

HANSARD

NOVA SCOTIA HOUSE OF ASSEMBLY

COMMITTEE

ON

PUBLIC ACCOUNTS

Wednesday, February 13, 2013

LEGISLATIVE CHAMBER

February 2013 Report of the Auditor General

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Public Accounts Committee

Hon. Keith Colwell, Chairman
Mr. Howard Epstein, Vice-Chairman
Mr. Clarrie MacKinnon
Mr. Gary Ramey
Mr. Mat Whynott
Mr. Brian Skabar
Mr. Andrew Younger
Mr. Chuck Porter
Mr. Allan MacMaster

[Mr. Eddie Orrell replaced Mr. Chuck Porter.]

In Attendance:

Mrs. Darlene Henry
Legislative Committee Clerk

Mr. Gordon Hebb
Chief Legislative Counsel

WITNESSES

Office of the Auditor General

Mr. Jacques Lapointe, Auditor General
Mr. Alan Horgan, Deputy Auditor General
Ms. Ann McDonald, Assistant Auditor General
Ms. Shelley Creighton, Audit Principal



House of Assembly
Nova Scotia

HALIFAX, WEDNESDAY, FEBRUARY 13, 2013

STANDING COMMITTEE ON PUBLIC ACCOUNTS

9:00 A.M.

CHAIRMAN
Hon. Keith Colwell

VICE-CHAIRMAN
Mr. Howard Epstein

MR. CHAIRMAN: Good morning, I'd like to call the meeting to order. Before we start the meeting this morning, I just want to remind everybody to make sure their cellphones are on silent. After last week - I know our members always do that but just to remind our guests that all phones are to be on silent.

I'd like to start the meeting by having the members introduce themselves.

[The committee members and witnesses introduced themselves.]

MR. CHAIRMAN: I've asked the Auditor General to start with a presentation.

MR. JACQUES LAPOINTE: Just a few words before we start then. Last Wednesday, I provided my Winter 2013 Report to the Speaker in the House of Assembly. This report focuses on financial issues. It incorporates in one report all the work we do on financial reporting during the previous year. It includes a chapter that discusses our financial audits and reviews, particularly on the revenue estimates and the consolidated financial statements.

A chapter provides the results of our audits of the House of Assembly's financial management, including opinions on its financial statements, compliance of policies and effectiveness of internal controls for 2011 and 2012. We also followed up on the House's implementation of our recommendations made as a result of our audit of MLA expenses in 2010.

There are also chapters with information on financial indicators, on our reviews of audit opinions and management letters provided by external auditors of Crown agencies and on our follow-up of our previous years' recommendations on financial matters.

With me today are Alan Horgan, Deputy Auditor General; Ann McDonald, Assistant Auditor General; and Shelley Creighton, Audit Principal for Financial Audits. Ann is in charge of financial auditing for the office. She is primarily responsible for the work represented in this report and Shelley is our principal in charge. I am sure that among us, we will be able to answer any questions you may have on our report.

Mr. Chairman, we would be pleased to take the committee's questions.

MR. CHAIRMAN: Thank you very much. We'll start our first round of 20 minutes with Mr. Younger.

MR. ANDREW YOUNGER: Thank you very much, Mr. Lapointe. There are a number of issues in the report that you've raised and I thank you for bringing them out. I wanted to start by talking about trying to get a handle on the timing of the \$27 million adjustment or revenue adjustment or error - I don't know what the proper word would be for it - that you talked about.

My understanding - and just tell me if I am wrong on this - is that what your office found was that there was a miscalculation in the amount of revenue that would be used in the budget. Does that fairly characterize what you found?

MR. LAPOINTE: I think in general you could put it that way. It was actually a number of corrections that we identified, also some that were identified by the Department of Finance. It included as well new inputs that came in, feeding into this fairly complex methodology that they have in place. It was a number of different points that arose during the course of the office, some from the first day and carry on through the period.

MR. YOUNGER: Approximately when did you first advise - I assume the Department of Finance - about the error?

MR. LAPOINTE: Well I would say that the first issue we dealt with was the error dealing with fiscalization, which is the way that estimated revenues are allocated to each month and therefore, what winds up in what year. That would have been identified the first

of March - actually seen by us on February 29th but I guess we would have been talking to them the next day.

MR. YOUNGER: So the beginning of March. This has been characterized the other day, after your report came out, as - I'm trying to get the exact quote here - the current Minister of Finance said, quote, and I'll table this, Mr. Chairman, that's it's not a significant difference. In fact, I'll read the full quote, "(The deficit) was projected to be \$211 million," she said. 'This would have made it 238, not really that significantly a difference.'"

What is your response to that?

MR. LAPOINTE: Well, there are a lot of ways of characterizing errors of this nature. At the time that we were reviewing these differences and discussing them with Finance, we considered that they were significant enough issues that corrections should be made. Clearly, there was a difference of opinion. We would say that they were not material in that they were not large enough that it would cause us to qualify our opinion on the estimates, but they were still in the range of being - whether you use words like "significant" - there were large differences and so, therefore, we feel should have been corrected.

MR. YOUNGER: I've noted that one of your recommendations is that there should be a time in which government decides that these errors will be corrected in time to be in the printed version of the budget. I think my understanding, if it's correct, is that they've accepted that would be the case on a go-forward basis and that's the case this year.

Some of the response to your report seems to be around the issue of whether there was time to correct this. I wanted to spend some time asking you about this because if I accept for a second - and this is where I'm concerned - that, fine, Budget Books are printed, departments know there's a printed document, that's one thing, but a Minister of Finance, who is supposed to tell the public and the Legislature so they can fairly look at the Public Accounts of the province, then stood in this Legislature and if they had known on March 1st, or thereabouts, that the deficit projection was wrong, still stood up and said that they were beating the target in their Back to Balance plan, when in fact, when that \$27 million was counted, it wasn't.

Do you think it is the responsibility of the Minister of Finance, or Executive Council generally, if they're aware of an error before they table the budget or even, for that matter, before the budget is passed, to make the Legislature aware of that?

MR. LAPOINTE: Well, when we do these audits or these reviews, we don't look at the responsibility of communicating other information, so I guess we take a fairly simplistic view - and we've stated this in audits of financial statements, as well, the same recommendation - that you have to simply establish some clear timelines and some clear

dates in which you will define what information you use and what corrections you make by what dates, that you work backwards from the data that you're going to publish back from there to the date when you have to send it to the printer, and so on, and simply establish practical dates in which you do establish a cut-off point, after which you have to stop, you have to go to the printer, you can't do anything more, and you go with what you have at the time. Constant information comes in on financial statements and financial estimates, so you simply do establish that point.

The key point to us was that there should be a date up to which all known errors - whether small or large - are corrected, so you know that what you have is information up to a particular point, after which everyone agrees that you stop, and then there's no discussion and no judgment involved on whether these are worth making the changes or not. That was not the case in this process. It was a less rigorous process and quite changeable, so every change is a discussion. We did recommend that that kind of process be established and those kinds of dates be set - and on a go-forward basis, as you say - so that from this point on that will be done. The department has agreed to that - that we will sit down with the Department of Finance and work out what are appropriate dates, and everyone agree on it so that these kinds of issues don't arise again.

MR. YOUNGER: I agree with you that there has to be a certain date that you can't - if you find out something a week before, you can't reprint the Budget Books. I guess where I'm getting is I have, over the past week, taken a look at some of the past budgets at a federal level and the budget processes, which are a bit longer, granted, but I've also looked at a lot of municipalities in this province, which have to follow provincial law. Although they will print their Budget Books and so forth, they will actually update some of those numbers right to the day of the vote of the budget.

I guess what I'm wondering, and I'm not even sure that it necessarily needs to even go that far, my concern is that we have - in one part of the report I know you expressed a very legitimate - it's all legitimate concerns but there's a legitimate concern about pensioners not being properly advised of the impact of changes to their pensions or potential impacts. Here we went through a budget process that probably lasted - I don't remember, three weeks, four weeks - all the while from the very day that budget was introduced to the very day we voted on it, not knowing that there was a \$27 million difference in the deficit.

To me, it seems that one of the problems with this is that a budget is knowingly being presented to the Legislature that is incorrect and it's a fairly significant number, it's a 13 per cent difference in the deficit projection and gives an indication whether the government is on track at that time to meet their targets or not. In fairness, I understand the Minister of Finance said that she did update, or her predecessor did, in a later financial update, I think another quarterly one later on. I guess that's what I'm concerned about, obviously in other Parliaments in the country and at municipal councils in this province,

those kinds of errors are adjusted even after a printed document has been tabled, so that once you come to a vote, you're voting on the best available information at the time.

MR. LAPOINTE: My concern with the revenue estimates part of the budget really was focused on what goes forward into the final printed document and is focused on the page which is my expression of it and opinion on that document. As to what should be communicated after that, besides that, it really can't be my concern.

The document itself is what I was concerned about and yes, I did communicate that there were changes that we thought should be made to that printed document but then it becomes, in effect, management's or government's decision as to whether to do that or not. Once they do that, then it becomes my decision as to whether what is different is large enough to warrant a qualification or not. Then at that point, I say it ends.

