Office of the Auditor General

Auditor General’s Statement to the Media

Release of January 2012 Report to the Nova Scotia House of Assembly

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Office of the Auditor General of Nova Scotia
Auditor General's Statement to the Media, January 18, 2012
Release of January 2012 Report to the Nova Scotia House of Assembly on Financial Management

Good afternoon, ladies and gentlemen

Today, I presented to the Chief Clerk and members of the House of Assembly a report on the financial management of the province. My Office has legislative responsibility to audit a range of financial statements and financial management functions; beginning this year, we will consolidate our findings in one report. This will allow appropriate emphasis to be placed on this important aspect of our work.

Before commenting on the substance of the report I want to, as always, give credit where it is due, to the dedicated staff in my Office. I also want to thank public servants in the Department of Finance and other departments for their cooperation during our audits, without which our job would be impossible.

In addition to reporting on our statutory financial audits and reviews and on opinions and management letters from outside auditors, this report includes indicators of the overall financial condition of the province; deals with the fiscal governance and control framework; and reviews government's performance related to past financial recommendations from my Office.

I will comment first on the province's financial condition.

This report includes a number of measures of the sustainability of the province's financial position. Measures of financial sustainability are timely, as we see governments in Europe and elsewhere with debt levels that have proven unsustainable, compromising their ability to provide services and satisfy creditors.

Sustainability indicators measure government's ability to maintain programs and services, and meet its obligations to creditors, without increasing debt or raising taxes.

While Nova Scotia has shown relative stability, and some improvement, in these measures over recent years, this province still carries a higher debt burden per capita, and in relation to GDP, than most similar jurisdictions in Atlantic or Western Canada. This long-term debt puts sustainability at risk.

The province's debt is a drain on current and future resources, and limits government's ability to make choices about programs and services. Nova Scotia's net debt now stands at $12.8 billion, and costs $861 million a year in interest. That's nine cents of every dollar the province takes in. While interest costs have been decreasing as a percentage of revenue, we still spend more of our available revenue each year to service the debt than do most comparable Canadian jurisdictions.

For the most part, the province's debt is the result of decades of government decisions to spend more than they take in. There are critical accountability problems as well as ethical questions inherent in this method of financing government spending.

When current spending is financed by future debt, government decisions are divorced from the difficult decisions to raise funds to pay for services and programs. Governments that make those spending decisions are not accountable to the Nova Scotians who, in the future, will be required to pay. In effect, people receive services today that their children will pay for tomorrow.

Is it ethical for Nova Scotians to expect and receive services that they will not pay for, deferring those payments to future generations, who have no say in those decisions? Is it ethical for governments today to decide to spend more than they earn, for their short term benefits, and defer the costs far into the future?

I believe that in all but a few limited and exceptional cases, government has a responsibility to live within its means – to pay for all its spending from current revenue. The exceptions are times of emergency or disaster; borrowing to pay for large-scale capital projects that could not proceed otherwise; and to maintain services over a short period of economic downturn.

I have no recommendations to make here, but I raise these issues out of concern for the wellbeing of the province, the financial health of the government and the best interests of Nova Scotians. The risks associated with government debt should be more widely understood. And the ethical questions raised by excessive borrowing and the burden it places on future generations require greater consideration.

In our chapter on the province's financial condition we present a number of indicators as to whether programs and services are sustainable over the long term. Additional indicators are available on our website. I would recommend an examination of these indicators by all those with an interest in the future of public services in Nova Scotia.

In 2011, my Office reviewed progress and performance across government in implementing past recommendations to improve financial reporting and accountability. The overall implementation rate of those recommendations now stands at 66 per cent –which in our opinion is still too low; and a number of recommendations have remained outstanding for several years. In fact, some of these recommendations date back to 2005, yet the department still claims they are in progress. That is hardly credible. After more than five years, we need to consider whether implementation in some cases may have failed.

Since 2006, we have recommended that the government properly consolidate the budget's revenue estimates, to include all agencies' outside revenues. The revenue estimates would then be consistent with the consolidated financial statements, as required by accounting standards. The government has never agreed to implement this recommendation and therefore every year I have had to qualify my opinion on the accuracy of the budget's revenue estimates. A consultant hired by the government in 2009 to resolve the issue recommended a simple solution. I recommend that action now be taken in the 2012-13 budget so that I can provide an unqualified opinion as to the accuracy of the revenue estimates.

Some other reporting issues government needs to address include the ability of some departments to accurately determine their future contractual obligations for disclosure in the financial statements. During last year's audit, we found that errors of $354 million in understated obligations needed to be corrected in the notes to the financial statements. The Department of Finance should verify the accuracy of departmental statements of contractual obligations to eliminate or at least significantly reduce these errors.

Departmental risk assessments are not addressing risks related to financial reporting, including the risk of fraud and error. The Finance Department should require all departments to identify and assess risks associated with financial reporting. The Department should also take steps to properly monitor internal controls over the recording of transactions.

As always, my Office reviews financial statements, audit opinions and management letters related to the financial activities of public agencies that operate outside the core government, including crown corporations, boards and agencies. A small number of these entities continue to receive qualified audit opinions, and do not take the actions needed to remove the qualifications. Many receive letters from their auditors identifying accounting, systems, or other deficiencies, and do not take action to correct those deficiencies. The board of directors of these agencies should not accept such poor financial management in their organizations.

On the positive side, the Finance Department has made improvements in the governance and control framework that protects the province's debt and investments. These are large sums of money and the controls and risk management processes have shown considerable improvement in recent years.

Those are my general remarks, and I would now be happy to address your questions.