



House of Assembly
Nova Scotia

HALIFAX, WEDNESDAY, FEBRUARY 12, 2014

STANDING COMMITTEE ON PUBLIC ACCOUNTS

9:00 A.M.

CHAIRMAN

Mr. Allan MacMaster

VICE-CHAIRMAN

Mr. Iain Rankin

MR. CHAIRMAN: Good morning everyone. I'd like to open our meeting of the Public Accounts Committee for today. Before we begin, I'd just like to remind everybody to place their phones on "silent".

I would like to begin with introduction of members beginning with Mr. Maguire.

[The committee members introduced themselves.]

MR. CHAIRMAN: Today we have the Deputy Auditor General visiting with us and we'll be discussing the January report of the Auditor General.

Mr. Horgan, I'd like to allow you the opportunity to begin your introduction for the day.

MR. ALAN HORGAN: Thank you, Mr. Chairman. As you know, Mr. Lapointe tabled his January 2014 report on financial audits shortly before he retired in late January. A snowstorm caused a delay in the process, resulting in him being unable to meet with this committee on the day the report was presented. The search for a new Auditor General is underway. In the meantime, in my capacity as Deputy Auditor General, I will be fulfilling the role of Acting Auditor General.

It is my pleasure to be here this morning, with the help of a couple of staff members, to answer any questions you may have about our January 2014 report. With me today are Ann McDonald, Assistant Auditor General and Shelley Creighton, Audit Principal - both of whom were very instrumental in the work that is presented in this report. We will endeavour to answer any questions committee members may have.

MR. CHAIRMAN: Thank you. We can begin our first opening round of questioning with the PC caucus. Mr. Porter.

MR. CHUCK PORTER: Thank you, Mr. Chairman. It's good to be here this morning, thank you all for coming. We see you on a regular basis but I know that the floor was always open to questions with Mr. Lapointe and I'm sure that going forward it will be as well, regardless of who the witnesses are.

To start off, it has been an interesting time. We're barely four months now into a new government so my thought today - we could always come in here and, I guess as Opposition, it has always been something about criticisms and so on. I'm looking more for the constructive side of things and the opinion of maybe more of what has taken place over your assessments of the books and so on.

When I look at a couple of things I wanted to talk about here - you talked about the Public Trustee. I'm going to bounce around a bit, I want to cover a lot of things and time goes by quickly, as we all know in this Chamber, when we are asking questions. You talked about purchasing a system to account for all the assets, you had some questions around that. Has anything been done with that? What are we talking about by way of purchasing a system for the assets? Did you find something that was significant there?

MR. HORGAN: Over the last number of years in doing that audit, we found that they have information sufficient to put together a set of annual financial statements, but it is very difficult based on the way the information is collected and recorded. That's mainly because they do not have modern computerized books of account. We have recommended over the years that they acquire such a computer system, in order to make the process of putting together the annual financial statements more straightforward and also to make our audit more timely.

MR. PORTER: I recall when the Public Trustee was here before us, there was a bit of that discussion but things seemed to be very much looked after, but maybe in a bit of a scattered way, if that's the right language to use. I think that's sort of what I'm taking - there's no real consistent application or all-in-one place, if I recall, maybe everything wasn't quite there. Was that clear?

I'm just trying to remember back and I see your partner there may have a comment or two.

MR. HORGAN: I'll ask Ann if she'd like to comment.

MR. CHAIRMAN: Ms. McDonald.

MS. ANN MCDONALD: Thank you, Mr. Chairman. When we did our performance audit with the Public Trustee a couple of years ago - which resulted in the Public Trustee being here - we certainly concluded, as we do every year during the financial audit, that there's no issue with their assets. In fact, in the performance audit we looked at things like how they safeguarded their assets, so from an accounting perspective every year we look that the assets are recorded, and from the performance audit we looked that they were safeguarded.

So we have no issue with their controls around their assets; we're satisfied with those. We just feel that for an entity responsible for \$45 million of estates and trusts and of vulnerable individuals, that in many cases there should be a full general ledger system that does what a general ledger system is supposed to do. We recommended that as a result of the performance audit. We recommended it last year after the financial audit and again this year.

In terms of process, I know that they are following up on that recommendation and taking it very seriously. I know they've done some feasibility studies of trying to adapt their own current system to accommodate what is needed in the general ledger system. But at the end of the day, our recommendation is simply you need to have an accounting system, and we'd certainly like to see it in place for April 1, 2015.

MR. PORTER: I just wanted that clarity to make sure nothing really drastic had changed there because it seemed as though we sort of understood that. They do deal with a lot of money and people are probably quite interested in that piece. There are a lot of families, I guess, in different accounts that they deal with.

I'll move on a little bit about tax revenue. Indicated weaknesses still exist there and, "Internal controls, including those related to model input, review and approval are not all being performed." Now the department didn't believe the recommendation had merit with regard to this. Can you talk a bit about that? This was on the inconsistencies around determining tax revenues. I'm not sure how you could have an inconsistency around that. I'm not sure what page that is on.

MS. ANN MCDONALD: I'm sorry because Recommendations 2.5 and 2.6, which deal with the tax revenues - they have agreed with both of those recommendations.

MR. PORTER: Maybe I misunderstood that then. That could be totally my misunderstanding how it was read too, so that's fine.

I want to talk a bit about debt though. I want to get into that. I'm not sure that - well, I'll put it this way - many Nova Scotians, when we think about our debt and what it costs each Nova Scotian, we see all these different breakdowns. We hear all kinds of people talk

about that from a political perspective, but from the reality of our provincial debt, can you tell me exactly what the number today is that we're carrying for provincial debt?

MS. ANN MCDONALD: I guess the latest figures that we would have would be in the audited financial statements at March 31, 2013. The debt position at that point in time - net debt - was \$12.8 billion. That would be net of sinking funds that had been allocated to offset that debt.

MR. PORTER: And we hear about this great big number and people talk all the time - oh gosh, what are we going to do about this debt. When you put it into perspective, many Nova Scotians, many of us carry a mortgage on our home, we take it out for 20 or 25 years and we have a plan, we have an end goal, we see the light that someday this will be paid off. Where is the plan provincially? There doesn't seem to be any hope when you look at this growing debt. Is there some plan that you can talk about that says, there is a plan in place that one day we will actually be there?

MS. ANN MCDONALD: I'm not aware of any such plan, Mr. Porter.

MR. PORTER: That's more significant to me, and I think a lot of Nova Scotians. There's no plan at least in place that says 25, 50 years from now that there is, maybe, a light at the end of the tunnel. Maybe we do become that "have" province, for lack of a better term. That's probably something people understand more - the fact that the mortgage will never be paid - than it is when you're trying to relate a certain figure. Can you talk about what it costs Nova Scotians every day, every week, every month or year, by way of looking after and managing and paying service fees and so forth on this debt?

MS. ANN MCDONALD: I guess all I can speak to is the debt servicing costs that totalled \$921 million for the year ended March 31, 2013. That includes not only of course interest costs related to the actual borrowings, but also other interest costs, for example on pension plans. There would be an interest cost associated with that debt and then those probably are the two most significant aspects of the debt number, the interest cost number.

MR. PORTER: So \$921 million annually. That would go a long way towards programs and grants and so on and so forth in this province.

