

Chapter 1

Introductory Comments

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Introductory Comments

Introduction

1.1 In my introductory comments each of the last two years, I have focused on the four things that the government should do to improve the integrity and transparency of its reporting on the Province's financial situation. I believe there is still room for improvement in three of these four areas.

Release of financial statements

1.2 One area I have mentioned in the past is the timing of the release of the Province's financial statements. The Financial Administration Act requires the Province to release its financial statements no later than 30 September in each year. The Province released its audited financial statements for the year ended 31 March 2009 on 28 September 2009. The financial statements for the previous two years were released on 28 September 2007 and 26 September 2008.

1.3 These dates are interesting because subsection 2(4)(a) of the *Legislative Assembly Act* requires that the next provincial general election be held on 27 September 2010. I believe the government should make a clear statement of whether it intends to release its financial statements for the year ended 31 March 2010 in advance of 27 September 2010.

Year end grant payments

1.4 Another area that I raised in our 2006 Report, and again in both the 2007 and 2008 Reports, was the government's practice of accelerating the payments of operating grants to the Maritime Provinces Higher Education Commission. These accelerated payments stopped in the year ended 31 March 2009, thereby making the operating grant look artificially low – the financial statements indicate that the grant for the year ended 31 March 2008 was \$274.0 million, but for the year ended 31 March 2009 it was only \$123.4 million. It is my opinion that the government finally stopped the

practice of advancing these operating grants not because it was the right thing to do, but because it was already facing a significant deficit for the year. My concern with the prepayment of these grants is that it obscures the normal operating results and I sincerely hope the government will not resume the practice any time in the future.

Future oriented information

1.5 In the past I have asked the government to provide more future oriented information. Both the 2009-2010 and 2010-2011 budgets included tables of projected revenues, expenses and surplus or deficits for a multi-year period. The 2010-2011 budget presentation of these projected numbers was much clearer than the 2009-2010 presentation, and I was also pleased to see the government presented its 2010-2011 budget well in advance of the beginning of that fiscal year – I believe this to be a best practice.

1.6 However, the future oriented information released by the government is still limited. While the 2010-2011 budget shows projected deficits for the fiscal years 2010-2011 through 2013-2014 before returning to a surplus in 2014-2015, the budget only projects Net Debt to 31 March 2011. The projected Net Debt expected at 31 March 2011 is almost \$9.6 billion. Readers are left on their own to estimate the level of Net Debt beyond 2011. The budget indicates further deficits of \$1.5 billion beyond 31 March 2011, but it does not provide estimates of future capital spending. It is obvious however that Net Debt is expected to rise to at least \$11.0 billion.

1.7 The following table shows the actual percentage growth in revenue and expenses for the year ended 31 March 2009 and the estimated annual percentage growth through until 31 March 2015:

	Years ended 31 March						
	Actual	Estimated					
	2009	2010	2011	2012	2013	2014	2015
Revenue	2.1%	0.1%	1.8%	0.1%	2.6%	4.5%	4.5%
Expenses	6.4%	7.8%	1.6%	(0.8%)	0.7%	0.6%	0.6%

1.8 These numbers show that the growth in expenses was significantly above the growth in revenue for the year ended 31 March 2009, and they show the gap is expected to increase in the year ended 31 March 2010. The government then expects it can reduce the growth in expenses to a level below the growth in revenue for the next five year period, including two years where revenue growth will exceed expense growth by almost four percentage points.

The budget is signaling significant expense restraint in the future, but it does not provide much explanation about how this restraint will be achieved. This illustrates that the government has not yet reached the level of transparency necessary for people to understand how the government intends to eliminate annual deficits, and how and when it intends to start paying down its Net Debt. The government still needs to provide more future oriented information.

Public-private partnerships

1.9 One additional transparency concern I have this year is about the approval of public-private partnerships or P3s. The government has announced a number of P3 projects, however I am not sure how they are reflected in the Province's Capital Estimates. I believe if the government is going to enter into contractual arrangements for P3s, they should be obtaining approval of the legislature through an appropriation before the contract is signed.

Information in this volume

1.10 This volume contains a lot of information including management letter recommendations we made as a result of our financial audits, the results of our information systems work, and detailed analysis of certain financial information.

Acknowledgements

1.11 I am grateful for the cooperation that we receive from government departments and agencies during the course of our financial audit work. Our financial audit work is becoming more complex and cooperation from the organizations we audit is essential.

1.12 I want to specifically thank all of the staff of the Office of the Auditor General for another year of hard work; they truly are dedicated to improving government's accountability and transparency.



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