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HOUSE OF ASSEMBLY MANAGEMENT COMMISSION

Wednesday, September 28, 2011

Committee Room 1

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**HOUSE OF ASSEMBLY
MANAGEMENT COMMISSION**

Hon. Gordon Gosse (Chairman)
Hon. Frank Corbett
Ms. Pam Birdsall
Mr. Maurice Smith
Hon. Manning MacDonald
Mr. Andrew Younger
Hon. Christopher d'Entremont
Mr. Neil Ferguson, Chief Clerk of the House of Assembly
(Non-Voting Member)

Speaker's Office Adviser
Ms. Deborah Lusby
Director of Administration
Speaker's Office

HALIFAX, WEDNESDAY, SEPTEMBER 28, 2011

HOUSE OF ASSEMBLY MANAGEMENT COMMISSION

9:30 A.M.

CHAIRMAN

Hon. Gordon Gosse

MR. CHAIRMAN: Good morning, everybody. I call the meeting to order this morning, Wednesday, September 28th. The first business this morning is the approval of the April 27, 2011 minutes. Mr. Ferguson.

MR. NEIL FERGUSON: Yes, Mr. Chairman, the minutes have been circulated. This morning a new Page 2 was distributed to the table with a slight change, a typo, I believe. I guess we'd have a motion if the committee is satisfied that the minutes are accurate.

MS. PAM BIRDSALL: So moved.

MR. CHAIRMAN: Moved by Ms. Birdsall and seconded by Mr. Corbett.

Would all those in favour of the motion please say Aye. Contrary minded, Nay.

The motion is carried.

Next on the agenda is the Audit Committee report, the appointment of an auditor. Mr. Ferguson, would you like to speak first?

MR. FERGUSON: Sure. The chairman of our Audit Committee, Mr. Lauchlin McKenzie, is with us today and is prepared to come to the table and make the report of the Audit Committee to the Management Commission, so we would welcome Mr. McKenzie.

MR. LAUHLIN MCKENZIE: Thank you, Neil. There has been a report circulated, it's about an inch thick but I certainly don't plan on going through that. I'd just like to give a very quick update on where we've been since really the committee sat for the first time in November.

We've met four times - in November, January, July and September. In those meetings we've covered a fair amount of regular business. We've sort of reviewed the materials that are on the Web site vis-à-vis members' expenses. We tend to just briefly look at that as part of our role.

I'd just like to sort of limit my comments to two areas that probably we've spent the majority of our time on, and certainly I know I've spent most of my time in relation to the committee. The first has to do with the recommendation of an auditor for HAMC. That's one of the requirements of the Audit Committee. In our first meeting we recognized some timelines that looked pretty tight at the time and it has since turned out that we were unable to meet them. So we took that on as our first role.

In discussing the appointment of the auditor, the Act itself does make provision that we could actually utilize an outside firm of accountants as our auditor but I think it's fairly clear that the legislation - if not mandating it - certainly suggests that maybe the Auditor General is the appropriate choice for our auditor. Following our first meeting, it was decided that I should meet with the Auditor General and request of him to agree to do our audit.

I met with the Auditor General and his deputy on November 8th. At that meeting the Auditor General felt he could not accept the audit appointment. There were a number of reasons given but the two principal ones were that he didn't feel he had the resources to meet the timelines and the second one was that he felt he had a conflict of interest and that that would create a professional issue for him, as a chartered accountant, that he may be in violation of some of the regulations for professional conduct of that committee. Consequently, having met with him alone, I was unsuccessful in convincing him to take on our audit.

We met again in January, where I reported to the committee on my meeting with the Auditor General and we discussed it again. The committee felt quite strongly that the Auditor General should be our auditor, so it was suggested that we re-meet with him and try to convince him to change his mind. Obviously I wasn't successful in doing it, we needed a more powerful group to meet with him and we opted to say, well we should bring the Speaker with us - I mean, let's bring in the heavy artillery.

As you all know, we sort of went through a change of Speakers and between the issue of waiting for our new Speaker to take office and trying to line up all the ducks so that we could all get the meeting, we really weren't able to meet with the Auditor General until June. With the Speaker in hand and with his gift of convincing people to assume roles, we

were successful and he did agree to take on our audit. He did have a number of conditions which he provided to us in a letter.

We met again on July 27th and at that meeting we went over the Auditor General's letter and I think we concluded there was nothing unusual in it, it was pretty standard material that any auditor would have required. We agreed to recommend him at our meeting on July 27th. That motion is before you today to approve our recommendations. Our role is simply to recommend to this committee the appointment, we don't make the appointment ourselves. That is a little background to that recommendation.