MR. YOUNGER: So that explains something else. We've heard members of the Executive Council say in the past weeks, well, if the Auditor General was that concerned, why did he sign a letter - not endorsing the budget, I guess, but saying it's fairly presented. If I understand you correctly, you don't feel it's your role, and that's fair, once the government has printed the document, even if you feel that some of those estimates may have an error, that it then becomes a different position which is, are the estimates, as laid out, fairly represented? Is that fair? I just wanted to get at that discrepancy because you've been criticized by Executive Council for saying that and then writing a letter.

MR. LAPOINTE: Well yes but the letter, I guess, being referred to is - I guess you're referring to the opinion on the estimates.

MR. YOUNGER: Yes.

MR. LAPOINTE: The opinion was not qualified for this - qualified for other issues, but simply because according to auditing standards, we establish materiality levels above which, if an error is above that amount, then we qualify, or cumulative errors all together adding up to the large amount, that becomes our cut-off area for qualification or non-qualification.

These errors and differences and missing information were in that range of being below the qualification level but still what I consider some of them at least to be large. There's always numerous small ones as well in any review audit that you do. That is why you would get a clean opinion on this document.

MR. YOUNGER: So you indicated that you approached the department around February 29th to March 1st thereabouts - the exact date isn't as important as the time period - and the Department of Finance advised you that they would take that to the Treasury Board. Was that the response that you got from them?

MR. LAPOINTE: Well no, the audit process which was occurring - I'm referring to an audit again - the review process that took place during the month of March identified a lot of these potential changes to the estimates like errors and new information and so on, large and small. These are communicated to the Department of Finance and some of them, being new information, actually come from the Department of Finance as things to roll into them, that we're all aware of it at the time. The decision was made at some point in that process not to implement these changes and that information then was - before the end of the month - communicated in a briefing to the Treasury Board by departmental staff and that would have been towards the end of the month. From that sense, proper process is followed and the proper briefing took place up the chain of command.

MR. YOUNGER: When were you advised - or were you advised - that the Department of Finance and/or Treasury Board did not plan to make the changes?

MR. LAPOINTE: It would have been about March 20th.

MR. YOUNGER: I assume you have done or are doing a similar review of the coming year's estimates.

MR. LAPOINTE: We will be, yes.

MR. YOUNGER: Have you identified any similar issues for the coming year?

MR. LAPOINTE: The process won't have begun yet, so we will be going from this point to having planning meetings with the department to lay out the timing of our review and so on. At that point, we'll also have those initial discussions to establish dates that we're all agreed upon.

MR. YOUNGER: So it is February 13th today, which is roughly 17 days from when you would have told government last time about an issue. If that process is just beginning - and I'm not sure that it could have started any earlier - it strikes me that you may be in the same situation where it might be March 1st, March 5th. We don't know if there is something, obviously - we have no way of knowing that - but are you worried that we're getting into the same timeline again and therefore they'll turn around say, well, we're past the deadline? In fairness, we don't know that there is going to be any kind of adjustment, so I'll say that up front.

MR. LAPOINTE: I don't think so, but we're dealing with now the details of the audit plan, so why don't I let Ms. McDonald give you a little bit more information on where we are with that?

MS. ANN MCDONALD: As Jacques mentioned, we have just started doing the planning for the revenue estimates and what we haven't done at this point is establish the date that we've recommended be established in our report here, so we'll get to that shortly.

The process will unfold this year as it does every year, which is that economic assumptions are developed by the department. We do work on those and those economic assumptions then flow into their detailed models and we do work on that. It's a process that happens - there are several things that happen at the same time and then it's sometimes an iterative process where you get updates to models with some new information that comes in.

We're just at the start of this now. I think the Department of Finance has indicated that the economic assumptions will be ready for us to look at on February 25th and the models that relate to the significant tax revenues will be ready for us to look at shortly thereafter.

MR. YOUNGER: So if those assumptions won't be ready until February 25th - now, of course, it all depends on the date of the tabling of the budget is what this works out to be - how long does it take your office to review those?

MS. ANN MCDONALD: We allow about two weeks to review the economic assumptions, but at the same time, those assumptions have gone into the detailed tax model. Understand, we have a few staff members working at this at one time so then another staff member will start working on the tax model. I think for both our office and the department it's a very work-intensive period of time, but we do manage to achieve the timeline every year.

MR. YOUNGER: No, I think two weeks is reasonable, I certainly don't criticize that. I'm sort of working out the calendar in my head and trying to remember how many days February has, so that puts us at March 10th or thereabouts, which is nine days after. If you found something, because of when the Department of Finance's timeline is for this year, you're already nine days later than last year which means conceivably, if there was a \$27 million change this year, they would say, well sorry, we're already - March 1st last year was too late; March 9th certainly is too late.

MS. ANN MCDONALD: But I guess, don't forget this year we have that recommendation, so we'll establish that date. I'm going to suggest it will be sometime toward March 20th, that period of time, March 20th, March 24th, et cetera, depending on . . .

MR. YOUNGER: Okay, you're saying - I didn't understand that, I'm sorry. You're thinking that that date would be considerably later?

MS. ANN MCDONALD: Oh yes.

MR. YOUNGER: So for the sake of argument - I know you haven't agreed to it, but for the sake of argument, sometime in the third week of March?

MS. ANN MCDONALD: Yes, it has to be a reasonable and practical date so that all the information can be reviewed by us and that we can get back to the department with any issues that we have, but it's not so late in the process that they can't make the changes in time for their printing and the process that they undertake.

MR. YOUNGER: Have they indicated any willingness to delay a budget, if necessary, to meet those timelines? Obviously, I have no idea when they plan to table the budget; you probably don't either.

MS. ANN MCDONALD: No, there has been no discussion about anything like that.

MR. YOUNGER: I think I have about 30 seconds, right?

MR. CHAIRMAN: Thirty seconds.

MR. YOUNGER: I won't ask another question because you won't get to answer it. I will just say that I think it's good that the department is willing to look at a timeline of the third week of March. I just think it further points to the fact that if they were advised last year on March 1st, then they could have actually implemented it last year. My opinion on that is they simply just chose not to, and it's not for you to answer their reasons for not doing that and I understand that.

MR. CHAIRMAN: Order, please. Unfortunately your time has expired. Mr. MacMaster.

MR. ALLAN MACMASTER: Thank you, Mr. Chairman. My first question, in your report the revenue estimates presented to the public were overstated by \$27 million and it says the error could have been corrected but was not. Can you explain how it would have been corrected but was not?

MR. LAPOINTE: The correction simply involved taking the new information, the changes and the calculations and the error corrections, feeding them into the econometric model that they use to provide the numbers. You think of these things as being - well, if you studied economics, you're looking at big, complex computer programs with equations and calculations that generate numbers, which then generate numbers that ultimately produce at the end a listing of estimated revenues that are fairly sophisticated. It simply involves making a change to the input and then running the new models. Making the corrections involves simply changing the inputs and then running the new programs, and that can actually happen fairly fast; in fact, that was actually done last year to show the effect of all the changes and that's how we know the amounts.

MR. MACMASTER: Okay. What about timing, when did you discover the error?

MR. LAPOINTE: It's not at one particular time, because we started finding things March 1st or even February 29th when we started looking at the models and the information and proceeding through the next couple of weeks, as Ann said, which is the bulk at the time, the intensity of our review work at that time. During all of this time we are finding errors or other information, potential changes and the Department of Finance is also obtaining new information. So by the time you get to mid-month or into the third week of March, at that point all of the changes that we're talking about were known.

MR. MACMASTER: So I guess what we're kind of wondering is, if the minister was aware that this was an issue and the minister would have brought - knowing that the error existed, is it true that the minister would have carried on with the old number?

MR. LAPOINTE: I'm sorry, I don't quite get that question.

MR. MACMASTER: Knowing that the error had been discovered and was brought to the attention of the department, the minister continued to use the old numbers instead of the accurate numbers. Is that correct?

MR. LAPOINTE: Yes, well the decision was made - clearly the department had all the information, enough to test them in the models. The decision was made by the department - we're assuming at the deputy minister level - to continue with the previous numbers and not implement these changes. That's as far as we know, in terms of decisions that were made at that time.

MR. MACMASTER: And that was before the budget was even introduced to the public, is that correct?

MR. LAPOINTE: Well certainly, this is while it is still being developed and prior to it being finalized and sent to printers and so on.

MR. MACMASTER: Is it possible that the minister may have broken the ministerial code of conduct by bringing a number that wasn't accurate, possibly, to the Cabinet Table?

MR. LAPOINTE: That's not the kind of question I can answer. We were just looking at the facts of the case, of the findings in the review, and the ultimate accuracy of the financial information. Keep in mind that ultimately the size of the errors that we were talking about did not preclude giving an unqualified opinion on the estimates nevertheless.

MR. MACMASTER: But the information - \$27 million worth - would be misleading to the Cabinet and certainly to the public, as the budget was released.

