

HANSARD

NOVA SCOTIA HOUSE OF ASSEMBLY

COMMITTEE

ON

PUBLIC ACCOUNTS

Wednesday, November 4, 2015

LEGISLATIVE CHAMBER

Office of the Auditor General
November 2015 Financial Report of the Auditor General

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Public Accounts Committee

Mr. Allan MacMaster, Chairman
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Ms. Margaret Miller
Ms. Suzanne Lohnes-Croft
Mr. Brendan Maguire
Mr. Joachim Stroink
Mr. Tim Houston
Hon. Maureen MacDonald
Hon. David Wilson

In Attendance:

Ms. Kim Langille
Legislative Committee Clerk

Mr. Gordon Hebb
Chief Legislative Counsel

Ms. Nicole Arsenault
Assistant Clerk, Office of the Speaker

WITNESSES

Office of the Auditor General

Mr. Michael Pickup, Auditor General
Ms. Ann McDonald, Assistant Auditor General



House of Assembly
Nova Scotia

HALIFAX, WEDNESDAY, NOVEMBER 4, 2015

STANDING COMMITTEE ON PUBLIC ACCOUNTS

9:45 A.M.

CHAIRMAN

Mr. Allan MacMaster

VICE-CHAIRMAN

Mr. Iain Rankin

MR. CHAIRMAN (Mr. Iain Rankin): Order, please. We have the Auditor General here to bring his November 2015 Financial Report and that was tabled today. We had an in camera session and we will begin the public session now. I would like to start with introductions from the members.

[The committee members introduced themselves.]

MR. CHAIRMAN: We'll start with the introduction of witnesses and then you can go ahead with your opening remarks.

[The witnesses introduced themselves.]

MR. CHAIRMAN: You may begin, Mr. Pickup.

MR. MICHAEL PICKUP: I would like to thank the committee for their interest in our work and the questions they are about to ask us over the next couple of hours. I also want to thank the people in my office who produced this work and who do a lot of audit work to get to this point today. Ms. Ann McDonald, who just introduced herself is the Assistant Auditor General responsible for all of the financial audits that our office does and pulls it all together and will certainly more than assist me today in responding to your questions as well.

We have three chapters in this report based on the various work that we do as auditors of the government's financial statements, as the auditor producing a report on the revenue estimates and also as auditor of other selected entities. As well this work pulls together the results of audit work done by numerous private sector audit firms who audit various organizations in the government. For example, Nova Scotia Community College, Nova Scotia Liquor Corporation - they are all part of the government entity, but they would be audited by individual audit firms. We pull together the results of all of those entities.

We're not going to walk through the reports with you at this time. We spent some time with you this morning going through the individual reports. We do respect that you only got the report this morning so, where we can, we will link our responses to the pages in the report where that actually works out. That will be the end of the introductory remarks that I would offer today.

MR. CHAIRMAN: Thank you. We'll begin with questions from the PC Party beginning with Mr. Houston.

MR. TIM HOUSTON: Thank you to the Auditor General and his team for preparing this report. I want to start off with some findings around Gambling Awareness Nova Scotia and I'm looking at Page 44 of your report. Gambling Awareness Nova Scotia is a foundation that received \$1.2 million in funding over the last two years, but awarded grants totalling less than \$200,000 and none in the past year. I noticed that the auditors for Gambling Awareness Nova Scotia raised some concerns that maybe the foundation was not fulfilling its mandate. I wonder if you could just give us some comments on how serious a statement that might be?

MR. CHAIRMAN: Mr. Pickup.

MR. PICKUP: Even though we didn't do that individual audit, part of why we have reported this issue is that to suggest an entity may not be filling its mandate is a very significant concern. It is not for us to question sort of the policy behind why an organization exists. But when an organization exists and is given money to fulfill a certain mandate, and an auditor raises the question of whether that's being done, I would say it is a significant concern.

MR. HOUSTON: It should be a concern to all Nova Scotians but I guess specifically the people who sent the money to them to begin with. What would you expect to see, as the Auditor General, when you hear something like that? Would you hope that the department that advanced the funding to them takes some action? What should we expect to see now that we know that the auditors have these types of concerns about the organization?

MR. PICKUP: There are a few issues here. There's the one of fulfilling the mandate, but there's also the issue of the amount of cash that this organization is sitting on with \$1.3 million in a chequing account and \$920,000 owed to the Department of Health

and Wellness. With all due respect to the committee, I think that is something the committee could look to government to say, the auditors raised this, the potential exists that the mandate is not being fulfilled, you are sitting on cash - what are you going to do about it, what does this mean? We have brought this to your attention and to the attention of Nova Scotians in order to then allow you to bring it to the people who run these organizations.

MR. HOUSTON: So the foundation owes the Department of Health and Wellness \$920,000. Could we have any indication of why the Department of Health and Wellness wouldn't be trying to collect that? Would that be something you have found? I assume the Department of Health and Wellness could use a few dollars; it should be trying to collect that money and use it for purposes that are important to the Department of Health and Wellness. Do you have any comments on how it could be that the Department of Health and Wellness would be sitting on a receivable like that and not be interested in collecting it.

MR. PICKUP: I think this is a question that probably should be posed to the department. We're gathering and accumulating the findings of a lot of audits in here and we don't have a lot more background on this one, for example, because we didn't actually do the audit. We're just reporting what the auditors reported.

MR. HOUSTON: Would you have any indication from your review of the auditor's findings, so if the foundation has the money but they are not advancing it for the purposes that it is meant to be advanced for, what is it spending it on? Just salaries of the management of that organization? Is that where the taxpayer money is going, to salaries and expenses of the foundation that is not meeting its mandate?

MS. ANN MCDONALD: From what we understand from the auditor's management letter, it's not an issue of that money being spent otherwise - you know there would be administrative costs of the foundation. It's a matter of the funding it has received through the Department of Health and Wellness and through video lottery profits - that's how the foundation gets its money - not being granted out. In other words, the mandate is to provide funding for gambling awareness initiatives and the money is not being provided to entities. We don't know whether or not there were a number of applications that were refused or if the number of applications is down, et cetera, just from our review of the management letter.

MR. HOUSTON: Sure, and I can see from an audit purpose - from an audit to the audit objectives - that would be what the auditors would be looking for. But from a taxpayer perspective, I find it very concerning that the department has sent money to this foundation that is not using it for what it is meant to be but is incurring administrative expenses, presumably in the way of salaries. It's very offensive to me. It's not a good use of taxpayer money, particularly in light of the recent cancellation of My-Play.

All these things are in my mind and wondering how government feels about the problem of gambling in the province, if they are willing to cancel My-Play without an alternative and are willing to advance \$1.2 million to Gambling Awareness Nova Scotia, which then doesn't spend it for that mandate, it raises a lot of questions for me as to what the government is thinking in terms of the gambling situation in the province.

I'll just leave that for a quick comment. I don't know if it's within the scope of your role here today but I would say that for me personally, as a member of the committee, the foundation not spending the money towards fulfilling its mandate and the cancellation of My-Play, which increased the government gambling revenues - I see a lot of financial implications to what is happening here. I see a theme, and I don't know if you share that theme or where you stand on that.

MR. CHAIRMAN: Mr. Pickup, do you want to comment?

MR. PICKUP: My suggestion would be that you bring government in and ask them those types of questions. Those really are questions that people running these organizations should answer.

