

HANSARD

NOVA SCOTIA HOUSE OF ASSEMBLY

COMMITTEE

ON

PUBLIC ACCOUNTS

Wednesday, October 12, 2016

Legislative Chamber

**Office of the Auditor General
October 2016 Financial Report**

Printed and Published by Nova Scotia Hansard Reporting Services

Public Accounts Committee

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Hon. David Wilson

Ms. Lenore Zann

[Mr. Gordon Wilson replaced Mr. Chuck Porter]

[Mr. Bill Horne replaced Mr. Brendan Maguire]

[Mr. Ben Jessome replaced Mr. Joachim Stroink]

In Attendance:

Ms. Kim Langille
Legislative Committee Clerk

Mr. Gordon Hebb
Chief Legislative Counsel

WITNESSES

Office of the Auditor General

Mr. Michael Pickup
Auditor General

Ms. Tammy Squires
Assistant Auditor General

Mr. Morgan McWade
Audit Principal



House of Assembly
Nova Scotia

HALIFAX, WEDNESDAY, OCTOBER 12, 2016

STANDING COMMITTEE ON PUBLIC ACCOUNTS

10:00 A.M.

CHAIRMAN
Mr. Allan MacMaster

VICE-CHAIRMAN
Mr. Iain Rankin

MR. CHAIRMAN: We're discussing the Auditor General's Financial Report. We'll start with introductions.

[The committee members and witnesses introduced themselves.]

MR. CHAIRMAN: Mr. Pickup, please proceed with your opening statement and also introduce your colleagues.

MR. MICHAEL PICKUP: I am Michael Pickup, Auditor General of Nova Scotia. To my immediate right is Ms. Tammy Squires, the Assistant Auditor General in charge of the financial audit portfolio practice of the office. Next to her is Mr. Morgan McWade, who is the principal responsible for financial audit work within the office, leading this work and reporting to Ms. Squires.

I have a short opening statement. I will keep it brief, knowing that we just had an in camera session with the committee for an hour and also that we have publicly put out our presentation to the Public Accounts Committee that we did at the in camera session. That is online as well, the one-pagers you have received.

Today I present to you my annual financial report on work in our audit portfolio. The report has two chapters, one on the results of the financial audit work and another on the province's financial statement numbers. The Government of Nova Scotia spends approximately \$11 billion a year of Nova Scotians' money. As such, a key way the government is accountable to the people of Nova Scotia is through these financial statements. In Chapter 1 we share with you the results of our audit of the government's financial statements, as well as information on audits of some of the other organizations that are part of the government.

For the 16th year in a row the government received a clean audit opinion on the financial statements. A clean opinion essentially means people can rely on the numbers and the information contained in these financial statements. This is a huge accomplishment for the current government and past Nova Scotian governments as well. My sincere thanks go out to all the public servants across government, all the organizations that work very hard to prepare numbers for these financial statements.

These clean audit opinions set expectations that future governments will also produce clean financial statements. New for this year on the financial audit portfolio was the creation and audit of two organizations: the Nova Scotia Health Authority and Tourism Nova Scotia. My office was responsible for the audit of the Nova Scotia Health Authority, a \$2 billion organization. I provided a clean audit opinion on the Health Authority's first year of operations and the authority met its deadline to have audited financial statements by June 30th. My congratulations to both the management and board of directors of the Health Authority for this accomplishment.

The other new organization, Tourism Nova Scotia, did not meet their legislated reporting deadline and the audited financial statements are only expected sometime this Fall. This should not happen as it is important that financial information be reported in a timely basis in compliance with the laws of Nova Scotia.

In Chapter 2 of this report, we report on the financial numbers of Nova Scotia, including several indicators, which provide a picture of the province's financial position at a point in time and after the accumulation of a period of time. This year's provincial deficit indeed was the lowest since 2011.

While looking at current year information provides a picture of what happened this past year, it is equally important that you look at what happened over the past number of years to understand the Government of Nova Scotia's current financial position. We comment in our report that five-year trends on items like long-term debt and net debt continue to increase.

Lastly, I very much want to thank the staff from my office who produced this report in a much condensed version for both the Legislature and the public. We have gone from probably five different chapters or reports down to two chapters. So we have one report with all the consolidated audit results and one with the financial information. My sincere

thanks not only to the two people to my right, but also to the people back in our office who may indeed be working on audits right now or who may be with us today watching this Public Accounts Committee session.

This is also, I would note, the earliest we've been able to produce this report. Two years ago it was in February following the year end. Last year it was in November. This year we've been able to produce it for October 12th. Partially that was to respond to the Public Accounts Committee interest in having this information as early as we could. I look forward now to answering any and all questions that you may have related to Chapter 1 and Chapter 2.

MR. CHAIRMAN: Mr. Houston, you have 20 minutes.

MR. TIM HOUSTON: Thank you for those introductory comments and for preparing this very interesting report. I notice that the Health Authority dipped into \$7 million of restricted funds to fund operations. They did that at the time when the Department of Health and Wellness owed them \$70 million. So can you add anything to that? The Health Authority may be a bit strapped for cash to make payroll and to fund operations and looking around to say, how do we make this payroll? At some point they reached a point of desperation where they knowingly, I guess, dipped into restricted funds and used them for day-to-day operations. That's something they would have done knowingly, I guess, was it?

MR. PICKUP: In simple terms, the way I would put this is, yes, they needed some money to pay the payroll and to pay bills, so they knew they were sitting on a huge receivable from the Department of Health and Wellness so they dipped into these restricted funds to cover operations, to cover payroll payables, which they aren't supposed to do. This is why we pointed it out, and they did acknowledge that.

I think for the average person they would go, okay, you're owed \$70 million and the department knows you need that money to cover your costs, why aren't you getting this money? So this is partially why we made this recommendation, because I don't think, to the average person this would make sense, that an organization that owes you \$70 million is not paying you and you have to borrow from restricted funds.

MR. HOUSTON: I appreciate that because that's actually exactly what I was thinking. It seems like the Department of Health and Wellness was essentially putting the squeeze on the Health Authority. I know when you're strapped for cash trying to make payroll you cut things and you try to get by until the money comes in from the Department of Health and Wellness. So the fact that the Department of Health and Wellness was stringing them along and not paying on the amounts that were due to the Health Authority, it just makes me wonder where those other cuts came.

We hear the stories about some of the doctor shortages and some of the things happening in health care in this province, and I wonder what types of services didn't get performed because there was a severe cash crunch at the Health Authority. The cash crunch was so extreme that they knowingly dipped into some money that they weren't supposed to dip into while they were - did you see through your work, did you notice, what were the ramifications of the Department of Health and Wellness putting the squeeze on the Health Authority? Did you notice any cuts to services or is that something that wouldn't have been in the scope here?

MR. PICKUP: Two points on that. Firstly, this is a financial statement audit so we're looking at the accounting, and the accounting they got right. The financial statements clearly disclosed that this was borrowed and this was used so the accounting, no problem. Why we brought this to the attention of the Health Authority and to you, frankly, as the Public Accounts Committee, is that you may want to engage the Department of Health and Wellness and the Health Authority to ask, why is this happening, what does this mean? I think why they dipped into the funds is they said okay, we need to pay people, we need to keep going, so they borrowed from the restricted funds.

I think we're presenting this to you today so you can have those types of discussions with the Health Authority and the department, so frankly they can fix this and this is not a recurring problem.

MR. HOUSTON: I appreciate that and presumably there would have been some sense of panic at the Health Authority because missing a payroll would have been pretty catastrophic for health care in this province.

Do you have any sense of the time frame? When was this happening?

MR. PICKUP: We were looking at your end, of course, and making sure that financial statement captured it, so the details of how often this happens or the exact nature of the whys is probably a better question for the Health Authority itself.

MR. HOUSTON: Okay, I appreciate that. It's interesting, though, another thing that came out of your report here today is while that was happening, the Health Authority scrambling trying to find money to make payroll, at the same time we had a number of government departments that were over budget and just went back to the Cabinet Table and said, can we have a bit more money? I think there were \$128 million in additional appropriations.

I just want to make sure that I have that in the proper perspective. The way I understand that is that the government would lay down a budget which would be approved by the members of this House, and then the year would unfold and they would spend money. So when they have to go for additional appropriations it means that a department overspent its budget and those additional appropriations kind of are signed off on with more money. In this case we're looking at a government that had a few departments that

needed a bit extra cash and they went and asked for an extra \$128 million. Is that kind of how that worked - they overspent so they just get a few more dollars appropriated?

MR. PICKUP: Each case may be unique but what I will bring you to are Pages 60 and 61 of the Public Accounts of Nova Scotia where it very clearly outlines by dollar amounts the final additional appropriation required. So a department starts with an original estimate, then they may get some additional appropriations, they come to an actual expenditure, there may be a difference, and then that additional one is funded to a final additional appropriation. That is all laid out in the Public Accounts. The \$128 million is made up of \$85 million done at additional appropriations during 2016 through various Orders in Council and then \$43 million through all these other ways that I just outlined.

