

OTHER AUDIT OBSERVATIONS

18.**ADDITIONAL APPROPRIATIONS****BACKGROUND**

18.1 Every year the *Estimates*, representing the government's spending plans, are presented to the House of Assembly for review and approval. The *Estimates* are summarized in the Appropriations Act, which authorizes spending amounts (or votes) for the coming year.

18.2 The Provincial Finance Act provides the Executive Council the authority to approve adjustments to these spending plans in the form of additional appropriations. The Provincial Finance Act also permits the Executive Council to approve special warrants when an expenditure, which was not provided for in the original *Estimates*, is urgently and immediately required.

18.3 The Expenditure Control Act Section 12(2) provides “*Notwithstanding subsection (1), an amount may be expended in a fiscal year for net program expenditures and net debt servicing costs that is no more than one percent more than the amount appropriated by the Legislature for those net program expenditures and forecast to be spent on net debt servicing costs.*” Section 13 of the Expenditure Control Act requires that expenditures in excess of the one percent threshold “*may only be made after a resolution has been passed by the House of Assembly authorizing the expenditure.*” A resolution of the House of Assembly provides the authority for an additional appropriation. For purposes of this chapter, any additional spending authority related to a resolution of the House of Assembly under Section 13 of the Expenditure Control Act is included as an additional appropriation.

18.4 Exhibit 18.1 on page 231 includes extracts from the Provincial Finance Act relating to additional appropriations and special warrants. Exhibit 18.2 on page 232 includes extracts from the Expenditure Control Act.

18.5 Finance’s current practice is that, when forecasting indicates an expenditure vote may be exceeded, it works with the affected department to identify alternatives and opportunities to avoid the over-expenditure situation. Depending on the circumstances, an additional appropriation may be necessary. Further, it was indicated by Finance that it waits to obtain an additional appropriation until it knows with a high degree of certainty the exact amount of the additional appropriation. Finance also stated, the exact amount is not known until year end adjustments are made. Per Finance, the current practice avoids seeking additional appropriations for minor amounts.

18.6 Finance also indicated that it is reluctant to seek approval of additional spending authority when there is a good probability that departmental spending pressures can be managed down to the original budgetary limit.

18.7 Section 9(2)(e) of the Provincial Finance Act requires that the *Public Accounts* include a summary listing of any additional appropriations or special warrants authorized for the fiscal year. Under Section 9A(1) of the Auditor General Act, we are required to call attention to every case in which an appropriation was exceeded and every case in which a special warrant was made pursuant to the provisions of the Provincial Finance Act.

RESULTS IN BRIEF

18.8 The following are the principal results from our 1998 review of additional appropriations and special warrants:

- The timing of approvals of additional appropriations continues to be a concern. Two additional appropriations for the 1997-98 fiscal year were approved by the Executive Council. A resolution seeking additional spending authority was submitted to the House of Assembly for approval. Once approved, a third additional appropriation will be sought. However, all of the related expenditures had been incurred before the approvals were received or requested.
- There were additional appropriations totalling \$222,977,000 approved or requested for the fiscal year ended March 31, 1998. None of the additional appropriations had received approval prior to March 31, 1998 (i.e., before the over-expenditures had been incurred). Further, at the time this chapter was written, approval of additional appropriations totalling \$184.3 million required for the 1997-98 fiscal year was outstanding.
- There were no special warrants approved for the 1997-98 fiscal year.

SCOPE OF REVIEW

18.9 The objective of our annual review of additional appropriations and special warrants is to determine if they were properly authorized in accordance with the provisions of the Provincial Finance Act and where appropriate, the Expenditure Control Act.

PRINCIPAL FINDINGS

Additional Appropriations

18.10 The Appropriations Act, 1997 contained 38 votes for expenditures totalling \$4,605 million (including sinking fund instalments and serial retirements of \$192.5 million). There were additional appropriations totalling \$222,977,000 approved or requested for the fiscal year ended March 31, 1998.

18.11 Additional appropriations were approved by the Executive Council under Section 28 of the Provincial Finance Act on May 5, 1998 and June 30, 1998. Further, a resolution, under Section 13 of the Expenditure Control Act, was submitted to the House of Assembly on November 26, 1998, but was yet to be approved as of early December 1998 when this Report went to print.

