

Chapter 1

Introductory Comments

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Introductory Comments

1.1 On 9 December 2003 I released Volume 1 of our 2003 Report. At that time I indicated that due to the government's lateness in closing its accounts, we were not able to provide our normal commentary on the Province's financial results. The financial statements of the Province have now been issued, and our 2003 Report can now be completed.

1.2 In this volume you will find a chapter dealing with the Province's financial condition, a chapter on the management of employee absenteeism, and a chapter on financial audits we have completed in departments and Crown agencies. I will provide highlights from this work later in this chapter, but first I would like to comment on two aspects of the Province's financial statements: timeliness and transparency.

Timeliness of financial statements

1.3 The Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (PSAB) sets the accounting and reporting standards for governments in Canada. PSAB has identified a number of basic qualities that are essential to the usefulness of government financial statements. One of these qualities is timeliness. PSAB says "Information should be timely. Financial statements issued long after the end of the fiscal period are of historical interest only. ... The usefulness of information for decision making and assessing accountability declines as time elapses."

1.4 In Volume 1 I talked about the lateness of this year's financial statements and commented that the taxpayers were still waiting to see how their money was spent. I can now report that the audited financial statements were issued on 21 November and Volume 1 of the Public Accounts was available in hard copy on 25 November 2003, almost eight months after the end of the fiscal year. An examination of the past ten years indicates that for eight of those years the Province's financial statements were not issued until the 30th of September or later. On six occasions the financial statements were issued in November or December. This analysis indicates that this year is really no exception; the statements have traditionally been released to the Legislature and the public well after the end of the year.

1.5 I would like to see an improvement in this area. Such an improvement will only happen if the government commits itself to

releasing the statements by a certain date, say 31 July. I am confident that, with such a commitment, government accounting staff and ourselves as auditors can work together to meet the target. Our review of other provinces indicated that Alberta tabled their 31 March 2003 Public Accounts on 24 June, British Columbia on 27 June and Saskatchewan on 21 July. I see these as good examples of timeliness.

Transparency

1.6 The transparency of the Province's financial statements would be greatly enhanced if they were accompanied by an easy to read discussion and analysis of the financial results, and if the transactions in the Fiscal Stabilization Fund were not used as a means of obscuring the actual financial results.

Financial statement discussion and analysis

1.7 Last year, in chapter 2 of my Report, I pointed out the need for a discussion and analysis of financial results so that readers would have a "better understanding of government financial statements, and government financial condition." I then explained the type of information that could be provided, including financial statement highlights, a review of financial risks and uncertainties, an analysis that clearly explains the reasons behind major budget to actual variances and an assessment of revenue and expenditure trends. Unfortunately, there has been no improvement this year in the Province's explanation of its financial results. All that has been provided is a one page news release on 21 November and four pages of variance analysis in Volume 1 of the Public Accounts. The quality of the variance analysis is unchanged from last year when I indicated that "we find some of this information unhelpful. It answers the "what" question, but provides little insight into "why"."

1.8 I am raising the issue again this year because I strongly believe improvements should be made. It is simply not reasonable to expect Members of the Legislative Assembly and the public at large to be able to read and understand a complex set of financial statements without any additional information and explanations. We do not expect patients to be able to read and understand their x-rays. What is needed is a professional interpretation of the financial statements in plain and simple language. The use of charts, graphs and five or ten-year trend analyses would also be helpful.

1.9 In Volume 1 of the 2003 Public Accounts of Canada are sixteen pages of Financial Statements Discussion and Analysis. It is very easy to read. It includes a section on highlights and provides a good analysis of results by comparing to the budget of the current year and actual results of the previous year. It uses 15 charts and graphs to explain significant trends and it has a discussion on risks and uncertainties. It also has a glossary of terms.

1.10 Last year I concluded my comments on this topic by saying “We encourage the government to build on and enhance the information it now provides to New Brunswickers, and to issue a comprehensive financial report describing its financial condition in clear, concise terms that can be easily understood by a reasonably informed reader.” I make the same point this year and at the same time suggest the government look to the Public Accounts of Canada as an excellent example of how this can be done.

***Fiscal Stabilization Fund
should not be used as a means
of obscuring the actual
financial results***

1.11 The Province of New Brunswick incurred a deficit of \$109.4 million for the year ended 31 March 2003. The news release accompanying the issuance of the audited financial statements stated, “Most of the problems in 2002-2003 were outside the direct control of the Province, the minister said. He cited a \$77.4 million loss of net income at NB Power, slumping stock market returns that affected the Province's pension plans, and a \$33.8 million reduction in federal transfer payments in October, which included the negative impact related to population based on the 2001 Census.”

1.12 A deficit means that the expenditures for the year were greater than the revenues. It also means that there has been an increase in the Province's net debt. For the year in question, the deficit of \$109.4 million resulted in an increase in net debt by a corresponding amount, and at 31 March 2003 the Province's net debt was \$6.7 billion. These figures are clearly reported on the Province's audited financial statements and they are all key measures of financial performance required by PSAB.

