addressed in the 2022-23 Independent Auditor’s Report of the Province’s Consolidated Financial Statements. The key audit matters were addressed in the context of the Auditor General’s clean audit opinion on the Province’s Consolidated Financial Statements; the Auditor General does not provide a separate opinion on these matters.

Major Tax Revenues – \$7.7 billion in 2022-23

- 1.14 Major tax revenues, which include personal income tax (PIT), corporate income tax (CIT), and harmonized sales tax (HST) were reported as a key audit matter due to their significance and the degree of uncertainty, as they involve estimating tax revenues based on assumptions that reflect historical trends, economic conditions and expected outcomes. The chart below shows major tax revenues for the last five years.



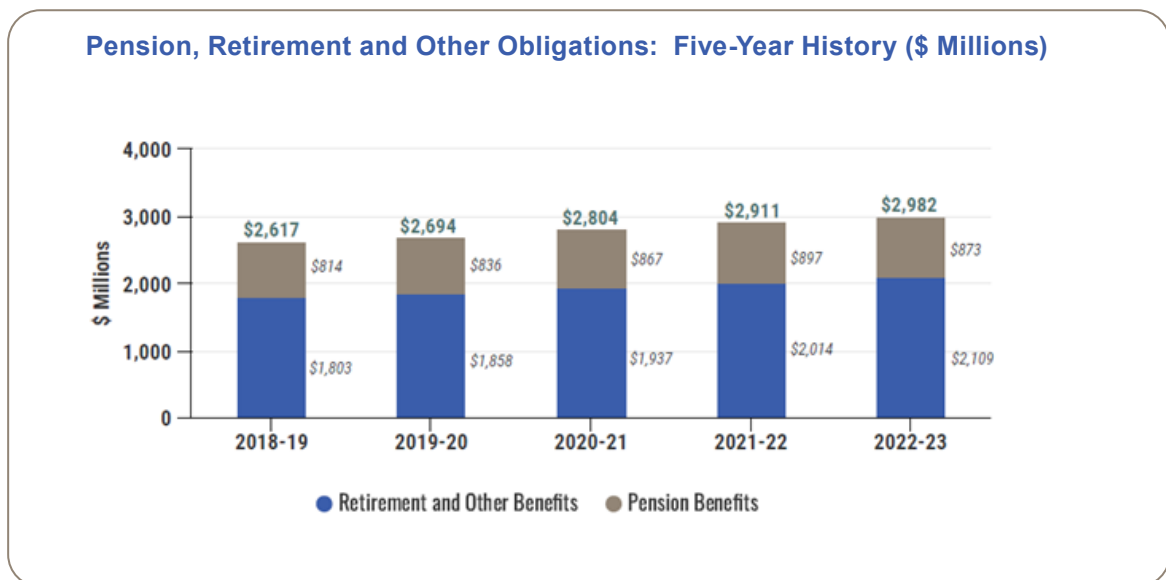
Source: 2022-23 Public Accounts (Independent Auditor’s Report)

- 1.15 Since there is a delay in timing regarding when the Province receives actual tax filing data (i.e. once personal tax returns are filed), major tax revenues are calculated based on management’s best estimates. These estimates use complex forecasting models that rely considerably on historical data and trends, including data from the Federal Government, as well as the Province’s economic forecast. In 2022-23, major tax revenues totaled \$7.7 billion and accounted for 49 per cent of the Province’s total revenues.
- 1.16 We addressed this matter in our audit by testing the underlying data the Province inputs into its tax revenue forecasting models and reviewing evidence to support key assumptions. Based on our audit work we were able to conclude they were fairly presented in the Province’s Consolidated

Financial Statements and were disclosed in accordance with Canadian public sector accounting standards. More information on the Province's finances and changes in major tax revenues from budget is provided in Chapter 2.

Pension, Retirement and Other Obligations – \$3 billion in 2022-23

- 1.17 Pension, retirement and other obligations were reported as a key audit matter because the Province's \$3.0 billion liability at March 31, 2023 is significant and is susceptible to uncertainty due to actuarial assumptions that are subject to change in the future. Pension, retirement and other obligations include various employee future benefits where the Province is responsible for the provision of benefits.

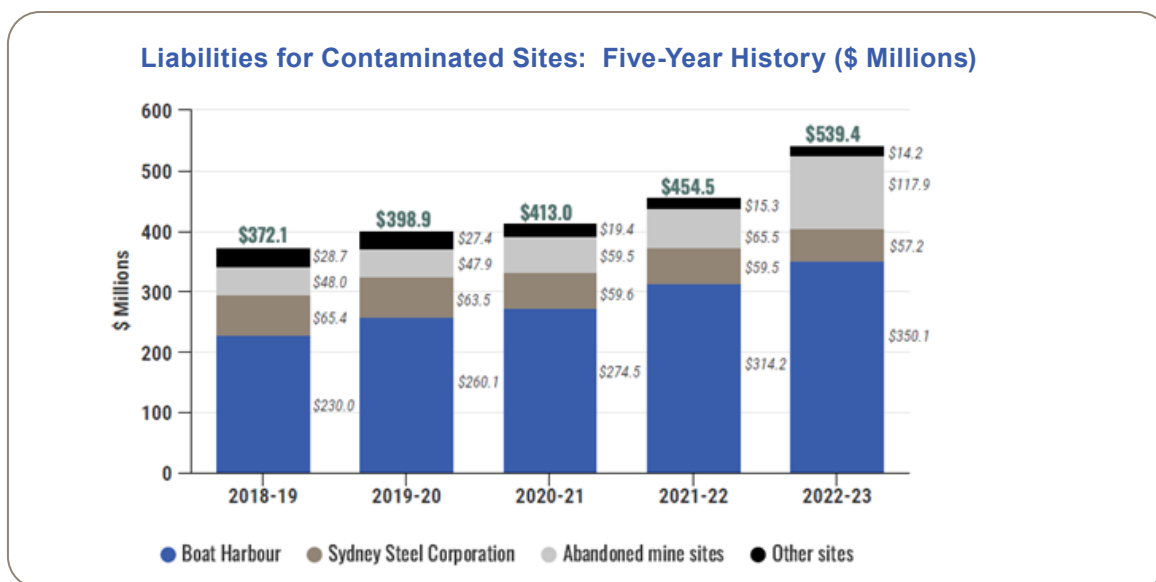


Source: 2022-23 Public Accounts (Independent Auditor's Report)

- 1.18 Actuarial assumptions are used in the estimating of these significant liabilities. Actuarial assumptions include estimates for the future rate of inflation, future salary increases, retirement ages, life expectancy, and other variables. Calculating liabilities for pension, retirement and other obligations requires the use of actuarial experts.
- 1.19 We addressed this key audit matter by testing the underlying data used in the calculation of these liabilities and by reviewing the evidence to support the key actuarial assumptions. We also relied on the work of the Province's consulting actuary. We were able to conclude that pension, retirement and other obligations were fairly and appropriately disclosed in accordance with Canadian public sector accounting standards.

Liabilities for Contaminated Sites – \$539.4 million in 2022-23

- 1.20 Liabilities for contaminated sites are a key audit matter as these liabilities are significant estimates of future costs required to complete the necessary cleanup of contaminated sites falling under the Province's responsibility. At March 31, 2023, liabilities for contaminated sites were estimated at \$539.4 million. The chart below shows the five-year history of the liabilities for contaminated sites. This liability has grown significantly over the past five years driven mainly by increases associated with liabilities for cleaning up Boat Harbour and certain abandoned mine sites.



Source: 2022-23 Public Accounts (Independent Auditor's Report)

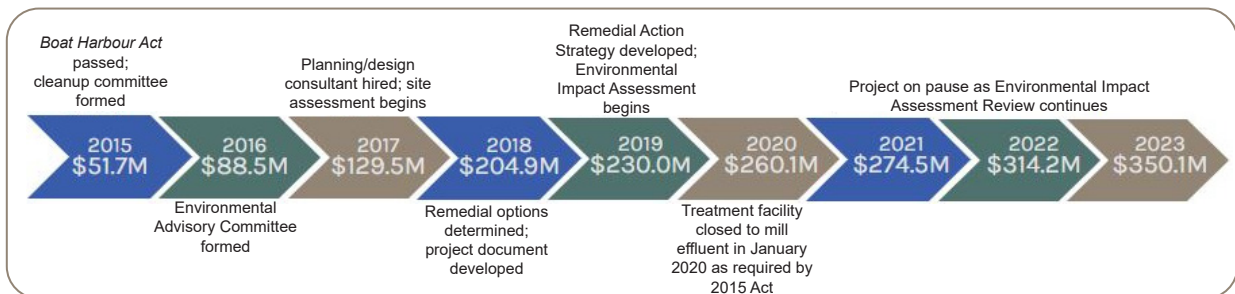
- 1.21 A liability of \$48 million for abandoned mines was first recorded in 2018-19 when site investigations were completed at two former gold mine sites – Goldenville and Montague. As a result of further environmental investigation and assessment, as well as recognition of additional sites, the liability grew to \$117.9 million by March 31, 2023 and is likely to grow further as additional site investigations are completed, and more information becomes available.
- 1.22 Contributing to the \$52 million increase over the prior year in the abandoned mine sites liability, \$26 million was recorded for five abandoned mine sites where detailed site investigations were performed and results became available. The Province also had enough information on the remaining 53 sites to record an additional liability of \$27 million for those sites based on the risk profile, site characteristics and experience at other similar sites.
- 1.23 We addressed this matter by obtaining a detailed understanding of the method for identifying and evaluating contaminated sites and assessing the reasonability of the cleanup costs for a sample of sites. This included ensuring that:
 - an environmental standard exists
 - contamination had been identified and likely exceeds the environmental standard
 - the government is either directly responsible for and/or accepts responsibility for the contamination liability
 - it is reasonable to expect that future economic benefits will be given up
 - a reasonable estimation of these costs can be determined

➔ Boat Harbour remediation cost growing while project awaits federal approval

1.24 Boat Harbour is a former tidal estuary which was dammed off and used to receive and treat effluent discharged by the Northern Pulp mill. Responsibility for the cleanup of the contamination resulting from the use of the site as a treatment facility rests with the Province as established by various historical agreements between the Province and Northern Pulp. The liability for Boat Harbour represents the estimated cost to clean up the contaminated site to a level which would conform with environmental standards. As indicated in the five-year trend for liabilities for contaminated sites, the Boat Harbour liability has significantly increased over the past few years while the project has been essentially on hold. There are two main parts of the \$138.9 million increase to the liability while the project has been on hold since 2019:

- \$82.6 million adjustment for inflation; and
- \$56.3 million related to additional remediation work, identified as more information becomes available.

The following historical timeline illustrates the Boat Harbour liability growth over time along with key project milestones.



