

Chapter 1

Introductory Comments

Contents

Volume I Reports our Financial Audit Work.....	3
Acknowledgements.....	6

Introductory Comments

Volume I Reports Our Financial Audit Work

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, 2013.

Release of financial information

1.2 Financial information is most useful if it is timely. The government released the Province's March 31, 2013 audited consolidated financial statements on October 16, 2013. The Province's financial statement audit opinion was signed on October 4, 2013. This timing was later than in recent years.

1.3 The delay was largely due to complex accounting matters pertaining to shared risk pension plans. Given the unique nature of these plans in New Brunswick as well as Canada, we had numerous and lengthy exchanges with government on this issue. In the end our audit questions were resolved and I was able to express an unqualified opinion on the Province's financial statements.

Auditor General prefers earlier release of audited financial statements every year

1.4 In anticipation of government's intent to release the Province's audited financial statements 60 days prior to the September 2014 provincial election, I would like to assure the Legislative Assembly every effort will be made by my Office to deliver on the proposed timelines. However, this will require a collective effort of many participants throughout government departments, Crown corporations and agencies.

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.

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

1.6 The Province's fiscal situation remains a concern. The Province's March 31, 2013 audited consolidated financial statements show a fifth consecutive deficit. In fiscal 2013 the Province's deficit exceeded half a

billion dollars and nearly \$1 billion was added to Net Debt. Net Debt is now over \$11 billion.

1.7 As I have stated in prior years this is not sustainable.

1.8 However, I would like to highlight recent government efforts to control spending. Our analysis shows New Brunswick's expenses increased from 2011 to 2013 by only 1.6%. This compares favorably to expense increases in Nova Scotia, Manitoba and Saskatchewan of 7.1% or higher.

1.9 Although recent government efforts to control spending are noteworthy, it is not enough. The Province still has a structural deficit. 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

1.10 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

1.11 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.

1.12 Chapter 2 of this volume provides further detail, analysis and commentary of the Province's fiscal status as at March 31, 2013. The chapter includes historical trends, financial indicators and an analysis of New Brunswick's Net Debt to that of comparable provinces.

Accounting for Pension Plans and NB Power***Pension Plans***

1.13 This year we have highlighted in Chapter 3 two significant and complex accounting areas involved in auditing the Province's financial statements: Pensions and NB Power. Each of these elements has a large impact on the Province's financial situation and results.

1.14 Chapter 3 explains the accounting for pension plans, some history of the significant impact on the Province's finances relating to pension plans, as well as our assessment of the accounting for the Province's two pension plans which converted to shared risk pension plans during fiscal 2013.

1.15 Given the Province's announced intention to convert more pension plans to shared risk plans, we believe the question of appropriate accounting treatment will be an even more important issue in future audits.

NB Power

1.16 During fiscal 2013, the newly refurbished Point Lepreau Generating Station returned to operation after an outage of over four years. Lepreau refurbishment costs of \$2.4 billion have begun to be recognized in NB Power's expenses and are expected to continue for the next 27 years.

1.17 One significant area we evaluate is NB Power's model of forecasted operating results. In Chapter 3 we explain our assessment of the model and evaluate the sensitivity of major assumptions supporting the model. The forecast model is important given the accounting decisions impacted by the need for NB Power to operate as a viable business, maintain its operations and meet its liabilities primarily from ratepayers.

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.

Office Performance Report

1.20 Chapter 6 includes our performance report of the Office of the Auditor General and is intended to present a comprehensive picture of the Office's actual performance.

Acknowledgements

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

1.22 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.



Kim MacPherson, CA
Auditor General