MR. HOUSTON: So the \$43 million, would it be fair to describe that as kind of like an oopsy, like they tabulated their accounts and realized they spent more than the budget because the \$43 million happened within two weeks after the tabling of the accounts? To me it seems like that was a bit of a recovery mode there - am I thinking about that properly?

MR. PICKUP: My opinion would extend to the accounting over this and the accounting is appropriate. Part of why we're drawing this to your attention is so that if you want to engage officials from the Department of Finance and Treasury Board or the departments that needed the additional funds and get the story from them as to why this happened, the timelines around it, I think it's better that the government accounting folks answer that question.

MR. HOUSTON: So they got the accounting right. How they got there is a separate issue for another day. I do want to look at - in Chapter 1, you had some recommendations that you had made before that the government has taken no action on. One of them is that there has been "No directive from Finance to agencies, boards, etc on travel and hospitality disclosure." I guess in this case you're saying that in the past your office had recommended that the government or the Department of Finance and Treasury Board take some action to make sure that the agencies and the boards disclose things like what they're spending on travel and hospitality. That's something you've asked them to do, you've recommended that they do, and they've decided not to do that. Is that a fair summary of that?

MR. PICKUP: On the first part, this is something that we recommended be done. Just for the sake of context, these organizations are organizations like the Liquor Corporation or the Halifax-Dartmouth Bridge Commission, just as a few examples. You're right: we recommended this. The response from Finance and Treasury Board on behalf of the government is, we are working on this, and we're going to issue a directive. They haven't said, we disagree. They said, we accept the recommendation. However, we made the recommendation a year ago, and we're a year later, and it hasn't been implemented yet.

MR. HOUSTON: So they haven't gotten around to it yet. I think in the news, maybe over the last week or two, I did see a Minister of the Crown, Minister Churchill, talking about how the government was going to bring some disclosure around these types of expenses to municipalities. At the same time he was saying that in public, in his own government, they haven't bothered to do it within their own departments over the past year. Am I missing something there?

MR. PICKUP: Let me be clear on why this is on here. I won't comment on what a minister said about municipalities, but so that I'm clear on where I stand on this, I guess how it happens is government-speak and it's up to government in terms of how it happens. The fact that it hasn't happened yet, I just don't understand, frankly.

There's no reason why these organizations can't go about disclosing this stuff on their own. This is modern practice. This is very accepted. When we talk about places that aren't doing this, then I think the question for this committee to these types of organizations could be, well, why aren't you doing this anyway? Why do you need a directive from Finance and Treasury Board and all of these processes and steps? I don't think people care about that. I think what people care about is that they have open, transparent government, including from these organizations, so that you can go and see these types of expenses very easily. I stand firmly that I believe this recommendation is critical to open and transparent government, and this should have been done by now.

MR. HOUSTON: As we sit here today, would you be able to say how much these agencies, boards, et cetera, have spent on travel and hospitality? Nobody would be able to figure that out, even the Auditor General of the province. Is that true?

MR. PICKUP: We haven't gone and asked these entities for that information, so similar to if somebody in the public went to look right now on the websites of these organizations, there's no way you would see - modern expectations - of the money spent on travel and hospitality as examples by senior officials of an organization.

MR. HOUSTON: Whilst we're talking about disclosure, in that point right there is making it open and transparent so that people can see. The next recommendation was for the Internal Services Department. They don't even monitor their policy on what's spent. So that's a whole other layer of offensiveness. One is it's not disclosed; the other one is that inside the department they don't even monitor whether their policy is being respected. Is that what I see in the second point there?

MR. PICKUP: That is what you see in the second point. We made the recommendation that Internal Services should be doing this. They accepted the recommendation and indicated that they would, and they haven't got around to it yet. I think partially why we're highlighting it to the public and to this committee and to legislators is so that you can ask them, why haven't you done this yet? When are you going to get it done? What's happening here?

MR. HOUSTON: A year ago, the Department of Internal Services received a recommendation that they should at least monitor whether people are abiding by their policy. They received that recommendation, and they said, you know what? You're right. We should monitor that. A year has passed now and you went back and they're still not monitoring it. It seems too remarkable to be true.

MS. TAMMY SQUIRES: Just for a correction, the hospitality policy came into effect on March 1, 2016. In that policy there is a clause that says the Department of Internal Services. So Internal Services would not have been responding to our recommendation in the past, it would have been Finance and Treasury Board. I just wanted to clear that.

MR. HOUSTON: Since March.

MS. SQUIRES: Since March 1st.

MR. HOUSTON: Okay. We'll see where that one goes, I guess, after today's recommendations, bearing in mind that that Minister of Internal Services just heard his colleague from Cabinet talking about what municipalities should be doing, so maybe he'll get around to instructing his staff to monitor that policy too.

I do want to talk about the net debt. You had a nice little chart here where you talked about the net debt per person in Nova Scotia, and that's almost \$16,000. That's up 13 per cent since 2012. Net debt, to my understanding, is the amount that the government would owe if it basically liquidated all its assets, it would still have a liability due. It's like for the average person you sell your house, you sell your car, you sell your furniture, and you still owe a pile of money - that's what net debt means in government terms?

MS. SQUIRES: In our chapter we actually define and it is the difference between what the assets are, the financial assets and the liabilities, and it lets the reader know whether or not there's enough assets to cover all your liabilities, so it's kind of what you just said.

MR. HOUSTON: So at some point in time that would be paid through future taxes, I guess, right?

MS. SQUIRES: Future generations, absolutely.

MR. HOUSTON: Future generations, yes, and that number is going up. Are you able to - let's call it \$16,000 today for each Nova Scotian - are you able to put that in any perspective as to how that compares to other provinces, or was this focused on just Nova Scotia for today?

MR. PICKUP: For today, two points. One, that's the number today but also that is up 13 per cent from 2012. The other point I'm raising is I think it would be a great idea for you to have the Department of Finance and Treasury Board come in and explain what this

means, how relative it is to other jurisdictions, but not only how it compares but what that means. If you compare that to a province that had half of that or twice that, what does that actually mean? What's the back story behind it?

We haven't done that to go and look at other provinces but that may be a good question for Finance and Treasury Board.

MR. HOUSTON: You are pulling that number out because it has significant meaning in your minds, the net debt per person.

MR. PICKUP: All of these analyses that we do are generally accepted within the accounting profession that these are good indicators of financial health. What we're trying to highlight here are essentially two stories: you've got the story for the last year and then you have a story over the accumulation of a five-year period, and both of those should be considered in terms of looking forward.

MR. HOUSTON: Thank you for that. I want to go back to the additional appropriations for a minute, the \$43 million, particularly that amount, that was within the last - like it was within two weeks of the accounts being tabled. I just took a look at the Public Accounts there, all those appropriations were because the money they spent was higher than what was budgeted. Some of that related to the Yarmouth ferry in particular, the department had to go back and get more money because they were over budget due to the Yarmouth ferry. It looks like that was about \$13 million.

Now just so that I understand that number, that's the amount they were kind of over budget at that point in time, right? We don't have any sense as to how that shook out in the end. Is that an accrual basis or cash basis?

MS. SQUIRES: Hopefully I'm going to answer your question. That is an accrual basis. The last appropriation that's done, that \$43 million, it really is to bring maybe some of those estimates that the government didn't know the final amounts, like the pension adjustment. You have an actuary, the actuary will not give you the information at the beginning of the fiscal year, they'll give it at the end.

I can say there was an amount of \$34 million that did relate to Boat Harbour. They looked at the costs that had accumulated so far and they had to adjust. They didn't know that information in the beginning. So that final appropriation, a lot of it is for those year-end accruals.

MR. HOUSTON: So on Boat Harbour specifically, that would be now they have a new estimate of what the whole remediation is going to cost and they topped it up. You don't happen to know what their estimate of the whole remediation was - you wouldn't have that today, would you? It's okay, that's fine.

MS. SQUIRES: So many numbers - I can get that information for you.

MR. HOUSTON: Yes, we can find that. I do have a couple of questions about the long-term sustainability of the province's financial situation and its vulnerability to certain issues. One thing that a lot of people talked to me about actually, unbelievably, is what happens if the federal transfer payments reduce? I think the health transfer payments have been in the news and there are other issues around different types of taxes and stuff.

Has the department, any department, done any analysis that they've shared with you on what the vulnerability is of this province to a decrease in federal transfer payments of, let's pick a number of 5 per cent - are those types of analyses something you see from departments?

MR. PICKUP: As part of this audit on the financial audit work that we do, we're looking at the accounting sort of historically to say are things properly accounted for. Then, as you mentioned, with the federal transfer payment portion, we point out that over a five-year period the percentage of the government's total revenue that is coming from federal sources has varied, from say a high of 34 per cent of total revenue to a low of 31 per cent. We don't as part of this try to do any kind of sensitivity analysis, for example, that if that goes up 5 per cent or down 5 per cent, 10 per cent. That really is a good question and this gives you sort of some information to discuss with Finance and Treasury Board.

