ACCOUNTING FOR CHANGE: THREE ARTICLES ON THE EVOLUTION OF THE LEGISLATIVE AUDIT FUNCTION IN NEW BRUNSWICK (1906–2020)

by

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ABSTRACT

Legislative auditing has been an important part of public finance in New Brunswick since the colonial era. This research advances our knowledge in this area by studying how legislative audit has evolved from 1906 through to the present. Drawing on archival research and key informant interviews, it uses an articles approach to examine three periods where accountability for the public purse and auditor independence saw significant change.

The first article, "Progressive Era Financial Reform in New Brunswick: Abolishing the Auditor General (1906-1918)," examines the government of New Brunswick's adoption of Progressive Era ideas about efficiency. In adopting recommendations from a representative accounting firm of the expanding accounting profession, the government abolished the Office of the Auditor General in 1918. The administration created a new officer called the "comptroller-general" who reported to the executive branch rather than the Legislative Assembly. This was an important loss of parliamentary control of the public purse.

The second article, "St. James Street Rules: Accountability for Public Finance in the Absence of an Auditor General (1918-1967)," examines accountability for public finance during the 50 years following the abolition of the Office of the Auditor General. During this period, accountability was heavily controlled by the executive branch of government, with the audit function carried out by for-profit accounting firms, rather than by an auditor general reporting to the Legislative Assembly. Although this certainly advantaged the party in power, the executive found that the scope of its financial activity was circumscribed by a different form of accountability throughout this period, an

accountability to the financiers and auditors located on St. James Street in the financial district of Montreal.

The third article, “The Usual Unusual: New Brunswick’s Approach to Auditor Independence (1967-2020)” deals with the province’s consistent use of unusual practices and definitions for auditor general independence in the modern period. New Brunswick was one of the first provinces in Canada to follow Ottawa’s example in legislating a modern auditor general model. The provincial government, however, negatively impacted auditor independence in the founding legislation by providing the executive branch with control of appointment and dismissal, despite having received advice to the contrary. In addition, successive governments in New Brunswick have followed an unusual practice of promoting their comptroller to the auditor general’s post. In effect, the chief bookkeeper becomes the auditor of the books overnight. Such a move is in clear conflict with the accounting profession’s definition of auditor independence. Yet, this usual unusual has occurred four times with little resistance from the political class, the press, and the profession. This dissertation concludes with a discussion of recommendations for legislation and policy, noting how the province can more effectively promote independence of New Brunswick’s auditors general.

DEDICATION

This dissertation is dedicated to the memory of former New Brunswick Auditor General Ralph W. Black, FCA (1931-2018). The *Globe and Mail* would aptly memorialize him as an accountant and a gentleman. He was the model of what a chartered accountant should be, and was perhaps the wisest man I have ever known.

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I would like to acknowledge the contributions of those who have been so helpful in carrying this project to completion. Working on my doctorate and this dissertation has been a part-time project while I navigated my day-to-day job of teaching at Mount Allison University. It has definitely been a challenge. But the help of my advisors has certainly made the job easier. My supervisor, Dr. Donald Wright, has been supportive from the start. In those early days of 2012 when I was trying to put together an application to the School of Graduate Studies, Don jumped into the supervisor role without perhaps knowing what he was in for, stating from the outset and with frequent reminders along the way that he was not an accountant. Yet he carried a positive outlook throughout, along with well-informed direction coupled with the proper amount of judicious prodding to help me clear the hurdles along the way. Committee members Dr. Bill Parenteau and Dr. Glenn Leonard have offered timely and insightful advice and comments, helping this dissertation to be a much stronger product than in the earlier drafts. Bill also merits an extra mention as very early in my doctoral studies his inquiry about whether New Brunswick has always had an auditor general started me on an eight-year search for an answer. Together, Don, Bill, and Glenn have taught me a lot about academic writing and they have been generous with their time and suggestions. Dr. Norman Betts and Dr. Paul Howe provided me with important insights as members of the Examining Board, and gave me ideas on research that could spring from this dissertation. I would also like to thank my external examiner, Dr. Morina Rennie, of the University of Regina, for her valuable perspectives on my work, including her broad understanding of

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Chapter One – Introduction

This research started with a simple question from Bill Parenteau, one of the members of my dissertation committee. While taking a graduate level course under his direction, Bill asked me one day if New Brunswick had always had an auditor general. To the best of my knowledge at the time, all I could say, in effect, is that it did, and then it didn't. And then it did again.

I knew that there had been an auditor general long ago named James Scott Beek, a key figure in post-Confederation public finance in New Brunswick, who had also served as a mayor of Fredericton and legislative librarian. I knew that my former private sector employer, Touche Ross & Company (and its predecessors), had audited the books of the province sometime in the mid-twentieth century. And I understood that in more recent decades the Office of the Auditor General had replaced Touche Ross as the provincial auditor. What I did not know is what ever happened to James Beek and the Office of the Auditor General in his era? How did private sector auditors like Touche Ross ever get involved with providing assurance that the financial statements delivered by the government to the legislators and the public were correct? Further, why had Touche Ross lost what must have been a relatively lucrative and high-profile assignment to audit the province's books each year, and why had the government decided to replace this private sector arrangement with an auditor general? Additionally, as a member of the accounting profession, I wondered how all of these evolving audit relationships had impacted the accountability of government from Confederation to the present. A preliminary survey of the literature indicated the history of New Brunswick's legislative auditors was virtually unknown and unexplored by practitioners and by the academy.

Legislative auditing has been an important part of public sector finance in Canada and New Brunswick since the colonial era (Ward). The first New Brunswick auditor general seems to have been Captain George Shore, appointed in 1823, along with his co-appointments as Receiver General and Surveyor General (Black). Two years later, Shore received formal legislative support via a *Bill for Better Examining and Auditing the Public Accounts of the Province*. By comparison, the Union of the two Canadas did not have audit legislation until 1855. This came largely through the efforts of William Lyon Mackenzie (Balls).

When New Brunswick entered Confederation in 1867, its financial administration continued largely unchanged. Norman Ward, a long-time political scientist at the University of Saskatchewan, perhaps best known for his seminal work *The Public Purse: A Study in Canadian Democracy*,"[1] has written that while financial control in New Brunswick and Nova Scotia may not have been at the same level as that in the House of Commons, "none the less, by 1867 the assemblies in both provinces had established a procedure for granting money, and subsequently examining accounts, which was based, though most imperfectly, on the British model" (23). The Province's auditor general was a key part of the procedure of examining these accounts. In the fall of 1867 James Scott Beek became the auditor general. Beek's main task was preparing the Public Accounts, a thorough listing of the government's various revenue and expenditure transactions for each fiscal year. As auditor general, much like the auditors general of today, Beek's

[1] Some might dispute the categorization "best known," preferring to think of Ward's 1961 *Mice in the Beer*, winner of Canada's Leacock Award for humour.

report went directly to the Legislative Assembly, indicating an independence of his office from the executive branch of government.

The executive branch, essentially what we would call the Cabinet formed by the governing party in the legislature, was responsible for implementing and carrying out the programs and activities of government. The legislative branch, formed from all the elected members of the parties represented in the legislature, was responsible for voting on legislation, approving the budget the executive plans to spend, and for holding the executive to account for how it has performed in its duties (Leclerc et al). Beek had considerable powers under legislation to assist the Legislative Assembly in holding the executive to account. For example, one section granted him "the power of a Justice to cause any witness to be brought before him, and examine such witness on oath touching such public accounts" (*Act Respecting to Provincial Revenues and Accounts* 151). Section 19 of the same *Act* required the auditor general to countersign every cheque for payment. In carrying out this responsibility, Beek had to prepare a memorandum in which he described "in brief form of the authority or Act of Assembly under and by virtue of which such warrant or cheque is authorized" (153). In other words, the provincial Parliament (as it was called initially) had control of the public purse via Beek's independent signing and his assurance that the payment was within bounds established by the legislators.

Despite this comprehensiveness, the Office of the Auditor General was a rather small operation. Aside from Beek and his assistant Wilson Loudoun, there appears to have been only one other part-time employee. Of course, the government of the time was much smaller. Today, the New Brunswick Office of the Auditor General has 30

employees, most of them qualified accountants, auditing a provincial operation many times the size of what it was in 1900.[2] The accounting profession in New Brunswick at the time of Beek and Loudoun was small and uncoordinated. A group of accountants from Saint John had formed a chapter affiliated with the Ontario Institute of Chartered Accountants sometime in the 1880s, but the chapter died out a few years later when a leading member moved to Toronto (Creighton). Hudson characterizes the local accounting scene of the time as being in a "chaotic state" (9), with a school in nearby Nova Scotia producing chartered accountants "a dime a dozen" (9). Clearly, professionalization in New Brunswick had not advanced as far as it had in Ontario where the Institute of Chartered Accountants had been formed in 1879. The New Brunswick Institute of Chartered Accountants would not be incorporated until 1916, with Loudoun taking on a leading role as one of only three founding members (Hudson 10). Just a short time after, the accounting firm of Price Waterhouse would work with a new provincial administration to make a major impact on the Office of the Auditor General and Loudoun's own role in public finance.

