

Chapter 1

Accountability

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Accountability

Background

1.1 Since 1993 the focus of this chapter of our Report has been on accountability, its successes and shortcomings. This mirrors the mission we have adopted for our Office which states: “*We promote accountability by providing objective information to the people of New Brunswick through the Legislative Assembly.*”

1.2 What is accountability? Last year our Report answered that by using the definition provided by the Department of Health and Community Services in its July 1995 document entitled “Hospital Corporation Accountability,” namely: “*Accountability is defined as the obligation to answer for authority and responsibility that has been conferred.*”

Accountability framework set out in 1993

1.3 In our opinion, this obligation to be answerable requires a systematic framework. In our 1993 Report, we proposed one such accountability framework. We are repeating those comments below.

1.4 Prior to deciding what programs or services will be offered each year, there must exist in each department or Crown agency clear management direction. The organization must recognize and have the ability to measure on a regular basis the relevance and appropriateness of each program or service, and whether it is achieving the intended results.

1.5 The Members of the Legislative Assembly will want to know whether each program or service has been accepted by those it serves; whether there have been positive or negative secondary impacts; and whether the department or Crown agency can be responsive to change (for example changes in funding or technology).

1.6 If all government departments and Crown agencies were to develop such an accountability framework for all programs and services, then the Members of the Legislative Assembly could more easily deal with the difficult choices that have to be made.

1.7 It is essential, if all departments and Crown agencies are to be accountable, that they monitor their performance and report it to the Legislative Assembly through annual financial and departmental reports delivered on a timely basis.

Our 1994 Report further defined accountability reporting

1.8 In our 1994 Report we divided accountability information into two types, namely: financial stewardship and performance reporting. Members of the Legislative Assembly need both types to make informed decisions.

1.9 On the issue of financial stewardship, we reported a significant improvement as the government recorded the full pension liability in their financial statements for the first time. However, this accomplishment was marred by the delay in the public release of the financial statements. The financial statements were issued on 22 December 1994, three months later than in the previous year.

1.10 Turning to performance reporting, we recognized in 1994 that performance reporting was not well developed by government. We examined the annual reports of departments and agencies to “*promote accountability*” by measuring compliance with the government’s annual report policy.

1.11 We saw government organizations begin to move toward compliance. For example, a number of organizations presented their goals and objectives. However, performance indicators, program relevance and client acceptance were not discussed in any of the annual reports of departments and agencies.

1.12 We commented on the need for one report on economic activity rather than several as now exist and asked whether there could even be an amalgamation of entities whose sole focus is economic development.

Our 1995 Report - expanded focus on accountability

1.13 The government improved its financial reporting in 1995 by issuing consolidated financial statements. These were the only audited statements that were issued in 1995. Once again this major accomplishment was devalued because of a significant delay in releasing the financial statements.

1.14 In 1995 we discussed several other specific issues bearing on accountability. These included an initiative to improve hospital corporation accountability, a new procurement process initiated by the government and the accounting treatment of New Brunswick Highway Corporation.

1.15 In this chapter of our Report we follow up on those issues raised in 1995. We also discuss some accountability concerns identified in the past year.

Earlier release of provincial financial statements

1.16 This year our audit report on the 1996 financial statements was dated 20 September which allowed for their release on 8 October, over two months earlier than last year. In addition, the Board of Management recently directed the Comptroller to publish audited financial statements by 31 August, beginning next year. This decision brings us within two months of our goal for a 30 June release.

1.17 We acknowledge the effort and co-operation that we received from the Comptroller’s Office and the Department of Finance to accomplish this 1996 improvement. Audit plans for our staff had to be

Initiative to improve hospital corporation accountability

altered significantly to accommodate this earlier release date and I am pleased with their performance in getting the job done.

1.18 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 direction 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.”*

1.19 To establish that process *“...to examine certain aspects of hospital corporation accountability”*, the Legislative Assembly directed their Standing Committee on Law Amendments to hold public hearings. To assist in this process, the Committee used a departmental discussion paper entitled *“Hospital Corporation Accountability.”* This discussion paper essentially gave background to the issue, stating the government’s role for funding, for programs or services that can be offered by each hospital and for the quality and efficiency standards with which they are delivered. The changes that were made to the health system in 1992, the new board structures for the regional corporations, uniform by-laws for these boards and the role and authority which boards have today were also briefly described.

1.20 A goal of public hearings was to develop an improved reporting mechanism whereby the Legislative Assembly through its Standing Committees on Public Accounts or Crown Corporations would be able to review the performance of each of the regional hospital corporations.

1.21 The Standing Committee on Law Amendments advertised that public hearings would take place on 12 and 13 June 1996, both to receive written briefs and to hear presentations. The hearings took place and we understand that the Committee will table its report in the Legislative Assembly during the session beginning 26 November 1996.

1.22 This is an important part of government’s accountability process. Hospitals spend approximately \$600 million each year, about 50% of the Department of Health and Community Services’ spending and 14% of total provincial spending. The Minister and the officials of the Department are not able to respond to detailed questions concerning hospital spending in either the Legislative Assembly or the Standing Committee hearings. Regional hospital corporations do not appear before the Standing Committees of the Legislative Assembly to explain their spending nor do they table a report in compliance with government’s annual report policy.