MR. HOUSTON: I certainly respect that. I do want to talk about the *Nova Star*. I notice on Page 48 of your report you talk about the Department of Economic and Rural Development and Tourism incurring \$32 million more in expenses than planned, and at that time of which \$11.5 million is attributed to supporting the Yarmouth ferry. Now we know that there was much more than \$11.5 million advanced by the government to support the Yarmouth ferry. I appreciate that in the context of this time frame and this audit, that's the impact on the budget, but we now know that it was over \$40 million that the province advanced towards the Yarmouth ferry.

At various points when that money was being advanced we were hearing comments from the Liberal Government, from the minister, saying that they were reviewing documents and they were - I don't know if they used the word "audit", but they certainly implied to Nova Scotians that they were being very careful before they advanced money to the operators of the Yarmouth ferry. We now know what happened and how that carefulness unfolded.

So my question for you today would be, in the context of this audit and in the context of your ongoing role, were you ever asked by the department to help them analyze whether or not they should be writing cheques to the operator of the Yarmouth ferry?

MR. PICKUP: The quick answer to that is no, we were not. The longer answer to that - probably the more important part of the answer - is that from an auditor's perspective when you would be looking at how things occurred, be it a performance audit or a financial audit, you wouldn't want to cross that line of independence of getting into a situation where you're giving advice on making decisions, which is really a management job and not an auditor job.

So any question that would come to us in terms of any issue - and I think back to *Bluenose II* for example, it wasn't about getting in making management types of decisions, it was about analyzing what had happened with an overall audit question of how something was managed.

MR. HOUSTON: So I understand that the province did have the right to look at the books of the operator of the ferry on an ongoing basis, I guess - probably on an as-wanted basis, if I can make that assumption. If they didn't come to you for any guidance, which I understand, are you aware of them going to anyone for any guidance? Maybe an outside audit firm or somebody to help them look at the contract, look at what they were being asked to forward and then make an assessment of whether or not it was appropriate? Are you aware of them going to anyone external?

MR. PICKUP: I would share with you that the only thing I knew of was what was reported publicly in terms of anything that was happening. I never had any discussion with anybody on this matter in terms of accounting firms or other firms that may be involved in this.

MR. HOUSTON: I guess I would ask you as the Auditor General for the province, we know that the minister said on the weekend he was quite surprised to learn that just after the ink was still wet on the final cheque he wrote to them, he was surprised to learn that some of the assets of the company had been seized. Were you surprised to read that in the paper as well?

MR. PICKUP: I guess anything I read in the paper, I don't think of it in terms of surprised or not surprised. It's more, what does this mean? Is there anything there that I should be concerned about from an audit perspective? I think I've learned long ago not to be surprised. (Laughter)

MR. HOUSTON: Too much time around government. I'm learning myself, actually. In that matter of fact approach to learning that news, is this a file that you would be wanting to audit? Certainly it's a concern to Nova Scotians after having invested so much real capital - over \$40 million - and so much emotional capital in trying to get a sustainable service here. It's a big concern to many Nova Scotians. We've raised our concerns over the long-term sustainability of this service a number of times and have been kind of laughed at by the government side, but we are concerned about the way this file is managed. I imagine if you are sitting in New England or you are an operator or a supplier in Portland and you are learning that companies next door to you - your own company, your fellow citizens - are not getting paid, are kind of getting stiffed, it probably doesn't give you the best taste in your mouth over a ferry service to Nova Scotia, maybe even Nova Scotia.

These are the types of things that have concerned us from the beginning. We obviously want a long-term, sustainable service there, not managed in the way it has been

managed with \$40 million gone. Is this a file that you would see yourself wanting to have a look at? Will you do an audit of what has happened with the Yarmouth ferry?

MR. PICKUP: A couple of issues surrounding your comment and your question - first is in terms of how we select audits. We look at a couple of key things. We look at generally the numbers involved in something and how significant it is, so the bigger the numbers the more inherent it is and the more likely it is to be audited. We also look at qualitative aspects of an issue. If you look at *Bluenose II*, for example, a significant amount of money - maybe \$25 million and not \$500 million, but clearly significant from a quantitative perspective in terms of the concern of Nova Scotians, the concern in government.

The general part of my answer to your question would be, we look at numbers but we also look at other aspects. What we do now is we plan our audits - say we do seven or eight a year - and we indicate publicly through our website when we're at a point in order to talk about it. At this point we have not made a public decision to audit this. Clearly if we were to do this, after consideration it would be on our website.

For now we are as far forward as June 2016 in naming the audits that we are going to do and describing what those audits are and publicly talking about them. Until we get to a point like that, we wouldn't talk about whether we were considering doing an audit or not.

The final thing I would add on that is that, as I indicated before, audits deal with how something was managed. We would not engage in a public policy type of discussion on whether or not there should be a service, where it is located, or if it should or should not exist; those are public policy decisions. How well they are implemented, how well they are managed is fair game, in terms of audit. I hope that is a fair response, if not lengthy, to your question.

MR. HOUSTON: It is a fair response and my concerns certainly rest in how well it is implemented, how well it is managed, how well it is executed. I certainly want to see a sustainable service there, a well-managed service there so for what it's worth, as a member of this committee, I throw my two cents in there and say please, can you audit this file? It's a great concern to myself and to many Nova Scotians.

I do want to carry on to Page 27 of your report where you talk about the Department of Internal Services. It says in the report, and we all know this to be the case, that the Department of Internal Services was established during the past year and is responsible for vendor master files and a wide range of things. Procurement is one of the things that the Department of Internal Services is responsible for, and since this department has been established, procurements have been in the news a couple of times. It was in the news very recently with the Tourism Nova Scotia contract, it was in the news prior when there was an issue with the awarding of some telephone contracts. How the government procures services and goods is important.

I was surprised to read in your report and maybe I shouldn't have been, in the context of at least those two examples that we know - I'm sure there are many more - I was surprised to read in your report in Paragraph 2.53 that ". . . it is anticipated that business processes related to these services will be developed and formalized by that department." I take that to mean, and I'd just like your clarification - at the time of writing this report, there were actually no business processes developed and formalized, or there at least weren't sufficient business processes developed and formalized by this department. You put it in this report and I'm just wondering if you can shed some light around it because it might indicate to me why we're seeing some of the problems we're seeing.

MS. ANN MCDONALD: With respect to Paragraph 2.53, this section of the chapter is dealing with our overall comments on a project that is undertaken by the Department of Finance and Treasury Board, called Internal Controls over Financial Reporting. We just highlight that Internal Services is now or will be responsible for various areas. While I appreciate the words would make you think that there weren't processes that had been formalized with respect to all of these, that's certainly not the intent here. We did a procurement audit earlier in 2015 and reported on that and if I recall, we didn't have any significant findings.

I guess the point is that for that project, we are looking to see that internal controls and business processes related to financial reporting at the Department of Internal Services will be developed. It is not that there were not, or we're not aware that there are not formal processes with respect to, for example, procurement.

MR. HOUSTON: It's just around the internal controls over procurement?

MS. ANN MCDONALD: I guess that could be one thing, but as far as we're aware that doesn't mean that there weren't processes; we didn't look at that. Again, I point out we did do an audit on procurement and we didn't have any significant findings there.

MR. HOUSTON: Okay, fair enough. How am I for time, Mr. Chairman?

MR. CHAIRMAN: Two and a half minutes.

