

# Chapter 5

## Auditor General's Office – AG's Independence Eroded Due to Lack of Resources

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# Auditor General's Office – AG's Independence Eroded Due to Lack of Resources

## **Introduction**

**5.1** Virtually every government Office and department is experiencing challenges to adequately fund programs and services. In a similar sense, the Auditor General (AG)'s Office has also had significant budget challenges for many years over successive governments. The 2018-2019 AG Office budget is \$2.3 million with a staff complement of 26.

## ***Underfunding of AG Office has reached a critical point***

**5.2** However, the chronic under funding of my Office has reached a critical point given constant government expansions.

## ***AG is effectively impeded from fulfilling the mandate of the Office***

**5.3** In my view, my Office is not funded to do sufficient audit work for the taxpayers of New Brunswick given the size of government and its operations. Currently, I am effectively impeded from fulfilling the mandate of the Office.

## **Summary of AG Concerns**

**5.4** A summary of my concerns is presented in Exhibit 5.1.

*Exhibit 5.1 – Summary of AG Concerns***AG Independence Eroded Due to Lack of Resources****Why Is This Important?**

- Chronic under funding of the AG Office has reached a critical point given constant government expansions.
- Past and current New Brunswick AGs have requested budget increases
- A lack of budget is curtailing the AG's ability to fulfil the mandate and eroding AG independence.
- Government has effective control of the AG Office budget and therefore limits what the AG Office can audit as well as how much work the AG can do.
- Other AGs in Canada have the same situation in a general sense, however, their budgets have not been constrained as here in New Brunswick.

**AG Concerns****Why should New Brunswickers care about a lack of AG Office funding?**

- AG Office is the only Office with authority and access to examine government (outside the justice system)
- Current situation indicates a lack of transparency and does not serve the needs of its citizens for open review of government decisions and performance
- The process that is supposed to protect the interests of taxpayers and hold government to account for management of public resources is failing

**Why is a budget increase necessary?**

- AG is effectively impeded from fulfilling her mandate. The necessary work cannot be done.
- Adequate audit coverage on government operations cannot be achieved

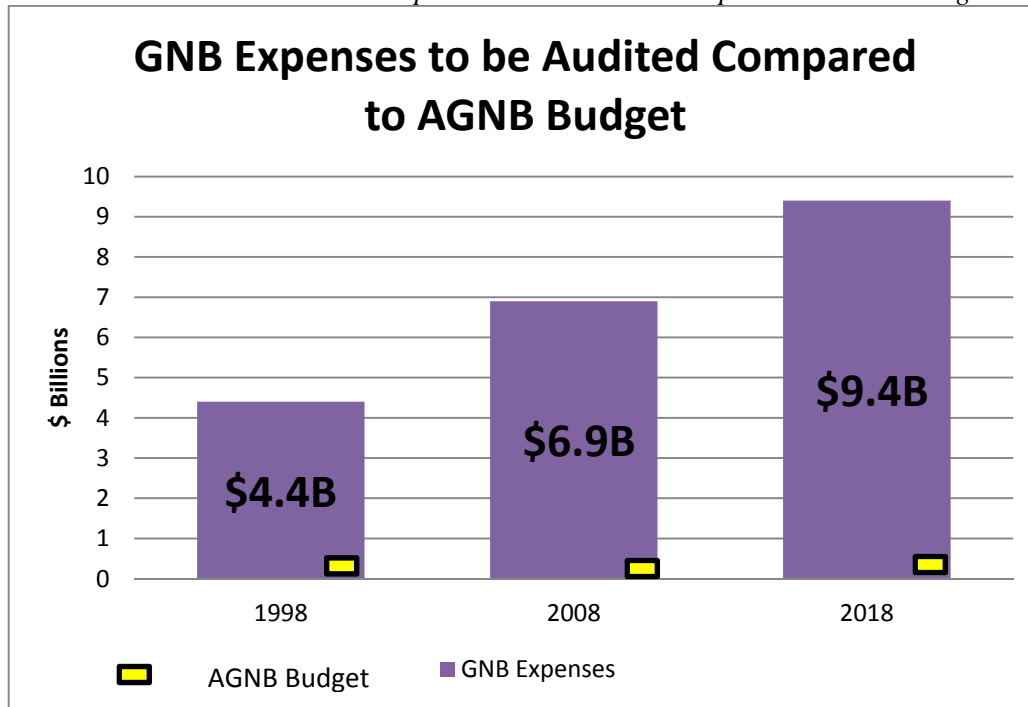
**How does New Brunswick compare to other provinces?**

