

HANSARD

NOVA SCOTIA HOUSE OF ASSEMBLY

COMMITTEE

ON

PUBLIC ACCOUNTS

Wednesday, November 13, 2019

Legislative Chamber

October 2019 Report of the Auditor General - Financial

Printed and Published by Nova Scotia Hansard Reporting Services

Public Accounts Committee

Keith Bain (Chair)

Suzanne Lohnes-Croft (Vice-Chair)

Ben Jessome

Hon. Margaret Miller

Brendan Maguire

Hugh MacKay

Tim Halman

Lisa Roberts

Susan Leblanc

In Attendance:

Kim Langille
Legislative Committee Clerk

Gordon Hebb
Chief Legislative Counsel

Karen Kinley
Legislative Counsel

WITNESSES

Office of the Auditor General

Michael Pickup - Auditor General

Mike MacPhee - Assistant Auditor General

Morgan McWade - Senior Audit Principal

Anne-Marie Fraser - Audit Manager

Department of Finance and Treasury Board

Byron Rafuse - Deputy Minister

Geoff Gatien - Associate Deputy Minister and Controller

Rob Bourgeois - Director, Financial Accounting



House of Assembly
Nova Scotia

HALIFAX, WEDNESDAY, NOVEMBER 13, 2019

STANDING COMMITTEE ON PUBLIC ACCOUNTS

9:00 A.M.

CHAIR
Keith Bain

VICE-CHAIR
Suzanne Lohnes-Croft

THE CHAIR: Order, please. We'll call the Standing Committee on Public Accounts to order. I'd like to welcome everyone here this morning. Please remember to put your phones on silent or vibrate.

We have representatives from the Auditor General's Report and the Department of Finance and Treasury Board. We'll do introductions first.

[The committee members and witnesses introduced themselves.]

THE CHAIR: Thank you, everyone. We also have representatives from the Legislative Counsel, from Hansard, and the Committees Office as well.

We'll just get right into the business of the day and that is the 2019 Auditor General's Report. We'll turn it over to Mr. Pickup for his opening remarks.

MICHAEL PICKUP: Good morning. Thank you for having us here today and thank you to my colleagues from the Department of Finance and Treasury Board for the co-operation that we received from them during all of this work; that's very important.

On October 29th, as you know, I tabled my financial report with the Speaker of the House of Assembly. The report contained three chapters of work: one on the results of the financial audit work we do; the second on the province's financial numbers from the 2019 Public Accounts; and the third on areas of interest and follow-up of previous years' issues.

The Province of Nova Scotia collects and spends almost \$12 billion a year. An important way the government is held accountable to the people of Nova Scotia for its financial and spending decisions is through the province's financial statements. In Chapter 1, I reported on the results of our audit of the province's financial statements and information on audits of the other organizations that are part of government.

For the 19th year in a row, the province received a clean audit opinion on its financial statements, and that's a very positive thing. This means the financial statements were fairly presented and met Canadian Public Sector Accounting Standards. While meeting these standards, this is the first year where my opinion on the province's financial statements included additional paragraphs drawing attention to the government's accounting for costs related to cleaning up the province's contaminated sites. I drew attention to this accounting because the cost to clean up the province's contaminated sites could significantly change in the future as the province collects more information on these sites.

Also in my report, for the first time I reported a significant weakness at the Department of Service Nova Scotia and Internal Services over its financial management controls and, also for the first time, a significant weakness at the Department of Lands and Forestry over its assessment of abandoned mine sites. The weakness at Lands and Forestry led us to make the decision to immediately begin a performance audit on management of the province's contaminated sites. This will be reported to the Nova Scotia Legislature in Spring 2020.

Most organizations across government received clean audit opinions. However, four large government organizations: Housing Nova Scotia, the IWK Health Centre, the Nova Scotia Gaming Authority, and the Nova Scotia Health Authority had significant control weaknesses in their financial management controls. These weaknesses did not prevent the organizations from receiving clean audit opinions on their financial statements. However, we believe the weaknesses need to be fixed in order to improve how the organizations manage and control their finances. Also in my report, I noted that four organizations made progress toward addressing prior year weaknesses.

So, that's Chapter 1. In Chapter 2, we looked at the province's financial numbers from the perspective of sustainability, flexibility, and vulnerability and provided information on current level of revenues, expenses, and population against levels from 10 years ago. I really want to stress that the information in this chapter does not consider things such as policy decisions, changes in programs and services, inflation, and other elements that may have impacted revenue and expenses.

While looking at current year information provides a picture of what happens this past year, it is also important to look at what happened over the past number of years to understand the Province of Nova Scotia's current financial position. To do that and to make it simple, we looked at a five-year period and a 10-year period. The indicators we used on sustainability, flexibility, and vulnerability for the last decade all show a trend that I think should be discussed while the last five years show positive signs with many indicators showing improvements.

We also provided highlights of Nova Scotia's revenue and expenses from 10 years ago. Our analysis comes from numbers that are in the Public Accounts where the government does a very good job of providing a thorough analysis of its numbers. Our chapter is not meant to be a commentary on government policy, nor on decisions made by the government today or those of governments in the past.

Finally, in Chapter 3, we reported on new areas of interest and updated Nova Scotians on the status of the province's fraud management programs, public sector pensions, and internal meetings. First, in relation to cybersecurity: as with any organization, cybersecurity is a significant risk facing the province. Cybersecurity incidents can affect the confidentiality, integrity, and availability of the province's information technology and data, so it is important for all players to understand their roles and responsibilities related to cybersecurity.

Our survey showed that two organizations stated they had no cybersecurity responsibility, yet in fact, they did have some responsibility. This included the Nova Scotia Health Authority, who is now working on a cybersecurity strategy as a result of our questions and discussions. We also found that the province's cybersecurity risk management program continues to be developed and there is important work yet to be completed.

Secondly, in relation to government purchasing cards: four of the eight organizations that we surveyed that use purchasing cards did not assess the risk around their use. Of the eight surveyed organizations that use these purchasing cards, one didn't have a policy.

Finally, on updates on fraud and public sector pensions: although several departments and organizations have taken action to manage their fraud risks, overall, I believe departments and organizations have not acted quickly enough. Nearly half of all government departments and organizations - and I will repeat that, nearly half of all government departments and organizations - have not yet completed fraud risk assessments. This includes the Department of Service Nova Scotia and Internal Services which, as I mentioned earlier, has a significant control weakness in its purchases and payments process. Of particular note, there are also six organizations in the education sector that do not have a fraud policy and have not completed a fraud risk assessment.

Also this year, we made inquiries and found that in three government departments, less than 35 per cent of staff had completed the province's own mandatory fraud training. Remember, this is fraud training that the province determined itself would be mandatory. This included the Department of Transportation and Infrastructure Renewal where only 11 per cent of staff had completed the required training.

In relation to public sector pensions, we did note that during the past year the province, the Nova Scotia Teachers Union, and the plan trustee were taking steps to look at ways to improve the long-term health of the teacher's pension plan.

Finally, in closing, I want to thank the three people who are with me here today who led this work, and the people who support them and have worked hard with them during these financial audits. While many people are off in Nova Scotia enjoying summer in July and August and into September, these folks next to me and many of the folks here in the gallery today, or who are watching this, are not off enjoying summer; they're working to get these financial audits done.

The Public Accounts don't sign off until the end of July. My team takes a very short break and then they go quickly into preparing this report so that you can have this information in October, keeping in mind that in my first year, you used to get this information the following February, and we have moved it up to October so that it is relevant. I want to thank these folks who are here with me today very much and to the many others back in the office who supported them in this work.

[9:15 a.m.]

THE CHAIR: We'll open the floor now to questions. We'll begin with 20 minutes for each caucus for the first round, beginning with the PC caucus. Mr. Halman.

TIM HALMAN: Good morning, everyone. Mr. Pickup, thank you for your opening remarks. Thank you to the staff of the Office of the Auditor General for their ongoing work on behalf of Nova Scotians.

Mr. Pickup, with respect to your opening remarks, you indicated that nearly half of all government departments and organizations have not yet completed fraud risk assessments. To that point, I'm wondering if you can elaborate for the benefit of Nova Scotians, can you explain what the purpose of fraud risk training is?

MICHAEL PICKUP: Sure. I heard two elements there, the fraud risk assessment and the fraud training.

In terms of the fraud risk assessment, it is really getting in to look at where your fraud risks are. Every organization will have fraud risks. You go through and you determine what the higher impact ones are and the likelihood of certain things happening, then you

design the controls to deal with that. Not every organization is going to have the same risks. Transportation and Infrastructure Renewal, for example, may have different fraud risks than an organization like Internal Services or Health and Wellness. First, you have to figure out what your risks are, and then you manage accordingly.

