



September 28, 2016

Honourable Kevin Murphy
Speaker
House of Assembly
Province of Nova Scotia

Dear Sir:

I have the honour to submit herewith my Report to the House of Assembly under Section 18(2) of the Auditor General Act, to be laid before the House in accordance with Section 18(4) of the Auditor General Act.

Respectfully,

MICHAEL A. PICKUP, CPA, CA

Auditor General of Nova Scotia

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Chapter 1: Results of Financial Audit Work

Why we did this audit:

- To comment on the audit of the Government of Nova Scotia's consolidated financial statements

Overall comments:

- Clean audit opinion on Government of Nova Scotia's financial statements
- Clean report on government's revenue estimates in Budget 2016-17
- Clean audit opinion on Nova Scotia Health Authority's first set of financial statements
- Tourism Nova Scotia's first set of audited financial statements not done by June 30

What we found:

- The Nova Scotia Health Authority borrowed from restricted funds for operations
- The Nova Scotia Health Authority agreed with our recommendations and is planning to address them
- Tourism Nova Scotia did not meet reporting requirements of the Finance Act of Nova Scotia
- The number of recommendations from auditors decreased this year
- Qualified audit opinions for Art Gallery of Nova Scotia, Nova Scotia Primary Forest Products Marketing Board, and Harbourside Commercial Park Inc.
- Personal services contracts we examined met financial regulation and policy requirements
- The new hospitality policy was followed
- Government has not fully addressed 3 of 13 previous recommendations:
 - Agencies, boards and commissions not yet required to disclose travel and hospitality expenses
 - The Department of Internal Services is not yet monitoring the hospitality policy
 - The Department of Finance and Treasury Board is not yet monitoring external auditor recommendations for government agencies, boards and commissions



1 Results of Financial Audit Work

Chapter Objective

1.1 The objective of this chapter is to provide summary comments on the results of the financial audit of government's consolidated financial statements, and of the many entities that are part of the Government of Nova Scotia. These comments are to:

- inform Nova Scotians on how government entities operate;
- allow the Public Accounts Committee to assess how well government is doing in its management of daily activities; and
- provide commentary on the importance of financial statements.

Who we are

1.2 The Auditor General is an independent nonpartisan officer of the Legislature, appointed by the House of Assembly for a ten-year term. The current Auditor General, Michael A. Pickup, CPA, CA, began his ten-year term on July 4, 2014. He is responsible to the House for providing independent and objective assessments of the operations of government, the use of public funds, and the integrity of financial reports. The audit work of the Office of the Auditor General helps the House hold the government to account for its use and stewardship of public funds.

What financial audit work does the Office of the Auditor General do?

1.3 The Auditor General Act (the Act) establishes the Auditor General's mandate, responsibilities, and powers. The Act also provides the Office with a mandate to audit all parts of the provincial public sector, including government departments and all agencies, boards, commissions or other bodies responsible to the Crown, such as regional school boards, as well as funding recipients external to the provincial public sector. In addition, other legislation appoints the Auditor General, or a person designated by the Auditor General, as the auditor of an entity's financial statements.

1.4 Sections 19 and 20 of the Act stipulate that the Auditor General shall audit the annual consolidated financial statements of the Government; and conduct a review of the estimates of revenue used in the preparation of the budget address of the Minister of Finance and Treasury Board.

1.5 The consolidated financial statements of government are an accumulation of the assets, liabilities, revenue, and expenses of all the activities that it controls.



This includes many parts of the provincial public sector. Schedule 10 of the consolidated financial statements shows 81 active entities that include special operating agencies, special purpose funds, governmental units, government business enterprises, and government partnerships. During 2015-16, two new governmental units were created: Nova Scotia Health Authority (NSHA or the Authority) and Tourism Nova Scotia (TNS). Our Office was the first auditor of the newly created NSHA, and a national accounting firm was responsible for the first audit of TNS.

- 1.6 In its work, the Office of the Auditor General is guided by, and complies with, the professional standards established by Chartered Professional Accountants (CPA) Canada. We also seek guidance from other professional bodies and audit-related best practices in other jurisdictions.

How government's consolidated financial statements add value

- 1.7 The Office of the Auditor General audits the consolidated financial statements of the Government. We provide an audit opinion which lets users know that the financial statements are fairly presented. In addition, as auditors, we make recommendations to improve or strengthen internal controls. Internal controls are important as they may reduce the risk of asset loss, improve the completeness and accuracy of financial information, or ensure that the organization complies with laws and regulations.
- 1.8 The Province's audited consolidated financial statements add value and serve the following purposes.
- Elected officials use financial information to make decisions, including the allocation of scarce resources.
 - Nova Scotians and elected officials use this information to assess government's stewardship over the resources entrusted to it.
 - Other users, such as lenders and credit rating agencies, use financial reports to meet their specific needs.
- 1.9 For the sixteenth year in a row, the Government of Nova Scotia has received an unqualified opinion on the consolidated financial statements. An unqualified opinion, or clean audit opinion, means that an auditor has no significant concerns about the information reported in the financial statements. The reader can place reliance on the numbers and information contained in the consolidated financial statements.
- 1.10 This is an accomplishment that the many governments over the past 16 years should be proud of, and is now an expectation of all Nova Scotians, including elected officials.



- 1.11 The Auditor General also expresses an opinion on the reasonableness of the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance and Treasury Board to the House of Assembly.
- 1.12 We issued a clean report on the 2016-17 Revenue Estimates which concluded that:
- the assumptions used are suitably supported and consistent with the plans of the government and provide a reasonable basis for the 2016-17 revenue estimates;
 - the 2016-17 revenue estimates as presented reflect such assumptions; and
 - the 2016-17 revenue estimates comply with presentation and disclosure standards.
- 1.13 We also indicated that actual results will vary from the information presented and the variance may be significant. We did not express an opinion as to whether the revenue estimates will be achieved. However, the reader can conclude that the revenue estimates found in the 2016-17 budget are worthy of belief, and reasonable, based on the circumstances and facts at that time.

2016 financial audit results

- 1.14 Schedule 10 of the 2016 Public Accounts contains a listing of organizations in the Government of Nova Scotia reporting entity, or entities under the control of government. The comments in this chapter pertain to the Province's active governmental units and government business enterprises, which are a large portion of the entities that are included in the consolidated financial statements.
- 1.15 While the majority of organizations received clean opinions, there were some organizations that did not. The following shows those entities that received a qualified opinion; or the audits were not yet completed.



