



Remarks to the Media on the Report “The Need to Change – Modernizing Government Budgeting and Financial Reporting in Saskatchewan” - Bonnie Lysyk, Provincial Auditor of Saskatchewan, Tuesday, April 30, 2013

Good morning and thank you for being here today. I have with me Judy Ferguson, Assistant Provincial Auditor, Ed Montgomery, Deputy Provincial Auditor, Kelly Deis, Deputy Provincial Auditor, and Carolyn O’Quinn, Audit Principal of the Public Accounts Team.

Today I am issuing a special report called “The Need to Change – Modernizing Government Budgeting and Financial Reporting in Saskatchewan”. In prior public reports, we have emphasized the problems with the General Revenue Fund (GRF) financial statements. Now, we shift our focus to incorporate the elements of budgeting and related legislation in Saskatchewan.

In preparing this report, we had four objectives and I will address each one, in turn.

The **first objective** is to highlight:

The problematic use of two budgets and two sets of financial statements in Saskatchewan.

- › Within Saskatchewan, the Government continues to prepare and present two budgets in its Provincial Budget, and it prepares and includes two sets of financial statements in its Public Accounts – hence there are two sets of books. The problem is that the Government continues to focus on the wrong budget – the GRF budget and the wrong financial statements – the GRF financial statements. Saskatchewan is the only province in Canada where this is done.
- › The Summary Financial Statements include all of the Government’s debts, revenues, and expenses and as such are the correct audited financial statements to use when talking to citizens about the Government’s finances. These audited financial statements show that there have been deficits in Saskatchewan for the last three years:
 - March 31, 2010 – (\$409.2) million
 - March 31, 2011 – (\$13.3) million
 - March 31, 2012 – (\$104.9) million
- › This is contrary to the message that Saskatchewan has been balancing the budget. For instance, last year, the Government reported a surplus of \$352.3 million instead of the correct deficit of \$104.9 million. As such, there was nearly a half billion dollar difference in the bottom line. My point in raising this is not to offer comment on whether deficits are acceptable or not acceptable, but rather to highlight the complete and accurate financial results for the last three years.
- › Saskatchewan legislation focuses on the General Revenue Fund. For example, legislation expects the Government to only balance the General Revenue Fund. This legislation does not require the use of proper accounting rules and focuses financial reporting and debt management

on only a portion of the Government’s revenues and expenses (43% of expenses). This allowed the Government to report surpluses instead of the deficits I just mentioned.

- › During 2011, the Government communicated that it had a balanced budget of \$20 million – it did, under existing balanced budget legislation, but again, this was for only a portion of the government’s revenues and expenses. At the same time, the Government budgeted a deficit of \$622.7 million for the Summary Financial Statements that included the consolidated financial results of all agencies that are controlled by the Government.
- › Even though Saskatchewan has produced a Summary Budget as one of its two budgets since 2005, legislation does not require the preparation of a Summary Budget. The legislation in Saskatchewan has not been updated to require a provincial budget based on 100% of the province’s revenues and expenses like other provinces.
- › The correct provincial budget to use (the Summary Budget – the consolidated budget) is relegated to the back of the budget document and is only a few pages, because current focus is placed on the General Revenue Fund budget.
- › All of what I just said means that the citizens of Saskatchewan are not receiving clear communications on the appropriate budget and financial results in order to hold the Government accountable for the financial impact of its decisions.

The **second objective** that I would like to speak to is that:

The use of two budgets and two sets of financial statements confuses national organizations outside of Saskatchewan

- › When organizations like the C.D. Howe Institute, the Global and Mail, and Macleans compared Saskatchewan’s budgets and financial results to other provinces, they mistakenly used the wrong financial figures for Saskatchewan. They acknowledged that they were confused by Saskatchewan using two budgets and two sets of financial results. The public uses reports from these organizations to understand how Saskatchewan is performing relative to other provinces. Given that there were inaccurate comparisons included in these reports, the public does not know how Saskatchewan truly stacks up against other provinces.

The **third objective** that I would like to highlight is:

The need to provide clear communication on the level of debt in Saskatchewan.

- › The public discussion on debt currently focuses on only a portion of provincial debt called the “government general debt”. For the year ended March 31, 2012, this totalled \$5.9 billion and the 2013-14 Provincial Budget estimates that it will be \$4.9 billion at March 31, 2014. Although the “government general debt” declined by \$1.9 billion over the last five years, gross debt, including the amount owed for pension liabilities, has increased by \$0.4 billion from \$17.0 billion at March 31, 2008 to \$17.4 billion at March 31, 2012 and the 2013-14 Provincial Budget estimates that, including pension liabilities, gross debt will reach \$19.1 billion by March 31, 2014. Again, my purpose is not to comment on what is an appropriate level of debt, but rather to point out the complete debt figure that should be the focus of public discussion.

- › The Government's current debt management plan is based on only a portion of the debt. The legislative requirement for a debt management plan is focused on the GRF instead of on all of the Government's debt. As such, the Government does not publish a plan that shows how it plans to manage all of its debt. As we recommend in our report, it should.

The **fourth objective** is to highlight that:

We have provided detailed recommendations for the Government on what is needed in order for Saskatchewan citizens to receive, annually, one provincial budget and one financial results report, like all other Canadian jurisdictions.

- › As I mentioned, unlike the rest of Canada, Saskatchewan's legislation places emphasis on preparing a budget and financial statements that do not include all of the Government's revenues and expenses. These financial documents are not prepared in accordance with proper accounting standards. As presented on page 35 of our report, we have provided the Government with 11 recommendations to modernize budgeting and financial reporting in Saskatchewan. This includes changing the focus to Summary Budgeting and Summary Financial Reporting using proper accounting standards.

At this time, I would also like to draw your attention to two important indicators that the public should be aware of and monitor in the future:

One is **Net Debt calculated using the Summary Financial Statements**. This is shown in Figure 9 on page 19 of our report. It is a key indicator that highlights the affordability of future government services. Saskatchewan's net debt has started to increase slightly over the past three years.

A second indicator is **Net Debt as a percentage of GDP using the Summary Financial Statements**. This is shown in Figure 10 on page 20 of our report. It is a key indicator that compares a government's net debt to the state of the economy and provides insight into the degree to which a government can maintain existing service commitments and meet its existing financial obligations without increasing debt or taxes. After a period of significant decrease, the last three years have shown some reversal of the previous positive downward trend. Having said this, the Government is better able to afford its debt today than it could eight years ago.

Last but not least, I would like to stress that my auditor's opinion on the General Revenue Fund financial statements indicates that these financial statements are materially wrong and that these statements should not be used to assess the Government's overall management of public financial affairs and provincial resources.

There definitely is a need to change. Citizens in Saskatchewan deserve to receive and use one clear provincial budget and one accurate set of financial results when assessing the Government's performance - A Summary (Consolidated) Budget and Summary (Consolidated) Financial Statements. Comparing a Summary Budget to actual results provides the means for legislators and the public to hold Government accountable for the impact of its decisions on its overall financial performance.

Thank you for your attention and I welcome your questions.