- AG budget of \$2.3 million for 2018-2019 is the smallest in Canada (except for PEI).
- Only \$2.80 per resident in 2018 goes to fund AG Office (NS = \$4.06; NL = \$7.36)
- Smallest budget increase needed to equalize NB AG to other provinces = \$1 million

**What work is not getting done?**

- No performance audits in many departments and Crown corporations within the last five years
- Lack of audit of new Crown corporations and new third party contracts to provide government services, such as Vestcor, Cannabis NB, Medavie (Extra-Mural)

Exhibit 5.2 – 1998-2018 - GNB Expenses to be Audited Compared to AGNB Budget



	1998	2008	2018
Government Expenses to be Audited	\$4.4 Billion	\$6.9 Billion	\$9.4 Billion
AGNB Budget	\$1.6 Million	\$1.9 Million	\$2.1 Million

Exhibit 5.3 – Past five years AG Budgets &amp; Budget Requests

	2018-2019*	2017-2018**	2016-2017	2015-2016	2014-2015
AG Budget	\$2.3 Million	\$2.1 Million	\$2.1 Million	\$2.1 Million	\$2.1 Million
AG Budget Request	250,000	500,000	Atcon Funding	100,000	386,000
Actual Budget Increase	125,000	Denied	Denied	Denied	Denied

\*For 2018-19 AG asked for \$250,000 over each of the next four years

\*\*For 2017-18 AG asked for \$500,000 over each of the next two years

**Past Budget Requests** 5.5 Exhibit 5.2 shows that AG funding has not kept pace with increases in size of government operations. Over a 20 year period from 1998-2018 the size of government operations has more than doubled and far outpaced the small growth in my Office's budget. Specifically, the size of government operations my Office is responsible to audit has grown by \$5 billion but the AG budget has only grown by \$500,000.

**Last five years of AG budget requests denied** 5.6 The history of my Office's last five years of budgets and budget requests is presented in Exhibit 5.3. It is important to note past AGs have consistently requested more funding for the Office. This exhibit also shows all of the last five year's budget requests from my Office were denied.

5.7 For 2018-2019 my Office was fortunate to receive a small budget increase of \$125,000. While the amount of the increase was not close to my funding request of \$1 million over four years (\$250,000 increase in each of the next four years), the increase was a slight improvement over prior years. For example, in the previous four fiscal years (2014-15 to 2017-18), there was no budget increase awarded.

**How the Current System Works** 5.8 Many of the exhibits and charts presented in this chapter were contained in a budget presentation I made to the Legislative Administration Committee on December 12, 2017.

5.9 The Legislative Administration Committee is the group of MLAs from the three political parties tasked with administrative oversight functions for the Legislative Assembly. As a Legislative Officer (and not a Department) it is appropriate that my Office's budget request be presented through this committee.

**Government has the inherent ability to limit AG Office work through the budget process** 5.10 However, the makeup and working of this committee is such that the government has "final say" in the size of my Office budget. As my Office audits the government this presents an inherent conflict. Effectively, the government controls my Office's budget and therefore limits what my Office can audit (in terms of projects of great size or complexity) and ultimately how much work we can do.

Exhibit 5.4 – Annual AG Office Budget Amounts for Comparable Provinces (\$ millions)

	2013 - 2014	2014 - 2015	2015-2016	2016-2017	2017-2018	2018-2019
<b>NB</b>	2.1	2.1	2.1	2.1	2.1	2.3
<b>PEI</b>	1.8	1.8	2.1	2.0	2.1	2.1
<b>NS</b>	3.7	3.8	3.9	3.8	3.9	4.2
<b>NL</b>	3.4	3.6	4.0	3.9	3.9	3.8
<b>SK</b>	7.9	8.2	8.2	8.2	8.2	8.2
<b>MB</b>	6.9	6.9	6.9	7.1	7.2	7.3

**5.11** Other AGs have the same situation in a general sense, however, as Exhibit 5.4 shows their budgets have not been constrained as is here in New Brunswick.