MR. HOUSTON: Is it something that you - would you believe somebody in the department is doing those analyses? It's a major issue, right? Presumably it should be something that's top of mind for the department.

MR. CHAIRMAN: Time has expired for questions in that round. We'll move to Mr. David Wilson of the NDP caucus.

HON. DAVID WILSON: Thank you for being with us here today on I think an important issue and topic, especially with some of the examples you used, especially in Chapter 1 you indicated your observation and then you gave four examples in your one-pager that you provided the committee on areas of concern for you and your office throughout the audit.

Two out of those four pertain to health. One of course is something that was already mentioned, around the \$7 million borrowed from the restricted funds for operations for the Health Authority. Could you indicate what those restricted funds are meant for? You said that this shouldn't happen - what are the restricted funds used for within the Nova Scotia Health Authority?

MR. PICKUP: I won't attempt to give you a complete picture of this, but at a high level, my understanding is they are restricted for things like research - that is at a high level of understanding.

MR. DAVID WILSON: Is this a common practice for, say, the Health Authority or even a department, to look at restricted funds, to use it for operations? I mean I would think this is a serious issue that shouldn't be happening in other areas of government.

MR. PICKUP: Two parts to that question. Part of why we have it here is it shouldn't happen and it just doesn't make a lot of common sense, given that you are owed \$70 million from the department and you have to borrow restricted funds. To me this shouldn't even happen within one larger entity of government.

In terms of how much this has happened in the past, the predecessor organizations of the Health Authority, the nine individual health authorities, we didn't do those audits. My understanding is that even though we accumulated management letters from past audits, we didn't see this in past management letters, but in informal discussions with the Health Authority management, they told us that this has happened in the past as well.

MR. DAVID WILSON: You mentioned, in an answer to a previous question, the Health Authority being owed \$70 million by the government. What concerns me, and we've seen this on the federal level, is making payroll and not making payroll. Are you saying that the Health Authority here in Nova Scotia had to do this just to meet payroll to our health providers across Nova Scotia?

MR. PICKUP: I would say the \$7 million was used for operating. Operating means working capital. Working capital can be anything from accounts payable to payroll and everything in between. I don't want to create the impression, though, that they weren't going to do this. Obviously they decided - and they can answer to this - to make the decision to use restricted funds rather than using some other means or getting the money for that receivable from Health and Wellness. They should answer to the why of that.

MR. DAVID WILSON: Do you know if that \$7 million was put back to ensure that the funds will be there in the future for what they were meant for?

MR. PICKUP: It was subsequently repaid.

MR. DAVID WILSON: What about the \$70 million owed to the Health Authority? Was that ever paid to the Health Authority?

MR. PICKUP: We wouldn't have looked at that as part of last year-end. That would have come up this year.

MR. DAVID WILSON: I know there was a lot of celebration in April around the balanced budget and a surplus. But when I look through some of the information you provided in your audit, on Page 20 of Chapter 1, you provide a chart here that indicates 2016 minus-\$11 million. Is that chart indicating there was a deficit of \$11 million last year?

MR. PICKUP: Yes.

MR. DAVID WILSON: That's interesting. Government indicated that they balanced the budget and there was a small surplus, but the Auditor General's Report shows that there was a deficit. We know that there was a request, also under government departments in Chapter 2; there was an extra \$128 million budgeted that was approved after the budget was approved. How long did it take for the government or a department to ask for additional resources after the budget was approved last year?

MR. PICKUP: I think that really is a question that may involve more detail than I would have because the accounting was appropriate. They complied with the accounting. The details of all of that probably is a number of issues better directed to them.

I just want to point out that \$11 million deficit, we didn't come up with that number. That's right out of the Public Accounts of Nova Scotia, and it agrees completely.

MR. DAVID WILSON: I know going through some of the information provided, it was around 15 days, I believe, after the approval of the budget that a department was going forward to try to get additional resources. It seems to be a quick timeline. You would think that close to a budget and budget debates that requests for additional funding would come towards the end of the year. Was the bulk of that \$128 million towards the end of the year? I know we have charts in all the information that was provided this morning. I haven't had the time to get through it all yet. Could you indicate maybe a percentage of when that \$128 million was requested? Was it more towards the end of the year, or was it a couple of weeks after the approval of the budget?

MR. PICKUP: What I can give you is on Page 61 of the Public Accounts. For example, the Orders in Council have the Order in Council number. The pension valuation adjustment, for example, was 2016-94. They don't list the actual date, but it was in 2016, and it was number 94. I don't have what date that was.

MR. DAVID WILSON: I know in Chapter 2, you provide a couple of charts for the amounts for actual expenses exceeding the original budget. I think you indicated three departments: Community Services, just under \$7 million; Internal Services seems to be the bulk of it, about \$34.8 million; and then Transportation and Infrastructure Renewal. Where could we find a breakdown of that? Could you maybe direct us a little in the area of where we can look at what made up that \$34 million of expenses exceeding the original budget for Internal Services, for example?

MS. SQUIRES: I know I keep referencing Volume 1 of the Public Accounts, but the government has done a good job in doing some of the explanations so I'm not telling any secrets. The \$34 million really is for Boat Harbour and it was that year-end amount. You can find that between Pages 56 and 57 of Volume 1.

You mentioned the other \$14 million, that was for that contribution for the ferry and I believe that's also talked about in the Public Accounts.

MR. DAVID WILSON: Also on the following page, Page 28 of your report, it talked about departments asked for more budget than was needed. What's interesting is first there were three departments - Health and Wellness, Public Service, and Restructuring Costs that are in there. Of course restructuring costs has the bulk of that underspent budget at \$77 million. What stood out for me was Health and Wellness, actual expense less than original budget, some \$31 million.

In the first part of your report you are indicating that the Health Authority is struggling to meet operational costs because they needed to go into restricted funds to pay operational costs. They are owed \$70 million from the department, which we don't know if they paid back or not and I understand that's a question for the Department of Health and Wellness, yet they underspent by \$31 million. Why would we see that first example of a Health Authority having to access \$7 million when the department itself underspent their budget by \$31 million - do you have a comment on that?

MR. PICKUP: Not to be repetitive but my comment on that would be that this is partially why we are giving you this information, so you can ask departmental officials and Health Authority officials what all this means and what happens in the budgeting process, keeping in mind that we are not auditing here the budgeting process. This is sort of supplementary information or things we noticed as part of our financial audit.

MR. DAVID WILSON: I can respect that. Would you have a comment from a previous report and audit from your office around the shortfall for infrastructure in Health and Wellness? I believe, if I'm correct - I don't have it in front of me - you indicated some \$85 million was needed to meet current needs of the infrastructure, ensuring that we have proper infrastructure in the province. That was in the last report, I believe, so are you concerned that in one report you are indicating that an investment of some \$85 million is needed from the Department of Health and Wellness to address serious issues within health services, and yet in this one you see the department underspending their budget by \$31 million?

MR. PICKUP: In the June 8th report that you refer to on the hospital capacity, we presented a chart that compared the infrastructure needs identified by the Health Authority and the available funding, and you're right, there was a plus \$80 million difference. We also indicated in that report that it probably made sense to look at what you were planning to do with what you have in your capacity and what was going to do what and then decide where you were going to allocate your money.

Really, in terms of those decisions sort of squaring up if you will, you have an underspend, if you want to call it that in this report, and then the story related to the difference between the infrastructure needs and that which was spent. I think it's a great analysis and explanation that the Health Authority could probably give you.

MR. DAVID WILSON: Just skipping back to the Department of Internal Services, in the chart previous to that one they requested an additional some \$49 million over the original budget. Is there an explanation in the Public Accounts for the reason why they would request that additional - I believe it's around \$49 million when you look at the full package.

MR. PICKUP: I did just want to point out to a previous question that on Page 56 of the Public Accounts, Health and Wellness explain why their estimate was lower and what the nature of the savings was. They indicate that \$28 million of that was capital grants as a result of delay with major construction projects, and then \$8 million in Health Authority is primarily related to prior year accruals, and it goes on in two paragraphs with about 25 lines explaining that.

MR. DAVID WILSON: Thank you for that. So going back to - and there's probably about 20 questions out of that but I know they're mostly directed towards the department. I believe they're coming in in a few weeks so I'll make sure that I approach them on that one.

It concerns me that we hear through this audit that the Health Authority had to dip into restricted funds just to meet operational requirements; when they were owed \$70 million from the department they underspent by \$31 million. They can give all the explanations in the world, but I don't think we should have the Health Authority in the position today that they need to tap into restricted funds. They're restricted for a reason, and I think the government needs to be accountable on why they - like my colleague said - put the squeeze on the Health Authority. When you're in that situation you make decisions that I think will have a negative effect on health delivery, and I guess time will tell.