Under a Westminster model of government, which has been broadly adopted in Canada from colonial period links to the British parliamentary system (Leclerc et al), all spending of the executive branch of government (the Cabinet and the party in power) must be approved and scrutinized by the Parliament or Legislative Assembly (where all

[2] Up to and including the 2013 Report, the Report of the Auditor General used to disclose the number of employees in the Office (*Report of the Auditor General of New Brunswick 2013 – Volume I* 164). The current figure of 30 was developed by counting individual names on an online directory on a webpage (https://www2.gnb.ca/content/gnb/en/contacts/dept_renderer.163.html#employees). This lack of historical detail is a loss to legislators, researchers, and citizens at large. Similarly, the Main Estimates of the Province of New Brunswick have not shown staffing levels for several years, another key loss.

elected representatives from all political parties debate and vote on legislation). Norman Ward's *The Public Purse* looks at the history and administration of public finance in Canada from pre-Confederation up to the 1960s. Ward stated that there were two key principles of public finance relative to the Westminster model in Canada. The first was simply that all income for the executive must be sanctioned by Parliament. The second principle is similar in that the executive branch can only make expenditures authorized by Parliament, "in ways approved by Parliament" (3). These two key principles of parliamentary control of the executive, established in the long struggle for responsible government, are supported by what Ward calls eight essential rules that make it possible to fulfill the two grand principles. These eight rules are:

1. The government's financial needs are laid out in a clear manner in a budget.
2. The budget must be prepared annually and approved by Parliament each year, with any unspent money lapsing at the end of the period.
3. The executive is responsible to prepare the budget and to spend the public funds made available to it through the approved budget.
4. It is Parliament's right to fully debate the budget and to criticize the spending proposals.
5. The executive is responsible to make any changes to the budget that result from parliamentary debates.
6. The executive branch must provide a full account of its management of all public revenues and expenditures to Parliament.

7. An independent auditor who reports only to Parliament must audit the executive's accounts of the revenues and expenditures, and this auditor must report the audit findings promptly to Parliament.
8. Using these audit reports, and any other means it chooses, Parliament carries out its own surveillance or audit of these accounts.

In examining this list, the last two of these eight principles focus in on the role of the auditor. Parliament needs the independent auditor's reports on the finances of the executive to carry out its important accountability role. As Ward notes, Parliament can then provide its surveillance "in almost any way it chooses, . . . loose or rigid, . . . selective or comprehensive" (4). The Parliament, or in the case of New Brunswick, the Legislative Assembly, often relies heavily on a public accounts committee to carry out this surveillance on the executive's accountability for its receipts and expenditures. This committee, formed of all parties represented in the legislative body, has a broad mandate to study matters of public finance through open hearings. For example, in New Brunswick, the Standing Rules of the Legislative Assembly state that "all reports to the House of the Auditor General and all Public Accounts stand permanently referred to the Public Accounts Committee" (49). When the committee functions well, it uses the auditor general's reports to help assess the results of public policy, contributing to both the accountability process and the public policy process. That is, where the public accounts committee finds fault with the executive's spending programs, the committee can prompt the government to reformulate policy to make those programs better (Tellier).

Normally, the tradition has been for the official Opposition to provide the chair for the committee (Leclerc et al), thereby facilitating a more open atmosphere and

ensuring a full hearing for the auditor general's report. In the public accounts committee, the Opposition has less likelihood of having a line of inquiry blocked by an unfavourable ruling from the chair than it would if the chair was a representative of the governing party. This advantage of an Opposition chair makes the public accounts committee different from many other legislative committees where a government member holds the gavel. This intentional choice demonstrates political awareness of the importance of a fair and open hearing for matters of public finance and the auditor's reports. For instance, if an auditor general was particularly critical of a government program, the chair of the public accounts committee might allow the members significant latitude in examining the report and questioning the auditor general. Should the committee have concerns, it could also work through an intense study of a department's expenditures line by line.[3]

Despite the importance of these legislative auditors to the accountability equation in our democracies, there is little academic research on the origins and the development of the various offices of the auditor general in Canada. As Warwick Funnell once noted, "there has been a disappointing number of situated studies in the accounting literature dealing with state audit" (47). This reminds us of ethicist William Schweiker's more general criticism of the academic accounting field: that is, "this concentration on the present has led to the ahistorical character of accounting research" (242). Where these legislative or state auditors have been studied, it is often with reference to more recent

[3] Ward does observe, however, that for significant periods, the federal Public Accounts Committee did not meet at all.

developments such as value-for-money auditing (Morin; Gendron, Cooper and Townley; Radcliffe).[4]

How did our traditions of public sector audit and accountability evolve? Given Ward's emphasis on the independence of the auditor reporting directly to the Legislative Assembly, it is imperative to understand how the notion of independence, and its impact on accountability, has evolved and been operationalized over time in New Brunswick. This seems particularly relevant today as we often hear about declining trust in our civil institutions. While there has been much discourse focused on a lack of independence by private sector auditors around issues such as the 2007-08 financial crash, the issue of auditor independence in the public sector has been largely ignored. Given the public sector's huge role in both the economy and the lives of citizens through many government programs, this lack of study is highly concerning. Thus, the purpose of this research is to examine how legislative audit in New Brunswick has evolved over time, with an emphasis on how the concept of auditor independence has impacted on accountability for public finance.

Review of Literature

There has been virtually no academic study of the specific role of legislative audit in New Brunswick, much less one dealing with themes of independence and

[4] Value-for-money auditing moves beyond an auditor's traditional role of examining an organization's financial statements, and centres its work around the three concepts of economy, efficiency, and effectiveness. For example, whereas the traditional financial statement audit might check to ensure that a government's purchase of gasoline is recorded at the correct amount and in the right account, the value-for-money auditor could to test to see if the gasoline was purchased at the most economical price.

accountability. Academic accounting literature appears to contain only one article that refers to the Office of the Auditor General of New Brunswick. This work by Danielle Morin is one of several papers she has published on legislative auditors and value-for-money auditing. Morin surveyed six Canadian governments, including New Brunswick, to determine the impact of Canadian auditors general on public administration. That work is set in the recent past, covering a ten-year period beginning in 2001. Her results indicate that auditors general have only a moderate impact on public administration. Perhaps this is related to another finding, that those same government administrators did not appear to be overly concerned about the press coverage of auditor general findings. From my experience of working with a number of auditors general, and having met many colleagues across the country working in the same field, there was a belief that the public reports of the auditor general would generate extensive press coverage, that would in turn lead to pressure by the public and the Opposition to implement the audit recommendations. (One audit colleague from Western Canada used to call this "better government through embarrassment.") In that light, Morin's findings pose a disconnect between the beliefs of the auditors and the responses of those audited.

If we move beyond New Brunswick, the historical role of accounting and auditing in the Canadian public sector has been neglected in general. The *Canadian Historical Review* published one article dealing with the pre-Confederation audit regime in the Canada, discussing the prominent role of John Langton as the auditor in the years both immediately preceding and following Confederation in Canada (Balls). Langton's role is an early example of impaired independence as despite being assigned audit duties, he reported to the executive rather than Parliament. After 1 July 1867, his financial

administration responsibilities to the Treasury Board (i.e. the internal budget and spending administrator) came to dominate his time and he did not have the resources to fully address his auditor role. In another major journal, *Accounting History*, Ron Baker and Morina Rennie have produced two articles dealing with "accounting issues and challenges arising from the creation of a new nation, the Dominion of Canada" ("Accounting for a Nation's Beginnings: Challenges Arising from the Formation of the Dominion of Canada" 415). They pointed out how and why the accounting formats and systems of the former colony of Canada, rather than that of New Brunswick or Nova Scotia, served as a basis for public finance in the new nation. Baker and Rennie have published a third article looking at the Government of Canada's 1990 adoption of public sector accounting standards developed by the Canadian Institute of Chartered Accountants. They note how the Office of the Auditor General of Canada was a major player in both creating and promoting these formal standards. Merridee Bujaki published two articles on the planning and costing arrangements for the Rideau Canal in pre-Confederation Canada. Her works helps us to better understand the accounting and budgeting techniques of that important part of the colonial era as well as aiding our understanding of the key role of the military in these early capital projects. In 2012, Nola Buhr discussed the migration of private sector accounting techniques into the public sector in the previous thirty years in Canada and other western nations. She emphasizes how the philosophy of New Public Management (one which promoted government adoption of private sector management techniques) motivated Canada, Australia, Britain, New Zealand, and the United States to introduce changes in government accounting

practice. There is not a single article focusing on developments in accounting and auditing in the public sector in post-Confederation Maritime Canada.