*Model used for funding Atcon cannot and should not be the norm*

**5.12** In one past instance, when a significant audit project (e.g. Atcon) was involved, I made a decision to do the audit regardless of the budget constraints because of the importance and significance of the work. As a result, my Office went over budget by approximately \$200,000 in 2016-2017. This situation cannot and should not be the norm. My Office needs to be adequately funded on a sustained basis.

**Why is a Budget Increase Necessary?**

**5.13** I believe part of my Office's value to the Legislative Assembly and New Brunswick taxpayers lies in our role of holding government to account for its actions and reporting on government performance and spending.

*AG Office not able to obtain adequate audit coverage at current funding level*

**5.14** As a "watchdog" for government accountability and spending, there is a public expectation that my Office is adequately fulfilling its role by having suitable audit coverage. However, as matters presently exist, my Office is not able to obtain adequate audit coverage.

*Successive governments have effectively impeded AG Office from fulfilling its mandate*

**5.15** In effect, successive governments can and effectively have impeded my Office from fulfilling its mandate by not funding it properly. My Office is intended to serve the Legislative Assembly and the citizens of New Brunswick and we are not adequately resourced to do so.

**What Work is Not Happening Due to a Lack of AG Office Funding?**

**5.16** There are a number of significant projects not occurring due to a lack of budget. The items noted below form part of the reasoning in concluding the mandate of the Office has been impeded:

- no performance audits in certain departments within

last five years;

- no performance audits in certain Crown Corporations within last five years;
- lack of audit of new entities and new third party contracts;
- not identifying inefficiencies and risk management recommendations; and
- not performing in depth follow-up on prior year recommendations.

Further details are provided in the paragraphs that follow.

***No performance audits in certain departments within last five years***

**5.17** There are a number of government departments/agencies which we have not been able to complete a performance audit on in the last five years such as universities, Emergency Measures Organization, Post-Secondary Education Training and Labour, Tourism, Heritage and Culture, Intergovernmental Affairs and Aboriginal Affairs. For larger departments like Education and Health our audit coverage is minimal.

***No performance audits in certain Crown Corporations within last five years***

**5.18** As well, there are a number of Crown Corporations we have not completed performance audit work in the last five years including: NB Liquor, Financial Consumer Services Commissions, both Community Colleges, Regional Development Corporation, and Ambulance New Brunswick, etc.

***Lack of resources to audit new entities and new third party contracts***

**5.19** In addition, there are new entities as well as new third party contracts and arrangements for which we need to ensure adequate audit coverage. This cannot be done in the existing budget envelope. Examples: Vestcor, Cannabis NB, Medavie (Extra-Mural).

***AG constrained to only 3-5 performance audits per year***

**5.20** We are constrained and limited to only 3-5 performance audits per year due to a lack of resources. However, we believe public expectation is that we are able to provide reasonable audit coverage in all these areas.

***Cost saving opportunities identified remain on our pending project list***

**5.21** We also find a number of cost saving opportunities in our work and as government implements our recommendations. These remain on our pending project list that we cannot resource due to lack of budget.

***Lack of resources to perform in depth follow-up on prior year recommendations***

**5.22** Our resources are not sufficient for adequate work on follow-up of implementation of prior year recommendations. If resourced to do more follow-up work it would likely encourage implementation of recommendations.

***Lack of resources to report routinely on significant areas of government operations***

**5.23** Our resources are not sufficient to report to MLAs and taxpayers routinely on significant areas of government operations. We believe New Brunswickers would be better served by having more frequent audits on larger departments where significant funds are spent.