1.13 In the same news release, the Minister indicated that “the surplus is \$1 million for 2002-2003”. This is not the case.

1.14 Since the creation of a Fiscal Stabilization Fund three years ago, the government has wanted to report how it was using the Fund for “**fiscal policy** purposes”. The disclosure has appeared as four lines at the bottom of the Statement of Revenue and Expenditure. While I was never pleased with the disclosure, I have accepted it because the information contained in the four lines was factual and the description was clearly labelled “Surplus (Deficit) for **fiscal policy** purposes”. Notwithstanding this I was concerned about transparency. Would the Legislative Assembly and the general public appreciate the difference between a surplus (or deficit) calculated in accordance with normal accounting practices and a surplus (or deficit) for fiscal policy purposes? Since the appearance of these four lines I have noted confusion on the subject in the Legislative Assembly, at Public Accounts Committee meetings, in the media and with the public at large. I raised the issue last year in chapter 2 of my annual Report.

1.15 I am raising the issue again this year because, in my opinion, the situation has worsened. For the first two years the government's press release on the financial statements referred to a "surplus for fiscal policy purposes." This year no reference is made to "fiscal policy purposes." On 21 November 2003 the news release from the Department of Finance simply stated "the statements show a surplus of \$1 million." This statement is wrong. In my opinion it trivializes the value of audited financial statements when a news release can convey a message which is entirely different from what is disclosed in the statements. While the commentary for the first two years certainly did not enhance the concept of transparency, the news release this year is misleading. The Province did not have a surplus of \$1 million; it had a deficit of \$109.4 million.

1.16 The government set up the Fiscal Stabilization Fund "to assist in stabilizing the fiscal position of the Province of New Brunswick from year to year and to improve long-term fiscal planning". This is set out in the legislation which set up the fund. The government should be careful in explaining how the fund is being used for these fiscal policy purposes and should not be using the fund to obscure its actual financial results.

1.17 I believe the Legislative Assembly and the citizens of New Brunswick would benefit from a discipline that delivered more timely financial results, included an informative and easy to read financial statement discussion and analysis, and avoided any communication that introduces confusion concerning the financial results for the year.

Financial indicators

1.18 For the past six years we have been tracking six financial indicators which show the Province's financial condition from the perspective of sustainability, flexibility and vulnerability. While the Province did incur a deficit in the current year of \$109.4 million, which increased net debt by a similar amount, the trends over the past ten years have for the most part been positive. The results of our work in this area can be found in chapter 2.

Absenteeism management

1.19 We completed an audit this year in the Office of Human Resources (OHR) to determine if the government has systems and practices in place to effectively manage employee absenteeism in the Civil Service. The cost of absenteeism for this group of employees in 2001-2002 was reported to be \$13,792,038, and the average number of employee sick days was 9.58. The total cost of employee absenteeism to government would be much greater because the Civil Service, which includes 10,400 employees under the *Civil Service Act*, represents only one-third of all government employees.

1.20 We determined from our work that while the OHR is collecting statistics on the number of sick days used and the related costs, there is room for improvement in the systems and practices used to manage

employee absenteeism. We recommended, for instance, that employees with supervisory responsibility should be receiving adequate training in absenteeism management and the OHR could be doing more to identify the risk factors that contribute to abnormally high absenteeism rates. Our work in this area can be seen in chapter 3.

1.21 You will notice in chapter 3 that we have presented our work in a new reporting format. The format, called Information Mapping, uses a set of precisely defined modules so that the information is easy to read and understand. Research has shown that Information Mapping significantly improves clarity of writing and decreases reading time.

1.22 This is a major change for my Office and we will only continue using Information Mapping if our readers find the format improves the clarity and readability of the information. In this regard I would like to hear from Members of the Legislative Assembly, the media and citizens. An assessment form is found inside every hard copy of the Report. One is also found on our Office web site at www.gnb.ca/OAG-BVG.

Financial audits in departments and Crown agencies

1.23 Our Office has a long-range plan to review all key computer systems in government. This review is used to support our audit opinion on the provincial financial statements. We identified the Human Resource Information system in the Office of Human Resources as one of these key systems because of the magnitude of dollars processed by the system.

1.24 Our audit reviewed and assessed the adequacy of internal controls in the computer environment and the computer application which is used to process a regular payroll of approximately \$465 million per year. Based on our examination, we determined that the computer control environment is adequate to support the operation of the system and the application controls were such that we were able to rely on them in expressing an opinion on the Province's financial statements. We made some recommendations for improvement, and they are found in chapter 4.

1.25 I have also included in chapter 4 the results of a review we carried out at Service New Brunswick on the service agreements they have for the services being delivered on behalf of other government departments and agencies.

Acknowledgements

1.26 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