When it comes to Internal Services and TIR - sorry, I know I said Internal Services - it's around \$49 million. You indicated that the majority of that is Boat Harbour and the ferry, correct?

MR. PICKUP: On Page 57 they indicate that \$13 million of the \$14 million for TIR is related to the Portland ferry service.

MR. DAVID WILSON: Thank you for that. I want to go now to some of the issues around disclosure. I know we have a number of entities that haven't followed through on a recommendation you made over a year ago around disclosure of hospitality and the policies around hospitality. A year ago, if you recall, what was the response from the government? Did they respond that they would be going after those Crown Corporations to make sure that they're transparent when it comes to their hospitality policies and how they account for that?

MR. PICKUP: Just one short clarification. I think as you alluded to in the second part of your question, the recommendation that we made to the government was to Finance and Treasury Board, not to the individual organizations, because this was part of the audit

of the government's financial statements. They agreed with the recommendation and indicated they would give direction to these organizations.

MR. DAVID WILSON: But of course that doesn't seem to have happened so far, so I guess that's another area where we'll need to try to dig into why that's not happening. As you said, it doesn't really require a directive from Finance and Treasury Board, or from any of the department heads that oversee these Crown Corporations, for them to start doing what I think most people would say should be happening.

MR. PICKUP: Was that a question - do you want me to comment on that?

MR. DAVID WILSON: You indicated that it doesn't need a directive from the government, I mean it's pretty easy to do that. Can you show any other examples of big - like the new Health Authority, are they following that policy now?

MR. PICKUP: The Health Authority, as we indicate on Page 1 of your summary - if you go to the Nova Scotia Health Authority in that first column of boxes, under Examples, the third bullet in that last box - are you with me? Okay, we've got "Travel and hospitality . . . policies not updated or developed." The Health Authority is not disclosing travel and hospitality expenses of senior officials. I would group them with other entities like the Liquor Corporation, the Bridge Commission, and on the list would go - all organizations - that to instill public confidence in an open and transparent way, they should disclose these expenses. To me there should be no question that that should be done.

MR. DAVID WILSON: You indicated that there were a number of groups that missed the June 30th reporting deadline that is required under the Finance Act. Have you heard from them? Out of the ones you identified, have any of them reported since the audit was performed?

MR. PICKUP: The most significant one I'll draw your attention to - if somebody is late a day, I think we can be somewhat reasonable. If the June 30th deadline passes, and we're into August or September, and the audited financial statements are still not out, that's not acceptable. The one entity that is the key one is Tourism Nova Scotia. At the time of this report, they still hadn't produced audited financial statements.

MR. DAVID WILSON: What could this committee do to try to make sure that that happens? Are there any ramifications under the Act for these organizations to compel them to do it? We have legislation that at a certain date you're supposed to report. If they don't do that, what can we do as a committee, or what can the Legislature do to push that to make sure they know the urgency of ensuring that they follow the Act that we have in Nova Scotia?

MR. PICKUP: The starting step that I would recommend on that is looking to the people to hold accountable for that. Who didn't make the June 30th deadline? Why didn't they make it? Then look to hold them accountable ultimately, as they're the ones responsible.

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

MR. IAIN RANKIN: I'd like to go back to the graph on Page 20 where it does show the trending for the annual surplus or deficits. The last member pointed out the 2015-16 budget. These show the actuals, and I'd just like to clarify for the record that the budget that was released in April for 2016-17 is not shown on there. Correct?

MR. PICKUP: Can you just say that one more time? You're on the table on Page 20?

MR. RANKIN: Yes.

MR. PICKUP: This is the annual surplus or deficit actual.

MR. RANKIN: Actual, so that 2016 represents the actuals from the budget of 2015-16.

MR. PICKUP: This is actual March 31, 2016, expenditures and revenues, right.

MR. RANKIN: Right, so it doesn't have anything to do with the budget for 2016-17, which was released in April.

MR. PICKUP: No, these are the 2016 actuals.

MR. RANKIN: Okay. I just wanted to make sure that was clarified. So we have a surplus today, which of course, isn't audited yet, so it's not actual. But it does show that we're going in the right direction.

In 2.10 on that same page, you mentioned that the "net long-term debt is a significant indicator of fiscal sustainability." I note that your definition of sustainability is, "the ability of a government to maintain its existing programs and services." Having said that, would it be fair to say that the lower the incremental increase we have in long-term debt, the more fiscally sustainable the province is to deliver these services?

MR. PICKUP: I would suggest that the numbers by themselves would suggest that a lower net long-term debt would be a less vulnerable position to be in, than an increasing net long-term debt.

MR. RANKIN: So you would have more capacity to deliver government services?

MR. PICKUP: I would put it in simple terms. If you're spending \$800 million a year, in interest costs, as the government is - if that suddenly becomes \$1 billion or \$2 billion, that's \$1 billion or \$2 billion less you have either to lower taxes or to spend on programs and services. That's the simple way I would explain it.

MR. RANKIN: In 2.12, where you see the net debt highlighted there, is the three-year trend in the last three years more favourable than the five-year trend?

MR. PICKUP: Is the three-year trend . . .

MR. RANKIN: So 2014, 2015, and 2016.

MR. PICKUP: If you look at 2012 to 2013, it went up \$0.5 billion; 2013 to 2014, it went up \$900 million; 2014 to 2015, it went up \$200 million; and 2015 to 2016, it went up \$100 million. So I would say you see a huge spike in the numbers from 2013 to 2014, from \$13.9 billion to \$14.8 billion.

I think the key point of this is that over a five-year period you've gone from \$13.4 billion to \$15.1 billion. So the differences between 2014-15 and 2015-16 are less than the differences between 2012-13 and 2013-14. I think that is a question for the government to ask what that means.

MR. RANKIN: But by definition, the sustainability of services are there because you have less interest costs incrementally.

MR. PICKUP: If we look at actual interest costs last year compared to the year before, they're both sitting at nearly \$800 million, so the interest costs really haven't changed.

MR. RANKIN: That's good news. In 2.14 we have the "net-debt-to-GDP ratio decreased this year indicating that broad economic activity . . . is estimated to have increased at a rate faster than the increase in the Province's net debt." How significant to the Office of the Auditor General would that measurement be, the whole debt to GDP, in terms of the impact of the ability for government to continue to deliver good services to Nova Scotians?

MR. PICKUP: I would suggest that any one of these indicators is part of the story, and the story really comes by explaining what these numbers mean in terms of whether it makes a government less vulnerable/more vulnerable, less sustainable/more sustainable. But the people who should really decipher this and really explain what this actually means going forward are the accountants and government itself, in terms of identifying what these things mean.

We're giving an opinion at a point in time to say the numbers that you see are fairly calculated and are correct. What that means going forward in terms of policy or anything else is really a question between legislators and this committee and holding government to account.

MR. RANKIN: Okay, and just touching on the 2016-17 budget, I know it's impossible to audit the expenses but you did have a role in looking at the revenue estimates and looking at the reasonableness of the forecasted revenue. You said you issued a clean report on that, and I'd like an explanation of what that means in terms of accuracy on the revenue side.

MR. PICKUP: If the Chair is okay with this, I think the best thing we could do is give you the full report on the revenue estimates because to pick out any one piece of that, you may miss part of the picture. For me to summarize everything that's in that page report would probably take me some time, so perhaps we can bring back to the committee the revenue report.

MR. RANKIN: What about the convention centre allocation? Was that properly identified in the revenue estimates for 2016-17?

MR. PICKUP: Anything that we consider to be material or significant to the calculation of the revenue estimates, we were able to satisfy ourselves, and the report concluded that there was a reasonable basis for these calculations.

MR. RANKIN: Okay, thanks. I do want to touch on a couple of things that were highlighted prior to my opportunity in Chapter 1. The Nova Scotia Health Authority was highlighted - was that audit and the response to that audit from the department done on time?

MR. PICKUP: Unlike Tourism Nova Scotia, yes, the Health Authority got their audit completed on time. I've said it before and I would say it again, I think that's a major accomplishment for the people running the Health Authority and the board of directors overseeing it. To bring nine entities together and produce a set of financial statements and have them audited and done by June 30th is a major achievement.

MR. RANKIN: Did they agree with the recommendations you set forth for them?

MR. PICKUP: Yes, they have agreed to the recommendations.

MR. RANKIN: That part about the restricted funds, I do want to flesh that out. Is that a cash flow issue? Is the money accounted for? So the money was borrowed - has it been paid back?

MR. PICKUP: Three things that I think you're hitting on there; the accounting is appropriate. There is the story of why this happened, and how it's accounted for is in the financial statements. We've audited it, the story is fair, and it's all there. So the accounting is appropriate, no issue.

The issue becomes one of - and the Health Authority agrees - you're not supposed to use restricted funds for cash flow for operations. So that's the part that shouldn't happen. The accounting I'm not worried about - the Health Authority's not worried about.