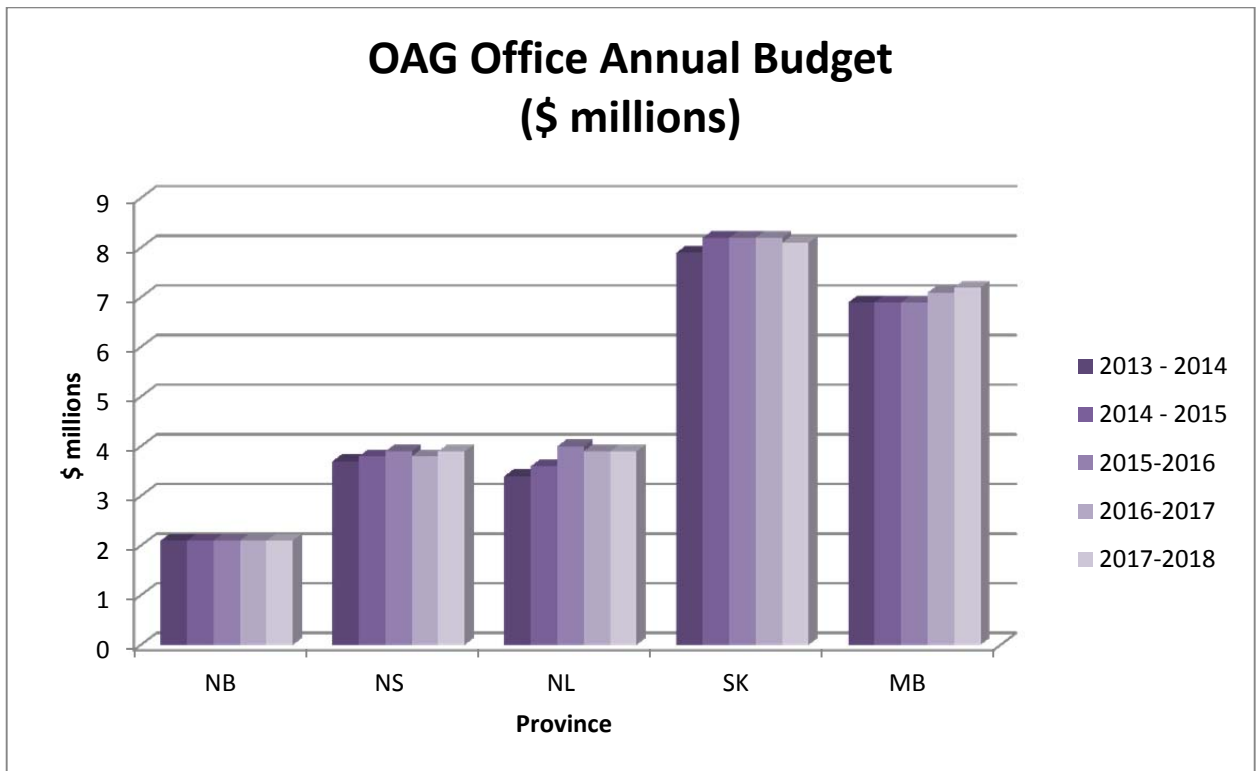
***Lack of resources to proceed with financial and IT audits on our pending project list***

**5.24** There are also financial audits and IT audits on our pending project list that we cannot perform due to lack of budget. IT systems and security are a significant area of risk for the Province.

**How Do We Compare?**

**5.25** Exhibit 5.5 shows annual AG Office budget amounts for New Brunswick and certain other provinces for the last five years.

*Exhibit 5.5– Annual AG Office Budget Amounts for Comparable Provinces (\$ millions)*



