

OTHER AUDIT OBSERVATIONS

12.**ADDITIONAL APPROPRIATIONS****BACKGROUND**

12.1 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.

12.2 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.

12.3 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 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.

12.4 Exhibit 12.1 on page 189 includes extracts from the Provincial Finance Act relating to additional appropriations and special warrants. Exhibit 12.2 on page 190 includes extracts from the Expenditure Control Act.

12.5 The Department of 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, Finance indicated 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.

12.6 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.

12.7 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)(c) 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

12.8 The following are the principal results from our 1999 review of additional appropriations and special warrants:

- Additional appropriations totalling \$422,241,200 were approved for the fiscal year ended March 31, 1999. Only one of the additional appropriations, for \$1,812,000 had received approval prior to March 31, 1999 (i.e., before the over-expenditures had been incurred). It should be noted that \$259.5 million of the additional appropriations resulted from changes in accounting policy.
- There were no special warrants approved for the 1998-99 fiscal year.

SCOPE OF REVIEW

12.9 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

12.10 The Appropriations Act, 1998 contained 39 votes for expenditures totalling \$4,776 million (including Sinking Fund Instalments and Serial Retirements of \$197.1 million). There were additional appropriations totalling \$422,248,200 approved for the fiscal year ended March 31, 1999.

12.11 Additional appropriations were approved by the Executive Council under Section 28 of the Provincial Finance Act on October 22, 1998; two on June 7, 1999; and one on June 18, 1999. Further, a resolution, under Section 13 of the Expenditure Control Act, relating to the 1998-99 fiscal year was approved by the House of Assembly on November 4, 1999. An additional appropriation required for increases in the Sinking Fund Instalments and Serial Repayments had not yet been approved by OIC as of late November 1999.

12.12 In our Report last year we noted that a resolution, under Section 13 of the Expenditure Control Act, relating to the 1997-98 fiscal year was submitted to the House of Assembly on November 26, 1998. This resolution died on the order paper when the House was dissolved June 17, 1999. A resolution for the same purpose was submitted to the House of Assembly on October 27, 1999, and approved on November 4, 1999.

12.13 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.

12.14 Our review noted that votes for five departments and for debt service costs, as listed below, accounted for approximately 97% of the total additional appropriations for 1998-99.

	(\$ millions)
Health	\$176.9
Debt Service Costs	130.5
Education and Culture	69.1
Economic Development and Tourism	18.4
Community Services	5.9
Justice	<u>5.4</u>
	 <u>\$406.2</u>

12.15 Based on the information provided to us, a significant portion of the additional appropriations approved by resolution of the House of Assembly result from changes in accounting policy by government (see Chapter 2, page 12). Details of these items are as follows:

- **Education and Culture** - The Department of Education and Culture required additional spending authority of \$56.2 million to reflect the recording of three P3 schools as capital lease arrangements. Also additional school capital construction costs of \$8.3 million were recognized.
- **Debt Servicing Costs** - Changes in the accounting for the gains and losses on debt payable in a foreign currency increased 1998-99 expenditures by \$71.5 million.
- **Health** - The Department of Health required additional spending authority of \$123.6 million for the funding of the deficits of the Regional Health Boards and Non-designated Organizations as at March 31, 1999.

12.16 The total of additional appropriations resulting from changes in accounting policy is \$259.5 million.

12.17 With regard to the additional appropriations unrelated to accounting policy changes, based on information provided to us, the details on the reasons for three of the votes are as follows:

- **Health** - The Department of Health required additional funding for costs associated with Medical Payments, Pharmacare, Home Care, Emergency Health Services and payments to Hospitals and other programs due to start-up costs of the Canadian Blood Agency.
- **Debt Servicing Costs** - Additional funding was required as a result of a weakened Canadian dollar against the US dollar, sharp fluctuations in the Japanese Yen and other foreign currency influences.
- **Education and Culture** - The Department of Education and Culture required additional funding due to an increase in risk premium paid to banks for student loans from 5% to 10%.

12.18 During the year two additional appropriations were passed that were not required. We have been informed that these two additional appropriations will probably be rescinded. Details of these are as follows:

- OIC 1998-540, dated October 22, 1998 in the sum of \$1.8 million provided an additional appropriation to the Department of Labour to allow for the payment of compensation to the Westray miners. OIC 1999-303, dated June 7, 1999 in the sum of \$1 million was for essentially the same purposes. The difference of \$0.8 million resulted from cost savings effected by the Department in other budget areas.

- OIC 1999-342, dated June 18, 1999 in the sum of \$6.25 million provided an additional appropriation to legislative services to cover the cost of the election. That OIC increased the appropriation in the 1998-99 fiscal year. The election expenses however, are part of the 1999-2000 fiscal year and the additional appropriation was not necessary.

12.19 The following is a list of additional appropriations totalling \$422,248,200 for the year ended March 31, 1999.

Additional Appropriations

Department	Date Approved	Authorized
Approved by OIC		
Agriculture and Marketing	June 7, 1999	\$ 1,350,000
Business and Consumer Services	June 7, 1999	2,139,200
Community Services	June 7, 1999	5,994,000
Economic Development and Tourism	June 7, 1999	18,423,000
Justice	June 7, 1999	5,400,000
Labour	Oct 22, 1998	1,812,000
Labour	June 7, 1999	1,026,000
Public Service		
Emergency Measures Organization	June 7, 1999	166,000
Government Contributions to Benefits Plans	June 7, 1999	19,000
Legislative Services	June 7, 1999	262,000
Legislative Services	June 18, 1999	6,250,000
Nova Scotia Alcohol and Gaming Authority	June 7, 1999	540,000
Office of the Ombudsman	June 7, 1999	143,000
Sinking Fund Installments and Serial Retirements	June 7, 1999	1,582,000
Sinking Fund Installments and Serial Retirements	Not Yet Approved	550,000
Approved By Resolution in the House of Assembly		
Education and Culture	Nov 4, 1999	69,137,000
Debt Servicing Costs	Nov 4, 1999	130,507,000
Health	Nov 4, 1999	176,940,000
Government Contributions to Benefits Plans	Nov 4, 1999	8,000
		\$ 422,248,200

Special Warrants

12.20 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.*"

12.21 There were no special warrants approved for the 1998-99 fiscal year.

12.22 A special warrant was approved on August 19, 1999 relating to expenditures for the 1999-2000 fiscal year. This warrant was required as no Appropriations Act had been passed for the 1999-2000 fiscal year prior to the general election. The newly elected government felt that departments might exceed the amounts authorized by Section 27(1) of the Provincial Finance Act prior to the passage of an Appropriations Act for the 1999-2000 fiscal year. Section 6 of the Appropriations Act approved on November 8, 1999 by the House of Assembly specifically rescinds this special warrant and includes any amounts expended pursuant to that warrant in the amounts authorized by the Appropriations Act.

CONCLUDING REMARKS

12.23 Expenditure of funds beyond the votes or appropriations approved by the House of Assembly continued 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.

12.24 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 statutory requirements in this regard.

Exhibit 12.1**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.*

Exhibit 12.2**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.