

HANSARD

NOVA SCOTIA HOUSE OF ASSEMBLY

COMMITTEE

ON

PUBLIC ACCOUNTS

Wednesday, October 4, 2017

Legislative Chamber

October 2017 Report of the Auditor General - Financial

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Public Accounts Committee

Mr. Allan MacMaster (Chairman)
Mr. Gordon Wilson (Vice-Chairman)
Mr. Ben Jessome
Ms. Suzanne Lohnes-Croft
Mr. Brendan Maguire
Mr. Hugh MacKay
Mr. Tim Houston
Hon. David Wilson
Ms. Lisa Roberts

[Mr. Brendan Maguire was replaced by Mr. Bill Horne.]

In Attendance:

Ms. Kim Langille
Legislative Committee Clerk

Mr. Gordon Hebb
Chief Legislative Counsel

Ms. Nicole Arsenault
Assistant Clerk, Office of the Speaker

WITNESSES

Office of the Auditor General

Mr. Michael Pickup,
Auditor General

Ms. Tammy Squires,
Assistant Auditor General

Mr. Mike MacPhee,
Audit Principal



House of Assembly
Nova Scotia

HALIFAX, WEDNESDAY, OCTOBER 4, 2017

STANDING COMMITTEE ON PUBLIC ACCOUNTS

10:00 A.M.

CHAIRMAN

Mr. Allan MacMaster

VICE-CHAIRMAN

Mr. Gordon Wilson

MR. CHAIRMAN (Mr. Gordon Wilson): Order. I would like to call the Standing Committee on Public Accounts to order. My name is Gordon Wilson. I'm filling in for Allan MacMaster as Chairman today.

To start off, I just want to remind everybody in attendance to please put their phones on silent or vibrate, and we'll start our meeting here.

I would like to ask the committee members to introduce themselves, starting with Ms. Roberts.

[The committee members introduced themselves.]

MR. CHAIRMAN: On today's agenda, we have the Office of the Auditor General with respect to the October 2017 Financial Report. I would like to make a couple of brief comments.

First off, I want to thank the Auditor General this morning for hosting us to breakfast and let everybody in the world know that he makes excellent date squares, which we all enjoyed. It was a very, very good conversation, thank you.

Also, on behalf of everybody here, we are pleased - which I'm sure we'll hear in your comments - about the timeliness of getting this report out to us, which I think is extremely important in light of how we manage ourselves as government. Thank you very much for that.

I would ask the witnesses to introduce themselves, starting with Mr. Pickup.

[The witnesses introduced themselves.]

MR. CHAIRMAN: Thank you very much. Mr. Pickup the floor is yours and I will ask you to start with some opening remarks.

MR. MICHAEL PICKUP: Thank you so much. The opening remarks are a little bit longer than I would normally like because I am trying to quickly summarize three chapters into one. Let us get going, I guess.

Chapter 1 is on the results of the financial audit work. Chapter 2 deals with the financial numbers from the Public Accounts. Chapter 3 is the information piece on pensions in the public sector.

As we know, the Government of Nova Scotia spends approximately \$11 billion a year. As such, a key way the government is accountable to the people of Nova Scotia is through the government's financial statements, and that is the reason we are here today.

In Chapter 1, I share the results of our audit of the government's Public Accounts: information related to audits of other organizations that are part of government and developments in the government's fraud management program; updates on disclosure of travel and hospitality expenses within government; and, finally, some inquiry on board vacancies within government organizations.

I am happy to report that for the 17th year in a row, the government received a clean audit opinion on the financial statements known as the Public Accounts of Nova Scotia. This clean audit opinion, in simple terms, means that people can rely on the numbers and the information that is the government financial statement. This, indeed, sets an expectation that all future governments should also be able to produce clean financial statements. Also, most of the individual government organizations that make up the Public Accounts also presented financial statements.

However, having said that, there is work to be done. There are some significant gaps in management controls over Nova Scotia's finances at some of the largest organizations across government. These include Housing Nova Scotia, the IWK, and the Nova Scotia Health Authority. Also, certain organizations within government have gaps in controls that have continued year after year without being fixed. Our review of the fraud risk management approach indicates that improvements are required, including

implementation of fraud policies across government and, more importantly, the completion of fraud risk assessments across government as well. Also, there should be an evaluation of the need for a public, public servant fraud hotline as well.

In the area of disclosure of travel and hospitality expenses, disclosure is now mandatory, and I am happy to report that it is happening across government in most organizations; this is a good thing. However, there are still improvements needed to enhance openness and transparency, including broadening the definition of who discloses executive expenses.

Finally, as part of our financial statement audit work, we inquired whether government organizations have board vacancies. We found that 16 of the 48 organizations - or 33 per cent - indeed have board vacancies. While we did not examine what the numbers ought to be or should be, or the details of any impacts that this may have had, we do note that this creates oversight risk at a high level.

Moving on to Chapter 2, we report on the financial numbers of Nova Scotia, including several indicators which provide a picture of the province's financial position at a point in time. Our analysis and comments come from the Public Accounts of Nova Scotia, a published document where the government provides loads of details for all to read. Our chapter is not a commentary on public policy choices made by government today or at anytime in the past.

While looking at current-year information provides a picture of what happened in the last year, it is equally important that we look to what happened over the period of time before that, to understand the current financial position of the government. Therefore, we have chosen to comment in the report on the last five years and the last 10 years on various trend items.

Moving on to Chapter 3, I wanted to inform Nova Scotians on key matters related to the three largest pension plans for the public sector employees in Nova Scotia. By way of information, that's the plan for the health care employees, the public service plan and the teachers' plan. This chapter is strictly an information piece. It doesn't offer any opinions or conclusion on the actual situation, but these pensions are a huge deal in Nova Scotia. Not only for members of the plans but also to all Nova Scotians, because the province contributes over \$250 million dollars a year to the plans and because, for example, the government is on the hook directly for one-half of the teachers' pension plan deficit of \$1.4 billion.

The \$1.4 billion deficit in the Teachers' Pension Plan should be a concern to retiring teachers and, because they are unlikely to get a pension increase for the foreseeable future, I really feel they should get engaged in their financial statements. As well, all Nova Scotians are interested in this plan because of the amount of contributions that the province is also contributing.

That was really all I wanted to cover. I would like to say, while I'm taking most of the questions and doing the talking, the two people to my right - Ms. Squires and Mr. MacPhee - really were the heavy lifters and responsible for doing all the work. Not behind them, but behind them in more figurative ways, if you will, are the many people back in the office across the street, who really assisted them in doing this work and pulled this together over the summer.

As a final note, I would add that this year is the earliest ever we've been able to produce this report. We've advanced this from the first year by four, four and a half months, and we're getting this information to you probably as quickly as anybody in Canada is doing. I did just want to share that and extend my thanks to the folks next to me. That's my final opening comment.

MR. CHAIRMAN: Thank you very much Mr. Pickup, and again we appreciate the timeliness of getting this. I know it's a lot of work on behalf of your staff, a very competent group of people, and we appreciate that.

We'll start the questioning with the Progressive Conservative Party. Mr. Houston, you have 20 minutes.

MR. TIM HOUSTON: Thank you for the opening comments and thank you for preparing this report for Nova Scotians. You've identified significant weaknesses and you actually say in here: "significant weaknesses and controls exist across government and risks continue," and you go on to say that "the IWK is an example of what can happen when controls are not working."

So significant weaknesses - and I understand the choice of the word "significant" is in itself significant. This is something to be concerned about. I guess my first question would be, who is ultimately responsible for making sure that an organization has adequate internal controls? Where does that responsibility rest?

MR. PICKUP: In response to who is ultimately responsible, if we take the three organizations we've identified as having significant control weaknesses - IWK, Nova Scotia Health Authority and Housing Nova Scotia - those organizations have bodies in place, like a board of directors and audit committee to whom management reports, and who are responsible to answer as to why they have significant control deficiencies.

Ultimately of course, under our system, there would be accountability back to a minister from those organizations as well. So it's not all on management, if you will, to take all of the responsibility for not having these things in place. It would also be those that oversee these organizations to say, why isn't this happening? I hope that answers the essence, I think, of what your question was as to who is responsible.

MR. HOUSTON: I think so, and I think the responsibility, from what I understand, would obviously first rest with the front-line workers, the people doing the jobs and then that would flow up to management, and that would ultimately flow up to the board. At the end of the day, though, the buck stops with the minister. Is that a fair assessment?

MR. PICKUP: Under our system, if we take these other government organizations outside of departments like the three that I gave, ultimately those boards of directors have a reporting relationship back to the minister, obviously. So if someone is going to stand up in the House and explain why something is happening in one of these organizations, it's not going to be - you're not going to have a board member come in. It's going to be the minister who will answer to the question, recognizing these organizations are like the departments - by the end of the day they're all accountable to people in the House.

MR. HOUSTON: Based on your knowledge of the flow of information, let's call it, in the current administration is there a minister in the Cabinet today who should be surprised by these findings? In other words, do the ministers already know about these internal control weaknesses - they're not new, are they?