Nature of Qualified Opinions		
Type of Audit Opinions	Number of Organizations	Comments
Qualified opinions	3	<ul style="list-style-type: none"> • Art Gallery of Nova Scotia – inability to audit the completeness of revenue. Qualification consistent with prior years. • Nova Scotia Primary Forest Products Marketing Board – inability to audit the completeness of revenue. Qualification consistent with prior years. • Harbourside Commercial Park Inc. – first qualification – departure from generally accepted accounting principles. The investment in the subsidiary is accounted for at cost (\$1) but should be fully consolidated.
Audits not completed as of August 31, 2016	1	<ul style="list-style-type: none"> • Tourism Nova Scotia audit opinion expected to be issued by national accounting firm in fall 2016

- 1.16 The Finance Act of Nova Scotia clearly states that government business enterprises and governmental units must submit audited financial statements to the Minister of Finance and Treasury Board no later than June 30 in each year.
- 1.17 There are six organizations that did not provide audited financial statements. However, they provided financial information.
- 1.18 The following table summarizes the results of our analysis to determine which remaining entities complied with the reporting requirement of the Finance Act.

Compliance with the Reporting Requirement of the Finance Act	Number of Entities
Complied	40
Did not comply	7

- 1.19 Six of those entities that did not comply provided audited financial statements by mid-July. However, Tourism Nova Scotia's audited financial statements were not yet available in late September 2016.
- 1.20 It is important that financial information be reported on a timely basis. Late reporting can impact the preparation of the public accounts and the audit of government's consolidated financial statements. In addition, the Finance Act is a key piece of legislation and organizations should ensure they comply with this Act.



Status of recommendations reported in the November 2015 Report of the Auditor General to the House of Assembly – Financial

- 1.21 In 2015, we made several recommendations to improve financial processes and controls in government. Appendix 1 shows the ten recommendations which have been addressed. We are satisfied that management has taken appropriate actions to address these recommendations.
- 1.22 Listed below are the three remaining recommendations that we wish to bring to government’s attention as they have not been fully completed.

2015 Recommendation	Status
<p>2.11 The Department of Internal Services should put in place a government hospitality policy that captures modern public sector expectations, and monitor that this policy is being met.</p>	<p>Complete – A hospitality policy was implemented effective March 1, 2016. We carried out limited audit tests on hospitality expenses since March 1, 2016 and observed that the policy was being followed.</p> <p>Not complete – In accordance with the new hospitality policy, the Department of Internal Services is responsible to monitor hospitality expenses for appropriate usage and consistency with policy directives. We have been advised that the Department of Internal Services is seeking the assistance of the Internal Audit Centre in establishing a monitoring process.</p>
<p>2.12 To enhance openness and transparency, the Department of Finance and Treasury Board should require senior management of government departments, agencies, boards and commissions, to publicly disclose travel and hospitality claims.</p>	<p>Complete – We observed that since April 1, 2016, the Executive Council Office website contains the travel and hospitality expenses of Executive Assistants, Ministers and Senior Officials. This is an important accountability mechanism as Nova Scotians and members of the Legislature are able to determine whether or not expenses disclosed are reasonable.</p> <p>Not complete – The Department of Finance and Treasury Board is in the process of issuing a directive to agencies, boards and commissions requiring senior officials to disclose travel and hospitality. Management indicated that this directive should be issued by the end of 2016, with a requirement to disclose these expenses since April 1, 2016. We will follow up on this aspect of our recommendation in 2017.</p>
<p>3.1 The Department of Finance and Treasury Board should have a central tracking system to monitor external auditor recommendation implementation results in government agencies, boards and commissions. Entities with low implementation rates should be monitored and encouraged to fix the deficiencies.</p>	<p>Not complete – The Department of Finance and Treasury Board is reviewing options and ways to capture all the recommendations. We will follow up this recommendation in 2017. As discussed later in the chapter, there are six entities that have auditor recommendations that are more than five years old. It is important that external monitoring take place to ensure these entities are addressing auditor recommendations.</p>



Audits of new entities in 2015-16 – Nova Scotia Health Authority and Tourism Nova Scotia

- 1.23 *Nova Scotia Health Authority* – The Nova Scotia Health Authority was created on April 1, 2015 and amalgamated the nine district health authorities that existed prior to this date. As indicated in its 2015-16 Business Plan, the Authority was created to allow the health system to work together in a way that will achieve excellence in health, healing and learning. One of the strategic priorities of NSHA was to ensure a successful consolidation of the nine health authorities into one with the appropriate governance structures in place.
- 1.24 The Office was responsible for the audit of the NSHA and we issued an unqualified audit opinion on the first year of operations. In addition, NSHA was in compliance with Section 36(4) of the Health Authorities Act – the requirement to have audited financial statements by June 30, 2016.
- 1.25 We did however make the following recommendations to management.
- Review, update or develop policies as appropriate to reflect the new entity and the changing operating environment. These include, but are not limited to: travel, hospitality, inventory management and procurement. In addition, these policies should be communicated to staff on a timely basis.
 - Ensure restricted funds are not borrowed for operational requirements. We observed that management used \$7 million for operations even though the funds were restricted for use and the Department of Health and Wellness owed the Authority over \$70 million.
 - Review the overall control environment and determine the best control to address deficiencies relating to journal entry postings, changes to human resource information, and the use of modifiable electronic files.
- 1.26 Management agreed with the observations and is planning to address them.
- 1.27 *Tourism Nova Scotia* – Tourism Nova Scotia is a Crown Corporation created on April 1, 2015. The objectives of the corporation are to achieve tourism growth in the province; develop and implement a long-term strategy for tourism; and communicate and collaborate with communities, private industry, and the tourism industry in the province.
- 1.28 The Tourism Nova Scotia Act appoints the Auditor General, or a person designated by the Auditor General, to audit the accounts of Tourism Nova Scotia. A national accounting firm was designated to complete this first-time audit.



- 1.29 In accordance with Section 19 of the Tourism Nova Scotia Act, the corporation shall prepare and submit financial statements to the Minister of Business, together with a report concerning the work of the corporation, not later than June 30. As of the end of September 2016, the audited financial statements of the corporation were not available. Management at Tourism Nova Scotia advised that the financial statements will be approved by the Board of Directors in fall 2016, at which time the results of the audit and the compensation disclosure information will be communicated on their website.