As the people who are auditing the books here, and I mean you've all got a financial background, where should we be going with this? How do we bring it down? People are asking, politicians can make all the policies that we want and governments change and so on and so forth, but the debt remains. The debt grows over the course of time, we all try to implement programs and put funding towards things. Where is it that we have to draw the line here? How can we tighten this up? We have to do something, what is it?

MR. HORGAN: Well it's definitely a pretty normal thing at the various levels of government to borrow, both for purposes of acquiring capital items as well as just running

the day-to-day operations. Of course it is pretty much a policy matter that is completely up to the government of the day to decide how much of that they want to finance.

My greatest concern is the risk that a high debt level may pose to the future. Ms. McDonald talked about the annual debt servicing cost but in the future, that is very much dependent on where interest rates lie. If there is a significant increase in interest rates in the future, that number is going to go up substantively and that's going to impact even to a greater extent the programs and services that a government can offer.

I think that dealing with the debt very much is a present thing but also it is preventing that future erosion of government services through higher debt service costs.

MR. PORTER: Thank you for that. I would say this, and please take it in the spirit in which it is meant - you danced around the question very well. You are the Auditor General's Office in the Province of Nova Scotia, which should have a very qualified opinion about what we should be doing going forward with this kind of debt, to get it under control and to reduce it, whether that's making payments or - where should we be going? I look at this team as the financial guide here. Any government, I would think, would be working with the AG's Office to say okay, how can we bring this more in line?

I know you do a lot of perspective and nobody knows the numbers better than you guys. Is that fair to say or am I wrong on that?

MR. HORGAN: No, we definitely have an understanding of the numbers, as would the Department of Finance and Treasury Board.

It's hard to say what the right amount of debt is for any government. I guess one means of looking at it is to compare it to other governments and see where you stand in that regard. With respect to Nova Scotia, that's exactly what we did in Chapter 4. We found Nova Scotia's level of debt to be up amongst, I think, the second highest of all the jurisdictions that we compared it to. In that regard, when comparing to other governments, it is a relatively high level.

Thinking back to what you said earlier, I think the key is to have a long-term plan on what you should be doing with respect to the level of debt - what is the best means of lowering a debt and lowering the risk of future increases in debt service costs? I think any government needs to have a very detailed, far-reaching plan to address debt levels.

MR. PORTER: I guess what I'm getting at here is, with every new government comes new hope, if you talk to Nova Scotians, that there'll be another plan. There are promises made throughout campaigns that would instill in the minds of the voter that we're something different, we're something new, we're going to make life better for Nova Scotians. I can't tell you how many times we hear that; we all hear it constantly.

Developing programs and all those things are good and some of them are good for Nova Scotians and do make a difference. The long-term piece is that the debt is never going away, in the minds of Nova Scotians, or at least in some. I'm not sure that everyday, hard-working Nova Scotians are sitting back wondering, okay, what are we doing in here, in this very Chamber, what are we doing to make life better for Nova Scotians? Part of that has got to be having a long-term plan. I just don't know how we would ever do that with any government without the audits and the piece and the help from the Office of the Auditor General who is looking at the policies.

Does the government come to you - we're going to develop a policy for spending on a program and say, okay, Mr. Horgan or the Auditor General or the deputy or whoever, we want to talk about this with you and your department. Can we afford this, number one? Is this reasonable? Is there an opinion on some of that program spending? I mean, this committee is about looking back and we look at a lot of different things, but is there an opinion there on your part as far as policy and program development goes when it comes to cost?

MR. HORGAN: I believe not. It's not something that forms part of the Auditor General Act. There is really no legislative role for us to be advising on future expenditure plans of government and how much should be spent where. We very much see that as a government policy matter - an area that auditors generally do not get involved in. We do annually review government's revenue estimates, but that is because it is a specific requirement of the Auditor General Act.

MR. PORTER: So really it is one and the same. You still look back to say whether or not - I guess maybe we meant all the necessary goals that were outlined and programs that were designed or that we were affording.

When we look at that second highest that you referred to a few minutes ago when you look across the country, do we look at other provinces to say, okay, you know, some of these provinces are doing well. I won't say "quite well" because I think all the provinces are struggling through the last number of years with the economy the way it is, but there are provinces certainly doing a lot better than we are. Why? Is there that much difference in who we are?

MR. HORGAN: I'll ask Ms. McDonald.

MS. ANN MCDONALD: The provinces that we choose to look at we do so for two reasons. One, we look at the other Atlantic Provinces because of proximity, and then we also look at Saskatchewan and Manitoba because they are similar in size, in terms of population. We certainly find that Saskatchewan is a province that has been doing quite well and I think it is because of their natural resources. Newfoundland and Labrador, of course, their fortunes increased in recent years because of natural resources there.

I guess I just also want to explain that the purpose of the chapter is really just to put the facts out there. We don't really make a lot of comments about the reasons behind things. I guess we're just generally aware of what is happening, as many people are, in other provinces. We don't go into any details and look at the make-up of their Public Accounts, liabilities and assets - that type of thing - to see what the nature of it is. We're just reporting ratios and comparing Nova Scotia to those.

MR. PORTER: I guess it's really simple then. I mean, if you have revenue, things are better - there's no question about that. I mean, everybody understands that and there are reasons why - whether it's Alberta has the oil sands and so on. I think generally we understand that piece, but is there a ratio out there of what it should be? I know Auditors General and Public Accounts Committees meet annually at conferences and I wonder, is there any discussion or is there any policy around ratios as far as where we really should be? I think we know where we are without spending versus revenue, but where should we be? Is there something that maybe should change there in what we carry versus what we don't, or spend?

MS. ANN MACDONALD: No, there is really no ratio. I mean, there are some generally accepted ratios in the financial accounting world of, say, assets to liabilities - you want to make sure that your assets will pay your liabilities. In terms of there being an optimum debt level or an optimum debt servicing cost, no, I'm not aware of any such ratio or number.

MR. PORTER: I want to move on a bit here to a couple of other things. Recommendation 2.8 on Page 20 of the full report states re the Controller's Office, "... the General Revenue Fund and consolidated financial statements are supported and in accordance with public sector accounting standards . . . The Department does not believe that this recommendation has merit." Are you satisfied with the commitment to providing more training on how to prepare formal accounting positions? Will this solve the problem or is there more the department could be doing to ensure that the proper accounting procedures are followed?

MS. ANN MACDONALD: Mr. Chairman, this was a unique circumstance this year and had to do with the implementation of a fairly complex, new accounting standard. We just found that some of the departments, in providing us analysis of a justification for keeping amounts deferred - and I don't know how much detail you want me to go into on that particular standard, I'm assuming not a lot - but their rationale wasn't supported to the extent that we needed it to be for the audit.

Our recommendation is just that we feel the Controller's Office and Government Accounting, because they're responsible - ultimately the Department of Finance - for putting out the financial statements that they should be ensuring that there's adequate support for those balances and that if the departments are not able to provide that support then Government Accounting, the Controller's Office, should be doing it as a matter of

course. They don't agree with that recommendation; I think their comments relate to the size of the materiality, if you will, of the items that we had issue with.

At the end of the day we have an excellent working relationship with the Department of Finance when we are involved with the revenue estimates and with the Public Accounts, so we'll work with them and they'll work with us and we'll resolve this. They certainly came through for us this year when we needed additional information, and on a go forward we'll address these issues as they occur.

MR. PORTER: Thank you very much. I want to talk a bit about the contaminated sites and the liability. Can you tell me what the sites are that you foresee right now that are going to be an issue or are of concern?

