

HOUSE OF ASSEMBLY MANAGEMENT COMMISSION

2014 ANNUAL REPORT

MESSAGE FROM THE SPEAKER

As Speaker of the Nova Scotia House of Assembly and Chair of the House of Assembly Management Commission, I am pleased to present the Annual Report for the House of Assembly Management Commission for the calendar year January 1 to December 31, 2014.

This Report sets out the decisions and activities of the Management Commission as required by Section 11 of the ***House of Assembly Management Commission Act***. It also contains a narrative of the Audit Committee's work during the year.

In his January 20, 2014 letter setting out the audit results for the year ending March 31, 2013, the Auditor General advised me that he agreed with the Audit Committee's recommendation that the requirement of audited financial statements as set out in clause 22(5) of the ***House of Assembly Management Commission Act*** could be removed from the legislation, as other legislative requirements were sufficient to ensure ongoing accountability of expenditures made by the House of Assembly. Accordingly clause 22(5)(a) of the ***House of Assembly Management Commission Act*** was repealed by Chapter 17 of the Acts of 2014 on May 1, 2014. For this reason this Report does not contain audited financial statements for the year ending March 31, 2014.

This Report contains the Auditor General's November 12, 2014 results regarding internal control and compliance audits for the year ending March 31, 2014.

The two persons appointed by the Chief Justice of Nova Scotia to the Audit Committee pursuant to Section 15 of the ***House of Assembly Management Commission Act*** were reappointed for a second - four year term to August 12, 2018.

The House of Assembly Management Commission has worked diligently to meet its mandate as set out in legislation during the past year.

I would like to thank the members of the House of Assembly Management Commission, the members of the Audit Committee as well as the employees of the House of Assembly for their work during the 2014 calendar year.

Hon. Kevin Murphy

Speaker of the House of Assembly

Chair, House of Assembly Management Commission

Date: January 15, 2015

Purpose of the House of Assembly Management Commission

The House of Assembly Management Commission (the Management Commission) was established pursuant to Section 3 of the ***House of Assembly Management Commission Act*** (the **Act**).

The purpose of the Management Commission is to oversee the financial operation of the House of Assembly. The duties of the Commission are set out at subsection 11(1) of the **Act**:

11 (1) The Commission is responsible for the financial stewardship of all public money that may be voted by the House of Assembly for the use and operation of the Assembly, and for all matters of financial and administrative policy affecting the Assembly and its members, offices and staff and in connection with them and, in particular, the Commission shall

(a) monitor the expenditures of the Assembly;

(b) review and approve the administrative, financial, human-resource and management policies and procedures of the Assembly offices;

(c) implement and periodically review and update financial and management policies applicable to the Assembly offices;

(d) give directions with respect to matters that the Commission considers necessary for the efficient and effective operation of the Assembly offices;

(e) make and keep current regulations respecting the proper administration of allowances for members of the Assembly and reimbursement and payment of their expenditures;

(f) annually report, in writing, to the House of Assembly, through the Chair, with respect to its decisions and activities; and

(g) exercise other powers given to the Commission and perform other duties imposed on the Commission under this or another Act.

Clause 11(1)(f) of the **Act** requires the Management Commission to report annually its decisions and activities. This report is the Annual Report of the decisions and activities of the Management Commission for the calendar year January 1 to December 31, 2014.

In carrying out its duties, the Management Commission is greatly assisted by the work of its Audit Committee. The duties of the Audit Committee are set out at subsection 18(1) of the **Act**:

18 (1) *The Audit Committee shall*

(a) *provide assistance to the Commission in fulfilling its oversight responsibility to the House of Assembly and the public with respect to stewardship of public money;*

(b) *make recommendations to the Commission respecting the choice of and terms of engagement and compensation of the auditor appointed under Section 22;*

(c) *review the audit plans of the auditor, including the general approach, scope and areas subject to risk of material misstatement;*

(d) *review the audit report and recommendations of the auditor and give advice about them to the Commission;*

(e) *review the compliance report issued and recommendations, if any, provided by the Auditor General as a result of a compliance audit conducted under Section 23 and give advice on that report and those recommendations to the Commission;*

(f) *review internal audit reports and make recommendations to the Commission as required in respect of matters arising from those reports and generally make recommendations with respect to internal audit procedures of the Assembly;*

