

Chapter 1

Introductory Comments

Contents

Public-private partnerships	3
Accounting and financial reporting	5
Failure to follow legislation and resolutions	6
Accountability	6
Our Office performance	7
Acknowledgements	8

Introductory Comments

1.1 It is not easy to summarize a year's work in six pages. In fact it is impossible. There is always the risk that the attempt to produce highlights will overlook matters that will be extremely important to a particular reader. For this reason I hope you read all chapters in our 1998 Annual Report. For instance in Chapter 5 you will learn about our findings on the approval and monitoring of grants to New Brunswick businesses. Chapter 13 reflects some preliminary work we have done on the Fredericton-Moncton Highway. And in Chapter 3 you will find charts that we have produced for the first time that portray the government's financial condition from the perspective of sustainability, flexibility and vulnerability. There are seventeen chapters in total.

1.2 I will provide the reader however with some observations that I have made as a result of being familiar with all the work we have performed. These observations have been consolidated in the form of themes as opposed to individual issues.

Public-private partnerships

1.3 There has been a great deal of interest in government's attempt to involve the private sector in the delivery of public services. We are very interested as well, especially since there is every indication that this is a method preferred by government that it will continue to use in the future. As a result of this interest we have examined a number of these arrangements.

1.4 Two of the arrangements that we examined did not proceed to completion, the Revenue Management System (RMS) in the Department of Finance and the New Brunswick Integrated Justice (NBIJ) initiative in the Departments of Justice and the Solicitor General. In both instances the government had to terminate the arrangements with negotiated settlements. We commented on the RMS system last year and there is a chapter in this year's Report on the \$2.9 million negotiated settlement with Andersen Consulting on the NBIJ initiative. In looking at this initiative we were interested in whether the taxpayer received value for the money spent. Our conclusion is that while the payment was reasonable under the circumstances, any value would be of an intangible nature. Last year we noted that the estimated benefits from the RMS system were substantially less than the settlement reached with IBM.

1.5 This year we also examined the payments made to Andersen Consulting as a result of the work they did in developing the NB Case system in the Department of Human Resources Development. The concept of this project was that Andersen Consulting was to be paid from

identified savings arising from their work in developing the new system. We were pleased to find that the new system was generating savings which more than supported the payments being made.

1.6 All three of these projects were similar in that the cost of the professional services was to be paid from real savings. No savings, no pay. Only one of the three met the stated objective. We believe, however, that this method of procurement has potential, especially if all business cases for new automated solutions are prepared by somebody independent of the actual work and if large projects are divided into manageable pieces. We made these same observations last year.

1.7 We believe this approach provides a strong discipline to the decision-making process in that tough decisions must be made to realize necessary savings. The savings must exist before payments can be made. We did note that in the NB Case situation, the new system only had to realize savings to cover the payments to Andersen Consulting. The costs of computer hardware and software were excluded from this calculation. We feel that in the future any business case should ensure that savings will cover all the costs of developing and implementing the new solution.

1.8 We also looked at another form of public-private partnership. This is where the government contracts with one provider for the design, construction, operation and financing of a particular project and then enters into a lease arrangement with the provider. A school was built in Moncton in this manner, as was the youth facility in Miramichi. In the past the government would have looked at design, construction and operation as separate components. The government would have then provided any required financing by issuing Province of New Brunswick bonds.

1.9 As a result of the work which we have done, we are not convinced that the taxpayer is receiving the best value for money under these new arrangements. At the outset, government is forfeiting its own borrowing power, and its favourable borrowing rates, to those of a lessor. This would make the cost of financing more expensive. There is reference to this form of public-private partnership permitting government to transfer risks to the private sector, but it is not clear what risks are being transferred and what value is placed on them. Furthermore, risks are not assumed by third parties without cost. So, to the extent that risks are transferred, the question that must be answered is, at what price? And further, is this the best way for government to manage these risks?

1.10 Government has traditionally built and owned facilities such as schools and correctional institutions. This is the business government is in and will no doubt continue to be in. We did not see compelling reasons for this major policy shift from owning such facilities to leasing them.

1.11 We are fully aware that the accounting treatment for these lease arrangements assists the government in meeting the objective of balancing

the budget. In fact, we can say with certainty that this is one consistent outcome of the arrangements we have examined. But it may not be the best arrangement from a value-for-money standpoint.

1.12 At the present time the Department of Finance and my Office do not agree on whether these arrangements are beneficial to the Province. Since we do not agree, and since the government intends to continue to use this procurement method, I will be allocating resources to examine more of these arrangements in the future.

1.13 This raises the issue of accountability and how important it is that government be able to easily explain and defend decisions to the public. These arrangements and the advantages of them are not easy to explain. If the approach is to continue we strongly recommend that mechanisms be put in place that make the decisions and the reasons for them transparent to the taxpayer.

Accounting and financial reporting

1.14 We qualified our audit opinion on the Province's financial statements for the year ended 31 March 1998. We had two reservations.

1.15 The first one was related to the Province's investment in NB Power, which we believed should have been written down by \$450 million. It was determined during the year that the value of the Point Lepreau nuclear generating plant was permanently impaired in the amount of \$450 million. But rather than recognizing the loss, NB Power created an asset in the same amount. We did not agree with this accounting treatment and our position and reasoning is fully explained in Chapter 2. Also in Chapter 2 are the details surrounding the second reservation. This one related to how the Province accounted for the \$364 million received from the federal government in connection with the implementation of the Harmonized Sales Tax. The result of both reservations on the 1997-98 financial results was to change a reported surplus of \$61.7 million into a deficit of \$267.3 million.