MR. CHAIRMAN: Excuse me, Mr. Porter, your time has expired. You will have another opportunity.

We will now move to the NDP caucus. Mr. Wilson.

HON. DAVID WILSON: Mr. Chairman, before I get into some of my questioning around this latest report, I'd like to touch on something that Mr. Horgan mentioned in his brief opening statements. We know the former Auditor General has just retired and you mentioned a search is underway for a new auditor. I know when I was first elected in 2003, I believe he came in a couple of years after that and there was an all-Party committee created to look at candidates and who would be our next auditor. Could you enlighten the committee maybe, are you aware of what process is in place right now to replace - not that I want to replace you as Acting Auditor General, but what process is in place to have a permanent auditor in place here in Nova Scotia?

MR. HORGAN: I am not aware of the full process. I do know that government has engaged an executive national search to conduct a countrywide search for candidates and to probably be involved in the interviewing and vetting of various candidates. Beyond that I have not heard what the process will be and I'm not aware of what the timelines are for the whole process.

MR. DAVID WILSON: I'm a bit concerned that your office and the Acting Auditor General are not aware of what process is in place. I know that's not your doing and the government needs to be held accountable, I think. It's interesting enough that this process is not known and we're after the fact that the former auditor has retired. I guess I'll have questions for the government down the road, but I am concerned with that. I would think that your office should be fully aware of what the process is to replace Mr. Lapointe; I'm quite concerned about that.

I'll move on to some questioning around this audit that has been brought forward. As Mr. Porter mentioned, this committee looks back at past decisions of government, to try to see where we're headed and some of the concerns we have. I know, coming off four

years in government but prior to that six years in Opposition, and spent a lot of time here with the Public Accounts Committee, it's an important committee to reflect on past decisions and I think to make sure that the current government, whoever that is at the time, doesn't make those same mistakes, in that the work your office does is extremely important.

We know that in 2009 when we came into government, we were facing some serious financial decisions. We had 10 years of Progressive Conservative Government, we had Rodney MacDonald's Government which placed Nova Scotia in a position that if changes weren't made, we would have a \$1.4 billion structural deficit within four years, which would be detrimental to services that Nova Scotians depend on. It put us, I think, in the worst economic position in about 20 years.

I know Mr. Porter talked about paying on the debt and concerns around the debt. I know Mr. Lapointe has been very public with his concern with the current government, and government overall, trying to address the debt issue of Nova Scotia.

My first question, are you aware of any debt servicing or anything paid on the debt over the last, let's say four years, that went towards reducing that debt? I know it may be an unfair question, as the Acting Auditor General, but we'll try that as our first question.

MR. HORGAN: I'll ask Ms. McDonald.

MS. ANN MCDONALD: In Chapter 4 of the report, there's a chart around Paragraph 4.19 which shows the direction of the debt and it certainly has increased. In 2011 it reduced, and I believe that was because there was a surplus in that year, so that would have a direct impact on that.

In terms of other amounts, I'm not aware of anything, other than that 2011 surplus that the net long-term debt and the net debt have increased.

MR. DAVID WILSON: I'm aware that there could be a surplus and that doesn't necessarily mean it goes on the debt. It has to be a decision of the government to put any surplus on the debt. There was a payment on the debt of almost \$0.5 billion - \$447 million in 2010-2011, which at the time reduced the net debt for only the seventh time since 1951, so it's significant and it's important.

It's a small step. We have a large debt, I think everybody, every Party would recognize that but I think it shows the importance of making wise decisions, so it was a decision at the time, when we had the surplus, to place it on the debt.

My question would be, is it important to continue to make those decisions in the future, as we go forward, if there are surpluses, that the government put that on the debt so that we can reduce the servicing of that debt? We know how large it is, I think we've spent

over \$100 million a year on servicing a debt; maybe I'm wrong. I'm trying to remember numbers but it's a significant portion of our annual budget.

Should government make those decisions and should there be a plan to indicate to Nova Scotians that that's what will happen if surpluses are seen in the province in the future?

MS. ANN MCDONALD: Certainly from a policy perspective, as Mr. Horgan indicated, it's not the role of the Auditor General's Office to comment on how government spends the money. In any situation where there's an opportunity to reduce debt and to reduce related debt servicing costs, of course that has a positive impact on, as you mentioned, debt servicing costs. So from that perspective, that's certainly a good idea.

I just want to also point out in terms of a plan - while there is no long-term plan, of course every year when the budget is presented there is a debt aspect of it included in the budget documents that deal with the borrowing plan for the next several years and indicates the borrowing that's required to finance the operations in any given year and then the potential reduction in debt as a result of plan surpluses, so it is included annually in the budget documents.

MR. DAVID WILSON: Thank you. I know particularly the former Auditor General - I think they've created some cartoons around him and the current Premier on ensuring that he's aware of the issue of the debt. It has been a challenge and it's going to be a challenge for the current government; it has been a challenge over the last four years and I know it was a challenge before that.

I think what we need to ensure is that the right decisions are made as we move forward, when it comes to trying to ensure that we address the debt as time permits. We'll have to look forward to seeing what the current government has in store over the next number of years when the budget is introduced in a couple of months, I would assume - it's February, so a month or so.

I'd like to go to Page 9 of your report. It's really the few opening sentences. I'll read them and then ask you a bit on how important it is to continue that trend. In the Summary on Page 9, it states, "The review opinion on the 2013-14 revenue estimates was unqualified for the first time in 13 years. This is a significant improvement in government financial reporting. Government implemented a recommendation made by this Office and an independent consultant that the revenue estimates include revenue from all entities included in the consolidated financial statements as required by generally accepted accounting principles."

I'd like to ask you to maybe elaborate a little bit on why unqualified opinions are such an unusual occurrence over the last 13 years. Even throughout our mandate it was in the last year that we were able to get unqualified opinions. Why would you feel that it took

13 years, or the importance of having an unqualified opinion about the budget? It doesn't matter who answers.

MR. CHAIRMAN: Ms. McDonald.

MS. ANN MCDONALD: Thank you, Mr. Chairman. Any time there's a qualified opinion it's not a good thing, it's always great to have an unqualified opinion. Certainly this province is unique in Canada in that we perform this review on an annual basis, as required by our mandate in the Auditor General Act.

The issue arose because accounting principles change over time and when we started the review back in the late 1990s there wasn't a requirement that financial statements be consolidated, so at that time they just really concentrated on the financial activity of departments. Then there was a change in accounting principles, which said you need to bring in all of your other operations so that users have a full idea of the extent of government operations throughout entities, and also the extent of government revenues, government expenses, and government debt.

When that happened, as a result, the revenue estimates needed to be prepared on a consolidated basis and they were not. There were rationales as to why they weren't, including the difficulty in estimating those amounts because they deal with outside entities, mainly school boards and hospital authorities that get external funding from - for example, school boards get it from municipalities, and district health authorities get it from the federal government for patient costs. We were told over the years that it was difficult to estimate those amounts.

Over the last couple of years we've really highlighted this more than it perhaps had been before, to say that this needs to be done. Fortunately, last year we discussed a process with the Department of Finance staff on how to go about estimating these revenues. It turned out, I think, to be not as difficult as was anticipated. At the end of the day the revenue estimates opinion is based on a reasonability concept and the process that was undertaken and the results certainly yielded what we would consider more than reasonable results for those entities that needed to be consolidated in the revenue estimates.