(g) *review with the Chief Clerk the effectiveness of internal control and other financial matters, as well as compliance with legal requirements respecting accountability, record-keeping, tendering and conflict of interest in the Assembly offices;*

(h) *establish procedures for the receipt and treatment of complaints regarding accounting and internal controls, and the confidential submission by staff of the Assembly offices and by members of the public service of concerns regarding questionable accounting or auditing matters;*

(i) *use reasonable efforts to satisfy themselves as to the integrity of the Assembly's financial information systems and the competence of accounting personnel and senior financial management responsible for accounting and financial reporting;*

(j) review disclosure practices of the Commission to ensure full, plain and timely disclosure of its decisions respecting financial matters; and

(k) act on, advise and report on other matters relating to the financial affairs of the Assembly as may be required by the Commission.

The Audit Committee is established pursuant to Section 15 of the **Act**. There are four members of the Audit Committee: Mr Lauchlin McKenzie FCA (Chair), retired from KPMG and Mr Leo Gallant FCA, former Dean of Business at St. F.X. University, neither of these members are MLAs but are residents of Nova Scotia with demonstrated knowledge and experience in financial matters selected by the Chief Justice of Nova Scotia as required at clause 15(2)(b) of the **Act**. Hon. Labi Kousoulis and Hon. Chris d'Entremont, both members of the Management Commission, were selected by the Management Commission as required by clause 15(2)(a) of the **Act** and served on the Audit Committee for the 2014 calendar year. The Chief Clerk is the secretary of the Audit Committee as set out at Section 17 of the **Act**.

Composition of the House of Assembly Management Commission

The composition of the Management Commission, as set out at subsection 3(2) of the **Act** is: The Speaker (the Chair), the Deputy Speaker, the Government House Leader, two additional members of the Government Caucus (of whom only one may be a member of the Executive Council), the Official Opposition House Leader, one additional member of the Official Opposition Caucus and one member of the caucus of each other recognized party.

At present there are eight members of the Management Commission. The Chief Clerk is a non-voting member and secretary of the Management Commission. For the reporting period of January 1 to December 31, 2014, the voting membership of the Management Commission included:

Hon. Kevin Murphy, Speaker

Ms Margaret Miller, Deputy Speaker

Hon. Michel Samson, Government House Leader

Mr Lloyd Hines, member of the Government Caucus

Hon. Labi Kousoulis, member of the Government Caucus

Hon. Chris d'Entremont, Official Opposition House Leader

Mr Chuck Porter, member of the Official Opposition Caucus for the February 27, 2014 meeting only

Mr Larry Harrison, member of the Official Opposition Caucus
Hon. Frank Corbett, member of the NDP Caucus

Meetings of the House of Assembly Management Commission

The Management Commission met on the following dates during the reporting period:

February 27, 2014

July 10, 2014

In accordance with subsection 8(3) of the **Act**, following each meeting the Chief Clerk prepares for consideration and approval by the Management Commission at its next meeting, the minutes containing the substance of all decisions of the Management Commission. The minutes as approved by the Management Commission along with the Hansard transcribed recordings of the meetings are posted on the House of Assembly website. The address is: <http://nslegislature.ca>

The Management Commission held *in camera* meetings as provided for by subsection 9(1) of the **Act** to discuss personnel matters, potential litigation, legal advice and matters protected by privacy and data protection law as follows:

February 27, 2014

An *in camera* meeting was held during which the following decision was made by the Management Commission:

- 1) that the contract of employment for the Sergeant-at-Arms be extended with a 1.5% salary increase for two years to expire in March 2016.

Meetings of the Audit Committee

The Audit Committee met on the following dates during the reporting period:

January 14, 2014

July 10, 2014

April 22, 2014

November 25, 2014

As required by subsection 18(3) of the **Act**, the Audit Committee reported formally on January 15, 2015, to the Management Commission as follows:

- 1) At the January 14, 2014 meeting the Auditor General's issues for improvement, as identified in the 2013 audit management letter, were discussed. The Auditor General expressed his opinion at the meeting, that the House of Assembly audited financial statements added very little value to the MLA expense oversight function and they were not in his opinion necessary. He stated that the effort and cost related to the preparation and review of the audited financial statements did not add to the exercise of overseeing MLA expenses and consideration be given to removing their statutory requirement.

The 2013 Ernst & Young external review of internal controls was reviewed by the committee.