18.12 In our view, incurring expenditures before the necessary additional spending authority is in place, may be contrary to the Provincial Finance Act and the Expenditure Control Act. Further, the timing of these approvals impairs the effective control of and accountability for expenditures in excess of original spending authority limits.

18.13 Our review noted that votes for five departments, one public service and Restructuring Costs listed below accounted for approximately 96% of the total additional appropriations for 1997-98.

	(\$ millions)
Health	\$140.9
Restructuring Costs	22.8
Economic Development and Tourism	14.1
Labour	13.3
Community Services	9.1
Transportation and Public Works	7.3
Public Service - Legislative Services	<u>6.7</u>
	<u>\$214.2</u>

18.14 Based on information provided to us, the more specific details on the additional appropriations for three of the departments is as follows:

- **Health** - The Department of Health required additional funding for costs associated with Regional Services, Emergency Health Services, Pharmacare, Long-term Care, the Physician's Agreement and capital. A resolution for the additional appropriation was submitted to the House of Assembly on November 26, 1998. The resolution had not been approved at the time this Report went to print.
- **Economic Development and Tourism** - Additional funding was required in order to recognize the present value of the concessionary assistance provided to Michelin. The additional appropriation was approved by Order in Council (OIC) on June 30, 1998.
- **Labour** - The Department of Labour required additional funding to meet a previous obligation to the Workers' Compensation Board to stabilize employer's contribution rates. A resolution for the additional appropriation was submitted to the House of Assembly on November 26, 1998. The resolution had not been approved at the time this Report went to print.

18.15 It was indicated that the Restructuring Costs were related to all departments. The additional authority was required for salary negotiations, labour restructuring costs in the health acute care sector and costs associated with physician managed care initiatives. A resolution for the additional appropriation was submitted to the House of Assembly on November 26, 1998. The resolution had not been approved at the time this Report went to print.

18.16 The following is a list of additional appropriations totalling \$222,977,000 for the year ended March 31, 1998.

Additional Appropriations

Department	Date Approved	Authorized
Approved by OIC		
Agriculture and Marketing	June 30, 1998	\$ 1,421,000
Business and Consumer Services	June 30, 1998	678,000
Community Services	May 5, 1998	9,050,000
Economic Development and Tourism	June 30, 1998	14,095,000
Fisheries and Aquaculture	June 30, 1998	219,000
Natural Resources	June 30, 1998	2,844,000
Public Service		
Government Contributions to Benefits Plans	May 5, 1998	168,000
Government Contributions to Benefits Plans	June 30, 1998	5,000
Human Rights Commission	May 5, 1998	125,000
Legislative Services	May 5, 1998	6,698,000
Office of the Ombudsman	May 5, 1998	65,000
Public Inquiry, Westray Mine	May 5, 1998	275,000
Public Prosecution Service	May 5, 1998	836,000
Technology and Science Secretariat	June 30, 1998	2,163,000
Pending Approval By Resolution in the House of Assembly		
Health		140,916,000
Labour		13,307,000
Public Service		
Technology and Science Secretariat		15,000
Restructuring Costs		22,757,000
Transportation and Public Works		<u>7,340,000</u>
		<u>\$ 222,977,000</u>

Special Warrants

18.17 We are required under Section 9A(1)(f) of the Auditor General Act to call attention to every case in which "a special warrant, made pursuant to the provisions of the Provincial Finance Act, authorized the payment of money." The Provincial Finance Act allows the Executive Council to approve a special warrant, when the Legislature is not in session, which authorizes "an expenditure which was not provided for by the Legislature" and "is urgently and immediately required for the public good."

18.18 There were no special warrants approved for the 1997-98 fiscal year.

CONCLUDING REMARKS

18.19 Expenditure of funds beyond the votes or appropriations approved by the House of Assembly continues to occur prior to Executive Council approval required under the Provincial Finance Act or the passing of a resolution by the House of Assembly under the Expenditure Control Act. Finance has indicated that the determination of exact numbers is necessary to avoid seeking additional appropriations for minor amounts. If the objective is to ensure adequate controls over the spending authority are in place, forecasting should be used to determine the additional appropriation. By using forecasting methods, the authority could be put in place prior to the incurrence of the expenditures thereby improving the control over the expenditure process.

18.20 Current legislation and administrative practices raise questions as to the effectiveness of the House of Assembly's control over the expenditure of public funds. The practice of obtaining after-the-fact approval for additional appropriations does not necessarily constitute *effective control* and, we believe, may contravene the intent of the requirements of the Provincial Finance Act and the Expenditure Control Act.