1.16 For the first time, the Province recorded in the accounts its liability for retirement allowances, accrued salaries for teachers, vacation pay, and workers' compensation benefits for provincial employees. The total of these liabilities as at 31 March 1998 was \$302.3 million. We commend the Province for taking this action. This moves the Province closer to being in full compliance with the Public Sector Accounting and Auditing Board (PSAAB) standards. In Chapter 2 we trace the progress the Province has made over the past ten years in adopting PSAAB recommendations, and are pleased to report that there are few remaining areas where further improvement can be made.

1.17 One area that continues to concern us is the Province's reluctance to recognize in the accounts the net liabilities of its eight regional hospital corporations. At 31 March 1998 the net liabilities of these eight

corporations amounted to \$70.4 million, an increase of \$26.0 million from the previous year.

Failure to follow legislation and resolutions

1.18 This year, we found three examples of actions being taken by government which were not consistent with legislation. In one instance NB Power provided funding of \$2.5 million for economic development in the Minto area. The Electric Power Act gives authority for such funding if it was determined to be appropriate from a public policy standpoint by the Lieutenant-Governor in Council. Such authority should have been evidenced and supported by an Order in Council. This was not done. In another situation we found that the Credit Unions Act requires the New Brunswick Credit Union Deposit Insurance Corporation to establish and maintain deposit insurance funds to be used in the event claims are to be paid to depositors. These funds have not been established. Finally we found that expenditures totalling \$76.8 million have not been approved by Board of Management or the Lieutenant-Governor in Council even though such approval is required under the Financial Administration Act.

1.19 In addition we found two instances where Board of Management minutes were not followed. In the first instance the Excellence in Education initiatives, which were adopted in 1992, called for separate accounting for the \$61.1 million additional funding to be provided over a four-year period. We found there was no separate accounting for approximately 25% of the funding. And secondly, a Board of Management minute authorizing the transfer of money to a specific program was exceeded.

1.20 All of these findings are explained in detail in our Report. We raise the issues here because of the seriousness of the shortcomings. All legislators, and all supporters of motions or minutes, must have confidence that their wishes will be fulfilled. We strongly recommend that great care be taken to ensure that all actions are clearly supported by the appropriate authority, and that any prescribed action by legislation or resolution be acted upon forthwith.

Accountability

1.21 Our Office is very interested in promoting accountability by the government to the people of New Brunswick through the Legislative Assembly. Each year we undertake projects for the sole purpose of commenting on accountability.

1.22 One major project we undertook this year was to examine the governance and accountability of the eight regional hospital corporations. In general our findings on governance issues were positive. We recommended however that accountability would be better served if the Chairs of the boards of the regional hospital corporations and their CEOs appeared annually before a committee of the Legislative Assembly. The results of our work in this area can be found in Chapter 12.

1.23 This year we also examined the outcome of the Excellence in Education (EIE) initiatives which had been announced in June of 1992. The EIE program was carried out over a four year period with a total budget of \$61.1 million. One of our objectives in doing this work was to determine if the government had adequate systems in place to measure and report on the effectiveness of the initiatives. Our work revealed that in at least one area, the Early Childhood Initiatives (ECI), the results are not yet known, so any reporting to the Legislative Assembly would be premature. The ECI accounted for approximately 25% of the total budget of \$61.1 million. On the other hand, for the EIE initiatives that are completed and could be evaluated, no reporting has taken place. Despite this, the Excellence in Education budgets became part of the participating departments' base budgets in the fiscal year 1996-97. As a result of our work in this area, we believe accountability would have been better served if government reported on the results of completed initiatives and if no money was permanently included in departmental budgets until a final evaluation was completed.

1.24 Last year we commented on the amount of attention given each year to the annual budget of the Province and how very little is ever said about actual results. We suggested that the accountability cycle would be completed if government prepared a narrative explaining how actual results compared to the budget. We were very pleased to see that the Province provided this information this year and not only were major variations from budget explained but in many cases variations from last year's actual results. We commend the government for providing this information.

Our Office performance

1.25 Last year I made reference to how I felt our Office must lead by example. At that time I said "*we cannot make pronouncements on timeliness and not be timely ourselves, and we cannot ask others to identify and report on performance indicators and not do so ourselves. We too spend taxpayers' dollars...*"

1.26 During the last year we undertook a number of initiatives in our Office. We finalized our Strategic Plan, and identified nineteen performance indicators, eight of which we believe are relevant for external reporting. We also conducted a survey of members of the Public Accounts and Crown Corporations Committees. One of the suggestions made to us was the publication of a highlights booklet to accompany the annual Auditor General's Report. Such a booklet was prepared this year. For more information on our Office and our performance over the past year refer to Chapter 17.

1.27 As for timeliness, it is our intention at the time of writing this Report to have our 1998 annual Report tabled in early December. We believe it is very important to be reporting in the same year that we conducted most of our work. A December tabling will be one month earlier than last year.

Acknowledgements

1.28 During the year, staff of my Office are in contact with numerous government employees, as they go about their audit duties. In addition I have contact with a number of senior employees, mostly Deputy Ministers. I want to recognize the cooperation we receive from the Deputies and their staff. I fully appreciate the fact that these employees have numerous responsibilities and in many instances are working towards crucial deadlines. They still, however, show us courtesy and make every effort to respond to our queries and reports, and for this we are most appreciative.

1.29 Although it is my honour to submit this Report, I am indebted to the staff members in my Office who worked so hard and diligently to make it possible.

Daryl C. Wilson, FCA
Auditor General