MR. RANKIN: Did that impact on services at all? Is there any chance of that? I think that was a suggestion that another member said that this would somehow impact on delivery of health services, or was the money used and it's still coming from the same general pot of funding and properly allocated in the financial statements?

MR. PICKUP: What we looked at as part of the financial statement audit is to say, is the accounting appropriate, and then we do a - by the way, you used restricted funds for purposes that they weren't intended for. What that meant in terms of day-to-day operations, what that meant in terms of back and forth with the department on the receivable, that would really have to be addressed to the Health Authority.

MR. RANKIN: I think what the public will want to know is - is government really hiding anything? So in this report does it show where all the funding has been allocated to the budget? What pages would we find government disclosure of all the budgeting in every department?

MR. PICKUP: The government produces the Public Accounts of Nova Scotia. We've indicated in this report that there is a lot of information in the published Public Accounts, and it is useful information. People should refer to the Public Accounts for all of the details, but yes, the estimates are in the published Public Accounts. They are adjusted estimates on the revenue and expense statement. The actuals are there and then the comparison to the year before.

MR. RANKIN: So you say that government has not fully addressed three of the 13 previous recommendations, so less than 25 per cent of the recommendations still remain on the table. How do you compare that to the last similar type of audit?

MR. PICKUP: In terms of the number of recommendations solely to Finance and Treasury Board?

MR. RANKIN: That are still outstanding.

MR. PICKUP: With Finance or in government in general?

MR. RANKIN: In general.

MR. PICKUP: The last follow-up report we did in April this year, we followed up on 23 audits and 403 recommendations - found that roughly 60 per cent were done and 40 per cent weren't.

MR. RANKIN: And in this instance you still have 10 of them complete and three of them outstanding, right?

MR. PICKUP: Right.

MR. RANKIN: The hospitality policy that was highlighted, is this new hospitality policy being followed in government? Are we able to discern whether or not this policy has been followed?

MR. PICKUP: A couple of things on that - the new policy came into effect on March 1, 2016. We didn't do a full-blown audit of the hospitality expenditures or a performance audit of those expenditures. As part of our financial audit, we would have looked at some of the expenses on this in March when they started.

MR. RANKIN: So it's a fairly new policy and your concern raised was that some of it's not being reported online or for the public to be able to see some of the expenses used within that policy.

MR. PICKUP: A couple of things - the recommendation to the government was to look at the organizations outside of the core of government, if you will; look at the Crown Corporations and these other entities and determine what you want them to do in terms of disclosure around travel and hospitality. That was the recommendation that was accepted last year, and that's what hasn't been done yet.

MR. RANKIN: And you're confident that the Department of Finance and Treasury Board has full authority to do that within the Finance Act?

MR. PICKUP: For me, we wouldn't look at what authority that would take. If there was some concern about wanting a corporation to disclose in an open, modern way, somebody could probably pick up the phone and call that organization and say, "Hey, you're not doing this, it's probably good public practice to do this. Look across the country - people are doing this, organizations are doing this. This is the public's money, I think you should do it."

What the legislative authority is, what the mechanisms are - while those are important steps, to me that doesn't dismiss the importance of this recommendation or the fact it hasn't been done.

MR. RANKIN: So do you follow up with this recommendation a year from now or is this one of those that you take two or three years?

MR. PICKUP: On the management letter recommendations and recommendations from these audits, we will follow up every year.

MR. RANKIN: All right, okay. I note that the province received an unqualified opinion again and it has been 16 years in a row so that's something that all three Parties should be proud of. But in context, how does that compare nationally? Did the other provinces typically see an unqualified opinion on their consolidated financial statements?

MR. PICKUP: I can't give you a summary of every jurisdiction. I can relate to you my experience at the federal Office of the Auditor General where the Public Accounts of Canada have been prepared with an unqualified opinion for quite a number of years. That's the only comparison I would have. But I'm sure officials from Finance and Treasury Board here may have that information for you.

MR. RANKIN: Okay. Just going back to health care, I noted that later in the report you mentioned the direction health care spending was going and again going back to the insinuation that somehow the government squeezed the Health Authority for the funding they required. Has health care spending gone down in the last five years or the years that you looked at in your budgeting?

MR. PICKUP: On that summary for Chapter 2 when we looked at it per Nova Scotian, in the fourth box down we said under Per Nova Scotian, the government in 2016 spent nearly \$4,800 in health care costs per person, and that's up 13 per cent from 2012.

MR. RANKIN: So health care spending has in fact increased over that time.

MR. PICKUP: I would say that health care costs have gone up 13 per cent per person since 2012.

MR. RANKIN: Okay. So is there anything in terms of the overall financial position of the province - in your opinion, would you see that as an improvement this year?

MR. PICKUP: A couple of things on this. We look at a one-year trend line in terms of the deficit, and clearly, I think anybody would argue that an \$11 million deficit is less than a \$500 million deficit and therefore is impacting those indicators differently than the \$500 million deficit would be.

The question of whether a deficit is good or bad and what these numbers mean are really up to elected officials to explain and for the government to explain and to have that discussion.

MR. RANKIN: Right, and of course there's always things to improve upon and you've highlighted some for some of the agencies and the ABCs. I guess I just want to know if any of those have anything to do with misappropriation of funds or anything of that magnitude, or is it just tightening up on the practices of the utilization of cash flow and making sure that we're following best practices?

MR. PICKUP: The question of misappropriation of funds is an interesting one, because when you do a financial statement audit you are not giving an opinion on the guarantee that there's no misappropriation of funds or anything like that. That's not what a financial audit does. That responsibility really lies with management.

Now on a material level, if it was significant, if it was really big, yes - on these audits, we would have procedures that we should pick that up. But for smaller amounts, can I say there would be no fraud in any of these organizations or misappropriation, I wouldn't be able to tell you that.

MR. RANKIN: Right, okay. That's all the questions I have.

MR. CHAIRMAN: Thank you, Mr. Rankin. There's just shy of three minutes remaining. Mr. Gordon Wilson.

MR. GORDON WILSON: Thank you very much, and also welcome to Ms. Squires and Mr. McWade - I believe this is their first time here. It's good to see fresh eyes, because again, I agree that the reports we've seen - the one-pagers are a nice addition to the committee's information.

I just want to open up with a question. Have you ever made any comments on the relationship of the debt towards the financial health of the province in any previous audits that you've done?

MR. PICKUP: Now when you say "you," are you referring to the Office of the Auditor General?

MR. GORDON WILSON: I'm sorry, the Office of the Auditor General, yes.

MR. PICKUP: From the Office of the Auditor General, I think there have been comments in the past on the level of debt that governments may incur.

MR. GORDON WILSON: Could you maybe expand on what those comments might have been?

MR. PICKUP: We can get those comments for you. I don't believe the comments were mine, so we would have to dig them out for you.

MR. GORDON WILSON: Would it be fair to say that there was concern about the amount of debt towards the financial health of the Province of Nova Scotia?

MR. PICKUP: I think the safest thing for us to do is get those comments for you rather than me trying to paraphrase anything out of context or somebody else's words. I think it's better if I have the actual commentary in front of me.

MR. GORDON WILSON: I find this to be a very encouraging report. I know sometimes people try to find the negative in it, but the trends are favourable, we're moving in the right direction, we're seeing debt reduction towards our GDP, and our fiscal health is better. I think things are moving in the right direction. In regard to some of the comments around the Health Authority, I'd like to start with these restricted funds that were used towards research. This is something you say that has happened in the past. Do you know where it happened in the past, with which department?

MR. PICKUP: My understanding - and this is not in the audit report, this is based on some informal discussions with the current Health Authority - this happened in the past within the Health Authority. I can't give you details. We haven't attempted to audit that. We have never seen that in management letters. We got the management letters from prior year audits, and we haven't seen that in prior year audits. But they tell me this has been a typical practice.

MR. CHAIRMAN: Order. Time has expired. We'll move to the PC caucus and Mr. Houston for 14 minutes.

MR. HOUSTON: Just picking up on the state of the economy, I guess, I'm looking at the chart here. Nova Scotians are paying more and more tax. They're paying \$5,800 a year, every single Nova Scotian, including those who don't pay taxes - man, woman, child, whatever, \$5,800 a year in taxes. That's up over the last five years. At the same time, net debt is up. So we're paying more, but the debt is still going up. What does that say about the state of the economy, just those two facts in and amongst themselves?

It doesn't seem like the economy is growing. It seems like Nova Scotians are being asked to pay more in tax, and they're still falling a bit behind. Can you draw a line between what's happening and how much tax Nova Scotians are paying and how the debt is increasing? Even if it's increasing at a slower pace than previously, it's still increasing. We're still paying more tax. It doesn't feel like really great economic times in the province. What's your assessment?