Similarly, *Acadiensis*, a key academic journal for publishing historical research on the Atlantic region, shows nothing on the auditor general's role and very little regarding public finance in general. There are a few notable exceptions, such as E. R. Forbes' piece on the difficulties associated with the Maritime provinces accessing federal matching grants during the 1930s, Fred Winsor's work on the development of workers' compensation programs in the Nova Scotian fishery, and Rosemarie Langhout's discussion of public financing of railways in Nova Scotia immediately prior to Confederation.[5] We also have Lisa Pasolli's article on administrative reform in 1960s New Brunswick, but the audit function is not part of the coverage (Pasolli). If we turn to unpublished theses, Jennifer D. Francisco's 1992 work on public finance in New Brunswick has only passing reference to the auditor general. Similarly, Norm Ruff's 1973 doctoral dissertation, "Administrative Reform and Development," deals with the broader issues of the reforms in local government in the 1960s, Premier Robichaud's economic development efforts, and, how the public service dealt with these reforms. Ruff's work does not address the legislative audit function. Public finance, and particularly the legislative auditor's role in the post-Confederation Maritime region, remains largely unexplored.

The literature does, however, contain considerable detail on the general subject of auditor independence. This is not surprising as independence is key to the value produced

[5] For an account of public financing of railways and canals in Upper and Lower Canada immediately prior to Confederation, see Michael Piva's, *The Borrowing Process: Public Finance in the Province of Canada, 1840-1867*.

by the audit. An external audit, be it by an auditor general or a firm of accountants, provides value to third parties, such as the many shareholders of a public company and the holders of both corporate and government bonds. Similarly, bankers providing loans to organizations large and small rely on the work of independent auditors to certify financial statements. Since these third parties are not involved in the day-to-day operations of the company or the government, they rely on both the auditor's independence and technical skill to inform them whether the financial statements prepared by the management of an organization can, in effect, be trusted. This independent audit function then, forms an important part of the accountability relationship between the shareholders, bondholders, and bankers with the entity concerned (Moroney et al). The audit provides important objective information on the health of the investment or the loan.

For auditors, there are two types of independence: independence in fact, and independence in appearance (Moroney et al). Independence in fact refers to an auditor's state of mind. It means that the accountant carrying out the audit is able to be impartial and unbiased in their examination of the financial statements (Arens et al). Objectivity, the "technical equivalent of independence" (Everett et al 418), is a word often used to describe this mindset. In the rules of professional conduct on independence, the auditor requires "unimpaired professional judgment and objectivity" (CPANB 38).

But that state of mind claim is insufficient. It is not enough to be independent in judgment; the auditor must also *appear* to be independent. For judging this independence in appearance, the accounting profession's rules of conduct draw on the notion of the "reasonable observer" (CPANB). That is, when looking at a situation, the accountant must decide whether a detached reasonable observer would consider the situation to be

one that could appear to impair independence. The appearance aspect makes sense as those relying on the auditor's opinion are far removed from the day to day management of the organization being audited. They are in no position to assess the auditor's state of mind claims. Therefore, they are concerned about any case where the auditor does not appear to be independent. In a sense, it is all they have to go on.

The profession has developed Rules of Professional Conduct[6] to guide members in ethical decision making. The self-governing accountancy profession maintains that these rules "serve not only as a guide to the profession itself but as a source of assurance of the profession's concern to serve the public interest" (CPANB 4-5). Further, they are given legal status through reference to them in the governing legislation for professional accountants (Chartered Professional Accountants Act). The legislation also grants the profession the right to form a complaints committee that can investigate alleged violations of the rules of conduct and make related recommendations for resolution. One such recommendation could be that the member be subject to a formal hearing, something that may result in the member's suspension.

As Arens and colleagues attest, most of these rules are related to matters of appearance. For example, rule 204.4 (14) prohibits the accountant from being involved in an audit where "an immediate family member is an officer or director of the client" (CPANB 61). The accountant might very well be able to maintain an objective state of mind when auditing the books of a company where his spouse chaired the board, but a reasonable observer would have a hard time believing in that objectivity. Even if the

[6] Though each provincial association of accountants establishes its own rules, they are essentially identical across Canada.

observer could believe it, they would have no way to determine the auditor's state of mind, and, may perceive a conflict of interest.

The rules incorporate a self-assessment tool known as the Five Threats to Independence to assist accountants in determining if their activities and relationships may impair their independence (See Table 1.1). On every assurance engagement, professional standards require each member of the audit team to assess their standing with respect to each of these threats. Where any of these threats are, in the words of the profession, "clearly not insignificant" (CPANB 38), the auditor is expected to document how he or she would reduce each threat to an acceptable level for the specific engagement. The rules of professional conduct describe three main types of safeguards that could be employed. These are "safeguards created by the profession, legislation or regulation" (CPANB 38), such as continuing education programs, professional standards, and disciplinary procedures; "safeguards within the assurance client" (CPANB 38), such as competent executives and a strong audit committee; and, "safeguards within the firm's own systems and procedures" (CPANB 38), such as an effective quality control process, a disciplinary framework, and leadership in the organization that emphasizes the priorities of independence and acting to protect the public interest. If a threat cannot be reduced to an acceptable level, remembering that independence is both a matter of fact (maintaining an unbiased attitude) and appearance (appearing independent to a reasonable observer), and, further, that the second safeguard category of "within the client" is insufficient to mitigate threats on its own, Rule 204.3 gives the auditor very little room to maneuver. That is, "the member or firm shall eliminate the activity, interest

or relationship creating the threat or threats, or refuse to accept or continue the engagement" (CPANB 38).

Table 1.1 - The Five Threats to Independence[7]

Self-Interest	"A self-interest threat occurs when a firm or a person on the engagement team could benefit from a financial interest in, or other self-interest conflict with, an assurance client. Examples of circumstances that may create" (CPANB 43) such a threat include an auditor having direct financial interests in a client; a firm or auditor with fee dependence on a particular client; or, an auditor with a potential of future employment opportunity with the company being audited.
Self-Review	"A self-review threat occurs when any product or judgment from a previous engagement needs to be evaluated in reaching a conclusion on the particular assurance engagement, or when a person on the engagement team was previously an officer or director of the client, or was in a position to exert significant influence over the subject matter of the assurance engagement. Examples of circumstances that may create a self-review threat include . . . having recently been an officer or director of the client . . . being, or having recently been, an employee of the assurance client in a position to exert significant influence over the subject matter of the assurance engagement, . . . preparing original data used to generate financial statements or preparing other records that are the subject matter of the engagement" (CPANB 43-4).
Advocacy	"An advocacy threat occurs when a firm, or a person on the engagement team, promotes, or may be perceived to promote, an assurance client's position or opinion to the point that objectivity may be, or may be perceived to be, impaired. Such would be the case if a person on the engagement team were to subordinate his or her judgment to that of the client, or the firm were to do so" (CPANB 44). Only two circumstances are cited in the rules as examples for the advocacy threat, but as in the case of all examples for the five threats it is carefully noted that the examples "are not limited to" (CPANB 44) those stated. One is where an auditor is a promoter or a dealer of the client's securities or shares. The second example is "acting as an advocate for or on behalf of an assurance client in litigation or in resolving disputes with third parties" (CPANB 44).
Familiarity	"A familiarity threat occurs when, by virtue of a close relationship with an assurance client, its directors, officers or employees, a firm or a person on the engagement team becomes too sympathetic to the client's interests" (CPANB 44). Examples of possible threats include "a person on the engagement team having an immediate or close family member who is an officer or director of the assurance client . . . the long association of a senior person on the engagement team with the assurance client; and the acceptance of gifts or hospitality from the assurance client, its directors, officers or employees, unless the value thereof is clearly insignificant (CPANB 44).
Intimidation	"An intimidation threat occurs when a person on the engagement team may be deterred from acting objectively and exercising professional skepticism by threats, actual or perceived, from the directors, officers or employees of an assurance client" (CPANB 44). Such a threat may occur if an auditor feels threatened with replacement because of a "disagreement with the application of an accounting principle," or the client is applying "pressure to inappropriately reduce the extent of work performed in order to reduce or limit fees" (CPANB 44).

[7] Table developed from CPANB *CPA Rules of Professional Conduct* and the author's previous work on this subject (White 2015). The term "assurance" used in the rules is a technical term encompassing both audits and a less-involved set of procedures known as a review engagement.