1.25 The Province started project development in 2015 and reached out to the Federal Government with an application for project funding in November 2018. The Federal Government approved funding of \$100 million in May 2019 under the Canada-Nova Scotia Integrated Bilateral Agreement for the Investing in Canada Infrastructure Program (the agreement). Under the agreement, the Federal Government has stipulated that no site preparation, vegetation removal or constructions can occur and the Federal Government will not pay eligible capital costs until:

- Federal environmental impact assessment requirements as outlined in the agreement are met and continue to be met; and
- Aboriginal consultation and accommodation requirements are met and continue to be met in accordance with the agreement.

1.26 The Federal Government's Impact Assessment Agency of Canada (IAAC) started the assessment of the Boat Harbour Remediation Project (BHRP) in early 2019. The Province has indicated that it submitted its project plan to the IAAC and subsequently provided compliant responses to follow-up questions and satisfied the technical requirements. However, the project remains on hold subject to the resolution of one outstanding issue associated with the long-term management and storage of contaminated waste. Management indicated that, aside from this single issue, the Province has responded to more than 100 information requirements with technical clarifications. There are currently no other outstanding IAAC questions or requirements remaining.

- 1.27 The Province is unable to move forward with the project, procure construction contractors, or start the remediation work without IAAC approval of the proposed project plan. While the project is pending approval, inflationary costs will continue to increase.
- 1.28 We have seen this liability grow significantly over the past few years with \$82.6 million in increases due to inflation alone since 2019. We encourage the Provincial Government to work with its counterparts at the Federal Government to move this project forward allowing the Province to clean up Boat Harbour.

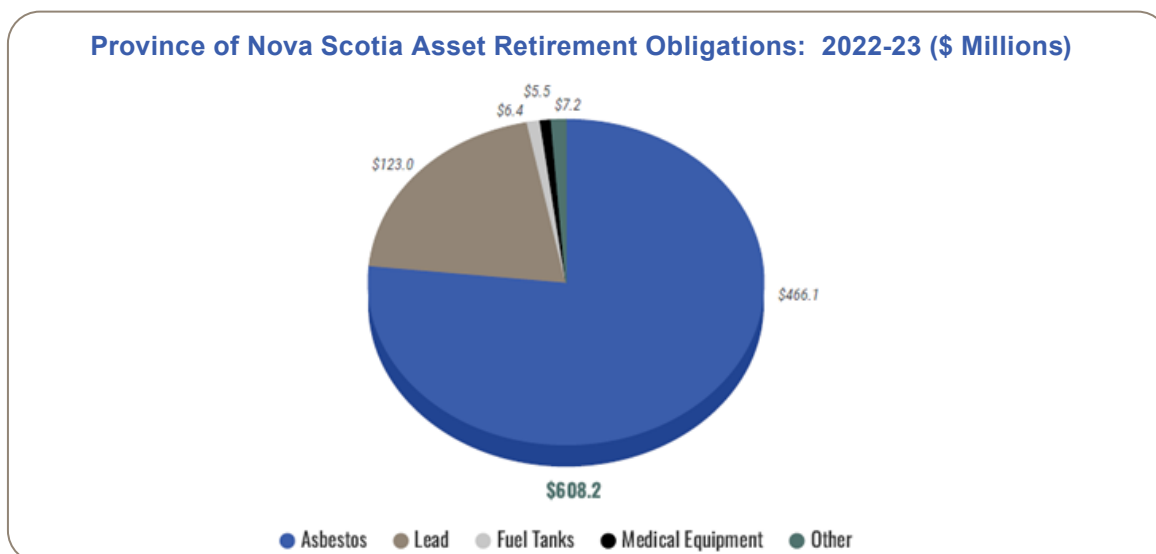
➡ New in 2022-23 – Asset Retirement Obligations liability of \$608 million recorded to primarily recognize Asbestos and Lead in Provincial assets

- 1.29 This year, the Province adopted a new accounting standard for Asset Retirement Obligations. The new standard prescribes how the Province should account for the costs associated with the future retirement of tangible capital assets. Asset retirement obligations were reported as a key audit matter since the adoption of this new accounting standard and the estimation of the liabilities are complex and financially significant. To adopt this standard, the Province had to identify the legal requirements to retire tangible capital assets, then use judgments and assumptions to estimate the future costs required to either complete the necessary remediation work or dispose of the assets containing regulated materials.
- 1.30 At March 31, 2023, liabilities for asset retirement obligations were estimated at \$608.2 million. The charts below show the liability by different regulated materials.

| Category/Type of Materials | Number of Related Assets | \$ Millions |
|----------------------------|--------------------------|----------------|
| Asbestos | 3,683 | \$466.1 |
| Lead | 3,623 | \$123.0 |
| Fuel Tanks | 2,147 | \$6.4 |
| Medical Equipment | 91 | \$5.5 |
| Other | 3,119 | \$7.2 |
| Total | * | \$608.2 |

Source: Breakdown of ARO assets obtained from various consolidated entities

*Note: No total number of assets reported as many assets contain more than one regulated material and are reported in all categories that are applicable.



Source: 2022-23 Public Accounts (Independent Auditor's Report)

- 1.31 We addressed this matter by reviewing the Province’s ARO policy including key decision points around implementation, testing the ARO inventory, and obtaining and reviewing reports from management’s external consultant who assisted in valuing the ARO liability based on inputs and assumptions. We tested assumptions and inputs engaging directly with management’s external consultant and assessed the reasonability of management’s estimated costs. We tested the underlying data and looked to external sources as evidence where possible.
- 1.32 We concluded that liabilities for Asset Retirement Obligations were fairly stated, in all material respects, and were disclosed appropriately in accordance with Canadian public sector accounting standards.

Significant Control Weaknesses

- 1.33 The presence of significant control weaknesses does not mean that an organization’s financial statements are materially misstated. A significant weakness in internal controls is a weakness or combination of weaknesses deemed by the auditor to be important enough to be reported to an organization’s audit committee or those charged with governance. Even though we reported significant control weaknesses, we were able to address the associated risks through our audit work and provide a clean audit opinion on the Province’s 2022-23 Consolidated Financial Statements.
- 1.34 The longer a significant weakness in internal control remains unaddressed, the higher the risk that financial statements could be misstated due to fraud, error, and/or the misuse of assets, both now and in the future. Internal control weaknesses that remain unaddressed over multiple years can diminish an organization’s internal control culture; therefore, significant weaknesses in internal controls should be addressed in a timely manner.

Significant control weaknesses reported previously at one department remain unfixed

- 1.35 The table below summarizes the number of significant control weaknesses by government department. Six significant control weaknesses identified and reported in prior years remain unresolved. Appendix II provides details of each weakness, including its potential impact and management’s response.

| Government Departments with Significant Control Weaknesses in 2022-23 | | | |
|---|-------------------------------------|---|-------------------------------------|
| Government Department and Nature of Significant Control Weaknesses | Number of Identified in Prior Years | Less: Number Resolved or No Longer Significant in 2022-23 | Total Outstanding at March 31, 2023 |
| Service Nova Scotia and Internal Services <ul style="list-style-type: none"> • Insufficient purchase and payment processing controls, including purchasing goods and services without pre-approval and not monitoring established procedures | 6 | - | 6 |
| Natural Resources and Renewables (formerly Lands and Forestry) <ul style="list-style-type: none"> • Insufficient site investigations and environmental testing of potentially contaminated abandoned mine sites | 1 | (1) | - |
| Total | 7 | (1) | 6 |

- 1.36 As noted in the table above, the Department of Service Nova Scotia and Internal Services (SNS-IS) did not completely address its significant control weaknesses reported in prior years. SNS-IS had a total of six significant control weaknesses related to purchases and procurement carried forward from prior years, some dating back to fiscal 2016-17. No new significant control weaknesses were identified in the current year, and none were resolved, leaving six significant control weaknesses outstanding on March 31, 2023. SNS-IS is making progress this year by establishing programs and committees to address the observations. Policies have been drafted and are expected to be approved and launched in fiscal 2024.
- 1.37 The Department of Natural Resources and Renewables' significant weakness identified in 2018-19 has been downgraded based on progress by management. The Department has developed a risk-based inventory of potentially contaminated sites considering human health risks, ecological impacts, and potential hazards (chemical and physical). As of March 31, 2023 year end, assessments have been completed at seven sites, and detailed site assessments were underway for five additional mine sites. A liability totalling \$27 million was recorded for the remaining 53 abandoned mine sites based on the Province's risk assessment using past experience and assessments performed on other similar sites.

Significant control weaknesses reported at three government organizations

- 1.38 Three government organizations included in the Province's 2022-23 Consolidated Financial Statements had significant control weaknesses. All three have not resolved weaknesses reported in prior years – Housing Nova Scotia, Nova Scotia Education Common Services Bureau, and Perennia Food & Agriculture Corporation. Nova Scotia Education Common Services Bureau had an additional significant control weakness identified as part of March 31, 2023 year-end audit work.
- 1.39 We note that improvements have been made at some organizations. Two organizations (Sherbrooke Restoration Commission and Nova Scotia Crop and Livestock Insurance Commission) have made enough progress for weaknesses previously identified to no longer be deemed significant. While Housing Nova Scotia reported four significant control weaknesses in the prior year, one reported weakness was addressed during the year, thus, only three significant control weaknesses were reported at March 31, 2023.
- 1.40 Although some of the organizations noted below are not financially significant to the Province's Consolidated Financial Statements, these control weaknesses are still significant to their own individual operations, mission, and mandate.

| Government Organizations with Significant Control Weaknesses in 2022-23 | | | | |
|---|----------------------------------|---|------------------------------------|-------------------------------------|
| Government Organization | Number Identified in Prior Years | Less: Number Resolved or No Longer Significant in 2022-23 | Plus: Number Identified in 2022-23 | Total Outstanding at March 31, 2023 |
| Housing Nova Scotia | 4 | (1) | - | 3 |
| Sherbrooke Restoration Commission | 1 | (1) | - | - |
| Perennia Food & Agriculture Corporation | 1 | - | - | 1 |
| Nova Scotia Education Common Services Bureau | 3 ¹ | - | 1 | 4 |
| Nova Scotia Crop and Livestock Insurance Commission | 1 | (1) | - | - |
| Totals | 10 | (3) | 1 | 8 |

¹Five significant control weaknesses were reported in 2021-22, and in 2022-23 three of the control weaknesses from the prior year were combined into one.