The letter he wrote us - and I must say for Leo Gallant, dean of the Business School at St. F.X. and myself, even though I've spent 30 years in public accounting, I was a tax partner and the Province of Nova Scotia was never one of my clients, in fact, anybody who didn't pay taxes wasn't one of my clients. I really am a bit of a neophyte of government accounting and Leo certainly doesn't have a lot of experience.

One of the issues that came out of that letter was the scope of the audit he was going to do. Just as a little background to that, the Act requires that our auditor audit the House of Assembly as a separate body and not as part of the general audit of the Province of Nova Scotia. The Act also requires that the audit must consist of a financial statement audit in accordance with CICA, Generally Accepted Auditing Standards and Generally Accepted Accounting Principles, et cetera. The Act also requires the auditor to express an opinion on whether the Chief Clerk's assessment of the effectiveness of internal control is fairly stated and if internal controls are operating effectively. These are not unusual, and basically, as I say, would have been expected from any auditor.

The issue we ran into was that HAMC is basically just a cost centre - it's not sort of a separate entity and consequently it doesn't have a set of financial statements which the auditor, under the Act, is required to audit. We don't really have what the Auditor General needs to audit and again, that's not unusual. The Auditor General's department has the same issue, he's basically a cost centre, but he needs an audit.

The other problem is that we not only do not have an established set of records that would meet the requirements, but we really don't have sufficient resources at our disposal to create what is needed ourselves. We have Deborah, who is doing a fabulous job and I'd be remiss not to mention that Neil and Deborah have been a tremendous help to the Audit Committee and certainly to myself and Leo.

Just speaking of Neil, Neil as the Clerk is required to give his opinion on internal control. This whole exercise came out of the scandals back in the 1990s, the Enrons, where there was a fairly big change in what was required and one of them was that management - and Neil is sort of viewed as the senior management person for HAMC - is required to give his opinion. His background is law, and really, in order to be able to give his opinion you really need a fairly substantial background in auditing, so he's really not in a position to do

so without - as would most CEOs, most CEOs would not be in a position to give that opinion. Consequently they basically hire an outside firm of auditors to come in, do that review and provide them with the assurance so that they can sort of sign off on it.

At our last meeting we concluded that perhaps the Department of Finance would be our principal source of the kind of resources we need to pull this together. To bring this up-to-date, we did hold meetings with Byron Rafuse and Ted Doane from the Internal Audit Centre. They were very helpful and thus we've subsequently met with them and the Auditor General and we've put a plan in place to help us sort of put what's necessary together in order that we can, in fact, have our audit as required.

Those were sort of the two principal areas, getting our auditor and trying to get our act together so that we could provide really the files and records that the auditor needs to provide us what the Act requires. That is basically all I really want to touch on. If there are any questions, I'd certainly be prepared to answer them.

MR. CHAIRMAN: Neil.

MR. FERGUSON: One of the things we might want to touch on, Lauchie, is the fact that you, as chairman of the Audit Committee, did get the internal audit people from the Department of Finance to do an investigation, a sampling of our internal controls.

MR. MCKENZIE: Quite right, Neil, we did. One of the other things we decided we should do is speak to the internal control centre because we were not on their agenda as a body that they were sort of planning on carrying out any internal controls. So we did have them come in and they basically looked at the processes around members' expenses and by and large, with two minor exceptions - both of which have been addressed and corrected - they found that things were working pretty well as required and that the system was functioning quite well.

MR. CHAIRMAN: Any questions?

MR. MAURICE SMITH: I have two resolutions that I will pass around and we can look at those, basically to effect the appointment of the Auditor General as the auditor for the House of Assembly Management Commission and, as well, to authorize the appointment of a second auditor to look at the internal controls that the House has, to satisfy the requirement that the auditor will need to satisfy himself about Neil's operation. Basically that's the thing. We'll deal with the Auditor General first, I guess.

MS. BECKY KENT: Are they two different ones?

MR. SMITH: Yes, the other one hasn't come yet. We'll do one at a time.

MR. CHAIRMAN: Mr. Smith.

MR. SMITH: Okay, thank you. So this is a resolution respecting the appointment of an auditor:

“Therefore be it resolved that upon the recommendation of the Audit Committee of the House of Assembly Management Commission, the Nova Scotia Auditor General be appointed as auditor of the accounts of the House of Assembly pursuant to Section 22 of the *House of Assembly Management Commission Act*, to conduct the first and second audit required under the *Act*.”

MS. KENT: I’ll second.

MR. CHAIRMAN: Moved by Mr. Maurice Smith and seconded by Ms. Kent.

Mr. Ferguson.