[10:15 a.m.]

MR. PICKUP: A couple of points on that. I've learned long ago not to attempt to speak for anybody else, but to give my views. Who knows why those types of issues - I won't try to guess. Having said that, in specific response to your question, yes, when these organizations get audited and they have, for example, reports back to those charged with the oversight, people on the board, the audit committees, would know this from their auditors. The reporting beyond that up to a minister and what a minister may know, that would be different.

Having said that, I think in fairness I would say, on the IWK and the Health Authority and them having weaknesses, that I would have met with the Minister of Health and Wellness recently to have a discussion on those.

MR. HOUSTON: Recently, as a result of the situation at the IWK, or previous to that even?

MR. PICKUP: It's funny how these answers are often not simple. The meeting was set prior to the IWK. The meeting happened after the issues at the IWK, but that's just by the amount of time it takes to get a meeting organized.

MR. HOUSTON: I guess I'm trying to understand. When I read this report about the significant weaknesses, it bothers me. When I read that many of these weaknesses - some control weaknesses. I use the word "many," and maybe that's not fair. Your word is 'some': "Some control weaknesses continue year/year." I guess what I'm trying to understand is, when you have significant control weaknesses, you have the opportunity for

mistakes, and you have the opportunity for fraud. I would think that the person and the people ultimately responsible for making sure that mistakes and fraud don't happen should be very concerned when they hear that there are weaknesses. I guess what I'm trying to understand is, have they known for long enough that there should have been some action taken, in your opinion?

MR. PICKUP: As a context to that answer, let me be clear as the Auditor General, that when an organization has a significant control weakness, that's a pretty bad thing. Things can happen that are not good, that you don't want to happen. For us to use that term, "significant control weakness," is a big deal. It's something we put a lot of consideration into. If you look at 50-plus organizations in the government, we have three of them with significant control weaknesses. It's not a title that we would use loosely. Those three organizations are sizeable - it's the Health Authority, IWK, and Housing Nova Scotia. One of them has moved into year three, the Health Authority. Yes, they have had to merge nine, and that has taken some work. So I have been a bit more patient, if you will, and understanding, but recognizing that I think in year three, these significant weaknesses need to be addressed. The IWK and Housing Nova Scotia have been around a long time, and to have significant weaknesses in controls, frankly, I don't think is a go.

MR. HOUSTON: I don't think it is either, actually. Unfortunately, my take-away from the portion on the control weaknesses and the fraud, the lack of fraud risk assessments - those things obviously go hand in hand - is, sadly it just makes me think that there's no reason to be surprised that something like what happened at the IWK actually happened. Without the proper control environment, there's an opportunity, and often when there's an opportunity, somebody will take it. It was almost just a matter of time. The fact is that we know about one situation across the government, which has significant weaknesses in controls. Across the government, there's probably more.

It's a shame to think that people should have known. Somebody should have been jumping up and down, and they're not. I don't understand why they're not. Maybe they will now. In fact, I did read in your report that the housing authority and the IWK in particular have said that they will have measures in place by December 17th to address some of the weaknesses. Maybe it's better to close the barn door late than never, I guess. They're saying they'll have some measures in place by December 17th. Do you have any indication or any sense as to whether that's a timeline that can be met?

MR. PICKUP: I'm always hopeful and optimistic, but being the auditor that I am - show me the money, if you will. The proof will be in being able to deliver. I would put the Health Authority in the same bucket and say, okay, we're in year three. They have committed to have things done by March 2018. Being the auditors of that organization, we will be in contact with them near-monthly from now until then, to see what is happening. Optimistic and hopeful, but at some point, let's see that it's done.

MR. HOUSTON: You mentioned in your report that departments have not considered a fraud hotline. In fact, I think the only reason the IWK's situation came to light is because somebody picked up the phone and called, I think, Michael Gorman at the CBC who ultimately kind of broke the story, is I believe what happened there so there isn't a fraud hotline but somebody I guess took the initiative and had the good sense to establish their own fraud hotline but a fraud hotline seems like a no-brainer. Is that something that the department said they would be willing to establish?

MR. PICKUP: We made the recommendation to Executive Council that they need to evaluate the usefulness of a fraud hotline, and I think it's not that complicated of an area to evaluate, frankly. I mean, there are lots of other jurisdictions that have been down this road and have looked at having fraud hotlines. I would also note that the science, if you will - the study of fraud is pretty clear that when you have a fraud hotline, probably 40 per cent of the cases of fraud and potential abuse and other bad things that happen get reported to the fraud hotline. So I'm not saying, go get a fraud hotline but I'm saying, government needs to look at and evaluate having the fraud hotline in place.

MR. HOUSTON: Is that a new recommendation on your behalf or is that something that you've been preaching to them for awhile to assess whether or not a fraud hotline is appropriate? Is it new?

MR. PICKUP: We've been doing this in steps, if you will, so we were pushing over the last couple of years as the auditor might do to get the fraud policy in place. That has been done. We're pushing to get these fraud risk assessments in place and we said, by the way, we think you really need to evaluate having this fraud hotline. So, it's new in terms of being a recommendation this year because I think we've tried to move this along here to say, okay, let's see that evaluation take place.

MR. HOUSTON: It's new from your office. Would it be new from, like there are internal audit departments and things but it's not something that you've seen in your review of the documents. It's just something that you've suggested to them.

MR. PICKUP: In terms of the fraud hotline, if I understand, it's the first time we had specifically said, oh, and besides, you know, the comments we've made around having a fraud policy, doing fraud risk assessments, we also think you should evaluate the fraud hotline. But fraud hotlines have been - this is not like putting people in space, right. I mean this has been around and there's lots of people doing it and lots of people have studied it. So it's not something that I would see as very cumbersome and costly to go do that evaluation to see whether you should have a fraud hotline.

MR. HOUSTON: I agree with you. It seems like a common sense thing to do. So you've suggested it now; presumably other people have suggested it earlier but it just hasn't been done. I guess my specific question to you in your review of documents that you're reviewing through your process did you see other people recommend, hey, why don't we

have a fraud hotline and it just didn't happen and didn't happen and now you're suggesting it and maybe it will happen now. We don't know.

MR. PICKUP: I haven't seen discussion around that or evaluation of that by others but nobody has said, yes, somebody has raised this before. So I really doubt it and I guess, to be frank, given how long it has taken to get the fraud policy approved and in place, probably that evaluation had not been done before.

MR. HOUSTON: Okay, I do want to talk about the boards. There are a number of vacancies across government, across boards. There were a number of vacancies that existed at the time you were doing - let's call it audit field work, right. What period was that? When was all this audit field work done?

MR. PICKUP: Essentially, in relation to this board, we surveyed all 50 or about 50 government organizations in the winter period. We sent that out to them and sought the information, and then compiled it up until, say, July/August.

MR. HOUSTON: Okay, there were vacancies at a point in time when you contacted each one. Do you have any sense as to - is this a chronic issue? Were people saying, yes, we have three vacancies and we've had those for four years? Do you have any sense of if it is an ongoing thing, or was it just bad luck that you happened to call on that day and there happened to be vacancies?

MR. PICKUP: We did report within the report the length of time of how long these organizations had indicated. In Paragraph 1.32, we indicate that on average these positions had been vacant for more than 13 months.

MR. HOUSTON: I know it wouldn't be covered in this or you might not have done any follow-up, but do you have any sense as to whether most of these vacancies are filled now or would it be the same?

MR. PICKUP: We had to cut off at a point in time. We did make the recommendation to Executive Council that they look at this. In their response, they indicated in September that a process has been started to address this.

MR. HOUSTON: Thank you for that. I am sure we will come back to that.

In terms of the pension plans, the Teachers' Pension Plan in particular is a concern to me, as it will be to teachers themselves who are members of that plan. There is a deficit. Is that a chronic deficit? Has that plan been in deficit for a long time or has it had a couple of bad years? Do you have any sense as to how that developed?

MR. PICKUP: The \$1.4 billion deficit has been the same \$1.4 billion for the last three years, for example, but we also summarize on Page 40 in Paragraph 3.21 what the

deficit has been. We bring it as far back as five years ago, and it has been anywhere from \$1.4 billion to \$1.7 billion.

MR. HOUSTON: I don't think you have, but I'm just wondering - have you made recommendations to the board of the Teachers' Pension Plan or their pension administrator? Has somebody made recommendations to them as to how they could better manage the pension plan assets? Maybe it wouldn't have been you, but did you notice in your audit work somebody making some recommendations to them?

MR. PICKUP: Just in terms of this chapter, this is an information piece. We really tried to summarize the story on each of these pension plans really to bring it to the Public Accounts Committee to say, here is a matter of interest in terms of public finances, but probably more importantly in terms of people's lives in terms of teachers, for example, and what they might expect going forward. We didn't audit the pension plan - we brought information, so we didn't make a recommendation to them.