1.41 Appendix III provides details of each weakness, including its potential impact and management’s response.

Other Topics of Interest

Additional Appropriations

Nova Scotia’s additional appropriation process lacks accountability

- 1.42 In 2023, the Nova Scotia Legislature celebrated its 175th anniversary of responsible government. Responsible government is when the Government, or Executive Council, is held accountable to the people for its decisions through the legislative branch, which is the elected House of Assembly (the MLAs who represent their constituents). The Legislature’s purpose is to make laws, control provincial public spending, and to monitor and question the executive branch’s policies and actions.
- 1.43 Nova Scotia’s *Finance Act* requires the Province to prepare an annual budget which includes estimates of the expenses for each department and public service unit for the next fiscal period. The budget is tabled, debated, and then voted on in the House of Assembly. Once the budget is passed, these approved amounts represent the annual budget appropriations for departments. The annual appropriation spending limit functions as the House of Assembly’s control on government spending.
- 1.44 During the year, if a department determines it cannot stay within its annual appropriation, the provincial *Finance Act* states that approval for additional appropriations must be obtained. Under the Act, additional funding is approved by the Governor in Council.
- 1.45 The Governor in Council is the Lieutenant Governor of Nova Scotia acting by and with the advice of Executive Council. Executive Council is the decision-making authority for the Government and its decisions are shown in Orders in Council (OICs). Executive Council members are chosen by the Premier who serves as its President, meaning requests for additional appropriations are submitted to the decision-making members of Government only and unlike the budget, are not voted on by the House of Assembly.

Additional appropriations process in Nova Scotia lacks accountability and transparency through the legislature

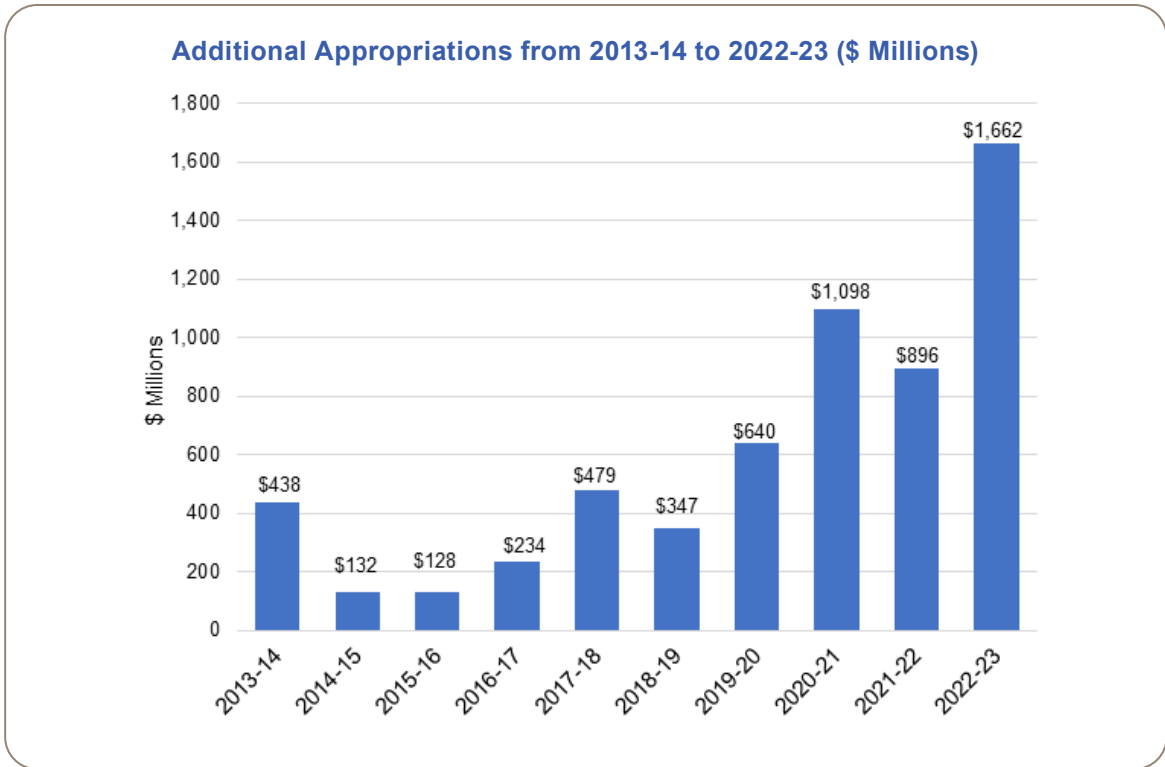
- 1.46 Nova Scotia is correctly following the requirements as set out in the *Finance Act* for additional appropriations, however, the Act does not have a requirement for the legislature to review, vote on, or approve additional appropriations. As reported by this office in 2022, in almost all other jurisdictions in Canada (this includes the provinces and Federal Government), there is a requirement for additional appropriations to return to the legislature for debate and approval through a supplementary estimate or other process. This means that in Nova Scotia, the legislature has limited ability to hold the government accountable for overspending.
- 1.47 The budget process allows Nova Scotians to have input on government spending through their elected officials before spending occurs. During the budgetary process there are several rounds of questioning and debate that ultimately leads to the House of Assembly voting on whether to pass the year's annual appropriations. Since additional appropriations are not subject to this process, there is less accountability and a lack of transparency on these additional expenditures which, over the past 10 years, represent increasingly significant amounts of public funds. A sitting government in Nova Scotia can, and has, approved large amounts of spending without being questioned by opposing elected representatives or in a forum which allows Nova Scotians to better understand the intent of the spending.

Three Nova Scotia Auditors General have raised the issue of Additional Appropriations

- 1.48 The lack of accountability and transparency through the House of Assembly over the additional appropriations process is not new. This issue has been raised by Auditors General of Nova Scotia in prior years. In his February 2008 Report of the Auditor General, then-Auditor General Jacques Lapointe raised the issue of additional appropriations noting that the debate and challenge that are integral to the budget process were absent from the process for additional appropriations. In his October 2017 Financial Report, then-Auditor General Michael Pickup, noted that the use of additional appropriations had doubled that year.

\$1.66 billion in additional appropriations in 2022-23 is the largest amount approved since the *Finance Act* was introduced in 2010

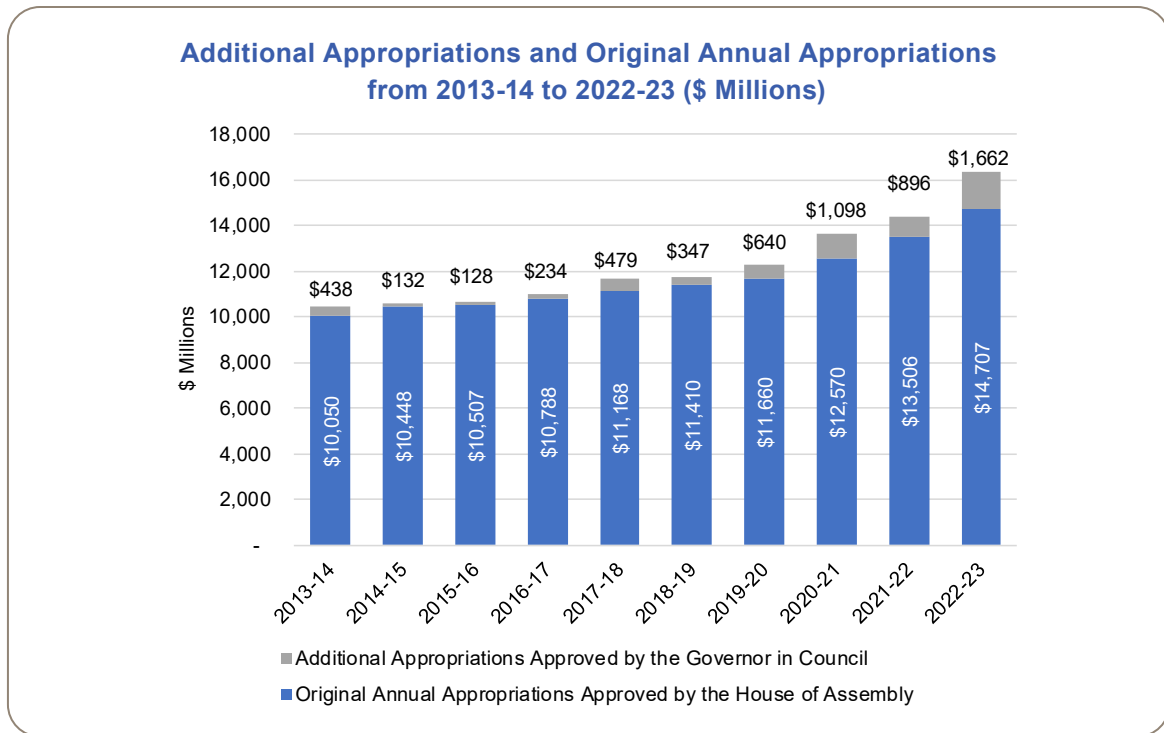
- 1.49 In fiscal 2022-23, there was \$1.66 billion in additional appropriations approved by Governor in Council, which represents significant spending. Recent years have seen an increase in the use and amounts of additional appropriations. In 2022-23, additional appropriations were 10.6 per cent of the Province's total expenditures compared to 4.2 per cent in 2013-14. The 2022-23 figure is the largest in the past 10 years.
- 1.50 Government has indicated that higher than anticipated Provincial revenues impacted spending and lead to increases in the use of additional appropriations in 2021-2022. As the year progressed and more certainty was gained, Government was able to reconsider how its priorities could be advanced and expenditures increased. A similar trend can be seen in 2022-23.
- 1.51 We recognize it is not unusual for Governments to increase spending to address unanticipated needs from time to time. However, as Auditor General, the issue of concern is that there is no official opportunity for debate on the spending of such large amounts of public funds.



Source: 2013-14 to 2022-23 Public Accounts

\$6.1 billion in additional appropriations approved in the last 10 years

1.52 Between 2013-14 and 2022-23, additional appropriations increased by \$1.2 billion or 279 per cent to \$1.66 billion from \$438 million. In that 10-year period, a total of \$6.1 billion in additional appropriations were approved.

