

INTRODUCTION

1.

OVERVIEW AND SIGNIFICANT ISSUES

INTRODUCTION

1.1 This is my ninth report to the Legislature as Auditor General and it contains the results of the work carried out by my Office during the year 2000. Throughout my tenure I have attempted, and will continue, to assist members of the House of Assembly with their responsibility to hold the government to account for the management of public funds.

1.2 We adhere to the standards promulgated by the Canadian Institute of Chartered Accountants when we are performing our work. These are the professional standards applicable to assurance work performed by public accountants and legislative auditors. Chapter 16 of this Report provides a description of the Office's mandate, mission, goals, core business functions and organization. It also describes how we measure our performance and summarizes our achievements during the year.

1.3 As a result of amendments to the Auditor General Act in 1998, this Report is to be tabled by December 31. It was postponed this year due to delays in completing the financial statements of the Province which were not tabled until December 14, 2000 as well as by delays in completing one major audit which was significant to this year's Report.

1.4 In this Chapter, I attempt to provide my thoughts on what I believe is the major issue facing this Province - achieving fiscal stability - and bring together the findings of the audits carried out this year which highlight the issues which must be addressed in order to work towards that objective in an orderly manner. These findings confirm concerns I have expressed in previous Reports.

AUDIT MANDATE

1.5 In addition to requiring me to table this Annual Report, the Auditor General Act requires me to provide an opinion to the House of Assembly on the government's financial statements and to have that opinion included in the Public Accounts. My opinion was included in the Public Accounts which were tabled on December 14, 2000.

1.6 The Auditor General Act also requires me to review the estimates of revenue contained in the Budget Address of the Minister of Finance and to report to the House of Assembly on the reasonableness of the revenue estimates. That report was included in the April 11, 2000 *Budget Address*.

1.7 Although no additional reports were issued in 2000, the Auditor General Act does permit me to table two additional reports during a year.

DEALING WITH THE FISCAL CRISIS

1.8 In the summer and fall of 1999, the government recognized and stated that Nova Scotia had an immediate fiscal crisis and a long-term fiscal management problem. On October 20, 1999 the Premier announced the appointment of a special, independent task force to advise his government on ways to deal with these matters.

1.9 Voluntary Planning's Fiscal Management Task Force began its work immediately and I was pleased to serve as a Special Advisor to it.

1.10 The Task Force issued a preliminary report in December of 1999 and then engaged in extensive public consultation before issuing a final report in January 2000. The report dealt with both the immediate fiscal crisis as well as the longer-term structural and vision problems.

1.11 The final report contained 29 recommendations. I understand that the government accepted the majority of these and that action is underway to implement them. From a structural perspective many of those recommendations would help to deal with the issues identified in my Report but action is necessary if the overall problem is to be addressed.

THE CURRENT SITUATION

1.12 The Task Force Report expressed concern that with an estimated \$200 million deficit for the year ended March 31, 2000, accumulated net debt of the Province would exceed \$11 billion at that date. It recommended that a balanced budget be achieved by 2002-03.

1.13 The deficit for the year ended March 31, 2000 did exceed \$200 million and the accumulated net debt on that date was \$11.2 billion. Furthermore the budget for the year ended March 31, 2001 estimated a \$268 million deficit for that year which would increase the accumulated net debt to \$11.5 billion at March 31, 2001.

1.14 As net debt increases, the cost of servicing it increases, requiring the use of revenue to pay the interest and other debt costs. If revenues do not increase, either other program expenditures must be reduced or deficits will grow. Thus the problem of achieving the Task Force recommendation becomes more difficult.

THE FINANCIAL MANAGEMENT AND ACCOUNTABILITY FRAMEWORK

1.15 The Fiscal Management Task Force also made recommendations regarding the implementation of a fiscal decision making process. My previous reports have commented on deficiencies in systems, organizational structure and processes which are fundamental to establishing such a process. Several audits conducted this year and discussed in this Report illustrate these deficiencies and reinforce the Task Force recommendations. They demonstrate weaknesses in the processes to plan, assess, monitor and review how public money is spent. The following are illustrations of these deficiencies.

Community Services - Grants to Organizations providing Family and Children's Services

1.16 There are weaknesses in the administration of non-legislated grant programs including the absence of policies and procedures to determine eligibility and requirements for performance reporting. Thus it is unclear whether funds are spent wisely or for the purposes intended.

Education - Halifax Regional School Board and Chignecto-Central Regional School Board

1.17 The timing of funding announcements is critical for Regional School Boards because of the lead time required to reduce expenditures. In 2000 School Boards were informed of funding levels on April 11, after the fiscal year had commenced. This really is too late to take appropriate actions. This issue is broader and does impact on business and financial planning for all government entities. One solution is to advance the overall government budgeting process so that the Budget and Estimates are presented, debated and approved much earlier. Another solution is to establish funding targets (at least in general terms) on a multi-year basis.

Education - Grants to Universities

1.18 The introduction of a Provincial funding formula for universities has been a positive development. However, the absence of a clear vision, objectives and outcome measures for the university system makes it difficult to determine whether funding is achieving the appropriate objectives.

Health - Cape Breton Healthcare Complex

1.19 This audit illustrated certain problems facing all health care providers. A major issue is the provision of high cost acute care patient days to patients who could be treated effectively in an alternate facility. The need for state of the art information systems to facilitate decision making, particularly related to funding, is well known and will require a concerted effort by all those in the health sector.

Health - Emergency Health Services

1.20 The costs of emergency health services have increased from \$13 million in 1994-95 to \$53 million in 1999-2000 as a result of a major change in program delivery. In the absence of appropriate performance reporting and a defined accountability framework it is difficult to determine if this expenditure reduces costs in other parts of the health care system or whether value for money is achieved.

Health - Physician Alternative Funding Initiatives

1.21 Alternative funding initiatives were implemented as a means of improving the economy, efficiency, effectiveness and responsiveness of medical services provided by physicians. However the absence of an adequate information system causes difficulty in evaluating whether these arrangements are successful.

OTHER MATTERS

Treasury Management

1.22 As at March 31, 2000 there were approximately \$30 billion of treasury related accounts to be managed by government. The House of Assembly should receive better information on the government's longer-term plans and performance related to the management of these accounts.

User Fees

1.23 User fees represent a significant source of revenue for the government and can be used to offset program costs. Weaknesses in policies, lack of comparison of rates with costs and inadequate reporting prevent appropriate decision making in relation to this revenue source.

CONCLUDING REMARKS

1.24 In this and in previous Reports I have commented on the progress that has been made in implementing an appropriate accountability framework in the government. But, as indicated by the findings of the Fiscal Management Task Force and the audits conducted by my Office, much remains to be done. In the absence of appropriate policies, systems and information, decision making is hampered in ensuring that scarce resources are appropriately expended and that the right decisions are made in attempting to balance the budget. I urge government to give high priority to addressing the recommendations of the Task Force as well as those in my Reports.

1.25 Once again I wish to acknowledge the cooperation afforded to myself and my staff by all those within government whom we audit and have contact with. Dealing with auditors is not always easy but the public service of Nova Scotia is professional and fair. I also wish to thank my staff for their efforts and support. It is very much appreciated.