MR. HOUSTON: Thank you. Continuing on in that same - Paragraph 2.56 in the area of government hospitality policy there is a recommendation that says, "The Department of Internal Services should put in place a government hospitality policy . . ." I was curious about that because we do know that's another area where the government was in the news - I think it was \$250,000 of hospitality at a golf tournament, and the Nova Scotia Liquor Corporation was going to spend \$140,000 on a party which was subsequently cancelled after it was brought up in the House - I forget who brought that up, but it was cancelled, I remember.

I have a question about is that a policy that is now in place as we sit here today, the policy around public sector expectations around how government money is spent on hospitality?

MR. PICKUP: The response to the recommendation is that something will be done to put a policy in place that captures public sector expectations, so there is work to be done. There is a hospitality policy, but what we found was that it was lacking, so there were a few deficiencies that we thought should be addressed.

MR. HOUSTON: Do you know, just maybe quickly before I run out of time, when senior bureaucrats go on a trip or do some entertaining or something, are they required to write any kind of briefing note as to what took place and maybe some of the outcomes from that meeting?

MR. PICKUP: I'm not 100 per cent certain what may have to be done. I know there are some requirements around, for example, if somebody attends a course or a conference, but those policies are available publicly.

MR. HOUSTON: Is that it for my time?

MR. CHAIRMAN: Twenty seconds.

MR. HOUSTON: I'll pass. Thank you.

MR. CHAIRMAN: The time has lapsed for the PC Party. We'll move on to the NDP and Ms. MacDonald.

HON. MAUREEN MACDONALD: Thank you very much for being here today. I want to start with the Gambling Awareness Nova Scotia aspect of your report. Like my colleague who just asked a bit about this, I'm very concerned about what I see here in your report. I understand that you weren't the auditors of the foundation so perhaps we could start by helping us understand who the auditors were and how we would get access to a copy of that audit?

MS. ANN MCDONALD: I'm not sure who the private sector auditors are, but perhaps if you contact the foundation or the Department of Health and Wellness.

MS. MAUREEN MACDONALD: We certainly will do that. Are you aware that the Deputy Minister of Health and Wellness sits on this foundation as a member and perhaps even chairs the foundation?

MS. ANN MCDONALD: No, I'm sorry, I'm not aware of that.

MS. MAUREEN MACDONALD: I think that actually may be the case, but we will do a bit more digging around that.

Now, you indicate that the foundation has \$1.3 million in a chequing account. It owes the Department of Health and Wellness \$920,000; that chequing account is earning no interest on an annual basis, it's just sitting there. What would be a reasonable rate of interest that that could be earning, that we're missing out on in addition to that money just sitting there being unproductive?

MS. ANN MCDONALD: I would say these days, unfortunately, the rate of return is pretty low. I would expect that an entity like this - we see throughout government that they invest in fairly secure instruments, such as GICs, so the interest rate is fairly low. So there would not be a big return - certainly a little bit more than what you'd get from a chequing account, which would be nothing, but not a great amount.

MS. MAUREEN MACDONALD: A few thousand dollars, though, with a million dollars?

MS. ANN MCDONALD: Potentially, depending on the rate.

MS. MAUREEN MACDONALD: Additionally, your report indicates that no money at all has been awarded from that fund in support of gambling research, education, treatment or remediation of the effects of gambling in this year. Is that accurate?

MS. ANN MCDONALD: Again, just to emphasize, we're reporting what the auditors reported so that was their finding - that no funds had been advanced for grants for 2014-15 to address the mandate of the foundation.

MS. MAUREEN MACDONALD: Which is very disappointing, very concerning, I have to say. Not so long ago we had - and I think probably you will recall that we had the Department of Health and Wellness here with respect to the cancellation of My-Play, and gambling revenues had been dropping in the Province of Nova Scotia until relatively recently - the last few years. After the cancellation of My-Play we see a significant increase in gambling revenues.

What this tells me is any responsibility that the Department of Health and Wellness or the Gambling Awareness Foundation would have with respect to investing in responsible gaming has been abandoned.

The transfer - the money owed to the Department of Health and Wellness from this fund, \$920,000 - would that be money transferred into the Wellness side of the Department of Health and Wellness, where their addictions programs are, and to support the research and to support the treatment, the education, the public awareness campaigns that are overseen by the Addictions unit inside the Department of Health and Wellness?

MS. ANN MCDONALD: Unfortunately, we can't discern that from the financial statements. There's just an amount showing as \$920,000 owing to the Department of

Health and Wellness - so no, not able to comment on whether it relates to the Wellness portion.

MS. MAUREEN MACDONALD: As a former Minister of Health, I think that probably is where that money would have gone. It troubles me that almost \$1 million is sitting in an account when it could and should be properly directed into program development and program delivery for what is a serious problem in our province for some people, and a problem that it appears to lack attention of the Minister of Health and Wellness and his department. I hope we will have an opportunity to bring them before us to speak to this.

I want to talk about the issues around the over-expenditures in several departments, identified on Page 48 of your report. Specifically the over-expenditure of \$40 million in the budget of the Department of Internal Services, mainly due to \$35 million in environmental remediation costs. I'm wondering if you could outline for us what those environmental remediation costs relate to and if you could provide a breakdown of that for us, perhaps not today but after this meeting.

MS. ANN MCDONALD: Yes, actually I'm aware that \$32 million of the \$35 million relates to Boat Harbour so during 2014-15, the Department of Internal Services accrued an additional amount related to that environmental issue. This is all in accordance with the Public Sector Accounting Standards requiring the recognition of that liability.

MS. MAUREEN MACDONALD: Is there any portion of that cost that relates to the MV Miner?

MS. ANN MCDONALD: That I can't tell you, but can certainly find out for you.

MS. MAUREEN MACDONALD: Okay, thank you. In the same light, the increased expenditures in the Departments of Health and Wellness, and Education and Early Childhood Development - can you shed a bit more light on those over-expenditures than just that line there?

MS. ANN MCDONALD: I guess what I can tell you is that these increases relate to the consolidated entities that come into the Departments of Health and Wellness, and Education and Early Childhood Development. In other words, with the amount that comes from the general revenue fund for those departments, there wasn't a significant fluctuation - I'm referring to information that's included in the Public Accounts where it compares the general revenue fund budget with the general revenue fund results. Because there weren't significant fluctuations on that side, then it means that on a consolidated basis with the school boards and the health authorities, that's where the variance is resulting from.

MS. MAUREEN MACDONALD: Thank you very much. Can you give us an idea of the delineation between the Department of Health and Wellness and the Department of Education and Early Childhood Development for that \$85 million?

MS. ANN MCDONALD: No, I don't have that information at this time but can provide that.

MS. MAUREEN MACDONALD: Perfect, thank you very much, I would appreciate that.

You indicate that the Department of Community Services was over budget by \$26 million and that this is due to increased caseloads and client costs in the Disability Support Program. When you say increasing caseloads, do you mean increasing caseloads in the Disability Support Program or in the Income Assistance Program, in the child welfare area - the increased caseloads in which program, I guess, is what I'm looking for.

MS. ANN MCDONALD: The information that is in the Public Accounts dealing with this talks about increased caseloads in the Disability Support Program, not particularly with the other child and youth and family support programs.

MS. MAUREEN MACDONALD: Can you tell us to what extent there has been a growth in caseloads, on a percentage basis or an actual number year over year? Do you have that?

MS. ANN MCDONALD: No, unfortunately I don't have that information and we wouldn't have that information. That would be something that the Department of Community Services could provide.