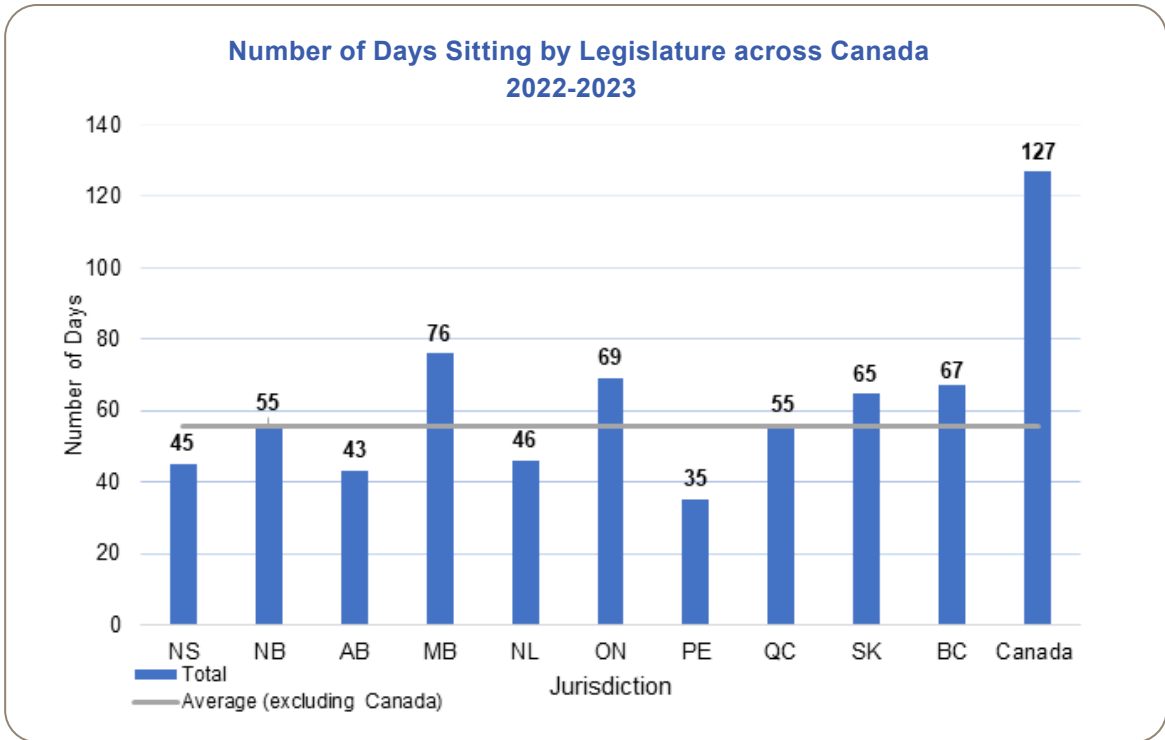


Source: 2013-14 to 2022-23 Public Accounts

Note: The Original Estimates include departmental expenses, debt servicing costs, refundable tax credits, pension valuation adjustments, capital purchase requirements, and sinking fund instalments and serial retirements.

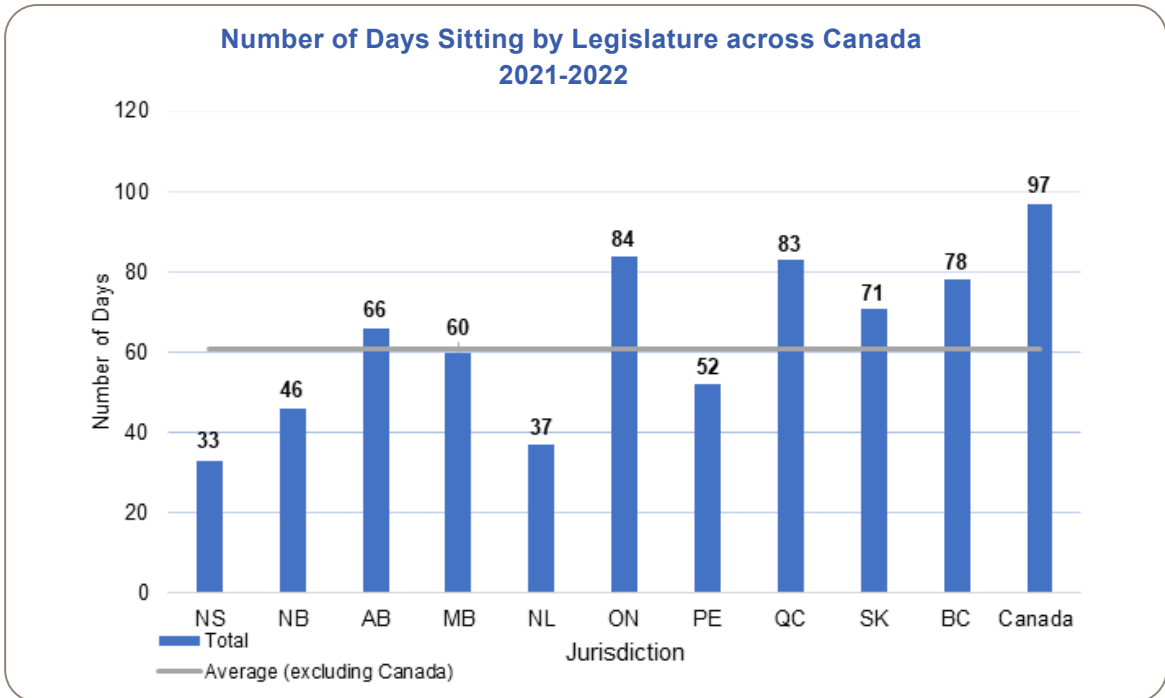
➡ Nova Scotia Legislature sits fewer days than the national average, limiting opportunity to question additional appropriations

- 1.53 The House of Assembly is made up of the Members of the Legislative Assembly who are elected by their constituents and represent their electoral districts. The House of Assembly consists of elected members of the governing party, the official opposition, other recognized parties, and independents. The Nova Scotia Legislature is comprised of the House of Assembly and the Lieutenant Governor. The purpose of the legislature is to create laws, control provincial public spending, and discuss and debate Executive Council's policies.
- 1.54 As required by the *House of Assembly Act*, Nova Scotia's legislature must sit at least twice a year; once in the spring and once in the fall. These sittings allow the legislature to debate and carry out its mandate. In 2022-23, the Nova Scotia Legislature sat a total of 45 days, which is 11 days or 19 per cent less than the national provincial average that year of 56 days. Sitting days represent opportunities for debate and discussion on required additional appropriations and the fewer there are, the lower the opportunity to conduct this oversight.



Source: Office of the Auditor General analysis from jurisdictional websites

- 1.55 In 2021-22, the Nova Scotia Legislature sat a total of 33 days, which is 28 days or 46 per cent less than the 2021-22 national provincial average of 61 days. Nova Scotia's legislature sat the fewest days compared to the other provinces in 2021-22.



Source: Office of the Auditor General analysis from jurisdictional websites

1.56 Sitting days represent opportunities for debate and discussion on additional appropriations along with other matters important to the public. It's also an opportunity for members of Government to inform the public on its plans, priorities and progress. As the legislature's sessions are limited, it results in fewer opportunities for questions or to address concerns. Without a process that requires approval from the legislature over additional appropriations, the legislature has limited ability to question the use of additional appropriations. When additional appropriations continue to rise as we have seen over the past 10 years, it is increasingly important that they are appropriately discussed, debated, and authorized in such a way that ensures transparency and accountability on behalf of Nova Scotians.

Auditor General's recommendation on additional appropriations not sufficiently addressed

1.57 In our 2022 Financial Report, we issued a recommendation to the Department of Finance and Treasury Board to consider if the current practice for the authorization of additional appropriations provides adequate accountability and transparency and to consider whether changes are necessary.

1.58 In response to our recommendation, the Department of Finance and Treasury Board did make minor changes to transparency around additional appropriations:

- The schedule of supplemental sums by Department supporting the Order in Council approvals for additional appropriations is now available electronically along with the Order in Council; and
- Details of additional appropriations by Department, including amounts and brief explanations, are now published by the Department of Finance and Treasury Board on its website with the budget documents and budget forecast updates.

1.59 Although this information is now publicly available, there is still considerable work required to improve transparency and accountability through the legislature. No changes have been made to require additional appropriations to come before the legislature for debate and approval.

1.60 With such a significant amount of public money expensed through the additional appropriations process, and without accountability through the legislature, we reiterate our support for additional review and approval and have amended our recommendation.

Recommendation 1.1

We recommend the Minister of Finance and Treasury Board amend the *Finance Act* to align the additional appropriations process with legislated practices elsewhere in Canada and provide accountability and transparency over the spending of all public funds.

Department of Finance and Treasury Board Response: The Minister of Finance appreciates the work of the Auditor General on this matter. The Minister is satisfied that the current parameters of the *Finance Act* ensure accountability and transparency over the spending of all public funds.

Departments of Health and Wellness and Seniors and Long-term Care each received more than \$200 million in additional appropriations in 2022-23

- 1.61 Additional appropriations are allocated to individual departments as required. The departments with the greatest additional appropriations in 2022-23 were the departments of Health and Wellness; Seniors and Long-term Care; Advanced Education; and Environment and Climate Change. These additional appropriations of \$1.66 billion in total were approved by Governor in Council through OICs dated September 28, 2022, December 19, 2022, March 21, 2023, and a final additional appropriation approved after year end on September 12, 2023.
- 1.62 Final additional appropriations are the difference between the departments' actual expenditures for the year and the sum of the original estimates and additional appropriations. The *Finance Act* requires approval through OIC within 15 days of the tabling of the Public Accounts.

| Additional Appropriations (\$ Millions) | | | | | | | |
|--|-------------------------------|------------------------------|--------------------------|---|--------------------------------|--|--|
| Appropriation by OIC | 2022-242 September 2022 | 2022-335 December 2022 | 2023-80 March 2023 | Final Additional Appropriation Required September 2023 | Total 2022-23 Appropriation | Explanation for 2022-23 Additional Appropriation | Total 2021-22 Appropriations (for comparison purposes) |
| Advanced Education | \$- | \$42 | \$120 | \$4 | \$166 | <ul style="list-style-type: none"> • \$121 million in funding for health initiatives provided to universities • \$25 million to the Research Opportunities Fund | \$149 |
| Agriculture | - | 27 | 17 | - | 44 | <ul style="list-style-type: none"> • \$15 million in grape and fruit industry support for impacts of extreme cold | - |
| Communities, Culture, Tourism and Heritage | 25 | 17 | 68 | - | 110 | <ul style="list-style-type: none"> • \$63 million for various community grants and initiatives • \$16 million for Investing in Canada Infrastructure Projects (ICIP) | 115 |
| Community Services | - | 9 | 37 | 4 | 50 | | - |
| Economic Development | - | 6 | - | - | 6 | | 47 |
| Education and Early Childhood Development | 14 | 42 | - | - | 56 | | 53 |
| Elections Nova Scotia | - | - | - | - | - | | 13 |
| Environment and Climate Change | - | 160 | - | 2 | 162 | <ul style="list-style-type: none"> • \$140 million in funding for off-oil efficiency programs • \$20 million to Nova Scotia Crown Share Land Legacy Trust | 2 |
| Finance and Treasury Board | - | 1 | - | 68 | 69 | | - |