The fraud training that you referred to, the government itself decided that fraud training would be mandatory so that employees understood. Frankly, fraud training, fraud policies, and fraud risk assessments are all part of setting the tone and setting the culture to say fraud should be prevented and if it does happen, it should be detected. The government decided that all employees should take fraud training. We went back, and we followed up to see to what extent that has happened. That was a government decision, and the results are summarized on Page 59 of the report by the departments.

TIM HALMAN: To that point that it's designed to set the tone, Mr. Pickup, is it correct to say that completion of this training would reduce the risk of fraud from occurring?

MICHAEL PICKUP: The science would show you that the organizations that are more likely to have fraud and more likely to have fraud go undetected are those organizations where internal controls aren't working as they should; for example, Internal Services as we reported. Those organizations aren't doing the fraud risk assessments aren't doing the fraud training, don't necessarily have the policies in place. The organizations where bad things are more likely to happen and for that to go undetected are organizations where those things aren't in place. It is important to put these things in place. For the most part, these are not massive expenditures to manage these things well.

TIM HALMAN: Are you aware of any statistics that you may know offhand or can remember that would give us a rough idea of how effective these fraud risk trainings are?

MICHAEL PICKUP: The studies that are available tend to show that when a fraud occurs and when people report fraud, what are the characteristics of that organization? For example, internal controls were not functioning well. Internal audit was not functioning well and in place. Fraud risk assessments may not have been done. Fraud policies may not have been done. I'm summarizing for you through that to say the literature would suggest that having an external financial audit in and of itself is not going to deal with managing fraud risks. You need to do all of these other things.

I want to remind you, there's no disagreement with government on that. My frustration comes from the speed of the government implementing the things that it says are important and it says it wants to do in relation to fraud, not on disagreeing whether these things should be done.

TIM HALMAN: Based on your analysis, of course, I'm wondering your opinion - is this a reflection of a lack of internal policies or controls? Does it come down to that in

terms of only half the government departments and organizations not having yet completed fraud risk assessments? Is this a reflection on a lack of internal controls?

MICHAEL PICKUP: I will leave it for others to explain why they may not have this done. For example, the organizations that we list that don't have the fraud risk assessments done, don't have fraud policy in place, or don't have the training - the training has not taken place as it should - I will leave it for them to explain why.

I will say that - to go back to my previous point - I've been following this up now for three years and every year there's a promise to get this done. I think the time is up because, why are we doing this? This is not about keeping the Auditor General happy. This is about solid, practical, cost-effective controls in place so none of us end up reading in a newspaper or finding out how this fraud happened or that fraud happened, and money is wasted. This would be money well-spent, I think, to get this done more quickly.

TIM HALMAN: To that point, you have followed this for three years and we appreciate the work you and the staff have done in monitoring this. Based on that three-year observation and analysis, in your opinion do you see a correlation between the low turnout of this fraud risk training that results in a higher risk for fraud to occur? Do you see a correlation there?

MICHAEL PICKUP: Just to summarize where I am on this: I think that an organization that doesn't get its fraud risk assessments done, that haven't put their fraud risk hotline in place yet as they had indicated, are not getting the fraud risk training done as they planned to and as they committed to - they have significant internal control weaknesses in many cases.

That scenario is one that lends itself to an organization where it is more likely that bad things will happen in terms of fraud or wrongdoing. That is a fact and that's what the science will show you. Would I be surprised if the call came that this fraud or that fraud was happening? Not really. Do I want to see that prevented? Yes, and I think part of that prevention is through putting these things in place.

I'll remind you again that there's no disagreement. We didn't tell the government to put a fraud hotline in place; we said evaluate the need. They evaluated the need, they said it should be in place. They committed to putting it in place in 2018; we're in 2019 and it hasn't been done.

TIM HALMAN: That brings us back to a topic we've discussed or a theme that has come up time and time again during my time on the Public Accounts Committee: culture within departments.

To that extent, with the low turnout for completion for the fraud risk training, is it correct to say that this is part of the culture of a lack of diligence and that these weaknesses

in internal controls were able to persist and be tolerated by staff fundamentally because there's that grey area in terms of internal controls? I'm just trying to understand how this culture - I can see where, to some degree, it emerges in a grey area, but how does it persist?

MICHAEL PICKUP: Those questions, I think, are more fairly put to the people responsible. The Deputy Minister of Service Nova Scotia and Internal Services, who leads the province's Audit Committee and has responsibility for fraud, I think those are likely good questions for her. I would want her to be able to give a fulsome response.

I will remind you, on the positive side of things, there's no disagreement with folks in government on the importance of doing these things. My sense of frustration comes from the speed of getting these things done and seeing them complete all with the number one goal: if we can avoid waste through preventing fraud and detecting it quickly when it does happen, then we all win. That is where my frustration comes from is the speed of getting this done.

When I sit down with deputy ministers, there's no disagreement on getting these things done, it's the speed. I think in fairness to them, in terms of explaining to you why they are struggling to get this done at the rate they are, that's better left answered by them.

TIM HALMAN: Thank you for your responses to the topic of fraud assessment. I'd like to turn our discussion to the section regarding abandoned mine sites. The community that I have the privilege of representing, Dartmouth East - right behind Dartmouth East is the Montague Gold Mines. This is certainly an issue that has been on the minds of members of my community for many years, so I have a few questions with respect to the abandoned mine sites.

We know it isn't the case that these abandoned mining sites have just sprung up overnight. We know that a number of them have been there for a long time. I'm curious as to the department's explanation as to why there were no sufficient site investigations - why they were never conducted for those sites, identified with potential areas of contamination. I realize that's a very general question, but basically I'm asking you, what did you come across in terms of the general explanation of why this was never really investigated?

MICHAEL PICKUP: I'm going to start with the answer to that and then I'm going to turn it over to my colleague in case he wants to add things. I'll also say that while the folks from the Department of Lands and Forestry aren't here, the Department of Finance and Treasury Board folks are here, and if they want to add something as well, perhaps they can add.

I do want to remind folks of something I said at the beginning. We have started a performance audit now on the management of contaminated sites to answer some of these questions as to why some of this is not being done. I do want to remind people on the committee that in 2017 we did our first stand-alone report to you on the environment that

had a number of chapters of work on the environment, including a summary of previous work we did.

One of the things we reported to this committee at that point was that our 2010 audit on the management of abandoned sites, contaminated sites - the last time we had followed that up in 2014, 10 of the 17 recommendations had not been completed. We did report that to the Public Accounts Committee at that time in the Fall 2017. You called in the Deputy Minister of Environment and had discussions with her - I say "you", the committee. You had a meeting with the DM of Environment to talk about our environmental report, which that was a part of.

I just wanted to put that on the record that we are doing that performance audit. I'll turn it over to Mr. McWade to see if he wants to add anything, and then if the Department of Finance and Treasury Board folks want to add anything.

MORGAN MCWADE: I will just mention, to give some sort of background on where we are with the responsibility, it's in the response on Page 14 that the Department of Lands and Forestry is working with both Nova Scotia Lands Inc. and the Department of Energy and Mines to develop a process to address the former mine sites.

Again, these are sites that have been around for quite some time, but what we found in our audit was that the department really hadn't gone in and done a fulsome assessment of these sites to determine what the potential contamination was and if there would be any financial exposure - either currently or in the future - with regard to remediation costs, if those were required.

TIM HALMAN: I certainly appreciate that background history. If I've understood you correctly, from 2010 to 2019, only 10 of the 17 recommendations were implemented, correct?

MICHAEL PICKUP: That 2010 audit, we last followed up in 2014 and we reminded you in 2017 that the last time we followed up, 10 of the 17 recommendations had not been completed. That is correct. We will be following that up now as part of this performance audit to ask what happened to these.

TIM HALMAN: During that period of time, do you know if the department at least tried to improve their investigations since the beginning of those recommendations? Where are the areas that you've seen improvement? That's the key thing I'm asking.

MICHAEL PICKUP: In terms of the improvement upon the initial audit, I don't have it in front of me, but it would be the recommendations that were completed at the last time. In fairness to the department, the follow-up of that 2010 audit was in 2014. That is a bit dated now.

I think what's important to me - and this is part of the call we made in starting that performance audit immediately that we will be following up - what happened to those recommendations? Are they still relevant? Were they done? Including whatever else we bring into that performance audit as well. I think in fairness to the department, we should leave that part of it go as part of the performance audit.

[9:30 a.m.]

TIM HALMAN: In your opinion, has government exposed Nova Scotians to having to spend more on remediation costs in the future by delaying remediation of the abandoned mine sites?