Additional comment arising from the audit of the consolidated financial statements

- 1.30 Information reported in the financial statements reflects past transactions and events. As a result, representations often require estimates to be made in anticipation of future transactions and events and include measurements that may be approximations. There is some uncertainty in the amounts recorded because actual results may differ from the assumptions used.
- 1.31 Post-employment benefits (not pensions) of approximately \$2 billion have been recorded in government's consolidated financial statements. The majority of the post-employment benefits include retirement allowances, retirement health plans, workers' compensation, and accumulated sick leave. There are many assumptions and estimates made when calculating the amount of these post-employment liabilities.
- 1.32 One key assumption used in 2015-16 was in relation to the retirement allowance plan. Effective April 1, 2015, the Province discontinued its retirement allowance plan for non-bargaining unit staff and expected the benefit change for unionized staff to be ratified in the near future during ongoing contract negotiations. Note 5 of the consolidated financial statements describes this assumption and the impact on the liability for post-employment benefits.
- 1.33 As government used this event in the calculation of its post-employment benefit, the Department of Finance and Treasury Board issued instructions to organizations in the government's reporting entity to ensure that the same assumption was applied when those entities were estimating their retirement allowances. All entities, except for Nova Scotia Business Inc. and Housing Nova Scotia, followed the instructions issued by the Department of Finance and Treasury Board. These two entities had little impact on the calculation of government's overall liability for post-employment benefits.

Entities with internal control observations

- 1.34 We reviewed communications from external auditors and recommendations made by our Office relating to internal control deficiencies that were brought to the various organizations' attention. These observations do



not affect the audit opinions given on the financial statements; however, they are recommendations made to improve the applicable organization's control environment. Examples of these types of observations could be a lack of documentation to support policies and procedures; no approval over processing of payroll or payment transactions; or a lack of segregation of duties where one individual can initiate, process, and pay transactions.

- 1.35 The following table illustrates the entities that had observations and recommendations made to senior management of the governmental units and government business enterprises.

Number of recommendations made	2015-16	2014-15
Entities with more than 5 recommendations	3	5
Entities with 1 to 4 recommendations	10	17

Types of internal control observations and recommendations

- 1.36 The overall number of recommendations as a result of the various audits has significantly decreased. The area that has most improved is in the information technology controls area, accounting for about 86% of the decrease. However, overall internal control weaknesses still account for over half of the observations reported. It is important that internal control weaknesses are improved as internal controls help to minimize business and financial reporting risks.

Type	2015-16	2014-15*
Internal Controls	34	38
Information Technology	6	30
Total	40	68

* Includes nine observations that relate to the nine former district health authorities and were not applicable to the new Nova Scotia Health Authority

- 1.37 While there has been improvement since last year in the number of recommendations made, we do note that six entities have observations that have been consistently reported for over five years. Deficiencies that remain outstanding for multiple years can hinder the ability of an entity to achieve its objectives. As we have stressed in previous reports, when audit observations are not addressed timely, management and boards of directors may not be fully meeting their oversight responsibilities related to internal controls and external financial reporting.



1.38 The six entities and the related observations are shown in the following table.

Entity	Observation since 2009
Cape Breton Regional School Board	Weak controls regarding computer access controls and system backup
Conseil scolaire acadien provincial	Need to continue to supervise common controls and procedures at each school over school-based funds
Izaak Walton Killam Health Centre	Inconsistent review of attendance data and payroll reports
Resource Recovery Fund Board Incorporated	Improper accounting treatment – reporting of HST
Sherbrooke Restoration Commission	Lack of segregation of duties over posting of journal entries and no formalized inventory controls
Tri-County Regional School Board	Lack of segregation of duties over posting of journal entries

Executive compensation, vacation, travel, and hospitality expenses

- 1.39 As part of our audit of the Province's March 31, 2016 consolidated financial statements, we performed limited financial audit work on executive compensation, vacation, travel, and hospitality expenses of senior executives. The items examined were properly authorized and in compliance with government policy.
- 1.40 Our testing of these expenses was not a separate performance audit and was not an assessment of the value for money of these expenses. We do this work as it is likely of interest to users of the financial statements. As legislative auditors, we believe these expenses have significant potential for negatively impacting the reputation of government, and are therefore included as part of our financial audit.
- 1.41 We also inquired as to the status of last year's audit recommendations and our comments are found earlier in this chapter.
- 1.42 In addition, we performed limited work on personal services contracts to determine if they were in compliance with regulation and policy, and properly disclosed in the public accounts. The sample of personal services contracts tested were properly authorized and in compliance with regulation and policy. All personal services contracts on the listing provided to us were properly disclosed in the public accounts or financial statements of applicable entities.



Appendix I

2015 recommendations issued to the Department of Finance and Treasury Board

Recommendation	Status
2.1 Taxation and Federal Fiscal Relations (a division of the Department of Finance and Treasury Board) should review all tax model assumptions on a periodic basis.	Complete
2.2 The Department of Energy should develop a process to review inputs and calculations used in the models to estimate petroleum royalties.	Complete
2.3 The Department of Transportation and Infrastructure Renewal should re-measure the liability for the estimated future costs for remediation of the tar ponds and obtain an update to the consultant's report used to measure the liability.	Complete
2.4 Government Accounting (a division of the Department of Finance and Treasury Board) should provide additional training to departmental financial staff on accounting for and disclosing contingencies and contractual obligations. In addition, Government Accounting should review schedules submitted for significant and unexpected variances and investigate any unexpected variances.	Complete
2.5 SAP Service Management (a division of the Department of Internal Services) should address the exceptions identified in the CSAE 3416 report.	Complete
2.6 Government Accounting (a division of the Department of Finance and Treasury Board) should assist departments in determining how to identify and assess contaminated site liabilities, including establishing roles and responsibilities.	Complete
2.7 Taxation and Federal Fiscal Relations (a division of the Department of Finance and Treasury Board) should update process documentation to include the procedure followed to approve changes made to tax revenue models.	Complete
2.8 Taxation and Federal Fiscal Relations (a division of the Department of Finance and Treasury Board) should demonstrate that changes made in determining taxation revenue improve financial reporting. Also, Government Accounting Division staff should determine whether changes in estimating tax revenues will impact the government's consolidated financial statements.	Complete
2.9 The Department of Finance and Treasury Board should have timeframes for departments to complete their documentation of controls and ongoing monitoring.	Complete
2.10 The Department of Finance and Treasury Board should include monitoring of internal controls in the Internal Controls over Financial Reporting project.	Complete



Chapter 2: Nova Scotia's Financial Condition

Why we did this audit:

- To provide independent information on the Province's financial health through reporting on certain financial indicators
- To inform users of government's financial statements on matters of possible interest

Overall comments:

- 2015-16 deficit of \$11 million lowest since 2010-11
- Five-year trends show long-term debt and net debt have increased
- Nova Scotians can find useful information in Volume I of the Public Accounts

What we found:

