



**Report of the Auditor General
of Québec
to the National Assembly
for 2014-2015**

Analysis of the December 2014
Economic and Financial Update

Winter 2015

Photo de la page couverture
Hôtel du Parlement, *Daniel Lessard*, Collection Assemblée nationale

Summary

Work Objectives

Our work was mainly carried out among the Ministère des Finances du Québec (MFQ) and the Secrétariat du Conseil du trésor (SCT).

The role of the MFQ includes advising the government on budget, taxation, economic, financial and accounting matters. Out of a concern for transparency, it has presented, since 2006, an economic and financial update that gives an up-to-date view of budget execution including a revised forecast of budget results.

The SCT's responsibilities include assisting the MFQ in establishing forecasts for expenditures from the general fund.

The audit work had the following objectives:

- obtain the assurance that forecasts related to the financial framework and debt are reasonable;
- obtain the assurance that the information presented is accurate and sufficient, and that it adequately informs users.

The entire Report is available at <http://www.vgq.qc.ca>.

Work Results

We present here a summary of the principal findings of our work concerning the December 2014 economic and financial update (the December 2014 Update).

Balanced budget: a different notion than the one used in the financial statements. While the government forecasts a budgetary balance of zero within the meaning of the *Balanced Budget Act* for 2015-2016 and 2016-2017, it also plans on presenting in its consolidated financial statements a surplus estimated at \$1,617 million for 2015-2016 and \$2,288 million for 2016-2017.

Qualification of assumptions: almost all are reasonable. The forecasts of the December 2014 Update are reasonable for the years 2014-2015, 2015-2016 and 2016-2017, except for forecasts on debt service, which are pessimistic for those same years, and the forecast on expenditures from the general fund, which is ambitious for the year 2016-2017.

Forecasts: risks offset by prudence margins. The presence of unfavourable risks is offset for the most part by the presence of favourable risks from prudence margins.

Budgetary measures: a fairly specific plan. The December 2014 Update gives a fairly specific idea of the government's plan to achieve a balanced budget in 2015-2016. Indeed, the government has identified measures and taken concrete actions to control its expenditures. Nevertheless, risks remain regarding the non-realization of the measures. On the one hand, the effects of these measures may be delayed, and on the other hand, they may be different than those expected. Additionally, some measures still needed to be identified for the years 2015-2016 and 2016-2017.

Expenditures from the general fund: considerable efforts and rigorous follow-up will be required. Program spending forecasts are reasonable for the years 2014-2015 and 2015-2016 and ambitious for the year 2016-2017. Additionally, reaching the program spending objective for 2015-2016 and 2016-2017 depends on the implementation of the numerous reduction measures announced in the June 2014 budget and the December 2014 Update.

Presentation of information: deficiencies with respect to expenditures. The Update does not present any assumption concerning expenditures. Additionally, there is no detailed analysis of historical trends according to the nature of expenditures or even according to the State's main missions.

Recommendations

The Auditor General has made recommendations to the Ministère des Finances du Québec and the Secrétariat du Conseil du trésor. All of them are shown to the right.

Additionally, the Auditor General followed up on recommendations made during its work on the analysis of the November 2013 economic and financial update and on the special audit concerning the change in the budget balance of the government for 2014-2015 up until April 7, 2014. We presented the progress made on each of the recommendations.

The audited entities had the opportunity to comment on these recommendations. Some of MFQ's comments required a reaction. The entities' comments and our reaction can be found in the *Commentaires des entités vérifiées* Section.

We want to point out that the entities accepted all of the recommendations.

Recommendation to the Ministère des Finances du Québec and the Secrétariat du Conseil du trésor

- 1 Ensure coherence between the assumptions used to make its forecasts.**
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Recommendation to the Ministère des Finances du Québec

- 2 Review the methodology used to make the net capital investment forecast to improve its precision.**
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