

Chapter 1

Introductory Comments

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Volume I Reports Our Financial Audit Work

Release of 2014 Province of New Brunswick financial statements – earliest release date in years

Auditor General prefers earlier release of audited financial statements every year

Auditor General's Comments on the Province's Fiscal Status

1.1 This volume of our Report deals with matters arising from our financial audits of the Province and its Crown agencies for the year ended March 31, 2014.

1.2 On July 17, 2014 I signed an unqualified audit opinion on the 2014 consolidated financial statements of the Province of New Brunswick. The government released the audited financial statements on July 23, 2014. This was the earliest release date in many years. Financial information is most useful if it is timely.

1.3 The early release date was in response to the *Fiscal Transparency and Accountability Act* which required the Auditor General to express her opinion as to whether the information is fairly presented at least 60 days before the date of the scheduled general election. The election was held on September 22, 2014.

1.4 I would like to make note of the significant collective effort of many participants throughout government departments, Crown corporations and agencies and especially the Office of the Comptroller. All of these participants worked diligently with my staff to achieve this milestone.

1.5 I am hopeful earlier financial statement release dates will become routine each and every year, not just when there is a provincial election.

1.6 The Province's fiscal situation remains a concern. The Province's March 31, 2014 audited consolidated financial statements show a sixth consecutive deficit of nearly half a billion dollars. A similar amount was added to Net Debt. Net Debt is now over \$11.6 billion or \$15,400 per New Brunswicker. The continued increase in Net Debt represents a very disturbing trend.

- 1.7** As I have stated in prior years this is not sustainable.
- 1.8** However, I would like to highlight once again recent government efforts to control spending. Our analysis shows New Brunswick's average three year expense growth rate was actually a decrease (from 2012 to 2014) of less than 1%. This was largely due to curtailing growth in the two largest expenditure areas of Health and Education and Training.
- 1.9** Although recent government efforts to control spending are noteworthy, it is not enough. Particularly given revenues are not keeping pace and show minor growth of only 1.4% (three year average growth rate).
- 1.10** The Province's structural deficit continues. A structural deficit is a sustained situation where expenses exceed revenues. It is also concerning that this fiscal imbalance persists in a time when our infrastructure such as buildings, roads and bridges are not being maintained and renewed at optimal levels. In general, to correct a structural deficit, expenses or services/programs need to be reduced, revenues need to be increased, or some combination of the two need to occur. The solution chosen is dependent on government policy and decision making.

Continued diligence is needed to improve the financial health of the Province

- 1.11** Continued fiscal diligence is required in government policy and decision making to improve the financial health of the Province.

Need to return to balanced budgets and control growth in Net Debt

- 1.12** Our Province must return to balanced budgets in the foreseeable future. As well, our Province must control Net Debt growth. Both measures, the annual deficit and change in Net Debt, are important in assessing the financial health of the Province.
- 1.13** Chapter 2 of this volume provides further detail, analysis and commentary of the Province's fiscal status as at March 31, 2014. The chapter includes historical trends, financial indicators and an analysis of New Brunswick's Net Debt compared to that of other provinces. Our analysis shows when compared to other provinces, New Brunswick's Net Debt has increased the most over the last eight years. This is cause for concern for the long term sustainability of the Province.

Observations on Pension Plans

1.14 Significant changes have been made to some of the Province's pension plans in the past two years. In particular the largest public service plan was converted during fiscal 2014 to a Shared Risk Pension Plan. This followed the conversion of two smaller plans in 2013. Given these significant changes, Chapter 3 presents observations and comments on complex issues regarding pensions.

1.15 For the year ended 31 March 2014 pension expense of \$365.4 million was recorded. The 2014 elimination of special payments to pension plans resulted in an estimated annual cash flow savings of over \$150 million. These cash savings will compound over time.

1.16 Chapter 3 also discusses the funding status of the public service pension plan both before and after conversion to a shared risk pension structure. We also illustrate the significance of the impact on employees of the former PSSA plan changes.

1.17 As a result of plan changes, employees will pay more in contributions; receive lower benefits, work longer or a combination of all three of these outcomes. In particular the pension plan changes will impact new and middle career employees the most, with employees near retirement being less affected by plan changes.

Other Chapters in this Volume

1.18 Chapter 4 reports on matters arising from our audit of the financial statements of the Province.

1.19 Chapter 5 reports on matters arising from our audits of Crown agencies and Federal Claims.

Acknowledgements

1.20 My Office is grateful for the continuing cooperation we receive from government departments and agencies during the course of our financial audit work.

1.21 I want to thank all staff of my Office for their hard work and dedication. It is a small group of professionals committed to fulfilling the mandate of the Office and producing a quality report to the Legislative Assembly. The report we are presenting today is a reflection of a team effort where each member of the staff has greatly contributed.



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