



Office of the Auditor General

Auditor General's Statement to the Media

Release of October 2017 Financial Report to the Nova Scotia House of Assembly

10/4/2017



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Good afternoon folks. Thank you for coming here today and for your interest in our work.

Introduction

Today, I tabled my annual financial report which contains three chapters:

- 1) one on the results of financial audit work,
- 2) one on the Province's financial numbers and,
- 3) the third on public sector pensions.

As the independent auditor of the Province of Nova Scotia's financial statements, known as the Public Accounts, I report publicly through the Nova Scotia Legislature on my work.

My Role

In relation to financial statement audits, I directly audit government departments, the Nova Scotia Health Authority and a smaller number of other government organizations. As well, beginning April 1, 2018 I will also audit the annual financial statements of the IWK. For the many other government organizations, I don't audit their financial statements, but various audit firms have been engaged directly by these organizations to do the financial statement audits. However, these auditors as part of their reporting, provide results to my Office.

Now the Results of our 2017 financial work as reported today:

Chapter 1

The Province of Nova Scotia's financial statements ("the Public Accounts") are fairly stated, meaning they meet Canadian accounting standards.

- This is a great achievement that not all other Provinces in Canada achieve
- Most of the many other separate government organizations also have fair financial statements
- Therefore, Nova Scotians can have faith that the financial statements government produces can be counted on.

While the financial statements are good, there are a number of things that came out during our work for Government to fix and to be better able to ensure the good use of Nova Scotians' money. We observed the need for management to improve financial management and controls across Government which spends \$11 billion in total annual expenditures.

Some examples are:

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1. There are some significant gaps in management controls over Nova Scotia's finances, at some big organizations including: Housing Nova Scotia, the Nova Scotia Health Authority, and the IWK.

Such gaps increase risks of bad things happening like improper purchases and payments and inappropriate systems access.

2. Some organizations in government have gaps in controls that have continued year after year without being fixed. While not as significant as the above examples, these gaps still threaten, at some level, the proper use of public money.
3. While the Government of Nova Scotia spends \$11 billion per year and has responsibility for over \$4.7 billion in assets, I believe the risk of fraud is not being assessed and managed as well as it should. For example, 88% of organizations across government, including school boards, the Nova Scotia Health Authority and the IWK are examples of organizations that have not explicitly assessed fraud risk. Also, a fraud hotline for employees and the public, to report potential abuse and waste should be evaluated to determine if the Nova Scotia Government should have one. When fraud risk is not handled well, there are increased risks that wasteful spending occurs. While these organizations produce clean financial statements they likely still remain exposed to higher than needed fraud risk.
4. In relation to the travel and hospitality of executive expenses, my office followed up on our 2015 and 2016 recommendations for Government to improve in this area. I note that this year:
 - Happily, most organizations are now disclosing such expenses as I previously recommended
 - However, disclosure should be broadened to include more executives than only the top person, such as the CEO of an organization
 - All government organizations, as relevant, should look for an opportunity to learn from the IWK experience on their lapses in controls over executive expenses as reported by the IWK this year. Those with oversight, for example the applicable Boards/Ministers, should ensure, that if not already considered, their organizations evaluate their systems and practices and fix any weaknesses that might exist. This works to protect public money and promotes public confidence by managing reputational risk as well.
5. Finally, we enquired whether government organizations had board vacancies. We found that 16/48 or 33% of government organizations responded as having board vacancies. While we didn't examine what the right number of Board members might be, or the specific impacts, if any, of such vacancies, I do believe that this creates risks to effective oversight. For example, at the Nova Scotia Crop and Livestock, 3 of 6 board positions are vacant which is getting close to the minimum required to make decisions, such as on insurance coverage.

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Chapter 2

In Chapter 2, I report on financial numbers from Nova Scotia's published March 31, 2017 financial statements including several indicators which provide a picture of the province's financial health at a point in time.

The analysis and comments come from the financial accounts of Nova Scotia, i.e., the Public Accounts. In those volumes of documents filling hundreds of pages, the Government provides loads of detail on how it spends your money. For example, the salaries of all those in the public service and all contract payments are detailed line by line for all to read. Therefore, my Report is meant to highlight a few numbers and encourage public discussion as legislators and Nova Scotians look to hold their government accountable.