The committee was informed that a comprehensive risk assessment, as recommended by the Auditor General, was being prepared to strengthen the internal control framework.

- 2) At the April 22, 2014 meeting the committee reviewed the draft risk assessment document. The committee determined that it would analyze and rank the risks, and identify the controls necessary to respond to them. The committee would then report its findings to the Management Commission. The committee's report would identify issues of most concern and recommend certain actions to the Management Commission to respond to any outstanding risks.

With eminent legislative changes to remove the requirement of audited financial statements, the committee concluded with support from the Auditor General's Office, that it was no longer necessary to retain an outside agency to review the internal controls. An internal control review is still required and for the year ending March 31, 2014, the Internal Audit Center will conduct the review in accordance with the scope set out in their letter of engagement.

- 3) At the July 10, 2014 meeting the final Risk Assessment Report setting out five recommendations for risk mitigation was received and reviewed.

The committee was informed that because of the legislative changes to the **Act**, audited yearly financial statements were no longer required and thus the engagement letter with the Auditor General for the March 31, 2014 year end audit set out the scope of the audit as follows:

- a) whether the expenses are in accordance with the Management Commission policies and regulations; and
- b) confirming the Chief Clerk's certification that the internal controls were operating effectively.

Because of the new audit scope savings of approximately \$35,000 were realized in professional fees.

- 4) At the November 25, 2014 meeting the action plan to respond to the five risks set out in the Risk Assessment Report was discussed. The report and action plan will be presented to the next Management Commission meeting.

The committee received the Auditor General's November 12, 2014 letters setting out the audit results for the year ending March 31, 2014.

Activities and Decisions of the House of Assembly Management Commission

At the February 27, 2014, meeting, the Management Commission:

- a) added subsection 7(4) to the *House of Assembly Management Commission Regulations* to clarify that MLA travel expenses could be claimed for the time between the date of the MLA's election and the date the MLA became a member;
- b) received the 2013 Annual Report from the Audit Committee along with a presentation from the Chair, Lauchlin McKenzie;
- c) recommended to Government that the **Act** be amended to remove the financial statement audit at clause 22(5)(c) and that the date be changed from September 1st to November 30th at clause 11(3)(c);
- d) adopted the 2013 House of Assembly Management Commission Annual Report and directed the Speaker table the report in the House of Assembly; and
- e) reviewed the third quarter financial update.

At the July 10, 2014, meeting, the Management Commission:

- a) approved a group of eighteen amendments to the *House of Assembly Management Commission Regulations* as directed by the 2014 Remuneration Review Panel;
- b) repeal and replace clause 21(1)(k) and Section 28 of the *House of Assembly Management Commission Regulations*;
- c) approved the *House of Assembly Management Commission Outside Member Transition Regulations*;
- d) recommended that the Government introduce amendments to the *House of Assembly Act* permitting members, who have apartment leases and who are no longer outside members, to vacate their apartments on or before July 31, 2014;
- e) received an internal control review and an Office of the Auditor General update;
- f) reviewed the fourth quarter financial update; and
- g) agreed to further discuss caucus relocation expenses and additional constituency expenses related to enlarged geographical area of constituencies.

Auditor General's Audit

Attached to this Annual Report as Appendix 1 and Appendix 2 is the House of Assembly audit results and response for the fiscal year ending March 31, 2014.



Auditor General of Nova Scotia

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November 12, 2014

Mr. Lauchie McKenzie, FCA
Chair, Audit Committee
House of Assembly Management Commission
Province House
1726 Hollis Street
Halifax, NS B3J 2Y3

Dear Mr. McKenzie:

I was appointed auditor of the House of Assembly's internal control and compliance audits for the year ended March 31, 2014. The purpose of this letter is to bring to your attention matters that we believe should be communicated with you as Chair of the Audit Committee, including issues arising from the audit that are of sufficient importance to merit your attention.

Section 22 Audit Results

Summary – Our Office has been engaged to audit the operating effectiveness of internal controls and to assess the Chief Clerk's assessment of those controls. We have also been engaged to determine compliance with House of Assembly Management Commission Regulations and policies of the Commission and the public service (where applicable).

Our audits of internal controls and their operating effectiveness, and of the Chief Clerk's assessment of these controls, as well as our audit on compliance, were designed to provide reasonable assurance that controls were operating effectively and that transactions were in compliance with relevant regulations and policies. Our audits included identifying and assessing controls; identifying relevant regulations and policies; and testing transactions to meet each audit objective.

