

# Chapter 1

## Introductory Comments

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# Introductory Comments

## Timeliness

**1.1** At the time of writing of this annual Report, it appears that the Province's audited financial statements for the year ended 31 March 2003 will not be issued until at least November 2003. This would be more than seven months after year end. In order for information to be used for decision-making and accountability, it must be timely. When a government is already seven months into the next fiscal year, decisions made using this information could have limited benefit. But perhaps more importantly, is the fact that the taxpayers are still waiting to see how their money was spent. Some provinces in Canada release their audited financial statements before the end of June. Our own Province should adopt a similar reporting regime.

## This year's Report will be in two volumes

**1.2** The annual Report of the Auditor General normally includes a chapter on financial indicators. However, due to the government's lateness in closing its accounts we were not able to include such comments in this volume. We intend to prepare a second volume of the Report, which will include our financial observations, and this volume will be released early in the new calendar year. We also plan to include in that volume work we have done on the management of absenteeism, focusing on sick leave. My Office is also doing work on the salmon aquaculture industry and our findings are expected to be published in June 2004. The Federal Auditor General's Office and the Office of the Auditor General of British Columbia are also examining the salmon industry and we are planning a joint release of our reports.

**1.3** There are a number of issues that I would like to raise in this chapter, some related to the projects we did this year, some related to operations of the Office of the Auditor General and others of a more general nature. I will start by emphasizing the importance of good governance and accountability.

## Comments on this year's work

### Governance

**1.4** Over the past few years, there have been a number of private sector scandals that have resulted in the collapse of companies like Enron in the U.S. and Bre-X Minerals in Canada. These scandals have caused an increase in the public awareness and interest in issues of board governance and accountability. These boards of directors did not represent the best interests of the shareholders who appointed them. Further, they added little or no value to the corporations they were governing and instead blindly followed the advice of, and supported the decisions of, senior management.

**1.5** In 2001, the Joint Committee on Corporate Governance, which included the Canadian Institute of Chartered Accountants and the Toronto Stock Exchange, had this to say in their final report:

*The objective of good governance is to promote strong, viable and competitive corporations.*

**1.6** So, when examining the governance of any corporation it is important to have the right checks and balances in place to avoid poor governance. It is equally important to have the mechanisms in place to promote good governance.

**1.7** The extent to which government services are delivered in New Brunswick through Crown agencies is significant. For instance, eight regional health authorities are responsible for the delivery of a large part of the Province's health care. And Crown agencies have been created to look after the distribution and sale of liquor products, the provision of electricity needs, the delivery of regional development programs and the management of over \$5 billion in pension fund assets. There are approximately thirty-five organizations listed in the government's financial statements that have been given responsibility to deliver government services and who in turn are accountable to the Legislative Assembly. That is why the principles of good governance and accountability are so important. And this is why we undertook five governance-related projects between 1996 and 2000, culminating in a comprehensive project on Crown agency governance on which we are reporting this year. The results of our work are found in chapter 6. In total we made 19 recommendations covering practically every aspect of corporate governance. Action on these recommendations will without question improve our corporate governance culture but more importantly will enhance accountability and in the long run improve corporate performance. I hope that our observations and recommendations are seen in this light.... as an attempt to improve corporate performance.

**1.8** On a related matter, I am reporting in our follow-up chapter 7 that in 1999 the board of directors of New Brunswick Liquor Corporation disagreed with 13 of the 19 recommendations we made as a result of reviewing their governance and accountability structures. I was surprised to learn this because in almost every instance the recommendation was promoting a practice that is seen to be generally accepted. Recently I have been informed that the current board has taken a number of initiatives and plans to undertake others to "promote effective Board Governance and provide greater accountability to our shareholders". I am encouraged by this and trust that the work we are reporting on this year will help the Corporation, other Crown agencies and government improve governance practices in the Province of New Brunswick.