MR. LAPOINTE: Well the most I can say about it is that the information released as it was didn't have the most current information known. So there were known to be some

errors and known to be some more recent and therefore, we presume, more accurate input information into the system. So by preparing it without these changes, it is being prepared in a less accurate manner.

It is never 100 per cent, it cannot be. These are estimates in financial statements which, although attempt to be more precise, are still quite often estimates. So you have to determine what level of accuracy you want to achieve in what you put out.

MR. MACMASTER: Yes, we've seen that with the FTE count in government, where the numbers are off by about 700 people and how that effect - if those 700 people aren't on the payroll it gives the government 700 people worth of salaries, office space and whatnot, to play with in the budget. I've seen that myself, where things are only an estimate. I guess I would hope that government would try to be as accurate as it can be with estimates. Otherwise, it's not a fair and transparent representation to the public - would you agree with that?

MR. LAPOINTE: My opposition through the whole thing was that, as you say, we feel that the information as provided should be as accurate as is reasonably possible. That is why we take the position that all known errors should be corrected, assuming it's still realistically possible. Regardless of whether they're large or small, significant or minor, they're not trivial - if you have them, you should make the corrections. That was not the case, it was more complicated than that in the past and that's why I suppose this kind of thing arises. So we did made the recommendation that that is how we proceed in future. I'm pretty confident that that's how - the government has agreed with this so in future we will sit down with them for the one coming up, and work out how this exactly works.

MR. MACMASTER: In your opinion, was the Premier's response to the severity of the error appropriate?

MR. LAPOINTE: I don't think I can comment on how the Premier feels about the severity of these errors. When you look at differences of opinion on errors and whether they're large or small or significant or not, people have opinions and I think people are welcome to their opinions and I've expressed my views in the report as to how they should be. But then, clearly others can have other opinions.

MR. MACMASTER: On Page 60 of the report, it says that it, "... does not indicate the existence of a structural deficit." We know the previous Minister of Finance went around the province and there was a report commissioned that tried to show a projected deficit over time. What I would say to that is, I think every government that comes into power in this province - probably since the last 40 or 50 years - one could argue has inherited a structural deficit by those terms. In reality, I think every government that comes to power inherits a responsibility, so I took interest on Page 60 of the report when you did state that the information that you've reviewed does not indicate the existence of a structural deficit. Can you explain the statement?

MR. LAPOINTE: A serious structural deficit would be in place here if the government had some long-term commitments to expenditures, benefits and so on that were very hard to reduce and had some revenues based on tax rates which might again be politically hard to change - generated revenues that could not meet those basic entitlements. You now would have in the structure of your taxes and expenditures a problem which is very sticky and very hard to resolve. Unless you make some significant changes in policies then, you will continually experience deficits in future.

What we were saying in the report was that this province was not mired in that kind of structural hard-to-resolve problem, so that there were not any inherent roadblocks to ultimately put the province in a good financial position.

MR. MACMASTER: Since 1962, we have been pretty much running deficits in this province. In 2002-03 the Hamm Government brought in the first balanced budget in a number of years and for eight years there were balanced budgets as was signed off on by the Auditor General. The present government has been on pace to match or even beat the average amount of debt added per year, if you divide it by years, going back to 1962. The current Minister of Finance has stated that people are telling her, don't balance the budget right now.

Do you feel that the ability to run deficits is abused? If you look into the United States, if you look at state governments, they're not allowed to run deficit budgets. I know that causes problems for them, but we can see here how it's causing problems for us. Every \$9 we bring in now, we throw a dollar away in interest expense to service the debt. Do you feel that the ability to run deficits here in the province is abused?

MR. LAPOINTE: Running a province operationally in either a surplus or a deficit is very much a political decision at the time. The comments on debt that I have made have less to do with surpluses and deficits and more to do with the long-term accumulation of debt. I will not comment on any particular government's decisions on what level of spending it should engage in at any particular time. But in the long term and over these last 30 years, this government and many others have continued to accumulate debt with periods when that did not occur - as you pointed out - but generally speaking have done so.

The long-term difficulties associated with that were the concerns that I've expressed in terms of overall financial management of the province, but the individual decisions in a particular year by a particular government to my mind is up to that government and the circumstances it's dealing with at the time.

MR. MACMASTER: No question, the debt is the big number to look at. I guess the reason I was asking that question is because for many years it is deficit budgets that have built the debt to what it is today.

I guess everybody acts in their self-interest, no matter if it's politicians wanting to save their hide for the next election, they want to spend a little more to keep people happy, to the people who are being kept happy, their interest is being served. I think you raise a good point with your report that the interests that are not being served are the generations to come, future Nova Scotians. I guess I'm a bit of a product of that myself, born in the 1970s. Today the province that I live in, because of the debt that has accumulated over the years, I live in a province that I would say is hampered in its economic ability because we're paying so much in debt and we have, of course, higher taxes because of it.

We also have no habit, really, of paying down on the debt, which is an issue as well. Except for the offshore royalties that Premiers Hamm and MacDonald put on the debt, we don't have a record of paying down the debt, which causes me greater concern when I see deficits because there's no history of them ever getting paid off in the future.

The other thing I notice about our economy is it's defensive. We're not in a cyclical economy that's, say, resource-driven, where we might have significant oil and gas royalty revenues or potash royalty revenues. I think at its height in Nova Scotia, 2 per cent of the budget was royalties - maybe a little bit more than 2 per cent of our budget was oil and gas royalties - compared to Alberta, which in some years has gotten over 25 per cent of its tax revenues from royalties.

The reason I'm making that point is we don't have any future windfall here in the province that we can see right now that's going to take care of a debt in the future. I can appreciate a government, going through what we've gone through in the economy in the last few years, wanting to be careful about austerity and cutting back on government expenditure, but the deficits that we've looked at the last few years, you know, 2 per cent and 3 per cent out of balance, in your opinion, is it really that pronounced? Would the public really notice if there were changes made to balance those budgets that we've seen in the last few years?

MR. LAPOINTE: Well, that's a hard question to answer and it's hard to see how I can. It's a difficult decision and it's at the political level as to what can be done to move to a balanced budget and what can be done to move toward our paying off debt and what's politically acceptable and what isn't.

The only comments I had in the report in terms of the overall financial management of the province was that ultimately, over time, governments in this province need to move towards balancing their revenues and expenditures sufficiently to be able to, first, cease adding to the debt and then to ultimately have a plan for beginning to pay it off.

MR. MACMASTER: Right, okay, thanks. Mr. Chairman, how much time do I have left?

MR. CHAIRMAN: You have about four minutes.

MR. MACMASTER: It does kind of limit the questions we ask, I guess, because ultimately the questions that we're asking have to do with a government, whomever the government is, making choices and I guess they ultimately become political questions, but I'll see what I can do in the next four minutes.

The overall rate of implementation of your recommendations related to financial reporting from 2007 to 2010 audits is 67 per cent. The rate is essentially unchanged from the prior year; can you explain why that is? Has there been push-back from government to making the changes to comply with your requests?

MR. LAPOINTE: Well, the recommendations' statistics on the implementation are probably affected pretty strongly by a few recurring recommendations that we make and which there has either not been full agreement or that movement has been slow. Those key recommendations include a number - well, the one dealing with the revenue estimates qualification that I did refer to as making some progress on, on recommendations dealing with internal controls and the strengthening of them and particularly through the controller's office. I would say that if we can reach agreement with management to move more quickly on a few key recommendations, particularly I would say on those in the controller's office and internal controls that they should be managing and also on the revenue estimates qualification, I think we could very quickly improve those statistics to the point where they are acceptable.

MR. MACMASTER: I notice that 10 of 17 outstanding recommendations relate to internal controls within government. Is there a risk to taxpayers in Nova Scotia? I guess when I think if there are problems with internal controls you get budget variances for one, you may also have a government that doesn't understand the costs of what it's doing and may inadvertently cost more than necessary. I give you one example and they may not necessarily be related, but I was in Truro a few weeks ago and I was talking with a trucker. It costs about \$4,000 to license a truck every year in the province. There is no other place to buy licences in the province for that trucker so should it really cost \$4,000? We probably don't know because we've probably not measured the costs behind what it takes to deliver the permits. I would say that maybe we should be looking at costs more closely so maybe we can reduce the cost for those people. I'll let you comment on that, the question again is 10 of the 17 outstanding recommendations relate to internal controls.

MR. LAPOINTE: The offset of internal control weaknesses, of course, is increased risks. One of the reasons we recommend stronger controls at various levels, and we focus on that as part of our responsibility in auditing the financial information of the province, is to ensure that controls are strong enough to reduce the risk of inaccurate information - the kind that we've been talking about today - and also, to reduce . . .

MR. CHAIRMAN: Order, please. Unfortunately, Mr. MacMaster's time has expired. Mr. MacKinnon.

MR. CLARRIE MACKINNON: Mr. Chairman, I'm delighted to have this opportunity this morning. Before beginning I would just like to make a comment on the questioning of my good friend, the member for Inverness, in relationship to paying down the debt. Paying down the debt has only occurred seven times in many, many decades. One of those times was in the last three years, I just want to put that on the record.