| Additional Appropriations (\$ Millions) | | | | | | | |
|--|-------------------------------|------------------------------|--------------------------|---|--------------------------------|--|--|
| Appropriation by OIC | 2022-242 September 2022 | 2022-335 December 2022 | 2023-80 March 2023 | Final Additional Appropriation Required September 2023 | Total 2022-23 Appropriation | Explanation for 2022-23 Additional Appropriation | Total 2021-22 Appropriations (for comparison purposes) |
| Health and Wellness | 93 | 42 | 140 | - | 275 | <ul style="list-style-type: none"> • \$200 million for healthcare worker retention and incentive program • \$50 million related to inflation, fuels prices, and increased service delivery • \$20 million related to capital initiatives | 103 |
| Justice | 17 | 7 | - | - | 24 | | 31 |
| Labour, Skills, and Immigration | 17 | 7 | - | - | 24 | | 79 |
| Municipal Affairs and Housing | - | 91 | 16 | - | 107 | <ul style="list-style-type: none"> • \$68 million for housing initiatives • \$32 million in Municipal Operating Grants • \$26 million in Hurricane Fiona disaster assistance • \$3 million to the Emergency Services Providers Fund • Offset by \$22 million as a result of infrastructure project delays | 134 |
| Natural Resources and Renewables | - | 47 | 9 | 4 | 60 | <ul style="list-style-type: none"> • \$53 million for remediation of abandoned mine sites liabilities | 51 |
| Office of Addictions and Mental Health | - | - | 20 | - | 20 | | 1 |
| Office of Equity and Anti-Racism Initiatives | - | - | - | - | - | | 2 |
| Office of Healthcare Professionals Recruitment | - | - | - | - | - | | 1 |
| Public Prosecution Service | - | - | - | 1 | 1 | | 2 |
| Public Service Commission | - | - | - | - | - | | 3 |
| Public Works | 13 | 63 | 3 | 5 | 84 | <ul style="list-style-type: none"> • \$38.5 million for Boat Harbour remediation liability • \$10.4 million for Hurricane Fiona storm damage • \$7.0 million for healthcare redevelopment intellectual property | 38 |

| Additional Appropriations (\$ Millions) | | | | | | | |
|---|-------------------------------|------------------------------|--------------------------|---|--------------------------------|---|--|
| Appropriation by OIC | 2022-242 September 2022 | 2022-335 December 2022 | 2023-80 March 2023 | Final Additional Appropriation Required September 2023 | Total 2022-23 Appropriation | Explanation for 2022-23 Additional Appropriation | Total 2021-22 Appropriations (for comparison purposes) |
| Seniors and Long-term Care | 31 | 63 | 123 | - | 217 | <ul style="list-style-type: none"> • \$98.5 million for healthcare worker retention and incentive program • \$21 million for the Home First program • \$59.5 million for travel nursing expenses • \$8.1 million for long-term care aides | 69 |
| Service Nova Scotia and Internal Services | - | 135 | 20 | - | 155 | <ul style="list-style-type: none"> • \$123 million to expand the Heating Assistance Rebate Program • \$16 million for Hurricane Fiona food cost reimbursement program • \$17 million for Trunked Mobile Radio replacement | 3 |
| Debt Servicing Costs | 12 | - | - | - | 12 | | - |
| Refundable Tax Credits | - | 9 | 5 | - | 14 | | - |
| Sinking Fund Instalments and Serial Retirements | - | - | - | 6 | 6 | | - |
| Total | \$222 | \$768 | \$578 | \$94 | \$1,662 | | \$896 |

 **\$292 million in additional appropriations tested as part of our audit work on year-end transactions**

1.63 Canadian Auditing Standards require that as part of our audit we do focused work on year-end transactions due to their elevated risk. As part of our testing of year-end transactions we sampled a number of grants and subsidies; expenditures which were recorded in the last week of March 2023 totalling \$291.7 million. We noted during our work that these transactions were not included in the original budget and were part of additional appropriations for 2022-23:

- \$140 million to the Department of Environment and Climate Change for off-oil efficiency programs;
- \$53 million to the Department of Natural Resources for the remediation of abandoned mines;
- \$50.9 million to Service Nova Scotia and Internal Services for the Nova Scotia Film & Television Production Incentive Fund;
- \$32.8 million to the Department of Community Services for the retention and incentive program for healthcare workers; and,
- \$15 million to Department of Agriculture for Horticulture Nova Scotia to support fruit growers whose crops were affected by the Polar Vortex.

- 1.64 We concluded that these transactions were recorded in the proper period and in accordance with Canadian public sector accounting standards.

Polar Vortex Funding

\$15 million in funding provided to Horticulture Nova Scotia Association in March 2023

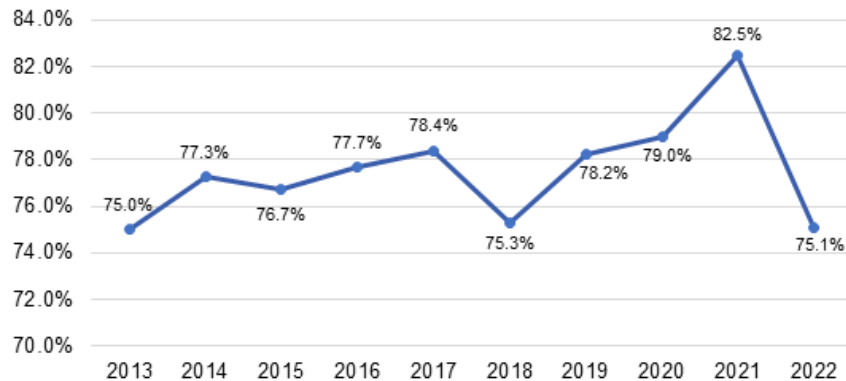
- 1.65 On March 9, 2023, the Nova Scotia Department of Agriculture (NSDA) announced funding of \$15 million to the Horticulture Nova Scotia Association (Hort NS), a registered not-for-profit association independent from government, to administer programs to help support grape and other fruit growers whose crops were affected by the polar vortex of extreme cold weather in February 2023. This \$15 million funding was approved through the additional appropriations process as it was outside the department's original budget. The funding is intended to help with losses not covered by business risk management programs like crop insurance and may also support replant programs and climate change mitigation projects to protect against future adverse events.
- 1.66 An agreement was signed between the Province and Hort NS on March 22, 2023, and cash was transferred on March 28, 2023, prior to the year end. The agreement is in place until March 2026. However, when assessing the transaction as part of our financial audit work, we noted that the funds were provided by the Province in advance of Hort NS completing a program plan for the use of funds, or outlining detailed cost estimates.
- 1.67 As part of our audit of the 2022-23 financial statements, we specifically tested this \$15 million payment to ensure the accounting as a 2022-23 expense was appropriate. We found that since the transfer was authorized, the agreement signed, and cash transferred before year end, recognition as an expense was appropriate under Canadian public sector accounting standards.
- 1.68 While the accounting for this transaction may be correct from a financial reporting perspective, our office is currently assessing its value for money as part of a larger performance audit engagement of the use of grants and subsidies expenditures which are part of additional appropriations. The planned release date for this audit is Winter 2024.

Nova Scotia Teachers' Pension Plan

Underfunded position of Nova Scotia Teachers' Pension Plan hits a nine-year low

- 1.69 The Nova Scotia Teachers' Pension Plan is governed by the *Teachers' Pension Act*. Sole governance responsibility of the Teachers' Pension Plan lies with a joint trust agreement between the Nova Scotia Teachers' Union (NSTU) and the Province of Nova Scotia, administered by the Teachers' Pension Plan Trustee Inc.
- 1.70 The Teachers' Pension Plan deficit is equally shared by the Province and plan members. The Province's share of the Teachers' Pension Plan deficit impacts the Province's statement of financial position, increasing its net debt. For 2022-23, the impact to the Province's statement of financial position was \$463 million (2021-22 \$482 million).
- 1.71 The funded status of the Teachers' Pension Plan as of December 31, 2022, was 75.1 per cent with a plan deficit on a funding basis of approximately \$1.8 billion (December 31, 2021 \$1.2 billion). As the 10-year trend below shows, funded status worsened in 2022, and the plan remains significantly underfunded.

Funded Status of Nova Scotia Teachers' Pension Plan: 10-Year History



Source: Nova Scotia Teacher's Pension Plan Annual Report 2022

- 1.72 There was a significant decrease to the funded ratio of the Teachers' Pension Plan from 82.5 per cent in 2021 to 75.1 per cent in 2022. The Teachers' Pension Plan Trustee noted in its 2022 Annual Report that the investment return for the year was -4.05%. The fund underperformed on its assumed rate of return and the policy benchmark for the year, reportedly due to significant challenges across the investment landscape which included COVID-19 recovery efforts, geopolitical conflicts, supply chain disruptions, extreme weather events, high levels of inflation and rapidly increasing interest rates.

The Province and NSTU have not publicly released the 2022 report from the independent panel

- 1.73 In late 2020, the Province and NSTU announced the creation of an independent panel of three pension experts to address the ongoing challenges facing the Teachers' Pension Plan. The creation of the panel is outside the teachers' collective agreement with a mandate to review the pension plan, educate, consult with stakeholders, and make non-binding recommendations to fully fund the Teachers' Pension Plan within a reasonable period.
- 1.74 The panel's report and non-binding recommendations were submitted to the Nova Scotia Government and the Nova Scotia Teachers' Union on August 15, 2022. The Province and NSTU are responsible for the report and future communication of its content, as well as any actions in response to the recommendations made by the panel. As of August 21, 2023, more than one year after its submission, neither the Province nor the NSTU has publicly released details related to the report or recommendations stemming from it.
- 1.75 We will continue to monitor the funded status of the Teachers' Pension Plan including whether any corrective action is deemed necessary in the report from the independent panel. The Teachers' Pension Plan has a significant impact on the Province's financial statements since one-half of the accrued benefit liability is accounted for by the Province. As of March 31, 2023, the accrued benefit liability recorded by the Province was \$463 million (2022 \$482 million).

Health Spending

Province incurred \$6.7 billion in health-related spending and capital asset acquisitions in 2022-23

1.76 While healthcare-related spending is taking place by entities throughout government in its consolidated financial statements, there are six entities that together reported \$6.4 billion in healthcare operational expenses for 2022-23. Additionally, \$335 million was spent on health-related capital assets during that same period, bringing the total spending to \$6.7 billion.