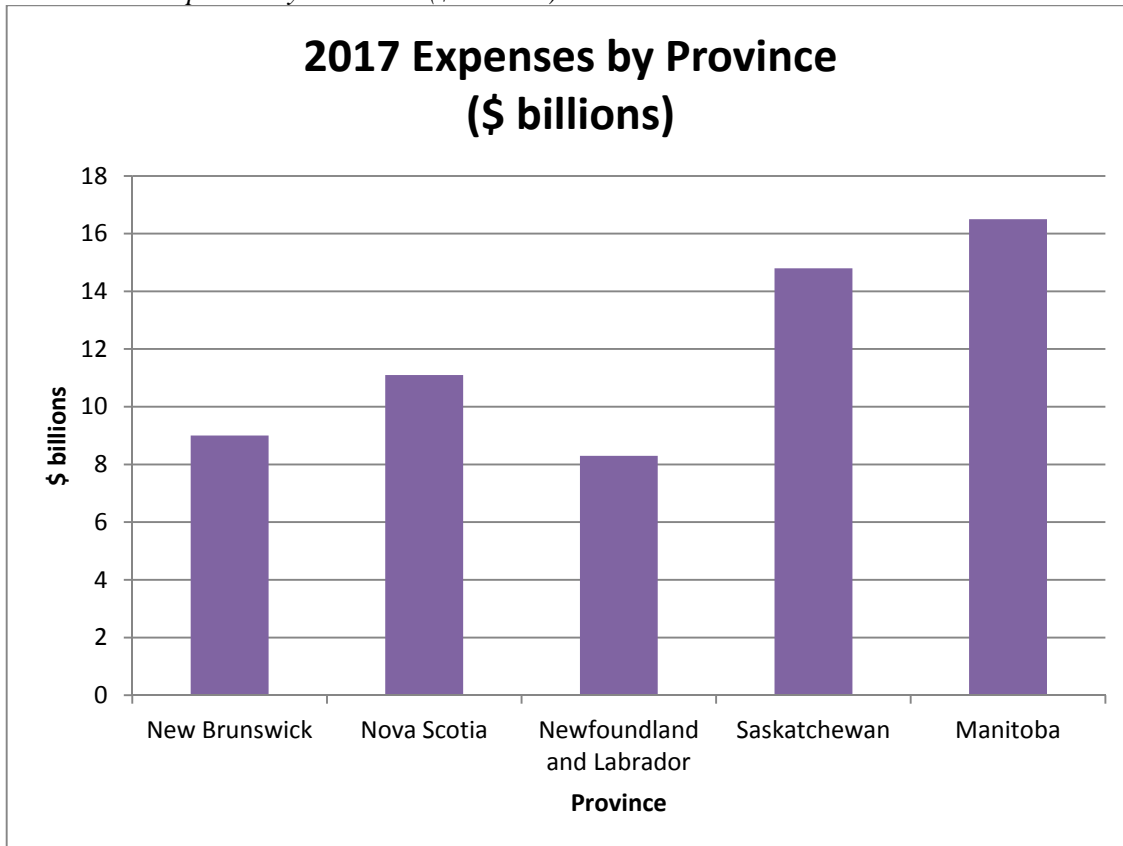


**5.26** Exhibit 5.6 shows corresponding expenses by province. With this information, a comparison can be done of government expenses requiring audit to AG Office annual budgets.

***My Office's funding is not appropriate for the size of government operations***

**5.27** While New Brunswick ranks last in AG Office funding, government expenses to be audited are quite large compared to Nova Scotia and Newfoundland & Labrador.