Anyhow, building a \$9 billion budget, putting together a budget over \$9 billion, is a very difficult task because to estimate the revenue that you're going to get in income tax to come up with figures in relationship to what you're going to get in HST and so on, it's a phenomenal task, really. The process in putting a budget together, I don't think many Nova Scotians, and I don't think many MLAs, actually know the entire process, so I want to concentrate this morning on process if I could.

I want to begin by asking, what is your opinion on when government should present a budget and why?

MR. LAPOINTE: Do you want my opinion on the date that a budget should be issued?

MR. MACKINNON: Considering that we're dealing with a fiscal year, April 1st to March 31st, when, in your opinion, should a budget be presented?

MR. LAPOINTE: The decision on when to produce budgets is solely up to government. A logical process is very close to the beginning of the fiscal year, but beyond that the choices are totally up to government.

MR. MACKINNON: When do you think the cut-off date for budget data should be?

MR. LAPOINTE: That has to be one which is calculated on a practical basis. Now you're talking about cut-off data being used as an input to the complex models you're talking about, which then produce information.

MR. MACKINNON: Exactly.

MR. LAPOINTE: That, of course, is the focus of our recommendation - to establish proper dates. It needs to be one which, as Ann mentioned earlier, is late enough in the process to allow a proper review of the inputs and calculations to take place, but still early enough to be practical in terms of finalizing the product and getting it approved and sending it to printers. It's a balance of practicality amongst those factors.

MR. MACKINNON: How far in advance of Budget Day do you usually require or request Budget Estimates, the estimate documents from the Department of Finance?

MS. ANN MCDONALD: Every year we provide the department with an engagement letter and also with what we call a readiness letter. In that letter we outline that we require 20 working days for our review of the details that go into the model and then the models themselves, so we allow sort of 20 working days as our period of time for the review.

MR. MACKINNON: So 20 working days is four weeks.

MS. ANN MCDONALD: Basically, yes.

MR. MACKINNON: Thank you. On average, how long does it take your office to work through the Budget Estimates documents?

MS. ANN MCDONALD: It would take about four weeks. We usually are about five to six weeks on the assignment because we look at the economic assumptions first, and the last part of the assignment usually focuses on the recoveries, so it's about a six-week process. The 20 days that's noted in the letter is what we require, but we've established a process over the years with the Department of Finance whereby they are able to provide the information to us sort of earlier, certainly to accommodate that 20 days. The process has worked fairly well in terms of timing and dates.

MR. MACKINNON: So when we're looking at the Budget Estimates documents, do these need to be validated by outside experts, such as APAC as well? Do you know how long it takes them to work through the data? There are outside experts who are also looking at the data, right?

MS. ANN MCDONALD: I'm sorry; I'm not familiar with APAC.

MR. MACKINNON: APAC - all right, it's a finance term.

MS. ANN MCDONALD: APEC perhaps - the Atlantic Provinces Economic Council? I'm not sure.

MR. MACKINNON: No. What outside experts are involved then?

MS. ANN MCDONALD: Well, to my knowledge, the process that the Department of Finance undertakes, in terms of outside experts, I'm only aware of the challenge process that the economics group has on its assumptions. So during the course of developing those assumptions, they convene a panel every year of outside experts. I believe the makeup of it changes marginally each year, but generally speaking it's from finance and then there's some academia in there as well. They provide a challenge session to the economic assumptions. Then the economics group will take the results of that session and they make changes as they consider appropriate. Again, this is my understanding - they provide to us

actually the results of the challenge and also rationale for their decisions to revise the assumptions or to not revise.

As far as I'm aware, those are the only experts that are involved in the process. I can't comment on whether the Department of Finance provides the overall budget to any experts, I'm not aware of that process.

MR. MACKINNON: But you're saying that it is provided to some academic experts to look at and do commentary on?

MS. ANN MCDONALD: The economic assumptions are, so that is not ultimately the numbers, but it's the economic assumptions.

MR. MACKINNON: Would you say, in fact, that might take as long as your office would to have proper input?

MS. ANN MCDONALD: Again, just going on my understanding of that process, there may be communication with these experts as the economic assumptions are being developed by the Department of Finance, but I am aware that there is a challenge session. I think there have been, on occasion, two challenge sessions and I don't believe that those are lengthy. In other words, I think they are, at the most, one-day sessions, but that's as far as I know what the process is.

MR. MACKINNON: But there are those challenge sessions and they do, in fact, have to occur as part of the overall process?

MS. ANN MCDONALD: I understand that's the Department of Finance's process at this point.

MR. MACKINNON: I may need a little help here - if it took the department about one week to process new budget data and any and all implications of it, and it takes your office - how many weeks to review the final budget, 20 working days?

MS. ANN MCDONALD: Yes, let's say at a minimum.

MR. MACKINNON: So we're saying six weeks then, and outside experts an additional two weeks?

MS. ANN MCDONALD: I have no idea.

MR. MACKINNON: You're talking about two challenge sessions. The building of a budget - we don't fully comprehend everything that is going into the process, so the average Nova Scotian certainly is also challenged in relation to the building blocks that are on the go here. So we're looking at one week to look at new data and you're saying it takes

about six weeks to review the final budget data - that would be the whole data - and perhaps an additional two weeks to review data by the challenge sessions and whatever other experts may be involved, because I don't know. In fact, I'm not even sure what the financial APAC is, so we don't fully understand the process involved here. But it seems to me that a cut-off would need to be, if we're talking two weeks for a challenge session, one week to process new data, six weeks in total for a review by your office and so on - it needs several weeks to do this. Is that correct?

MR. LAPOINTE: If I can add something to that, I think the process is actually a lot shorter than what you're describing in that the process as it works right now leads to a final budget which can be approved by the Treasury Board by the end of March. Whether you make corrections or not during that time would not delay the final product in that all that's required to correct for any changes that are found in the process or any errors, or any other information you decide to use, I would say is a day, and it's a day of inputting the information into the computers and running it again.

In fact, in the last budget that was done, all the potential changes were run through the system and then you printed - you know, basically provided it for us to look at, which allowed us to look at the revised information fairly quickly, simply because everything that's in there, for the most part, is information which we've already seen, so you only have to look at - yes, this is a correction we had; this is it going into the system and so here's the effect. There is not a lot of additional work that has to be done whether or not you're correct.

Establishing dates to agree on, as for cut-off for any changes, I think really is not a complex process. It's just a matter of sitting down and looking at the kind of thing you're talking about and saying, well, if we decide to make changes to the product, at what point do we have to stop making them? You can be making changes into the system as you go - the same as if you were doing a financial statement and making adjustments as you went - and at a certain point you simply say, okay, at this point we stop because now we have to go to print and everything at that point, if it needs another review and you don't think you can add any more data to the process, not several weeks.

MR. MACKINNON: I guess that's what I'm trying to get at, and that is at what date - considering the various inputs - new information could, in fact, be put in. Based on the answer to the previous question, I thought that the time frame would be longer than you just outlined in the last question.

MR. LAPOINTE: I think a reasonable cut-off date for changes in the numbers is likely a week before you want to send it to the Treasury Board for final approval. (Interruptions) I'm just checking - I'm not getting off track here, I'm checking with my staff.

I would say, it remains to be seen when we sit down and talk to people this year, but the likelihood is that you should stop making changes a week before you want to finalize a product and that's probably, in this case, towards the end of the third week of March.

MR. MACKINNON: I guess that's the point that I'm trying to get at. With the inputs and with the printing and everything that has to take place, there has to be a cut-off date. If there is not a cut-off date that, in fact, means that you would have to push the actual delivery of the budget further into the month of April. Is that correct?

MR. LAPOINTE: Yes, that's exactly right and that is one of the reasons you want to be quite firm about what is the date after which you just agree you don't make changes. If you're after that date - let's say that the kind of information that we're talking about in our report did come up, you would simply have to agree that, no, it is too late; we cannot input these changes. If it comes in before that date you do, so it becomes a very simple matter. But it's quite possible that after that date while you're even printing reports and sending them to Treasury Board that other information comes to the Department of Finance's attention - or ours - that there's a multi-million dollar adjustment based on this information, or there's new demographic information that would affect it but we don't know what the effect would be. But you say, no, we've agreed that for practical purposes that is the cut-off date.

This is what's communicated to people looking at the document so they all know this is up to this point and any further information that comes in after that time will have to be adjusted to forecasts in the future, or whatever, but it has to be a practical matter. You can make it as close to the date of issuing as possible, but then at that point you stop.

MR. MACKINNON: Is it fair to say that you as Auditor General would encourage or would like to see a budget presented as soon as possible in the fiscal year? Isn't that a reasonable thing to do?

MR. LAPOINTE: Well, certainly and, in fact, that is what has been occurring, and I think the process from that point of view works fairly well. The timing of the budgets is planned well ahead and basically people are on track and produce them at a point in which they planned to do them in the first place, so that all we're talking about in our recommendations on this is just adding some rigour to some of the process in it and we're really just improving the process that is there now. I believe I'll ask Ms. McDonald to add a couple of points on that.