- Health and education expenses are half of the Province's spending and have increased 20% since 2012
- For each Nova Scotian at March 31, 2016:
 - \$14,307 in long term debt
 - \$15,971 in net debt
- In 2016, government spent per person:
 - \$791 in interest costs
 - \$4,755 at Department of Health and Wellness
- Government collected \$5,773 per person in various tax revenues
- Provisions in the Finance Act of Nova Scotia mean that departments never overspend original approved budgets
- The Departments of Internal Services and Transportation and Infrastructure Renewal requested an extra \$49 million over the original budget
- Government does not explain in the Public Accounts the reasons for additional funds
- Net debt and revenue have increased 13% since 2012
- Revenue from federal government has been constant over the past five years



2 Nova Scotia's Financial Condition

Background

- 2.1 One piece of information available in assessing the financial condition of the Province is its consolidated financial statements. The consolidated financial statements provide a snapshot of the Province's financial position at its fiscal year end (March 31) and the results of its operations, and changes in both cash flow and net debt for the preceding fiscal year. However, the consolidated financial statements are only one aspect of the Province's health and how well it is performing in relation to its economic and fiscal environment.
- 2.2 There are numerous indicators that can be used to assess a government's financial condition. The indicators we have included in this chapter are among those recommended for reporting by the Public Sector Accounting Board's Statement of Recommended Practice 4: Indicators of Financial Condition. The statement is not required as part of generally accepted accounting principles for the public sector, nor is there a requirement for government to implement its recommendations. The indicators reported in this chapter are meant to provide additional information on the Province's financial condition, but are not intended as commentary on the financial impact of government policies.
- 2.3 The Statement of Recommended Practice recommends that, at a minimum, indicators related to sustainability, flexibility and vulnerability are considered. We have included these types of indicators, along with other information we feel is useful in demonstrating the Province's financial condition. Definitions of sustainability, flexibility and vulnerability follow, as well as the selection of indicators related to each element.

Chapter Objective

- 2.4 The objective of this chapter is to provide independent information on the Province of Nova Scotia's financial health through reporting on certain indicators of financial condition; as well as to inform users of government's financial statements on matters of possible interest.



Overall government performance

2.5 The following table provides an overview of the Province's financial performance for the year ended March 31, 2016. Further information on several financial indicators is found in the Financial Statement Discussion and Analysis section of the 2016 Public Accounts Volume 1. As can be seen in the following table, the overall financial condition of the Province of Nova Scotia is in a favorable position over the past year. However, the five-year trend continues to show deficits, as well as increasing net long-term debt and net debt.

Indicator	1-year Trend	5-year Trend
Sustainability		
Annual Surplus or Deficit	Deficit decreasing	Lowest deficit since 2011
Net Long-term Debt	Stable	Increasing
Net Debt	Stable	Increasing
Net Debt as a Percentage of Provincial GDP	Slight decrease	Increasing
Flexibility		
Interest on Long-term Debt	Decreasing	Fluctuating but back to stable
Vulnerability		
Federal Government Transfers as a Percentage of Total Revenues	Decreasing	Stable

Sustainability

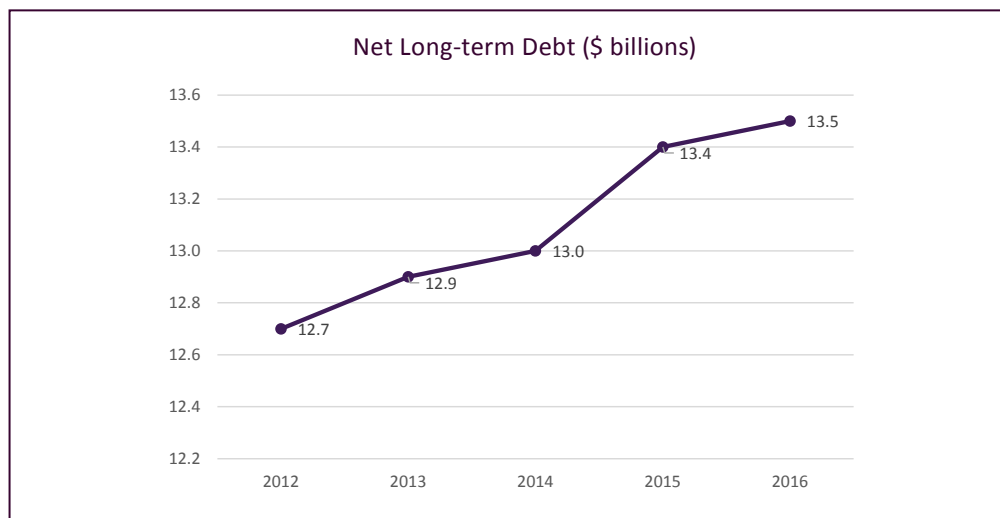
2.6 Sustainability measures the ability of a government to maintain its existing programs and services, including maintaining its financial obligations to creditors, without having to introduce revenue and expenditure adjustments, such as increased debt or tax rates. Sustainability indicators provide insight into how a government balances its commitments and debts. In the following paragraphs, we discuss the indicators we have selected to assess sustainability.

2.7 *Annual surplus or deficit* – Annual surplus or deficit indicates the extent to which revenues are more or less than expenses during the year. A deficit occurs when expenses exceed revenues. Government reported a deficit of \$11 million in 2016. It has reported deficits in each of the past five years and the deficit this year is the lowest it has been since 2011.



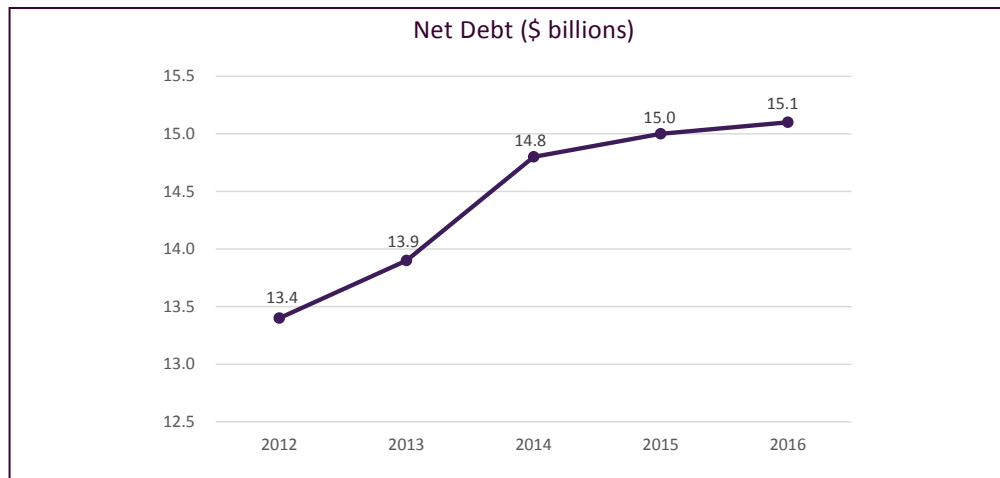
Information found in published Public Accounts