1.23 We receive copies of the audited financial statements for each of the regional hospital corporations each year. This is a requirement of the Auditor General Act. We review the various auditors’ working paper files on a rotational basis, as discussed in chapter 13. However, this should not be seen as a substitute for an appropriate level of accountability by the regional hospital corporations to the Legislative Assembly.

Undisclosed liabilities of regional hospital corporations

1.24 The government provides funding to hospital corporations within which each of the regional boards must operate. The annual audited financial statements that are provided to us each year reflect increasing net liabilities over the past three years. Chapter 2 contains information on the net liabilities of \$32.7 million as at 31 March 1996. This has increased from \$20.6 million in 1994 and \$24.3 million in 1995.

1.25 Despite the importance of this information, it is not reported directly to the Legislative Assembly.

1.26 **We recommend that the financial condition of the regional hospital corporations be reported to the Legislative Assembly each year.**

Lotteries Commission of New Brunswick

1.27 Chapter 12 continues our discussion of reporting video lottery operations through the financial statements of Atlantic Lottery Corporation Inc. (ALC). Video lottery in itself exceeds the aggregate of all forms of ticket lotteries in ALC and accordingly deserves better reporting. We believe the Lotteries Commission of New Brunswick and ALC could work together to develop an improved reporting format. At least two other lotteries in Canada provide detailed financial information on their video lottery operations.

1.28 We have provided a comparison of costs to operate the video lottery program by contrasting the private sector model of New Brunswick with the ALC costs to manage the program in Nova Scotia. This comparison identifies potentially significant cost savings to New Brunswick but we recognize that the Province has a contract with the private sector operators until 2002.

1.29 We also looked at the Lotteries Act and its regulations. The government appoints three commissioners under provision of the Lotteries Act to be responsible for its enforcement. We looked for the process by which the commissioners assure themselves of compliance with the regulations governing video lotteries. Atlantic Lottery Corporation has been given the responsibility to manage the video lottery program. We therefore believe that the Lotteries Commission should request that ALC provide a letter of representation and supporting documentation to give assurance that all relevant regulations have been complied with. This should be done each year.

1.30 Having ALC provide this information seems logical and reasonable, however it raises a question of conflict. Two of the three commissioners of the Lotteries Commission are also directors of ALC. It does not seem proper that they, as commissioners, can regulate the activities that, as directors of ALC, they also manage.

Accountability can be obscured through creative accounting

1.31 We are concerned about any restructuring of government activities which results in significant expenditures of government not being recorded in the financial statements of the Province. Last year we reported the government created a new Crown agency called the New Brunswick Highway Corporation and that the Corporation “purchased” \$30 million of land from the Province. The government initially treated the Corporation as a business enterprise, effectively removing \$30 million in expenditures from the financial statements of the Province.

1.32 As noted in our 1995 Report, we objected to this treatment as the government did not have a business plan which could demonstrate the Corporation was a viable business enterprise. The government reversed the transaction in November 1995. This year, it further clarified the issue by disclosing the Corporation as an entity which is fully consolidated in the financial statements of the Province.

1.33 We intend to continue to review various restructuring activities of government which could effectively remove expenditures from the financial statements. For example, in chapter 2, our Report speaks of two new public private partnerships for constructing facilities. We want to ensure that when the facilities are complete, the financial statements of the Province properly reflect the substance of the arrangements.

Human Resources Development - Andersen Consulting

1.34 We reported last year that...*”all of the undertakings with Andersen Consulting should have been set out in a contract prior to the firm commencing this work.”*

1.35 A contract was signed by the Department of Human Resources Development and Andersen Consulting on 20 December 1995. The contract contained nine separate schedules (A to I). These schedules were not all completed at the time of signing.

1.36 Chapter 7 provides details of our initial review of this contract and the current status of the project.

Cash requirements for the Province

1.37 Last year we reported that the Province had to borrow \$362.2 million even though the net debt had only increased by \$64 million (the 1994-95 deficit). In presenting this information in our Report we used a narrative to explain the content of the Statement of Changes in Financial Position (now entitled Statement of Cash Flow in the 1996 statements).

1.38 This year the financial statements include a note (No. 16) entitled “Change in Provincial Borrowing”. This note is an improvement to the note disclosure and will draw the readers’ attention to the issue we commented on last year.

1.39 The note shows a decrease in total borrowing of \$101 million after recording a favourable gain in foreign exchange of \$145.7 million.

**Mental Health Commission
1994-95 deficit**

1.40 Last year we reported that the Mental Health Commission was not properly accounted for in the financial statements of the Province. This resulted in an understatement of the Province's 1995 deficit by \$4.3 million (the Commission's loss for 1994-95), and the net debt by \$8.3 million (the cumulative losses of the Commission to 31 March 1995).

1.41 Chapter 2 shows full details of what took place and reports that the 1994-95 deficit of \$4.3 million will never be recorded as a provincial expenditure as it was adjusted through net debt.

**Disclosure of total funded
debt of the Province**

1.42 In 1995 the total funded debt of the Province was not clearly disclosed in the provincial financial statements. In 1996, however, the Statement of Financial Position clearly shows the total funded debt of the Province. The borrowing for NB Power Corporation is then shown as a deduction from the total to arrive at the funded debt for provincial purposes. Note 10 to the statements provides a detailed segregation for each of the debenture issues for both the Province (for provincial purposes) and NB Power Corporation. This change in presentation has satisfied the concerns we expressed in 1995.

Acknowledgements

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

1.44 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