Having said that, with all due respect, I would suggest that that is a great question for this committee to ask. There is a \$1.4 billion deficit - why does that exist and what is going to happen going forward given that as it is now, teachers who are going to retire - if this continues, they likely won't see any increase to their pension any time in the foreseeable future.

MR. HOUSTON: I'm trying to just get my head around the relationship between the pension and pensionable earnings and the wage pattern that was imposed upon them and the withdrawal of the long service award. I guess what happens to the current remuneration of teachers impacts the valuations - is there any relationship or you're just looking at the pension plan itself?

MR. PICKUP: Drawing on that I guess to some extent, speaking from one accountant to another, I suppose in some ways is that - how the amounts of compensation change would have impacted the pension contributions because those contributions would be a percentage of the earnings that somebody makes. That would be sort of the only link that way. I wouldn't look to make other links.

MR. HOUSTON: I will go back to the internal controls situation. I guess what I would ask is, now that we know, and everybody knows, that there are significant internal controls across the government, and we know that two of the organizations - would they be the worst offenders in terms of control weaknesses? They have said they'll kind of clean up their internal controls by December - just a couple of months from now - and I think Housing, you said, was going to be by March. Those are the three organizations that have been highlighted here as having significant internal control weaknesses. They've all given a deadline as to when they're going to address that.

[10:30 a.m.]

What do we take away? Is there a whole bunch of other departments that also have significant internal control weaknesses that maybe are not in that three? What would be a realistic expectation for a Nova Scotian sitting here to say gee, they should really clean this up. They should get their act together, and they should do it by when? A year from now, we shouldn't be having this discussion about significant internal control weaknesses across the government, should we?

MR. PICKUP: You have given me a great opportunity to explain what I would love to see happen, with all due respect. We bring this information forward to you to assist you in holding the government accountable and to make better government. One of the ways perhaps to do that would be looking to hold these organizations accountable, hold the government accountable and asking the questions: is this happening, and are they dealing with it?

In terms of the number of organizations, it becomes somewhat easier for you, I think, in that there are only three out of all of them that have the significant control deficiencies. If, for example, you wanted to know what was happening at Housing Nova Scotia or the IWK or the Nova Scotia Health Authority, maybe you would think about calling them in here at some point to ask for an update as to what's happening and to hold them and the government accountable for that. That's why we're producing this information for you, to assist you in holding the government accountable. Thank you for that opportunity.

MR. CHAIRMAN: That was perfect timing on your answer. We will now move to the New Democratic Party for 20 minutes. Ms. Roberts.

MS. LISA ROBERTS: Just to ask a last clarifying question - following my colleague's line of questioning - can you explain what information you had or what history you have with these organizations that led you to focus on the internal controls of the IWK, the NSHA and Housing Nova Scotia?

MR. PICKUP: Sure. In the interests of not using up all your time, I'll try to speed it up. So if I don't give you exactly what you want, let me know, and I will expand on it.

We are the big auditors of the government's financial statements, if you will, the Public Accounts. That incorporates all the departments and about 50 other government organizations. We actually do financial statement audits of very few of those organizations. We do the Health Authority, but for most of the others, we rely on the financial statement auditors who are doing this work.

As part of the annual financial statement audits that they do, they have to report to us - as the big auditor of the government's Public Accounts - on the results of all of those

individual audits. We then take all of the correspondence in terms of how they let the organizations know whether there were weaknesses in controls and things that were happening. We take all of that, then we go through it, and we say, okay, here is the picture on a consolidated basis, a snapshot of government - I say we, but it's mainly the folks by my right. Then we summarize it all here to say, out of all of this, there are three that have what we would call significant weaknesses.

I think for us, it reflects that there's some judgement around that. It's something auditors take seriously when they use that concept of significant weakness. That's probably why, in part, if there's 50, you have only three. The bad side is there are three; the good side is there are three.

I hope that gives you enough detail. If not, I would be more than happy to jump in on any of that.

MS. ROBERTS: I know the IWK's Chief Financial Officer and also CEO recently resigned. Were they involved in your review that led to this report today?

MR. PICKUP: On the IWK and the control deficiencies that are picked up here, we didn't do the financial statement audit. This would have come from the results of the financial statement auditor. Having said that, we have made the decision, as allowed in the Auditor General Act and in meeting with the IWK folks, that we would start auditing the financial statements of the IWK, beginning April 1, 2018. These results come strictly from their financial statement auditor.

MS. ROBERTS: For Housing Nova Scotia, you note that finance staff can both make and approve journal entries. Can you expand on that and the problems you see with that taking place?

MR. PICKUP: At a high level, making and approving journal entries would lack proper segregation. So from a control perspective you don't generally want to give an opportunity where someone can decide, this is an appropriate journal entry to make, debit this expense, credit this - oh and by the way, I'm going to approve that as well. Not the way you want things to work in accounting.

So at a high level, lack of segregation. It creates a real risk. It doesn't mean that I can show you 850 things that happened as a result of that, but when something happens I can say, we did tell you that this weakness existed, you let that risk continue and you risk the potential of something bad happening.

MS. ROBERTS: And in the course of your work, do you have any evidence of those risks having clearly resulted in fraud or something approaching fraud?

MR. PICKUP: When we do these financial statement audits, we don't design these audits and we don't look to seek out fraud, for example, or to give an opinion on whether there is or isn't any fraud. What we're really attempting to do and issue opinions on - when the financial statements, those 20-25 pages of consolidated information at the end of the year are prepared, we give an opinion - are those financial statements, the numbers, in accordance with accounting principles in Canada? That is what the opinion is on. When we do that, we use concepts of significance or materiality, is what we would call it.

The audit didn't set out to say, is there a \$10 million fraud, is there an \$800,000 fraud? Having said that, under auditing standards, if there is a huge fraud - a significant material one that would impact that financial reporting - then our work should pick that up as a regular course of a financial statement audit.

I think it is worth stressing that financial audits are not designed to pick up fraud. In fact, the research shows that in most cases when there is fraud in an organization, those organizations had a financial statements audit, which further supports that that wasn't designed to necessarily pick up the fraud.

MS. ROBERTS: You note that these departments have been recommended to have a fraud risk assessment done and in many cases they have not been done or are not complete. What is the cost, maybe both in terms of financial cost, but also time to actually complete that recommendation, that fraud risk assessment?

MR. PICKUP: Completing a fraud risk assessment as a control approach should be a reasonable cost benefit approach. It's not a one size fits all. It depends on the size of the organization. Just to give you an example, my office is a small organization - \$4 million a year in expenditures - relatively small on \$11 billion in government expenditures. For us to do a fraud risk assessment, which we did, it was 75, 80 hours total, but the payback from that can be tremendous.

We indicate on our summary that the Department of Health and Wellness, for example, did a fraud risk assessment, over \$800 million in program expenditures - it may be an interesting discussion to ask the folks at the Department of Health and Wellness, what did that cost you and what did you get out of that? I would argue that the costs are relatively insignificant as to what it can protect in dollars, but also what it can protect in reputation and people's time.

If you look at some of the examples of what you see currently, significant in terms of the public interest dollar amount of money, when you add on to that all of the time that auditors spend, people spend, the energies consumed at a reputational and management and executive level and a board level around that, which may have been prevented in some of these other cases could be perhaps prevented by doing a fraud risk assessment. It's generally pretty small potatoes, in my experience, to the upside of what you're getting in return.

MS. ROBERTS: Thank you. I'm just going to briefly turn to the chapter on the pension plans. Obviously there are some very different circumstances in these different public pension plans. Looking at the teachers I think a lot of people, when folks think about teachers' pensions, they think about the Ontario Teachers' Pension Plan, which is like a financial powerhouse, a huge investor. Can you comment on the obviously significant gap between that pension plan and the Nova Scotia Teachers' Pension Plan, and what would explain that?

MR. PICKUP: If I understand - and correct me if I'm not fully understanding - do you mean a comparison of the Nova Scotia Teachers' Pension Plan to the other pension plans in Nova Scotia, or to the Ontario Teachers' Pension Plan?

MS. ROBERTS: Actually, I'd be interested in both comparisons, two separate comparisons, thank you.

MR. PICKUP: I'll give you the easy answer first. In comparison to the Ontario plan, we didn't do a comparison to the Ontario plan. Part of that is what drove us in doing this and what was guiding us. Yes, the numbers are important but it was from a people perspective.

Teachers on average now - working teachers - are paying \$170 more a month in contributions. The province has kicked in an extra \$52 million on top of their contributions in the last five years. Post-2006, teachers who retired are not getting indexing. Newly-retiring teachers, they're not looking at indexing at any time soon.

Part of why we did this, before I directly answer the question, is really if the awareness isn't there - besides whatever public policy issues this may raise for people like the Public Accounts Committee - is to drive home this point to teachers. It's to say, we sure hope you're aware that if you're going to be retiring any time soon, you may go a long time - if not your complete retirement - without an increase to your pension plan, which hopefully they are considering in their own personal financial planning. That was the intent behind this, to bring that awareness.