Just to make a correction on an earlier comment, actually the Public Accounts indicate that in the family programs there was also an increased caseload. It appears their explanation is that in both the Disability Support Program and the Family Income Assistance Programs, there were increased caseloads.

MS. MAUREEN MACDONALD: I want to just briefly touch on, earlier in the report, the senior government executive hospitality and vacation use policy. Apparently there is a policy, I understand it's available - it's online is it, the policy with respect to expensing these items?

MR. CHAIRMAN: Mr. Pickup.

MR. PICKUP: The hospitality policy is available online.

MS. MAUREEN MACDONALD: Can you explain to me the vacation use part of your report here where you've raised that as an issue as well, travel/hospitality expenses?

MR. PICKUP: Our two recommendations relate to the hospitality policy and not about the vacation. We didn't report anything on the vacation, but the types of things we looked at were carryovers, approvals - this type of regular stuff.

MS. MAUREEN MACDONALD: Has the Department of Internal Services indicated when they will update their policy on this?

MR. PICKUP: In the response they say they agree and they're going to conduct a policy review. I have met with various officials and have expressed my view that this should be done sooner rather than later.

MS. MAUREEN MACDONALD: But there has been no time frame?

MR. PICKUP: There's no time commitment; however, I think a reasonable outlook would be for April 1st of next year to have this in place.

MS. MAUREEN MACDONALD: Thank you, that's very helpful. One of the things - and this is information that has been known for a while in your report - is with respect to the province's debt and the per capita debt load for each Nova Scotian. I note, which we have seen before, \$15,944. It's the case, is it not, that every time we lose people from the province and our population declines, our debt load for each Nova Scotian, in fact, increases? I guess what I'm saying is it's not merely an expenditure issue, although it can be an expenditure issue, but it's also a population issue, is it not?

MR. PICKUP: So you're right, the math would relate to two. If it's \$100 divided by four people that's \$25 per person, and if it's \$100 divided by two that's \$50 a person. So there are two issues there of course.

MS. MAUREEN MACDONALD: Does your office in the process of doing these kinds of analyses look at the population trends of the province and how that contributes to these kinds of metrics and our ability to manage our debt load?

MR. PICKUP: The resulting numbers that we do, of course, over a five-year period would be the actual result of the population changes. Presumably, if you're going to carry less people and the same amount of debt then those numbers are going to go up. Just by doing the calculations, you know it is debt divided by the number of people that you have over a five-year period.

MS. MAUREEN MACDONALD: I don't know how much time I have.

MR. CHAIRMAN: Five minutes.

MS. MAUREEN MACDONALD: I'd like to ask you a question from your report around the district health authority reports. You indicate that two district health authorities' expense budgets were inaccurate. I'll just read the report, "Two DHA's expense budgets are inaccurate as province will not allow DHAs to budget for deficits." And then further in the report when that is elaborated on, for example - Colchester East Hants and Pictou are the two health authorities - it was noted that ". . . there were several expense budget line items included for comparative purposes on the entities' financial statements which were

budgeted to show significant cost savings. In their discussions with management, the auditors understood that these expense projections had been reduced during the 2014-15 budget process to amounts well below the anticipated expenditures for the year in order to submit a balanced budget to the province, because the province does not accept deficit budgets.”

I have to say that concerns me because as a layperson, how I read that is that the budget was adjusted in an unrealistic way and in a conscious way, knowing that the province does not accept deficit budgets. I want to ask you as auditors, whether or not this is a proper way to manage the financial resources of our health care system.

MR. PICKUP: In response to that, just by way of background, as the report indicates, this issue was brought forward based on audits of these health authorities that previously existed. Now these health authorities have of course all merged into one and the financial audit will be done by us, the Office of the Auditor General, rather than an audit firm. Presumably next year if there are more detailed questions about that audit, we are going to have the answer.

Now to go back to your actual question, budgets are required as part of the Public Sector Accounting Standards for a reason. It is so that people such as legislators and the public can look to actual results and compare to what were realistic, budgeted numbers at the time. Of course with the passage of time there are going to be differences; they are budgeted and expected. I strongly believe that the budgeted numbers should, as a general rule, reflect what you anticipate to spend, not some other numbers.

In answer to your question, yes, I think the budget should present the actual planned expenditures. If that raises other issues, then deal with the other issues as they arise.

MS. MAUREEN MACDONALD: My read of that is that the books were kind of cooked in those two district health authorities on those budgets. I have to say it gives me confidence, I guess, knowing that the Auditor General’s Office will be looking at the new health authority because that’s even a bigger amount of public resources - over \$1 billion in expenditure in our health care system - so it’s important that we get a clear and accurate picture. Thank you.

MR. CHAIRMAN: Okay, thank you. We’ll move to the Liberal Party for 20 minutes, starting with Mr. Stroink.

MR. JOACHIM STROINK: Thank you very much for your presentation. I guess I kind of want to get right into it so I’m going to start looking at Page 47 and start our conversation there.

You look at the sustainability portion of that graph that you put forward and I guess I kind of want to walk through the sustainability piece of this graph. You look at the net long-term debt, the net debt, and the net debt per capita and you put unfavourable and I

guess - so park that comment for a moment. I look over at Page 50 and I see the graphs that acquired there to show our net debt and our net long-term debt.

I guess really where I'm trying to get an understanding is this really starts to really take off in 2009 where it kind of puts us into an unfavourable situation with the net debt. I'm trying to get an understanding - I know you probably haven't looked that far back but looking at the report, do you have any sense of why or how that just started to spiral out of control to increase our debt loads? Do you have any sense?

MR. PICKUP: I will give an answer and then if Ms. McDonald wants to add, she can add as well. Keep in mind what we're doing here is presenting ratios as suggested by the Public Sector Accounting Standards as something you could use. The ratios reflect the numbers that were the end result of decisions that governments may have made in terms of expenditure, in terms of revenue and in terms of what happened to each of those. So if you go back, that would have been the result of what happened in those years so it would have been a cumulative effect of all the decisions made over a number of years.

MR. STROINK: Right, so starting in 2009 it kind of took off. I guess I want to ask - part of that discussion, I think the net debt - I mean, you brought it up in the past report was the Jobs Fund. So that must play a large portion of this unfavourable sustainability of this province, the Jobs Fund. Is that a fair assessment to put forward?

MR. PICKUP: I would say that the end result of what a government does - I wouldn't try to isolate to one issue. I would say the accounting at the end is the result of everything that happened during that year. If that is one aspect and that explains part of a year, then that would tie into the changes in these numbers.

MR. STROINK: That's a fair comment. I do want to go back down - so we've kind of laid the foundation that a lot of the past history was unfavourable, that has ramifications to the future of Nova Scotia, and I appreciate that comment. I guess what I'm trying to get to is that when you look at the net debt as a percentage of total revenue and annual surplus of deficit, you have favourable for this year - for the one-year trend. Do you have a sense of why you've come to the conclusion that that is favourable?

MS. ANN MCDONALD: With respect to the net debt in the current year, the main reason for that favourable position and the annual surplus or deficit is that the results of the actual financial results for the province as compared to the prior year - that it was a favourable variance. In other words, last year there was a deficit of \$677 million. This year there was a deficit of \$144 million. So that's a favourable trend, that the deficit decreased.

As we explained in the chapter, there are two reasons for that. Mostly because there was an increase in tax revenue, but also there was a decrease in the pension valuation adjustment.