MR. PICKUP: I would go back to the point of why we are doing this. This is not an audit with the question of, is this good or bad? This is information from the financial statements that we audited, and we're presenting it in this way and giving you this

information to help you in your job as a committee in holding the government accountable. Questions about whether these are good or bad or what this means in terms of future expenditures or the future tax rates, all of that stuff is really a discussion and an accountability exercise for the government to explain whether this is good, bad, or otherwise - not me.

MR. HOUSTON: I respect that. I agree to a certain extent that the facts do speak for themselves, and Nova Scotians are paying more for less, and that's not a great feeling.

In terms of your review of the revenues of the province, it might not be exactly in scope for this, but I wonder - Nova Scotians are paying \$5,800 a year in taxes. That's a number from your report. There will be a carbon tax by the sounds of it. I've seen numbers that it could be \$1,200 a year, per family - quite a big jump on what we're already paying. In your capacity, have you or your office taken a look at what the revenues or what the tax burden of a carbon tax might look like to Nova Scotians?

MR. PICKUP: To date, we have not looked at that because that would not impact the financial statements which are an historical look and on which we give an opinion.

I will note, however, that we give what we call a review engagement report - an opinion, if you will - on the revenue estimates that the government uses in its budget. Nova Scotia is one of the few jurisdictions in Canada where that is required and it's required for the AG Act. So when we get into next winter and the government is working on preparing the revenue estimates for 2017-18 for example, we would review how those are prepared, including any significant assumptions, estimates, all of that stuff. So if it is in there, if it's a factor for 2017-18, then we'll be opining on it next year.

MR. HOUSTON: So stay tuned. I do want to just touch on the Tourism audit. The audit was due June 30th but they never met that deadline - why?

MR. PICKUP: I won't speak for the entity. I think under our accountability system they clearly are the ones that should answer as to why they didn't meet the deadline. I can offer that they have indicated that where it's their first year and they have to do all this work that perhaps that is putting them behind.

I would say the Health Authority was able to do it, coming together as a \$2 billion organization, so in my view the law exists for a reason, the Finance Act exists for a reason so they should have met it. But to answer the whys, it really should be them.

MR. HOUSTON: So as we sit here today, is their audit done yet?

MR. PICKUP: As you can probably appreciate, we are not on the phone with all these entities every day, we're keeping an eye, but as of 10 days ago, it hadn't been complete yet.

MR. HOUSTON: Do you have any sense of how big an organization that is? What would their budget be? It's in the tens of millions, presumably.

MR. PICKUP: We didn't report the actual number in here so we would have to get that.

MR. HOUSTON: Coming out of the financial statement audit are things like sunshine lists for salaries and all this type of other stuff, so none of that is in the public realm until the audit is done and the audit is not done, is that true?

MR. PICKUP: That is a correct summary.

MR. HOUSTON: I guess in terms of the process, your office makes recommendations, we've talked this morning about a number of serious recommendations that have been made to the government, particularly around disclosures of certain types of expenses, and no action. Then we see organizations that have a pretty serious deadline for their audit to be reported, no action. Is there anything that Nova Scotians should take from that?

I'm sitting here and thinking that maybe the government doesn't see the seriousness of some of the rules of the game, is that fair? I mean we have a department, the Tourism audit isn't there but there's a Minister of Tourism, presumably the minister is aware that the audit isn't done. What should I read into, if anything, the fact that there's a lack of respect, I guess, for recommendations and deadlines?

MR. PICKUP: I think to summarize that down into one question, for me it would be the accountability regime around why these things happened in the first place, who was accountable, and what's going to change into the future.

If we go back to the purpose of why we do this audit work, and why we bring information to the Legislature, and why I report to the Legislature and then come to this committee to describe it, is to help the members of the House hold the government to account. So questions like - why aren't you doing these things, what does it mean, who is held accountable, what's going to change going forward - it's really between the members of the Legislature to ask those types of questions.

I would also encourage that in my public statements, whether it's to the media or to other organizations, I would say that I think the public should also look to the Public Accounts Committee to say, how well is the Public Accounts Committee holding the government to account? Are things changing because of the work the Public Accounts Committee is doing either by endorsing our recommendations, supporting our recommendations, and then pushing the government to implement our recommendations as well?

MR. HOUSTON: So the things we're curious about this morning around the failure to act on the recommendations, the audit thing, and some of the other - those are all things that you want to know the answers to as well, I guess.

MR. PICKUP: Some of this, I guess there is no answer. If the directive hasn't gone out, you have an issue with the directive, nobody has told them to do it, they haven't done it voluntarily - there's not a whole lot more to ask. At the end of the day, it's not being done. To simplify it from my perspective, I don't really want to hear 500 stories of why something is not done when I think it's a very easy practice to follow. So I would say just get it done.

MR. HOUSTON: In terms of the review of the revenues of the province, when you do that review - and I am still curious about the sensitivity of the province's finances to changes in federal transfer payments - I'm curious of the sensitivity of the province's finances to changes in oil and gas revenues and interest rates. Interest rates aren't in the revenue pile, but in terms of the things that are in the revenue pile, when you do the review, does the department provide different scenarios to you, like an optimistic case and a base case or a downside case? What's presented to you when you do that review of revenues?

MR. PICKUP: I will give it to you at a high level as to what we do, but if you wish, we would be more than happy to come back to the committee to have a more in-depth discussion on the details of what we do. It may be worthwhile to have a discussion with the Department of Finance and Treasury Board in terms of how they prepare the estimates.

What we look at are management assumptions, so if you think X is going to happen to income tax, for example, we would look at - where did you get that estimate? What is your basis for that estimate? Keeping in mind, when I sign that opinion to say this is properly calculated, that opinion says the one thing we know is that revenue in the future is going to be different - it's going to be different than what's estimated. This is not a guarantee when I sign that opinion, that that's what revenues will be.

These are estimates based on assumptions, so what we're looking at is - what is your basis for those assumptions? Are they reasonable? Last year we concluded that the revenue estimate in 2016-17 was reasonable, knowing full well that it will be different.

MR. HOUSTON: In terms of the revenue from personal income taxes, we know now from this that people are paying more - up 17 per cent from what they were paying in 2012. Can you comment on the tax yield? The tax yield is - when the government is saying it has more revenues it's because it has more tax revenue, and in this case I take it from your numbers here today that just because we're each paying more in taxes, it's not necessarily because we're making more money and paying more taxes that way. It's just that they're taking more from us. The tax yield is not on here, but do you happen to know, is the tax yield increasing?

MR. PICKUP: What we presented is - you're right - the taxes collected per Nova Scotian are up 17 per cent from 2012. More detailed information on yields and beyond that is really a question for departmental officials to explain.

MR. HOUSTON: I do know that there are a lot of things that can impact the finances. I mentioned a couple, and obviously the one on the news at the moment is with the teachers' negotiations. You recently did a report on the Department of Education and Early Childhood Development. I wonder if you happen to know offhand when you're due to go back and look at whether they've acted on some of the recommendations, because a lot of the recommendations at that time, to my memory, spoke to use of reports and what was happening in the classrooms and stuff.

That's something that I'm hearing about in the news a lot, part of the discussion about the new contract is classroom conditions. These are some of the things that you've touched on in your report. I just wonder if you can tell the committee today if you know when you're due to go back and look at whether Education and Early Childhood Development is acting on some of the recommendations that have been made to it.

MR. PICKUP: A couple of clarifications just to house that discussion. We did an audit on the Tri-County Regional School Board and the oversight of educational results back in the Fall of 2014. We will be following up that audit as part of our follow-up that will start in November, which we will report on next Spring. So for the Tri-County Regional School Board we will be following that up this coming Fall. Those recommendations were made not only to the Department of Education and Early Childhood Development but they were also made to the board itself.

The other audit that I think you may be referring to is we also did an audit that involved the Halifax Regional School Board, the Strait Regional School Board, and the Chignecto-Central Regional School Board as well. That's a year later so that won't be followed up in this bunch, it will be followed up a year after that.

MR. HOUSTON: So you wouldn't have any way of knowing if there are any recommendations until those follow-ups. Of all the things . . .

MR. CHAIRMAN: Order, time has expired. We'll move to the NDP caucus and Mr. David Wilson for 14 minutes.

MR. DAVID WILSON: I just want to go to Chapter 2 on Page 17, some of the bullet points you put under "What we found." The third last bullet point indicated, "Government does not explain in the Public Accounts the reasons for additional funds." I'm wondering if you could just - what does that pertain to? Was that what we were talking about earlier, about Boat Harbour and the ferry? I wonder if you could just elaborate a little bit on that specific bullet point that you mentioned in the audit.

MR. CHAIRMAN: Ms. Squires.

MS. SQUIRES: That point revolves around when a department comes in with their first request for budget appropriation, it's when that next one, they want an increase. There's no discussion as to why they actually want the increase, so we feel that would be better disclosure all around in the Public Accounts.

There is disclosure though when a department overspends, so when they have spent more and there's a lot of detailed analysis there, when they spend more and they need to get it, they do talk about that, but not on this initial, when they actually do their first calculation why do you need it, there's no discussion about that.