- 2.8 The annual deficit decreased because tax revenue grew at a greater rate than overall expenses. Government discusses changes in revenues and expenses in detail in Volume 1 of the Public Accounts.
- 2.9 *Net long-term debt* – Unmatured debt is the total debt the Province owes to outsiders and consists primarily of debentures and long-term loans. Net long-term debt is government’s unmaturred debt less the amount that is set aside to fully fund specific debt when it becomes due. For the past couple of years, net unmaturred debt has been approximately \$13 billion. Schedule 4 of the 2016 Public Accounts Volume 1 contains more details on unmaturred debt.
- 2.10 We have commented in prior years that the increasing trend in net long-term debt is a significant indicator of fiscal sustainability because the costs of servicing this debt takes priority over program expenses and reduces the ability of government to expand services or reduce taxes. The chart below shows an increase in net long-term debt of about \$1 billion since 2012 and an average increase of 1.6% per year over the past five years.

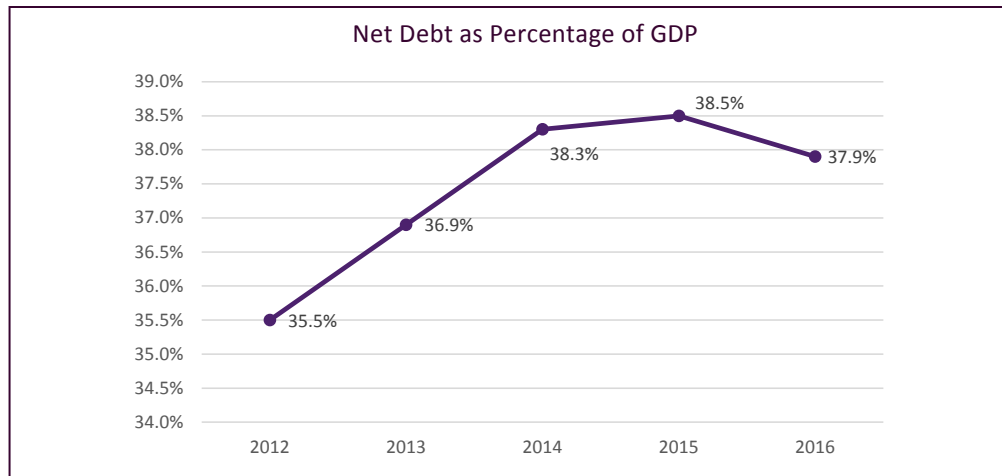




- 2.11 *Net debt* – Net debt is used to define the difference between financial assets and liabilities and informs the reader as to whether or not there are enough assets to discharge the liabilities for future generations. In other words, it is the amount of future revenue that is needed to pay for past transactions. Government talks about net debt further in the Financial Statement Discussion and Analysis of Volume 1 of the Public Accounts.
- 2.12 Over the past couple of years, the Province's net debt has been slowly rising, resulting in an increase of 13% from 5 years ago.



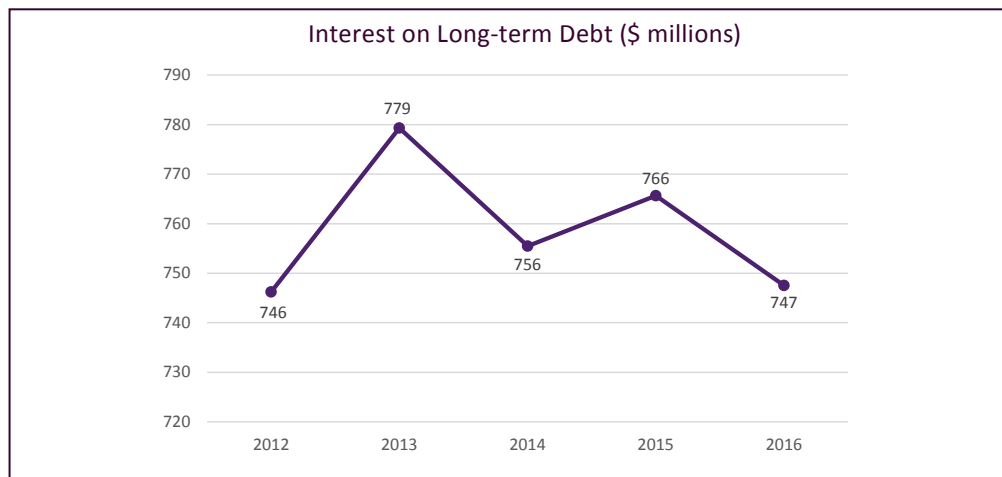
- 2.13 *Gross domestic product* – Gross domestic product (GDP) is one of the primary indicators used to measure a province's or country's economy. GDP can be measured by either summing the value of the income generated in an economy (income approach) or by the total dollar value of all goods and services purchased by households and government (expenditure measure). For the purposes of the public accounts, Government uses the expenditure measure.
- 2.14 As shown below, we noted that the Province's net-debt-to-GDP ratio decreased this year indicating that broad economic activity in Nova Scotia is estimated to have increased at a rate faster than the increase in the Province's net debt.



Flexibility

2.15 Flexibility is the degree to which a government can change its debt burden or raise taxes within its economy to meet its existing financial obligations. Flexibility provides insights into how a government manages its finances. Increasing debt obligations and interest costs reduce a government's future flexibility and ability to respond to changing circumstances. The following indicator has been selected to assess flexibility.

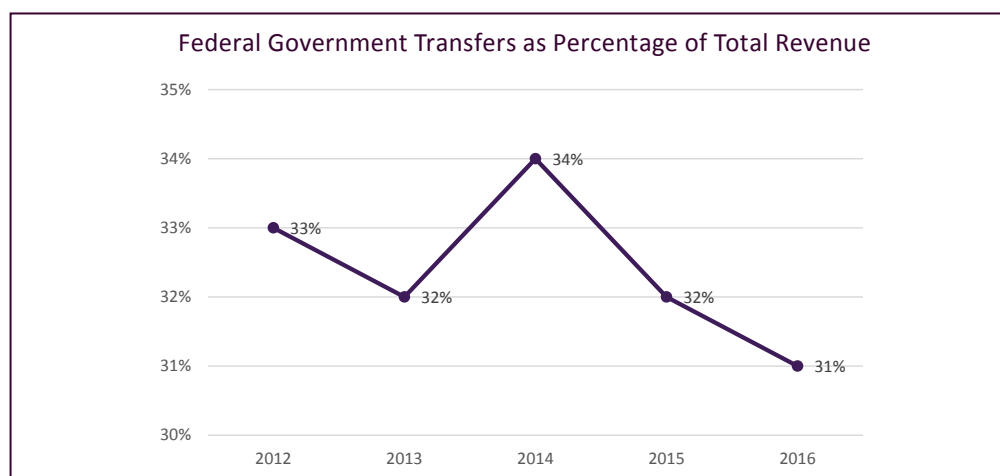
2.16 *Interest on long-term debt* – Interest on long-term debt is the cost associated with servicing past borrowing decisions. These costs represent a fixed cost once debt is issued. Failure to pay interest impacts the ability to raise future debt and would further increase costs of borrowing. Interest on long-term debt represents funds which cannot be used for general operations, such as providing programs and services to Nova Scotians. Interest on long-term debt was \$747 million in the current year. This represents an increase of \$1 million since 2012, reducing the amount that can be spent on providing programs and services to Nova Scotians.