MR. STROINK: Okay, but now you're saying that the five-year trend is unfavourable. Is that just because there are so many unknowns that are playing into the factor of the unfavourable piece?

MR. PICKUP: If I could draw your attention to Page 52, the net debt as a percentage of total revenue, you can see 147 per cent in 2014. So year over year in 2015, it went down to 141 per cent. So that is favourable for the year, but if you compare back to 2011 where you're at 129 per cent overall from 2011 to 2015, not going the way you want it to go, right?

MR. STROINK: So that's fair, but it is going down as I see . . .

MR. PICKUP: Over 2014-15, so we say for the year favourable. For the longer term, not so.

MR. STROINK: So here is my other question then. If you look at the net debt as a percentage of provincial GDP as stable - I'm just trying to get to now - it seems like we're moving in the right direction with the favourable, the favourable and the stable. So we're creating an economic groundwork for stability within the debt and the province's financial situation. Is that a fair assessment to make?

MR. PICKUP: I think the way to do it is to look at all of these indicators as presenting a picture at a certain point in time based on what's happening. So what I'm comfortable to say is, there are a couple of indicators that have worked well over the last year that show some favourable results, but overall - when you put all of these indicators together across sustainability, vulnerability and flexibility - there are still some danger signs in terms of the indicators not being where you want them to be. So it's a mixed message - some favourable signs, but still some concerning results here in the indicators.

MR. STROINK: I guess you're talking about the danger of the future of expenditures. In your opinion - and the Auditor General's thoughts on this - can this province afford to go further in debt?

MR. PICKUP: So the issue of whether to take on debt and how much debt to take on is really one for a government to make. If a government wanted to cut taxes and expand services, I would not comment if that took debt to do it. I would comment on the end result in terms of what these numbers show. In fact, we do comment to say these numbers demonstrate that given the resulting indicators, the ability to continue to expand programs or services or cut taxes, given the current level of debt, the amount of people we have and the tax revenues we have, is questionable.

MR. STROINK: Or irresponsible in some ways, would you agree to that?

MR. PICKUP: I will speak to what the indicators demonstrate. The indicators demonstrate that this is a concerning financial situation and what we're trying to tell Nova

Scotians and legislators in this report is to say we don't - I'm not going to comment on whether a policy is good or bad in terms of increasing or decreasing expenditure but I am pointing out to Nova Scotians that the result of doing that is a somewhat troubling financial situation, albeit a couple of positive signs this year.

MR. STROINK: Great, thank you very much.

MR. CHAIRMAN: Ms. Miller.

MS. MARGARET MILLER: Thank goodness for people like you guys, for coming here and you can look at the provincial debt and give us a report like this. It's not something that I could ever do, I'm not a numbers person, although I find that we live our lives more aware of the debt. It was certainly something that I was always aware of before I got involved with politics and very concerned about. I'm really glad to have you here and doing this work for us. I think accountability is very crucial to this government. Time after time as MLAs we've come across that, if something needs to be done, we find it's not feasible, it doesn't fit into the budget, it doesn't work, so we always have those financial considerations, those things to work with, and it should be. We need to get our house in order, the same as we hope that every Nova Scotian will get their own house in order.

Debt servicing is one of our main costs or interest costs. Can you tell me where that sits in the cost? I know that the Health and Wellness Department takes the most - where does debt servicing come in on that?

MR. PICKUP: I would refer you to - and I know you only got this report this morning so you haven't had a week to go through it or anything, but if you go to Page 54 of our report we have a summary of debt servicing costs as a percentage of total revenue of the government. We do it as a percentage to say, essentially trying to tell a picture here of what percentage of revenue is going to service this accumulated debt that we have.

What you'll see in 2015 is it's at 8 per cent, and it was 9 per cent for the three years or four years preceding this year.

MS. MILLER: So that's money that's gone. I know when I pay personally, when I pay interest, it bothers me; that's money that I've lost, it has gone. As far as the province goes, it doesn't feed anybody, it doesn't clothe anybody, it doesn't educate anybody. Those are all places where we really needed that money. The same, we don't put a roof over anybody's head. It just pays the cost of government over-expenditures, and our government as well. So I just want to really reiterate that, that is a real concern, and I think it continues to be a concern.

I want to finish that off by saying if nothing changes, if we continue to do things just the way other governments have done, how vulnerable to economic shocks will the government be if we keep doing the same thing as previous governments have done?

MR. PICKUP: If we refer to Page 47 of our report, and this is partially why we use these indicators that have been developed by the Public Sector Accounting Board, is to sort of put some neutrality in it to say we don't pick these things, we're not trying to just come up with things. What these show across sustainability, flexibility, and vulnerability is a very fragile situation, if you will, in terms of the amount of debt and where we stand.

I would also draw your attention to what may be more understandable to constituents, may be more understandable to Nova Scotians, which is the table on Page 51. On Page 51 we show net debt per capita, and in 2015 it's now at a high of \$15,944 per Nova Scotian. This is not to pay all your future costs, this is not to pay hospital care in 20 years' time, this is an accumulation of debt for things you've already experienced, services you've already had. That clearly sort of demonstrates an upward trend that does not present a good picture.

MR. CHAIRMAN: We'll move to Ms. Lohnes-Croft.

MS. SUZANNE LOHNES-CROFT: I'm really concerned about the overall financial health of our province. It seems that we are trying to get things going and doing a five-year fiscal plan to get our spending under control. What indicators have you used to come to any conclusion on the path that we're going forward on?

MR. PICKUP: The examination that we do here - the indicators are really an indication of where the province is at a point in time, so this is the result of history up until March 31, 2015. Where you get some positive signs are things like a deficit that may be lower, or somebody's ratios that may be turning favourable or give some indication of that. So we've tried to present that picture to people, but certainly we don't have a crystal ball to look forward or in any way offer any kind of opinion or thoughts on where things may end up depending on planned announcements and things like this.

MS. LOHNES-CROFT: So do you see that the provincial deficit of \$135 million less than budgeted - is that favourable?

MR. PICKUP: So yes, that would be a favourable indicator.

MS. LOHNES-CROFT: So you feel that if we continue on a path of addressing the deficit, that the province should see some change?

MR. PICKUP: If there continues to be lower deficits and surpluses, then the numbers just by the pure math of it, of course, will change.

MS. LOHNES-CROFT: Getting back to what Ms. Miller said, our highest expenditure is Health and Wellness, followed by Education and Early Childhood Development, and Community Services. Our next big part is paying off our debt, our fourth expenditure in this province is paying off the debt here in Nova Scotia. If we don't get this under control we will be seeing our most vulnerable people taking a seat below paying off

the debt. How important is it that we keep on this trend of reducing the deficit so that we can focus on education, health and our most vulnerable citizens?

MR. PICKUP: Without touching into any policy issues that may go around there and sticking strictly to the numbers, I would again draw attention to Page 54 that says what the debt servicing costs are. If you look at 2015, you have a government that is bringing in \$10.6 billion in revenue and is paying out nearly \$900 million in debt servicing costs - \$896 million. Clearly, that is money that can't be spent on programs or can't reduce taxes or any combination of those two because it's going to service the debt. We are presenting this as information to say, Nova Scotians, this is what is happening as the result of government action and this is what the numbers show.

MS. LOHNES-CROFT: And our programs could benefit by that money.

MR. PICKUP: With that \$896 million that is debt servicing costs, if you're not servicing the debt with it you can reduce taxes, increase program spending and any combination thereof or whatever government would decide.

