

Chapter 1

Introductory Comments

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Introductory Comments

1.1 On 26 October 2004 I released Volume I of our 2004 Report. That volume reported our findings as a result of an audit of New Brunswick's salmon aquaculture operations. Our work was done concurrently with related audits undertaken by the Office of the Auditor General of Canada and the Office of the Auditor General of British Columbia. The reports from all three offices were released on the same day. In this volume you will find the results of our other work undertaken in 2004.

1.2 Last year in my opening chapter I raised three issues concerning the Province's financial statements: timeliness, financial statement discussion and analysis and the Fiscal Stabilization Fund. I called for more timely release of the audited financial statements, and an informative and easy to read financial statement discussion and analysis. I also included a request that any communication that introduces confusion concerning the financial results be avoided.

1.3 This year the audited financial statements were released on 3 November, eighteen days earlier than last year. This is now the seventh time in the past eleven years that the financial results were published in November or December. Substantial improvement must be made in this area. Legislators and citizens should not have to wait more than seven months after the year end to learn how their money was spent and whether there was a surplus or deficit.

1.4 I was very pleased to see an enhanced commentary at the front of Volume I of the Public Accounts on the financial results for the year. The commentary included a discussion, with charts, of the Province's net debt position. Unfortunately I cannot give "two thumbs up" because there is still a lot more that should be done. The Province could look to the Public Accounts of Canada and Ontario as two good examples of clear and concise reporting of financial results and financial condition. Also, during the year the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants released a Statement of Recommended Practice on financial discussion and analysis. This statement gives excellent

guidance on the types of information that governments should consider making available to their legislators and citizens. I urge the government to build on the improvements made this year.

1.5 The information on the Fiscal Stabilization Fund has been removed from the Statement of Revenue and Expenditure and is now shown in the Notes to the Financial Statements. I am extremely pleased to see this change made. The Statement of Revenue and Expenditure now clearly reports the financial result for the year. The way in which the Fiscal Stabilization Fund was disclosed and reported in previous years created confusion.

Comments on the Province's financial position

1.6 There is often misunderstanding over the role which my Office plays with respect to the Province's financial statements. For instance, some citizens think we prepare the financial statements. This of course is not true, and in an effort to explain the role and responsibility of government in preparing the financial statements and our role in auditing them I have included some commentary in chapter 2 of this Report.

1.7 For the past seven 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 \$103.2 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 also be found in chapter 2.

Beverage Containers Program

1.8 New Brunswick's *Beverage Containers Act* was proclaimed in 1992 and the Beverage Containers Program came into effect soon afterward. We were interested in determining if the program was achieving its intended results and whether the Department of the Environment and Local Government was satisfactorily measuring and reporting these results. We also wanted to provide the Legislative Assembly with an update on progress the Department has made in responding to the work we performed in 1994.

1.9 Since the inception of the program, approximately three billion beverage containers have been diverted from landfills and roadsides. However, there are no target-specific objectives to indicate whether or not the program is achieving its goals. And limited action has been taken on our recommendations from 1994.

1.10 We also found that, since the beginning of the Beverage Container Program, distributors and/or their agents have retained close to \$34 million from unredeemed deposits on beverage containers that were not returned to a redemption centre. In addition they collected \$17 million in fees to help cover the cost of recycling these containers, which did not occur. We recommended the Department of Environment and Local Government review the arrangement that has been in place for the past twelve years.

1.11 The results of our work on the Beverage Containers Program are found in chapter 3.

Nursing Home Services

1.12 There are 61 nursing homes in New Brunswick providing approximately 4,100 beds. Provincial legislation requires these homes to have a license and to follow operating standards. The purpose of our work was to see if government is enforcing this legislation. We found that the Department of Family and Community Services does not have appropriate practices to ensure that licensed nursing homes are complying with provincial legislation. The results of this work are found in chapter 4.

Regional Development Corporation - provincially funded programs and initiatives

1.13 A major activity of the Regional Development Corporation is to fund, coordinate, and monitor Funds and projects, with the intent of supporting provincial economic development endeavors. In performing an audit in this area we found that the Corporation does not have satisfactory procedures to measure and report on the effectiveness of the provincially funded programs and projects which it administers. And while it has developed goals for its major Funds, it has not developed appropriate objectives for these Funds and the related projects. The results of our work at the Corporation can be found in chapter 5.

Program evaluation in government departments

1.14 Most of our work is directed towards a particular service or program. We believe the Legislative Assembly and the public are interested in receiving objective information as a result of these audits whether it is on day care centres, pupil transportation or nursing homes. Periodically we will undertake a project that highlights a significant matter that applies to all of government. Last year we looked at the governance of Crown agencies and highlighted the importance of risk management and the need for risk management training and skills. This year we decided to examine the status of program evaluation in provincial departments. It is extremely important that programs continue to be relevant, cost-

effective and successful in achieving their objectives. Citizens have a right to expect this and governments have a stewardship responsibility to demonstrate that they have met the expectation.