MR. DAVID WILSON: So it is significant and I think something is extremely important when you present the budget to Nova Scotians. My question would be, should we continue to look to have an unqualified opinion on the budgets in years ahead?

MS. ANN MCDONALD: For the revenue estimates, which is the only aspect of the budget that we're involved in, I certainly anticipate that - with respect to that particular matter - that will go forward and will become part of the process and there shouldn't be any issue. I can't say that there will be always unqualified opinions because we never know what will happen, but it looks like that issue has been resolved and we're really pleased with that result.

MR. DAVID WILSON: I guess we'll know in a couple of months if that trend continues. I'm sure as the Public Accounts Committee meet, I'll be able to ask that question in the future.

It does bring some questions up when we see the Premier and the Minister of Finance talking over the last little while, when they gave the last financial update to Nova Scotia. For example, on December 20, 2013, the current Premier and his Minister of Finance seem to be at odds with the same numbers that your office gave an unqualified opinion on. For example, in the Truro Daily News the Premier was quoted saying the updated finances shouldn't be a surprise because the NDP budget was too optimistic. "Every Nova Scotian questioned the revenue numbers that were put forward by the previous government, we all said they were too rosy. The numbers now that have come in and that have been verified confirm that."

On the same day, the Minister of Finance, Minister Whalen, was quoted as saying she doesn't believe the New Democratic Party artificially inflated projections. So here we have messages from the government really saying two different things. Really, I think in my opinion and our caucus' opinion, that the messaging from your office is the one that Nova Scotians should listen to.

Really I think the question is, who should we believe here? We have the Premier saying one thing; we have the Minister of Finance saying another thing; we have your office saying, here we have an unqualified opinion of the finances that were brought forward. Would you stand by that the numbers brought forward in the last budget were consistent and followed all the rules and really were a true reflection of what was anticipated in the coming year?

MS. MCDONALD: I guess first of all, again, to highlight that we're only involved with the revenue side of the budget and, again, to highlight that the revenue estimates opinion is dealing with the reasonability of the amounts and that they reflect the underlying assumptions used. During the course of the review last year, as in every year, we look at the process that is undertaken by the Department of Finance and Treasury Board to present the assumptions. The assumptions are very much based on Statistics Canada information. They're adjusted for anticipated growth rates, which we also look at to see if the growth rate is reasonable and we also are aware of a challenge process that the assumptions go through. The assumptions then of course feed into the various tax models.

At the end of the day, I can't comment on who the average Nova Scotian should believe, but I am quite confident that our opinion last year was as a result of a process and that we were satisfied of the reasonableness of the revenue estimates based on those processes and the underlying assumptions.

MR. DAVID WILSON: Thank you for that answer. What I wanted to show is the fact that here in the first paragraph of your review you mentioned the fact that it's the first time in 13 years that we had an unqualified opinion of the finances of the province, and

that's significant. I think Nova Scotians will see through some of the comments made off the cuff, I think, by the Premier, for example. I would support what you just said and I supported what the current Finance Minister stated in her financial update to Nova Scotians. I hope that the Premier in the future talks to the Finance Minister before he makes some comments.

I believe I'm close to wrapping up my time?

MR. CHAIRMAN: Yes, Mr. Wilson, you have about one minute.

MR. DAVID WILSON: I'll leave it at that and we'll come through in the second round.

MR. CHAIRMAN: We'll now move on to the Liberal caucus. Mr. Rankin.

MR. IAIN RANKIN: Thank you for allowing me to speak today; it's certainly a privilege to be part of this committee. Being a new MLA this topic of debt is very important to me, as it is important to the Liberal caucus. Actually, I think all the MLAs to the left of me are also new MLAs and I think it's very important that we look at the future. I'm a little surprised at the politics being spoken already about past elements of why debt has gone up so that the Rodney MacDonald Government was even spoken about. Really, why this debt is here certainly isn't anything that this new government has done. It's to do with a lot of things, the historical profligate spending that has happened. So it is tough being a new MLA and looking at the extreme amount of debt that we do have to deal with, and it really is a balance of considerations. A lot of it has to do with expenditures, but also revenues like any business.

I think that our approach to this is a good one; we have to look at both sides. We were the only Party that didn't really promise any revenue decline like some of the other Parties, which promised a cut to the HST and some of that's worth - I think every point's worth \$190 million, give or take, per annum, so it's important. I think there's a balance of considerations. I think it's a safe approach to look at each department and try to get savings, so I think 1 per cent from each department, except for Health and Wellness and Education, is a good plan.

What was brought up about the money put down on the debt in 2011 from the surplus, could I get a fact check on the net effect on the debt from the last four years of the NDP mandate? So in other words there was money put down on the debt, but certainly there was money added to the debt in terms of capital expenditures. Do you have that number? Just to clarify, what net impact did the last government have on the provincial debt?

MR. CHAIRMAN: Ms. McDonald.

MS. ANN MCDONALD: I don't have that information available, I only have the last two years of financial statements in front of me, so I don't know exactly what the amount is that the debt increased in the last four years. But the information is readily available.

MR. RANKIN: Okay, but could you just say, did it increase in the last government's mandate? In the last four years has the net debt gone up?

MS. ANN MCDONALD: Yes, the net debt has increased in the last four years.

MR. RANKIN: Yes, okay, I hear some comments that it's because of the prior Premier - but we can talk about politics all day when in 1978 the debt was around \$2 billion, I think even less than that and then in 1993, when the next Liberal Government took place it was over \$10 billion. I think we could talk about that all day.

The question I have on the Auditor General's Report, I just want clarification - it's interesting because before the NDP challenged the pension valuation adjustment and now today the NDP member says that they support everything that our financial outlook reported with our first report from the minister. So the \$280.3 million pension valuation adjustment - that was a recommendation by your office so I just wanted you to briefly explain the benefits of providing that.

MS. ANN MCDONALD: Mr. Lapointe provided an opinion in late November to the Department of Finance and Treasury Board related to the accounting for the Public Service Superannuation Plan. In that opinion he indicated that his view was that the entire amount of the unamortized losses - again, I'm getting into some technical terms here - that were sitting on the books of the province at March 31, 2013, needed to be written off.

My understanding is - and again we don't look at the expense side - in preparation of the 2013-14 budget back in February-March 2013, there already was an awareness that there would be changing in accounting; it wasn't known the extent of the changes. So the budget already reflected in the pension valuation adjustment an amount for a possible accounting treatment for that change in the Public Service Superannuation Plan.

At the end of the day, the \$200 million change in the pension valuation adjustment is a result of a couple of things; it reflects the additional amount that came about as a result of the opinion. In other words, you budgeted to write off this amount, but you actually need to write off the entire amount so there's that difference. Then, in addition to that, my understanding is that the Department of Finance and Treasury Board, as they do every Fall, get updated information from the actuaries, so the pension valuation in any forecast that is put out towards the end of the year would reflect the updated information from the actuaries. So that adjustment includes not only the results of the Public Service Superannuation Plan but also other plans for which actuaries had provided updated information, so they included everything in the pension valuation adjustment.

MR. RANKIN: Okay, thank you, I just wanted clarification.

MR. CHAIRMAN: Mr. Rankin, have you finished? Would you like to pass it along to one of your colleagues?

MR. RANKIN: Yes, I'm finished. Thanks.