This chapter is not a commentary on the merits of public policy choices made by governments today or in the past. It discusses the cumulative financial impacts on Nova Scotians of the choices made over the years. As well, numbers are only part of the story and such information needs to be evaluated in terms of the context in which they derive from. Relevant factors to consider might include: the state of the economy, government policy and program choices, and the results of what Nova Scotians get for their dollars.

The analysis looks at both the annual 2017 results and the trend over the past decade. One year does not a trend make so it is important to look at longer periods of time such as 5 and 10 year segments.

For 2017, the numbers showed an improved financial result with a surplus of \$150 million and slightly lower interest costs as well as a decrease in long-term debt of \$400 million.

For the 10-year trend the numbers show that:

- Expenses increased by 37% and
- Revenues increased by 35% and that
- Government debt (net long term) increased by \$3 billion from \$10 to \$13 billion

The impacts of cumulative years of spending beyond revenue, means for example:

- In the last 10 years, interest on debt was \$7.5 billion
- The average interest on debt remained approximately the same in the past 5 years at \$754 million as the 5 years before that when it averaged \$746 million.

To put this in context, \$7.5 billion in interest costs would cover about 2 years of total healthcare costs for all Nova Scotians. This demonstrates that current and past choices have huge financial impacts.

Nova Scotians could look to hold their Government accountable as to what this means for the longer-term future expense and revenue projections as well. The picture in Nova Scotia is quite simple, in that for example,

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over the past 10 years while the population has gone up by roughly 2%, our health care costs have increased by 46%. The numbers raise various questions as to why it is taking more money to care for nearly the same number of Nova Scotians. As well on the revenue side, for example, personal income taxes per Nova Scotian filer are up 49% in the last 10 years.

Accountability in government means asking government to explain the reasons for the results and the outcomes for the spending made as well as plans for the future. This can include dealing with such things as any impacts from changing demographics as more Nova Scotians turn 65 years plus in the near future.

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Chapter 3

In Chapter 3, I want to promote public discussion on Nova Scotia's 3 major pension plans for workers in the public sector. Pensions for workers in the public sector are a big deal. There are approximately 110,000 people in the 3 major pension plans covering: healthcare workers, public service employees and teachers.

Employees and retirees count on pension plans being financially stable in order to pay forecasted benefits today, tomorrow and long into the future. At the same time, workers expect a pension plan which allows them to have stable and predictable contribution rates in order to plan their own personal finances. It is also quite likely that solid pensions may play a role in the overall compensation package which helps in the decision on whether to work in the public sector.

For Nova Scotia, the 3 big plans are unique, with their own histories, context and risks. Of the 3 plans, the healthcare workers' plan and the public service plan are both in solid financial shape. At last count, the:

- Healthcare workers' plan had a surplus of \$1.7 billion
- The public service plan had a surplus of \$239 million

However, the troubling story relates to the 3rd plan, the Nova Scotia Teachers' Pension Plan. It has a deficit of \$1.4 billion which is shared equally, \$700 million to teachers and \$700 million to the Province. Both working and retired teachers should be very concerned about the \$1.4 billion deficit and how it is impacting them. This deficit of \$1.4 billion has not lowered in the past 3 years and the plan is still only 77.7% funded. This financial situation is having huge impacts upon working teachers, retiring teachers and all Nova Scotians. For example:

- working teachers' contributions have gone up about \$170 per month on average compared to 3 years ago
- retiring teachers may not get pension increases in the foreseeable future

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- the Province on top of its annual matching contribution of \$90 million, has also paid an extra \$52 million over the past 5 years towards the deficit. Therefore, the concerning financial shape of the Nova Scotia Teachers' Pension Plan is costing non-teachers as well.

After taking a number of steps, the \$1.4 billion deficit remains at the same amount as in 2014. Teachers signed up for these jobs expecting a healthy pension plan to help finance their individual retirements. Now teachers should be very concerned and should work with the government and come up with a specific and realistic plan to deal with this serious financial situation. I would like to note that the chair of the Nova Scotia Teachers' Pension Plan stated in the December 31, 2016 Report on the Plan, "without action, it is likely the Plan's financial position is likely to further deteriorate going forward."

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Conclusion

Once again, I want to thank my staff for their tremendous efforts to produce this report. This was the result of the work of a dedicated team at my Office. Also, my thanks go out to the public servants across government whose cooperation is essential to our work.

Now I would be happy to take your questions.