MICHAEL PICKUP: I think that may be a difficult question to answer, and it may be one that the departments themselves, I suppose, should answer. They added these two sites, of course, this year, after doing the work on those. That is based on the current information they have and the current assessments that they do.

Keep in mind that, as we indicated, the government does a very good job of meeting the accounting standards. In the accounting, if you read the notes to the financial statements on the environment, in terms of the uncertainty and the estimates involved in this, the government indicates that it is likely, it is possible, that these things can change significantly in the future as more information becomes available.

The example I would give you over my time is Boat Harbour. Look how we have seen that. That's not because anybody did anything wrong in terms of the accounting. The accounting requires that you make an estimate based on the available information that you have at the time. As more information becomes available, you refine those estimates, then you change the estimate. Boat Harbour is a perfect example of that.

TIM HALMAN: Would you say that government's lack of action to perform these investigations on these potential areas of contamination has actually exposed and increased the risk of unaddressed human health risks or ecological concerns for Nova Scotians? This is a question I get a lot from my community. I'm wondering if you could address that.

MICHAEL PICKUP: I would bring you to Page 14 of our report where we, on our financial audit, indicated that they haven't completed the significant site investigations. What we said is the potential impact - because you don't know what you don't know - is that without appropriate analysis, there is a risk that contamination may not be identified or managed, resulting in unaddressed human health or ecological concerns. Then the government responded, and their response is there.

There was no disagreement with the government on what we said here. We cleared this. We went through the process so that we don't write things that there is disagreement on, or we would report a disagreement. We all agree on that. Then you see the response.

This is part of why I made the unusual call in July to say we need to start a performance audit on this immediately, and we need to get this done as quickly as possible.

TIM HALMAN: I recently read an article from *The Guardian* that outlines that there are workers in Africa - farmers choose death by lead poisoning over poverty. It's a powerful article to read - I'll certainly table that, Mr. Chair, if necessary. Do you think these abandoned mines could be a source of increased lead figures in some of our drinking waters in Nova Scotia? I recognize that may be out of the scope of your expertise. Obviously, this is a major issue impacting communities in Nova Scotia, and these are questions that are being posed to me. I'm curious as to what your thoughts are on that.

MICHAEL PICKUP: I think that's a question better aimed towards the appropriate government departments.

THE CHAIR: The time is up for the PC caucus. I'll turn it over to the NDP caucus. Ms. Leblanc.

SUSAN LEBLANC: Thanks again for your presentation. Before I start, I just want to observe that I wrote down a couple of different times that you, Mr. Pickup, expressed your frustration with the speed which the remediation of the issues has been going. I just want to say on the record that I, too, share that concern.

The fact that there's no disagreement between the Office of the Auditor General and the various government departments is great. It means that there is some understanding that there are issues. Yet when things don't get addressed for three years, I wonder if that lack of disagreement or that agreement is somehow put at risk because there's no action being taken. It's fine to agree, but then you need to follow up on that - not you, the departments. I just want to clock that for our ponderance, I suppose.

I just want to continue the discussions around the Department of Lands and Forestry. Your audit assessment found that the Department of Lands and Forestry had not completed sufficient site investigations on all abandoned mine sites identified with potential areas of contamination. Without this assessment, the department cannot effectively determine the province's potential financial exposure related to remediation and monitoring costs.

Did the department provide any adequate response for why these investigations on contaminated sites have not been completed?

MORGAN MCWADE: I'll just preface this by saying these are sites that have been around for quite some time. Some are up to 100 years and in the department's response, they indicate that they'll be working with Nova Scotia Lands and the Department of Energy and Mines moving forward.

I think from the perspective of why this wasn't done in the past, I think that question is best posed to the Department of Lands and Forestry.

MICHAEL PICKUP: The one add I would make on that is, this is part of why we are doing this performance audit. We call an audit to get to the root causes - if we can get to the whys. That's one of the things that I want to try and get out of the performance audit - why these things haven't happened.

SUSAN LEBLANC: Do you know if there is currently any plan in place to conduct environmental assessments of the abandoned mine sites that you've been aware of to date?

MORGAN MCWADE: I think it's safe to say that we haven't seen a formal plan, but the department has indicated to us - both informally and officially in their response here - that they are looking at developing some sort of plan to assess these sites based on some sort of risk ranking. They actually mentioned two of the ones that I think it's safe to say have been identified as priority sites, which they're going to be trying to take a look at in the near future.

MICHAEL PICKUP: If I can interject just with 30 seconds of commentary on that. I just want to point out, to the credit of the team, this is showing the value that's coming out of a financial audit. To get to this level of issue and to have this come out early in a financial audit, I think is commendable to the work that the team did. I just wanted to interject that when I could.

SUSAN LEBLANC: I agree. I think it's really great that through a financial audit, we're discovering these things so they can get looked at more closely quickly. It's really important, especially given this type of situation.

Anyone want to take a crack at this? In your opinion, what would be an acceptable time frame for the plan to be in place? What is the urgency associated with this work? Again, I just want to refer back to the fact that there's no agreement and the department has said that they're willing to put a plan in place, but of course, in other cases that we've heard today, it's three years later and there's no plan in place or there's no real action. I'm curious to know if you have an idea of when you'd like to see work done.

MICHAEL PICKUP: I think I will start with the safer part of the answer to say any management decision like that - in terms of when a plan gets put in place and the timeline of the plan - is always a management decision, not an auditor decision. An auditor can react to it and make comments on it, but those are management type decisions and I fully respect that.

Having said that, I hope some of this will come out in the performance audit in terms of the recommendations we may make following up on previous recommendations. The commitment is there to develop a strategy. We are now into the performance audit. I

think all of this should become clear because a strategy and a plan doesn't mean you necessarily have to do everything tomorrow. A strategy and a plan could be a reasonable timeline as to when you think things should get done, all of which of course are management decisions.

I did just want to add one quick 15 second thing on something else. Just in terms of fairness to the government, everything I said on fraud in terms of the speed of that getting done is true, and it's what I believe. I will say though that some action has been taken. I would be more frustrated and disappointed if there were no fraud risk assessments done. I think that would be more indicative of not actually agreeing. I think there is agreement, given that the fraud policy is in place.

There are some departments where the fraud training is happening. There are some fraud risk assessments getting done - nearly half. So the question really becomes, why do we have this group that aren't getting things done? I did just want to go on the record as being quite fair to the people we audit.

SUSAN LEBLANC: Going back to the mines, the minister has said that the four abandoned mine sites - the two gold and two coal - are currently identified as priorities for further testing and evaluation. I'm wondering if you can speak to how these four were identified as priorities if site investigations have not been conducted.

MORGAN MCWADE: As to why they were identified, I believe it was due to their historical use. The department does have a system where they do track some information on the historical use of the sites, along with some studies that were conducted in the past potentially - maybe not a full site assessment, but some work that was done. I believe that's where they were able to identify those four sites as being priority sites.

SUSAN LEBLANC: As of March 31, 2019, the province identified and monitored 127 contaminated sites. Of these 127, 39 were identified as sites where environmental cleanup was likely or already under way. The province also identified an additional 63 abandoned mine sites for which no liability for remediation had been recorded, either because the site has minimal risk of requiring further remediation or - and this is where it's ding-ding - the extent of the contamination and possible remediation activities is unknown.

Were you provided with a breakdown of how many of the 63 sites fall into that latter category of just being unknowns?

MORGAN MCWADE: We do have a breakdown of the sites. I don't want to speak to the categorization between ones which due to their historical use, there is a potential for no remediation. What we did is take a look at the department's assessment and when they applied the criteria, which we've listed in our report from a Public Sector Accounting Standards standpoint on what would get you from that - yes, an environmental standard exists, contamination exceeds that standard, the province is either directly responsible or

accepts responsibility and expects to give up future economic benefits, and then a reasonable estimate of the amount has been made.

That's what we looked at from our approach when we're determining how to properly disclose and record amounts potentially for those sites - not specifically on which ones, what the level of contamination was or what the historical use was on that assessment. We would just look at those 63 sites as one grouping.

SUSAN LEBLANC: We have 63 plus the 39, so that's only 102. Do you know what the situation is with the remaining 25 sites?

MORGAN MCWADE: Those are sites - they're a variety of smaller sites. I think I have the listing here with me, but they're items where there has been either potential contamination identified and the department has reported that, but for any number of reasons, they haven't determined that there is a cost associated with cleaning up that site yet. It hasn't met the criteria for recognition under the Public Sector Accounting Standards.

SUSAN LEBLANC: As you mentioned, the government has met the accounting standards for the contaminated sites. However, the accounting standard is focused on recording the liabilities that are known. There's clearly quite a bit that is unknown about some of these sites around the province. I'm just wondering, what can we as the public expect the government to do to address these concerns?