MS. LOHNES-CROFT: Thank you.

MR. CHAIRMAN: We'll move to Mr. Maguire.

MR. BRENDAN MAGUIRE: There's a lot of questions asked here today, I'm just kind of thinking out loud. I get confused sometimes by the member for Pictou East and his rural colleagues with their stance on the Yarmouth ferry - is it a positive thing, is it a negative thing, is it a good investment, is it a bad investment. I guess that's what you call driving momentum.

You talk about the effects of the net debt which you say places a burden on the economy. We've seen over the last number of years, in particular with the previous government, we saw wage patterns that were set that were above norm for a national average, that there were provinces that were in a lot better financial state than us that weren't giving wage patterns like Nova Scotia has, I think it amounts to a little over \$700 million. Then we saw the Jobs Fund and that meeting last week really bothered me. I have a two-year-old son and a 10-month-old daughter and to be told that they're going to be paying for secret slush fund meetings that were done behind closed doors for the next 30 years - that really bothers me, and I think it should bother everybody here.

I just want you to elaborate a little bit on those burdens, the net debt and the burden that it will have on the future economy.

MR. PICKUP: I would draw your attention again to Paragraph 4.15 on Page 50 of our report where we have indicated that the increasing trend in the debt is a significant indicator of sustainability because the cost of servicing the debt takes priority over funding programs or reducing expenditures. Since 2008 that number has gone up by \$4 billion.

MR. MAGUIRE: So it's safe to say that the now defunct Jobs Fund and the money committed to wages, which is about \$1.6 billion, will potentially handcuff future governments to make decisions that are to the betterment for all Nova Scotians.

MR. PICKUP: Any pluses or minuses you do that impact any of your expense line items are going to flow through these numbers, whether they're on the expense side or the revenue side, it's going to impact the bottom line here.

MR. MAGUIRE: I'm not going to put words in your mouth but I'm going to take that as a yes. That's it.

MR. CHAIRMAN: We'll move back to the PC party for 14 minutes. Mr. Houston.

MR. HOUSTON: Thank you, Mr. Chairman, I'm enjoying this discussion this morning. I can tell from the tone of the discussion from my colleagues that they're completely and utterly focused on trying to reduce the expenses of the province. Reducing the expenses of the province can be a good thing. It won't be a good thing if it's at the expense of Nova Scotians. If we degrade the level of services to Nova Scotians any further, it's not a good thing.

The narrow-mindedness, the narrow-minded focus on that particular part of the issue is concerning to me because there are two ways you can solve the problems that face the province. The one that I'm most excited about and I choose to want to focus on is to grow the revenues of the province. We haven't seen anything from this government towards growing the revenues of the province so I guess my question to you is, if we want to provide better services to Nova Scotians, certainly one way to do that is to grow the revenues of the province so that we have more money to spend on services - is that a simple straight line from those two things, more revenue is better services?

MR. PICKUP: I would say there are three possibilities to change the bottom line: one could be solely increasing revenue, one could be solely decreasing expenses, or the other could be a combination of higher revenues and lower expenses. I wouldn't go on the record to say that more revenue into a program necessarily equates into a better program, that would depend on how well a program is run and how effective it is, sort of part of the reason why we do those performance audits that we do of government operations.

MR. HOUSTON: Certainly I agree with that. We've seen that more revenue into a certain program doesn't necessarily help. We're talking today about the gambling fund there and obviously that's revenue in there that's not helping.

In terms of the growing the economy part of the equation, I guess when I think of some of the things that have been done that have been detrimental to the growth of the economy of the province, I get concerned. One of them obviously is the Film Tax Credit, which was a move by this government to control costs - gotta control costs - saved, and I use that word very lightly in their estimation, \$25 million, but actually has caused

significant problems for an industry that was contributing \$120 million, \$130 million, \$150 million to the economy of the province. These are the types of mistakes you make when you don't fully understand all the moving parts.

My question for you is, has anyone from the Department of Finance and Treasury Board asked you to review their analysis around the Film Tax Credit cuts and what they were trying to do there? Is that something that your department has looked at?

MR. PICKUP: So a short answer and a long answer - the short answer is no. The longer answer, I would draw back to the purpose and the mandate of the Office of the Auditor General. So as an independent organization, an independent officer and looking at the expenditure of government, we have to be very careful not to get drawn into management and government decisions, be they analysis to support a decision or making a decision or contributing to a decision. Those are decisions of a government.

Similar to the Film Tax Credit that you talk about, we produce numbers here that are the result of the accumulation of a lot of activity, and I would not comment on an individual action and certainly on the policy related to that.

MR. HOUSTON: When you look at some of the efforts around economic development, it falls into - has it been a good use of taxpayer money, has it produced results - and there is a long history in the province of ones that have failed on that and the list continues to grow, unfortunately. We've got to stop making mistakes.

Just as an aside, I was optimistic about the Department of Business. I was optimistic until last week when we learned that the Department of Business doesn't actually deal with businesses, which was very interesting in how this government sees the world.

So in terms of the report today, I do want to talk about some of the expenses and some of the benefits that may go with it. You keyed out in your report about focusing on senior management travel expenses, and any time somebody is spending taxpayer money, there should be a benefit to it. I applaud you for trying to shine some light on that use of taxpayer money around expenses and entertainment and stuff like that.

You did suggest that senior management travel expenses should be made public and I think you said that the government agreed with that - I think you did, but you can respond. Do you expect to see senior management travel and entertainment expenses published online any time soon?

MR. PICKUP: My preference would be for it to be online only because I think that's the easiest thing to do - and why not make it as easily available to people as possible - but again, the decision to implement that and how to implement it is one for government. I'm optimistic that they have accepted the recommendation and they want to do this. I think that's an encouraging sign.

MR. HOUSTON: But they haven't indicated when or how?

MR. PICKUP: They have indicated that they are going to work on it. My view as the Auditor General is that a reasonable time frame would be to have this up and running for April 1st - the new fiscal year of 2016.

MR. HOUSTON: April 1st.

MR. PICKUP: April 1st, yes, that is my view. The government hasn't committed to that in their response, but I think that would be reasonable. We are November now.

MR. HOUSTON: Presumably it wouldn't be that difficult because there is a system now for minister expenses to go online. That same system should be - there are also MLA expenses. You don't have to recreate the wheel here - it's just a question of doing it. Is that fair?

MR. PICKUP: Presumably this should be fairly easy to do. I mean, we are a small office and we started this fiscal year. We started April 1, 2015 to disclose my expenses and executive expenses online, and frankly it might have taken a couple of hours for us to get that up and running, but again, we are a small office.

MR. HOUSTON: I think we should all look forward to that. In terms of the expenses of the province - I know we always hear a lot of talk about how everyone should tighten their belts and everyone has a role to play, but then when you kind of scratch past the soundbites, you did report in your report today that the expenses of the province were \$200 million over budget. I know buried in there are a lot of very offensive expenses, but do you have any comments on the fact that in an atmosphere of everyone has to tighten their belts, we do see expenses missing budget numbers? Does it speak to the control processes and the oversight process at all?

MR. PICKUP: As part of the financial audit process, we would look at how expenditures were authorized, whether they were approved, how they were spent. We would not get into a performance audit on why, for example, a certain department spent \$30 million more as part of a financial statement audit.

