

# Chapter 1

## Introductory Comments

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# Introductory Comments

## **New Auditor General appointed**

**1.1** The past year has been one of transition for our Office. Mr. Daryl Wilson's term as Auditor General ended on August 31. Mr. Ken Robinson served as Acting Auditor General until October 31, and my appointment was effective November 1, 2005. These significant changes, while having some minor impact on the timing of our work, have not affected the volume of work performed by our Office and our ability to offer objective information and recommendations to government and the Legislative Assembly.

**1.2** Volume 1 of our 2005 Report was issued in August 2005 by my predecessor, Mr. Wilson. It contained his reflections on his eight-year term as Auditor General. It also reported on work we did to determine if Service New Brunswick complies with the *Assessment Act* by assessing real property at "real and true value." This current volume of our 2005 Report includes the results of audits that were still in progress at the time Volume 1 was issued.

## **Comments on the Province's financial position**

**1.3** The Province made significant changes to its financial statements in 2005 to comply with the recommendations of the Canadian Institute of Chartered Accountant's Public Sector Accounting Board (PSAB). The financial statements now provide more information on the Province's investment in roads, buildings and equipment. These "tangible capital assets" were previously recorded as expenditures in the financial statements as the assets were purchased or constructed, even though they provided services to citizens over a much longer period. Now these assets are recorded as expenses (amortized) over their useful service lives. This change provides readers of the financial statements with a better view of the annual cost of government operations.

**1.4** Net debt remains a key focus of the financial statements. However, a new term has also been introduced to the financial statements, the "accumulated deficit." This represents the portion of the net debt that has not been invested in assets having ongoing value to the Province. It is an accumulation of all previous annual deficits, less any annual surpluses, arising from the day-to-day operations of government. To draw a simple analogy, it could be said to be the amount borrowed in the past to pay for the groceries.

**1.5** Readers of the Province's financial statements will need to become familiar with this new method of reporting. Under the old method, the results for the year could be summarized in one number, the increase or decrease in net debt for the year. Under the new model, there are two summary indicators of the results for the year. The increase or decrease in net debt is still reported, but it is no longer the bottom line on the Province's Statement of Operations. The new bottom line is simply called the annual surplus or deficit. For the year ended 31 March 2005, both of these numbers were positive. The surplus for the year was \$242.2 million and the net debt reduced by \$131.5 million.

**1.6** Our Office has long been an advocate of more timely release of information on the Province's financial results. The government has not yet achieved this. This year, the Province's audited financial statements were released on December 1, eight months after the year end.

**1.7** For the past eight years we have been tracking six financial indicators which show the Province's financial condition from the perspective of sustainability, flexibility and vulnerability. The trends shown by these indicators have, for the most part, been positive.

**1.8** Chapter 2 of this Report provides more details on the topics outlined above.

## **Maintenance of school facilities**

**1.9** The Department of Education is the primary government department responsible for maintaining school facilities. Legislation clearly assigns the responsibility for the overall health and safety of students to the Minister of Education. We concluded that the Minister does not have adequate systems and practices in place to ensure that school facilities are appropriately maintained, although we found that appropriate practices are in place in some areas such as drinking water safety. We also raise some issues relating to District Education Councils and their role and responsibilities relating to facilities maintenance. The results of our work are found in chapter 3.

## **Special care homes and community residences**

**1.10** There are approximately 465 special care homes and 60 community residences in the Province where over 4,000 adults, who have functional limitations, live and receive personal care services. Although all these facilities are privately owned and operated, government has control over them through licensing, an inspection program and an assessment process for individuals seeking admission. We found that the Department of Family and Community Services does have clear requirements for the licensing of these facilities,

however these requirements are not always met before a license is issued. We also found inconsistencies in the licensing process. The results of our work are found in chapter 4.

## **Prescription Drug Program**

**1.11** During 2003-04, one in seven New Brunswickers were eligible beneficiaries of the Prescription Drug Program. Total expenditures for the program for that year were \$114 million. This program has been administered on behalf of the Province by Medavie Blue Cross (formerly Atlantic Blue Cross Care) since 1975. The results of our audit of the program can be found in chapter 5. We found that the Department of Health and Wellness does not have adequate procedures in place to manage the performance of the Prescription Drug Program. However, it does have adequate procedures to ensure the drug assessment process and the amount paid for drugs and dispensing fees are managed with due regard for cost effectiveness.

## **Governance of NB Power**

**1.12** Chapter 6 reports on the finding of our audit of the governance structures and processes established for NB Power. We found that there have been some recent important enhancements in the NB Power governance structures and processes. However, there is still room for improvement, and we encourage the board of directors of NB Power and the Province as shareholder to continue strengthening the governance framework of the corporation. The Province, as shareholder, has not provided clearly documented performance expectations to NB Power, nor has it identified one official shareholder representative to provide direction to NB Power on behalf of the shareholder. And the board of directors of NB Power had not, at the time of our audit, developed all the monitoring reports it might need from management to ensure that its policies are being complied with. There are also improvements that could be made to the NB Power annual report.

## **Other audit work in departments and Crown agencies**

**1.13** In chapter 7, we include commentary related to the process followed by the Department of Finance to ensure that the tax revenues collected on our behalf by the government of Canada are complete and accurate. We have concluded that the Province has appropriate measures in place to satisfy itself that the government of Canada is properly allocating to the Province its share of revenues collected by the government of Canada. We also report on a follow-up audit of recommendations we made to the Department of Transportation in 2000 related to the contracting of engineering services. This was outside our normal follow-up process, but was undertaken because we were not satisfied with the Department's initial response to our recommendations.

## Comments on action taken to address our recommendations from prior years

1.14 Our policy is to track the disposition of our recommendations for a period of four years after they first appear in our Report. We have noted significant interest in this aspect of our work by legislators and citizens. They want to know how well government is doing in implementing our recommendations from audits of previous years. The results of our follow-up work are found in chapter 8. They show that forty-nine recommendations from 2001 have not been fully implemented. We also found that the Department of Supply and Services has still not awarded tenders for cellular phone airtime usage charges and long distance charges. This contravenes the *Public Purchasing Act*, and ignores potentially significant cost savings.

## About our Office

1.15 Chapter 9 is our own accountability report to New Brunswickers. It sets out our goals and objectives, and discusses our own performance.

## Acknowledgements

1.16 The work of our Office goes on regardless of changes at the Auditor General level. I have worked with many of the staff of the Office in the past, and I have talked to each of them about the work our Office does. I am impressed by the enthusiasm they have for the role of the Office, and I will depend heavily on them as I undertake my responsibilities. They are dedicated and professional people, and they produce high quality work. As I begin my term as Auditor General, I wish to express my appreciation to Mr. Ken Robinson, who managed this Report to its completion, even after I reported for duty, and to the staff who carried out their work despite there being three Auditors General during the process.

1.17 During my previous career, I worked with the past three Auditors General, Mr. John Astle, Mr. Ralph Black and Mr. Daryl Wilson, and it is my goal to build on the work of these fine examples.



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Auditor General