Based upon our audit, we concluded the following:

- controls were operating effectively for the year ended March 31, 2014;
- we concur with the Chief Clerk's assessment of the operating effectiveness of those controls; and
- transactions incurred for the year ended March 31, 2014 were in compliance with regulations and policies.

Auditor and Management Responsibilities

The responsibilities of the House of Assembly Management Commission and my Office concerning these audits, along with the audit approach used, were noted in the engagement letter dated April 29, 2014. The engagement letter also included information on our independence. We confirm that the Office of the Auditor General of Nova Scotia remained independent of the Province throughout the audit. No new matters have arisen since the preparation of the engagement letter that could reasonably be thought to bear on our independence. In addition, we communicate the following.

Matter to be communicated	Results of our audit
Significant difficulties encountered in performing the audits	We did not encounter any difficulties or disagreements with the House of Assembly's management while performing our audits that would require the attention of the Commission.
Management representations	We have received certain written representations from management. The signed letter is included as Appendix 1.

Findings and recommendations

Audits are not designed to identify all matters that may be of interest to the Commission or management in the discharge of their responsibilities. We have provided a separate communication to the Chief Clerk and his staff on certain audit findings, and have made recommendations impacting operations of the House of Assembly. However, we consider the following matter to be of interest to the Commission.

Annual entitlement – Regulation 42 sets an annual entitlement for members for franking and travel. The regulation is clear about proportionately reducing the entitlement for persons who become members during the year. However, it is silent about proportionately reducing the entitlement for persons who cease to become members during the year.

As nothing in the regulations would prevent a member from spending the full entitlement at any point in the year, there is risk that all funds could be spent by, say, month four but then an MLA ceasing to be a member in month five. This is especially true in an election year if incumbents lose their riding. This would mean taxpayers have provided in excess of one year's entitlement in that year. Consideration should be given to establishing a reasonable allocation of funds throughout the year for any sitting member of the House.

Recommendation 1

The House of Assembly Management Commission should address the risk of a member spending the annual franking and travel entitlement in a time period of less than a year.

Rental from an associated person - House of Assembly Management Commission regulation 20(1) states that a member may not enter into a lease of office accommodation with a landlord who is an associated person of the member. Management indicated they rely on the annual disclosure statement, prepared under the Conflict of Interest Act, to indicate compliance with regulation 20(1).

During the audit, we reviewed the disclosure statement and noted it does not specifically address the situation of a member renting from an associated person. Accordingly, it should be updated to reflect this. We further suggest that if the purpose of the statement is that it is a comprehensive listing of matters requiring disclosure, it should be reviewed to ensure it is complete.

Recommendation 2

The House of Assembly Management Commission should update the annual disclosure statement so that members can specifically indicate whether they are in compliance with regulation 20(1).

Information included in this letter may be referred to in other reporting by our Office.

We would like to express our appreciation to the staff of the Speaker's Administration Office for their courtesy and assistance during the audit.

If you have any questions or comments regarding the audit, we would be pleased to meet with you.

Yours truly,

Michael A. Pickup, CA
Auditor General of Nova Scotia

Appendix 1 – Management representation letter

cc: Neil Ferguson
Chief Clerk

Deborah Lusby
Director of Administration and Operations

APPENDIX 1



The Speaker
House of Assembly
Nova Scotia

October 24, 2014

Michael A. Pickup, CA
Auditor General of Nova Scotia
1888 Brunswick Street, Suite 302
Halifax, Nova Scotia B3J 3J8

Dear Mr. Pickup:

This representation letter is provided in connection with your audits of the Nova Scotia House of Assembly for the year ended March 31, 2014. Under Section 22 of the House of Assembly Management Commission Act, we have appointed the Auditor General of Nova Scotia to provide:

- an opinion on whether the expenses incurred by the Assembly are in accordance with the policies of the Commission as included in the House of Assembly Management Commission's Regulations (hereafter referred to as the policies of the Commission) and, where applicable, the policies of the public service of the Province, and;
- an opinion on whether the Chief Clerk's assessment of the effectiveness of internal controls of the House of Assembly is fairly stated and whether the internal controls are operating effectively.