## **Accountability**

**1.9** This year we also undertook an audit on the accountability of psychiatric hospitals and psychiatric units. The genesis for this audit was similar to that of Crown agency governance, in that more and more

services are being delivered outside the direct control of a government department. For instance, many health services such as addiction services, extramural care, cancer care, cardiac care and mental health services are under the management of the Regional Health Authorities. With growing control at the regional level and more money being spent to support regional operations, it becomes increasingly important to have central mechanisms in place to ensure the government is achieving its objectives in these programs. The results of work in this area are found in chapter 4. Our overall conclusion was that the Department of Health and Wellness does not have appropriate accountability processes in place for the operations of psychiatric hospitals and psychiatric units. In other words it is not receiving sufficient information to evaluate performance. My Office's work in this area will be of even greater value to the government and Legislative Assembly (and ultimately to the citizens of the Province) if it is used as a basis to evaluate other situations where service is being delivered outside the direct control and supervision of a department.

### **Child day care facilities**

**1.10** The Legislative Assembly has passed legislation, and the government has established standards for child care facilities in the Province of New Brunswick. We thought the Members would be interested in knowing whether or not the Department of Family and Community Services has appropriate policies and procedures to ensure there is compliance with the legislation and standards. We found that while the Department has established processes for approving and inspecting day care facilities, they are not adequate and they do not always ensure compliance with legislation and standards. The results of this work are found in chapter 2.

### **Tax expenditures**

**1.11** In chapter 3, we make some observations and recommendations concerning tax expenditures. "Tax expenditures" is the term given to foregone revenues due to special exemptions, deductions, or rebates that reduce the amount of tax that would otherwise be payable to the Province. For instance, the sales tax exemptions on gasoline used by farmers and fishermen would be a tax expenditure. As a result of our work, we have noted that tax expenditures do not receive the same annual scrutiny and approval by the Legislative Assembly as ordinary expenditures. Furthermore there is no public reporting on the effectiveness of these programs.

### **Management of insurable risks**

**1.12** In the late 1980s the government decided to no longer insure provincial buildings, meaning that all losses related to events such as fire would be borne by the taxpayers. We were interested in determining how the Department of Supply and Services manages the risks for the public buildings it is responsible for. In other words, what steps are being taken to minimize the risk of a loss occurring to one of our buildings? The results of our work are found in chapter 5.

**Comments on action taken to address recommendations of prior years**

*In some cases there have been few recommendations adopted*

*There has been a very positive response to some audit recommendations*

*Adoption of some recommendations is beyond the responsibility of one department*

**New appendix****Comments on the operations of my Office**

**1.13** I will highlight a number of issues from our follow-up chapter 7 on prior years' recommendations. Our policy is to track the disposition of our recommendations for a period of four years after they first appeared in our Report.

**1.14** This is the last year we will be reporting on our 1999 work on the Department of Health and Wellness' role in food safety standards, and on governance at New Brunswick Liquor Corporation. In 1999 we made 36 recommendations related to the Department's role in ensuring food service establishments comply with food safety standards. Only four recommendations have been implemented since that time. I am very disappointed to see such slow progress in an area that is directly related to the safety of our citizens. All of the recommendations that have not been acted upon are listed in chapter 7. The thirteen recommendations that were not agreed to by the New Brunswick Liquor Corporation are also listed in chapter 7.

**1.15** Most of our follow-up findings have been positive. In 2001 we made 74 recommendations as a result of an audit of the Pupil Transportation Branch within the Department of Education. In two years the Department has implemented fifty recommendations and partially implemented another fourteen. This is a significant accomplishment. Also the Department of Agriculture, Fisheries and Aquaculture has implemented all eight recommendations related to an audit of controls over cash handling and inventory and the Department of Finance has implemented all six of our recommendations related to a review of a new automated accounts receivable system.

**1.16** I draw the attention of the Members of the Legislative Assembly to four recommendations that we made in 2000 as a result of a review of legislation in the Department of Agriculture, Fisheries and Aquaculture. These recommendations were made with the objective of assisting the Legislative Assembly in fulfilling its responsibility of ensuring legislation is being effective and relevant. While the recommendations were made initially to the Department they are applicable to all departments that are responsible for administering legislation. The four recommendations are found in paragraphs 7.98 to 7.102. I hope that both the Legislative Assembly and the government will see the value in these recommendations and that appropriate action will be taken.

**1.17** I have added a new feature this year to our annual Report and that is a brief description of all significant audits we have conducted in departments and Crown agencies over the past six years. This information has been grouped by department and agency and is found in Appendix 1.