MS. ANN MCDONALD: I just want to come back to the issue of cut-off dates because what we're proposing is really a second cut-off date in the process. Right now there is actually a cut-off date, if you will, that the Department of Finance decides every year in terms of economic data they are gathering, with the realization of course that that data is coming in all the time. That's my understanding, at least.

They choose a date early in the process and they call that their economic data cut-off date, if you will, and they use that date, information obtained to that point in time, to then feed into their development of their economic assumptions. Those assumptions then feed into the models.

The date that we're talking about in terms of a second cut-off date is for correction of errors that might be found during the course of our review of the information provided to us for economic assumptions and the various models and other sources of revenue.

MR. MACKINNON: At your press conference last week, you said that the new budget information came in February but the next day you said it actually came in March. Can you explain why you gave two dates?

MR. LAPOINTE: The actual date on which we received information and began to look at it was February 29th and then we were doing the bulk of our work in March, so we really started but obviously it's at the very end of the month but the bulk of it occurred in early March.

MR. MACKINNON: I sort of want to bounce back if I could. So if the Department of Finance received data on March 20th, for example, and the scheduled budget release date was April 3rd, there would not be enough time - I surmise, based on the inputs required - to include information without pushing the budget dates . . .

MR. CHAIRMAN: Order. Unfortunately Mr. MacKinnon's time has expired. Mr. Younger.

MR. YOUNGER: Thank you, Mr. Chairman. I was going to go on to something else, but I just want to follow up on something that I was just listening to my colleague talk about. You talked about only getting the information or starting to get the information on February 29th. It is not your office that decides when the Department of Finance provides you that information, is that correct? You would wait for that.

MR. LAPOINTE: It is provided to us when they have it ready for us and then we begin to look.

MR. YOUNGER: That's right, so if you received it earlier you would have found - one assumes you would have found the same corrections earlier.

MR. LAPOINTE: Yes.

MR. YOUNGER: So I mean I just find it bizarre that someone would try and shift blame to your office on the timing of it, when the timing really wasn't - I mean you sound like you are doing it fairly quick.

The other thing, and I'll just say - and I know you've already said, Mr. Lapointe - that this isn't, and I do understand this, it isn't something that you are in a position to comment on but from my perspective, a Minister of Finance stood in this House of Assembly - and the current minister has admitted that the previous minister knew before standing in the House of Assembly - making the statement that the Back to Balance targets for deficit reduction were on track and they were going to be \$211 million when they knew it was \$238 million.

I'm just going to and I say for the record, Mr. Chairman, that I don't much care what the printed documents said at the time; the Minister of Finance could have stood in his position and said the documents are before the members, we're going to go into estimates now but I just want to let you know that there is an adjustment that needs to be made to the deficit figure, which has only just come to our attention, and it is \$238 million, not \$211 million.

There is no reason the Minister of Finance could not have told members of the Legislature that but instead decided to let all members of the Legislature go through an estimates process with incorrect information. It doesn't matter if the printer couldn't print the books or the computer program took too long to calculate the numbers differently, it's just a matter of saying we think it's different and it happens.

We have seen over history ministers sit in estimates and say, listen there might be a tweak, we might move this around and so forth. That is a big deal, especially when you have a government that had committed to not running a deficit at all, then whether they did or they had to run a deficit that's a whole other debate, but to stand in the House of Assembly and then say, we're still on target and we now know that person knew at the time they weren't - it's unethical, is what it is.

At the end of the day the fact of the matter is that we all sat around based on certain assumptions and we made recommendations for changes in the budgets or adjustments based on our understanding of the numbers and the Minister of Finance was staring at us across the floor telling us that the numbers were accurate when, in fact, they were not and he knew they were not. To sit around and argue about what day they could have printed the document just seems crazy to me and now the fact that they're saying that - I know they haven't agreed to a date and I apologize for my rant - they will agree to some time in late March as the date that they can adjust the budget and last year they couldn't do it on March 1st, just doesn't make any sense to me.

I want to go on to another issue because I think we probably covered that issue of what happened with that \$27 million and there are other important issues that you've raised in this report and I appreciate you doing that. One of them - and I was just quickly looking for the page here and I'll find it while I'm talking - you had talked about looking at some of these loans that the government has announced as loans, and I think you looked at the forestry ones in particular, but there have been other ones and you were looking at how

those were reported on the books of the province, whether they were actually reported as loans the way they were announced or whether they were reported as grants because some of them were non-repayable under certain conditions. I'm going to see if I can quickly find the reference here, but I think the one that you actually looked at was Port Hawkesbury and I wonder if you could just talk a little bit about that?

MR. LAPOINTE: Yes, in fact, if you don't mind I will ask Ms. McDonald to talk about that issue.

MR. YOUNGER: Absolutely, thank you.

MS. ANN MCDONALD: Part of our work in this chapter as well as reporting on the results of our revenue estimates work in our audit of the financial statements, we do also look at the other aspect of the financial reporting cycle which is the preparation of updated forecast information. Knowing there was a forecast produced on September 24th, I believe was the date or September 25th, that updated the estimates for 2012-13 to that point in time and knowing as well that there was a significant transaction just previously announced to that on September 22nd, we wanted to look at how that transaction was reflected in that forecast update. So we were in touch with staff at ERDT and at NS Jobs Fund to just talk about the accounting for those transactions.

As you noted and we've bulleted in Paragraph 2.78, there are several aspects of that assistance and we looked at whether or not, in that forecast update, if that had been accounted for properly and concluded at that time - even though we haven't really performed an audit, but that our conclusion at that time was that it appeared to have been accounted for properly. Our main concern was that the forecast update on September 25th, reflected those transactions accurately so that the next forecast update wouldn't show a significant . . .

MR. YOUNGER: An adjustment.

MS. ANN MCDONALD: Yes, so that was the purpose of that review. We focused on that particular transaction because of its dollar amount at that time.

MR. YOUNGER: What I just want to be clear on here is that - and I do recognize that you said from an accounting point of view it was reflected appropriately and in 2.81 you talk about, "Recognition of the \$24 million assistance as a grant due to the concessionary terms . . ."

There is sometimes a difference between the way governments announce things and the way they appear on the books. I know you haven't audited it to look at is it appropriate, is it spent right and that's not at all what my question is about. The government announced it as a loan which is forgivable under certain conditions and most everybody else in the province said, well, that's really a grant so call it what it is. Your finding is that

the government on the books actually did record that as a grant and not as a loan, is that correct?

MS. ANN MCDONALD: Yes, our - I'll have to say preliminary - I mean, we haven't audited it, as you say, but under accounting standards, when you have financial assistance that's so concessionary it's otherwise a grant, you should recognize it as a grant.

MR. YOUNGER: I think that's important, so concessionary as to be a grant, that it should be recorded that way. People can have a debate elsewhere on the whole issue of whether things should be grants, but that's not what you were looking at and I just want to be clear that that is the way it was recorded because they still get referred to as loans.

Another thing I want to talk about is the issue of the pension changes for the civil servants, the retired civil servants, and how people were or were not notified. I think most MLAs at some point over the past year have heard from some or a lot of retirees who were starting to find things out more through the media and so forth. What is the process that you feel should have been followed that was not by the Minister of Finance regarding the pension changes?

MR. LAPOINTE: The concern we had that we reported was some specific communications that we thought were significant enough that they needed to be made, not passively by press releases or updates of Web sites and so on, but by direct communication by the trustee of the plan directly to all the members - whether employed or retired - simply because they were so significant. Those two were the assumption of all the risk by the members of the plan and no longer by the government; the other was the change to indexing, which changed the way existing benefits are paid in the future. The primary concern that we had in terms of communication was that change in trusteeship and moving the risk from government to the members.

MR. YOUNGER: Have you any indication that - we don't know that anything is going to change, but there can still be a commitment that if there are future changes, there would be a protocol put in place to notify members of the plan. Do you have any indication that that would happen in the future?

MR. LAPOINTE: That was not part of our discussions when we were reviewing this issue. That will be a completely different plan, you understand, in the future with a different governance structure so what the board will decide to do at that point, we don't know. Our concern was very focused on the one significant communication we thought needed to be made.

MR. YOUNGER: That's fair. In your opinion, what is the potential impact on members of the plan not being advised? I guess there are two groups: there's the group who are currently employed, who probably had more information passed through their union or

whatever; and then there are the current retirees, who are also impacted and may not be aware.

MR. LAPOINTE: The issue of direct communication mattered to us because I'm pretty sure that most retired people don't spend a lot of their time going to the government Web site to see what has changed - I hope they have other things to do. But the potential future impact has to do with the assumption of risk if the plan has funding issues in the future and, say, for whatever reason gets into - because their investment decisions or economic performance gets into a serious deficit position, then the government at that point in the future would not be liable or have any responsibility for coming in to help the plan out. They would have no logical reason for doing that. It is a self-sufficient fund and so any actions that are taken to put the plan back in a better financial position would be taken by the members of the plan at that time - those paying in and those collecting.