Vulnerability

- 2.17 Vulnerability indicators measure the amount a government is dependent on sources of revenue outside its control and its exposure to risks which might affect government's ability to meet its commitments. The lower a government's own-source revenue is, means it would rely on the fiscal decisions of others.
- 2.18 As indicated below, Nova Scotia continues to rely on federal government equalization payments and other transfers.



- 2.19 Overall reliance on federal government funding has been decreasing, meaning the Government of Nova Scotia is finding other sources of revenue. In 2016, overall provincial sources of revenue increased.

What does all this mean for Nova Scotians?

- 2.20 As shown in the table below, Nova Scotia's population has been fairly stable over the past five years, increasing by .1% since 2012.

Population of Nova Scotia				
2012	2013	2014	2015	2016
944,800	943,000	942,400	943,000	945,300

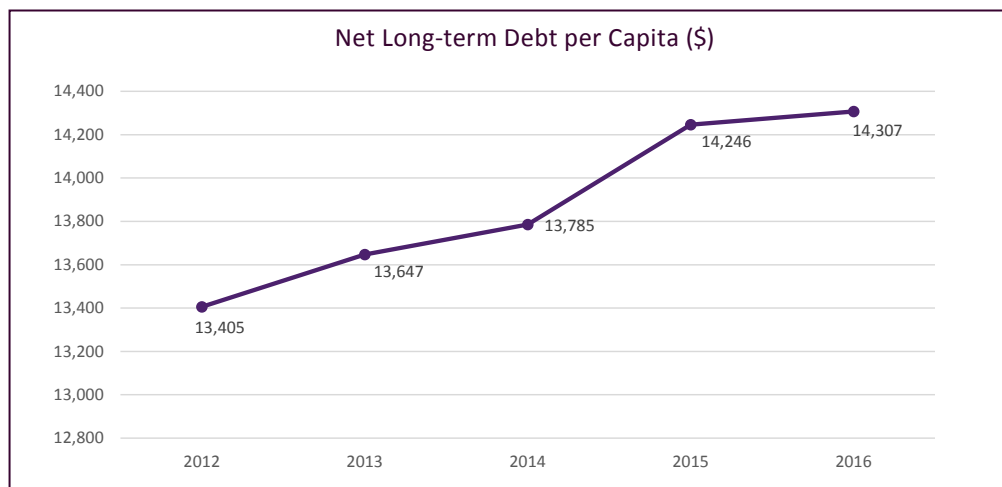
Based on forecasted population figure

- 2.21 The following table provides an overview of the Province's financial performance as it relates to the number of Nova Scotians for the year ended March 31, 2016. Further information on several financial indicators per capita is found in the Financial Statement Discussion and Analysis section of the 2016 Public Accounts Volume I. As can be seen in the following table, the overall financial condition of the Province is in a favorable position over the past year. However, the five-year trend continues to show deficits, as well as increasing net long-term debt and net debt per capita.

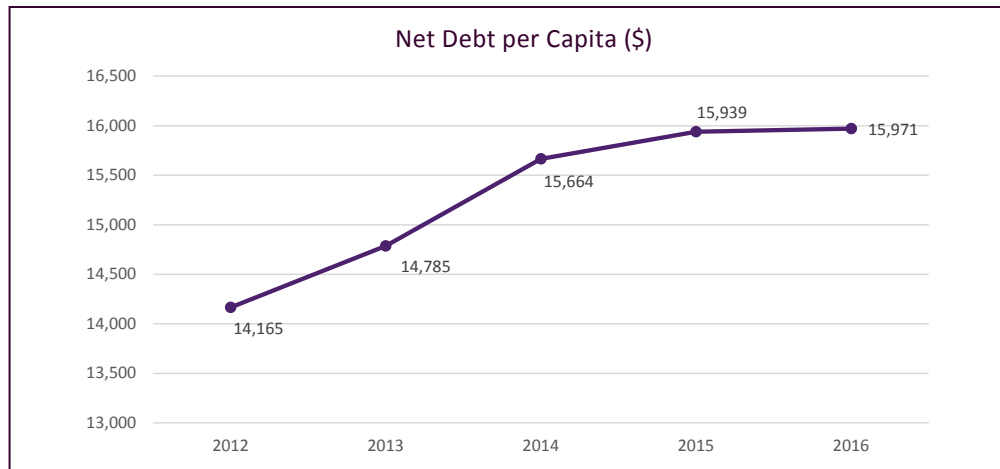


Indicator	1-year Trend	5-year Trend
Sustainability		
Net Long-term Debt per Capita	Stable	Increasing
Net Debt per Capita	Stable	Increasing
Trends in Major Expense Categories per Capita such as Healthcare; Education and Community Services	Healthcare – Increasing Education – Stable Community Services – Stable	Healthcare – Increasing Education – Increasing Community Services – Stable
Tax Revenue per Capita	Increasing	Increasing
Flexibility		
Interest on Long-term Debt per Capita	Decreasing	Fluctuating but back to stable

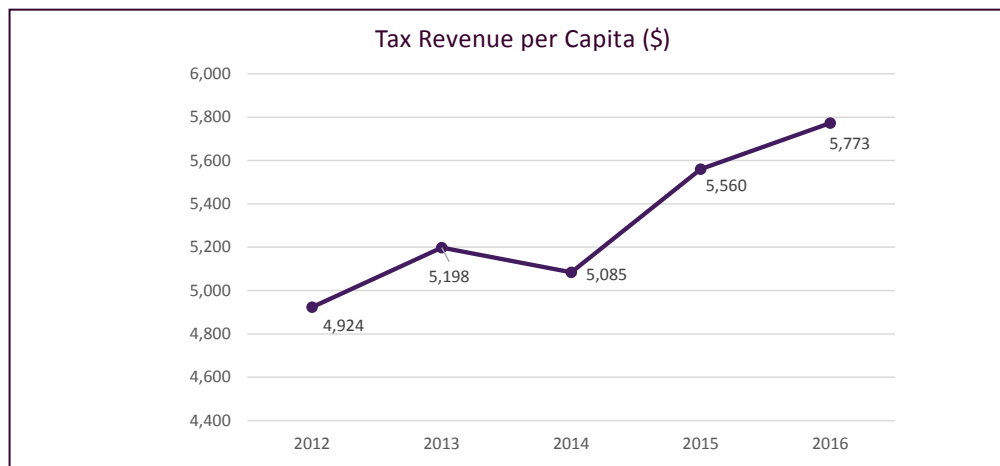
2.22 *Net long-term debt per capita* – Long-term debt has increased by 6.7% over the past five years and the Province now owes \$14,307 per person in net long-term debt.