**1.18** There are three issues concerning the operations of the Office of the Auditor General that I am bringing to the attention of the Legislative Assembly. I believe these issues are extremely important because they relate directly to the Legislative Assembly's responsibility to hold the

government of the day accountable and the ability of the Auditor General to act independently. And they can only be resolved by the Legislative Assembly. The issues are:

- the process for approving the annual budget of the Office of the Auditor General;
- my Office's current budget situation; and
- the method of appointing the Auditor General.

***The process for approving the annual budget of the Office of the Auditor General***

**1.19** Section 17(1) of the *Auditor General Act* requires the Auditor General to submit a budget request annually to the Board of Management. The Board of Management, which is a sub-committee of Cabinet, makes the final determination of the amount included in the Main Estimates for the operations of the Office. So, in effect, the body we are mandated to audit determines the amount to fund our operations.

**1.20** It is interesting to note that section 4(4) requires the Auditor General to determine the manpower requirements of the Office, but of course this has no meaning if the funding is not provided. Of greater concern, however, is that the body I report to, the Legislative Assembly, is not involved in the process at an early enough stage to allow it to significantly influence the outcome.

**1.21** The budgets of at least seven audit offices are submitted directly to committees of the Legislative Assembly for approval in compliance with the legislation of those provinces. In one jurisdiction (Ontario), the budget is submitted initially to the government, then to a committee of the Legislative Assembly. In this case, there is provision for the chair and vice-chair of the Public Accounts Committee to attend meetings of the Board of Management when the budget of the audit office is reviewed.

**1.22** The independence of the Office would be greatly enhanced and the Legislative Assembly would have increased assurance that the Office was capable of fulfilling its responsibilities, if the Legislative Assembly or a legislative committee was involved in the budget review process.

**1.23** In my 2001 annual Report I pointed out that, since I am an Officer of the Legislative Assembly, I should have a legislative committee that I can approach on matters of an administrative nature. Reviewing my Office's annual budget could be one of those administrative matters.

***My Office's current budget situation***

**1.24** As a result of the current arrangement, the Legislative Assembly is not aware of any requests for increased personnel or funds which are not accepted by the Board of Management. While my Office has on a number of occasions accepted government budget guidelines, we have on other occasions requested extra staff and associated funding. They were not approved. As a result, my current funding supports a staff of 23, whereas seven years ago it supported 27.

**1.25** For the 2004-05 fiscal year I will be requesting, under subsection 4(4) of my Act, two additional senior auditors and under subsection 17(1) an increase of \$200,000 in funding. The extra staff is necessary to provide more extensive audit coverage in health, education, the environment and automated systems, areas of financial significance that have an impact on all New Brunswickers. The extra funding is to cover the cost of the extra staff, and to provide adequate funding for training, technology and other support services.

***Method of appointing the Auditor General***

**1.26** The Auditor General is an Officer of the Legislative Assembly who by legislation is granted a term of office between five and ten years and can only be removed from the position on a two-thirds vote of the Legislative Assembly. This provides important independence to the Auditor General, but there is a serious shortcoming surrounding the method of appointment. Section 3(1) of the *Auditor General Act* gives the Lieutenant-Governor in Council the responsibility to appoint the Auditor General. There is no provision in the Act for government to consult with the other parties in the Legislature. In effect the power to appoint the auditor has been given to the body that the auditor will be auditing. This should be of concern to the Legislative Assembly which looks to the Auditor General for objective information and independent advice.

**1.27** Since the Auditor General must be a non-partisan appointment, there should be some involvement of all political parties in the process. I understand that this has been done in the past as a matter of courtesy, but there is no requirement to do so. In British Columbia, the appointment follows a recommendation from a special committee of the Legislative Assembly and the Legislative Assembly itself. The Legislative Assembly is also directly involved in the appointment in Alberta, Ontario, Quebec and Newfoundland. In Saskatchewan and Ontario, there is consultation with the Chair of the Public Accounts Committee. The Auditor General must be independent and be seen to be independent. I ask that action be taken to ensure there is involvement by the Legislative Assembly in the appointment of all future Auditors General.