MICHAEL PICKUP: I think in terms of the significant deficiency we had and the issue that we raised and the government's response in terms of the need for a strategy to get these things done, it's really engaging with the government in that discussion as to what is happening with this - what the strategy is going forward - and then us doing the performance audit on our part to answer some of these questions.

[9:45 a.m.]

I think we're raising the issue with you. We're trying to give you a fulsome discussion and summary of it, but really the what-nows, the protentional impacts, the what does this mean and that mean, really, I think that is probably a fairly in-depth discussion with the appropriate government officials.

SUSAN LEBLANC: Thank you. I'm wondering if you might know what's going on in other jurisdictions. How is this work being approached in other jurisdictions that may have a more comprehensive approach to these types of contaminated sites and/or do you look at that when you're doing your audits?

MORGAN MCWADE: I will say that we have looked to some other jurisdictions including the Government of Canada and the Northwest Territories who have a fairly descriptive disclosure in their Public Accounts. I am aware that other jurisdictions do have

a strategy for assessing and prioritizing these sites similar to what we've recommended in our report.

Just to clarify, we're not saying that the government necessarily needs to go out and remediate all these sites. It's important to have that strategy in place to determine whether or not contamination exists and whether or not remediation is required.

SUSAN LEBLANC: Thank you. How much time do I have?

THE CHAIR: About eight minutes.

SUSAN LEBLANC: I'm going to hand it over to my colleague.

THE CHAIR: Ms. Roberts.

LISA ROBERTS: I'm going to take advantage of the fact that the Department of Finance and Treasury Board is here and ask a few questions related to the Public Accounts.

One thing I noticed in the reporting of the Public Accounts was that revenue was \$118 million less than forecasted in the fiscal year ended on March 31, 2019 and just \$12 million more than the previous fiscal year. I wonder if the deputy minister could speak to what is resulting in that change.

THE CHAIR: Mr. Rafuse.

BYRON RAFUSE: Thank you for a question. Our revenues are based substantially by modelling and the reason for that is that a large source of our revenue is not actually known in totality until many years after the close of that particular fiscal year. You'll hear us talk a lot about underlying assumptions that drive out our revenue models, particularly the ones which are our primary source - personal income tax, corporate income tax, HST, those types of things - are all driven by models.

When we develop what's included in our forecast in any particular year, usually that's based on the model we ran for the development of the budget for the next year and it has a list of assumptions and underlying information embedded into that. When we close the books and we go through the Public Accounts process, we do update that model based on the best available information we have at the time and that does lead to adjustments.

For last year, I think the primary reason for the change was around our corporate income tax which we had initially indicated was modelling to be larger than the original estimate, but it did substantially reduce. Just to give you clarity, our corporate income tax is based not only on what's happening in Nova Scotia, it is a concept that involves the pool of corporate income taxes across the country and our share of that pool, based on an historical calculation of the taxable earnings of corporations in Nova Scotia.

So, for the close of the 2019-20 budget, that resulted in a slight change. That was substantially the reason for the change in revenues for the close of books last year.

LISA ROBERTS: I wonder if you could say anything about specifically what you're seeing in terms of what the province is taking in in personal income tax? I was struck that given where we're going with population, that personal income tax revenue doesn't seem to be substantially trending upward.

BYRON RAFUSE: One of the things that you'll see with our modelling - and not only because it's subject to the review of the Auditor General during the preparation of the budget, but also subsequent audit of the Public Accounts - is that we talk a lot about things called yield. Yield, to put it in very simple terms, is the amount of tax that we earn on a taxable income basis.

Our modelling is based a lot on historical knowns and historical trends. A more recent uptake in population in the current year isn't necessarily going to extrapolate out in our modelling for increase in that year. We need to show a trend of that over the long term before it's embedded into our modelling and it's reflected into that. I can't just say that the current year increase in population is going to be what it has been for the last five years and what it will be for the next five years. I've got to show a trend to be able to get through audit - to put it that crassly.

What will happen is that later on down the road, if the in-year amount is substantially larger than what we modelled, we have things called prior year adjustments. In the case that you're indicating, that would probably indicate that there would be a positive prior year adjustment in a later year. If our population growth projections were larger than we anticipated in our historical trends, that provides you some insight as to why.

We are starting to see that being on a consecutive basis, so you will see more of that reflected in our modelling as we show year-over-year population trend increases. You may see an increase in our revenue or increase percentage yield based on that. There are other things that impact the yield as well - one of which is the actual earnings of the individuals or the average earnings of the individuals, and as they move from one tax bracket to the other, that will change the yield as well.

LISA ROBERTS: We've seen this analysis in many different places, but included in the Public Accounts discussion is a discussion of our demographics. While we're seeing a younger age bracket increasing, still the greatest increase year over year in Nova Scotia is 65-plus individuals, some of whom are aging in place and some of whom are migrating to Nova Scotia. How will Nova Scotia's aging population impact future revenues and how does that factor into your calculations?

BYRON RAFUSE: Certainly the changing demographics are incorporated into our revenue models, both the current year and our out-year projections as well. As we look at

the fact that age cohort is increasing, it has a number of impacts on revenue. Some are positive and some are negative, to be honest with you. They're both factored into that.

Obviously, as people migrate back and make Nova Scotia their home for retirement purposes, that means their income is now recorded as Nova Scotia income as opposed to the province in which they lived before. It's based on your place of residency on December 31st as the primary determining factor. That's obviously a positive increase.

Some people actually have a revenue growth in retirement as well and continue to work with a retirement income as well. All those are factored into our projections. That demographic actually has both a positive and negative impact as someone moves from a full employment income to a pension income. It does have a downward, but the reverse can happen as well.

THE CHAIR: That concludes the time for the NDP caucus. We'll move to the Liberal caucus. Mr. MacKay, you have 20 minutes.

HUGH MACKAY: Welcome, everybody. I'm going to have questions for both the Auditor General's Office and the Department of Finance and Treasury Board. I'm going to be going back to the issue of gold mines and remediation and strategic plans for avoiding problems in the future.

First, a question for the Department of Finance and Treasury Board. What's the department's position on the remediation of abandoned sites - gold mines or other mining sites - that were operated by the private sector and now the department is picking up the costs of remediation? Could you speak to that, please?

BYRON RAFUSE: Certainly in the past, it was probably almost an acceptable practice when one abandoned a mine that they would kind of walk away and leave. I think there are more robust practices in place now to ensure that does not occur anymore.

In any kind of mining operation in the more modern environment regime that we have now, there are requirements for the operator to actually put in place - either through bonds or other obligations - to ensure that once the mining operations stops that an appropriate cleanup does occur. That kind of historical thing, I'm confident that they have in place a regime that does not allow that to continue.

From past operations, it's kind of hard to change what has happened in the past. Some of these mines, as indicated, have been abandoned for more than 100 years and have reverted either into a Crown obligation or the Crown actually owns the land through the ceasing of the operation.

The departments responsible have taken steps towards the assessments that are required. They have taken a risk-based approach to this, that's what led to the identification

of the ones that were recognized last year in our books - in Montague and Goldenville - those ones indicated through their initial assessments. Those were the higher-risk ones and that's why they went through the more complete evaluations and met the criteria for us to recognize the liability.

They are working through that process. We can argue whether or not they're doing it at the appropriate speed or not, but they have put resources towards this. They have assigned extra individuals to that process. They have committed to doing an assessment of every site. Some of these sites are not going to be contaminated. I am not a mine engineer or a contamination engineer - I don't think anybody over here is - but my conversations with them is that that's a strong likelihood. They are taking a risk-based approach to this and believe they have addressed the higher risk ones already.

HUGH MACKAY: Certainly, I think it is recognized that our government believes it has a duty to the public to address concerns for the environment - mining being no different than other areas in natural resource extraction. We have a responsibility to be sure it's done right. You mentioned that these are historical sites, for the most part, that we have concerns with now that there's a deliberate strategy - a deliberate effort - to ensure the onus is on the private sector companies to have reclamation plans in place.

With such reclamation plans there's often a lot of controversy regarding open pit mining versus say, sub-surface mining. One of the concerns has always been reclamation of open pit mining. Recognizing that you're not a mining engineer, as you said - probably nobody in the room is unless we're data mining rather than rock mining - do you have any comments towards whether there is a significant difference of below surface mining versus open pit mining on impacts towards the environment? Does the department have any view on that?

BYRON RAFUSE: I do not, but I do know that the Department of Energy and Mines has a view on that - that's why they look at things differently. I understand the requirements for the private sector to put that plan in place is different from the type of mine and also the element that is being mined, based on what the potential tailings could be. They have a risk-based approach on what is required. What's better, I would leave it to them to answer that.