MR. YOUNGER: Because it shifts the burden to members of the plan - and we've seen this happen in the private sector too. I understand that your issue is about notification. Was your finding at all that members of the plan should have been notified - I guess I want to get at the timing, whether they should have been notified before the decision was made by government when it was considered - they often put out things like a discussion paper, saying this is what we are looking at - or was it simply a matter of the government has made the decision and simply did not notify the plan members afterwards?

MR. LAPOINTE: I guess the only issue we were looking at was that a decision had been made. So once it had been made - regardless of what the process was leading up to it and what's right or wrong - it's significant enough that the members, we feel, need to be directly informed for their knowledge. That's what we're reporting on, that one issue.

MR. YOUNGER: Okay, so your scope didn't include looking at what led to the decision, just simply how it was communicated afterwards.

MR. LAPOINTE: That's right.

MR. YOUNGER: One of the other issues you've talked about and at the press conference the other day you spent some time talking about this and this is the second year in a row you've addressed this - the issue of long-term debt and how much that has increased. In fact, in Paragraph 1.23 on Page 11, you say, "Nova Scotia's long-term debt load has increased from \$12.5 billion to \$16.2 billion since 2008. \$400 million was added to the debt in the last fiscal year."

I've spoken before in Public Accounts Committee that I think it's perfectly reasonable for the Office of the Auditor General to comment on debt as an overall issue of Public Accounts. You have chosen to again raise that this year. Could you discuss why you felt it was important to bring this forward again?

MR. LAPOINTE: I think it's an issue that is of sufficiently overriding importance to the people of the province that I think it deserves more mention. It's not the kind of issue that's going to find itself being resolved by one auditor's report and one discussion at one point in time.

We're looking at possibly a need for a cultural change in the way we view how government raises funds to pay for its spending. There are views held by legislators, by the people of the province . . .

MR. CHAIRMAN: Order, please. Unfortunately Mr. Younger's time has expired. Mr. Orrell.

MR. EDDIE ORRELL: Can I just go back and confirm some timelines with you for a second? I know we've talked about it earlier. The first we knew about this was February 29th to March 1st - am I correct in assuming that?

MR. LAPOINTE: That's correct.

MR. ORRELL: So that was when you sent your report to the Department of Finance that there was an error detected?

MR. LAPOINTE: I guess the timeline is a little more complicated than that so it might be best if I get Ms. McDonald to take you through a couple of those.

MS. ANN MCDONALD: I'm glad to add some clarity to the timeline here. We started our work on February 29th. We were provided with some tax models and we noticed right away this fiscalization issue that was about \$11 million. Appreciate that as time goes on, we're undertaking our review, the Department of Finance is getting some updated information on tax revenues, and we're also looking at the economics.

At approximately March 19th to 20th, we were aware that the Department of Finance had - with all of the new information available and that new information includes updated information, things we had identified as either inputs that needed to be updated to the models and this fiscalization issue - they ran models and that's when they determined there was this error. It was actually a \$29 million error, it has been offset for our reporting purposes, by some amount.

They provided us the model on March 23rd, I believe, and that's when we confirmed that yes, there was this \$27 million error in these three significant tax revenues.

Just to clarify, we informed them of the \$11 million through the process of the next couple of weeks, back and forth with Finance. They identified some new inputs or changes to the inputs. We identified a couple of corrections to the inputs and there were also some changes to the economic inputs. They ran the model, they came to us and said, we've taken

all of this new information, we've put it through the model and we know that there is this error, and they then provided us with the updated models which we looked at and did our comparison work on.

When we got the updated models - they informed us of this error and then they provided us with those models. I think in the interim of those couple of days I had discussions with them at the Department of Finance to say, we think this should be corrected, it's a fairly significant amount, it's not a material amount, but it is significant and we think it should be corrected. We were informed that no, they were not going to make the correction and that really sums up the process.

MR. ORRELL: So that was about March 23rd?

MS. ANN MCDONALD: Yes, that's right.

MR. ORRELL: Okay. When does this budget go to print? Do we know the date that it would have gone to print for that budget year?

MS. ANN MCDONALD: I think the Budget Address was April 3rd and I believe that was a Tuesday and I think the budget went to print sometime over that weekend, I'm not exactly sure.

MR. ORRELL: So it would have been around the last week in March, first week in April?

MS. ANN MCDONALD: Definitely the latter part of March, yes.

MR. ORRELL: To confirm an answer from the member for Pictou East, when an error is found, the change takes about a day - put into the formula, put into the system to spit the numbers back out on the other end?

MS. ANN MCDONALD: The formula and the changes actually generate the error.

MR. ORRELL: Yes, that's the same, but it takes about a day to do that?

MS. ANN MCDONALD: Well, I can't comment on how much time it took for them to run their models. I know that they presented us with the result of the model around March 19th or 20th, I don't know if it took them two or three days to run those updated models with the updated information that they had and we had given them and then they provided the models to us on March 23rd and we looked at them then.

MR. ORRELL: So we would have had about a week before that model went to print knowing that an error existed?

MS. ANN MCDONALD: Yes.

MR. ORRELL: So the turnaround time is pretty quick. The information was there, is there any good reason why they wouldn't have included that in the Budget Estimates?

MR. LAPOINTE: I can speak to that. Since they were aware of these changes and they had actually run them through the system to see what the effect was and had the new numbers, we took the view that there was no reason not to make the change. We have always taken the view that any error corrections should be corrected if it's still possible - clearly it was possible because they had just run the numbers and that all the other changes, since they were aware of them and had tested them, there was no reason not to make the change at that time. That was our position at the time, I guess it still is. Now as to what decisions were made on that, we don't know.

MR. ORRELL: Has this event changed your opinions or expectations for future budgets and financial documents to be released by the government? We're talking a date of a week before the cut-off or whatever the date it's going to be determined, we haven't determined that yet. We understand that if something comes in before that - should we be required to put that in the estimates and anything that comes in after just correct later on that we know this is going to change? Should that be something that we should look into and does that change your expectations of what time frames should be done with . . .

MR. LAPOINTE: I guess this particular experience has confirmed my view that we just need a greater rigour and definition of that process. The timelines should be fine, overall it works, but the issue of what changes should be made, what corrections should be made or not made and up to what date needs to be pretty well predetermined so that it's a simple matter that makes your decision - before a date or after a date. There's not a lot of back and forth required, there's no judgment required and nobody can get in trouble for making a decision one way or the other; everyone knows how that decision is going to be made before you start. That, I think, is the improvement in the system that we need in the future to avoid this kind of thing occurring.

MR. ORRELL: I think this question might have been answered already, but that \$27 million, now we know is \$29 million, what does that mean for us, as Nova Scotians, in the long run?

MR. LAPOINTE: Well, you were talking about the level of predictability or accuracy of an estimated number for the future. It doesn't affect what actually transpires, in terms of what is spent and what is received. This is a communication issue which requires it to be as predictive as possible, but it's hard to say what the impact would be of a large error or a small error in that predictability.

MR. ORRELL: We've heard that adding to the debt is morally irresponsible by any government - I think the number is about \$13,900 to each and every future generation,

child, grandchild. What does that mean for the future of our kids and grandkids, to dump this debt load on to them?

MR. LAPOINTE: Well, the issue I'm raising here, of course, is my opinion on the ethical rightness or wrongness of this sort of financing in the long term. The impact that I see of governments accumulating debt over a long period of time is simply that the spending that we undertake today then, or some of it, is not paid for by us. It is deferred to the future through debt and is left for our children to pay later or not to pay later if it is never paid off, but certainly to live with the impact of that spending, in terms of paying at least interest on that past spending.

We are all, today, of course, seeing the impacts on ourselves of the spending that was done over many decades in the past, to the tune of almost a \$1,000 per person having to be raised in taxes to pay interest on that past spending. That kind of impact is projected onto future generations if this continues over a long period of time. That is why I did raise it as what I considered to be an ethical issue.

On a practical basis, I think it causes simple problems to future governments in that you are restricted in your ability to make proper spending decisions and properly managing a province, simply because a lot of money is tied up in the debt and a lot of taxes are tied up in interest. It restricts your future choices.

MR. ORRELL: I guess what I'm getting at is what implications does this have for future borrowing by our province? Are we getting close to being a credit risk?

MR. LAPOINTE: The information we looked at in the chapter on indicators is that this province is not currently at risk. All the indicators are that the current situation is stable, relatively. Things go up and down a little bit, but all of the net debt or GDP or other indicators of this nature, deficit compared to overall spending, is relatively stable but is not a long-term issue. That is not an audited issue, that is just what appears to be in the indicators we provide for additional information on the financial state of the province. To my mind, what those indicators show is long-term sustainability of this current situation.

MR. ORRELL: I guess with the billion dollars that are generated in extra taxes, hundreds of millions more from federal government transfers, a billion dollars borrowed, is it not realistic that we should look at a balanced budget in the next budget period?

MR. LAPOINTE: Well, the way I was looking at this was not to examine what should be done in this particular period or the next period. I know that there are complex decisions made by government on what it spends and what it decides to receive in revenues. We have obviously been through a very difficult world-wide recession and that causes difficulties as well.