In the 2020 Code of Professional Conduct published by CPANB, the section on independence consumes roughly 45 percent of the content, with the number of pages now over 80.[8] There certainly wasn't anywhere near this volume of rules on independence in the beginning days of chartered accountancy in Canada, when the young profession was largely centred in Toronto and the Ontario Institute of Chartered Accountants was the dominant force (Creighton; Neu). In fact, there were zero pages. Everett et al tell us that we had to wait until 1950 for independence to enter the codes of ethics for accountants in Canada, despite the current discourse in the profession that treats independence and objectivity as "historical principles upon which public accountancy is based" (416). Similarly, when the American Institute of Certified Public Accountants (AICPA) was formed in 1917, its first code of ethics had only eight rules, none of which covered independence (Preston et al). They add that the term did not appear in AICPA ethical codes until 1964.

The early ethical discussions on both sides of the border focused more on what type of person the accountant should be. Neu carried out a detailed search for various ethical terms in the Chartered Accountant (CA) profession's magazine, *The Canadian Chartered Accountant* (succeeded by *CA Magazine* in 1973), examining the editorials from 1912 through to 1997. Neu saw these editorials as one of the few means available for the central body, the Dominion Association of Chartered Accountants (later known as the Canadian Institute of Chartered Accountants, or CICA), to shape member behaviour.

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[8] Rules on independence seem to be growing. For example, in 2004, Rule 204 took up 'only' 26 pages in the Members' Handbook of the old New Brunswick Institute of Chartered Accountants (NBICA) whereas 18 pages sufficed in 1993. This Members' Handbook, not to be confused with the CICA Handbook, was an important tool provided to all NBICA members so they could access key documents governing their conduct in one place (e.g. Rules of Professional Conduct, the NBICA's by-laws, legislation).

Using search software, and focusing on terms like moral, character, honest, independent and objective, he presents a rather insightful view of word usage spanning the 85-year period. He categorizes these ethical words into two main themes. The first category – what he calls historical themes – includes virtue, moral, character, reliability, and honesty. The words integrity, independence and objectivity form the second, modern non-Victorian category. By analyzing the frequency of word occurrence, Neu noted the shift in emphasis from the Victorian virtues of character (see Preston et al) to the current focus on independence and objectivity. Neu summarizes the change as follows:

> During the 1912-1944 period, notions such as morality, honesty and character were a significant component of ethical discourse. However, during the 1945-1963 period we observe a precipitous decline in the frequency of such discourse and the beginning dominance of modernist elements. Ethical discussion in the years prior to 1932 consisted primarily of discourse centered around notions such as morality, honesty and character. The 1932-1951 period was one of transition with a declining emphasis on these Victorian virtues and more discussion of independence, objectivity and integrity. By the 1952-1961 period the hegemony of this form of ethical discourse was complete. Over the last 45 years, very little ethical discourse has occurred which has not been framed in terms of these three notions (298).

Interestingly enough, a close look at Neu's tables indicates that even in the early editorials, the word independence is the single most common word. But it is important to note, as Everett et al point out, that there have been two uses of independence in accountants' parlance: one collective and political in outlook, the other individually and ethically focused. The collective sense refers to the independence from government intervention. This was certainly a big concern in the early days of the twentieth century where the young profession did not want the state to intervene in self-governance and discipline of members (Everett et al). The second use is the more modern, individual-centred notion of independence in thought and appearance. Neu does not develop an

analysis of the proportion of the two usages of independence that the editorials employed throughout these 85 years. But given that the word independence was absent from any ethical codes until 1950 (Everett et al), it is quite likely that in the early days the Association's editorials would have had significant discussion of independence from government interference.

Neu offers a theory that with a membership growing from 255 Chartered Accountants (CAs) in 1910, with 50% of those in Ontario (Neu, Friesen, Everett) to approximately 2400 members by 1940, representing a much more geographically distributed group, things had to change to a more rule-based framework. It was no longer a local club where collegiality ruled (Everett et al). By 1965 Canada had 13,555 CAs. Neu declares that "rapidly expanding membership along with changing membership demographics made behavioral norms of conduct more important yet more difficult to achieve" (301). More rules and more detailed rules of independence came to dominate the accounting's ethical framework (Neu; Everett et al). Concepts like character and morality moved into the background. Neu speculates this increasing secularization of accountancy may have prompted the Canadian Institute of Chartered Accountants (CICA) to issue its very first *Handbook* in 1968, with written guidance on both accounting/auditing technical matters and ethics. This *Handbook* has grown from its svelte 1968 size to a massive four volumes today, illustrating the same trend of expansion as the written guidance defining independence.

The perceived impartiality of the independent auditor is seen as one of the things that led accountants to a place of relatively high esteem in the professional world. The

CPA Canada[9] website maintains that "independence is essential to the authoritative and trustworthy reputation of auditors." Researchers have studied how the profession has "taken a number of initiatives to defend and reinforce this image" of independence, an image which in turn helped the profession define, defend and extend its reach (Sikka and Willmott 547). Indeed, accountancy has seen a steady evolution in ethical discourse and the language of independence since early in the 20th century through to today (Neu; Neu, Friesen and Everett; Neu and Green).

In operationalizing independence, the New Brunswick government appears to have developed an unusual practice in that it has appointed its comptroller to the auditor general's post on multiple occasions. These appointments of the chief bookkeeper to the audit role cannot be explained by the evolution of the concept of independence within the profession itself. In fact, this "usual unusual" practice in New Brunswick runs contrary to the literature and professional guidance on independence. Just how unusual New Brunswick's "usual" practice is can be seen by a quick scan of Appendix A. Here one can see just how rare it is in Canada to appoint someone from inside the executive branch of government as auditor general. In New Brunswick there has been almost no public, media, professional, or political reaction to any of these unusual appointments. Thus, this "usual unusual" independence problem remains deeply relevant in New Brunswick today, as our last two auditors general have followed the "usual unusual" comptroller to auditor path.

[9] CPA Canada is the new consolidated accounting organization resulting from the merger of three legacy designations (CA, CMA, CGA) in 2014.

As noted, auditors are supposed to assess themselves against the Five Threats to Independence prior to participating on any audit engagement. An auditor general would have many, many audits associated with public finance in New Brunswick for years to come. We do not know if any of our comptroller-cum-auditor general have carried out this self-assessment. As citizens relying on an auditor general's work, we are left with many unanswered questions.

Research Scope and Methods

The overall scope of this research examines three separate periods of the legislative audit function in the Province of New Brunswick from 1906 onward, using this function as a lens for viewing themes of accountability for the public purse and operationalization of auditor independence. This dissertation includes three subject chapters using an articles-based approach. The first of these is chapter two - "Progressive Era Financial Reform in New Brunswick: Abolishing the Auditor General (1906-1918)." In one sense, the most dramatic event in the first 50 years of the Office of the Auditor General in post-Confederation New Brunswick was its abolition in 1918. This event corresponds to a key period in the development of accountancy in Canada and the wave of administrative changes associated with the Progressive Era in North America. This research examines the driving forces behind this major administrative change in New Brunswick's management of public financial affairs in the Progressive Era, while showing it as a loss of parliamentary control over the public purse.[10] This chapter draws

[10] This research was completed early in my doctoral studies. I published a version of this article in the *Journal of New Brunswick Studies* in Issue 6, No. 2, 2015. See Appendix B for the letter of permission to include the article in this dissertation.

on archival research techniques primarily relying on as Acts, Journals and Synoptic Reports available at the New Brunswick Legislative Library and the Ralph Pickard Bell Library at Mount Allison University. The Ralph Pickard Bell Library was also an excellent source of microfiche newspaper articles discussing the events of this era. In addition, the Provincial Archives of New Brunswick (PANB) provided some valuable correspondence for research on this chapter.

Chapter three examines how public sector accountability was operationalized in the 50 years following 1918, the period where New Brunswick was without an auditor general. It is called "St. James Street Rules: Accountability for Public Finance in the Absence of an Auditor General (1918-1967)." As noted, under the Westminster system, having an independent auditor who reports only to Parliament is considered to be essential to maintaining effective control over public finances. Given that New Brunswick was without this important legislative officer for 50 years, this paper examines what forms of accountability operated in a less than ideal situation, where New Brunswick functioned without compliance to one of the key rules of public finance. This chapter draws heavily on archival research at the PANB, with key sources being MC 2308, Minute Books of the NBICA; RS 9, Cabinet papers; RS 13, correspondence of the Provincial Secretary; RS 185, Office of the Comptroller-General; RS 311, documents of the Civil Service Commission; RS 414, the papers of Premier J. B. McNair; and, the annual Reports of the Comptroller-General on the Public Accounts found in RS 845. Note as well that some volumes of these Public Accounts were viewed at the collection in the Ralph Pickard Bell Library. The Legislative Library proved to be a valuable source for this chapter as well for its collection of the Synoptic Reports and the applicable

legislation of the period. Jennifer D. Francisco's MA thesis was viewed at the archives of the Harriet Irving Library of the University of New Brunswick.