HUGH MACKAY: Montague Gold Mines, which the member for Dartmouth East referenced earlier - I grew up very close to that from my teenage years on. Goldenville, in Guysborough County, is where I happened to grow up in my very early years. I'm rather familiar with both of these. In my youth, it was just a matter of interest that these old abandoned mine sites existed. I can remember visiting down in Guysborough County what looked like ghost towns with my father. We would typically have a shotgun with us in case there was a partridge or a pheasant lurking nearby.

[10:00 a.m.]

These sites, as I understand it, have been selected primarily because of the extent of arsenic levels primarily - perhaps mercury to a lesser degree, but certainly arsenic levels, which are beyond belief and must be addressed. I think the minister actually said that they're the most egregiously contaminated sites in the province, and we are putting our focus on that.

Has the department made clear to you or to the AG's Office - maybe the AG could speak to this as well - how they're going to prioritize the remaining 69, I guess starting with environmental assessments? Have they given any other indication of what the inputs will be for prioritizing other sites?

BYRON RAFUSE: As I said earlier, they took a risk-based approach in identifying the ones to date, and they will continue to do that as they go through their site assessments. In addition to the type of mining activity that occurred, the other risk factors which will go in would be proximity to populations, current use of the land, and proposed use of the land. Those things are all factored in to their assessment process. As I said, if the site is in the middle of the woods and there has been no activity for a while or complaints about it, that would probably lower its risk assessment from an initial perspective until they actually went in and did the engineering assessment. That's what they use.

I don't know if they use any other factors - I don't think so. They're looking at the type of activities, what was mined, proximity to the populations, and the current and future use of the site. I guess the other thing would be the actual physical size of the operations. That would play as well. A larger mine site would obviously have a larger risk. I, too, used to go to the abandoned mine sites in New Ross and go to the manganese mines. They're just a hole in the ground, is what they are.

HUGH MACKAY: Did the AG's Office have any comment to that particular question?

MICHAEL PICKUP: I think the most relevant comment I would make would be the department's own words in responding to our comments. The Department of Lands and Forestry said that they are working with Nova Scotia Lands and the Department of Energy and Mines to develop a process, including risk ranking and identifying priorities for site evaluations. The department continues to work with Nova Scotia Lands and Energy and Mines to develop an overall strategy to continue to ensure that the presence and extent of contaminations are clarified through assessments, and the associated financial exposure will be appropriately reported.

To me, that sums it all up in terms of the department's own words.

HUGH MACKAY: The strategy going forward, yes, seems to be fulsome. It's my understanding that the cleanups at Goldenville and Montague will serve as a template for further cleanups of the other sites following the implementation of a strategy for cleanup. It's my understanding that Saint Mary's University's School of the Environment has actually applauded the efforts of government to implement the strategy.

I think going forward, as we continue to consult with our constituents throughout the province on these sites of interest - as well as the stakeholders within the NGOs and others who speak on behalf of looking after our environment - that this is going to be an excellent program.

I'm going to switch over slightly to a question on the mining industry to the deputy. What is the financial contribution of the mining industry currently to Nova Scotia GDP?

BYRON RAFUSE: I haven't seen a current impact. I know that we could probably provide that to you. The mining industry does this themselves as well, but we do have the ability to isolate that industry in Nova Scotia. It currently does have a lot of activity that is more recent developments in the last little while as certain minerals are more attractive right now. I don't have that on the top of my head, but I could definitely get you our determination of what the GDP aspect is of the mining industry.

HUGH MACKAY: It certainly would be interesting to see that and informative for us. If it is possible, we have lines ranging from gypsum near Milford in my colleague, the member for Hants East's constituency to well-known salt mines and other things that have been used through the years. Any breakdown of those numbers would also be appreciated.

How does the province derive revenues from the mining industry? It's a private sector driven industry. How do we get revenues out of that?

BYRON RAFUSE: There are a number of aspects which the mining industry or any industry actually would help contribute to the province's revenue. First of all, as corporations make profits, there's actually a corporate income tax associated with the corporations in those industries. The individuals who are employed derive provincial revenues by the income taxes that they pay on their income, and in turn we derive HST on the purchases that they make to the local economy.

There are also certain aspects or uniqueness to the mining industry. There is a royalty regime in place on certain mining activities, depending on the element at hand, which derives a level of royalties. I would say to you that's kind of on the lower end of all these things, but that's another aspect of which the province would extract revenue that can be used in the programs that are provided by the Province of Nova Scotia.

HUGH MACKAY: Thank you for that. Similarly to our other natural resource programs - the fisheries and aquaculture sector or the forestry sector - there's the direct

revenues that we might derive, but also the indirect revenues that we're providing good jobs for Nova Scotians and those Nova Scotians spend their money locally, which supports the local communities, particularly rural communities, which are in need of natural resource extraction that's done in a sustainable and responsible manner.

I don't really have more questions, if my colleagues are ready to take over now.

THE CHAIR: Mr. Maguire.

BRENDAN MAGUIRE: Just a quick comment on the process; just a little follow-up. I'm particularly happy that there seems to be a bit of a process in place now when it comes to environmental cleanups, where in the past there hasn't been, and that it's more of the high-end areas that are impacting residential communities, which are now being looked at and maintained and taken care of.

I speak from personal experience where we've dealt with 15 to 20 years of government after government after government - majority government after majority government - with, in some cases, those majority governments having their counterparts in Ottawa.

The people in my community had zero access to having the contaminated C&D site in Harrietsfield cleaned up. That was one of the things that I heard shortly after I got elected. Even before I got elected, having grown up four houses down from that site when I was a young kid, one of the things that we heard over and over and over was, who do we go to? What do we do? The municipality, the province, the feds - who do we talk to?

If we're going to talk about environmental cleanups, I think a big part of it is actually having a process in place where it can come from the grass roots. It can come from the public, where people have a voice and an opinion and are able to drive some of these policies and some of these cleanups. From a personal standpoint - and I'm not pointing fingers or anything like that - I'm just glad because I know MLAs and MPs before me worked hard, and what they had commented to me in the past was how frustrated they were because they didn't know what avenues and what routes to take.

If we want to talk about environment, we can also talk about the bottom line: people's pocketbooks. It has a huge, huge impact on people's lives to live next door to some of these environmentally impacted areas. There are people down in that community who can't sell their house. There is a gentleman who called me - we helped him out - and said, I can't even get my house remortgaged. When I applied to have my house remortgaged, the bank straight out told me: No, it's not happening because of where you live and what the impacts are on your water and your environment.

These are some of the things that we have to take into account when we look at the list. Some of these gold mines - the majority of them are from the 1800s, so we have to

start looking at where we go to make the best and the biggest impact possible. That's my rant on that, and I apologize because there really is no question. I just wanted to get that off my chest.

We've had lots of conversations about the finances - and I'm not an accountant; I'm not a financial expert - but I want to know what the importance of deficits versus surpluses are and the credit rating. In particular, how does that impact decisions and what's the difference between a deficit and a structural deficit?

My understanding is that you want your credit rating better because obviously you're paying less interest, and when it comes to some of these larger projects like hospitals, roads, bridges, and schools - which would fall under a structural deficit - you want to make sure that you have the best possible credit rating so that you're not paying more out of your pocket for interest payments. Am I kind of on the right track?

THE CHAIR: Mr. Rafuse, you have about one minute to answer that question. (Laughter)

BYRON RAFUSE: Okay, that's not a one-minute answer, but I'll try to do that. We'll just stick with bond rating agencies. When they look at our rating, they're looking at our ability to pay our debts back. The higher the assessment - the higher your credit rating - that does make its way into what the market will price in when we go to the market, so it will reduce our interest rates based on their assessment of our ability. Because we're less risky, we're a better place to invest in.

They look at several things, one of which would be our overall surpluses and deficits. On an operating basis, what is the entity or what is the government running on - is it running on operating surpluses? Then it looks at your overall net debt position, which goes beyond your operating deficit. It is the total overall perspective of what the debt load is for the particular government and takes into consideration your infrastructure, investments you've made to date.

It does not get at structural deficits because a structural deficit is a conversation around the infrastructure which you have not made investments on that you should have. It speaks to what you have decided to invest in. When you have the opportunity to have a good credit rating, when you are operating on a continuing surplus basis, it does allow you the financial capacity to make those investments in those structural issues if you choose to do so. It allows you to do that in a very structured and meaningful way. It allows you to go to the market with the knowledge that you are going to be getting a very fair interest rate associated with that.