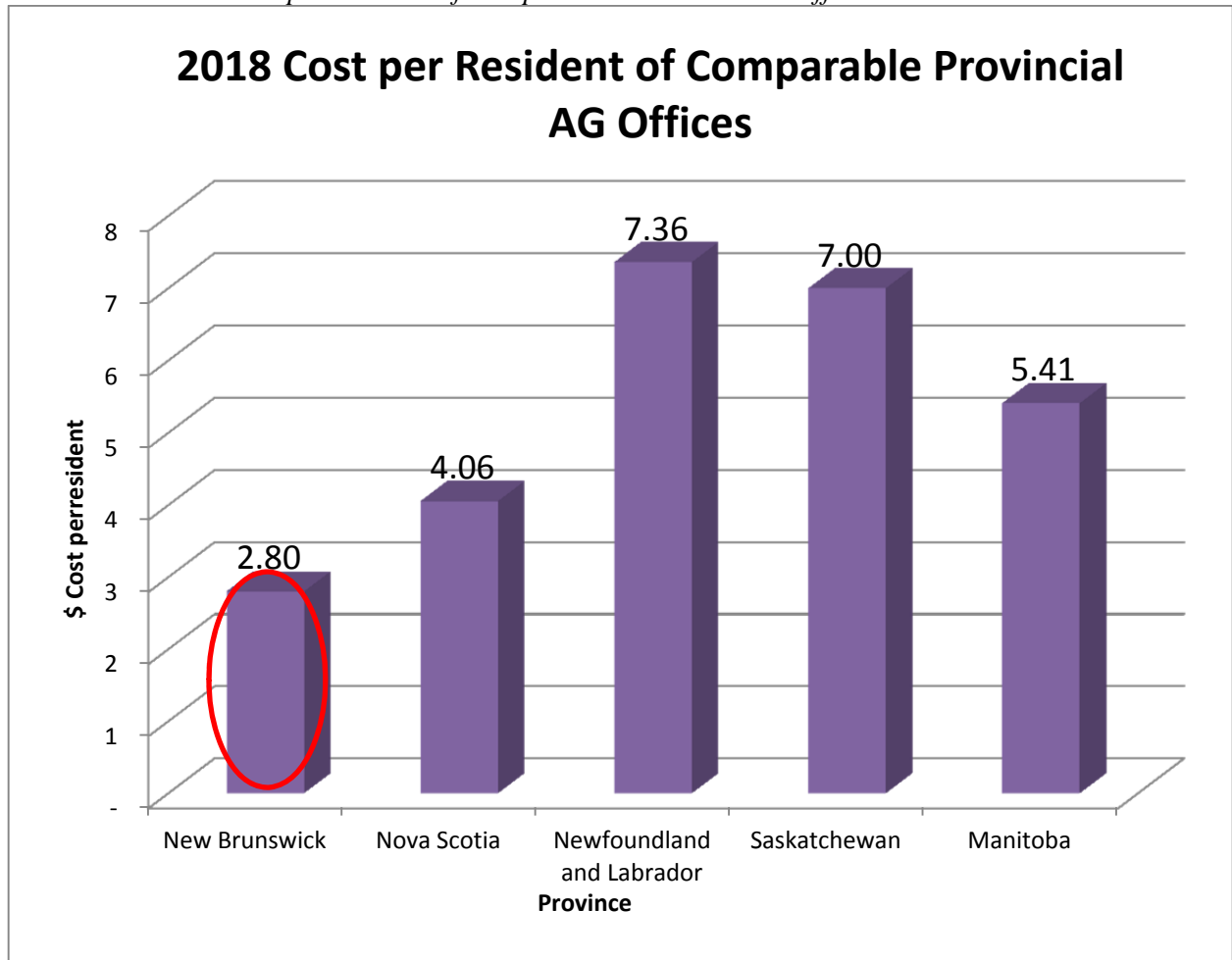
Exhibit 5.6 – Expenses by Province (\$ billions)



***New Brunswick AG ranks last in cost per resident among comparable provinces***

**5.28** Exhibit 5.7 presents the cost per resident of comparable provincial AG Offices. At \$2.80 per resident, New Brunswick ranks last to comparable provinces in funding and support of its AG Office.

