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# Accountability

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## Contents

Introduction .....	5
Performance Reporting .....	6
Financial Stewardship.....	7
Initiative to Improve Hospital Corporation Accountability.....	8
New Procurement Process - Accountability May be Difficult to Assess .....	9
Obscuring Accountability Through NB Highway Corporation.....	12
Accountability Initiative of NB Power Corporation .....	13
Amendment to the Auditor General Act re: Atlantic Lottery Corporation.....	15
Unclear Responsibility for Provincial Court Security .....	16
Monitoring Privatization .....	16
Concluding Comments on Delay in Financial Statements and Our Report .....	18
Acknowledgements.....	18



# Accountability

## Introduction

1.1 “Accountability is defined as the obligation to answer for authority and responsibility that has been conferred.”<sup>1</sup>

1.2 For the past two years we have made accountability the focus of our Office. As our mission states:

**We promote accountability by providing objective information to the people of New Brunswick through the Legislative Assembly.**

1.3 Public focus on accountability tends to increase when resources are scarce. In our opinion, the Government’s framework for demonstrating accountability has been enhanced since our last Report. As we stated in our 1994 Report, legislators need two important types of accountability information: **performance reporting** and **financial stewardship information**. We have seen improvements in both areas and would like to comment briefly on them in this introductory section.

1.4 In addition, we are commenting on several situations we have encountered during the year which impact directly on this important theme of accountability. These include:

- an initiative to improve hospital corporation accountability;
- the impact of a new procurement process on accountability;
- the effect of creating the New Brunswick Highway Corporation;
- an accountability initiative of NB Power;
- an amendment to the Auditor General Act re Atlantic Lottery Corporation;
- unclear responsibility for court security; and
- the monitoring of privatization initiatives.

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<sup>1</sup> Hospital Corporation Accountability, Department of Health and Community Services, July 1995

1.5 This section concludes with a brief discussion about the delay in the publishing of the Province's financial statements and the delay in producing our 1995 Report.

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### **Performance Reporting**

1.6 In several of our past Reports, including 1994, we have discussed the government's annual report policy. This year we asked departments and Crown agencies to make a self-assessment of the progress they are making towards compliance with the Policy.

1.7 Section 2 of this Report presents the results of this self-assessment and our related comments. We plan to examine the 1995 annual reports of departments and agencies as they become available. In doing so, we can evaluate these self-assessments.

1.8 In 1991 the government established an annual report policy which states "the prime function of an annual report is to be the major accountability document by departments and agencies for the Legislative Assembly and the general public..." We believe this direction has provided an important starting point for the government's accountability framework.

### ***Initiative to Develop Performance Indicators***

1.9 This year the government significantly increased its commitment to accountability. It accomplished this by requiring all departments to establish performance indicators for their major programs for the 1996-97 budget year. These performance indicators will be documented and included in the *Main Estimates* for 1996-97.

1.10 Traditionally, the government has used the *Main Estimates* to inform the Legislative Assembly and the people of New Brunswick of the plans and costs of major programs of each department. The *Main Estimates* for 1996-97 will also describe performance indicators which can be used to measure how well departments have done. These measures will in turn be reported in the annual reports. Each department's annual report will take on new meaning and will more accurately match the annual report's description as "the major accountability document of departments and agencies . . ."

**Financial Stewardship*****Consolidated Financial Statements***

1.11 The Government of New Brunswick prepared consolidated financial statements for the year ended 31 March 1995. These will be the **only audited financial statements** that the government will issue. These financial statements will be published as *Volume I* of the *Public Accounts*.

1.12 Preparing consolidated financial statements, and issuing them as the government's only audited financial statements, represents a significant improvement in financial accountability. However, in spite of this, there are a number of issues surrounding financial stewardship that we wish to comment on.

***Mental Health Commission Not Properly Reflected***

1.13 In our opinion the accounts of the Mental Health Commission have not been properly reflected in the Province's financial statements. The Board of Management directed that only transactions between the Commission and the government should be recorded in the financial statements. This decision resulted in an understatement of the Province of New Brunswick's deficit by \$4.3 million (the Commission's loss for the year) and the net debt by \$8.3 million (the cumulative losses to 31 March 1995).

***Total Provincial Debt***

1.14 The total funded debt of the Province outstanding at 31 March 1995 was \$9.1 billion. This amount includes \$2.8 billion of the Province's borrowings where the proceeds were loaned to NB Power. Although this information is disclosed in note 10 to the financial statements, in our opinion this \$2.8 billion should be shown in the Statement of Financial Position as it was in prior years.

