Office of the Auditor General

Auditor General's Statement to the Media

Release of February 2013 Report to the Nova Scotia House of Assembly

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Good morning, ladies and gentlemen.

Today I am releasing my annual report dealing with provincial financial matters.

As always, the credit for this work rests with my staff and I want to thank them again for their hard work and dedication. I also want to thank public servants in departments and agencies across government, whose cooperation is essential to our work.

Financial reporting is a key measure of the accountability of government. It is there that legislators and taxpayers can see whether the various publicly-funded entities are managing taxpayers' money with due care and diligence.

Most of you will recall two years ago when our audit of spending by members of the legislature revealed significant problems with inappropriate, excessive and even fraudulent expense claims. That caused public outrage and also led to criminal charges in four cases. Those problems were not caused, but they were certainly enabled, by deficiencies in internal financial controls.

I am happy to report that those problems no longer exist. The legislature has fully implemented almost all the recommendations we made to tighten financial controls. Our recent audit of legislative expenses found no evidence of any misuse of public funds.

However, in some provincial agencies, independent auditors have discovered and alerted management to a variety of deficiencies in internal controls. Those deficiencies expose the government to unnecessary risk of loss through error and fraud.

This is particularly troubling when the agencies in question do not correct the problems, as is often the case. Fifty-one per cent of accounting, control and other deficiencies reported to government agencies by their external auditors in 2010-11 remained unaddressed in 2012. Thirty-one per cent of problems identified two or more years ago remained unaddressed.

For clarity, most agencies, boards and commissions are audited by independent private sector auditors. Our role is simply to review the findings they present to their public entity clients and provide information about those findings to the legislature.

Taking action on audit recommendations is an indication of a strong overall control environment; so the high number of recommendations that remain outstanding from year to year in many agencies is a concern, and a sign of poor financial management. Agency boards and management need to address recommendations in a timely manner to ensure the integrity of their accounting and control systems and of their financial statements.

For example, controls over school-based funds are in many cases inadequate. In 2011-12, these funds totaled $41.9 million in schools across Nova Scotia. We recommended a year ago that the Department of Education work with school boards to put in place appropriate controls to address deficiencies identified by external auditors.

The recommendation was accepted, but the department says it will be 2014 before full board compliance can be expected.

On a similar note, the Department of Finance has agreed with our position on a long-standing issue regarding the revenue estimates presented in the provincial budget.

In every year since the province consolidated its finances in 2001, we have had to qualify our opinion on the revenue estimates. They were not complete because they did not include all revenues received by agencies from third party entities. Every year, this significantly understates both revenues and the related expenditures. The Department of Finance now agrees with our recommendation. Implementing it would result in the first unqualified opinion on the provincial revenue estimates in more than a decade. My Office has worked with the Department to develop the needed methodology to estimate the revenues in question and to report them appropriately in the budget. However, the Department has indicated the government likely will not be implementing the change for the next budget. If that is the case, they will then knowingly be producing a budget that understates both revenues and spending by up to eight hundred million dollars.

The Department of Finance has also agreed to correct budget and forecast errors when they are known. Last year, a $27 million revenue overstatement was known in time for it to be corrected before the budget was delivered, but that was not done. As a result, the budget's $211 million deficit was understated by $27 million.

Again this year, our report includes indicators of the financial health of the province and comments related to the provincial debt.

As I said last year, I believe that, in all but extreme cases – such as emergencies or to finance very large projects – it is fiscally irresponsible for government to transfer payment for current spending to future generations. Over the long term, ethical government will live within its means and will reverse the accumulation of debt.

Some members of the legislature believe that statement is beyond the scope of my mandate. I believe the auditor general has a responsibility to express an opinion on matters related to the financial state of the province.

Since 2008, the total provincial debt has grown from $12.5 billion to $16.2 billion, including a $400 million increase in the last fiscal year alone. On a per capita basis, every citizen of the province theoretically owes almost $14,000. That is the second highest per capita debt among the six provinces we use as comparators.

Again, on a more positive note, indicators of the overall financial health of the province remain relatively steady. We examine several factors related to the sustainability and vulnerability of the province's finances, as well as its flexibility in dealing with financial issues.

The province's assets-to-liabilities ratio improved between 2008 and 2012. The debt-to-GDP ratio is stable; the economy is growing faster than accumulated deficits; and government spending as a percentage of GDP is fluctuating, but not by much. Debt servicing as percentage of revenue is declining, from 10.3 per cent in 2008 to 8.9 per cent in 2012.

Overall, while the high debt level remains a risk, at current levels of economic growth and federal transfers, Nova Scotia is in a sustainable financial position. The province, however, has limited flexibility to manage significant negative changes to its fiscal position or such events as large increases in interest rates. And, whether sustainable or not, continual deferral of payments for program and capital spending through additional debt is irresponsible and cannot be justified.

Finally, I will draw your attention to comments in the report related to the fundamental changes in the Public Service Superannuation Plan – the pension plan for civil servants.

We do not believe the pension plan changes have been effectively communicated to its members. The government disagrees.

Communications by the Minister have focused on the revised governance structure and not on the key impact of changes on members. We are concerned that members may be unaware that the benefits described to them when they were hired are not necessarily what they will receive when they retire.

Members need to understand that they are assuming 100 per cent of future risk. This is because the province will no longer guarantee the plan or make up any future shortfall.

In addition, the government's claim that changes in indexing will not impact benefits earned to date is inaccurate and misleading. Indexing is a benefit. And, depending on the future performance of the pension fund, de-indexing could result in significant reductions in future payments, for benefits that have already been earned.

We also have concerns about the makeup of the plan's Board of Trustees, given that only one of the 10 to 12 positions on the board is reserved for retired members. Faced with the almost inevitable decision to reduce benefits or increase contributions, the majority of trustees will be motivated to reduce benefits rather than increase their own contributions.

Thank you. That concludes my remarks. If you have any questions, I will be happy to answer them now.