The direct answer to your question, and I know that was a long preamble, but in comparison, for example - and these plans are all different, I get it. Teachers are different than health care workers, are different than Public Service, are different than MLAs. Having said that, they're all pension plans. If you take the health care employees' plan that is sitting on a \$1.7 billion surplus, there are more assets than liabilities. If you compare that to the teachers' plan, it's the opposite, there's a deficit of \$1.4 billion, there are more liabilities than there are assets. Now, if you take the Public Service plan, it's slightly surplus, somewhere in the middle, just over \$200 million.

You've got three plans, very different backgrounds - yes, everybody gets that. But at the end of the day you're looking at a \$1.7 billion surplus over here, a \$1.4 billion deficit

over here, for roughly sort of not that much of a difference in the number of workers - 42,000 members, 32,000 members. It raises some significant questions.

I think if I was a teacher or a taxpayer in Nova Scotia - I say this chapter matters to two groups of people: teachers and those Nova Scotians who aren't teachers, which is just about everybody else. You need to be saying, okay, a number of things have been tried - government is kicking in more taxpayers' money, teachers themselves are kicking in more, the benefit increases have pretty much stopped for new retirees - but the deficit still continues at \$1.4 billion. That raises a huge question mark, I think, and that is a huge question for groups like the Public Accounts Committee which really are here to look at accountability of public money.

MS. ROBERTS: Just before I pass it off to my colleague, you don't have the answer for that, I guess.

MR. PICKUP: I don't have the answer. Why we brought this information piece is to say this has to be one of the major questions that exists today, in terms of public finances, as to how we can have a \$1.4 billion deficit in the teachers' pension plan that I don't quickly hear the sort of answer as to why or how teachers and the rest of Nova Scotians are getting out of this on a go-forward basis.

MR. CHAIRMAN: Mr. David Wilson.

HON. DAVID WILSON: Thank you to the Auditor General and his staff for being here. I'm just wondering if the auditor would agree that the estimates and assumptions are the biggest risk when preparing a budget. I'll get into some questions after that.

MR. PICKUP: I would completely agree and I would also indicate that management accounts that way, as they properly should, in accordance with standards. This is not oh, the auditor coming and telling you something new. The accounting folks in the government are doing the right thing, they are accounting properly. But yes, to your point - the most significant things in these financial statements really that could change things in terms of the future are the assumptions around estimates that are buried in those statements that derive the numbers that are the most significant numbers in the statements.

MR. DAVID WILSON: Thank you for that. It is interesting, a portion of my time especially during Budget Estimates that is going on right now is to compare the estimates to estimates, but more importantly the estimates to actual that we see and what we are provided as MLAs, because often you know that is where you will see a reduction or what you could say some consider underspending the budget. And we have seen actuals go much higher. It is definitely an area that government needs to make sure - I believe it is their job to make sure their estimates and their actuals should be pretty close at the end of the year.

[10:45 a.m.]

I know that there is a lot of pressure and outside information that will change that. We have heard the Premier say that the current budget is based on wage patterns for example - and of course I won't go into the history of the last year and half, two years, with the current government and their approach trying to come up with a wage pattern and negotiations with the Public Service.

Are you able to comment at all on - I think what is important is making sure the analysis is done, the information that government uses to bring forward estimates are appropriate. Are you aware that government has done the analysis to support their approach on the wage patterns over the next year especially dealing with Public Service?

MR. PICKUP: So, as I keep my auditor hat on, I hope that I did not confuse the issue earlier when I talked about estimates in terms of assumptions. In estimates I was talking about the financial statements accounting for the prior year where there would be estimates based on some of those costs, for example. So that is the accounting side of it. But what you are talking about is more about estimates both on the revenue side and on the expense side that may make part of a budget.

My office gives a report on the reasonableness of the preparation of the revenue side of that, looking at whether the calculations were correct; obviously not a guarantee that revenue amounts are going to be correct. We do that piece of work that gets included in the budget on the revenue estimates, and we were comfortable that the revenue estimates were reasonably stated.

On the expense side and looking at expense projections forward and what might happen, we don't do any work in relation to that. Our opinion absolutely does not apply to any kind of projected expense information and what might happen on that.

MR. DAVID WILSON: We know that there are always reports every year, especially the last few years, around pension valuation and what the government tries to present to Nova Scotians, and of course we get the updates further in the fiscal year. Are you confident that that work is proper and reflects what is seen across the country, in other jurisdictions, around reporting of pension valuations and the correcting of that when they - I don't know if it is make a guess or try to figure out what the expense is going to be for the province in the upcoming year?

MS. TAMMY SQUIRES: So, when we audit estimates or pension valuations or other employee benefit valuations, this is an area of - it is not the normal process. There actually is an element of uncertainty in it and because there is some uncertainty in it, we probably spend a little more audit effort, and I would say that all auditors across Canada would do the same thing.

When the government makes its estimate or what it feels would be your wage assumption, then we would actually go and make sure we have all the evidence to support that they are using that when it goes into the big formula.

MR. DAVID WILSON: Is that done every time the budget is produced? Does your office look at that analysis to make sure that it's to that degree at budget time every year?

MR. PICKUP: With the annual budget process, the only work that we are doing in terms of giving a report on is on the revenue side. We would look at the reasonableness of the calculations of the revenue piece and give a report on that. We are not doing anything on the projection side, on the expense side.

When Ms. Squires was talking about some of the assumptions and expenses, that was historical looking. For example, if somebody is making a pension adjustment for the March 31, 2017 financial statements, included in there would be assumptions like future wage patterns, CPI inflationary increases, all of these types of things. But those were the assumptions for the historical statements as they might impact estimates in those statements. On the budget side itself, we do nothing with projected expenses in any way.

MR. CHAIRMAN: Thank you. We'll now go to the Liberal Party.

Mr. MacKay, you have 20 minutes.

MR. HUGH MACKAY: Mr. Auditor General and staff, we certainly appreciate you being here with us today, and appreciate the very hard work that has gone into presenting your report in a very timely manner. I might also add, a very organized manner - the way it has been presented to us is very efficient and very helpful for us for our proceedings today.

We very much appreciate the role of the Auditor General's Office and we certainly recognize that it is to hold government accountable, which I might also interpret as an opportunity for government to enjoy continuous improvement because the business of government is a busy business and we need to continually find ways to improve, and we thank your office for being here to help us make those improvements. We take your recommendations seriously as ways that we can bring improvement to governance for all Nova Scotians.

You mentioned that the province's finances have improved in some areas over the past year. I believe that we've done that by introducing some sound fiscal policy - an approach to our financial management that has broadened our revenue generation. If I look at areas like seafood exports, for example, where we've already exceeded the Ivany report's recommendations for seafood exports, or tourism where we're well on our way for a record-breaking year in tourism revenues in Nova Scotia - and at the same time introducing

sound spending restraints in some cases, but sound spending policies that Nova Scotians can afford.

I'd like to know if you could point out some of the areas where you believe that the province's finances have improved over this past year.

MR. PICKUP: In Chapter 2 on the financial information report - again I want to remind everybody that all of this information that we are selecting and pulling out is all provided in detail right now in the Public Accounts of Nova Scotia, so we're not coming here necessarily with new information.

I always like to make sure I take time to give credit to the accounting folks who are preparing all this information on behalf of government. This is all there and they are doing us all a job of pulling this together, so I do want to recognize that is happening.

In direct response to your question, on the summary that we prepared for Chapter 2, what we have done is given a picture to say here are the 2017 results, here are what the financial numbers show for that one year, and here is what they show for the 10-year period. So, if you look at the two big boxes on that summary, clearly the results for 2017 show a surplus of \$150 million, some decrease in the net long-term debt, and a small drop in the annual interests costs, but still averaging about \$750 million a year for each of the last five years.

So, from that perspective we are saying the 2017 results - dollar amounts without commenting on policies and what was happening to produce this - the plain and simple of it is the 2017 results show better financial results than the year before.

MR. MACKAY: Thank you for that. I certainly appreciate the shout-out to the financial sections of the various government departments - and we certainly agree they're doing a very good job and we're glad to see that the very first comment made in your overall conclusions is that government's financial statements meet accounting standards and, yes, very attributable to the work being done in organizations across government.

On the net debt per capita - I believe it's Section 2.17, Page 28 - you certainly note here that net debt has increased by \$2,534. But it should be pointed out that 63 per cent of that increase occurred in the 2012 to 2017 period.

I want to go down to 2.19 - it actually is the more appropriate one where we look at net long-term debt which has decreased by \$400 million over the prior year. I know when we talk about billions of dollars that may seem like a small amount, but \$400 million is a significant number and I think we do have to pay attention to that - and we should note that 87 per cent of that three-billion-dollar increase that occurred however during the long-term debt occurred in the 2007-2012 period prior to the present government taking its role.