MR. CHAIRMAN: Mr. Gough.

MR. STEPHEN GOUGH: I'm here sitting in for Joachim Stroink. My question is regarding the inconsistency or inability with tracking pension files, has there been any evidence of a pensioner actually looking for files that the public servants are not able to retrieve?

MS. ANN MCDONALD: So you're referring to Chapter 3 in our audit of the Public Service Superannuation Plan, in which our most significant finding was that we could not verify, as we hoped to do, that pension payments to the sample of pensioners we selected were accurate. Certainly the majority of the files we pulled related to individuals who were employed in government departments. Then the next largest group were those who were employed either with the current CDHA or with predecessor hospitals, like the VG, the Nova Scotia Hospital, et cetera.

At the end of the day, we just could not find the information we were looking for, to verify that pensions paid were accurate. The information that is required is fairly minimal, in terms of a person's employment history. You need to know when they started, you need to know their age, you need to know when they stopped working there and you also need their last five years because the pension benefit formula is based, generally speaking, on your highest five years of salary and that usually is your last five years.

The recommendations we put forward to both the Public Service Commission and to Capital Health were really well received. They recognized that it was an issue and that they need some adjustments to their file retention and management policies, so that information is available should a pensioner want to request the information to verify amounts.

MR. CHAIRMAN: Mr. Gough, have you completed your time?

MR. GOUGH: Yes.

MR. CHAIRMAN: Mr. Maguire.

MR. BRENDAN MAGUIRE: Thank you for coming here today. As Mr. Rankin said, it is an honour to sit here. My question for you is, the report highlighted that the Auditor General Act excludes trust finds that are subject to joint trusteeship. This

obviously means that it can't be audited by the Auditor General, so do you believe this presents a risk to the plan?

MS. ANN MCDONALD: At the end of the day the most important thing - I guess in our view - is that there are processes for such audits to take place. The two plans that are under joint trusteeship would be the Teachers' Pension Plan and the Public Service Superannuation Plan. Both of those have governance structures in place and in the Acts themselves they require annual audited financial statements and there are also, within the operations of each of those - I speak more to the Public Service Superannuation Plan - there are requirements for quarterly and annual reporting to members.

The recommendation that we made in here was that - at least for the Public Service Plan, which we now are no longer able to audit with the change in governance structure as of April 1, 2013 - that the new board should ensure that the types of audits that we just conducted can still be conducted on whatever they choose to select as topic areas, but performance audits generally as opposed to financial audits because those are done every year, so that information on things like investment management, because that is now a key factor and totally under control of the new board can be looked at with independent eyes and reported back to the board, so outside of management review, a process to undertake independent audits and report back to the board.

MR. MAGUIRE: So in your opinion and your office's opinion, do you believe that we need to make an amendment to the Auditor General Act to support this?

MR. HORGAN: I don't believe so. The Auditor General Act was overhauled only a few years ago and at that time we were very comfortable with the mandate that it provided to us, including what we can and cannot audit. We're in agreement with government's preference to have shared trust pension plans be excluded from not only government control, but also from the mandate of the Auditor General. So, no - we're comfortable with that.

MR. MAGUIRE: Thank you for your answer and I'm finished.

MR. CHAIRMAN: Mr. Horne, you have some questions.

MR. BILL HORNE: I would like to ask a question about what seems to be the disconnect and what Stephen was talking about - the recommendations on Section 3.32. Is that very widespread in the government service about not keeping records or being able to find the records on personal government employees?

MS. ANN MCDONALD: We indicated in the report that we didn't do an audit of government record retention policies so our comments really are just isolated to this audit, so I can't really - I really have no information on how widespread. Certainly in this instance, we did have considerable difficulty and we were unable to meet our audit objective. We were only able to verify four individuals in a total of something like 51

sample items. That's a fairly significant error rate - 47 out of 51 we could not find - but I'm not aware, and we didn't audit the record retention policies of government in general.

MR. HORNE: The thought from the employees' perspective is that could be a loss of information and how it might affect their pension plans and Capital Health and the superannuation group. I'm just wondering - you can't really tell us how widespread that was or is?

MS. ANN MCDONALD: No, we conduct an audit, we select a sample - the sample is to be representative of a population of retirees. As mentioned, we had a fairly significant error rate there so if you extend that out it could potentially be widespread, but we really don't know. Once we start running into difficulties and realize we can't conclude our objective, we don't continue testing because it really doesn't seem to be of much value.

As I mentioned, though, our meetings with both Capital Health and the Public Service Commission, they were very receptive and realized that this was an issue and that they had to make changes. We were very pleased with how they responded to our recommendations and so on. My understanding is that certainly Capital Health has already started to implement some changes, so hopefully on a go-forward basis this situation will resolve for people as they retire. We certainly can't do anything about missing records for people who are already retired, but on a go-forward, hopefully the situation will improve.

MR. HORNE: So you feel you'll follow this up in future years of your audits?

MS. ANN MCDONALD: Yes, as is our practice, in a couple of years we'll follow up on this. This was conducted in 2013, reported in early 2014, so we'll follow up in likely late 2015 and report on the status of the recommendations.

MR. HORNE: Do you have any idea in other governments, other provinces, what that type of error might be and the cost to the employee or the employer?

MS. ANN MCDONALD: No, I don't know what the policies are of other governments and I'm not aware of other audit offices conducting similar types of audits. They could very well have, I'm just not sure if they did, and consequently I don't have any comment on that.

MR. HORNE: So you feel that the Public Service Commission is now providing and keeping good records, more through electronics or are they hard copies?

MS. ANN MCDONALD: We didn't follow up on where they are. We made the recommendations, we spoke with the Public Service Commission as we went to report on this in late January, and that's part of our normal process. My comments are just on their reaction to the recommendations. We haven't done any follow-up activity at this point so I'm not sure what steps they have taken there, or at Capital Health for that matter, to know where they are in implementing the recommendations.

MR. CHAIRMAN: Ms. Lohnes-Croft.

MS. SUZANNE LOHNES-CROFT: Mr. Chairman, the report takes a look at Expenses by Department or Type as a Percentage of Total Expenses. The report highlights major cost drivers such as Education, Community Services, Assistance to Universities, Health, and Debt Servicing Costs. When looking at Other Expenses the chart shows that has increased over the last five years. What departments have increased expenditures under the Other Expenses category over the last five years?

MS. ANN MCDONALD: I don't have that information readily available. Certainly, we focus in this chapter on the larger departments because they just represent such a substantial proportion of the total expenses. That information is readily available from the Public Accounts, so I can see that in the Public Accounts, for example, Labour and Advanced Education was actually under-spent last year so I can't give you the details of the individual departments that make up that total "other" right now, I don't have that information available, but it can be provided.

MS. LOHNES-CROFT: So there's no way of knowing if there is one department that is consistently increasing their expenses?

MS. ANN MCDONALD: No, other than the departments we choose to highlight in this chapter for information purposes. I don't have any information at the ready for individual departments aside from the four listed there and, of course, debt servicing costs.

MS. LOHNES-CROFT: Thank you.

MR. CHAIRMAN: Mr. Maguire.

MR. MAGUIRE: Regarding the comparative analysis in Chapter 4, do you believe this analysis is fair, seeing as we're comparing Nova Scotia to resource-rich provinces?