MR. DAVID WILSON: Did the department or the government respond to that concern in the audit? Have they responded in a favourable manner to that concern?

MS. SQUIRES: In my opinion, in my view what the department has done is they actually have posted already on the website a list of all the departments and they are going back to asking for that first appropriation and why they're doing it. This is something we just noticed in the last couple of weeks that was on the Internet on the department's site. For me that would be they have taken some action and we will push to have it in the Public Accounts next year.

MR. DAVID WILSON: I know that you've given kind of a picture of the financial condition of the province currently and I know there are some big-ticket items on the horizon for the government: the VG replacement, P3 school decisions, and wage patterns for the public sector. Were any of those big-ticket items that we know are on the horizon accounted for in this report when you analyzed the financial condition of the province currently, or is that something we'll have to look at next year when this report comes out?

MR. PICKUP: I will try not to summarize the accounting handbooks for you but essentially these numbers come from the audited financial statements. Those financial statements follow Canadian Accounting Standards. Those standards indicate when, for example, a liability should be recorded. So if you're constructing something new, you go to the handbook and you say, does this meet the accounting requirements to be a liability yet? So the specifics of which item would fall under yes, you book it; no, you don't book it now; or you book it later is really specific to each individual accounting issue.

I might suggest that if you wanted to know that by major category or item, it may be something when Finance and Treasury Board is here to request for them to prepare for you to give you sort of that high-level view of the accounting on this stuff.

MR. DAVID WILSON: But those three I mentioned would not be - it's not in the data that you reviewed for this. I'll give one example: the VG replacement. There has been a lot of talk, a lot of announcements on it. Is there anything that you found within your

audit that indicated that maybe there should be a larger figure booked on the financial statements or is that something for a later date?

MS. SQUIRES: In the financial statements of the government, one of the notes, one of the disclosure items that they do - and this is also required under Public Sector Accounting Standards - it's a category, commitments if you will, contractual obligations. That's actually in Note 10(c) on Page 90 of the Public Accounts.

Those are commitments that have already been undertaken. The government does list a few. It does list \$128 million from the Department of Education and Early Childhood Development for P3 school maintenance agreements. It's a very broad category so Michael was correct - I think for more details it should be the Department of Finance and Treasury Board, this is where that information would be. We've audited this information and we have a clean opinion, so these numbers are not significantly wrong. It's not to say it might not be out \$1 million here and there, but they're not significantly wrong.

MR. DAVID WILSON: I noticed also, going through some of the charts, especially the one-pager that you provided - which is very beneficial, especially for Chapter 2 - that health and education, for example, is about half of the provincial spending. Are you able to indicate how we compare here in Nova Scotia compared to other provinces? Do you keep that kind of detail on where we are as a province if you're trying to indicate our financial condition or where we are as a province financially? Can you give an indication of where we are when it comes to health and education spending, which I would assume is probably the largest in every jurisdiction, but are we on par with what other jurisdictions are spending?

MR. PICKUP: We wouldn't look at that as part of a financial statement audit. We're looking at if the numbers were properly accounted for. What I would indicate is part of why we put these things here for the Public Accounts Committee and for others is that that can generate those types of questions to departmental officials to say, okay, this number by itself doesn't tell a story. The story lies behind that number and what that means. So it's a great opportunity to ask departmental officials.

MR. DAVID WILSON: I guess I assumed under - I know you broke down Education and Early Childhood Development and Community Services as 25 per cent. Maybe I shouldn't assume - can you break that down further to Education and Early Childhood Development and Community Services? Are they pretty much even with that 25 per cent? If you don't have it, you can get it back to me. So 40 per cent was Health and Wellness spending, and 25 per cent was Education and Early Childhood Development and Community Services. I'm just looking for the breakdown of that 25 per cent.

MR. PICKUP: If we look at Page 29 of Chapter 2, we break it down by Community Services, Education and Early Childhood Development, and Health and Wellness. So if you go to 2016 in Paragraph 2.36, Page 29, you'll see that Health and Wellness in 2016 was about \$4.3 billion; Education and Early Childhood Development is that grey spot; and

then Community Services is the lighter grey zone. If you want to know what that exact part is - you can sort of see there that Education and Early Childhood Development would probably be one and a half times Community Services.

MR. DAVID WILSON: So I assumed correctly. Thank you for that and I know those are some of the challenges with getting the report and having the meeting as soon as we get it. I didn't have the time to go back through that, but I appreciate you giving us the direction on exactly where to find the figures and the percentages.

MR. PICKUP: I would add that that's in Statement 2 on Page 72 of the published Public Accounts by every department with adjusted estimate and actual.

MR. DAVID WILSON: Also, I think my colleague touched a little bit on the impact on the financial conditions of the province and I think everybody would know that interest rates are quite low, probably the lowest we've seen - well, in my time. How does that affect Nova Scotia's financial conditions? If we see a spike in interest rates over the next few years, what impact will that have on the financial conditions of our province? Are you able to comment on that?

MR. PICKUP: That's a great opportunity for me to argue and put forth the importance of a set of financial statements. People will argue financial statements are just looking backwards and just looking at points of time in the past, but what those financial statements can show you is if you look at the assumptions that are inherent in those financial statements and ask, what happens if? For example, there are assumptions around wage increases, there are assumptions around things on various matters like CPI, and there are assumptions around interest rates - asking the Finance folks, what happens if? What happens if interest rates double? What happens if CPI doubles? What does this mean for the numbers?

When you look at the financial statements that we audited, there are some big numbers there for things like future employee benefits. Those, by their nature, are in so many ways calculated by the assumptions that are in those. If those assumptions vary, there are going to be some big differences.

MR. DAVID WILSON: I want to skip to Page 9 in your audit - that would be Chapter 1 - on the nature of qualified opinions. On Page 9, you show a chart of three organizations: the Art Gallery of Nova Scotia, the Nova Scotia Primary Forest Products Marketing Board, and Harbourside Commercial Park Inc. Just going through it, I noticed that Harbourside Commercial Park had a qualified audit but then departed from Generally Accepted Accounting Principles. Can you maybe just give us a little indication of what's going on with that change in qualifications, I guess is the term?

MS. SQUIRES: I will try to answer to the best of my ability. The reason we put this in we did notice it was the first time. I think there was a change in auditors is what happened, and the auditor did not agree with the accounting. There is a difference in the accounting

for cost versus fully consolidated. Fully consolidated is you take all the assets, and all the revenues, and all the expenses, and you keep adding them all up together. Whereas the other method is just one line on the balance sheet only. So it really is understating possibly the net income or net loss.

MR. DAVID WILSON: Did they have to restate prior years?

MS. SQUIRES: The auditor qualified, basically saying you should have done this accounting and you did not. The entity, Harbourside, did not restate - not yet.

MR. DAVID WILSON: So as of today . . .

MS. SQUIRES: I should not have been flip.

MR. DAVID WILSON: . . . you're not aware that it has come into the office in maybe the last 24 hours.

MS. SQUIRES: Yes.

MR. DAVID WILSON: I know we'll run out of time. I would just like quickly to go back to Tourism. I know you're not preparing the audit, but are you aware of a timeline? I think I read Fall of 2016, which is broad. I don't know when winter starts, but I guess they do have some time in front of them. Has there been any indication of when that audit is expected?

MS. SQUIRES: What I can share with you, because this is all I know, is a couple of weeks ago, just before we went to print, this report actually said "by the end of September." Government accounting advised me that that was incorrect in our report, and I should stick with "Fall." I actually don't know.

MR. DAVID WILSON: The end of September is gone, so Fall potentially. Thank you.

MR. CHAIRMAN: Thank you, Mr. Wilson. We'll now move to the Liberal caucus. Any questions? Mr. Gordon Wilson.

MR. GORDON WILSON: I'll start off where I finished, with the Health Authority. But just before I do, it was interesting to listen to the questions throughout the whole of the session. I just want to point out that the majority of the questions, I feel, revolve around not only a lot of new entities, such as the Health Authority and the new Tourism Agency, but also around new policies, around the hospitality policy. That in itself says something. With the Health Authority, for example, we're talking about one of the largest changes that we've seen of one of the largest entities within government, I think ever. The challenges that they've faced in restructuring, I know you probably don't take that into consideration, but I did want to mention that.

Around the Health Authority, the restricted funds for operating, just back to that, you stated that this has happened in the past with previous health authorities. I would assume when we had the nine, it happened throughout those nine different ones. Is this something that we've also seen with other departments in the past?

MR. PICKUP: Probably more difficult to happen in a department in terms of how the funding and appropriation may work, so that may be completely different. But I wouldn't be able to give you a for-sure answer because that's not something that we went to look for.

I just want to add - when I said that this happened before, we didn't audit that. That was based on what the people at the Health Authority told us. It was sort of irrelevant for us whether it happened in the past.