And in Section 2.20, immediately below that, when we look at the net long-term debt per capita, where we see that this has also decreased in 2017 - while it may have increased over the ten-year period, again, 87 per cent of that increase occurred prior to this government taking its role. It occurred in the 2007-2012 period, and I'm wondering if you could just speak to those numbers a little bit.

MR. PICKUP: Sure. What we have provided here - and this is why I may have indicated earlier that one year does not a trend make, so I think it's important to look at five-year periods, ten-year periods, both looking back and looking forward.

The information is there. The idea of why we spread it out over the years is to foster a discussion, I think, that government can have with Nova Scotians as to say, here is what the changes in numbers have been, here is what you've received for this, here is the going forward, here is what this is. That is the point of spreading it out and showing a ten-year analysis so that people can do sort of what you just suggested - to say, okay, let's break that down into periods of time.

I'm just presenting information without comment sort of on policy as to when debt is good, when debt is bad. What I like to put forward is, at the end of the day, the impact of a ten-year cycle. The last ten years has been interest on debt of \$7.5 billion and I think, in simple terms, how do you relate to \$7.5 billion? Well, that's two years of health care costs for every single one of us in this province.

MR. MACKAY: Right, thank you very much for that response. I guess, similarly, that would hold when we look at the annual interest on long-term debt which - as you note in Section 2.23 - has declined over the past five years.

The other point I'd like to expand on a bit is, in your summaries on the 2017 annual reports, departments got an extra \$234 million. To my interpretation, we look at this with the increases in spending in health care for mental illness for example, for education with the pre-Primary classes that this government's introduced, and the ability of this government to broaden our revenue base while using good governance on our spending. I think this has allowed us to make these investments in these sorts of programs that will benefit Nova Scotians.

But my question is, with these things we are also addressing a larger population in Nova Scotia. We are at an all-time high as far as our population based on, I think, more jobs that keep young Nova Scotians here in the province and, in some cases, attracting Nova Scotians here, as well as a very broad immigration program attracting new immigrants here. I'm wondering what your thoughts are as to the impact that an increasing population will have on the financial situation of the province.

[11:00 a.m.]

MR. PICKUP: It's a very interesting point and I particularly like the segue that will give me, if you will, into the importance of projections and looking forward. You talked about what the projected changes in population will mean, and we haven't done any work on that in terms of auditing that to say looking forward this might happen or that might happen. But I think all of those types of discussions are significant.

Now, where we did go in this report is, if you refer to Page 34, we have looked at the changes in population over a 10-year period. We say essentially the population in Nova Scotia has gone up about 2 per cent in the last 10 years. We say an interesting discussion for Nova Scotians to engage in, is to say, health care costs have gone up 46 per cent in 10 years, and population has gone up 2 per cent - what does that mean going forward? In and of itself, those numbers mean nothing. A 2 per cent increase in population and 46 per cent increase in health care are numbers - the meaning behind them would be why this is happening and what this means going forward.

If you look on Page 34, where we talk about the distribution of the population, what we're seeing is that that group in 65-plus in the last 10 years is up one third. We have gone from 15 per cent of the population being over 65 to 20 per cent of the population being over 65 in 10 years. That is fairly evenly split as to who that's coming off to in terms of the groups - there are less people under 17; 3 per cent less, from 20 per cent - and less people in that 18 to 64 group. To go back to your point about looking forward, I think in many ways that's the whole point of historical financial statements. Yes, they tell you where they are, they tell you the cumulative effects of years of decisions, but they inform a discussion as to what this means on a go-forward basis.

Does it mean anything, for example, that the number of people over 65 is up a third in 10 years? How does that relate to a 46 per cent increase in health care? Does it? I don't have the answers to those things, but the point of bringing this forward to you folks is to give you some information to perhaps engage in those types of discussions with the people running government.

MR. MACKAY: Thank you for that. Certainly, without this sort of information - well, we will make more informed decisions with this sort of information.

Our last budget also included significant tax relief for small business. We're going to have a significant number of small businesses across the province paying less tax, which will enable them to invest back into their businesses, to grow their businesses and grow the number of jobs offered there. We have also made a significant tax cut for 500,000-plus Nova Scotians, allowing younger families and seniors to retain more money. A lot of those tax cuts are certainly going to help the least advantaged, or the disadvantaged, as well as the middle-class income earners here. How do you see the positive fiscal position created

by making these opportunities for Nova Scotians to retain more money, both the businesses and individuals?

MR. PICKUP: Spoken like an auditor you may think, but I'm going to look at March 31, 2017, and previously. On Page 25 in Paragraph 2.7, we provide a snapshot of some of what you're talking about. We looked at what has happened in terms of taxes over the last 10 years - we see a 56 per cent increase in personal income taxes, 55 per cent in corporate income tax, and 57 per cent increase for HST. I'm presenting the numbers to you to say, here is what has happened to those things.

We also see, as we indicate, that over the last 10 years, personal income taxes per filer are up 49 per cent. Those are just numbers. The questions around that really are: Have incomes gone up? Are people paying more personal tax because they're making more money? Have tax rates changed? What else has happened? We don't do go-forward. We're doing something at present and going back, but even in the backward look, these numbers don't tell you the story; they give you information to ask questions around the story, I think.

MR. MACKAY: Thank you for that. We recently learned that Standard and Poor's has increased or improved Nova Scotia's long-term bond rating to A+ positive. This sounds like good news for the province. How would you interpret that sort of rating - an internationally recognized organization like Standard and Poor's improving our bond rating?

MR. PICKUP: I think in terms of looking back at the numbers and saying okay, here's the story around the numbers, I would pose something like that in terms of an accountability discussion. For example, look back over the last 10 years, and break those 10 years into two five-year chunks. For the last five years, interest on the debt per year was around \$750 million, and for the five years before that, around \$750 million in terms of average interest paid per year. I would say that would inform a discussion in terms of your question. That would inform a discussion to me.

The question for government would be, how do you see that? How will that change that interest that is being paid, which hasn't changed in terms of five-year averages over the last five years or the five years before that? What will it do to interest rates? Are those ratings and things like that, which sound very positive, going to impact the interest rates that are paid? Are they going to change the amount of debt that we have? Are they going to change the interest that we pay?

We're looking backwards, and what we're saying here is this information based on 10 years, what will that mean going forward based on what you just said?

MR. MACKAY: I'm just reflecting on comments by other members of the committee, one of which was maybe that your office might take on the audit responsibilities for other organizations that report up through government - a sound idea which has to be

looked at and considered. We would certainly like to look at what the cost of that is going to be.

I reflect on that particularly with the thought of adding a fraud line, a hotline. I'm concerned that we might create a \$500,000 department or organization to try to catch \$50,000 in fraud. I think your recommendation to Executive Council that this be looked at - that will be looked at seriously, but it will be looked at from both the cost and the revenue side of things.

Finally, I would just say that this government has balanced the budget for the past two years. It's our intent to continue that as we go forward. I would just like to end by asking for your comments on what might be the impact of delivering balanced budgets for the past two years and going forward.

MR. PICKUP: Again I won't comment on what might happen in terms of pluses and minuses and numbers. The math would be simple. I would say all of that should be housed on what this will do to the amount of debt that the province has. There's about \$15 billion in debt, and I think that would raise the question of what the plan is to pay down that debt and when it will be gone. What will anything that happens do to the amount of interest that is paid?

Again, like I said, I'm not making the point that the number is good or bad. I'm making the point that the number is the number. At the end of the day, if the government has paid \$7.5 billion in interest in the last 10 years, that's two years of health care costs.

On any of this stuff, the flow-through really should be how it is going to impact this 10-year trend information and what and when that will flow through so that things like interest are less, for example. I wouldn't have the answers to that. That would be for government to be accountable to the people on.

MR. MACKAY: Mr. Chairman, how's our time?

MR. CHAIRMAN: Three minutes.

MR. MACKAY: Again, I believe you mentioned, and correct me - did I understand that only three organizations across government are actually showing significant control deficiencies? Is that correct?

MR. PICKUP: Right, it's three. I think it's very important that of the 50-plus organizations, there are three of them that have significant control deficiencies or weaknesses. It is isolated to three. Having said that, one of them alone spends 20 per cent of the government's budget.

MR. MACKAY: Yes, well certainly the ratio sounds good, three out of 50. We're going to take active measures, I believe, to bring the others into a more positive reporting structure, but I think that I take that as good news. The Health Authority, as I understand, is the one that has made commitments to you that they will straighten things out by the end of this year. Certainly, we as government will closely watch that and assist your office in ensuring that comes to take place.

The other two organizations being the Housing Authority and IWK - and of course you're already taking an active role with IWK. The Housing Authority - I think Executive Council will be considering that seriously as well as to what can be done there, and we'll direct the minister responsible to look into that situation.

So again, thank you. We appreciate, very much, the opportunity to make improvements in governance so that we provide better services for all Nova Scotians.

MR. CHAIRMAN: Thank you very much. We will now turn it over to the Progressive Conservative Party. We have 12 minutes for each - Mr. Houston.