MS. ANN MCDONALD: I guess there's a rationale provided as to why we compare to those provinces: again, proximity in region and proximity in size. In this chapter we're not trying to make any sort of qualitative comments about what's presented; it really is for information purposes and gives an idea of how it compares. But I think with background information that people have, generally speaking, about how things are in Saskatchewan or Manitoba or Newfoundland and Labrador for that matter or New Brunswick - they can draw a conclusion as to why it might be that Nova Scotia is better or worse off than any of those other jurisdictions.

MR. MAGUIRE: But taken at face value, there are people who may not know the different circumstances in Newfoundland and Labrador or Saskatchewan. If you just look at the document and you look at this analysis, it seems that we are lagging behind. In fairness, as I just stated, we are comparing ourselves to some of the resource-rich provinces in Canada.

MS. ANN MCDONALD: Yes, that's right. I guess I would suggest that if people want to go beyond what's presented here at face value, they would explore as to why Nova Scotia is better or worse off than other provinces and, for example, in Saskatchewan the answer will become readily apparent in terms of their resources and their lack of debt.

MR. CHAIRMAN: The time has expired.

We will now move to the PC caucus for 16 minutes. Mr. Porter.

MR. PORTER: Thank you very much, Mr. Chairman. I just want to go back, if I can. On Page 23 there are new accounting standards outlined. What sites will fall under the contaminated sites liability? That's where I left off.

MS. ANN MCDONALD: I believe your question is, have they identified the sites?

MR. PORTER: Correct.

MS. ANN MCDONALD: Our understanding right now is that Government Accounting is working with the departments to identify the sites. We don't know them so if you're asking do we know all the sites, no, we don't. But Government Accounting is working with the departments to identify the sites. We'll get more information on this as we conduct the audit for the year ending March 31, 2014, in anticipation of this new standard being put in place for April 1, 2014.

MR. PORTER: Thank you for that. The department said this wouldn't have a significant impact on the financial reporting, the result of adopting the standard itself. Is that accurate? What will this actually mean to the balance sheet of the province? Or is it too early to tell, given that you haven't been there? I'm appreciating your last answer.

MS. ANN MCDONALD: At this point in time it is early for us to comment. I think their comments are based on - the standard is quite technical in terms of there has to be an environmental standard that has not been met. There has to be a plan or an obligation on the government to, in fact, be remediating the site.

When those factors are considered, I guess government's position right now, or Government Accounting's position is that they don't consider that there will be a big change because right now what the province does is they recognize a liability if they've identified a site that they intend to either sell or use themselves in the future and they allow for that, the cost of remediation, so there is already a policy in place for accounting for those liabilities.

I guess what they're meaning by their comment is that they don't anticipate that there will be that many more sites that will be impacted by the new standard but we don't know yet for sure, as their auditors, exactly what they've identified and how the new standard relates to those identified sites.

MR. PORTER: So I'm assuming you will be looking back at those when the time comes for more accurate accounting.

I want to go back to something that has already been brought up a little bit, and that was Chapter 3 with regard to these pensions - the Province of Nova Scotia and Capital Health do not keep adequate records to provide verification that those pension payments to retirees are accurate. I'm just going to look at my notes here. In Paragraph 3.24, on Page 34, it states "The lack of historical salary information is a serious deficiency." There was a lack of files for 47 per cent of the sample group and there's no requirement to verify that these files are accurate. We've talked a little bit about that.

In terms of the financial risk, though, what percentage of the plan's retirees would fall into the group that has unverifiable pension payments?

MS. ANN MCDONALD: Are you asking what percentage of the plan is retirees right now? I think approximately half of the members are retirees. I think there are approximately 26,000 members. I might be off on my data here.

If you look at the first of Chapter 3, Page 30, it gives some information, I believe - or maybe not - on members. I don't think it does, I'm sorry. It gives information on the dollars associated with it, but my recollection is that approximately half of the members of the plan are retirees, so around 12,000.

MR. PORTER: I know this is probably hard for you to answer, as an accountant and somebody who is in your position, but the records are not there to verify. Is there an assumption then on your behalf because of the job that you're asked to do that there are inaccuracies there that we have to go and find? Are you worried that the pension payments are not correct?

MS. ANN MCDONALD: The information wasn't there and because of that we can't make a comment on whether or not they are inaccurate. Part of our testing was to see what information is in the Pension Services Corporation's Penfax system, which is what's used to calculate the payments or, rather, to provide the information to calculate the payments. We know that the information that's used to calculate them is resulting in an accurate payment; we just don't know that the information itself is accurate because we couldn't find the records.

So I guess right now it's not possible for us to make a statement on whether or not there are accuracies or inaccuracies out there. Certainly pensioners, when receiving their monthly pensions, would hopefully raise flags, but I can't make a comment. I guess I just don't know. We don't know about how accurate payments are.

MR. PORTER: Would this suggest that pensioners should go back now and, if they haven't already - I guess I would just think about knowing a lot of folks who have recently gone off - there would be courses by the employer you'd go through as you get ready for

retirement and so on. Would that not all be part of that? Would that not have been covered? I would think that it would have been, but perhaps - and I'm sure - there's probably not 100 per cent uptake of people retiring that would go through that workshop, if you will, for lack of a better term. I guess maybe I only think about myself - I'd want to know that things were accurate. You know, you pay in all your life to your pension, et cetera - is there some risk there? You've sort of outlined that there is a risk that maybe they're not accurate. Should we be talking to these groups to say, perhaps you should go back and review your plans to see if things have been accurate? Are you that concerned?

MS. ANN MCDONALD: I don't know that there is - I guess the results are that there's any huge inaccuracy. We really don't know. Every year for current members - and certainly those members who are retired, prior to their retiring - they are receiving a statement from what was previously the Pension Agency, now Pension Services Corporation, that outlines their benefits to date and their vested pension, and provides information on their marital status and their beneficiary's start date and earliest retirement date. I'm hopeful that current members and those retired members, prior to retiring that they would be reviewing their statements to look for how accurate those are. I certainly think there's a shared responsibility, if you will.

MR. PORTER: I agree. Is there an assumption in there maybe that the records don't verify that there would be regular reviews of these as things change - you just outlined the statements and so on like that. Would reviews occur at that time from those managing the pensions to make sure that things are accurate, or would we not assume that at all?

MS. ANN MCDONALD: The Pension Agency is not responsible for the accuracy of the information that goes to it. For example, a government department has hired somebody and sends over information on what that individual's salary is, so the Pension Services Corporation is really just inputting that information into their system. They're relying on the department to have provided the accurate information to them.

To your point, management at Pension Services Corporation certainly has processes to reconcile information on a monthly basis. They certainly produce these annual statements for members, but my understanding is that they wouldn't be reviewing pension payments for accuracy.

MR. PORTER: They're only going on what has been fed to them.

MS. ANN MCDONALD: That's right.

MR. PORTER: So it would come back to the government agency, the Department of Health and Wellness, or whoever manages that piece.

I don't have a lot of time and it goes by quick here; I going to bounce around a bit. Of the 23 per cent of the recommendations left from 2010 financial report in Chapter 6, are

there substantial changes that need to be made? Maybe outline some of the risks, if you can, that are still waiting for completion.

MS. ANN MCDONALD: Sure, thank you. The main recommendations that are left over from 2010 have to do with the internal controls. Implementing recommendations on internal controls on a government-wide basis is, I think, quite difficult. I know that in the last few years government has been involved, initiated a project on trying to do just that and have taken some steps to look at internal controls from both a government-wide perspective, to try to drill down in particular areas, such as revenues. That's why it is designated as a work in progress, they have made some action.