Exhibit 18.1**EXTRACTS FROM THE PROVINCIAL FINANCE ACT*****Prerequisite to issue of money***

13(2) *The Deputy Minister [of Finance], or an officer designated by him, before the issue of public money out of the Consolidated Fund, shall ensure that there is sufficient balance available in the appropriation for the specified purpose.*

Consequences of exhausted appropriation

13(3) *When an appropriation is exhausted, the Deputy Minister shall forthwith notify the department to which the appropriation was granted and the Minister, and shall not sanction any further contractual obligations or commitments to be charged to the exhausted appropriation.*

Suspension of right to commit

27(A) *The Governor in Council, upon the recommendation of the Minister, may order the suspension for such a period as the Minister deems fit of the right to commit any appropriation or part thereof except the salaries, wages and expenses of members of the public service, including the civil service, or the indemnities and expenses of the members of the House of Assembly.*

Report of insufficient appropriation

28(1) *When it appears to the Minister or principal officer having charge of a service that the sum appropriated by the Legislature for an ordinary or usual service is insufficient to meet the requirements of that service during the year for which the appropriation has been made or that the sum appropriated by the Legislature to be expended on capital account is insufficient for the service for which it was appropriated, the Minister or principal officer shall make a report of that fact to the Minister of Finance and shall in such report estimate the additional sum required to carry out the service.*

Supplementary appropriation

28(2) *Upon the receipt of such report, the Minister of Finance may make a report to the Governor in Council showing the need of additional appropriation and thereupon the Governor in Council may order that such additional sums as are deemed necessary for the said service be appropriated accordingly, provided that the additional sums appropriated to be expended on capital account shall not exceed twenty-five per cent of the amount appropriated by the Legislature for the service.*

Report of urgently required expenditure

29(1) *When it appears that an expenditure which was not provided for by the Legislature is urgently and immediately required for the public good, the head of the department concerned shall make a report of that fact to the Minister of Finance and shall in such report estimate the amount of the proposed expenditure.*

Special warrant

29(2) *Upon receipt of such report, the Minister may make a report to the Governor in Council that the said expenditure is urgently and immediately required for the public good, and that there is no legislative provision therefore, and the Governor in Council may thereupon order a special warrant to be prepared to be signed by the Lieutenant Governor for the issue of the amount estimated to be required, and may order the amount to be charged to Capital Account or to Current Account, or partly in one way and partly in the other.*

Conditions for special warrant while house in session

29(3) *A special warrant pursuant to the provisions of this Section shall not be made when the Legislature is in session unless the House of Assembly has not sat for any of the five days immediately preceding the issue of the special warrant.*

EXTRACTS FROM EXPENDITURE CONTROL ACT - PART II**Application of Part II**

11 For greater certainty, this Part applies to the 1996-97 and subsequent fiscal years of the Province.

Limits on appropriations

12(1) In each and every fiscal year of the Province commencing with the 1996-97 fiscal year, the amount appropriated by the Legislature for net program expenditures and the net debt servicing costs as defined in the budgetary summary of the annual Estimates of the Province shall not exceed the amount of revenue estimated by the Minister for that fiscal year.

(2) Notwithstanding subsection (1), an amount may be expended in a fiscal year for net program expenditures and net debt servicing costs that is no more than one per cent more than the amount appropriated by the Legislature for net program expenditures and forecast to be spent on net debt servicing costs.

(3) Where net program expenditures and net debt servicing costs for a fiscal year exceed revenue for that year, the resulting deficit shall be recovered no later than the end of the second fiscal year following the fiscal year in which the deficit occurred by a reduction in expenditures or an increase in revenue, or both, over that period.

(4) Where the amount of revenue received or to be received by the Minister in a fiscal year exceeds the amount appropriated by the Legislature for net program expenditures and the net debt servicing costs for that year, the resulting surplus shall, after accounting for any recoveries required pursuant to subsection (3) and any additional expenditures referred to in subsection (2) or Section 13, be used to reduce the public debt of the Province or reduce taxes, or both.

Requirement for resolution of House

13 Where net program expenditures and net debt servicing costs for a fiscal year exceed the amount authorized to be spent pursuant to Section 12, the expenditures in excess of the amount authorized by subsections 12(1) and (2) may only be made after a resolution has been passed by the House of Assembly authorizing the expenditure.