In addition, as part of a performance audit, we wouldn't question a government policy. For example, if I go back to the ferry, we wouldn't say you should or shouldn't - we could look at the economy and efficiency surrounding that. But on a typical financial audit you are looking for approval of transactions, authorizations, this type of stuff, not a performance audit lens on it.

MR. HOUSTON: Do any of your colleagues across Canada or internationally do more kind of performance-based analysis, even if it's on specific projects? Is that something we should be doing?

MR. PICKUP: We've done it on specific cases, for example, if you take *Bluenose II*, the Colchester Hospital where we looked at specific expenditures - why they might have gone over, lessons learned from that - but again, those were very specific cases. I think the idea was not to provide a variance analysis, but to provide lessons learned, things the government can do better to improve on other types of programs or costs like that.

My suggestion would be if you want a variance analysis-type discussion - why over budget here - bring the people in who are spending the money and running the programs. Bring management in from the various government departments to talk about the variances that they had.

MR. HOUSTON: Sure. You did in your report express concern with a number of recommendations that are not addressed and continue to be reported, and that is a theme that we often hear where recommendations made by your office are not implemented. I worry that speaks to the overall culture and sadly speaks to, I think, a level of respect for recommendations. Do you have any suggestions on how we can change that culture? I guess my specific question would be, where does the ultimate responsibility for implementing the recommendations fall? Is it with the minister or is it with somebody else? Who do you look to?

MR. PICKUP: A few points in there. First I would say the ultimate accountability - it depends of the organization that we're dealing with, but clearly if it's a government department, it's up to the ministers. If it's these other types of organizations - whether they're school boards or the health authority - then we need to look at who would answer for that, if it would be a board or a minister.

This year we made the recommendation to say the Department of Finance and Treasury Board should be tracking what's happening with these recommendations to say, why aren't they being implemented? Can Finance and Treasury Board ensure that they get implemented? Probably not. Can they bring attention to things? I think so. Can they work with people? I think so. Can they come in here and explain to you as a committee? I believe so as well and can indicate perhaps who should be called in to talk about these things.

We do point out that 68 per cent of these recommendations are carryover; many as far back as 2009-10. I wouldn't mind drawing your attention to Page 42, Paragraph 3.43, where we talk about the revenue from school-based funds. There is some \$41 million that comes in during the year in various fees and payments and there are several issues across a number of the school boards - for example, the South Shore, the Annapolis Valley, Cape Breton - where the auditors of these organizations are reporting issues related to expenditures that are contrary to board policy, or there is no board policy for the use of these funds or documentation is limited.

This is a large amount of money made up of a lot of \$200 and \$300 payments across the province. Am I happy that these things haven't been fixed yet? No. That's part of why

we have them in this report and why we're hoping Finance and Treasury Board can play a role in terms of accountability and the work of this committee.

MR. HOUSTON: Thank you for that and I am just looking at that paragraph here now. The balance of funds at those school boards held in trust as of March 31st was \$21 million, so it is a very significant amount of money and it is disappointing, I share your disappointment that nobody in a position to change . . .

MR. CHAIRMAN: Order, please, 14 minutes has lapsed for the PC Party. We'll have to move to the NDP, as interesting as that was. Ms. MacDonald.

MS. MAUREEN MACDONALD: I want to go back to the issues around the fiscal condition of the province and the debt load. You made the point, I think a very accurate point, that your report is a snapshot in time and for a certain period of time gives us a certain vantage point.

I want to start by helping my colleagues understand that not only is it a short point in time but it also is focused entirely on our province and it doesn't really look at the context of that time - what was going on, what was happening in other provinces, what was happening nationally.

We all know that our province, like other provinces, has experienced a profoundly difficult period with respect to economic growth. The country - in fact, we just had an election where there was a certain amount of debate about whether or not we're in recession and how deeply we are in recession as a country. We now have a national government that has said that balancing the budget is not a priority, that in fact infrastructure spending, given the weakness of the economy in recession - or not in recession - is a priority and that's what Canadians support.

I would submit to you that the snapshot in time that you're looking at, that you've looked at, was also a period of great financial economic turmoil coming out of a recession. I want to draw your attention to a couple of things. First of all, over that same five-year period, Canadian provinces - 10 provinces in the country - five years, 10 provinces, 50 budgets. Of those 50 budgets, only nine in that period of time were balanced budgets, and guess what provinces were able to balance their budgets? The oil revenue-rich and potash provinces, Saskatchewan and Alberta.

I'd be happy to table this, this is from the Royal Bank. It situates Nova Scotia in the pack with other provinces so that you can actually get a picture of comparatively, are we an outlier? No, we're not an outlier whatsoever.

In addition to that I have another graph here, or chart, which shows the net debt of the other provinces during the same period of time. This is also from RBC. I know we have a tendency to sometimes think that our province is somehow an economic basket case comparatively but I want to draw your attention to the fact that, for example, Ontario's

deficit or debt grew by \$70 billion over the same period of time; Quebec, \$31 billion. New Brunswick, a province that's smaller than Nova Scotia in terms of population and their GDP, their debt grew by \$2.7 billion over this five-year period, the same five-year period where our debt grew by \$2.3 billion.

Again, in fact, the debts of all of the provinces, with the exception of Alberta, went up. When I look at this I note that the debt of the Province of Nova Scotia is projected to continue to grow into the future. I just bring this for information purposes so that people can have perhaps a fuller picture than just that specific snapshot, looking at our own province and the situation but to locate it in a larger context or for some point of comparison.

So the question I have to ask is, when you look at the growth in the debt over the past five years, do you do any analysis of whether or not that increase in debt has also increased the assets of the province in any way? How was that money actually spent? What proportion of that debt is a new public library on Spring Garden Road? What proportion of that debt is twinned highways in parts of the province? What proportion of that debt is capital for expanded cancer care facilities? What proportion of that debt is a trade and convention centre? What proportion of that debt has resulted in the attraction or retention of nurses and doctors in specialty areas? What are the concrete assets that we benefit from as a result of that debt?

So that's a question I have, and just before you respond to that question, I have one more comment I want to make and this is more towards my colleague, the member for Halifax Atlantic who made reference to the Jobs Fund as a secret slush fund behind closed doors. I want to say shame on that member for saying this in that the bulk of the Jobs Fund monies that are outstanding will go toward the shipbuilding contract - a 20- to 30-year project worth \$25 billion to \$30 billion to the GDP of the province. That I would submit is something that his children and the children of the province - for those families who are not chased out of the province by this government and their policies - will benefit greatly from.

I do want to ask about the analysis of when you look at the numbers of debt, to what extent is there analysis that tells us what assets we get, what benefits? Because costs aren't the only thing that occur when you spend public resources. You spend them in the hope that there's going to be a public good that accrues to the people of the province.

MS. ANN MCDONALD: If I understand your question properly, it's whether or not we looked at the makeup of the changes to net debt during the year. If I look at the Public Accounts, Statement 3 on Page 73, it explains the changes in net debt, including the acquisitions and transfers of tangible capital assets. Further detail is provided in Schedule 7 of the Public Accounts, which is Page 109, and that shows what was purchased under various asset categories. For example, during 2014-15, \$176 million was used to purchase buildings; \$105 million for machinery, computers and equipment; and the other significant amount is \$218 million related to roads, bridges and highways.

We're dealing on an audit basis just simply with the numbers and the results. We haven't looked at those for any economic benefit, et cetera. We're just dealing with what was purchased and whether it was classified properly.