Chapter four, "The Usual Unusual: New Brunswick's Approach to Auditor Independence (1967-2020)," examines the modern period. It looks at the unique ways in which the government, the political class, and the accounting profession have situated themselves with respect to the clear, written direction on auditor independence. As has been discussed, since the Office of the Auditor General was re-established in the 1960s, four of the seven auditors general have been appointed directly from the comptroller's position. That practice is inconsistent with what happens in other Canadian jurisdictions and it appears to be in conflict with the accounting profession's definition of independence. This work examines the question of how the political and professional elites in New Brunswick have defined audit independence in an unusual manner in the face of written direction in the accounting standards and literature. This chapter represents the results of both archival research and semi-structured interviews. Archival research occurred primarily with the records at the PANB, including MC 2308, Minute Books of the NBICA; RS 179, files of the Byrne Commission; RS 414, files of Premier L. J. Robichaud; and, RS 417, the Auditor General file. Once again, the Legislative Library proved a valuable source of legislative transcripts and key legislation. With the financial support of Canadian Academic Accounting Association - CPA Canada grant funding, I carried out 22 interviews with key informants in a variety of locales, including New Brunswick, British Columbia, Ontario, and Nova Scotia. The transcripts of those interviews provided additional data for this chapter.

The objective that ties these chapters together is an examination of how the legislative audit function in New Brunswick changed over time, and, given these changes, how accountability for the public purse evolved. These three papers also explore how the executive branch in New Brunswick has interpreted independence in the legislative audit function over time, often to its advantage. With this explicit discussion of the independence of the legislative audit practice and history in New Brunswick, it is hoped that there will be an improved public discourse on the independence of the auditor general in both fact and appearance.

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Chapter Two – Progressive Era Financial Reform in New Brunswick: Abolishing the Auditor General (1906-1918)

Introduction

On 20 February 1906, the Hon. L.J. Tweedie delivered his government's budget speech to the Legislative Assembly of New Brunswick. In it, he offered a rare note of recognition to aging Auditor General James Scott Beek, who had been serving the Province since 1867. After outlining the various departmental estimates, and promising a small surplus for the coming fiscal year, Tweedie noted "We have given the Auditor General an additional allowance of $225 which he claims is due him. As this gentleman is 92 years of age and has never had a very large salary, I think there will be no criticism on this account" (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick 1906* 407). Tweedie went on to add that Beek's assistant, "who is doing his work well, as those who are familiar with the public accounts are well aware," was in line for a two hundred dollar pay increase (407). A few months later Beek retired (Beek to Tweedie) at which time Wilson A. Loudoun, Beek's unnamed assistant in Tweedie's speech, assumed the Auditor General's post (Executive Council Meeting 3 October 1906 219).

This chapter examines important Progressive Era evolutions in the role and in the empowering legislation of the Auditor General of New Brunswick from the time of Loudoun assuming the role in 1906 to the disappearance of the Office of the Auditor General in 1918. In doing so, it will show how Progressive Era ideas affected government financial systems and how these changes impacted upon the relationship between the executive and the legislative branches of government. Further, this study establishes how

a series of financial scandals in the early years of the twentieth century set the stage for those changes, and how Price Waterhouse, Chartered Accountants, a leading firm of the growing accounting profession, used the situation to expand their own practice.

In the process, the abolition of the auditor general imposed serious limitations on the Legislative Assembly's control of public finances. Following the changes to legislation in 1918, the auditor of the province's books no longer reported directly to the legislative branch, but rather a private sector firm began reporting directly to the executive. This removed an important legislative control over executive spending power, weakening an important component of the fiscal oversight structure implicit in the Westminster model of parliamentary government. This change was a key step on a long road in Canada, a road marked by the weakening of legislative power paralleled by an enhancement of executive power.

The "Insurmountable" Majority

On 3 March 1908 Douglas Hazen led the Conservative Party to an election victory in New Brunswick. According to Babcock, this victory was "abetted in part by a sentiment bearing many of the earmarks of American-style progressive reform" (8). In one sense, we might say this was the first Conservative victory in the province as party labels and party discipline had only emerged in New Brunswick at the turn of the century (Thorburn 13). One of the new government's early legislative changes impacted directly on Loudoun's work. Whereas Beek had enjoyed independence from the executive, as indicated by his reporting directly to the Legislative Assembly, in short order Loudoun found himself reporting to a government minister, the Receiver General. Section 22(2) of the May 1908 *Act to Provide for Auditing the Pubic Accounts* imposed this new reporting

relationship on the auditor general. In reality, this 1908 Act simply codified something that had begun in 1906 when Loudoun began addressing the Public Accounts to the Provincial Secretary, a government minister. For at least a couple of years, Loudoun was in non-compliance with the legislation's requirement that he address his report to the Legislative Assembly, not the executive branch of government.

In 1911 Premier Hazen resigned to enable his return to the federal political scene. Provincial Secretary James Kidd Flemming became leader of the Conservative Party and next premier of New Brunswick. In 1912 Flemming achieved his own mandate by claiming 46 of the province's 48 seats. With only two Liberal members in the Opposition, it seemed as if the Conservatives would have an insurmountable majority for some time to come. Politics though, is full of surprises. By the time the Conservative government's mandate had expired in 1917, a series of financial scandals dramatically impacted both the future of the New Brunswick government and that of the auditor general.

The first of these scandals involved payments for leases on the Crown Lands. In the spring of 1914, L.A. Dugal, a Liberal member from Madawaska, rose in the Legislature, charging that Premier Flemming and W.H. Berry, an employee of the Department of the Surveyor General, had extorted approximately $100,000 from companies leasing Crown timber lands. Dugal alleged that Berry, acting under the direct knowledge of the premier, was charging lumber companies who were seeking new leases to replace those expiring in 1918, a $15 fee for each square mile of Crown Land leased ("Dugal Charges Premier Flemming with Extorting $100,000 from Lumbermen" 1). Dugal said this $15 premium had been directed to the Conservative Party to fund re-election efforts. According to one paper of the day, Dugal made his charges "amid

intense silence" where "most of those present were visibly surprised and astounded" ("Dugal Charges Premier Flemming with Extorting $100,000 from Lumbermen" 1). Dugal obviously had the government's attention. Indeed, the premier himself "sat silently for fifteen minutes, then left the Chamber . . . and walked the snow-covered streets of Fredericton to the Barker House Hotel" (Doyle 38).

Needless to say, this issue got the public's attention as well. The heavily partisan press of the day saw Liberal newspapers lined up on one side to decry the government while the Conservative papers lauded the character of the premier and condemned his detractors. For instance, on 7 April 1914 the Saint John *Daily Telegraph*, a known Liberal paper, opened with the bold block letters "Dugal Charges Premier Flemming With Extorting $100,000 From Lumbermen" (1). Meanwhile, the Conservative Party's main organ, the Fredericton *Daily Gleaner*, countered with its own glaring headline of "Dugal Charges Wholly Untrue," and focused criticism back on the Liberals through questions about Dugal's possible conflict of interest while he had been mayor of Edmundston (1+). Closer to the premier's home in Carleton County, *The Carleton Sentinel*, closely affiliated with Liberal Member of Parliament, F.B. Carvell, featured a lead article "Sensational Charges Made" (1+). *The Woodstock Press,* solidly in support of the premier, noted these attacks came with the assistance of "two of the most nefarious political gunmen who could be found" (Doyle 39). *The Daily Times* from Moncton tipped its hand towards the Conservative side by declaring on its front page "Premier Flemming Authorizes Most Emphatic Denial of Dugal Charges" (1). Only the *Sackville Tribune* summarized the question of the day for many New Brunswickers: "Guilty or Not Guilty?" (4)

Unfortunately for Flemming and his colleagues, before guilt or innocence could be debated, let alone decided, Dugal continued his work in the Legislature by delivering another blow on the following day. On 7 April 1914 Dugal introduced a notice of motion calling for a committee to investigate charges that contractors on the Valley Railway had been compelled by government members to pay them in return for obtaining contracts. Allegations were that these payments were upwards of $100,000. The government had guaranteed financing of $10,000 per mile of track laid, and, in fact, on the very day Dugal tabled his motion regarding the payments to members, the government carried out first and second reading on a bill to proceed with $2,000,000 in bond guarantees for the railway's construction ("Charges that Contractors were Forced to Pay Money to Members of Government" 1). Again, the press comments were predictable. While *The Daily Telegraph* spoke of these railroad-related payments as "more grave charges" (1), the Valley Railway project was praised by *The Daily Gleaner* on its front page ("Government Commended for Careful & Prudent Provisions in Legislation" 1). The twice-weekly *Sackville Tribune* tipped its hand when it called this $2,000,000 in railroad financing "amazing and outrageous" (1).