MR. HOUSTON: Thank you, and I appreciate my colleague offering that moment of levity when he found some good news in the fact that only three organizations had significant control weaknesses. I don't know - maybe it's half full, I guess, but three organizations spending almost half the provincial budget, having significant control weaknesses is not good news to me and it won't be good news to many Nova Scotians, outside of perhaps my colleague's Liberal caucus.

I was actually sitting here and I was wondering how it could be that significant control weaknesses would exist year after year, and I was trying to get my head around that. Then I realized just how it was - perhaps the government was so busy patting itself on its back that they couldn't get around to addressing some of the significant control weaknesses that are plaguing too many of our organizations in government - too many being even just one.

It makes me wonder - and Mr. Pickup, you referenced earlier a meeting that you had with the Minister of Health and Wellness to discuss the weaknesses, I think it was at the IWK specifically, but it might have been the Health Authority and the IWK. You mentioned that you had requested that meeting at one point in time, but by the time the meeting actually happened it was after the IWK situation had become public. Maybe the making public of the IWK situation hastened, gave a sense of urgency to have the meeting.

I don't want to read too much into it. I just want to ask you specifically if you can kind of lay out the timeline as to when you had reached out for the meeting with the minister to discuss the significant control weaknesses that, ultimately, we all learned about.

MR. PICKUP: At the risk of going from memory and not having my calendar in front of me - and I did just want to clarify on my part, that was a statement of fact, not a complaint in any way, or a judgment.

When we completed the end of our Public Accounts work - late July, early August - we had decided then that we would look to reach out to the minister to talk mainly at that point about the control deficiencies at the Health Authority. Then also we were getting information from the other auditor so it made sense to talk to him about the IWK stuff as well.

So, summer being summer, and all calendars being what they are into August, the time that would fit would roll into September, but that date had been set right from the get-go. That was the best that the both of us could do in terms of the timeline.

What was key for me was to make sure to sit down and have that discussion before I came here today. So again, that wasn't a reflection in my view of - did we have importance on his part. It was a reflection of the reality of two folks with calendars in August.

MR. HOUSTON: And the purpose of the meeting would have been known - okay, I want to meet with you to talk about the significant control weaknesses at the Health Authority?

MR. PICKUP: Probably we would call it the results of the audits of the Health Authority.

MR. HOUSTON: I do want to go back to the fraud hotline. You mentioned earlier that these are kind of commonplace; these exist in various places. My colleague mentioned the need to maybe do a cost-benefit analysis to see whether they thought that might be a good idea, and he put some arbitrary numbers out there, that it would cost \$500,000 for a fraud hotline and maybe you only catch \$50,000 fraud.

[11:15 a.m.]

I would just like your thoughts on the importance of a fraud hotline or the ability for members who work in organizations to have a mechanism to stand up and speak out, particularly when it is known to the public that there are significant control weaknesses - with significant control weaknesses, you are almost then having to rely on staff on to stand up.

Can you give us some thoughts on whether a fraud hotline, in your opinion, is something that make sense? Is something that we should run some spreadsheets on and see if we should do that or not?

MR. PICKUP: Sure. At the risk of using all the remaining time that you have on one of my favorite topics, I will start at a higher level.

Our recommendation was, as it is with most control issues, for an evaluation to occur. At the end of the day, it is management and government who make the calls on management controls and on having approaches in place, not the auditor. We make recommendations, we make suggestions. If organizations accept the risk of not doing something or do or don't do that evaluation, well that is for them to make that call. That was why we had suggested doing an evaluation.

Having said that, I believe that the studies are fairly clear that having a fraud hotline can serve as a way to catch fraud. I think the research shows probably 40 per cent of fraud cases are caught through a phone hotline. It also has been shown to be effective as a deterrent. Never mind the things that you actually catch, but what about that deterrent aspect?

But all of that said, I am not going to do the evaluation for government. That's for them to do. It is for them to decide and tell people, we have done this, or we think we should do this and have a hotline because A, B, or C. Or we are not going to do this because we accept the risk, and we don't think it's a benefit.

The other thing I would add - again, I say this as an observer to it - is that unfortunately we can't underestimate when these things happen, not only the dollar cost involved directly, but also the dollar impacts on what happens all around it as a result of that. If you suddenly start because controls didn't work and things didn't happen that may have helped deter, then you get into hiring auditors, you get into significant board time, management time, and then the reputational risk. So an organization running a business of doing A, B, and C - all of a sudden, they are spending all their time dealing with an issue that may have seemed, on the surface of it, fairly insignificant in terms of dollars of a total budget.

All of that is some context on some of my views. But I do go to the point that an evaluation should be done by those who run the government. They should explain to people why they made that decision, keeping in mind what I just said.

MR. HOUSTON: Your most recent audit of the Health Authority was for the year ended in March, and it took place in the summer, right?

MR. PICKUP: We reported pre-June 30th to meet the reporting deadline.

MR. HOUSTON: In preparing for that audit, were the internal control weaknesses that had previously been identified in the prior year so disturbing to you that you had to change your audit approach in order to get to the point that you could give a clean opinion on the audit?

MR. PICKUP: One of the benefits that we have being in year two is the historical information we have from being the auditor the year before. We knew, being the auditor the in the first year of creation of the authority, that we couldn't rely on the controls in order to do our audit, that we would have do what we call test-of-detail type of audit approach. We knew that going into year two.

We came into year two to see if any significant amount of the control weaknesses that we had from the year before - things we identify and things were in draft - had been done to the point where we could change our audit approach and say, it is year two, so we can control do a controls-reliant audit. Unfortunately, that didn't happen. We were still stuck with this test-of-detail approach. We couldn't rely on the controls that were in place.

My message would be pretty clear. I said the same thing to the audit committee, that it's not a great thing when your auditor comes and tells you that they are not going to be able to rely on your controls, and even worse than that, you don't know that they exist for management purposes. I have tried to balance that out, to be frank, with the fact that they have just finished year two, and they have amalgamated nine authorities. I don't know what the audits were like before that. I'm guessing they probably weren't controls-reliant audits existing in those predecessor organizations, but I don't know that.

MR. HOUSTON: As you prepared for your year two audit, you had a degree of optimism that in the year that had passed somebody might have taken the internal control weaknesses seriously enough to address them. A year passed, and you thought, gee, maybe somebody thinks these should be looked at. You prepare for your audit, you get in there, and guess what? Nobody took them seriously. Nobody has done a thing. We can't rely on a controls-based audit. We have to go back to a substantive-based audit.

I was asking earlier about who would have known and when to try and answer the question in my own mind as to why they didn't look at them. I guess that's the best answer I could have gotten, that if you knew, you would have explained them to the Health Authority board and the minister at the time a year ago. It's just disappointing to me that nobody takes them seriously. Maybe they will now because a fraud has come to light. Maybe they might not take them seriously. Maybe they might be like my colleague who says, well, yeah, it's only \$50,000, it's no big deal. I hope that's not the sentiment of the governing Party, but I guess time will tell. Do you have any comments on your reaction to coming in a year later and seeing that the controls hadn't been addressed?

MR. PICKUP: As the auditor, we try to approach this as an auditor would, while recognizing to some extent, okay, there's a history here. There's something different here, so let's put that into context. But as I have said to the Health Authority, I think we have moved on now from that point. You can only be new for so long, and now it's time to see these things through. They have made a commitment to get these things done by March 31, 2018.

I would suggest, with all due respect, that you folks could play a role in helping with that in terms of calling these folks in and asking them if they're dealing with these things. We'll be doing our planning in the short term for next year's audit. One of the things we'll be doing is going back to look at whether these control weaknesses have been addressed.

MR. HOUSTON: I hope so. The Bank of Canada has recently started raising interest rates. We have a lot of debt in the province. Have you seen any sensitivity analysis done by the Department of Finance and Treasury Board or anyone else in the government that would illustrate the impact? What if rates go up 2 per cent to 3 per cent? Are we going to be able to service our debt? Has anyone looked at these types of scenarios?

MS. SQUIRES: One of the recommendations or points that we do bring to the government's attention is that while there's a lot of information in Public Accounts, in the front section, that sensitivity analysis could be added in there - meaning what happens to your debt if interest goes up 1 per cent or goes down 1 per cent. That's just a very simple example of a sensitivity. The financial statements are a good place to put some of that information or in the front section of the Public Accounts.

MR. CHAIRMAN: We will now move to the New Democratic Party. They have 12 minutes. Mr. Wilson.

MR. DAVID WILSON: I just want to continue on with Chapter 1 of your audit, specifically around the large government organizations that you have identified with significant weaknesses. Of course, that's Housing Nova Scotia, IWK, and the Nova Scotia Health Authority.

I want to go to the Nova Scotia Health Authority first. In the charts that you provided, Page 7, for example, you said that the control weaknesses with the NSHA were that improvements to policies and procedures were needed, weak controls over procurement, payment processing, and payroll processing. Of course, you indicate the management response next to that. Under the Nova Scotia Health Authority heading, it said the response from, I would assume the NSHA, was that the observations will be fixed by March 2018.