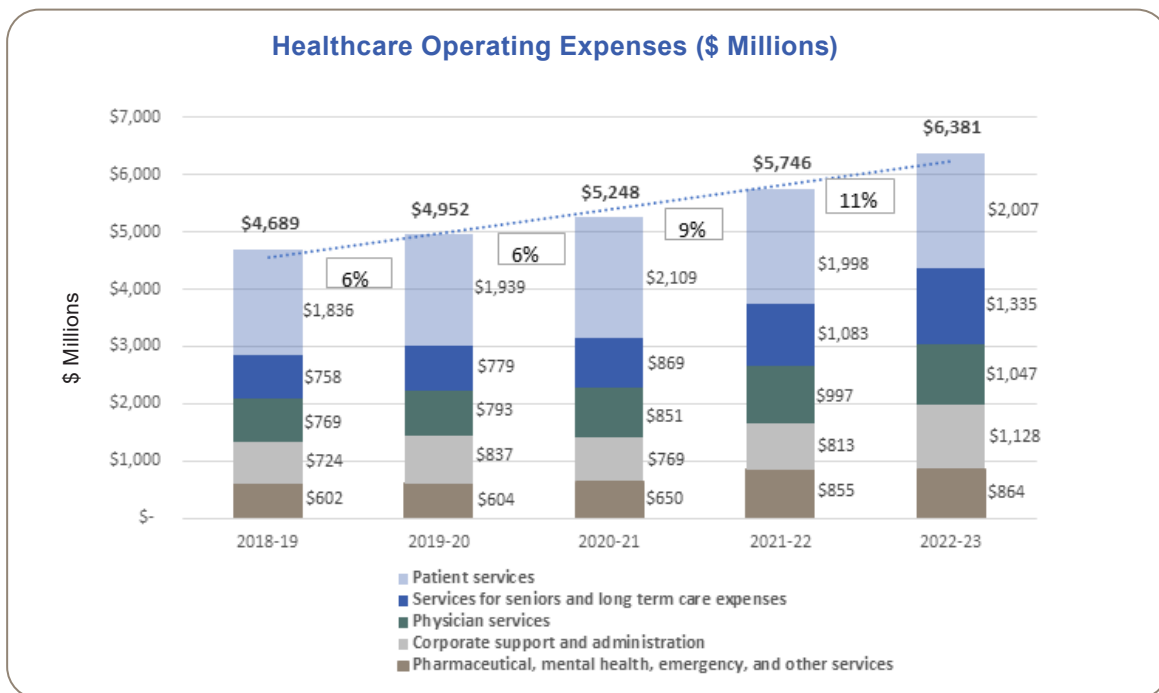
| Department/Entity (\$ Millions) | 2021-22 | 2022-23 | Comments |
|--|---------|---------|---|
| Nova Scotia Health | \$2,729 | \$3,128 | Nova Scotia Health provides health services through the operation of hospitals, health centres and community-based programs across Nova Scotia. |
| Department of Health and Wellness | \$1,640 | \$1,640 | The Department of Health and Wellness provides leadership to the provincial health system as a whole. |
| Department of Seniors and Long-term Care | \$1,031 | \$1,242 | The Department of Seniors and Long-term Care supports the social and economic wellbeing of older adults and oversees long-term care facilities and homecare agencies throughout the province. |
| Izaak Walton Killam Health Centre | \$310 | \$345 | The Izaak Walton Killam Health Centre provides highly specialized healthcare and primary care services to children, women, and families in the Maritime provinces and beyond. |
| Office of Addictions and Mental Health | \$35 | \$22 | Health-related funding to the Office of Addictions and Mental Health provides mental health and addictions education, prevention, treatment, and recovery programs throughout the province. |
| Office of Healthcare Professionals Recruitment | \$1 | \$4 | The Office of Healthcare Professionals Recruitment is mandated to support the environment for recruitment and retention of healthcare professionals in Nova Scotia. |
| Total Healthcare Operating Spending | \$5,746 | \$6,381 | |
| Health-related Capital Asset Acquisitions | \$222 | \$335 | |
| Total | \$5,968 | \$6,716 | |

Source: 2021-22 Public Accounts and 2022-23 Public Accounts

Health-related operational spending increased \$1.69 billion over five years

1.77 Since 2018-19, annual health-related operating spending has increased by \$1.69 billion. The largest year-over-year growth of 11 per cent occurred between 2021-22 and 2022-23. The growth is attributable to corporate support and administration, which increased by \$315 million (39 per cent) mainly due to increases of \$147 million in administration costs, and \$55 million in medical services. In addition, services for seniors and long-term care expenses increased by \$252 million (23 percent) mainly due to \$70 million for healthcare retention incentives, \$50 million for travel nurse expenses, and \$20 million for the expansion of the Home First program.

1.78 The following chart provides insight into healthcare operating spending by type of service for the last five years based on information from the Province's financial accounting system and the Public Accounts.

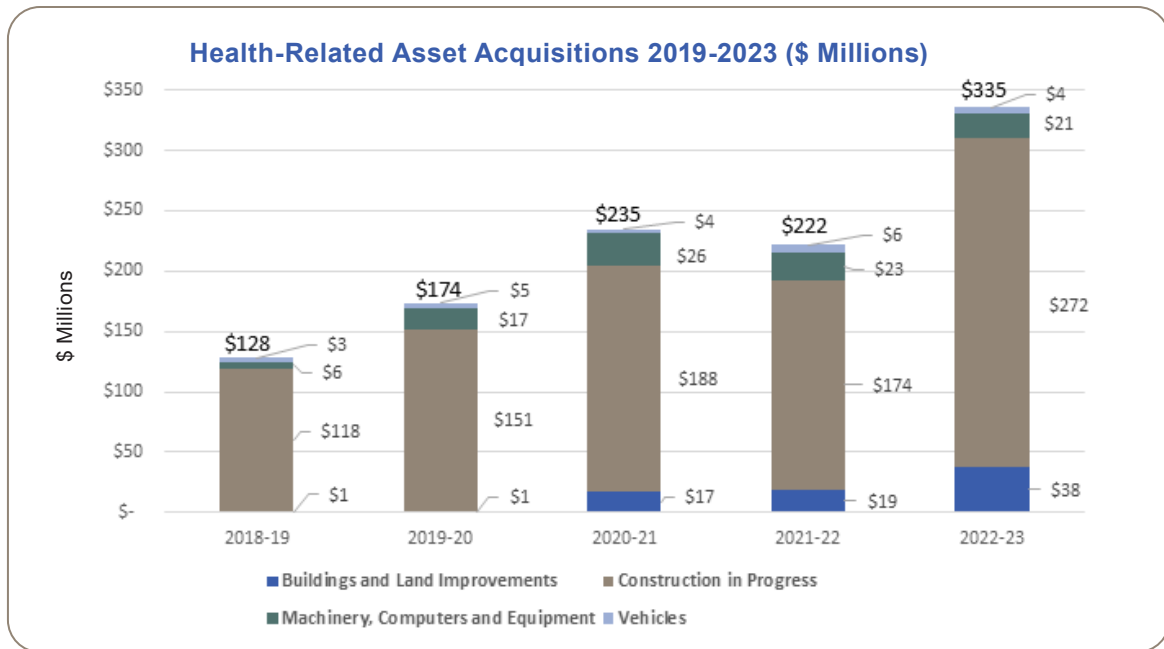


Source: Breakdown of funding obtained from the Province's financial accounting system; Office of the Auditor General analysis

- 1.79 The majority for 2022-23, \$2 billion (32 per cent) of the \$6.7 billion health care spend, is to fund patient-related services at Nova Scotia Health and the Izaak Walton Killam Health Centre. Services provided by the health authorities include, but are not limited to, the following: inpatient services, ambulatory care, diagnostic imaging and therapy, acute care expenses, public health services, and primary health care.
- 1.80 The Province spent \$1.3 billion (21 per cent) of total healthcare spending for 2022-23 on services such as adult protection, home care, grants to facilities, and other program supports for individuals under the Department of Seniors and Long-term Care's mandate.
- 1.81 Physician services amounted to \$1 billion (16 per cent) of healthcare related expenditures for 2022-23. Physician services represent payments to physicians for radiology/pathology/internal medicine diagnostics, academic funding plans, alternative payment plans, fees for service, patient visits with primary care physicians, physician residents, on-call services, and other Master Agreement initiatives.
- 1.82 The remaining \$2 billion (31 per cent) of 2022-23 spending was on administrative costs, pharmaceutical services, provision of emergency services via ground ambulance and air transportation, mental health and addictions programs, and other health-related programs.

➡ In 2022-23, \$335 million was spent on health-related capital assets

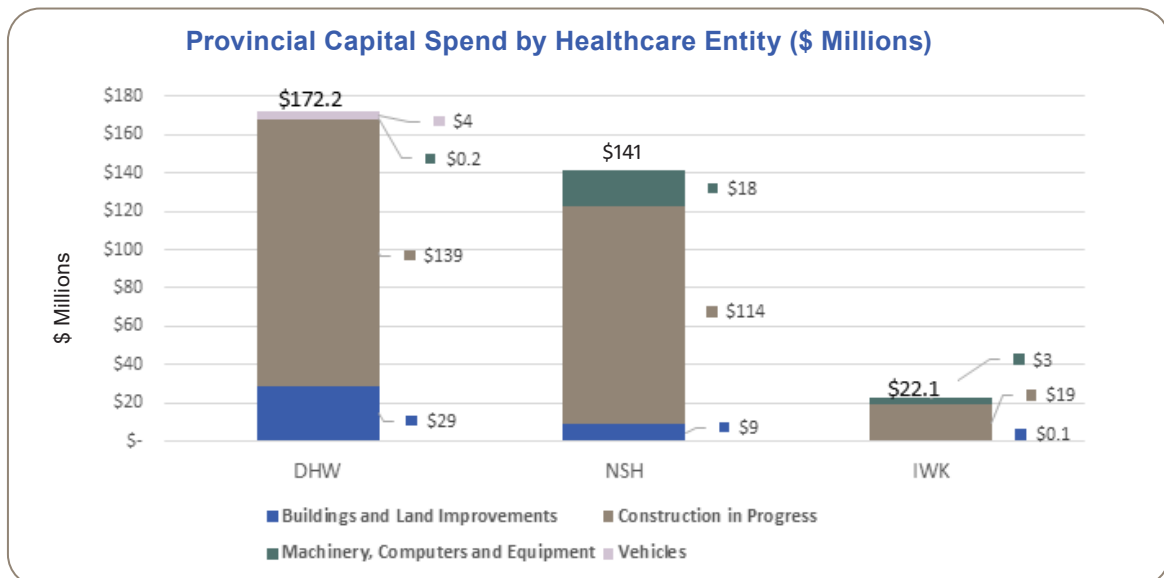
1.83 The Province spent a total of \$335 million in health-related capital asset acquisitions in 2022-23 as detailed in the chart below.



Source: Breakdown 2019-2023 from Province's financial accounting system; Office of the Auditor General analysis

- 1.84 Over the past five years, healthcare-related asset acquisitions have increased by \$207 million or 162 per cent, with the most significant increase of \$154 million attributable to construction in progress.
- 1.85 In 2022-23, healthcare capital acquisitions mainly consisted of ongoing construction, and building and land improvements. These acquisitions include the infrastructure redevelopment projects at Cape Breton Regional Hospital; funding to support the QEII New Generation; as well as construction, repair and renewal of other hospitals and medical facilities.

Majority of Health-Related Provincial Capital Spend in 2022-23 by Department of Health and Wellness



Source: 2022-23 Public Accounts, Audited Financial Statements of 2022-23 for Nova Scotia Health and IWK Centre

1.86 Newly acquired tangible capital assets for the Department of Health and Wellness totaled \$172.2 million in 2022-23. The majority of these additions, \$139 million or 81 per cent, is attributable to construction in progress:

- \$42 million of spending was related to the Cape Breton Regional Hospital (CBRH);
- \$35 million for the Bayers Lake Community Outpatient Centre construction;
- \$32 million for the Transitional Care Facility in Bedford; and
- \$18 million for the North Sydney Healthcare Centre and Long-term Care Home construction.

We look at some of these acquisitions in more detail in an upcoming audit of the Development of Transitional Care Facilities which will be released in Winter 2024.