In response to the controversy, on 18 April 1914 the government passed legislation calling for two Royal Commissions, each to address one of these serious charges against the premier and his government (McKeown et al). The hearings began in June 1914 with the same three commissioners – Harrison A. McKeown, W. Wilberforce Wells, and W. Shives Fisher – dealing with both charges. The Commissions concluded in the early fall, with both reports dated 30 September 1914. Although the *Report of the Royal Commission Concerning Timber Limit Charges* found Flemming, "not guilty as

charged" (114), other comments in the report seemed to do everything but declare him culpable. For instance, the report noted that Flemming "knew that efforts were being made to get moneys from certain holders of Crown Timber licenses" (112). Further, McKeown stated Flemming "could not possibly have been in ignorance of Berry's activities and of the methods he employed" (112). In short, while the Commission found J.K. Flemming not guilty, it did not find him innocent either. The Commission dealing with the Valley Railway showed that Flemming himself had received $2,000 from the railway contractors Kennedy and McDonald. While Kennedy maintained there was no compulsion, the Commissioners stated, "we have no hesitation in concluding that the compulsion undoubtedly existed" (143). On the advice of the Lieutenant Governor, Flemming resigned, turning over the premier's post to George Clarke (Doyle 67).

Clarke, perhaps owing to his ill-health, seemed to have had neither the energy nor the ability to turn this rather dire political situation around (Doyle 100). Shortly after taking over as premier, Clarke was informed of another financial crisis in the Department of Public Works. Conservative Party organizer Richard Hanson stated that "the province has been milked of large sums of money for wages and supplies that were never rendered, some of them being by way of payrolls and some…for false vouchers" (Doyle 91). Clarke responded on 3 March 1915 by creating another Commission, this one headed by Judge William Chandler[11] to examine these serious allegations regarding work on roads and bridges in Gloucester County.

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[11] The *Journals of the Legislative Assembly of New Brunswick, 1916*, indicate that the Minister of Agriculture laid a copy of the Chandler Commission Report before the House. But, unlike the McKeown Commissions, the Chandler Commission Report was not included in the appendices to the Journals. A

The Chandler Commission started on 18 March 1915. When the Commission reported several months later, it found "several examples of petty embezzlement, payroll-padding and misuse of public money" (Doyle 97). Perhaps particularly galling to a public with sons at war was the evidence that A.J.H. Stewart, a Conservative member of the Assembly, had not paid stumpage on timber he had harvested from Crown Lands. Further, the Commissioner declared that the way Stewart acted "compels me to be suspicious as to everything he has done and of every transaction with which he is in any way connected" (83). While not in itself a death blow, the Chandler report was one more example of a government in need of stronger financial control.

At around the same time as the Chandler report, Premier Clarke's government fired Harry Blair, the Deputy Minister of Public Works, for at least two apparent misdeeds. First, Blair was accused of having allegedly received payoffs from a contractor engaged to paint the province's steel bridges. Second, Blair seemed to be a bit too free with sharing departmental information with prominent Liberal politicians. Despite these matters, however, Blair was not prepared to go quietly. He embarrassed the government on 20 May 1916 by claiming that the government had been reporting surpluses from 1911 through 1915 when it actually should have been reporting deficits (Doyle 109). Price Waterhouse would confirm this notion of switching deficits into surpluses in its examination of provincial finances in 1917.

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search for a copy, which included contact with A. Doyle, was unsuccessful. The Legislative Library has the full transcripts of the inquiry, but not the actual Chandler report. For purposes of this chapter, I relied on a resolution by Dugal in the House on 31 March 1916 where he quoted heavily from the as yet to be tabled Chandler Commission Report. (*Journals of the Legislative Assembly of the Province of New Brunswick, 1916* 81-84).

Meanwhile, the troubled government found that the Valley Railway situation was worsening. The Saint John and Quebec Construction Company, the railway's builders, were unable to secure a second bond issue in New York City. Funds were lacking, and, as a result, contractors and sub-contractors began to complain to the government that they were not being paid. In May 1915 the government passed legislation which would permit it, after giving due notice, to vest all the shares of the company "in His Majesty, on behalf of the province" (McKeown 52). Given the government guarantees involved, the public purse was clearly at risk. After notifying the company in June to make suitable arrangements to complete construction, and judging that the company did not provide a satisfactory answer, the government intervened in August 1915 and appointed its own team of directors over the Railway (McKeown). This did not sit well with the deposed company president Arthur Gould, who promptly threatened legal action (Doyle 91). Once again, Commissioner McKeown was called into action, this time as arbitrator of the dispute between Gould and the government.

The credibility of the government was clearly being undermined in serial fashion.[12] Moreover, all of this talk of graft and corruption seemed to energize the Liberal party. Reduced in 1912 to a rump of two members from Madawaska, the Liberal Party saw the financial mismanagement of the Conservatives as a central campaign issue that could bring down the government. When the election was finally called for 1917, the Liberal Party concentrated its attacks on the Conservative's trail of scandal. In addition,

[12] In addition to these scandals, in September 1918 public hearings began on the Patriotic Potato Scandal. This scandal alleged that the Conservative administration had mishandled public funds associated with the province's gift of potatoes destined for relief efforts to aid Belgium in the early days of the Great War. Since this commission did not start until several months after the Office of the Auditor General was legislated out of existence, it is not discussed in this chapter.

"they hammered away at the government for the enormous increase in the public debt, an increase from $6,000,000 to $16,000,000 since 1908" (Doyle 125), when the Liberals last held power. Liberal leader Walter Foster raised Progressive Era notions as part of the campaign, "declaring that he would, 'if successful, carry on the business of New Brunswick with care and devotion to business principles and would associate himself with men of known probity and ability'" (Hopkins, *The Canadian Review of Public Affairs 1917* 699). Using these notions of Progressive efficiency against a background of government scandal, Foster was able to persuade the electorate to turf out the Conservatives and return the Liberals to power.

The Progressive Era and New Brunswick

The Progressive Era is generally regarded to have emerged in the early part of the twentieth century as a response to increasing industrialization, growing concentration of commercial interests and a marked shift towards urbanization (Diner). As Diner shows, Progressivism encompassed a wide variety of themes that meant different things to different groups in society. For certain occupations, such as medicine, law, social work, and engineering, the Progressive Era is associated with a theme of expanding of professional boundaries in order to achieve economic rewards, professional autonomy, and social status (Diner). These professions used their technical expertise to further these aims. And this rise of prestige and power for professionals created an entry point for technical and managerial expertise in both business and government (Haber). Inside government, this technical efficiency drive started at the municipal level, during the crisis surrounding the devastating hurricane that wiped out much of Galveston, Texas, in 1900 (Weinstein). The new administrators came to look on Galveston "not as a city, but [as] a

great ruined business" (Weinstein 96). One of the strongest promoters of business and professional management ideas at higher levels of government was the Progressive Era reformer, Robert M. La Follette. As Governor of the State of Wisconsin, La Follette's reforms early in the twentieth century had the firm marks of business language and methodology. In Wisconsin "accounting, along with such other calculative techniques as statistics formed a 'hard inside' of bureaucratic structure which seemingly displaced the subjectivity of vested interests" (Covaleski and Dirsmith 169).

After Robert Borden's election as Prime Minister of Canada in 1911, the language of efficiency entered the Canadian federal scene. The new government determined quite quickly that at "the very heart of everyday government and administration, was a massive tangle of inefficiency and incompetence" (Brown and Cook 193). Borden tried to undo the tangle through three separate interventions: centralization of government purchasing activity, setting up a Public Service Commission to increase efficiency and co-ordination, and, finally, commissioning a broad study by Sir George Murray, a former Permanent Secretary to the British Treasury, who "recommended a complete overhaul of Ottawa's governmental machinery" (Brown and Cook 194).

Progressive Era reform also occurred in New Brunswick. One of the key areas of New Brunswick's public administration to feel the Progressive influence was forestry, the province's largest industry and its largest generator of public funds. Foresters began to make strides towards professional status in the 1890s (Parenteau). The *Public Domain Act* of 1906 included provisions for protection of watersheds, fire prevention, and the notion of long-term leases of Crown lands to large forestry companies that were presumed to have both the incentive and the resources to protect these lands, using

principles put forward by the recently formed Canadian Forestry Association (Parenteau). Parenteau also tells us that "in the wake of the Crown lands scandal, New Brunswick made steady progress toward progressive forest management reform" (133). For example, in 1916, the Conservative government began an inventory of Crown timber resources under the direction of a professional forester, a graduate of the forestry program at the University of New Brunwick. And in 1918, the new Liberal government continued this trend to more technical management of forests by bringing forward two new acts: the *Forest Act* and the *Forest Fires Act* (Parenteau 121). Another important example of Progressive Era legislation in New Brunswick occurred in 1910 when the Hazen government created a Board of Public Utilities Commissioners to establish rates for utilities (Babcock 8). Commission government was a frequent sign of Progressive influence on various jurisdictions.