The first question - is that a response from NSHA, or was that a government response, say from the Department of Health and Wellness?

MS. SQUIRES: That is a response and a commitment from management at the Health Authority as well as the audit committee.

MR. DAVID WILSON: Okay. Is this, in your opinion, an appropriate timeline to correct the weaknesses that you identified in the audit?

MR. PICKUP: To go back to something I said before, I think we've tried to be sort of reasonable in our approach, recognizing that when these controls don't exist you have potential for bad things to happen. I think March 31, 2018 is as long as I think we would want to go without these things being addressed. I don't think there should be any slippage from this; I hope to see the authority carry through on these things. The audit committee has committed to it. So I really would not want to see those things go beyond that.

MR. DAVID WILSON: Well, thank you for that. It's worth noting the other two organizations, Housing Nova Scotia and IWK. Housing Nova Scotia has indicated that they will fix the issues by December 2017, which is a few months away. The IWK has indicated that they will fix the observation that you noted also by December. So, should we be concerned that out of the three large organizations that you have identified significant weaknesses, two of them I would say are acting quite quickly. I mean, December is only a few months away but Nova Scotia Health Authority is well over a year and I know through past audits, you do your audit review and you produce a document that shows the recommendations that have been implemented and it kind of is in a two-year cycle if I'm not mistaken.

Should we be concerned that the other two large organizations that are overseeing large amounts of money are moving quicker than the Nova Scotia Health Authority, and should we be demanding a quicker response from the Nova Scotia Health Authority?

MR. PICKUP: In terms of oversight, I think it would be asking the Health Authority - possibly meeting with them - and monitoring whether they are on track to meet that. We will know that from an audit perspective - we will be there, and this is what they have put forward. To some extent, it goes back to what I said before in terms of the people making these choices, as to how long it takes them to do this and when they do it - management and the board and those running the organization and with oversight, right? It's not for the auditor. So in some ways, how the audit happens reflects what they do.

While we're hopeful and optimistic, we don't want to see that March 18th date slip beyond that. How the committee would like to do its oversight, I think, is an issue for the committee and whether that's speaking with them or doing some other means is really up to the committee.

MR. DAVID WILSON: Would you agree that there is some onus on the Department Health and Wellness, on the minister, on the government, to ensure that the organizations like NSHA that oversee implementation of important services respond in a timely manner? There must be a connection between the responsibility for NSHA but also the Department of Health and Wellness. I mean, they ultimately oversee that organization. Is there an onus on the government, on the department, to have a say in what timeline is appropriate or not appropriate in this case?

MR. PICKUP: So, ultimately, answering to any of these organizations of course in the House and ultimately being accountable would be the ministers who have these organizations in their portfolio. Recognizing the complicated business of government, if you will - there are different structures in place and different governance. So you have these organizations that are quasi-independent, have boards, are working in this way, but still have some relationship with the Deputy Minister of Health and Wellness, and ultimately all report up to the minister who must answer for all of these organizations.

I think it would be fair in terms of the accountability regime, ultimately - I suppose he would answer to the House and all Nova Scotians on whether these things are being done - how do you know they're being done, when are they being done, and what are you doing about it. That would be the ultimate level, keeping in mind that these organizations are set up with boards of directors to do certain roles as well. So, it's a little bit complicated but at the end of the day it's one person who ultimately speaks for it.

[11:30 a.m.]

MR. DAVID WILSON: Thank you for that. It's interesting that you mentioned boards. You've indicated there are some 33 per cent of government organizations that have vacancies on the board - I don't believe the NSHA is on the list but the IWK is on there.

It's interesting, the payroll processing I see under the control weaknesses that you identified, and if people recall, last Fall, we learned that the Health Authority took some \$7 million from a restricted fund to cover payroll and other expenses, and at the same time the Department of Health and Wellness still owed NSHA some \$70 million. I'm wondering: Are you able to provide any update whether the Department of Health and Wellness still owes that money? Do you have any comments on the role of the Department of Health and Wellness when it comes to internal controls, especially with NSHA, if you have concerns around payroll, and that transpired last Fall?

MS. SQUIRES: The Department of Health and Wellness yes, did owe the Health Authority some money at the end of the year, but not for payroll. The Health Authority did not use its restricted funds during the year 2016 and 2017. They were very conscious of that and made sure that did not happen.

The control over payroll - yes, there's a weakness, but I just want to point out that nothing came to our attention that would indicate anything bad happened during our audit, but there was definitely a weakness over payroll processing.

MR. DAVID WILSON: Maybe that will be some questions we'll have for the minister and the government.

I do want to quickly go to the boards. I know it's interesting to see the vacancies and the number of vacancies. Some seem to be, I would consider, adequate. There are times

throughout the year that there will be vacancies. The interesting one is about the IWK - why do we not know how long that vacancy has been there? Is it something that just didn't provide that information by the time the document was printed, or they refused to give that, or they don't know how long the vacancy at the IWK has been?

MS. SQUIRES: As we wrote in our report, on Page 13, we actually don't know. Those two vacancy positions are at the discretion of the Minister of Health and Wellness who, at this point, has chosen not to fill those vacancies.

MR. DAVID WILSON: It's interesting, I mean boards and the vacancies on there have to be approved. Many of them have to be approved by Cabinet and it's noted this summer that every other week there seemed to be no Cabinet. It's interesting that after the election I was appointed to the HR Committee for the first time, and we just met recently to make a few board approvals and passing through the committee. I know it's one committee that from my recollection, it met every month other than during elections. So, it's no wonder that 33 per cent of the organizations have vacancies.

I'll pass the remainder of my time over to my colleague.

MR. CHAIRMAN: Ms. Roberts.

MS. ROBERTS: Just quickly on the fraud line, when you put this forward as a possible measure to take, do you envision the other end of the phone line being in your office or elsewhere in government?

MR. PICKUP: What a wonderful question. We haven't had any discussion because, first, I think the issue is one to some extent to the government to decide that, okay, they need to evaluate and see where they want to go with this.

If the government was to come forward and say we've decided A or B - A being yes, we want to engage in a discussion on how to go about this, we would like to have a conversation with you in terms of how this would work, we are here to serve the House and we are here to fulfill our responsibilities. If the government wishes to engage in that discussion, we'll be all ears and we'll sit down and have a chat as to whether that would make the most efficient and effective approach as well.

But all of that I would think could come through an evaluation in terms of looking at this on the cost side of the structure to say - what are other governments doing? You go to Ontario, they have fraud hotlines - how much is that costing, who is doing it, and what are the benefits?

I think it's probably relatively easy to scope this stuff out but, again, when and if the government wants to talk about this I'm just across the street.

MS. ROBERTS: I'm jumping slightly with my minute, perhaps, remaining - how many seconds?

MR. CHAIRMAN: Forty.

MS. ROBERTS: I don't think I'm going to bother. Thank you.

MR. CHAIRMAN: Now we'll move to the Liberal Party, and Suzanne Lohnes-Croft.

MS. SUZANNE LOHNES-CROFT: I'd like to go to the IWK. I haven't had a chance of course to read the entire report so I've been listening. When you were requested to go into the IWK, where did the request come from?

MR. PICKUP: In terms of the request on the performance audit type of work that we're doing?

MS. LOHNES-CROFT: No, with the expenses.

MR. PICKUP: In terms of this whole umbrella - I think I need to set the stage, if you will, for what we are doing there. The chairman of the board reached out and we had numerous discussions with the chairman of the board and the chairman of the Audit Committee around this issue and around us doing potential performance audit work, which they did request us to do. Then we also had a discussion around doing the financial statement audit. So, it was very much a co-operative back and forth. Certainly I've been nothing but impressed with the level of co-operation that I have received from the chairman in terms of meeting on this.

I do want to remind you though that they can make requests, but we don't do audit work at IWK strictly or because or a factor of what they requested. So, they made a request for us to do work. We could have gone about and done that whether or not they made the request. Once they make a request, we are not limited to what that request is in terms of the performance audit. We can look at what we want, how we want, and who we want. They get that and they're co-operating with us.

The other key part of this is not unlike how you see us here for all this other work, when we do that performance audit work at IWK it will be you folks we're coming back to; we'll be reporting to the House. Obviously, we'll do the proper reporting with that organization, but we'll report to the House on the results of that performance audit work.

I know that's a long answer in terms of how we came about to where we are, but I think it's important context.

MS. LOHNES-CROFT: So, they were doing their own internal audits?

MR. PICKUP: They had an annual financial statement audit done by an audit firm. We could have been doing that audit, but we weren't - just like we don't do many of the financial statement audits. They had that external audit firm doing the annual financial statements, then they had that same firm do the selected work that resulted in this report on those executive expenses. So there was the annual financial which resulted in some of these deficiencies, and then there was this extra piece of work.

They've engaged in some internal audit work as well with the Internal Audit Centre of the Government of Nova Scotia. Then along comes us to have discussions with them and for us to decide that we're going to do the financial statement audit now, and we're going to do this performance audit work.