We confirm that, to the best of our belief:

Compliance of Expenses

We acknowledge our responsibility to ensure expenses incurred by the House are in compliance with policies of the Commission and the public service of the Province.

Chief Clerk's Assessment, and the overall effectiveness of, Internal Control

We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated April 29, 2014, and have provided you with the Chief Clerk's assessment of the effectiveness of internal control.

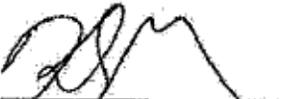
PO Box 1617
Halifax, Nova Scotia
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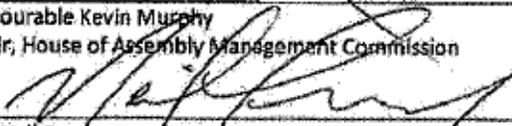
Specifically, we

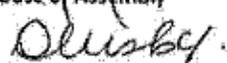
- acknowledge responsibility for establishing and maintaining effective internal controls of the House of Assembly;
- have performed an evaluation and made an assessment of these controls; and
- have concluded as to the effectiveness of the internal controls based on identified control criteria.

Information Provided

- We have provided you with:
 - access to all information of which we are aware that is relevant to the preparation of your audit opinions, such as records, documentation and other matters;
 - additional information that you requested from us for the purpose of the audit; and
 - unrestricted access to persons within the entity from whom you have determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records.
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others.
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations.
- We have disclosed to you all policies of the Commission and applicable policies of the public service.
- We have provided to you with all documentation used to support the Chief Clerk's assessment on the effectiveness of internal controls.


Honourable Kevin Murphy
Chair, House of Assembly Management Commission


Mr. Neil Ferguson
Chief Clerk, House of Assembly


Ms. Deborah Lusby
Director of Administration

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House of Assembly
Nova Scotia

January 9, 2015

Mr. Michael A. Pickup, CA
1888 Brunswick Street, Suite 302
Halifax, Nova Scotia, Canada
B3J 3J8

Dear Mr. Pickup,

I am writing in response to the two recommendations made in your letter of November 12, 2014; which were discussed by the Audit Committee of the House of Assembly Management Commission on November 25, 2014.

The first recommendation was that the Commission should address the risk of a Member spending all of his or her annual franking and travel entitlement in less than a year and then ceasing to be a Member. This type of concern is addressed in the context of constituency expenses by the allotment of funds on a monthly basis and, when it was suggested several years ago that the Members simply be given an annual amount to spend at their discretion, it was not done because the risk you identified was considered.

The treatment of franking and travel has been different for several reasons. The use of these monies has been dependent on the individual approaches taken by MLAs with respect to how they interact with their constituents. For example, an MLA with a large rural riding may choose to use most of the money for mileage as they travel about the constituency, and it may be that much more of the mileage occurs during the summer months when travel is easier and the demands are greater on the Member to attend a great number of community festivals and other events that traditionally occur at that time of year. Conversely, MLAs with urban constituencies with much smaller footprints, may choose to use more of the entitlement to send out "householders" - mailings to their constituents. Such a mailing may cost more than one twelfth of the total franking and travel annual entitlement, so it would be problematic to limit Members to a monthly amount.

We will consider this further with a view to coming up with a risk abatement if it seems necessary but our advice has been that in the collective memory of senior staff, this has never been a problem. That is, there has never been a situation in which an incoming MLA has found that their predecessor has used up the annual amount, leaving the taxpayer on the hook for additional costs. While it is a theoretical risk, experience has been that it has not been realized.

The second recommendation was that the House of Assembly Management Commission amend the annual disclosure statement to require Members to indicate that they are in compliance with subsection 20(1) of the House of Assembly Management Commission Regulations. A fundamental problem with this is that the Commission does not have the authority to amend the annual disclosure statement. The

contents of that statement are set out in Section 11 of the Conflict of Interest Act. There is no mechanism for the Commission to make changes to the document.

The Audit Committee will suggest the Commission pass on your recommendation to the government, but we wonder about the utility of having Members state they are complying with the law. That is, why do we need an acknowledgement that the Member is obeying the law? In particular, I am curious about whether your staff encountered any situations in which it appeared that there was a problem of this nature with the existing rental situations of current Members?

Thank you for the ongoing work of your office with respect to our audits. We value the recommendations you make and have a strong record of implementation of those recommendations.

Best regards,

Lauchie McKenzie