MR. FERGUSON: You’ll note that it says “to conduct the first and second audit required under the *Act*.” There is a question - I just wanted to make sure - I wasn’t sure that he was going to treat our old calendar year as one financial year and the three-month transition period that we went through as separate audits, or if he would want to lump them together as one. This is just designed to make sure that we get all of that 15-month period, if that’s acceptable to the commission, which is out of an abundance of caution to make sure that we covered those.

MR. CHAIRMAN: Is there any further discussion? Would all those in favour of the motion please say Aye. Contrary minded, Nay.

The motion is carried.

Mr. Smith, your second motion.

MR. SMITH: Mr. Chairman, again, I’ll just circulate the resolution.

This resolution speaks to Lauchie’s point about having an independent auditor look at the processes and systems in the House through the Speaker’s Office. It says, “Resolution Respecting Procurement of Audit Consulting Services”:

“Therefore be it resolved that the Chair of the House of Assembly Management Commission be authorized to procure such external audit consulting services as the Audit Committee of the House of Assembly Management Commission considers advisable to support an assessment by the Chief Clerk of the effectiveness of internal controls of the House of Assembly for the purpose of clause 22(5)(c) of the *House of Assembly Management Commission Act* and for the purposes of conducting the first and the second audit required under the *Act*.”

I so move that resolution.

MS. BIRDSALL: I second the motion.

MR. CHAIRMAN: Are there any questions? Mr. Ferguson.

MR. FERGUSON: I just wanted to make it clear there will be a cost to this; it was a significant cost the first year it was done in Newfoundland and Labrador. We are working with people at the Department of Finance, Byron Rafuse and so on, and the Auditor General to try to find a way, as much as we can, to piggyback on any external work that is done on internal controls for the Department of Finance and limit the amount to which we need to have the external audit of our own internal controls done. There are several things that have to be looked at, there are internal controls in the Department of Finance, in the CSUs, and then there are our own in-shop controls.

As much as possible, we would like to limit the cost as much as we can of our internal controls. The initial one that was done in Newfoundland and Labrador, while estimated to cost \$50,000, I think it was \$123,000 or \$124,000. We don't want to run up expenses of that nature, so the Audit Committee is doing everything that they can to work with the Auditor General and the controller of the province, to make sure that we focus the resources on our internal controls. I didn't want anyone to leave thinking this is going to be \$2,000 or \$3,000. It's going to be a significant expenditure, but it's part of getting the whole process up and running and making sure that we have appropriate and effective internal controls.

MR. CHAIRMAN: Is there any further discussion? Would all those in favour of the motion please say Aye. Contrary minded, Nay.

The motion is carried.

Next up on the agenda is the Management Commission annual report. I will now turn it over to Mr. Ferguson.

MR. FERGUSON: Under the House of Assembly Management Commission Act, Section 11, the commission is required to report annually on two different things. Under clause 11(1)(f), it has to report with respect to its decisions and activities and under clause 11(3)(g), it has to report annually on the results of an audit and steps taken as a result of the audit.

If you look at the one from Newfoundland and Labrador, our legislation is modelled on theirs. This is what was produced as an annual report and as you can see, it is a significant and large document. Over half of it is related to the audit and financial information which we don't yet have, as we've been discussing today.

What I would recommend to the Management Commission is that I be authorized or directed to prepare a report on the other aspects, the decisions and activities, so that we're in compliance with that and get that report before the House and that I would do that for the next meeting, if that is acceptable.

MR. CHAIRMAN: Moved by Mr. Younger, seconded by Mr. d'Entremont. Is there any further discussion?

Would all those in favour of the motion please say Aye. Contrary minded, Nay.

The motion is carried.

Next on the agenda is the House of Assembly quarterly financial update. I would turn that over to both Mr. Ferguson and Ms. Lusby.

MR. FERGUSON: Under the Act, the commission is supposed to review regularly, at least quarterly, the financial performance of the House of Assembly accounts. We now have the first quarterly report, and Deborah can speak briefly to it. Everybody has a copy of it and it just tracks what the budget is against what we've actually spent and have forecast.

MS. DEBORAH LUSBY: This was circulated to everyone last week. It's quite detailed, so maybe it's best that if you had any individual question that you direct them to my office. I'd be happy to answer them. Basically quarter one is the last column, which is the expenditures for April, May and June, so you would expect the expenditures to be at 25 per cent or less. For the Office of the Speaker, Legislative Services, we're at 22 per cent and we're doing just fine.

MR. CHAIRMAN: Are there any questions? Thank you very much.

It looks like that concludes today's House of Assembly Management Commission meeting. Thank you all for coming and we'll see you in the near future.

The meeting is adjourned.

[The commission adjourned at 9:56 a.m.]