1.15 This disclosure will not affect the net debt of the Province which is correctly stated at \$5.525 billion. It will, however, clearly show the total outstanding funded debt of the Province.

***Despite a Balanced Budget, Borrowing May Still Be Required***

1.16 It is important to recognize that even though the "net debt" may decrease in any given year, the total interest bearing debt may still have to increase in order to finance the cash requirements of the government.

1.17 The Statement of Revenue and Expenditure reports a \$64 million deficit for the year. However, the Statement of Changes in Financial Position shows a cash deficiency from operations of \$279.4 million, and an increase in investments, loans and advances of \$82.8 million, for a total cash deficiency of \$362.2 million.

There are three main reasons for this difference (i.e. \$64 million deficit vs. total cash deficiency of \$362.2 million).

1.18 The first is the treatment of the interest on sinking funds in the financial statements. The Province includes \$157.5 million of interest earned on sinking funds as income in the Statement of Revenue and Expenditure. But this interest earned must be kept in the sinking fund and invested. In other words, it is not available for the general cash requirements of government.

1.19 The second is due to the fact that the government paid \$110.9 million more into the pension fund than the pension expense reflected in the Statement of Revenue and Expenditure. This item is detailed in note 11 to the financial statements.

1.20 The third reason relates to the income from NB Power and the Workplace Health, Safety and Compensation Commission (WHSCC) of \$65.5 million. This income will not be paid to the Province in cash. Instead, this \$65.5 million will be reinvested by the Province in NB Power and WHSCC.

1.21 The cash deficiency was \$362.2 million for the year ended 31 March 1995. This cash need was met by increased long-term borrowings of \$245.6 million and by short term financing of \$116.6 million.

1.22 The goal of the government is to not only have a balanced budget, but to start reducing the net debt. However, even if a surplus is achieved and the net debt is reduced, total provincial debt may increase to meet the cash needs of government.

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**Initiative to Improve Hospital Corporation Accountability**

1.23 Both the significant progress in the area of performance reporting, and the issuing of consolidated financial statements, strengthen our opinion that the Government of New Brunswick is committed to providing improved accountability information. The government's commitment is further demonstrated by its intent to improve hospital corporation accountability.

1.24 The Speech from the Throne of 7 February 1995 stated:

During this Session the Minister of Health and Community Services will table a document

outlining the vision and further directions for the health system over the next five years. As part of this plan, a process will be established to examine certain aspects of hospital corporation accountability.

1.25 The Department of Health and Community Services tabled a document titled *Reinvesting in a Sustainable Health System* in April 1995. The document notes that the government is committed to public consultation on the issue of governance and accountability. Our understanding is that a committee of the Legislative Assembly will hold public hearings on regional hospital corporation accountability in the near future.

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**New Procurement Process -  
Accountability May be  
Difficult to Assess**

1.26 On 13 December 1993, the Department of Income Assistance, now renamed Human Resources Development (HRD), issued a Request for Proposals that represents an innovation in procurement practice.

1.27 The Request for Proposals defined the Department's requirement as follows:

The goal of this requirement is to define the overall needs of the business and to design, develop and implement a totally integrated solution to meet the defined needs. In this context, a totally integrated solution is concerned with designing and redesigning business procedures, as necessary; designing, developing and implementing the required technologies; and assessing the impacts on the organization.

1.28 Three proposals were received. Andersen Consulting was confirmed as the successful candidate on 25 March 1994. Work on Phase I, development of the Business Case, began 5 April 1994. Work continued until 28 September 1994 when the Board of Management approved the Business Case.

**No Contract Signed When  
Phase II Began**

1.29 Andersen Consulting's costs incurred in Phase I were borne by them. Our understanding is that if savings are realized as a result of this initiative, only costs associated with Phase II will be repaid to Andersen (Phase II includes the design, development and implementation of the Business Case). The costs of Phase II consist

of consulting fees and expenditures incurred in this initiative. It is these costs that will be repaid, and again, only in the event that future savings are realized.

1.30 We would have expected that a contract would have been signed before the work began for Phase II. This did not happen. In fact, the Department advised the consultants that:

in the unlikely event that the Department of Human Resources Development decides not to formalize a contract for Phase II, we will be prepared to reimburse Andersen Consulting for all reasonable and supported expenditures incurred between the completion of Phase I (September 15, 1994) and the date it is decided not to proceed. In this context, the scope of expenditures might include items such as furniture, space and hardware and software. However, the final determination as to the specific expenditures to be reimbursed would be negotiated at such time as we decided not to proceed.