My concern is not with the short-term situation and what should be done today. It's what should be looked at as long-term goals for any government in this province, to eventually move to the point at which sufficient funds are generated to be able to cease adding to the debt, as I mentioned, and surely someday be in a position to be able to pay back. At the same time, I do recognize the difficulty of getting to that kind of position.

MR. ORRELL: One of our colleagues talked earlier about grants and loans. Are there any projects right now that are incurring the costs that would be justified in borrowing more money towards the debt, in your opinion?

MR. LAPOINTE: I haven't looked at the specifics of what would justify incurring debt and what would not. On that basis, I don't have a place on which to make comment. The position I proposed is that on a long-term basis, debt can be seen as acceptable if there's not really a lot of choice. If you're in an emergency situation like a wartime situation or an environmental crisis of some kind or economic crisis, yes, on a one-on-one basis you look at these situations and say, do we need to borrow for this - and you decide that you do.

These are complex decisions, I understand that, as to what makes sense and what doesn't but if you decide, to my mind, that it's appropriate to borrow, you should also be looking at what's an appropriate payback period and should be considering how you're going to raise funds at some point in the future to pay that off.

MR. ORRELL: If I could just ask one more question about the \$27 million error and not to announce it. To your knowledge, whose decision was it to not include that in Budget Estimates?

MR. LAPOINTE: The decision that we're aware of would come down from - it has to come down from the Deputy Minister of Finance. Beyond that we would have no knowledge.

MR. ORRELL: I think that's my time - thank you.

MR. CHAIRMAN: Order, please. Mr. Orrell's time has expired. Mr. MacKinnon, you have 15 minutes.

MR. MACKINNON: In relation to just a comment first, the member for Cape Breton North and his talking about the accumulated debt and the load or the weight or the strapping of future generations - we can actually pinpoint the exact time frames on when that \$13 billion worth of accumulated debt occurred and when the strapping of future generations actually took place. So I just want to put that on the record first.

We've had a lot of discussion on cut-off time frames and a lot of discussion on the building of a \$19-plus billion budget, so I think we'll move on to other matters and I'm

going to turn over to Mr. Whynott, but before doing that, I have one further question. That is - to the Auditor General - why did you say in your report that the Department of Finance should inform the Executive Council about the new budget data when in actuality, the Auditor General's Office told the Department of Finance to inform the Treasury Board? There's a mixed message there, very clearly a mixed message.

MR. LAPOINTE: I can see the ambiguity of what you're referring to. Now when we talk about the responsibility to inform Executive Council, perhaps it could have been clearer in what we said. We consider that the Treasury Board is a committee of Executive Council and, therefore, acts as a proxy for it, so something that goes to Treasury Board, as far as we're concerned, meets the responsibility to go to Executive Council.

For instance, I report to the House of Assembly but, in fact, I'm reporting to this committee, which is a committee of the House, so I consider that I'm fulfilling my responsibility to report to the House since this committee acts as a proxy for the House. So yes, to be clear, we consider that reporting to the Treasury Board was sufficient.

MR. MACKINNON: But certainly Treasury Board and Executive Council are not one and the same beast, so to speak, so there was a mixed message and I think you agree with that.

MR. LAPOINTE: I would agree with that, we should have been clearer on that. We considered reporting to Treasury Board to be an adequate proxy for reporting to Executive Council.

MR. MACKINNON: Thank you. Mr. Whynott will take the rest of the time.

MR. CHAIRMAN: Mr. Whynott.

MR. MAT WHYNOTT: Thank you very much, thank you for coming in this morning. I wanted to talk a little bit about the structural deficit and debt and that sort of thing. The 2009 report that was entitled *Addressing Nova Scotia's Fiscal Challenge* outlined some of the key issues facing Nova Scotia. One of these was the structural deficit.

I note, and I think you mentioned it earlier today as well, I note in your report you state that there was no structural deficit. I'm just wondering, can you outline for us what models you ran in order to come up with that conclusion?

MR. LAPOINTE: No, we didn't - we were looking at this very broadly and we didn't run models and so on to examine whether there was structural deficit or not a structural deficit. So that's a very broad comment and not based on a whole lot of analysis underneath.

MR. WHYNOTT: Okay. So it's my understanding that the very definition of a structural deficit, as you say, requires a little bit more analysis of the full potential of the economy and other factors, which can only be determined through running models. How are you just able to come up with that conclusion without running models?

MR. LAPOINTE: I'll ask Ms. McDonald to speak a little more on that one.

MS. ANN MCDONALD: The work that we do in Chapter 4 is very broad; we're just looking at these indicators at a high level. So basically with respect to a structural deficit, we looked up a general definition of what a structural deficit is and noted there it's "... when the economy is operating at its potential but the government is still incurring a deficit." We concluded that because the surplus deficit position has fluctuated - in the exhibit after Paragraph 4.22 and in the exhibit in Paragraph 4.21 - over the years, we didn't think there was an indication on a broad, high-level basis that there was a structural deficit.

Certainly the other indicators in the chapter generally indicate that the government's position has not changed that dramatically, certainly from this year to last year, with the exception of the fluctuation in the surplus deficit on an annual basis that, generally speaking, the province's financial indicators are remaining fairly stable. So that's really the nature of that comment. It is a very broad-based comment and no, we didn't run models or economics against it.

MR. WHYNOTT: My understanding in 2007, the Nova Scotia Government, the Province of Nova Scotia, received \$425 million in offshore royalties, so only five years later we are now receiving \$28 million in offshore royalties. Would that not be a significant decrease in revenue? Even just part of that, would that not consider at least an indication of a structural deficit maybe - building programs on revenue that isn't necessarily guaranteed year after year, guaranteed at least at that level?

MR. LAPOINTE: I understand you're saying there were some basic revenues that were coming in that no longer are. The question is really whether if some programs were built on the expectations of those revenues and commitments had been made to continue spending at a level that really required those to come in, it might cause a structural problem.

I can understand a lack of revenue, but with the fluctuations of surplus and deficit that we see over the various years, we don't see a continuing, ongoing issue with that; so it's possible that that can contribute to ongoing funding problems, put it that way.

MR. WHYNOTT: I think that's exactly why the government went forward with asking for a report to be created so that we can take a look at those finances and do a long-term plan around deficit reduction and program spending because, as you know, that report came out and said, if we don't do anything, if we stay status quo, we would have

seen an increase in our net debt by \$1.4 billion. If we stayed on that course, then that would have been even more detrimental to Nova Scotians.

My colleague, the member for Pictou East, mentioned that we do know when the debt of the province occurred. Two-thirds of that debt was when the Progressive Conservatives were in power (Interruption) Three quarters of it - so I did want to make that point. The other thing was, on Page 56 in the graph there, you mentioned about the percentage of our budget that we spend is on various programs and departments. You outlined that in 2007-08, 10 per cent of our expenses was through the Community Services and Education, 16.5 and so on. In that time frame, in that budget year, 10.8 per cent of our overall budget was spent on debt servicing costs. Can you - in layman's terms for all of the abundance of people watching at home today - just say that is essentially interest payments?

MR. LAPOINTE: Yes, I'd define that, the bulk, as interest payment on debt.

MR. WHYNOTT: So now, in the year 2011-12, we are paying 8.7 per cent of our overall budget on debt servicing costs.

MR. LAPOINTE: Yes, the percentage has - if you look at the charts - reduced in that period of time, somewhat.

MR. WHYNOTT: On Page 57, you also mentioned in a paragraph there that the overall increase in the cost of health care has gone up by about 2.3 per cent in five years. Is that the case?

MR. LAPOINTE: Sure.

MR. WHYNOTT: I just want to make that point because we know as Nova Scotians, about 39.6 per cent of last year's budget was spent on health care. That's the majority of where our budget goes and so that being said, in fact, in the last three years we have been able to at least harness in the cost of health care without having a huge detriment to the health care system in Nova Scotia. For instance, instead of closing hospitals like the Liberals did in the 1990s; instead of paying nurses to leave, like the Liberals did in the 1990s; and respecting the collective bargaining process, we've been able to harness in those expenses. That's what I think we need to have people recognize. We don't know exactly what the other two Parties would do with that. They say things, but they haven't laid out a plan.

I want to go back to some information that I've been able to research on using Department of Finance materials that are on-line. They do a comparison, province by province, of questions around percentage of increase in net debt and per capita increase in net debt and that sort of thing. Just for everybody's information out there, between 2008 and 2007, seven provinces saw an increase in their net debt. So B.C., 58.9 per cent, there

was an increase in net debt in B.C; in Alberta, a 39.8 per cent increase; Manitoba, a 37.4 per cent increase; Ontario, a 50.4 per cent increase; Quebec, a 34 per cent increase; New Brunswick, a 42.3 per cent increase; and P.E.I., a 37.4 per cent increase. Now there are two provinces that actually saw a decrease in net debt and those are two provinces that have seen significant natural resources in revenue: Newfoundland and Labrador, and Saskatchewan. Nova Scotia saw a net debt increase of 9.3 per cent.

Compared to other provinces in the country - and would you also agree that we're going through a recession; between 2008 and, some would argue, even now that we've gone through a recessionary period, would you agree with that?

