

Chapter 1

Introductory Comments

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Introductory Comments

Improving integrity and transparency in financial reporting

1.1 Each year, we conduct two types of audits. Our financial audits result in us giving an opinion about the fairness of a set of financial statements. Our value-for-money audits result in us providing a report on the economy, efficiency and effectiveness of government programs.

1.2 We are including only information arising from our financial audit work in this volume of our 2008 Report. This includes information about our audit of the Province's financial statements, and our financial audits of other government organizations. We have also included comments about the Province's financial condition.

1.3 Last year in my introductory comments to Volume 1 of our 2007 Report, I said there were four things that the government of New Brunswick should do to improve the integrity and transparency of its reporting of the Province's financial situation. While there have been some minor improvements, overall the situation has not changed significantly. In my opinion, it is time for the government to show leadership by providing timely, quality financial information to the people of New Brunswick.

1.4 The four things that I said last year that the government should do to improve the integrity and transparency of its reporting of the Province's financial situation were:

- release the audited financial statements earlier;
- produce more future oriented information;
- stop making large grant payments at year end to manage the amount of surplus reported; and
- provide a full discussion of the results for the year.

1.5 My assessment of these four areas this year is:

Area	Status
Release audited financial statements earlier	No change
Produce more future oriented information	No change in the future information produced, but given the changing economic environment, the need for this type of information has increased
Stop year end grant payments	Worse
Provide a full discussion of the results for the year	Better

1.6 Because of the lack of progress made during the past year, I will once again address these suggestions.

Report on a timely basis

1.7 The provinces that have consistently shown leadership in releasing timely financial statements are Alberta, which issued its 31 March 2008 financial statements on 24 June 2008; Saskatchewan, which issued its 31 March 2008 financial statements on 27 June 2008 and British Columbia which issued its 31 March 2008 financial statements on 17 July 2008.

1.8 New Brunswick's audited financial statements were issued on 26 September 2008, two days earlier than in 2007, but two months behind the leading provinces.

1.9 In order for New Brunswick to join the group of leading provinces and release its financial statements approximately three months after its year end, it will have to:

- get financial results from Crown organizations such as NB Power and the Regional Health Authorities earlier;
- ensure any necessary expert information, for example from actuaries, is received on a timely basis;
- ensure any possible audit issues are identified early in the year and resolved as quickly as possible; and
- put in place a tighter year end processing schedule for departments.

1.10 These things should all be possible if the direction is given by government.

Provide future oriented information

1.11 There are three areas about which the government should be providing future oriented information. They are: net debt management, operations forecasts and self-sufficiency financial statement targets.

1.12 Recent volatility in financial markets and the slowing of world economic growth make it even more imperative that the government have long term plans. Those plans should discuss the risks that the government faces and their potential impact.

Net debt plan

1.13 A multi year net debt plan is, in my opinion, critical. At 31 March 2000, the Province's net debt reached just over seven billion dollars. In the seven years after that, the government managed to reduce its net debt to just over \$6.5 billion. In the year ended 31 March 2008, net debt increased to just under seven billion dollars primarily because of the cost of a new four-lane highway. At 31 March 2000, the net debt to GDP ratio was 37.1%. It had dropped to 26.1% at 31 March 2007, before rising slightly to 26.3% at 31 March 2008.

1.14 This indicates eight years of good net debt management. Net debt was reduced, and then the reduction allowed the government to undertake a large capital project. Even after the capital spending, net debt did not rise above the level it reached eight years earlier. During that time period, growth in provincial GDP allowed the ratio of net debt to GDP to improve significantly.

1.15 We now appear to be on the verge of large increases in net debt; increases that have not been preceded by net debt reductions. Based on information contained in the Economic and Fiscal Update issued by the government on 3 December 2008, and the Capital Budget issued 9 December 2008, the net debt of the Province can be expected to climb to between eight and eight and a half billion dollars by 31 March 2011, with the net debt to GDP ratio reaching about 30%. It is therefore important for government to have a net debt management plan.

Future operations

1.16 The government should provide information about its projected future revenues and expenses. Each year the government produces a budget. That budget only discloses the estimated revenues and expenses for the next year. Even in the 3 December 2008 fiscal update, the government only said that "...the province is facing a potentially large deficit in 2009-2010."

1.17 There are three examples of governments providing information about future operations that I would like to highlight. The first is the December 2006 Grant Thornton report. I still do not understand why the government was able to produce future oriented financial information early in its mandate but has not been able to do so since. The second is the federal government's Budget 2008 in which they disclosed expected revenues, expenses, surpluses and planned debt reduction for five years. The third example is the federal government's Economic and Fiscal Statement which also provided estimates for five years.

Self-sufficiency plan

1.18 Last year I said:

...there needs to be a concise definition of self-sufficiency in order to assess when it has been achieved. I also believe that the Province should prepare forecasts of its financial position and operating statements against which progress can be measured.