1.31 In correspondence with our Office in March 1995, six months after the consultants began their work without a contract, the Department stated:

We are breaking new ground in this venture. It is not a consulting service arrangement in traditional terms. Andersen Consulting are financing this venture and only receive payment if we successfully achieve savings from its implementation.

1.32 Because of the reimbursement process for this initiative, and the lack of a formal contract, we were concerned as to how the costs would be disclosed in the financial statements. At 31 March 1995 Phase II costs exceeded \$3 million. Although there was no contract, the correspondence referred to above stated that Andersen would be paid even if a contract was not concluded. We therefore requested that this potential liability of \$3 million be included in the year end financial statements. This liability was recorded.

1.33 The consultants' proposal, submitted in January 1994, contained many undertakings which should have been embodied in a contract. At the time of writing our Report, Andersen Consulting had been working for over 14 months and still no contract had been signed. We were advised, however, that a contract would likely be signed before 31 December 1995.

***No Cost Base Established to Calculate Savings***

1.34 As noted above, our understanding is that payment to Andersen Consulting is conditional on savings being achieved. In order to measure any savings achieved, existing costs have to be established in sufficient detail to act as a base for measurement. This was not done. Although the Department has not established its pre-Phase II cost figures, it has identified two broad categories which are projected to achieve savings of \$17.5 million per year.

1.35 After a number of requests for details on the forecasted savings, we received a letter dated 27 July 1995 from HRD which states:

The forecasted savings of \$17.5 million are derived from two major sources: \$8.1 million from overpayment recovery and overpayment avoidance; and \$9.4 million from salary savings, a result of requiring 204 fewer positions. However, it is important to note that, since the approval of the Business Case, the Department has decided to reinvest a portion of the salary savings in case management, resulting in an overall staff reduction of 125 positions.

As you know, the realization of the forecasted savings is the basis on which Andersen Consulting is to be repaid for their investment in this initiative. Consequently, tracking these savings is a critical process which is currently being detailed. This process of reporting and tracking will be implemented as part of the overall "solution" implementation. This "repayment" premise is also fundamental to the contract negotiations currently underway between Andersen and the Department.

***Our Conclusions on This Initiative***

1.36 We believe that all of the undertakings with Andersen Consulting should have been set out in a contract prior to the firm

commencing this work. We further believe accountability could be difficult to assess in this situation given that the potential savings were not specifically identified in advance of the work commencing.

1.37 In contrast to this arrangement, one should refer to Section 2 of this Report and note our comments on the Department of Justice. The Department of Justice and the Department of the Solicitor General used the same procurement process as HRD in selecting a partner for the New Brunswick Integrated Justice initiative. Andersen Consulting was selected as the successful proposer in 1994. The Department of Justice informed us that work would not be allowed to proceed until a contract was concluded.

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**Obscuring Accountability  
Through NB Highway  
Corporation**

1.38 The government published unaudited financial results for the year ended 31 March 1995 in the 27 September 1995 issue of the Royal Gazette. This report showed a deficit of \$56.4 million after recording the sale of land for \$30 million to the New Brunswick Highway Corporation. This Corporation was created by an Act of the Legislative Assembly assented to on 29 March 1995.

1.39 In consideration for this sale, the government received a promissory note from the Corporation for the entire purchase price. As it was the government's intention to account for the New Brunswick Highway Corporation as a business enterprise for the purposes of financial statement consolidation, the transaction reduced the deficit reported in the 27 September 1995 issue of the Royal Gazette by \$30 million.

1.40 The Corporation is a wholly-owned Crown agency and is therefore merely an extension of the government. By treating the Corporation as a business enterprise, the government effectively removed \$30 million in highway construction expenditures from the financial statements. This would have obscured accountability for \$30 million in capital expenditures.

***Defining a Business  
Enterprise***

1.41 To qualify as a business enterprise, an organization must have an adequate source of revenue. We asked for documentation to provide us with background on the evolution of the New Brunswick Highway Corporation as well as a business plan which

would confirm the Corporation's financial viability. At the time of our request this information was not readily available, but we were assured that it would be provided. It appeared that the business plan did not exist prior to the creation of the Corporation.

1.42 We objected to this transaction. And in November 1995, when adequate supporting documentation could not be provided to us, the government reversed the transaction. In our opinion this was the right decision. It is certainly in keeping with the government's other initiatives which support accountability.