When you go to the market or when you borrow for those types of infrastructure amounts, either from the perspective of current or structural, that is for the long-term benefit of the entity or the long-term benefit of the people of Nova Scotia. Bond rating

agencies and others look at that as more favourable reasons for borrowing than if you're not operating in a surplus position or if you're just running operating deficits. They kind of frown more on that because that's indicating that you're not concerned about paying your bills, if I could be so frank.

[10:15 a.m.]

THE CHAIR: The time for the first round of questions is up. Our second round will be nine minutes for each caucus, and it will be strictly enforced as nine minutes so that we can deal with other business. Mr. Halman.

TIM HALMAN: Mr. Rafuse, just back to the topic of remediation, in terms of the Boat Harbour costs ballooning from \$20 million to \$230 million, I know the financial report states that the estimates are based on management's best estimate at the time. The range is quite staggering. I'm curious, has the department indicated in any way that it's able to have information analyzed in order to be in a better position in the future to assess the costs of remediation? In other words, what's the plan for improvement? That's what Nova Scotians want to know.

BYRON RAFUSE: First of all, not only for Boat Harbour but for a lot of the remediations in Nova Scotia, I take comfort, and so should the people of Nova Scotia, that Nova Scotia Lands, the entity actually in charges of this, has a lot of experience in these matters. They are probably the leading cleanup organization available to anybody in Nova Scotia because they have experience doing that from an individual or corporate perspective. That is the entity that participated in the cleanup of the tar ponds. They kind of grew out of that initiative. It is management's best estimate as to what the costs of those remediations are.

You can appreciate sometimes what it takes to complete a cleanup. Initially, you're dealing with a lot of unknowns. It takes a while for entities like Nova Scotia Lands to come up with an appropriate or robust approach as to what it would take to clean up a site. As they refine that, the costing gets refined.

As you probably are aware, they did some assessments through the last number of years at Boat Harbour. They refined their plan, and they came up with better cost estimates for a more appropriate cleanup effort. That approach will continue to be subject to change. The cleanup is subject to an environmental assessment. That process might change the approach - I do not know, I'm not sure. They believe they have a robust plan there that will return that site to a standard that is acceptable under our environmental laws and to the community. It is something that we'll be informed as they get better information.

This management assessment is not solely based on what they are. They use a lot of external experts. We rely on those experts to give us an independent assessment as to

the approach. We're confident that it is the best estimate we have now as to what it would take to clean up that site.

TIM HALMAN: Is it correct to say that this has to be taken on a case by case basis? Individual sites vary - they're different. That's correct to say that - a case by case basis?

BYRON RAFUSE: Certainly the factors for every site differ, even with the experience that entity had, I'm sure they ran into things at Boat Harbour that they did not run into in Sydney.

Every site is different. The type of contamination that led to that site being contaminated causes for different types of remediation. On the mine site, a gold mine is different from a manganese mine. The tailings are different so they're going to have a different approach for each site.

It leads to difficulty to extrapolate the costs of these two mines over the rest of our abandoned sites because the level of activity is different, the size of those sites are different and, quite frankly, the risks associated with them are different so it leads to different approaches. You may make a determination that nothing needs to happen - that it's actually worse to try to clean up a site because it may lead to further environmental impacts than just leaving it alone. That's an assessment that those experts will have to make, so it's really hard to extrapolate from one site to another based on that.

TIM HALMAN: In the time we have left, I just want to turn our attention to cybersecurity, Mr. Pickup - specifically regarding the Shared Services Act of 2014. As was stated in the report, it's still being drafted so therefore there is no finalization regarding the regulations, which would assist organizations in understanding their responsibilities for addressing cybersecurity risks.

I'm curious as to those risks. Could you outline, without those finalized regulations, what risks these organizations still face?

MIKE MACPHEE: The risks revolve around the confidentiality, integrity and availability of your information technology and your data. For example, there are various cyber incidents that can happen as a result of not properly managing your cybersecurity risks. For example, we note on Paragraph 3.6, information can be held for ransom. You can have theft of financial assets. You can have a misuse of personal and financial information, breaches of financial information, and disruption of operations.

TIM HALMAN: In your experience, is it common for regulations to be developed over five to six years for that to be completed? Is that outside of the norm?

MIKE MACPHEE: We've made an observation on this, so it's implied that we think it's somewhat tardy in its development, but we do note that they do agree with this

observation and are working to draft these regulations. It really hits at governance in this issue and will undoubtedly address some of the observations that we've put in our report.

TIM HALMAN: What stage in the drafting did it seem that they were still at? In other words, as far as you know, are they still in a period of consultation? Based on the survey that you did, where are they in drafting these regulations?

MIKE MACPHEE: We don't have any more indication as to where they are. It has been communicated that they're being drafted and that's really the extent of our knowledge on it at this point.

TIM HALMAN: Housing Nova Scotia uses a system supported by a third-party vendor. As far as you know, with respect to that, is there any sensitive or private information handled by that system?

MIKE MACPHEE: We didn't delve into the real nature of the information, but from our discussions with Housing Nova Scotia, it relates to a subsist application, which wouldn't contain personal identifying information. That would be an appropriate question to direct to Housing Nova Scotia.

THE CHAIR: The time for the PC caucus has expired. We'll go to the NDP caucus - Ms. Roberts.

LISA ROBERTS: I'm going to share a puzzle that I'm kind of working on in my mind. I invite comments from both the Department of Finance and Treasury Board and the Auditor General's Office to help me advance in understanding this puzzle, and that is the role of tangible capital assets in our finances and how those are characterized as investments, whereas expenditures on annual expenses are viewed as expenses. They appear very differently on the balance sheet.

In conversations with actually quite a wide range of people with various roles in the province, be it consultants or municipal government officials, I've heard our track record questioned - our way of approaching tangible capital assets. For example, I've heard that a school built for a particular school population need in Nova Scotia is over-built in comparison to New Brunswick, for example. A new school in Nova Scotia would be 20 or 30 per cent more expensive book value and actual value in comparison to a new school built in New Brunswick - better glazing, better floors, more square footage.

I've heard similarly that we as a province have a lot of hospital square footage for our population. I've certainly heard many times that we have a very significant investment in our highway infrastructure for our population. Certainly, growing up in Newfoundland and Labrador where there is only ever one way to get anywhere, I'm constantly struck at the road infrastructure in Nova Scotia.

I guess my question and my puzzle that I'd like comment on is: Do we have an issue, in your opinion, with over-investing in tangible capital assets? Is there any way in which the story told by our Public Accounts is perhaps - distorted would be almost too strong a word - that we should look critically at what the numbers tell us in our Public Accounts based on that question, that concern?

BYRON RAFUSE: First to the question on tangible capital assets, I always make the distinction that your investment in TCA - I do characterize it as an investment because in theory, that asset provides either service potential or a value to future generations or to future years. So it's appropriate not to recognize that cost at the time of purchase. That's why they're treated differently on our financial statements.

You will see a cost associated with that asset over time through amortization expense and the annual operating aspects of the Public Accounts. I characterize that - to make it very simple - as good debt versus bad debt. It's really an investment into the future and that's what you should be borrowing for, as opposed to your current operating needs.

As far as whether or not we over-invest in our assets, there is quite a robust process about school locations and community needs to go into our schools of which sometimes it actually elongates the process of which it takes to build a school. Also, it has an element of having uniqueness into that school where one could argue that perhaps a more standardized - this is what a P-3 school looks like and this what a 6-12 school looks like, and that's it. It doesn't allow because of the community needs and desires. Whether or not we put extra glaze on, I'd have to rely on engineers on that. Although there are standards of which they adhere to.

The notion of hospitals - that has been a well-documented aspect as a by-product of an investment made years ago by previous governments about having hospitals located in a lot of places in Nova Scotia and whether or not they should be primary care centres or in-patient units is one that's an ongoing debate. There was a program years ago with the help of the federal government, where a lot of hospitals were built in Nova Scotia.

MICHAEL PICKUP: The only thing I would add to what the deputy minister said is that we have done a couple of relevant audits in the past, during my time. One of them was on hospital infrastructure. We talked about the infrastructure deficit related to having 43 hospitals all of which had in total huge infrastructure needs in comparison to the total amount of money that was available to put into these facilities and the need to look at what these facilities were doing. We did that audit during my time here.

We did a school capital planning audit as well and made a number of recommendations, which the government has accepted and acted upon many of them to improve the school capital planning process as well.

I did want to give you those two examples where we have gone down that infrastructure road in the past.

[10:30 a.m.]

LISA ROBERTS: Just quickly, what is the process for assessing or checking the value of the tangible capital assets on our books? I certainly have heard concerns from municipal governments that housing amortization costs on their books prevent them from investing in new affordable housing. However the housing that is being amortized, they would suggest, is not actually valuable housing for current residents, yet the asset remains on the books at a book value that doesn't seem to be reflected in reality.