1.19 This is even more important to do now. The current economic climate appears to mean that the government is facing at least two years of deficits, and three years of increases to net debt. I expect that achieving self-sufficiency in the time frame established by the government will be very difficult. Having forecasts of what the government's financial position and operating results should look like along the way would be valuable in assessing progress towards achieving the vision.

Year end grant payments

1.20 In our 2006 Report and again in our 2007 Report, we raised the issue of the Province making accelerated payments of the operating grants to the Maritime Provinces Higher Education Commission. In 2007 we said:

We continue to believe that altering the timing of regular operating grants creates confusion and makes it difficult to assess the government's performance.

1.21 The amount of the accelerated payment in 2006 was \$60 million; this was increased to \$68 million in 2007. The government not only chose to continue this practice in the year ended 31 March 2008, but significantly increased the amount of the early payment to \$110 million.

1.22 The government continues to disregard our advice on this matter, and continues to use this grant funding as a way to manage their bottom line. Based on the 3 December 2008 fiscal update, it appears that the practice of making these accelerated payments will cease out of necessity in the year ended 31 March 2009. The grant payments will then have to return to normal levels in the year ended 31 March 2010, thereby contributing to the potentially large deficit the fiscal update predicts will occur in that year.

Discuss the financial results

1.23 This is the one area where the government made some improvement during the year ended 31 March 2008. Volume 1 of the Province's 2008 Public Accounts contains for the first time a section called "Indicators of Financial Health." As well, the discussion found in the "Results for the Year" and the "Major Variance Analysis" has been improved and incorporates some of the changes that we suggested in our 2007 Report.

Recommendation

1.24 I do not usually put recommendations in the introductory chapter of the volumes of our Report. This chapter allows me to express some overall impressions and general statements. However, I really believe that it is time for the government to take steps to significantly upgrade its financial reporting to New Brunswickers. **I am therefore recommending that the government should produce a plan with specific actions that will be taken to improve the integrity and transparency of its financial reporting.** Those actions should have specific delivery dates. New Brunswick has the ability to be among the leaders in this area; it just has to have the desire to be.

Financial management weaknesses

1.25 As a general statement, I would say that the government manages its day to day finances well. However, during our audit work this year we identified two situations that were very concerning. One has been the failure of the Province to supply information to the federal government that would allow the Province to collect millions of dollars owed to it under the Official Languages in Education agreement. We estimated that at the time of our audit, this failure to collect amounts owing was costing the Province about \$11,000 per day in interest costs. The other situation was the creation of a Physician Retention Fund which appears to have been put in place without appropriate due diligence, resulting in many problems. These problems meant that no payments were made from the Fund in its two years of existence even though some physicians qualified to receive a payment.

Other information in this volume

1.26 This volume contains a lot of other information, including management letter recommendations we made as a result of our financial audits, the results of our information systems work, and detailed analysis of certain financial information.

1.27 For example, in chapter 2, we have reported that the Province expects to lose \$588.7 million of the various amounts it is owed or that it guarantees. This is ten percent higher than in the previous year. We believe that the Province needs to be managing its receivables and loss exposure better.

1.28 In chapter 3, we highlight some additional information that is not transparent to readers of the Province's financial reports. We identify that as at 31 March 2008, there was \$147.2 million in trust funds established by the federal government that the government of New Brunswick has decided not to draw down. Also, the government has increased the amount in various tax rebate programs that are netted against tax revenue. This means these expenditures are not reported to the public, and while there is legal authority to pay them, they are not included in the Main Estimates as is required by the *Financial Administration Act*, and therefore would not be part of the Main Estimates debate process.

1.29 In chapter 4 we provide an analysis of what we consider to be weaknesses in the financial reporting contained in the financial statements of NB Power. This is another example of where the Province needs to improve its reporting of financial information to the public.

1.30 Finally, chapter 9 contains the performance report of our Office. We have changed the format this year to comply with the guidelines established by the Public Sector Accounting Board for the issue of performance information. One thing in this chapter that I would like to highlight is that I believe that the Office of the Auditor General needs an increase in its budget of \$600,000. Without such an increase we are restricted in the types of government programs that we can audit, and, because financial audits are becoming increasing complex, we will have to reduce the number of value-for-money audits that we perform. I recognize that this is not a good time to be requesting a budget increase of almost 30%. However, as our work on the Official Languages in Education receivable indicates, I believe that through our work we can identify savings for government that offset the additional cost.

1.31 I believe that each chapter of this volume contains information that will help members of the Legislative Assembly better understand the financial situation of the Province.

Acknowledgements

1.32 I am grateful for the cooperation that we receive from government departments and agencies during the course of our financial audit work. Our financial audit work is becoming more complex and cooperation from the organizations we audit is essential.

1.33 I want to specifically thank all of the staff of the Office of the Auditor General for another year of dedicated work; they really do take our mission of promoting accountability very seriously.



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