***Pension Adjustment  
Overcomes Loss From  
Reversal of Highway  
Transaction***

1.43 It should be noted that this reversal of the New Brunswick Highway Corporation transaction was more than offset by a later pension expense adjustment of \$45.2 million. This pension adjustment came about as a result of the government's third successive annual re-evaluation of actuarial assumptions. This is more fully discussed in Section 3.

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***Accountability Initiative of  
NB Power Corporation***

1.44 In December 1993 NB Power committed to prepare a five year business plan. This plan will be updated annually and tabled in the Legislative Assembly. At the beginning of the process NB Power stated that the business plan is in part a response to enhanced public accountability and a better reporting relationship with the Legislative Assembly.

***First Five Year Plan and  
Committee Hearings***

1.45 The first five year plan was issued on 28 February 1994. In the transmittal letter, the President/CEO and the Chairman stated that these plans would also be referred to the Standing Committee on Crown Corporations (Committee) of the Legislative Assembly for full public examination and review. This first five year plan covering the period 1994-1999 was referred to the Committee on 14 April 1994. Public hearings took place and both oral presentations and written briefs were received and considered. The Committee submitted an interim report to the Legislative Assembly on 13 December 1994.

1.46 The public process produced a final report tabled in the Legislative Assembly on 2 March 1995. It contained many recommendations for future business plans. NB Power has since updated the initial business plan with *Business Plan 1995-2000*. This updated plan contains a letter from the President/CEO and the Chairman which notes that the majority of the Committee's

recommendations have been addressed in *Business Plan 1995-2000*.

***Committee Recommends  
Phasing Out Deferrals***

1.47 Among other matters, this Committee considered the accounting policies of NB Power. The Committee, in the light of the briefs and written submissions received, examined equalization accounts designed to smooth the impact of hydro and nuclear generation fluctuation and export sales fluctuations. The Committee also examined the one major operating cost deferral in NB Power's financial statements. In the 31 March 1994 fiscal year, the Corporation, with the support of the Province of New Brunswick's Board of Management and under the authority of an Order in Council, deferred \$52 million of interest and depreciation on the Belledune generating station after it had been brought into service. This practice, unique in the history of NB Power, was to continue for a further three years on a diminishing basis.

1.48 NB Power determined that these accounting approaches had proven to be confusing to readers of the Corporation's financial statements. It also stated that such policies are uncommon among utilities today and would not be acceptable for a non-regulated company. Therefore, effective with the fiscal year ended 31 March 1995, the Corporation is eliminating its equalization and stabilization accounts. In addition, it will not add any additional deferrals of Belledune operating costs. However, the original deferral of \$52 million of interest and depreciation will remain in the financial statements and be amortized over a 35 year period.

1.49 We would have preferred that the effect of these changes in accounting policies be recorded immediately (and retroactively), rather than over future periods. However, we recognize that these policies have been in place for some time and NB Power has disclosed them in their financial statements and annual report. The credits from the equalization and stabilization accounts will all be brought back into income by fiscal year 1996-97. The deferred interest and depreciation expenses from Belledune, however, will affect the financial statements for a further 34 years at the rate of \$1.5 million per year. NB Power has continually quantified the effect of these deferrals on annual earnings in the Corporation's annual audited financial statements.

***Our Role in This  
Accountability Process***

1.50 The external auditors for NB Power provide us with a copy of the audited financial statements as well as the management letters they issue to the Corporation. Last year we commented on the matters raised by the auditors in their management letter.

1.51 This year we reviewed the working paper files of the Corporation's auditors. We have advised the auditors that our review achieved our objectives to satisfy ourselves that the audit was carried out in accordance with generally accepted auditing standards; and that the audit work can be relied upon by our Office in carrying out our attest audit of the Province. We also advised the auditors of our comments regarding the timing of the accounting policy changes on the deferrals.

1.52 It is important to note that the government wants the Corporation to operate more like the private sector and less like an arm of government. This is evidenced by the appointment of the first non-elected chairperson in NB Power's history.

1.53 The numerous recommendations of the Standing Committee on Crown Corporations and the actions of NB Power in dealing with them will be kept in the public view as the Corporation updates its five year business plan each year and tables it for public scrutiny.

1.54 This accountability process is working and we will continue to follow it with interest.

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***Amendment to the Auditor  
General Act re: Atlantic  
Lottery Corporation***

1.55 In 1994 we reported that the Auditors General of the four Atlantic Provinces had intended to conduct a joint audit of the Atlantic Lottery Corporation (ALC). We believed that this cooperative effort was an efficient way to discharge our responsibility. We were denied access to audit as the President of ALC did not consider the Corporation to be an agency of the Crown as defined in the Auditor General Act (Act). He further said that a provision of the ALC bylaws requires that a shareholder request that an audit be performed in order for an Auditor General to have access. This prompted us to ask "If the ALC is not a Crown agency, then what is it?"