BYRON RAFUSE: The rate of amortization is based on the standards used on the anticipated life expectancy of the unit and whether it provides useful value. If a unit has been in disrepair, management of that organization should be making an assessment for whether or not that's impaired, and the asset should be written down. It's up to the management of those organizations to make those assessments.

We do provide guidance on what would be an appropriate amortization schedule based on the asset and the anticipated service potential of that asset. But the actual assessment on an ongoing basis - if it is impaired, the management should be writing that asset off, generally speaking.

THE CHAIR: Ms. Leblanc, you have a minute and 10 seconds.

SUSAN LEBLANC: At the end of September, we learned that the government was spending \$28.5 billion to buy and renovate Newbridge Academy and turn it into a high school for CSAP. Part of the government deal with Newbridge, with the owner, was that his company, Dora Construction, would be given a \$10 million contract to complete renovations to the building. The government's procurement website clearly states that for projects \$100,000 or more, the government has to work with a procurement process.

Would this \$10 million untendered contract be an example of the control weaknesses that you have been flagging in your report?

MICHAEL PICKUP: This is not something we have looked into. I don't know if the deputy has any information on that and wants to provide you with something. That wasn't an audit issue from last year.

BYRON RAFUSE: That is a transaction this year, so it would be outside of the scope. The decision to use them was not anything to do with control weaknesses. It's about the expertise the entity possesses and how expeditiously that school could be made available for those students.

THE CHAIR: The time for the NDP caucus has expired. We'll move to the Liberal caucus. Ms. Miller.

HON. MARGARET MILLER: Thank you for this. It has been very informative today. As the former Minister of Natural Resources, mines and the remediation of mines were certainly on my radar. At that time, mines were still under the purview of Natural Resources. Since then, it has moved to Energy and Mines.

From what I'm hearing, is the remediation still with Department of Lands and Forestry or does it actually go with the Department of Energy and Mines? Can somebody answer that question?

BYRON RAFUSE: It relates to who is determined to be the landholder because that's really their responsibility. Lands and Forestry is the landholder. The expertise actually goes over to Energy and Mines, so it's kind of a joint thing with Nova Scotia Lands being the actual entity that will do the cleanup.

MARGARET MILLER: I remember, it wasn't that long ago - probably a year and a half, two years ago - when that change was made. The discussions were about these un-remediated mine sites and choosing the mines that had the priority to be done, which ones necessitated being done sooner. That's why those were included in the budget.

Part of the topic of the conversation of the day was how many sites we have - I believe, Mr. Rafuse, you spoke to that earlier. It's unknown. A part of my constituency is Mount Uniacke where there has been extensive gold mining. I've often been warned that it's not even safe to walk in certain areas because there are un-remediated sites that people aren't even aware of. Certainly government probably isn't aware.

I think that's something that's going to be coming even more. We're dealing now with the Auditor General's Report and how many need to be accounted for and what the cost of that remediation will be, but I think there's still an awful lot of unknowns there. Until more reporting is done and people are finding more sites, things are going to keep popping up. That's a concern for me as well.

I do want to talk a little bit about debt and certainly Mr. Rafuse could help me there. Bad debt versus good debt - we've heard that - versus the capital expenditures and the regular provincial debt. Can you actually explain that a little more?

BYRON RAFUSE: I'll use an example - sometimes my colleagues don't like when I use this. I'll use it in relation to your household. Occurred debt for a home, I would characterize that as good debt. It allows you to obtain that asset earlier than you could if you saved the money and paid for it in cash. That characterization of buying an asset that has future value has been characterized as good debt.

If I am borrowing to buy my groceries or to go on vacation and those types of things, and not living within the operating dollars I have available, that would be characterized more as bad debt. In a provincial context, it would be when we run operating deficits. So good debt is when we invest in TCA and other initiatives like that. Bad debt would be when we're running operating deficits, calculated into our net debt position.

MARGARET MILLER: Thank you for that. I'll pass it on to my colleague.

THE CHAIR: Ms. Lohnes-Croft.

SUZANNE LOHNES-CROFT: It's a very interesting report. Who is responsible for overseeing fraud risks? Is it a department? I know when we MLAs took our fraud risk training, the Speaker's Office was responsible for making sure we all completed the process.

When you call organizations, you are including not just departments, but these are commissions and agencies as well - arm's length organizations, as well as the departments, correct?

MICHAEL PICKUP: There are the government departments, which is simpler, because the responsibility is centralized. Then when you take these other organizations - if we just do a Health Authority and the IWK, they are responsible themselves for what they do in relation to fraud.

SUZANNE LOHNES-CROFT: Does that complicate things a little bit more where they're arm's length, government doesn't have as much direct oversight. There is a minister who oversees, but are they different to really find out who's got the organization within the organization - who is responsible for what?

MICHAEL PICKUP: It's probably worth clarifying that these organizations - if you take a Health Authority, for example, it has its responsibilities. We're not looking for the centre of government, for those looking after departments, to manage these other organizations. In terms of what these other organizations do - they're on their own in terms of what their responsibilities are and how they do it, and we go directly to them.

When we say the government needs to get these risk assessments done, we're talking about the government departments and the one group that is responsible for those government departments, and then these other government organizations that that haven't done it. It's actually not that complicated for those who are running things to know their responsibilities, but it is complicated when you try to explain what government is because it is these departments plus it's all of these other organizations.

That really is why our audit team - in the appendices to this report on Pages 60 and 61 and 62 - have really broken it down by government departments and all of these other organizations, so that you really do see the differences.

SUZANNE LOHNES-CROFT: I'll take, for example, the Halifax-Dartmouth Bridge Commission - it says a lack of segregation of duties within the financial department. Can you give me more details about that?

MICHAEL PICKUP: Sure, and I'll ask one of my colleagues to jump in, but that would be an example. The Halifax-Dartmouth Bridge Commission, not part of the government departments but a separate organization - they have a separate financial audit done by an audit firm, not done by us. That audit firm reports to us the results of their work.

One of the things they reported was that issue. We then summarized that in this summary report to say, here is an issue but owning that issue and fixing that issue - responsibility for that issue solely rests with the Halifax-Dartmouth Bridge Commission, not with the centre of government.

SUZANNE LOHNES-CROFT: I just heard a radio program yesterday where they were talking about improvements to the transit system and that there was concern that maybe the Bridge Commission wasn't as collaborative with the provincial government and HRM. Did you find any kind of work ethic that way or a lack of collaboration?

MICHAEL PICKUP: That's not something I would be able to comment on outside of the domain of a financial statement audit and I'd remind you that in terms of what got reported on the financial statement audit, that's coming from their auditors through to us.

THE CHAIR: Ms. Lohnes-Croft, if you have something you can do in 25 seconds.

SUZANNE LOHNES-CROFT: I just want to thank you for this report and all the work that goes into it both from the Auditor General's department and also the Department of Finance and Treasury Board keeping things on a good level. Thank you.

THE CHAIR: Thank you all very much. It's a good line of questioning, so now we'll turn it over to Mr. Pickup - if you, or anybody with you, would like to make some closing remarks.

MICHAEL PICKUP: I'll promise that my closing remarks will be much shorter than my opening remarks. I want to thank you for having us here today and for your interest in this. I hope this provides you with a useful accountability tool to ask some questions all with the goal of trying to improve government.

I want to express my sincere thanks to the people we audit. Three of those people are here today, but there are many others across government and organizations. Things

aren't like they were 32 years ago when I started in this audit business. Audit isn't so scary. We have a very, very strong relationship with the people we audit. It's independent and this year is a good example.

We have many issues that we've just talked about through these audits, but we're always able to shake hands and sometimes even smile sincerely with the people we are auditing with us, when we call it a day. My full respect goes out to the people in Finance and Treasury Board, and the people across government that we audit as well.

[10:45 a.m.]

As I said at the beginning, my biggest thanks goes to the three people sitting to my right who lead our financial audit practice throughout - as I remind you - July, August, and September to get us where we are today and I certainly appreciate all that they did and the sacrifices they make, as well. As well, the people who aren't here today but maybe in the gallery watching as many of them are, and on TV as well. They are committed to this and I can assure you that Nova Scotians can be proud of them.

I will also remind you of the importance of this work and all that you're getting out of this. Not only do we give you what I think you may typically get out of a financial audit, but you're getting a whole lot more. Whether that's on cybersecurity or fraud risk management, the people in my office have been able to bring our practice to - I think it would be fair to say - a leading financial practice in this country. How do I know that? It's because we are called upon now to go across the country and speak about this work that we're doing, how we're doing it, and how, as a small audit office, we are able to have the impact that a big audit office of 200 or 500 or 600 people has. For that, I am thankful to these people.