Similar to the foresters, accountants were also rapidly professionalizing. Just as La Follette used accounting as a tool for administrative reform in Wisconsin, the expanding accountancy profession was ready to help with administrative overhauls in various Canadian jurisdictions. One of the major firms of chartered accountants, Price Waterhouse, had begun to offer its assistance to provincial administrations experiencing financial system crises. In 1916 Manitoba was the first province to receive Price Waterhouse's help. Following a change to a Liberal government, hot on the heels of a scandal surrounding construction of the Legislature building (Hopkins, *The Canadian Annual Review of Public Affairs 1916*; Donnelly), Price Waterhouse carried out a special examination of the Manitoba finances. As a result, Manitoba began using an outside auditing firm to provide assurance on the province's quarterly financial statements.

Manitoba also eliminated the provincial auditor position and replaced it with a comptroller-general model.

Price Waterhouse carried out a second Canadian engagement following a change in government in British Columbia. Premier Brewster, (again representing a Liberal Party which had defeated a Conservative government), employed Progressive Era rhetoric, noting that when his government took office on 29 November 1916, it instituted a policy that "finance was to emulate the system of a well-conducted business or corporation" (Hopkins *Canadian Annual Review of Public Affairs 1917* 830). Further, he informed the Legislature "that he had immediately engaged Price, Waterhouse & Co. to inquire into and report upon the financial condition of the Province" (Hopkins *Canadian Annual Review of Public Affairs 1917* 830). Observers would soon find that the Liberal Party in New Brunswick would follow a similar strategy by employing Price Waterhouse shortly after the Conservative government was defeated.

The Foster Administration, Price Waterhouse, and Progressivism

As soon as the House opened on 10 May 1917, the new Foster government turned its attention to improving the province's systems of financial management. This was perhaps the first time a New Brunswick government brought in an outside auditor to give a "true" picture of the province's financial position on a change in government, despite the fact that another auditor had already provided an opinion on the public accounts.[13] The Speech from the Throne clearly indicated as much, stating that "In order to ascertain in an authoritative form the actual financial position of the Province . . . a firm of

[13] This practice has happened in more modern times when Louis Robichaud, Richard Hatfield, Frank McKenna, Bernard Lord, and Shawn Graham respectively, have assumed power.

Chartered Accountants of the highest reputation has been engaged to make a thorough audit of the finances and to report thereon" (*Journals of the House of Assembly 1917* 5-6). The Speech also indicated these same accountants would replace the province's old bookkeeping methodology with "the most modern system of keeping the public accounts" (*Journals of the House of Assembly 1917* 5). Further, in that same Speech from the Throne, Lieutenant Governor Josiah Wood announced that among the list of legislative changes planned for that session, the *Audit Act*, last revised at the start of the Conservative's 1908 mandate, would be amended (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick, 1917*). Changes were coming.

On 7 June 1917, the Foster government began to disclose more clearly just what sort of financial changes were required. C.W. Robinson, standing in for the ailing Provincial Secretary-Treasurer, began the debates in the Committee of Supply by carefully detailing what sort of financial mismanagement the new government encountered upon entering office. Interestingly enough, he started his speech by referring back to the early, more prudent days of the Conservative administration, telling the Assembly that when the Conservatives delivered their first budget in 1908, they had promised that expenditures should not outstrip revenues. Yet, despite this promise, and the fact that the Hazen administration had taken power at a time of increased revenue, the Conservatives had not managed the public debt very well. In fact, Robinson added that the debt picture was occluded; the Foster administration needed to call in a professional firm of chartered accountants to ascertain "exactly how matters stood" (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick, 1917* 85).

Not only it seems were the Conservatives full of graft and corruption, but it appears that they were not even very good bookkeepers. Robinson noted that although Price Waterhouse was still preparing its report, it had provided the government some figures to use. After a brief interlude in which Robinson complimented the fine Canadian youth fighting overseas, he returned to "the question (that) was often asked 'What is the public debt?'" (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick, 1917* 85). Robinson began to answer that question, noting that while it was difficult to pin down the exact amount of the debt, thanks to Price Waterhouse, a new method "adopted here for the first time by the chartered accountants employed by the present administration" (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick, 1917* 85) could provide some answers. The Foster government appeared to be eagerly embracing the technical approach provided by the professionals from the accounting community. During the 1917 New Brunswick election campaign, the Liberal Party had spoken of the Province's large $16 million dollar debt. But using these modern techniques from Price Waterhouse, Robinson painted an even bleaker picture. The table that follows has been adapted from Robinson's speech:

Table 2.1 - Province of NB Liabilities as at 31 March 1917 per Robinson

Capital Debt	$16,339, 639.13
Current Debt	$763,321.73
Subtotal	$17,102,960.86
Required to complete Valley Railway to Westfield	$1,000,000.00
Required to complete permanent bridges	$550,000.00
Contingent liability on bonds guaranteed	$2,013,000.00
Total	$20,665, 960.86

Rather than a reported debt of $16 million dollars, a figure sensational enough to be a campaign theme for the Liberals, Robinson reported a debt almost 30 percent higher. Robinson then proceeded to read from a detailed schedule of changes in the debt during the Conservative administration, the schedule itself covering about a page and a half in the *Synoptic Reports*.

Robinson continued his speech by noting "the Auditor General's report was prepared by the Government which lately went out of power, and the present administration was not responsible for it" (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick, 1917* 87). Lost on Robinson, apparently, was the irony that it had been a previous Liberal administration, of which he was a prominent member, that in 1906 had started the auditor general reporting directly to the executive rather than the Legislature, thereby impairing the auditor general's independence.

Robinson returned to the importance of the administration relying on Price Waterhouse, stating the Foster Liberals "had felt it their duty to have a statement made

by independent auditors so that they would know exactly where they stood" (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick, 1917* 87). Then, presaging the permanent changes to come in the audit regime, he added that "the only practical way was to have the accounts of the province audited each year by somebody not connected with the government" (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick, 1917* 88). "An independent auditor*"*, not the old, antiquated system of using an auditor general, "would not be subject to any political influence and his report could be depended upon as accurate" (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick, 1917* 88). Further, not only would this new auditing method be more accurate and independent, it would be progressive in both the political and the business sense. Robinson demonstrated as much by noting "banks and large mercantile institutions had adopted this plan and had found it very satisfactory" (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick, 1917* 88). In short, if it works in business, it must work in government, a statement consistent with the political discourse of the era. This language reappears when Robinson later criticizes the former administration for not investing Crown Lands sinking funds, thereby losing out on $25,000 a year. "That was not good business" (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick, 1917* 88) is his simple but telling statement summarizing the finding.

The list of inadequacies continued. Perhaps being a bit too modest, or not crediting appropriately the interim findings from Price Waterhouse that he was privy to, Robinson noted that "it seemed to him, speaking not as an expert, but as an ordinary individual that the methods of bookkeeping employed by the late government were capable of

considerable improvement" (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick, 1917* 88). Robinson saw duplication in bookkeeping and felt that instead of several departments receiving government money, there should be one central receiver of all government cash. Further, "there was no proper control or system for managing sinking funds" and "neither did there appear to be sufficient control in the purchase of supplies" (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick, 1917* 88). Echoing findings from Robert Borden's reviews in Ottawa (Brown and Cook), the supply system was called "haphazard" (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick, 1917* 88).

Harkening back to the claims of the disgraced Deputy Minister Blair, Robinson noted a tendency to omit certain expenditures from the Public Accounts. His great example of this tendency was a $1.7 million loan to the Valley Railway which Price Waterhouse, the independent auditor, had now classified correctly. But he also noted that the previous administration had failed to record operating expenditures associated with the Valley Railway in the proper manner. Fortunately, here too Price Waterhouse could help by advising the government on correct business methods. This failure to properly handle the railway transactions was just one more reason to overhaul the bookkeeping system. Robinson also offered that "the *Audit Act* did not appear to be the protection of public funds that it was supposed to be" (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick, 1917* 87). The changes to the *Audit Act* briefly alluded to in the Throne Speech were going to be needed to strengthen the Province's financial management framework.