***Auditor General Act  
Amended***

1.56 A notice of motion to amend our Act was made in the Fall 1994 sitting of the Legislative Assembly. In the Spring 1995 sitting, the Minister of Finance introduced legislation to

amend Section (1) of our Act to clearly identify ALC as a Crown agency. This amendment was proclaimed in April 1995.

1.57 This amendment does not give us direct access to the Corporation's records. It provides, as it does with other Crown agencies where we have not been appointed as auditor, the opportunity to review the files of the external auditor appointed by ALC's board.

***Our Review Recommends  
Improvements to Disclosure  
of Video Lottery Sales***

1.58 In Section 4 we discuss our review of the external auditors' files. We also discuss a number of unresolved questions that have arisen during our review. Our main recommendation is for improved disclosure of video lottery sales. In view of the fact that video lottery is the largest component of Atlantic Lottery's gross sales, we believe improved disclosure is necessary. Responsibility for improved financial statement disclosure rests with the management of ALC, not the external auditors.

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**Unclear Responsibility for  
Provincial Court Security**

1.59 In Section 2 we report on our audit in the Department of Justice. As part of reporting on our work in the Department, we point out that court security is a concern, particularly in Provincial Court.

1.60 It should be noted that no one provincial agency is responsible for overall implementation of court security. There is split accountability for court security. Some security issues are beyond the scope of just the Department of Justice. As well, fiscal restraint has probably made it more difficult for the Department to implement all of the recommendations proposed by the RCMP in their 1992 review of court security.

1.61 Given this, and the potential risks involved, we believe the court security issue is significant enough for us to bring it to the attention of the Public Accounts Committee.

***Recommendation to the  
Public Accounts Committee***

1.62 **We recommend that the Public Accounts Committee emphasize the importance of court security in its annual report to the Legislative Assembly .**

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**Monitoring Privatization**

1.63 Privatization has become a familiar term in government planning and pronouncements. In New Brunswick, the Board of

Management issued a privatization policy in 1992. The policy has been updated periodically since then. The policy contains a number of criteria for departments to use in identifying and evaluating opportunities for privatization.

1.64 According to this policy, the government's goals in privatization are:

- to increase the effectiveness with which government programs and services are delivered;
- to increase the efficiency with which government programs and services are delivered;
- to increase the efficacy of government programs and services; and
- to curb growth of the public sector and encourage growth of the private sector.

1.65 At the time of writing this Report, we had begun to review the results of the various departmental privatization initiatives. The results of this work will be included in our 1996 Report. Our review will look at the degree of compliance with the Board of Management policy and identify significant weaknesses in the system, should they exist. In examining this system, we want to determine if:

- the current process is effectively identifying areas for possible privatization;
- a fair and visible procedure is in place for awarding the business to the private sector;
- the projects have been evaluated financially and the results have been communicated to decision makers with appropriate detail;
- guidance is available to departments which will assist in identifying the proper program delivery structure, ranging from full privatization to simple contractual arrangements; and
- effective communication has been established with clients and employees in cases where a privatization proposal is being developed.

1.66 Because privatization is at an early stage, our review this year is aimed at this selection process. As activities and

programs are privatized, the government faces an additional challenge in developing mechanisms for ongoing monitoring and reporting. Accountability does not cease simply because an activity or program has been privatized.

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**Concluding Comments on  
Delay in Financial Statements  
and Our Report**

1.67 We have commented on the delay in completing the audit of the financial statements of the Province in Section 3 of this Report. Timeliness is an important quality of useful financial information. This deterioration in financial accountability continues to concern us.

1.68 The Auditor General Act states that I must submit an annual report to the Legislative Assembly on or before 31 December each year. This year, I did not wish to submit a report which was incomplete; for example, which did not include our comments on the financial statements. Therefore, I made the decision that has resulted in our non-compliance with a major provision of the Auditor General Act.

1.69 I apologize to the Legislative Assembly for the late date of this Report.

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**Acknowledgments**

1.70 We appreciate the cooperation we received from the management and staff of the departments and agencies we audited.

1.71 I acknowledge, with thanks, the effort and professionalism of my staff. It was their teamwork and dedication that enabled me to issue this Report. Although this Report reflects the collective work of the Office, the responsibility for its content is mine alone.

Ralph W. Black, FCA  
Auditor General