MR. GORDON WILSON: Again, it was research funds, I believe, as far as we can best understand, and that is the area of money that was tapped into. Do you know if there was any direct impact on research as a result of this?

MR. PICKUP: I wouldn't really be able to answer any impacts that may have had.

MR. GORDON WILSON: But just to clarify, this was not a misappropriation of funds. This was simply an activity that had happened in the past and was more of a timing issue and a cash flow issue?

MR. PICKUP: I think the reason we have raised it is people who have decided to give these funds to the Health Authority decided in their wisdom that they should be restricted for certain activities. So I wouldn't underplay the importance of using restricted funds for the purpose they were meant, because if you were the one giving the funds, you may feel that is an issue and the funds should be used for the purpose indicated.

Having said that though, they were repaid - so I don't want to create sort of this panic thinking that this money was used and wasn't repaid.

MR. GORDON WILSON: Exactly, and that was my thought also. We didn't want to see any negative impact on what these funds were expected to be used for. That's why I asked the question around - do you know if there was any impact?

Also I think you had mentioned in your opening comments that the Health Authority was not happy with - it's something that they were going to work towards, finding a solution to not have to see this happen. Can you expand on what they might have said around that?

MR. PICKUP: I think I've learned long ago not to speak for others, but I will give you my impression of what I heard, certainly without speaking for them. They accepted the recommendation. They accepted the observation. They're not happy about this. My

impression is that they hope they can get this resolved through working with government so that this doesn't happen into the future. So the reaction to us bringing this up was very professional, very positive. There was no issue around disagreeing. Everybody agreed this just shouldn't happen.

MR. GORDON WILSON: Just one quick point. You found no observations, no abnormalities, or red flags whatsoever when you reviewed the personal services contracts, is that correct?

MR. PICKUP: The personal services contracts that we reviewed - I just want to context it. We reviewed that in terms of adherence to financial policies and government policies. Just to give you an example, if person A is on a personal services contract, we would look at who was supposed to approve that - was that appropriately approved? We also traced through to make sure we could find disclosure of those amounts in the actual Public Accounts themselves - so, do these payments find their way through? We didn't have any issue with that either.

MR. GORDON WILSON: I'd like to just move on to the hospitality policy. You had mentioned that this is a new policy that was recommended by your office a year ago. Can you give me some of the background of why this was a recommendation?

MR. PICKUP: The recommendation was not on what the policy should be. The recommendation was on the need to review the policy. So that really comes from my expectation that public sector auditors should be looking at these types of expenditures from a qualitative and materiality perspective. So these types of costs, let's face it, on an \$11 billion organization - they're not going to be \$1 billion dollars. They're going to be small-dollar amounts - we all acknowledge that.

However, given the public expectations around openness and transparency, and the good use of public funds, we examine these things to say, okay, is your policy current? Is it covering key things? Are you disclosing appropriately? This would be the background of what we look at in terms of the expectations I would bring into this, which would be based on 27 years of auditing in the public sector and what I've seen across Canada in terms of the expectation on public sector entities.

MR. GORDON WILSON: I must say that I think we certainly agree as government that being transparent and being open, which is something we're striving for, is extremely important and any movement in this area is a big move. This is probably something that should have happened years ago, and it's nice to see that there is some movement there. Can you tell me, since this new policy has been implemented, what you've seen as improvements already?

MR. PICKUP: Firstly, I would say given that the policy has been updated . . .

MR. GORDON WILSON: I'm sorry - updated.

MR. PICKUP: That's a positive thing: it was updated. The monitoring isn't happening, that is not so positive. The disclosure started happening April 1st of this year, so that is a positive step. We're seeing positive steps in the right direction. I would say, though, that there is still more left to be done, and it should be done more quickly.

MR. GORDON WILSON: Exactly. Maybe I would throw out a comment: if we ever got caught up and had everything done we were supposed to do, we'd probably put you out of a job. (Laughter)

MR. PICKUP: I'm not taking that as a question. (Laughter)

MR. GORDON WILSON: So to Internal Services, in regard to the hospitality policy update, do you know what actions they're actually taking at this point in time?

MR. PICKUP: My understanding is - and let them stand here to explain - as of yet, they're not doing anything in terms of the monitoring aspect.

MR. GORDON WILSON: Maybe I will frame the question - do you know what they're doing in moving towards having this happen?

MR. PICKUP: Let me see - on Page 10 of the report, "We have been advised that the Department of Internal Services is seeking the assistance of the Internal Audit Centre in establishing a monitoring process." I think in fairness to the department, and in fairness to government, this was a picture, and this was how they responded at a point in time. If more has been done I wouldn't know that. And I wouldn't want to leave you with an unclear impression or picture. So I would really suggest that if and when you have the folks come from government, you ask them - what are you doing now in terms of monitoring, and where does this stand?

MR. GORDON WILSON: Okay. Could you explain to me what the Internal Audit Centre would be able to provide to them and what they would do?

MR. PICKUP: The question around monitoring, and what a government thinks it should do in order to appropriately monitor something is really the decision of people running government. That's a management decision in terms of - how much risk are you willing to accept on this? How much level of comfort do you want? And that varies depending on the organization. So I assume that type of discussion would have happened, and perhaps you could ask the Internal Services folks how that discussion unfolded in terms of what they're going to do, how much they're going to do, and the why?

MR. GORDON WILSON: From what I understand, it's not a matter of if, it's more a matter of when. The disclosure information is one that is going to be backdated to April 1st, I believe? Is that correct?

MR. PICKUP: Which part are you talking about? The disclosure for other organizations?

MR. GORDON WILSON: Yes.

MR. PICKUP: Management indicated in the response that this directive would be issued by the end of 2016, and they will put a requirement in to disclose these expenses starting April 1, 2016.

MR. GORDON WILSON: So inevitably we are going to be able to see this information backdated to a point of April 1st for everybody, for transparency in that area.

I'd like to move on to the tourism reporting. The new tourism entity is expected to provide something by the Fall of 2016. By the way, the first day of winter is November 21st, if anybody needs an actual date. (Interruptions) Sorry, December 21st - yes, let's not move it up. Having them moved into this new entity, do you know if there would have been any concerns or any amount of work that would have been done to have them integrated into SAP, for example?

MR. PICKUP: Essentially this is like an umpire calling a baseball game, where you might call a strike. They didn't make the deadline, it hasn't been done, and we didn't look for a lot of detail as to the why and the explanations. At the end of the day for me the Health Authority was able to do this, consolidating nine entities into a \$2 billion organization, so frankly I was less interested in a lot of explanation as to why. Just get it done, I would say.

MR. GORDON WILSON: I agree with that. But ultimately there has been no real impact on the consolidated level of reporting from that entity.

MR. PICKUP: The opinion on the Public Accounts that we issued an opinion on would not be impacted, but the audited financial statements of that organization obviously don't exist.

MR. GORDON WILSON: I just want to touch on net debt. I know it has been interesting, we had a whole session here and nobody has mentioned the Ivany report, but I'd like to talk about that. We've seen for the first time in a long time - and I don't know how long - a reduction of net debt as the GDP, which is a direction that we were recommended is essential for Nova Scotia to go in towards 30 per cent. So we're down to 37 per cent. Can you comment on what you see, from your perspective of financial health?

MR. CHAIRMAN: Order. Time has expired, I do apologize. We will now move to closing comments from the Auditor General.

MR. PICKUP: Thank you very much for the questions today. As you can tell, we take this work very seriously and it very much interests us. We are so glad to have the type of questions that we had. I want to thank you again for the interest in all of this information we presented.

At the end of the day the Government of Nova Scotia received a clean audit opinion on the financial statements of the government, which means elected officials and all Nova Scotians can take comfort that the numbers in the financial statements are reliable. What those numbers mean in terms of what it means for the future, what it means for judging somebody for their past performance - that is up to elected officials and Nova Scotians to determine. We have provided an opinion that says those numbers on which you base that are fair.

Overall I would say that the audit of the Public Accounts are really a tool for the committee to use in holding the government to account. I very much encourage this committee, as probably was evident in many of my answers today, to engage and question senior officials from the Department of Finance and Treasury Board, and perhaps other entities, regarding their financial results as a key part of the governance and accountability process.

I want to thank you again, and again I want to thank all the staff from my office for their hard work. I get the easy job of coming here to explain the results and answering the questions. The real hard job is everything these two folks here did and everybody back across the street, so again I want to thank all of them for that.

MR. CHAIRMAN: Thank you, Mr. Pickup, and from us back to your office, we thank you as well, everyone working in your office, for the good work you do.

We have one piece of committee business, and that is correspondence from the Office of Immigration. I believe everyone has received that. That came from questions asked in our September 14th meeting.

Our next meeting is October 19th and we will have the Department of Communities, Culture and Heritage to discuss the Creative Industries Fund.

If there is no further business before the committee - seeing none, we stand adjourned. Thank you.

[The committee adjourned at 11:50 a.m.]