1.15 We conducted a survey of government departments to determine the approach they follow in evaluating programs. The results are found in chapter 6. From the survey results we noted there is a lack of formal guidelines specifying an approach to program evaluation. Also there appears to be an imbalance in the program evaluation capabilities between departments and resource limitations appear to be restricting the ability of departments to improve their program evaluation process. We see this as being an extremely important area and plan to do more work next year.

NBCase system

1.16 NBCase is the social assistance payment and case management system in the Department of Family and Community Services. We performed an audit on this system because we believe it is a key computer application in the provincial government – it processes annual payments in excess of \$186 million. Our objective was to determine if we can rely on the system for purposes of expressing an opinion on the Province's financial statements for the year ended 31 March 2004. As a result of our work we were able to reach positive conclusions on the computer control environment and the application controls. We did however make a number of observations and recommendations. These can be found in chapter 7.

Pre-arranged funeral services program

1.17 In June 2004 there were approximately 15,500 pre-arranged funeral service contracts outstanding in the Province of New Brunswick, totaling approximately \$80 million. The *Pre-Arranged Funeral Services Act* requires that this money be kept in separate trust funds at approved financial institutions. We decided to do an audit in this area to determine if the Province had taken appropriate steps to protect the public with respect to these pre-arranged funerals. We concluded that the interests of the public are being reasonably protected as a result of the role being played by the Department of Justice.

1.18 We did make a few recommendations and these can be found in chapter 7.

Comments on action taken to address recommendations of prior years

1.19 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 the recommendations from audits of previous years. The results of our follow-up work are found in chapter 8. I will highlight a number of issues at this time.

1.20 This is the last time we will be tracking recommendations from the 2000 audit year. One recommendation from our work in the Department of Agriculture, Fisheries and Aquaculture was that the Department should provide the Legislative Assembly with written reports every three or four years on the effectiveness of the legislation it administers in meeting its intended purposes. We pointed out last year that this recommendation was really relevant to all departments that are responsible for administering legislation. To our knowledge, no action has been taken. I draw this to the attention of the Legislative Assembly because of the importance of legislation in fulfilling public policy. Does the legislation remain effective? Is it fulfilling the original purpose or objective? Periodic reporting to the Legislative Assembly is necessary to ensure there is accountability for the legislation that is currently in place.

1.21 In 2000 we conducted an audit to determine if appropriate systems and practices were in place to encourage the management of private forest lands as the (sustainable) primary source of timber for wood processing facilities in the Province. In the past four years there has been some progress on our recommendations. Still outstanding are the recommendations related to establishing appropriate goals, objectives and performance indicators to address the Department's mandate relating to private forest lands.

1.22 In chapter 8 we are reporting for the first time on progress made in implementing the recommendations from our 2002 work. We were very pleased to see the progress made by the Department of Public Safety in implementing fourteen and partially implementing another five of the twenty-three recommendations we made in connection with an audit of the Office of the Fire Marshal. And we were also pleased to see that the Departments of Finance and Business New Brunswick implemented all fifteen recommendations we made in relation to audits of accounts receivable.

About our Office

1.23 As a result of completing a strategic plan in 2003 our Office has three main goals that we will be concentrating on over the next five years. These are:

- the Legislative Assembly and the public are aware of and value all the work that we do, and have confidence in our ability to provide timely, objective and credible information;
- departments and agencies accept and implement our recommendations; and
- our stakeholders - the Legislative Assembly, the public, auditees and our employees - view us as leading by example.

1.24 We have identified twelve performance indicators that we are using to measure our progress against these goals. While we are pleased with our progress in a number of areas in the last year there is room for improvement in others. Information on our performance during the last year can be found in chapter 9.

1.25 In that chapter we also point out that our request for \$200,000 in additional funding for 2004-2005 was rejected by Board of Management. This funding would have enabled us to hire two additional senior auditors and increase our investment in training, technology and other support services. We currently have funding for only twenty-three staff members, a reduction of four since 1997. There continue to be challenges to provide acceptable audit coverage of government operations and programs and as a result I plan to request additional funding for 2005-2006.

Action still needed to strengthen the role of the Auditor General

1.26 Last year in my opening chapter I raised two significant issues concerning the operation of my Office. The first was related to the process for approving our annual budget. At that time I concluded by saying “The independence of the Office would be greatly enhanced and the Legislative Assembly would have increased assurance that the Office was capable of fulfilling its responsibilities, if the Legislative Assembly or a legislative committee was involved in the budget review process.”

1.27 The second issue was related to the process followed for the appointment of the Auditor General. I concluded by saying “Since the Auditor General must be a non-partisan appointment, there should be some involvement of all political parties in the process. I understand that this has been done in the past as a matter of courtesy, but there is no requirement to do so.”

1.28 Both issues are still outstanding and I raise them again to remind the Legislative Assembly that action should be taken to properly reflect the role of the Auditor General as an Officer of the Legislative Assembly.

Acknowledgements

1.29 The two volumes of this year's Report are 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