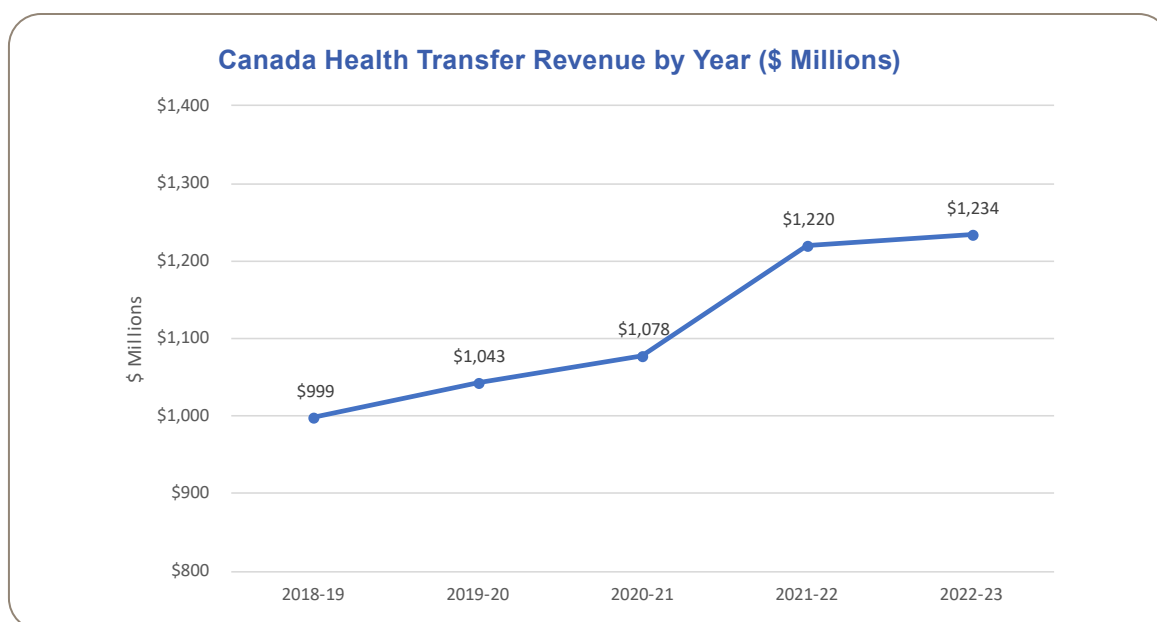
1.87 Nova Scotia Health spending on additions to tangible capital assets totaled \$141 million in 2022-23. The majority of these additions, \$114 million or 81 per cent, related to construction in progress at the QEII Halifax Infirmary redevelopment project as well as the CBRH roof replacement. A smaller portion of capital additions, \$18 million or 13 per cent, was spent on machinery, computers, and equipment, to purchase items such as imaging equipment and patient monitors.

1.88 The Izaak Walton Killam Health Centre spent \$22.1 million on capital additions in 2022-23. The majority of spending, \$19 million or 86 per cent, was attributable to construction in progress. This is mostly for the construction of the new children's health emergency department which began this fiscal year with pre-demolition. Machinery, computers, and equipment made up \$3 million or 14 per cent, for the purchase of ventilators, monitors, portable echo unit, ultrasounds, and retractors.

Canada Health Transfer increased by \$14 million in 2022-23 to \$1.23 billion

1.89 The Canada Health Transfer (CHT) is the largest health-related transfer from the Federal Government to the Province. It provides long-term funding for healthcare and supports the principles of the *Canada Health Act*. CHT payments are made on an equal per capita basis to each province to provide comparable treatment for all Canadians regardless of where they live.

1.90 During 2022-23, the Province received CHT revenue of \$1.23 billion. This included the Province's share of a top-up payment of \$52 million from the Federal Government to assist provinces and territories with the immediate pressures on the healthcare system with a focus on pediatric hospitals, emergency rooms, and long wait times for surgeries. Over the past five years, the CHT has increased by \$235 million, with the largest growth between 2020-21 and 2021-22 (\$142 million). In 2022-23, CHT increased by \$14 million from the prior year.



Source: 2018-19 to 2022-23 Public Accounts

Recognition and Retention Incentives for Healthcare and Related Workers

Retention Bonus and Incentives for Health Sector Employees Announced March 20, 2023

- 1.91 On March 20, 2023, the Province announced a retention bonus and incentive program aimed at retaining and attracting nurses and other healthcare workers to Nova Scotia's publicly funded healthcare system. The program is fully funded by the provincial government and was anticipated to cost \$354 million by the end of March 31, 2023, and an additional \$110 million by year end 2024.
- 1.92 Criteria established for the program dictated which employees were eligible, the payout amount each employee would receive, and the timing of the payouts. There are four categories of payouts:
- \$10,000 thank-you bonus paid to front-line/non-management registered nurses, licensed practical nurses, nurse practitioners, and nurses occupying leadership roles who provide direct client care as a regular part of their role who were employed as of March 20, 2023.
 - \$10,000 retention incentives are additional funds to be paid in February/March 2024 to front-line registered nurses, licensed practical nurses, and nurse practitioners who remain working for publicly funded employers in 2023-2024, who also sign a two-year return of service agreement by March 31, 2024 (expiring March 31, 2026).
 - \$10,000 return to nursing incentive available to nurses who have left the public system and who agree and are selected to return with a two-year return of service agreement signed before March 31, 2023 (including returning travel nurses).
 - \$5,000 retention bonus paid to a range of healthcare workers and team members in publicly funded positions.

1.93 Entities with affected employee groups assessed their employees against the criteria and calculated the liabilities to record in their 2022-23 financial statements. The total payout accrued by entities impacted by this program was \$257 million in 2023-23.

| Entity | Payout Category | Number of Employees Received the Payouts | Incentive Payout Totals (in Thousands) |
|--|---|--|--|
| Nova Scotia Health | \$10K Retention Bonus for Nurses | 7,642 | \$69,517 |
| | \$5K Retention Bonus for other Healthcare workers | 13,252 | \$62,020 |
| | Return to Service Bonus | 140 | \$1,090 |
| | Total | 21,034 | \$132,627 |
| Department of Seniors and Long-term Care | \$10K Retention Bonus for Nurses | 2,324 | \$20,942 |
| | \$5K Retention Bonus for other Healthcare workers | 10,182 | \$46,745 |
| | Return to Service Bonus | 6 | \$47 |
| | Total | 12,512 | \$67,734 |
| Department of Community Services | \$10K Retention Bonus for Nurses | 198 | \$1,980 |
| | \$5K Retention Bonus for other Healthcare workers | 6,150 | \$30,750 |
| | Return to Service Bonus | 2 | \$20 |
| | Total | 6,350 | \$32,750 |
| IWK Health Centre | \$10K Retention Bonus for Nurses | 904 | \$7,970 |
| | \$5K Retention Bonus for other Healthcare workers | 1,991 | \$9,232 |
| | Return to Service Bonus | 2 | \$16 |
| | Total | 2,897 | \$17,218 |
| Emergency Medical Care Inc. (EMC) | \$10K Retention Bonus for Nurses | 64 | \$430 |
| | \$5K Retention Bonus for other Healthcare workers | 1,186 | \$5,355 |
| | Return to Service Bonus | 0 | \$0 |
| | Total | 1,250 | \$5,785 |
| Halifax Hospice | \$10K Retention Bonus for Nurses | 15 | \$120 |
| | \$5K Retention Bonus for other Healthcare workers | 17 | \$70 |
| | Return to Service Bonus | 0 | \$0 |
| | Total | 32 | \$190 |
| Nova Scotia Hearing and Speech Centres | \$10K Retention Bonus for Nurses | 0 | \$0 |
| | \$5K Retention Bonus for other Healthcare workers | 164 | \$778 |
| | Return to Service Bonus | 0 | \$0 |
| | Total | 164 | \$778 |
| | Totals | 44,239 | \$257,082 |

Total retention and incentive payouts for 2022-23 calculated to be \$257 million

- 1.94 As noted in the table above, significant liabilities of \$257 million were recorded in the 2022-23 fiscal year. The payments were applied and processed to eligible individuals shortly after March 31, 2023. Due to the timing of the announcement 11 days before the March 31 year end, management of the impacted organizations needed to move quickly to implement the program and ensure the accuracy and consistency of the payouts to those eligible.
- 1.95 Due to the financial impact to Nova Scotia Health and the IWK Health Centre, we performed targeted procedures during our audit work on the 2022-23 financial statements of those two entities. We gained an understanding of the program, eligibility criteria and processes and controls established within the entities to implement this new program properly. We then performed audit procedures and concluded that the criteria was appropriately applied for these individuals and concluded that those who held responsibility for the program delivery interpreted the criteria appropriately, applied it consistently, and that payments made to individuals were correctly calculated in all material aspects.
- 1.96 The program also provides for bonus payments to be made during February and March 2024 to eligible employees who remain working for publicly funded employers in 2023-24 and who sign a two-year return of service agreement expiring in March of 2026. Estimation of these amounts are not included in the chart above.

Actual Payouts Significantly Lower than Original Estimates

- 1.97 When the Province initially announced this program in March 2023, they estimated the total payouts would be \$354M. When the program was implemented, actual payouts only cost the Province \$257M.

| Entity/Department | Original Estimate* | Actual* | Variance* |
|--|--------------------|------------------|-----------------|
| Nova Scotia Health | \$193,685 | \$132,627 | \$61,058 |
| IWK | \$22,347 | \$17,218 | \$5,129 |
| Department of Seniors and Long-Term Care | \$98,532 | \$67,734 | \$30,798 |
| Department of Community Services | \$33,186 | \$32,750 | \$436 |
| EMC | \$6,250 | \$5,785 | \$465 |
| Other | \$0 | \$968 | \$(968) |
| Total | \$354,000 | \$257,082 | \$96,918 |

* In Thousands

- 1.98 Original estimates exceeded actuals for all significant entities expected to issue payouts. While we did not complete audit work on the estimates, the program did not bring back as many nurses as originally anticipated. For example, the Province estimated 1,500 – 2,000 nurses would return to the public sector, but a much smaller number – 148, or less than 10% of the original estimate – actually chose to return.

Personal Protective Equipment (PPE) and Rapid Test Kit Inventory Adjustments

Province amassed PPE and rapid test kits inventory in response to COVID-19

- 1.99 In response to the COVID-19 pandemic, the Province amassed PPE and rapid test kit inventory through its own purchases and through donations by the Federal Government during 2020 to

2023. Inventory was combined following acquisition, so any adjustments for revaluations or expired items were not separated between federally transferred and provincially purchased items. The total dollar value of PPE and Rapid Test kit inventory at March 31, 2023 was \$44.1 million.