I can't speak to when that project will be finalized or when these recommendations will be fully implemented but we do look at it every year to see that progress has been made and evaluated, based on that.

MR. PORTER: What would your biggest concern be of all the recommendations put forward that haven't been implemented yet from the report, something that stands out for you all, as the Department of the Auditor General?

MS. ANN MCDONALD: I guess with respect to financial reporting, the main recommendation that we wanted to see implemented was that the revenue estimates were prepared on a consolidated basis and that has been done.

We do recognize, as I said, that internal controls take a while to do. Really internal controls - in terms of the last recommendations to be implemented, they would represent the majority of them, so we would like to see those implemented but do appreciate that it will take some time.

MR. PORTER: And you certainly speak to that, taking time. How much time? I mean the Auditor General in the past has been pretty specific on some things they want to see done and has made suggestions and referrals that should be addressed right away. What is a fair amount of time for such things? I mean internal controls people would say well what's that? Maybe you want to touch on that a wee bit, so people do understand about the internal controls you are referring to. How much time is enough before some action being taken - significant action and making a difference that you can quantify through your audits?

MS. ANN MCDONALD: Well we certainly look to see that our recommendations are implemented after two years. We'd like to see that happen and it hasn't happened.

In terms of kind of defining what internal controls are, I mean you can be dealing with something sort of as small, if you will, as making sure that the right people are redoing bank reconciliations, to major things such as making sure that there's an ethical environment in government, that people who are in the Public Service are aware of our

code of conduct and those types of things. There's a huge range and certainly falling in there is also information technology and dealing with things like access rights.

There's a wide range and every process that generates a number can go through many steps. At the end of the day, you want to make sure that things that are reported, for not just financial reporting purposes but also for decision-making purposes, that they are as complete and accurate and up-to-date as they can be. Those processes, while they're not necessarily complex, I think it takes time to identify what needs to be done and to put it in place.

I guess we are aware that it does take a while to do that. Again, we'd like to see it done as quickly as possible but we do, I guess, appreciate that government is working on it and that it will take some time.

MR. PORTER: A lot of that across departments, I would think, would be almost a blanket policy. I can see delving down a little deeper in certain areas where maybe it's not quite so simple, but from an everyday Nova Scotian's perspective, this shouldn't be that hard. If you come with a recommendation, it should be fairly easy to begin work on it and complete the task in a timely fashion, whether it's IT controls like we've discussed many times in this Chamber. How hard can that be? I mean technology is changing by the day; those of us who use it know that. It seems rather simple but some of this stuff seems to drag on, I guess is what I was getting at.

I'm getting close on my time so I do want to jump here quickly to a final question or two and that is around the budget. From the AG Office's perspective, should the budget be balanced?

MR. HORGAN: That is not something that our office would have an opinion on, especially with respect to any single fiscal year. There are so many decisions involved in that, expenditures that are required to provide services and to deal with even maybe unusual circumstances that come along. Only government can choose at what level to make expenditures. It really comes down to executive government to decide in any one year whether they're going to spend more than comes in as revenues. It's really not the role of this office to provide an opinion with respect to what those figures or the state of balance should be in any one particular year.

MR. PORTER: I think my time is maybe up, is it?

MR. CHAIRMAN: Mr. Porter, you do have about 60 seconds . . .

MR. PORTER: It's, I guess, probably if not the most significant department working for the people of this province - the AG's Office is well respected and has been and has gone through many hours of work preparing each year the statements. I just find it odd - I understand what you said, Mr. Horgan, clearly, that governments will come in, they'll change, they'll make up their minds what they're going to put in for programs and

things like that. I was just really looking for someone from an accounting perspective - and knowing a few accountants how anal they are in regard to this column and this column and balanced budgets. I was looking for yes, we believe, although it may not always be possible that we should be trying to maybe balance the books if you can and personally, as far as I'm concerned, if there's a debt . . .

MR. CHAIRMAN: Sorry, Mr. Porter. Your time has expired. Mr. Corbett.

HON. FRANK CORBETT: Mr. Chairman, I only have a few questions and won't be long. Just going back to the pension issue, Ms. McDonald, I wonder if you could tell us about the files you pulled. Did you pull them with any kind of ideas in mind like ones that may have been pensioned out for 20 years and at a group with maybe only a couple of years out? How did you come about with the group that you chose to audit?

MS. ANN MCDONALD: Basically, we selected a pension pay period during 2012. We got information on who was there, the individual pensioners, we really just selected randomly, so just kind of completely randomly and ended up with, I guess, at the end of the day a representative cross-section when you consider that in any situation most of the members are going to be former departmental employees versus our health sector. It ended up being, I think, a representative population, but it was selected completely at random.

We ended with a variety of retirement dates, so we took the information to the Public Service Commission and to Capital Health and said, we need information on these retirees, can you please provide their files. In some cases they were able to find the files, but the information was not in the files; in other cases the files were just not available. It really didn't seem to have, there was no sort of relationship on the number of years retired and the absence of a file. We didn't see a correlation there.

MR. CORBETT: The information that was missing then, was there a predominant issue? By way of example, would we say the hard piece of data that was missing was the years that person had paid into pension at the rates? We know about the five-year exit, but what I'm talking about - I really don't understand what was missing? Was there a whole lot of stuff missing or just that hard piece of data that says employee A was making \$100 a week, their share of the pension plan was \$5 and the employer's was \$5 - that was missing for a period of so many years or whatever. What hard data was missing for you?

MS. ANN MCDONALD: Specifically, what we were unable to verify was the salary level in those last five years. There was a lot of information in the files that was available. There was information on, as I say, some of the key components, so that would be the start date, the end date, the date of birth, but the information that was key to calculating the actual pension benefit would be the five years of salary. That wasn't present in the majority of files that they were able to locate for us and certainly, obviously, not available in those files that they couldn't locate for us.

MR. CORBETT: I know it's not your job to give an opinion on this but I want to ask it. It seems strange that anybody who has been around pensions at all realizes - especially with defined benefit programs, as the vast majority of government plans are - that very real component would be missing. This was going through my head when you were answering some of the questions: what's missing? I can see somebody - well, we could argue about the start date; we may have thought they were hired on the 10th and they were actually hired on the 12th or something like that, or 1970 as opposed to 1972. But you're telling me that the crucial data that a lot of people would use, especially as it relates to a DB plan - which, again, most are - and I don't want to put words in your mouth, but what alarmed you the most was that piece of data that was missing, the ability for them, the kind of "aha moment" that says, this is where you should be on the pension plan?

I appreciate that it swings both ways, that some pensioners may get less and some may get more, so there are certain people who may have just kind of walked away and said, I'm not going to bring any light to this, but on exiting, most employers - as Mr. Porter said, not so much a workshop but certainly you would be handed a sheet of paper and shown that these are your years of employment and this is what you can expect for your pension plan.

So I want to make sure what you're talking about here is that missing piece - not only with superannuates, but those of other government jurisdictions like DHAs and so forth. Is the teachers' pension in this also?

MS. ANN MCDONALD: We don't have access to the teachers' plan.

MR. CORBETT: You don't have access to the teachers' plan, so it's DHAs and maybe some other government entities. So the large concern here, if you want - and, again, I don't want to put words in your mouth, but the fact is if you prioritize them one to 10, one being the highest, it would be that lack of information for the five-year averaging.