**Other comments of a general nature**

***Risk management***

**1.28** In two of our audits this year we made recommendations concerning risk management. For instance in our audit of child day care facilities we said the Department of Family and Community Services "... should use a risk management approach or have a standard method of prioritizing inspection work for the Day Care Services Program." And in our audit of risk management for buildings, we recommended that the Department of Supply and Services "develop and document a risk management plan. The plan should identify all significant risks to each of its buildings ... and document what procedures are required to identify risk factors in each building."

**1.29** Last year in our work on environmental inspections we stated, "to aid in the enforcement of their legislation, the Department should use a risk management approach and develop an inspection strategy and an inspection plan. The inspection plan should identify the required

inspection work, both the areas for inspection and the frequency of inspection.”

**1.30** In 2001 one of our recommendations on pupil transportation was that, “the Department should clearly discuss the major risks of bus safety in its training material provided to students. The Department should consider the use of national accident statistics as a method of informing both children and parents where the risks are.”

**1.31** And in 1999 when we did our work on food safety we had this to say. “By doing risk assessments of food service establishments, inspectors will be able to determine the required inspection frequency, plan the necessary activities and then schedule them accordingly. Risk assessments should be updated on an annual basis....To use resources more effectively, higher-risk food service establishments should be targeted as having priority in the schedule.”

**1.32** From the work we did this year and previous years there appears to be a significant need for risk management training and skills. The need to identify and manage risks undoubtedly extends to most if not all departments. Because of this I see it as a central government issue and would look to Board of Management for the necessary leadership in providing this training.

**1.33** The Public Sector Accounting Board (PSAB) has been established by the Canadian Institute of Chartered Accountants (CICA) to issue recommendations and guidance with respect to matters of accounting in the public sector. The government of New Brunswick follows PSAB recommendations for its financial statements but has not required municipalities to do so. I believe the quality of financial reporting by local governments would be greatly improved if they were required to follow these recommendations. PSAB recognizes that financial statements should provide evidence of accountability and “report the information required by legislators and other users to help them make assessments and judgments concerning government financial operations and management.”

**1.34** Local governments in New Brunswick currently follow the Municipal Financial Reporting Manual in reporting their financial results. The Manual was developed in 1993, and while there have been a couple of updates since that time, it is not as comprehensive as PSAB, nor does it have the authoritative standing of a national independent standard setter. I have been informed by the Department of the Environment and Local Government that they “plan to fully review the PSAB recommendations in 2004 in order to determine the extent of further study required prior to conducting a complete Reporting Manual revision in 2005.”

**1.35** While I understand there may be challenges to be faced in accepting PSAB for local governments, I would encourage the Department and government to do so. At the present time the provinces of

***New Brunswick’s local  
governments do not follow  
PSAB***



Ontario, Manitoba, Saskatchewan, Alberta and British Columbia have adopted PSAB for their local governments.

### ***About our Office***

**1.36** In most of our work we examine the extent to which a department or Crown agency has commented on its performance, either in delivering a service or in meeting annual objectives or performance indicators. We make recommendations when we believe they are warranted.

**1.37** We are constantly reminded of our own responsibility in this area, because we too must be efficient and accountable. Chapter 8 represents our annual accountability report, which we believe is in compliance with the government's annual report policy. There we report on our goals, performance indicators and results.

**1.38** A key indicator of our performance has traditionally been the survey results from members of the Public Accounts and Crown Corporations Committees. This year, due the provincial election, the committees did not meet to discuss our Report until late in 2003 and for this reason we did not conduct the surveys.

**1.39** This year we made a significant effort to finalize our 2003-2008 strategic plan. The new strategic plan identifies three main goals that we will be concentrating on over the next five years. These are:

- the Legislative Assembly and the public are aware of and value all the work that we do, and have confidence in our ability to provide timely, objective and credible information;
- departments and agencies accept and implement our recommendations; and
- our stakeholders – the Legislative Assembly, the public, auditees and our employees – view us as leading by example.

**1.40** These goals have related objectives and actions. The strategic plan has also resulted in us identifying new performance measures. A more full discussion on our strategic plan is found in chapter 8.

### **Acknowledgements**

**1.41** This Report is the culmination of a lot of hard work by the staff in my Office. Once again I am indebted to their professional advice and dedication.

Daryl C. Wilson, FCA  
Auditor General