I will close on that other than to remind you that we have another report coming, in December. It is on the reduction of red tape, and it is that - I won't say much anticipated, but much interested front end of the QEII redevelopment, in terms of looking at the front-end processes and reporting on the front-end processes. We have decided to split that audit in two, and the second part of that will report in the Spring.

I mentioned as well that on that day, we'll be reporting to the Legislature on a mid-mandate report. Essentially it has my reflections on five years in office and what I have seen in terms of what's working well, the improvements that have been made, and issues that are still there, and then answering questions that I get quite often from MLAs, like how do we pick audits, how do I contact you, am I allowed to contact you, when do you follow up - all of these kind of things as well.

Then there will be an opportunity for us, and the invitation will be going out soon to all MLAs, to sit down with me and some of the key folks from my office for an hour or

so to go through that and take your questions. If you find that useful, you can share with your colleagues that that opportunity should be coming out soon by email.

THE CHAIR: Thank you very much, and again, thank you to your staff and indeed the staff at the Department of Finance and Treasury Board.

Committee members, we do have a couple of pieces of business that we have to look after. The first one on your agenda is from the October 9th meeting. There was a request to the Public Service Commission for further information. That has been provided. I think everyone got that in their package.

The clerk has informed me that I have to be appointed to the Subcommittee on Agenda and Procedures since I replaced Mr. Orrell here. What is the wish of the committee? I'm going to ask the Vice-Chair to take that one, then. I can't really deal with it.

SUZANNE LOHNES-CROFT: Do I need to be appointed?

THE CHAIR: No, you are Vice-Chair.

SUZANNE LOHNES-CROFT: I move that Mr. Bain be appointed to the subcommittee.

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

The motion is carried.

THE CHAIR: Okay, any other business? Ms. Leblanc.

SUSAN LEBLANC: I actually have two motions I would like to put forward. I'll do the first one first.

Based on our discussion today with the Auditor General and his office around the fraud training, the issues that were highlighted - aside from two government departments, there is not great percentages on the fraud training, but there are five departments that are sort of concerning.

I move that the Public Accounts Committee direct the clerk to write to the Department of Communities, Culture and Heritage, the Department of Community Services, the Department of Environment, the Department of Seniors, and the Department of Transportation and Infrastructure Renewal to ask for an update on the departments' plan to ensure that all employees complete their fraud training by March 31, 2020.

THE CHAIR: Do we have a seconder for that motion? Mr. Halman. Is there any further discussion?

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

The motion is carried.

Ms. Leblanc.

SUSAN LEBLANC: This is my second motion. I'm going to give a preamble first. Last week, we learned that the government had decided to construct two new health centres in Cape Breton through traditional builds instead of public-private partnerships. This was welcome news, as we have been calling on the Liberal Government to stop using P3s, especially when dealing with health infrastructure.

There is a compelling body of research to support the use of traditional builds over P3s. For example, a report from the Canadian Centre for Policy Alternatives found that the Cobequid Pass cost \$232 million more to build as a result of using a P3 model, and the Auditor General of Ontario found that 74 P3 projects in that province cost \$8 billion more than if they had been built through the public sector.

However, we do not know the rationale the government had for changing their approach and whether that may impact their decisions on other and future health infrastructure projects. While this matter does not merit an emergency meeting, it is an issue of some timeliness given the pending redevelopment of these two health centres as well as the QEII.

I do not think this matter should wait for our next agenda-setting meeting. Given that we wish to discuss the rationale and the impact on the Public Accounts of the province, I think it is an appropriate matter for this committee, so I move that the Public Accounts Committee approve and direct the clerk to schedule an additional meeting to call the Department of Transportation and Infrastructure Renewal to speak to the reasons for the change from P3 to a traditional build for the new health centres in Cape Breton.

THE CHAIR: Do we have a seconder? Mr. Halman.

TIM HALMAN: To that motion, we've certainly indicated that, where appropriate and from time to time, we need to call topics that are in the provincial interest and I certainly think the question being posed - why a change in approach - falls under the scope of the mandate of Public Accounts Committee. We're to call topics and witnesses that are in the provincial interest, so I certainly support this motion.

THE CHAIR: Just for clarification, you did second the motion, did you? Okay. Ms. Lohnes-Croft.

SUZANNE LOHNES-CROFT: Could we have a short recess?

THE CHAIR: We'll take a three-minute recess and we'll have copies, so you'll be provided a copy.

Mr. Jessome.

BEN JESSOME: I was just going to suggest agreement to go over time a little bit if we need to.

THE CHAIR: Are we agreed? We will extend the time to allow for discussion on this motion. Can we pick a time to stop, or will we continue on? Fifteen minutes; we'll go until 11:15 a.m. Is that okay? Agreed. Thank you.

We'll take a break until 10:55-ish; somewhere around there.

[10:52 a.m. The committee recessed.]

[10:58 a.m. The committee reconvened.]

THE CHAIR: I'll call the meeting back to order. During the break, I was informed that there was no need of having a seconder on the motion. We're dealing with the motion that reads:

I move that the Public Accounts Committee approve and direct the clerk to schedule an additional meeting to call the Department of Transportation and Infrastructure Renewal to speak to the reasons for the change from a P3 to a traditional build for the new health care centres in Cape Breton.

Ms. Lohnes-Croft.

SUZANNE LOHNES-CROFT: While we agree this is an important topic, our caucus feels that this is a topic that should go to the Health Committee. We've already had infrastructure of the planned health infrastructure there. We would prefer that this go to the Health Committee.

THE CHAIR: Ms. Roberts.

LISA ROBERTS: Given that a very sizeable portion of our provincial budget is spent on health and on transportation and infrastructure renewal, I don't think it's realistic to think that every health topic ever is going to go to the Health Committee. This is the committee that is charged with overseeing the financial management of the provincial

government. I think it's particularly this topic that has had the benefit of previous Auditor General Reports on P3 contracts.

We should be the committee that is developing an expertise on assessing the right way of investing our dollars and spending infrastructure money. I think we're also the committee that can look to other experiences across Canada where learning has been done from experiences with P3s. I would strongly suggest that this is entirely appropriate to come forward to the Public Accounts Committee.

[11:00 a.m.]

THE CHAIR: Mr. Halman.

TIM HALMAN: Let's not forget the scope and mandate of this committee. It's to question public spending. It's to question the execution of public administration. The topic in this motion falls under the scope of that, and it's another opportunity for us to bring a topic that's in the provincial interest. I think Nova Scotians have questions on this topic.

The Opposition Parties have expressed great reservations about limiting the scope of the Public Accounts Committee just to the Auditor General Reports. It plays a critical role in the functioning of this committee. However, as I have indicated over the course of the year that I have been on this committee, where appropriate, we need to have that flexibility to bring a topic that is in the provincial interest, that falls under the mandate of public spending and the execution of public administration.

This is an important topic. I certainly hope the government will accept this because I think Nova Scotians have a lot of questions on that, and this is the appropriate venue for this topic.

THE CHAIR: Ms. Leblanc.

SUSAN LEBLANC: I just wanted to add that Ms. Lohnes-Croft did refer to the fact that we have had the Department of Transportation and Infrastructure Renewal on this topic at the Health Committee, but the deputy minister has done an about-face on this. When he was adamantly sure that P3s were the way to go in Nova Scotia, he has now decided that two major infrastructure builds should not be P3s. We really need to know the reason why and how that's going to impact further decisions.

I do very much think that this is a topic that belongs at the Public Accounts Committee. It's about the spending or the not spending of millions or even billions of dollars, in some cases. I think that this is the place where we should be examining those types of decisions.

THE CHAIR: We have a motion on the floor, and the question has been called for. Would all those in favour of the motion please say Aye. Contrary minded, Nay.

The motion is defeated.

That covers the items on the agenda except that in discussion about my appointment to the Subcommittee on Agenda and Procedures, the clerk has spoken to me as well. It's felt that the Vice-Chair of the committee should be appointed to the subcommittee. Could we have a motion that the Vice-Chair of the Public Accounts Committee be named to the Subcommittee on Agenda and Procedures as well?

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

The motion is carried.

That concludes the business for today. Our next meeting is set for December 11th here in the Chamber. At 8:30 a.m. is an in camera briefing, and from 9:00 a.m. to 11:00 a.m. is the meeting. Again, as mentioned by the Auditor General, we'll be receiving the December 2019 Report of the Auditor General concerning performance.

If there's no further business to come before the committee, we stand adjourned.

[The committee adjourned at 11:04 a.m.]