MS. ANN MCDONALD: Certainly that was the deficiency we found, was that the salary information wasn't available. I guess along with that, both the Public Service Commission and Capital Health have fairly recent record retention policies. I know they have been sort of revised over the years. What we found though was that because those files were absent, it was clear that regardless of how robust those retention policies were, they weren't necessarily being followed.

The other thing is that there are different processes for salary determination, as I understand it, for both union and non-union employees, and the information that might be included in a file under those circumstances would be different, but just generally speaking, regardless of whether union or non-union, the information just wasn't there for us to verify.

In some files that we found, I recall or I believe that there was an electronic printout of the payroll system, if you will, that would indicate what had been paid, but the underlying support for that number wasn't there. So unless we, or somebody in

government, knew that number was, in fact, the accurate number - again, all you're going by is a computer printout as being your source information for the pension benefit and we suggest that regardless of whether you're doing your pension electronically, as most places are, of course, that the underlying records to support those five years of salary need to be in there. They don't necessarily have to be kept in paper format but they need to be somewhere so that you can verify the pension benefit.

MR. CORBETT: Would you say, again, if you don't feel that you could offer an opinion on it - I'm not looking for something outside your jurisdiction - is it fair to say that since the Public Service Commission in the last number of years has taken that responsibility, especially as it relates to HR management in-house, makes it a little bit neater to handle, as opposed to having various departments accountable for those functions, that you would bring it under one roof, if you will, that may have been the cause of some of the ones internally as it relates to the superannuates?

You may have had a Human Resources Division and so on in Natural Resources and another one over in Finance, and when you bring them all, will that help you or help us control those or should that help us control that aspect of looking after where we are, especially with the five-year exiting term?

MS. ANN MCDONALD: Well, certainly having responsibility for retirees' files all within the Public Service Commission should reduce the risk of missing information. As we were going through the audit, one of the reasons, I guess, we were told that potentially information wasn't available was because it was at a departmental level and didn't get sent to the Public Service Commission on retirement, so there was a breakdown. Certainly the Public Service Commission's policy is that all retirees come to them and they are responsible under the file retention schedule for maintaining those files as they need to be maintained, in accordance with their policy.

MR. CORBETT: My last question regarding pensions, and I know we talked about the Teachers' Pension Plan, do you feel that - and, again, you can take the fifth on it or whatever - do you feel it's proper that the Auditor General's Department does not have the ability to audit the Teachers' Pension Plan?

MS. ANN MCDONALD: I guess from our perspective I think the main thing is that it is subject to audit. As auditors I guess we're all subject to the same professional standards. The recommendation that we made to the Public Service Superannuation Plan was directed towards their new governance structure and their new board. I really can't comment on whether performance audits have been conducted on the teachers' plan, whether that board has looked to have external performance audits performed.

I guess the main thing is that there be the ability, or the will on the part of the governing body, to undertake and have those audits done independently and reported back to the board. Again, aside from what management might do, because management has

some good processes, it's to look at issues like we did, such as investment selection and investment management.

MR. CORBETT: I appreciate your candour on it but as a professional courtesy to other auditors - well, I guess I ask that question from the perspective of you are the auditors responsible for the public purse. That's why I asked the question of you, if that was the case. No disrespect meant but we don't need the Auditor General's Office, we'll just bring in Deloitte or somebody to audit us as a get-go.

So the fact is, you're comfortable then - or anybody can certainly answer this - that the Teachers' Pension Plan is being audited properly and there's no need for the Auditor General to be involved, that an external look is fine?

MS. ANN MCDONALD: Well, as I say, I know there's an annual financial statement audit of the teachers' plan. I'm not aware if there have been additional non-financial audits conducted at this point in time.

The Auditor General's Office, of course, we conduct the Public Accounts audit but there are many entities - in fact, the vast majority of entities within the government reporting entity, like agencies, boards and commissions are not audited by our office so it's fairly usual, and in many jurisdictions that is the case that the audit office conducts certain audits but not all audits.

The fact that the Teachers' Pension Plan is not subject to audit by this office - I guess our main concern is that it's audited by somebody and I guess it would be hopeful that the recommendation that we made on the Public Service Superannuation Plan was perhaps embraced, as well, by the governing board of the teachers' plan to have - if they haven't already - external audits covered on such things as investment performance and investment management.

MR. CHAIRMAN: For the final round, to the Liberal caucus. Mr. Rankin.

MR. RANKIN: I have no further questions on this.

MR. CHAIRMAN: Are there any further questions from any of the other members? Mr. Maguire.

MR. MAGUIRE: I'll just make it quick. In your view, how can the relationship between your office and the Department of Finance and the Treasury Board improve - if you had a magic wand?

MS. ANN MCDONALD: I'm hesitating because I think we actually have an excellent working relationship. We deal with them all the time. We have differences of opinions on various matters, but at the end of the day, we either work through them or we agree to disagree. There will always be that in a professional environment, but we certainly

respect their work. We believe they respect our work and we have a very cordial and good working relationship.

We've dealt mostly with the Department of Finance, of course, as they were before. The Treasury Board we've dealt with on some various matters and there has been no issue there from a financial audit perspective. So on a go-forward, I guess I'm hoping for and anticipate that good relationship to continue.

MR. CHAIRMAN: Mr. Gough.

MR. GOUGH: I just have one final question. I have a question on the 2013 budget revenue projections. Acknowledging that the projections have to be based on reasonable assumptions, I'm wondering if your office has any information on how these projections fared in the current fiscal year.

MS. ANN MCDONALD: Just to clarify, this is the 2013-14 budget that you're speaking about and how it transpired as this year has progressed?

MR. GOUGH: Yes. Where do we sit?

MS. ANN MCDONALD: We don't continually audit this as it happens. I guess the only information that we have on those assumptions that were used and how they have come to be during the current year is the same information that you would have, which was included in the forecast update of December 19th. I think in that, it indicated why there were adjustments to certain tax revenues and there were some prior year adjustments, and that was based on some - I think in the case of the tax revenue, personal income taxes had to do with the tax yield was not as great as was anticipated, so that's for every dollar how much tax will be generated, that's what the tax yield is. Then on the HST side, I think there was a downward estimate of the growth rate in household income available for consumption, which would generate HST revenue.

In terms of our involvement with that, we will be looking at how those 2013-14 assumptions feed into the 2014-15 assumptions when we do our work on the revenue estimates over the next few months. We haven't started the process yet, but we'll look to see what has transpired and how that will influence what they estimate will transpire.

MR. GOUGH: Thank you.

MR. CHAIRMAN: Mr. Rankin.

MR. RANKIN: I just wanted to make one final comment. I would just like to thank the Auditor General's Office for coming here today and for responding so promptly and all the important work, and a special thanks to Mr. Lapointe.

MR. CHAIRMAN: Thank you, Mr. Rankin. If there are no further questions, we will allow the Acting Auditor General, Mr. Horgan, to provide us with some closing comments.

MR. HORGAN: Thank you, Mr. Chairman. In conclusion I simply want to express our appreciation for the interest this committee has on the work that we do and for inviting us here this morning to answer questions. It's always a pleasure to serve the information needs of this committee.

MR. CHAIRMAN: Thank you, Mr. Horgan.

We stand adjourned.

[The committee adjourned at 10:35 a.m.]