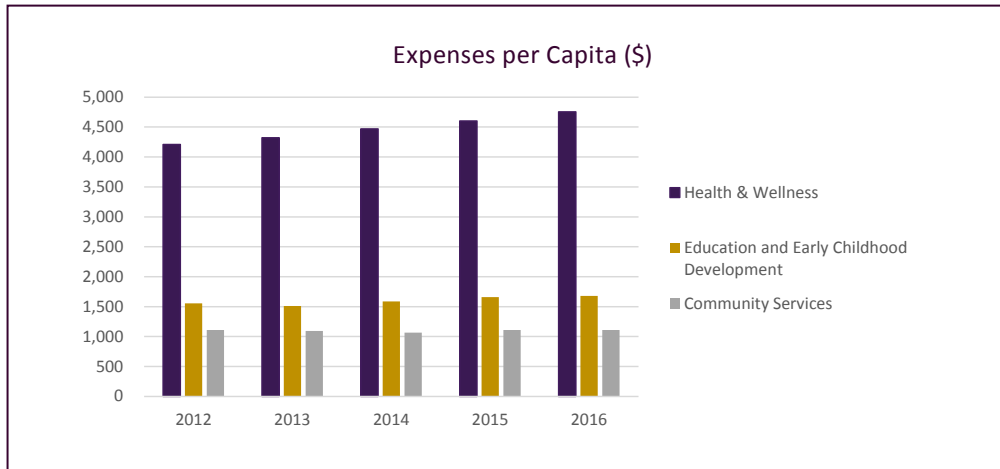
2.23 *Net debt per capita* – Net debt per capita shows the amount of net debt attributable to each person living in the province. The Government of Nova Scotia owes \$15,971 for each Nova Scotian for past decisions that resulted in spending exceeding revenues. The Province's net debt has increased by 12.8% since 2012 but Nova Scotia's population remained relatively stable, resulting in an increasing net debt per person. In 2016, net debt per capita has started to stabilize.



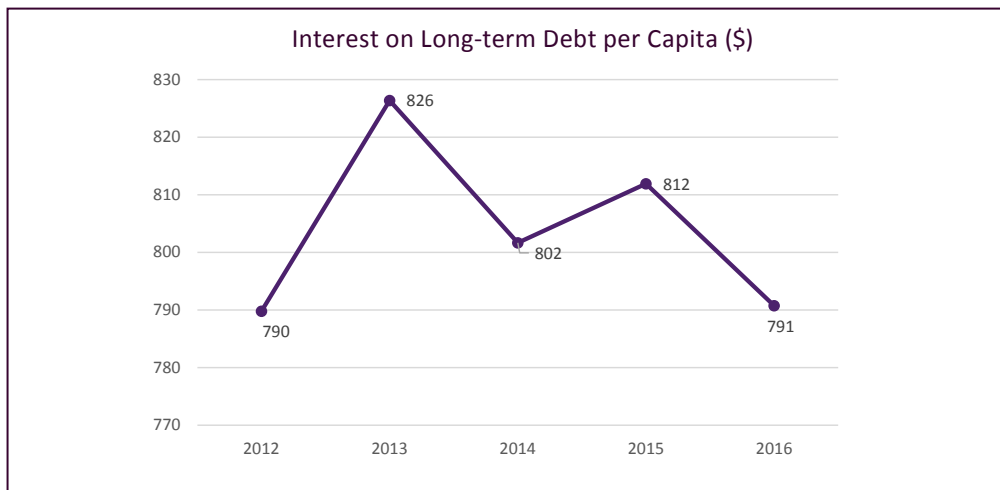
2.24 *Tax revenue per capita* – Tax revenue per capita is the average amount collected per Nova Scotian and includes personal and corporate income tax, harmonized sales tax and other taxes. The Province collected \$5,773 for every Nova Scotian in the current year. This represents an increase of \$850 per person or 17% since 2012.



2.25 *Expenses per capita* – Expenses per capita measures the amount spent per person for each of the expense categories. For example, the Department of Health and Wellness spent \$4,755 per person during the current year, which was an increase of \$546 per person, or 13% since 2012.



2.26 *Interest on long-term debt* – Interest on long-term debt per capita represents interest government pays for every Nova Scotian each year on unmatured debt. In the current year, the Province paid \$791 in interest costs on long-term debt for every Nova Scotian.



How is government doing?

2.27 Public sector entities are held to a higher standard of accountability than private organizations. They use funds raised from taxpayers to provide public services, and the public expects the use of those funds to be transparent.

2.28 An Appropriations Act of Nova Scotia is passed each year and lays out the charges and expenses of the public service for the fiscal year. An appropriation is the expenditures for government programs and services that are authorized to be paid out of the General Revenue Fund. The Finance Act of Nova Scotia states that an additional appropriation must be obtained when it is apparent that the initial appropriation approved is insufficient. In addition, a final appropriation can be obtained within 15 days after tabling



the Public Accounts. In other words, departments will never overspend their approved budgets.

- 2.29 Throughout the year, Executive Council approved additional appropriations totaling \$85 million. It also approved a final appropriation of \$43 million within 15 days after Public Accounts had been tabled. This resulted in no department overspending its approved appropriations.
- 2.30 Overall, information on budgeting when compared to actual expenses can be useful in gaining an understanding and assessing the performance of a government in managing the economic resources of a province.
- 2.31 Public Sector Accounting Standards indicate that the statement of operations should present a comparison of the results for the accounting period with those originally planned. Planned results should be presented for the same scope of activities as that used for actual results.
- 2.32 In Volume 1 of the Public Accounts, Government includes an expense variance analysis for departments and the reasons why a department overspent the original appropriation. However, there is no information that details why a department asked for additional budget amounts.
- 2.33 We compared the original estimate for some departments to actual expenditures for 2015-16 and noted that some departments exceeded the original budget that had been approved by the Legislature. Departments requested additional funds in order to ensure that they did not exceed their spending authority. Listed below are the departments we bring to the reader's attention.