Exhibit 5.7 – 2018 Cost per Resident of Comparable Provincial AG Offices

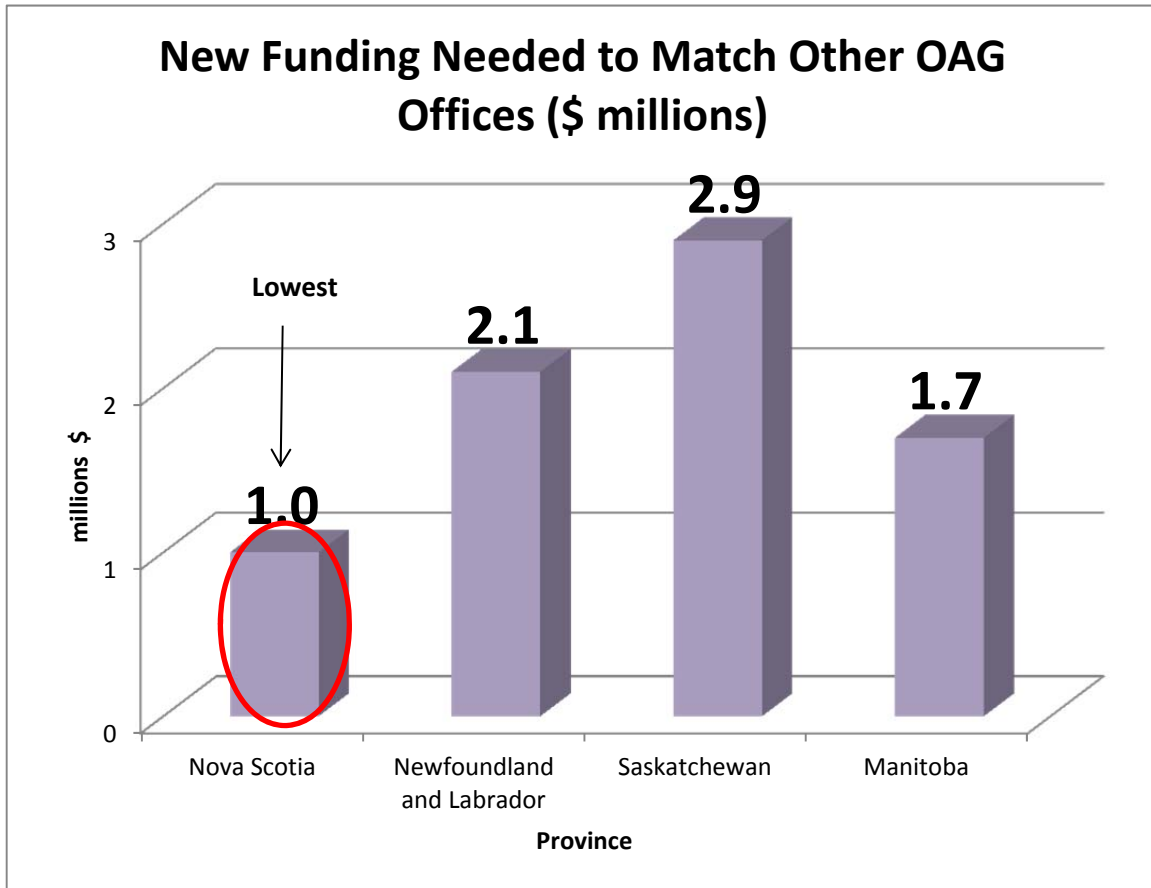


***How can our budget be fixed?***

**5.29** An increase of \$1 million over four years in our annual budget would help restore equity, balance and fairness, as well as allowing us to better address the demands of the mandate and the expectations of New Brunswickers.

**5.30** Exhibit 5.8 shows an increase of \$1 million over four years would at least allow for parity with Nova Scotia in terms of funding my Office relative to the size of government.

Exhibit 5.8 – New Funding Needed to Match Other AG Offices (\$ millions)



\*as at budget figures for 2017-18

### **Why Should New Brunswickers Care About a Lack of AG Office Funding?**

*The process to hold government to account is failing New Brunswickers*

**5.31** In the Westminster system of government such as we have in Canada and New Brunswick, the AG Office is not a department of government. My Office serves the public and the elected members as a legislative office. This is an important distinction because my Office reports to the Legislative Assembly and the New Brunswick taxpayers on the government's accountability and performance.

**5.32** If my Office is not funded to an appropriate level, it cannot do an adequate job in its role. The process to hold government to account for its management of public resources is failing New Brunswickers as significant government programs are not subjected to routine and regular audit with public reporting.

***Virtually no other entity has the same authority to compel government for evidence and explanations***

**5.33** New Brunswickers should be concerned because if my Office is not being funded to hold government to account, there is virtually no other entity (outside the justice system) with the same authority to compel government for evidence and explanations.

## **Conclusion**

**5.34** Citizens derive value from our Office in how we promote transparency and public reporting. The citizens of New Brunswick are well served in having a strong independent Auditor General Office that is properly resourced to adequately audit government operations.

**5.35** I believe the value my Office has brought to taxpayers and the Province in making recommendations on difficult and complex issues is evident in files such as: property tax assessment, Atcon and NB Power Point Lepreau refurbishment. These all demonstrate how my Office brings cost-saving and risk-mitigating recommendations.

**5.36** New Brunswickers need to be aware that while there may be a public expectation that we are fulfilling the role, we are not achieving adequate audit coverage. Moreover, the “watchdog” doing the “watching” is subject to funding decisions made by the government we are watching over. I believe it is important for the public to understand that, in my view, my Office is not adequately resourced to do the job they are counting on us to do.

***Office mandate is effectively being curtailed at a time when I believe the public needs my Office the most***

**5.37** True change is needed in this broken funding process and I would be remiss if I did not inform the public and the Legislature of how my Office's mandate is effectively being curtailed at a time when I believe the public needs my Office the most.

***No signs of significant change***

**5.38** I have been hopeful since my ten year AG mandate began on December 1, 2010 the Office's budget problem would be addressed. Time is rapidly passing and that hope is diminishing. There are no signs of the significant change so desperately needed.