MS. MAUREEN MACDONALD: Thank you for that and I will delve down a bit further into that. I want to share the remainder of my time with my colleague, but I just have a quick question. Is there a difference between good debt and bad debt in the auditing world or is that a kind of policy issue?

MR. PICKUP: When we calculate these numbers it really is to tell a story to say, here is where we are as a result. A question of whether it's good or bad in terms of where we are, we think that's a dialogue best had between the people who are elected in Nova Scotia and the people who elect them, and they can engage in that dialogue with this independent information that we provide.

As you indicate, it's numbers, it gives a snapshot of where we are but it certainly should encourage that type of dialogue, whether this is good or bad in terms of what you got for this and where this means we are and where this places us going forward, we think it sets the groundwork for that.

MS. MAUREEN MACDONALD: Thank you. I'll turn over the remainder of my time.

MR. CHAIRMAN: Okay, you have three and a half minutes, Mr. Wilson.

HON. DAVID WILSON: I want to thank you for the audit and your work, especially on the financial audit updating this committee at this time of year. I think it is important, as you indicated in your opening statements, that we're going into the session but it gives us an opportunity as a committee to look at how we proceed over the coming months to ensure that we're meeting the mandate of the committee.

Do you foresee next year doing the same thing on the same kind of timeline so that we are back with what you would - hopefully with a snapshot of how the province is doing so that we can continue that dialogue on where the province is going into the future?

MR. PICKUP: We very much moved this work forward from February, advancing it four or five months to help you do your job, so I'm encouraged by your comments. I won't look next to me as I make the next comment but we're hoping next year to even forward this by a week or two, certainly not to go later.

MR. DAVID WILSON: I think that's important. One of the key terms I've heard you use is favourable indicators. I would hope with more recent reports from RBC, some of which my colleague mentioned, around the anticipated growth in GDP, especially as we see a full cycle or full year of shipbuilding activity going on, we know that has ramped up over the last number of months, but also the Atlantic Provinces Economic Council has

indicated a number of projects that I think will improve the GDP of the province. They've indicated a number of projects like the Maritime Link, the "Big Lift" or the re-decking of the bridge, shipbuilding, offshore, and then of course construction and the cranes that we see throughout the city - all of those, by the way, were investments made by the previous government and as we know, governments that are trying to stimulate the economy, it's a great way to increase revenue and hopefully address some of the economic shortfalls.

Would you agree that they would be favourable indicators when we have organizations like the Atlantic Provinces Economic Council and RBC shining a light on shipbuilding, for example, and the other projects that I mentioned? Would that, in your opinion, be something that would be a favourable indicator that we've turned the corner and we'll see growth? I think RBC was maybe looking at a 2.1 per cent increase in 2006 and one of the things they had indicated is it was based mostly on the 20 per cent increase in major project spending. Would that be considered a favourable indicator, in your view, that things hopefully will look better next year?

MR. CHAIRMAN: Fifteen seconds, Mr. Pickup.

MR. PICKUP: The very quick answer to that is for us doing this work on the indicators is sort of a very established approach in terms of how we do this, so not having a complete crystal ball in terms of what all that may mean is we will wait and see after we do the Public Accounts next summer and run these numbers again to say okay, what do the numbers now show, given that an additional year has passed.

MR. CHAIRMAN: Okay, we'll move back to the Liberal Party. Mr. Maguire.

MR. MAGUIRE: Where to start - shame on me? I guess I would say shame on the member for Halifax Needham for making decisions - being part of the inner circle and making decisions based on politics and votes and not on our future.

They like to talk about how they made decisions based on the financial times, and I agree. They talk about how we were in a world-wide recession and this affected Nova Scotians. But does it make sense that during a recession you would give out short public sector contracts with the largest raises in all of Canada for a province that is struggling?

MR. PICKUP: That very much is a public policy decision, like any expenditure or revenue item might be, so I won't make a comment on the validity of the question.

MR. MAGUIRE: We are hearing a lot of downplaying on Page 47 of your report where we have a five-year outlook that's unfavourable. We just heard comments to say it's really nothing, but this is real and this is something that needs to be addressed, do you not agree, the financial stability of this province? To sit back and say, well, it's okay, the Auditor General's Report says that the next five years, when it comes to the sustainability of this province, everything is unfavourable - should these issues not be addressed for the future of Nova Scotia?

MR. PICKUP: A couple of issues there, I just want to clarify that the five-year trends are looking backwards, so from 2011 to 2015 in unfavourable trends, so it doesn't try to presume what may happen down the road. In terms of what these trends show, as each of the indicators show, when it says something unfavourable that speaks to what the numbers demonstrate. If you look on Page 51 and you see net debt per capita has grown from \$15,659 in 2014 to \$15,944 - that is the result of what actually happened. Whether that makes sense in terms of what was happening in the economy, what a government priority may have been and other issues, that really is a dialogue between the elected folks and the Nova Scotians they represent. We're presenting this as information based on key indicators that are generally accepted.

MR. MAGUIRE: But you would agree that going from deficits to surpluses is a positive thing for the future and getting our house in order, not just growing revenue but getting our costs under control - both - is a positive thing for all Nova Scotians?

MR. PICKUP: I would say that if the result of what any government does results in numbers that either increase revenue, decrease expense, impacting the deficit surplus number increasing the amount of debt, then of course the resulting numbers are going to show more positive results. If more positive results occur it is the result of either increasing revenue, decreasing expenses or some combination of that.

MR. MAGUIRE: And you were given a list of questions in regard to where the money was spent during the previous government's time. I also would like to add two things to that list: how much of the millions were spent toward now failed business, and how many millions were spent on targets that were never met? With that I will pass it on to my colleague.

MR. PICKUP: We're a little unclear - was that a question?

MR. MAGUIRE: No, it was a statement just to go along with the list that was given to you by my colleague, the member for Halifax Needham.

MR. PICKUP: Okay.

MR. CHAIRMAN: Are there any other questions from the Liberal Party? Hearing none, would you like to give closing remarks before we conclude?

MR. PICKUP: Sure, the closing remarks will be very short. I want to thank you for your interest in the financial work that we do. No matter what the discussion is around a government's priorities and what a government does in relation to revenue and expenses, they are all based on sort of a fundamental belief that the numbers that governments are using are fairly presented. Without that foundation of fairly presented financial numbers it would be a disaster.

I want to thank the entities that we audited and the staff in the office for getting us to a point where we can audit these numbers and give you faith as the people who are running the province and making decisions that the numbers you are looking at are fair and they're not misstated. Let's not underestimate these unqualified opinions which may not exist in many countries and many jurisdictions in the world, but at least the dialogue that you have, and whether you agree or disagree on things, it is based on information that at the end of the day you can count on to say, I know that information is accurate and reliable.

We as an office dedicate a significant amount of resources into these financial audits and believe it is very important, equally as important as the performance audit work that we do. I'm very pleased that you as a committee bring us in here to talk about this work and I look forward to you hopefully bringing in some of the entities that we talk about, to hold them accountable as well for some of the results that are discussed here. I want to thank you for all of that.

MR. CHAIRMAN: Thank you to the witnesses for coming in today.

We have one piece of committee business here - just correspondence from the Department of Internal Services. The members would have received that. That was resulting from information requested at the September 30th meeting.

The next meeting date will be November 18th. That, once again, will be the Office of the Auditor General.

We are now adjourned.

[The committee adjourned at 11:20 a.m.]