Actual Expenses Exceeded Original Budget (in 000's)			
Department	Original Estimate	Actual 2015-16 Expenses	Actual Expenses Exceeded Original Budget
Community Services	915,410	922,341	6,931
Internal Services	180,300	215,145	34,845
Transportation and Infrastructure Renewal	419,277	433,717	14,440

- 2.34 As indicated in the following table, the Department of Health and Wellness had an original approved budget (or appropriation) that was significantly greater than the amount actually needed. As well, Public Service and the account for restructuring costs requested appropriations that were not required. It is possible that these approved amounts could have been spent on other programs and services.

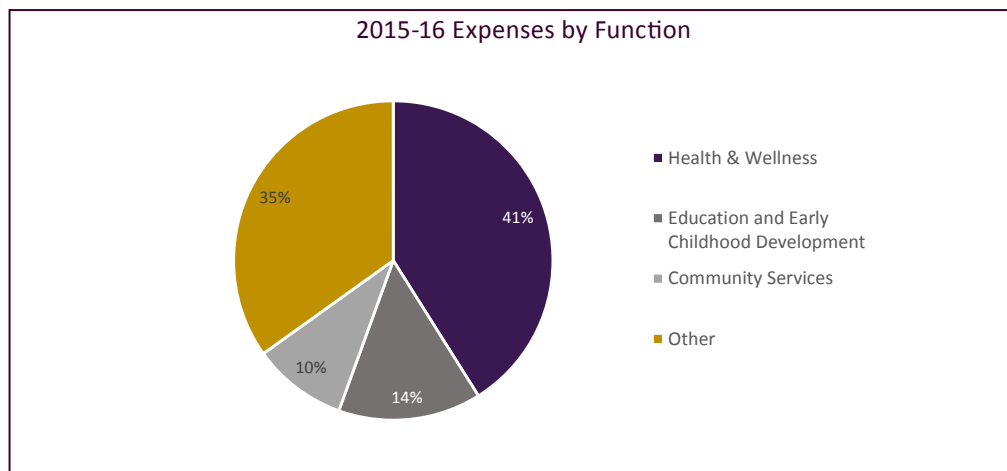


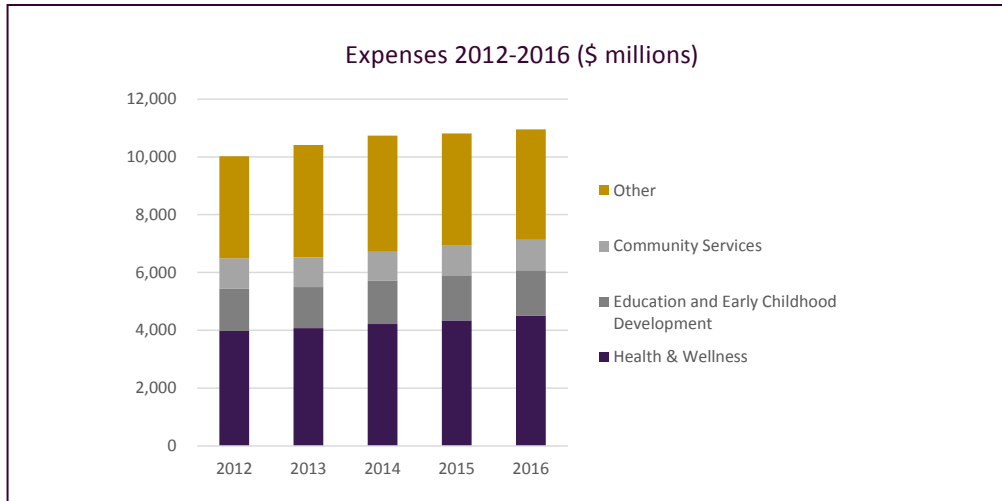
Departments Asked for More Budget Than Needed (in 000's)			
Department	Original Estimate	Actual 2015-16 Expenses	Actual Expenses Less Than Original Budget
Health and Wellness	4,137,741	4,106,403	31,338
Public Service	200,947	191,878	9,069
Restructuring Costs	175,853	98,639	77,214

Where does the revenue come from and where does the government spend?

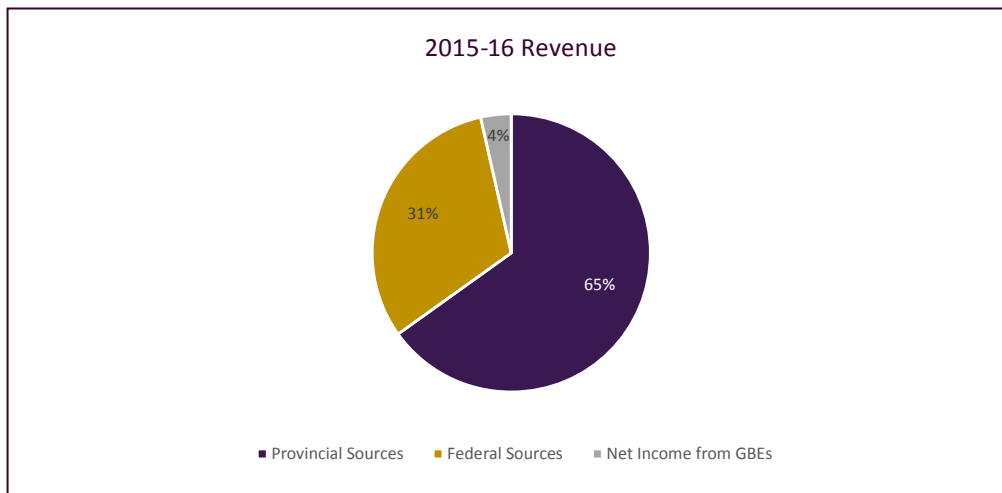
2.35 The majority of the Province's expenses fall into three major categories; revenue also falls in to three major categories. Government provides further analysis in Volume 1 of the Public Accounts.

2.36 *Expenses* – Healthcare-related expenses have accounted for approximately 40% of government's total expenses in each of the past five years and have increased by 13% since 2012. Education-related expenses account for 15% of total expenses and have increased 8% since 2012. Community services-related expenses have remained relatively stable over the past five years and account for 10% of government's total expenses.





2.37 *Revenue* – Provincial sources of revenue account for two-thirds of government’s total revenue. The composition of total revenue has remained fairly stable over the past five years.





2.38 Total revenue has increased by 13% since 2012, with provincial-source revenue having grown more than the other revenue sources.