So, a lot of audit work going on in that one organization. I hope I haven't made that totally convoluted.

MS. LOHNES-CROFT: Can you just highlight how your audit is different from the internal ones that have taken place?

MR. PICKUP: When the IWK, for example, engaged the audit firm to do the financial statement audit, and those audits are done in accordance with audit standards. We will do a financial statement audit and have an audit opinion on the statements, just like the predecessor external auditor would have an opinion on those financial statement audits. That is one piece, which is pretty standard whether you're in private sector, public sector, or who is doing the audit. So there is that external piece. It's not really internal - it's an external piece.

This performance audit work that we're doing and that we will do - nobody else is the performance auditor of IWK. Under the Auditor General Act, it's us who would do that work independently in terms of deciding what to do, how to do it, and on the reporting as well. But both the financial statements and the performance are external audit work.

So when you're talking about internal audit work, maybe you're referring to them going to hire a firm to do - okay, you did the financial audit but also look at this or the government has an internal audit centre and they go to them and say do some internal audit work for us, as well.

MS. LOHNES-CROFT: Okay. So do they just do an annual internal audit or do they have like quarterly reports that would come to the board of directors?

MR. MICHAEL PICKUP: I'll answer the easy part of that first. On the external audit, on those financial statement audits - just like we audit the Health Authority every year, they would have had a financial statement audit done by an audit firm and report it to the board. That's the easy part of the answer.

In terms of any internal financial reporting, performance reporting, financial or non-financial information up through the audit committee to the board, I wouldn't have the answer to that at this point. Some of that may become clearer as we go through these audits ourselves, but I wouldn't have the answer right now as to what is happening there. Similarly, I wouldn't have the answer at other organizations that we don't audit as well, right.

MS. LOHNES-CROFT: How public will your audits be?

MR. PICKUP: The performance audit that we do will be tabled just like every performance audit we do, directly to the House. I like to say, we serve the House. We audit organizations and we work hard to get along with the organizations we audit, but they are not ultimately our client. Our client is the House, the Legislature, and the people, so we report directly to the House. That is on the performance-audit cycle.

On the financial audit, because financial audits are generally fairly standard, you know, we go through this work, we have an auditor's report. Those auditor's reports, they would table with their financial statements on their website each year.

MS. LOHNES-CROFT: So, your financial statement - I believe it says here starting April 1, 2018. Will you be reporting for the 2017 year on that, or will you just begin your whole process.

MR. PICKUP: So, yeah, good catch in terms of those fiscal years because it is different. The fiscal year beginning April 1, 2018, will be the year-end March 31, 2019.

MS. LOHNES-CROFT: Okay.

MR. PICKUP: So, the current fiscal year happening right now is 2017-2018. The audit firm that is there now will finish up that audit. I mean, they've been engaged, they're doing their work, let them finish and then we'll come in April 1st and pick that up there. When I met with the chairman of the board of IWK, we were on the same page. That made the most sense. We need to have a little bit of orderly structure here into how we get into this.

MS. LOHNES-CROFT: Okay, thank you. I'd like to switch to board and vacancies and I was pleased to hear that the member for Sackville-Cobequid mentioned that HR sat last week - I sit on that committee as well, and we did pass a number of positions for vacancies. I think we are trying to move along there with getting approvals and whatnot.

I wanted to just talk about how challenging boards are in filling positions, period. I sit on several boards and many more before I became an MLA, and it's really hard. I know we have vacancies all the time on boards - we have acting chairs and acting vice-chairs and whatnot. It seems to be more like a trend now - it's challenging to find volunteers to sit on

boards. I think they're huge time commitments for people; their obligations are quite demanding. I'm just wondering if you could recommend ways that maybe boards need to look at their operations in order to enhance the numbers a bit, or maybe decrease numbers.

MR. PICKUP: Sure, so, in this work, what we didn't do is look at what the numbers ought to be. We sort of accepted going into this that government has decided that these are the numbers of board members they want in order to fulfill oversight, so we just looked at that. Having said that, if government wants to look at what the numbers ought to be, which probably makes some sense - so now we're dealing with, these are the numbers, here's what you have against that. But if there's a discussion around what those numbers ought to be, that is something that government itself should look to evaluate.

I'm sure there are all kinds of best practices, all kinds of governance types of organizations that exist to say - given the risk profile, because it's not one size fits all, of course. There's a lot of different parameters to look at in determining the right size of a board. I think all of that would probably form a part of an evaluation that government itself would have to do.

[11:45 a.m.]

MS. LOHNES-CROFT: Do you offer a template for fraud assessment that departments can try to follow?

MR. PICKUP: In terms of the departments themselves, three of the 18 which have done the fraud risk assessments, there is some approach there. There's the Internal Audit Centre of government which has been doing some of this work. To some extent, this stuff is available. I would encourage - and I have encouraged - the government departments to look to the Internal Audit Centre of government and the people who are doing this on behalf of many of these organizations. Look to them to see what is a quick way to do this.

Again I would say, like most things, this should make sense. If it's a small organization with three people that spends \$100 a year, you probably don't need to spend \$50,000 to go do a fraud risk assessment. If it's a \$2 billion a year organization with 20,000 employees, realistically the fraud risk assessment is probably going to take you a bit longer than it would in an organization of three people spending \$100.

All that is to say this is not a brave new world of fraud risk assessments. There's a lot of processes that are there, that are canned, that are case histories. The Internal Audit Centre can work with organizations to move this forward. In fact, I would think, with all due respect, that this would be a great thing to have the folks from the Internal Audit Centre come in and talk about - the approach that's being rolled out, and how it's going to happen? Then maybe if you want more understanding, that would be a great way of doing it.

MS. LOHNES-CROFT: You referenced Ontario has a fraud line or process?

MR. PICKUP: We didn't put this in the report because we didn't want to do a cross-Canada survey. Part of why it's not in the report is that we're sticking to the point that this is a management decision, they need to evaluate it. Part of why we didn't say this province has it and this one doesn't, is that I don't know all the circumstances around that and why they made that decision.

If you go, for example, within a program or an area within the Ontario government, you'll find a fraud hotline even at the program level. If you get a program like their equivalent of Community Services, you go on that page, the website for that department, and right away you've got the fraud hotline there. Employees and outside folks know the number to call.

Again, it's not for me to tell the government, you need a fraud hotline here, you don't need one there, and this is what time it should work. All of those are management decisions, recognizing in the bigger context of things that when you don't have some of these control structures in place, you would make the decision on how much risk you want. If something happens as a result, you deal with it then.

MR. CHAIRMAN: Order. Time has expired for questions. I thank all three parties for their in-depth questions at short notice, having a look at that this morning and certainly thank our witness. If you have a few closing remarks you would like to make, Mr. Pickup, you have the floor.

MR. PICKUP: This may surprise you, but they're fairly brief. In conclusion, I want to thank you all for your interest in the work that we do.

When I meet with the Auditors General from across the country, some of my colleagues certainly have a lot of respect - I guess that's the word I would use - for your level of interest in our work and the fact that the Public Accounts and financial-statement work is important enough to come here. On behalf of everybody in that system, I'm really glad that days like today happen, mainly because this is a tool for you to hold government accountable, to make better government.

At the end of the day, Nova Scotia received a clean audit opinion on their financial statements. People need to be proud of that. They need to recognize that Public Accounts and accounting accountability are all founded on the basis of proper accounting. If you didn't have that proper accounting to start with, a lot of the discussions we would be having here today would not even be on the table because we would be talking about the lack of proper accounting. I do just want to stress that, again, to say yes, there's a lot of serious things to deal with here, but let's not lose sight of the fact that Nova Scotia can be proud of having 17 years of clean financial statements.

I think I would close with something similar to how I started, to not only thank you but to thank the folks to my right again and the folks across the street who may be watching

as well, many of whom gave long hours this summer to be able to produce this. I want to say thanks to all them again.

MR. CHAIRMAN: Thank you very much and, again, also from us thanks to Mr. MacPhee, Ms. Squires, and yourself, Mr. Pickup. It's a tool that I'm sure that we'll be going through to use to better our government in the future, and I appreciate the timeliness of getting it. So, thank you.

We have a little bit of committee business, nothing really too heavy. I just want to make sure to inform the members that the Auditor General's Office advised that the November 22nd report that we have will be strictly focused on health, and not health and corrections as previously indicated in that, so the corrections audit will be moved to a later date. We'll determine that date so just make note that there is a change in the November 22nd report. The committee schedule will be updated soon to reflect that, so just keep note on that. And that's about it as far as committee business.

Also, our next meeting date will be October 11th. That will be an in-camera session with the Department of Finance and Treasury Board and please note that meeting will be held at 1 Government Place, at the committee room there - not here. If you show up here, you're going to be lonely.

Other than that, I would thank everybody.

The meeting is adjourned.

[The committee adjourned at 11:52 a.m.]