MR. LAPOINTE: No question, I had mentioned this even last year when we were talking about debt that we had been recently in a very difficult situation.

MR. WHYNOTT: You also mentioned today that incurring debt in certain circumstances - emergencies, wartime, but you also mentioned economic crises. Would you consider between 2008 and again, some would say even now, that we did have a financial crisis?

MR. LAPOINTE: Yes, I would agree and, in fact, stated previously that the world recession that hit us recently was what I consider to be one of these critical events that would lead to different kinds of decisions than normal.

MR. WHYNOTT: Even in a recessionary period between 2008 and now, compared to other provinces, Nova Scotia saw a 9.3 per cent increase in net debt - compared to other provinces. The closest province even to us is Quebec at 34 per cent. That is how this government has been able to rein in spending during a recessionary period to ensure that projects will continue to move forward, that programs will continue to move forward, without creating a sense of hysteria in Nova Scotia.

MR. CHAIRMAN: Order, please, the time has expired, thank you very much. I'll give the Auditor General a few minutes to wrap up.

MR. LAPOINTE: Thank you, Mr. Chairman. I just want to say to wrap up that I appreciate the opportunity for me and my staff to come and discuss our report with the committee. I hope that we've been able to clarify some issues and answer your questions as best we can. We certainly appreciate the opportunity to be of service to the House of Assembly. Thank you.

MR. CHAIRMAN: Thank you very much for coming and providing the information you did today. Mr. Younger.

MR. YOUNGER: I think we have a couple of minutes for committee business and I have a motion that the clerk would perhaps distribute - do you have a copy of it? I'm told you have copies of it.

Mr. Chairman, as you know, our caucus has written to you asking to put a motion before the committee today, requesting that the current Minister of Finance, the Minister of Finance previous to her and the Chairman of the Treasury Board appear before an extraordinary meeting of the Public Accounts Committee, to be held no later than the commencement of the Spring session of the Assembly.

There is a precedent for this; in fact, the current Premier had previously called at the Public Accounts Committee, when the member for Halifax Chebucto was chairing, both of whom incidentally voted to call in former Premier Russell MacLellan, as well as the Finance Minister at the time, Honourable Don Downe. Subsequently another Premier, Honourable John Savage, and another former Finance Minister, Honourable Bernie Boudreau, have also appeared before this committee so there is substantial precedent on issues such as this.

I would like to quote the current Premier in indicating why it is appropriate to have such people appear before the committee when issues have been raised related to the books of the province and errors. I'm sure that the current government members of this committee will not disagree with the comments of their own Party Leader when he said:

"I would like to move that for the next meeting of the Public Accounts Committee that we call before the committee, Premier Russell MacLellan. This is to give - as Mr. Samson has pointed out time and time again - an opportunity for all the people who have been named in one way or another in this procedure to respond to the committee and to the questions of the committee. I know that Mr. Samson . . ." - of course, he was referring to the member for Richmond at the time - ". . . has said that they want everything to come out, and I think that since it was Premier MacLellan who is in kind of . . ." - I don't know what he was saying here - ". . . at the end of this, this will, I think, move the matter to a conclusion."

So with that, we are currently dealing with the issue of the timing around the \$27 million and the choice of the Treasury Board not to include that in the budget and, moreover, if they didn't include it in the budget, to not advise the Legislature of that error.

The Auditor General has indicated quite rightly that he raised the issue but it is really up to the government to answer the questions of why they would not have done that. Therefore, the motion has been distributed to the committee, the operative clause is:

Therefore be it resolved that the Public Accounts Committee invite the Minister of Finance at the time of the decision to not correct the \$27 million overstatement, the current Minister of Finance - and it should be the Chairman of the Treasury Board, because I

understand that was changed some time ago from president - and the Chairman of the Treasury Board to appear before an extraordinary meeting of the Public Accounts Committee to be held at the earliest possible date and no later than commencement of the Spring session of the Assembly.

Mr. Chairman, there may be some comments by the members but I would ask that we take a vote on this today. I'm quite confident that the government members will support it since it was then the current Premier who had indicated that this is the appropriate path to take and is on record as saying that the Minister of Finance and the Premier and those people should appear, in fact, before this committee in the past when it was other governments, for almost identical issues. Thank you.

I would like a recorded vote when the time comes.

MR. CHAIRMAN: Okay. Mr. MacKinnon.

MR. MACKINNON: Thank you very much, Mr. Chairman. We've had the Auditor General here today discussing this; we have the Department of Finance coming. Several points I would like to make, if I could, and I think I probably have time to do that. The AG has asked for a clear cut-off date and the government has agreed and certainly has accepted this, so that should be acknowledged.

The AG has had the opportunity to explain his concerns to us today and he didn't choose to qualify or withhold his audit opinion last Spring. That should be noted, as well, as he could have, had the issue been of greater concern to him and his office at that time.

To make another point, the Treasury Board considered the matter on March 28th, as the AG recommended to the department on March 20th, and Cabinet confidentiality - and I think we will agree to this, particularly to you, Mr. Chairman, because you were in Cabinet at one time in a previous government - that Cabinet confidentiality and that of Cabinet committees is a respected practice and that in this case is straightforwardly applied.

I think we are giving adequate attention to this issue. Certainly we've had two hours of it this morning and we will have the Department of Finance. So in the recorded vote the members on the government side will, of course, be voting against what has been put forward. Thank you.

MR. CHAIRMAN: Mr. MacMaster.

MR. MACMASTER: Thank you, Mr. Chairman. We do like this resolution and I would add that I think it would be helpful to also have the Deputy Minister of Finance here, as well, because the deputy was referred to in the audit as well.

I think this is a very serious matter. There is a ministerial code of conduct and if we look at the Auditor General's Report on Page 18, Paragraph 2.17, it does state that the Cabinet - "We suggested to management at the Department of Finance that Executive Council be informed of this known error prior to approving the estimates, and this was done."

So in effect, Cabinet knew of the error, but instead went ahead, misleading the public, which is against the ministerial code of conduct. Perhaps that's something for a lawyer to review, but it seems quite clear to me that something seriously wrong was done here and if the public was misled by the entire Cabinet and that's a breach of the ministerial code of conduct, that's a problem. That's another reason why I think it would be good for those members - at least those members from Cabinet who are directly involved - to come to this committee, to answer the public for that. We will be supporting the resolution and look forward to a recorded vote on the matter.

MR. CHAIRMAN: Are you proposing an amendment to the motion to include the deputy minister?

MR. MACMASTER: Yes.

MR. CHAIRMAN: Could I have a seconder for that?

MR. YOUNGER: Yes.

MR. CHAIRMAN: Thank you. We will discuss the amendment and vote on that first. Is it agreed?

It is agreed.

Mr. Younger on the amendment.

MR. YOUNGER: Deal with the amendment first and then . . .

MR. CHAIRMAN: Mr. MacKinnon.

MR. MACKINNON: We will have a recorded vote as well - I understand that has been asked for, even on the amendment?

MR. YOUNGER: We don't need it recorded on the amendment.

MR. CHAIRMAN: Are you ready for the question on the amendment? Would all those in favour of motion please say Aye. Contrary minded, Nay.

The motion is defeated.

On the main motion, is there any further discussion? Mr. Younger.

MR. YOUNGER: I would just say that we vote now. I would remind the honourable member on the government side that all of the points that he raised or indicated by the current Premier as to not apply as accounts to issues like this, so I'm a little bit surprised that the government position has changed so dramatically since they felt that those ministers and the Premier should appear, but we'll have a recorded vote.

MR. MACKINNON: Our time frame is just about gone, but I cannot believe the gross exaggeration of this so-called error that was made by the . . .

MR. CHAIRMAN: Order, please. Could I interrupt you for just one second? I'd like the committee's permission to continue this until the vote is finished.

MR. MACKINNON: I'd just like to comment.

MR. CHAIRMAN: Do I have the permission of the committee?

It is agreed.

Now you have a lot of time to make your point, Mr. MacKinnon.

MR. MACKINNON: I will not take a lot of time, but the member for Inverness - what a gross exaggeration of this situation. That's the only comment I want to make. Thank you.

MR. CHAIRMAN: Are there any other questions? A recorded vote has been called for on the motion.

[Mr. Chairman calls the roll.]

[10:58 a.m.]

YEAS

Mr. Younger
Mr. MacMaster
Mr. Orrell

NAYS

Mr. Ramey
Mr. Whynott
Mr. Skabar
Mr. MacKinnon
Mr. Epstein

MR. CHAIRMAN: As chairman, I vote yes.

[For, 4. Against, 5.]

The motion is defeated.

Just a few things for our next meeting; next week there's going to be an out-of-town caucus so we will not have a Public Accounts Committee meeting next week. The following week on February 27th, we will have the Department of Transportation and Infrastructure Renewal.

Requested information from the Department of Health and Wellness has been supplied to all the members. I think that's everything? (Interruption) Great.

A motion to adjourn would be in order.

MR. WHYNOTT: So moved.

MR. CHAIRMAN: We stand adjourned.

[The committee adjourned at 10:59 a.m.]