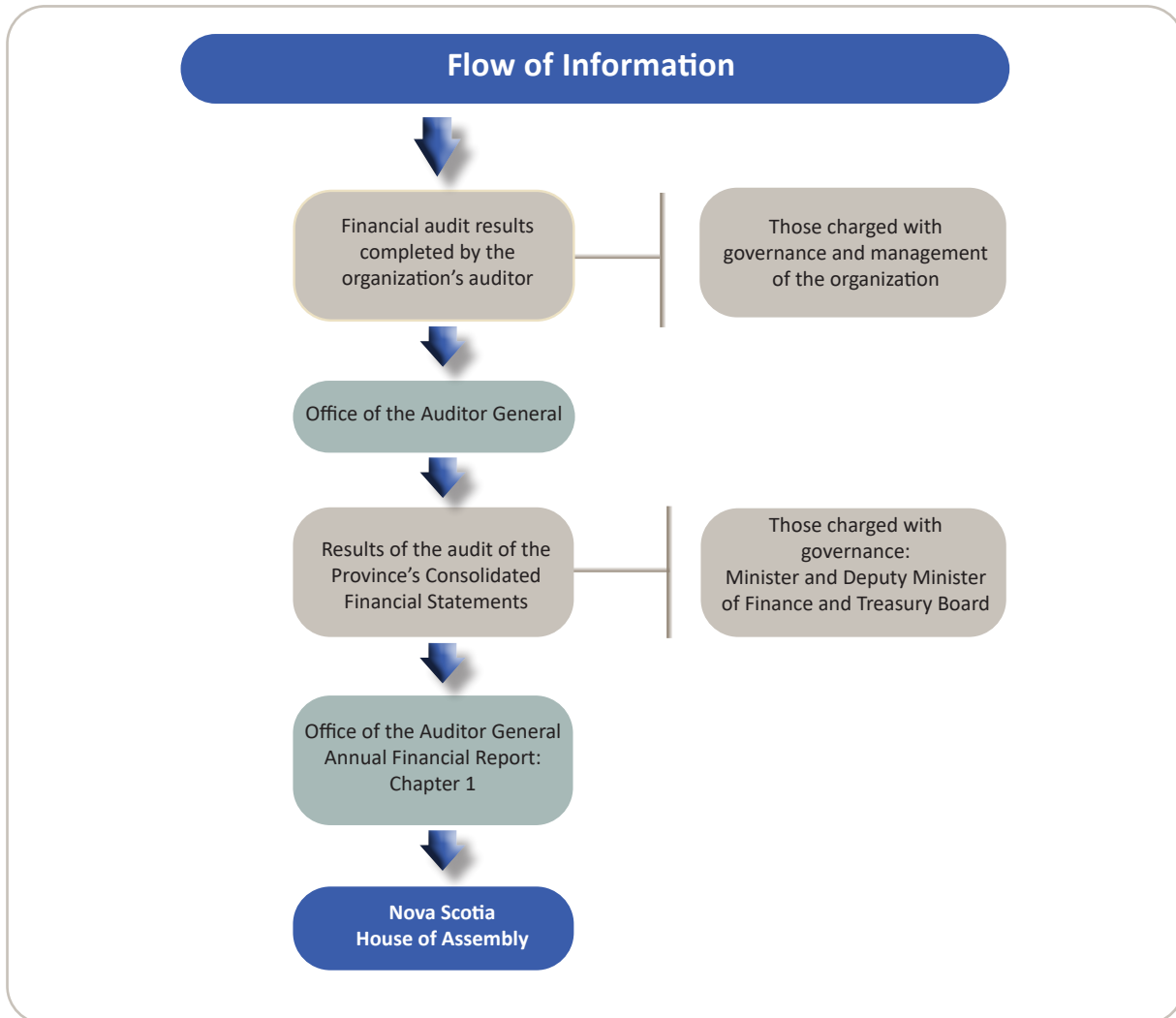
COVID-19 inventory value reduced by \$46.4 million over the past two fiscal years

1.100 Periodically, the Province conducts a review of all inventory in its control to assess its carrying value. As part of this assessment, the Province considers if adjustments are necessary based on whether the inventory is damaged, expired, or obsolete; as well as assessing whether it's at a lower value, or at market value. Reviews of COVID-19 inventory took place both in 2021-22 and 2022-23, resulting in adjustments reducing the total to \$46.4 million, and increasing expenditures as detailed below.

| Inventory Type | 2021-22 Adjustment (\$ Thousands) | 2022-23 Adjustment (\$ Thousands) | Explanation |
|-------------------------------------|-----------------------------------|-----------------------------------|---|
| Personal Protective Equipment (PPE) | \$23,903 | \$15,572 | Low supply was compounded by the escalated demand due to the global COVID-19 pandemic, resulting in a substantial increase in the cost of PPE. However, by March 2022, market prices reverted to pre-pandemic levels and were expected to be consistent for the foreseeable future. Further reduction in market value as well as expired and damaged inventory resulted in further write downs and write offs in 2022-23. |
| Rapid Test Kits | \$0 | \$6,915 | There was no adjustment for rapid tests in 2021-22 as the market pricing did not decrease and there were no expired or spoiled test kits at that time. Global changes in the rapid testing strategy over the 2022-23 period led to a price reduction, influenced by both an increase in supply and a decrease in demand. This was compounded by expired and damaged inventory. |
| Total | \$23,903 | \$22,487 | |

Reporting on Financial Audits

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



Summary of Significant Control Weaknesses – Government Departments

| Department of Service Nova Scotia and Internal Services | |
|---|---|
| Significant Control Weakness | Potential Impact |
| 1. Need for improved implementation, monitoring, and reporting of internal control procedures for the payments process. | Internal controls may not be operating effectively on a regular basis; inappropriate or unauthorized purchases and/or payments may be made. |
| 2. No formal, written policies or procedures exist for the review and processing of vendor master file changes. | Unauthorized or inappropriate changes may be made to the vendor master file; payments may be issued to inappropriate vendors. |
| 3. Lack of detailed procedures, incorporating internal controls, for the procurement process. | Inappropriate or unauthorized purchases may be made. |
| 4. Procurement technicians create and issue purchase orders after goods and/or services have been received. | Inappropriate or unauthorized purchases may be made; value-for-money may not be realized when purchasing goods and services. |
| 5. The policy requirement, <i>“If a public sector entity anticipates making multiple purchases of the same requirement, the total value of all anticipated purchases must be used to determine the appropriate procurement process,”</i> is not being followed. | Inappropriate or unauthorized purchases may be made; value-for-money may not be realized when purchasing goods and services. |
| 6. No documentation to show that the requesting department has received goods and/or services. | Payments may be made for goods and/or services that have not been received. |
| <p>Management’s response (unaudited)</p> <p>SNS-IS is committed to addressing all control weaknesses identified to support safeguarding of the Province’s assets.</p> <p>The Purchase Order Policy has been created and posted to Chapter 15.9 of the Accounts Payable section of Management Manual 200 with implementation happening now and will be completed by Spring of 2024. The Vendor Management Policy will also be updated to reflect the new process.</p> | |

Summary of Significant Control Weaknesses – Government Organizations

| Housing Nova Scotia | |
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| Significant Control Weakness | Potential Impact |
| 1. Lack of controls relating to user accounts and password expiry. | Increased risk of unauthorized access to information and financial errors. |
| 2. Lack of user access controls for administrators in the production ICM database. | Increased risk of unapproved data changes or fraudulent activity going undetected. |
| 3. Lack of user access controls for developers in the production environment. | Increased risk of unapproved data changes or fraudulent activity going undetected. |
| <p>Management's response (unaudited)</p> <p>Housing Nova Scotia (HNS), as part of the Department of Municipal Affairs and Housing (DMAH), has shared the observations (items 1 through 3) with the Department of Cyber Security and Digital Solutions (CSDS). CSDS has implemented practices to mitigate the control weaknesses noted. Specifically:</p> <p>1) This recommendation has a government wide impact that affects all Province of Nova Scotia users. CSDS is responsible for maintaining and implementing network security controls and has recently implemented an updated Credential Standard (based on industry best practices) which eliminates password complexity and expirations provides stronger protections. The response to this recommendation is complete.</p> <p>2) Although shared administrator accounts will continue to be used, account permissions do not allow developers to make database schema changes and a configuration management process with verification and approval steps must be followed to deploy data fixes to production. Furthermore, an audit function for tracking shared administrator accounts has been added. The response to this recommendation is complete.</p> <p>3) Access provided for developers is limited. A configuration management process and a source code management tool are being used to ensure that developers cannot promote changes to production without additional approvals. Approval and verification steps are required to promote changes between development, testing, and production environments. The response to this recommendation is complete.</p> | |
| Perennia Food & Agriculture Corp. | |
| Significant Control Weakness | Potential Impact |
| 1. Duties within the financial reporting process are not adequately segregated. | Increased risk of errors, fraud, and inappropriate or unauthorized payments being made and going undetected. |
| <p>Management's response (unaudited)</p> <p>Perennia is committed to addressing the control weaknesses identified in the most recent audit related to segregation of financial duties. Since the audit, a third finance position has been added. A change in our finance manager position impacted the recruitment of the new position and timelines in addressing the control issue. A rigorous internal control assessment was conducted. There is now further segregation for cheques and electronic payments along with the review and approval of all outgoing payments. This was done in conjunction with the already existing control that all outgoing payments require two approvals with all purchases authorized as per Perennia's Procurement Policy. All master data entries/revisions have been segregated. All general journal entries are now reviewed and approved prior to posting and the following subsidiary ledger postings undergo subsequent review to mitigate the risk that posting errors go undetected. Accounting working papers and reconciliation now undergo a separate review by the Finance Manager prior to closing month-end.</p> | |

Summary of Significant Control Weaknesses – Government Organizations (cont'd)

| Nova Scotia Education Common Services Bureau | |
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| Significant Control Weakness | Potential Impact |
| 1. Inappropriate employees are listed as signing authorities on the general banking agreement. No distinction between NSECSB and Computers for Schools bank accounts. | Increased risk of fraud and misappropriation of cash. |
| 2. Duties within the financial reporting process are not adequately segregated including: a) payroll and accounts payable functions b) receiving and recording of cash c) journal entry review process | Increased risk of misappropriation, fraud or error and increased risk of inappropriate or unauthorized journal entries being recorded and going undetected. |
| 3. Receipts are not required for third party expense claims for School Sport Nova Scotia expenses. | Increased risk of fraud and misappropriation of funds. |
| 4. Bank reconciliations are not being performed on a monthly basis. | Increased risk for misappropriation of funds. |
| <p>Management's response (unaudited)</p> <p>Bank reconciliations have been performed on a monthly basis, starting with the bank statement ending April 30, 2023.</p> <p>For both the NSECSB and Computer for Schools bank accounts, two signatures are required for all accounts payable. Only two NSECSB staff have access to the Computer for Schools bank account.</p> <p>Signing authorities for our banking agreement have been updated to ensure appropriate personnel have signing authority for each of these accounts.</p> <p>Receipts are now required for all third-party expense claims for School Sport Nova Scotia.</p> | |