No doubt those present in the Legislative Assembly that day were well aware that just down the street at the County Courthouse, J.M. Stevens was leading the Foster government's commission to investigate the Valley Railway (Doyle 155). It was probably an uncomfortable moment for both the members of the Opposition and Auditor General Wilson Loudoun. Perhaps this discomfort explains why the Conservative members did not offer much of a response to Robinson's speech at the time, though Hopkins tells us that at some point in the session two Conservative members offered a strong rebuttal in their attempt to validate a lower amount for the public debt (*The Canadian Annual Review of Public Affairs 1917*).

On 21 June 1917, two weeks after Robinson's speech, the government tabled the full Price Waterhouse report. While it was couched in the careful, conservative language often characteristic of accountants, the report reinforced the notions raised by Robinson, making various recommendations for improving the province's accounting system. Price Waterhouse noted how New Brunswick, like many governments, had omitted certain liabilities from its Public Accounts, failing to follow "the principle of stating accounts on a 'revenue' basis…universally followed by financial and industrial companies and railroads" (Price Waterhouse 2). The New Brunswick government was obviously not very businesslike in not following this 'revenue' basis of accounting. The accounting firm also found fault with the province's system of recording expenditures, showing that by failing to include certain expenditures, the previous government had turned what should have been a deficit into a surplus of $12,077. Here is another element of discourse that has continued to our day, where new administrations seem to frequently disparage the previous incumbent for misreporting the state of public finances.

A third key matter raised by the outside accounting firm involved the government's failure to record a direct liability for the Valley Railway. It was but "another illustration of our point that the Published Accounts do not reflect the financial position of the Province in a sufficiently clear and intelligible manner" (Price Waterhouse 3). Price Waterhouse then turned their attention to such areas as the uncollectable nature of certain amounts owed to the province and the rather loose fashion in which certain securities were stored in a safe that could be accessed by a number of staff, versus the more prudent practice of depositing them with a bank or trust company.

The report also made a number of broad criticisms of the provincial accounting systems and methods, an indication that modernization was required. Duplication of effort was certainly one problem. The auditor general and the Treasury both appeared to have identical records of cheques written. Work was spread out in various departments. Price Waterhouse's answer to all this, "from a business standpoint," (6) was to centre responsibility in the Treasury Department. Some negative reflection on the auditor general came from Price Waterhouse's statement that "the check which the Auditor General is able to exercise over expenditure appear to a large extent perfunctory, since he has no previous knowledge of prices and other conditions affecting the payment" (8). And, in addition, there was some duplication of work between the auditor general and the internal audit function. Building towards a grand recommendation, the consultants offered their opinion that one official be placed in charge of all the accounting work for the province, one official with responsibility to ensure the accounts of all departments were kept correctly. Perhaps, they argued, this could be accomplished by increasing the auditor general's powers. Or, Price Waterhouse noted, the answer might be to create a

new office "under some such title as Comptroller-General" (8). Regardless of what this new office might be called, it required real power "to exercise an effective check over all transactions connected with the receipts and disbursements of the Province, and not merely be in a position to pass upon their clerical accuracy" (Price Waterhouse 8), another apparent swipe at the auditor general.

The accounting firm set the groundwork for new audit legislation by bringing forward this notion of a new officer called the comptroller-general. Perhaps the Foster administration's consultants from Price Waterhouse made reference to this comptroller-general because that same officer was established by respective provincial governments following Price Waterhouse engagements in Manitoba and in British Columbia. In both of these provinces, as noted above, when a Liberal government was elected after a financial scandal, a new administration engaged Price Waterhouse to review the financial affairs of their predecessors. Price Waterhouse appears to have developed a standard recommendation to be duplicated in any Canadian jurisdiction to which they were invited. As their report concludes, "We should like to discuss this point at greater length at any time that is convenient to you, and in the meantime shall be glad to furnish you with any further information on the Accounts that you may desire" (8). Price Waterhouse would be only too pleased to provide more business advice on how the government of New Brunswick could transform its financial systems to modern business-like methods. Of course, the fees from providing that advice would certainly not hurt Price Waterhouse in expanding its professional reach.

Conclusion

This chapter shows how Progressive Era ideas about professionalization and efficiency impacted government financial systems in the Province of New Brunswick in the first two decades of the twentieth century. In doing so, it also demonstrates how a series of financial scandals during that period set the stage for those changes. Against this backdrop of corruption, the new government advanced a program of financial reform in New Brunswick, turning its attention to improving financial systems and practices. Price Waterhouse, Chartered Accountants, a leading firm of the growing accounting profession, provided consulting advice to the incoming Liberal administration to support these changes, resulting in a new *Audit Act* passed by the Legislative Assembly in April of 1918. Consistent with the model established in the provinces of British Columbia and Manitoba, New Brunswick's new legislation implemented a new officer called the comptroller-general. The comptroller-general, rather than being an independent auditor, became the chief financial officer reporting to the executive branch of a more centralized government administration. Price Waterhouse, rather conveniently for their business interests, assumed the role as auditor of the provincial Public Accounts.

In addition to looking at how an accountability crisis lead to these changes in financial systems, this chapter shows how the change from an auditor general to the comptroller-general reflected the Progressive Era trend to de-politicize or professionalize the civil service, and, to make the bookkeeping more businesslike. In looking at the part played by the accounting firm Price Waterhouse, we can also see the emerging influence of the accounting profession in early 20th century society. Indeed, the Price Waterhouse

promotion of a comptroller-general model in three provincial jurisdictions further demonstrates the rise of professionalization in Canada at this time.

Certainly, this financial reorganization program was offered by both the incoming government and their consultants from Price Waterhouse as a means to modernize and improve financial management. Change in the province's accounting systems probably was, in some sense, both beneficial and inevitable. But one important piece was lost in the new, more professional approach. With the disappearance of the auditor general, and the appointment of a private sector auditor reporting to the executive, the Legislative Assembly lost an important element of control over financial transactions. It is not enough for the Legislative Assembly to approve a budget put forward by the executive branch. The Assembly needs to have an independent auditor who is responsible only to that body, and that auditor needs to report directly and promptly to this legislative body after auditing the actual financial results. Direct reporting to the Assembly matters when considering the accountability of the executive.

Another key element of legislative control of the government's expenditures disappeared when section 22 of the *Audit Act* of 1918 came into force. In the James Beek era, the auditor general's signature was required on each cheque to ensure that any payment was within the bounds established by the Legislative Assembly. If an expenditure lacked legislative authority, Beek could refuse to sign the cheque. Under the new legislation, this important provision disappeared. The review of expenditures for proper legislative authority passed to the new comptroller-general, a servant of the executive. And the comptroller-general was to report any discrepancies to the provincial

secretary, a member of Cabinet. A strong control the Legislative Assembly had held for years disappeared.

This elimination of the auditor general was an early step along the road of deterioration in legislative scrutiny of government expenditures in Canadian jurisdictions. In testimony before the Public Accounts Committee of Canada in 1970, Norman Ward noted how "it is a fact that every time anything has been done with the Auditor General's powers, they have been substantially reduced" (33:9). While the Opposition parties tend to love the present day auditor general and his or her reports, governments have a strong incentive to reduce the reach and powers of the auditor general. But in the New Brunswick of 1918, an important loss of legislative control over public finance did not seem to generate much debate at all. The Foster administration's new legislation concluded rather starkly in section 44: "the *Audit Act*, being Chapter 25 of the Statutes of 1908, is hereby repealed and the office of Auditor General is hereby abolished" (Act to Provide for Auditing Public Accounts 186). It would not return for another 50 years.

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Chapter Three – St. James Street Rules: Accountability for Public Finance in the Absence of an Auditor General (1918-1967)

Introduction

Chapter two analyzed the Progressive Era financial reforms legislated by the government of New Brunswick in the wake of scandals associated with the previous administration. These reforms culminated in the abolition of the Office of the Auditor General of New Brunswick in 1918, resulting in a loss of control by the Legislative Assembly over expenditures of the executive. The private sector auditor who assumed the audit role reported directly to the executive branch, and, further, the members of Assembly no longer had an auditor general in their employ to refuse payment of any expenditure not approved by them. The fact that the private sector auditor reported to the executive, and not the Legislative Assembly, violated what scholar Norman Ward termed one of the eight essential rules for public finance in Canada, that being the parliamentary branch required an independent auditor reporting solely to it in order to provide an account of the financial activities of government.

This chapter will argue that although the changes launched in the Progressive Era removed accountability to the Legislative Assembly, the executive branch still had some restraints and accountability for its fiscal and activity. This form of accountability after 1918, was directed towards the private sector auditors and financiers of St. James Street in Montreal. For the 50 years between 1918 and 1967, the government of New Brunswick did not have to listen to the recommendations and reproofs of an auditor general. As noted, there was no auditor general to refuse to approve payment of amounts not authorized by his employer, the Legislative Assembly. There was of course, another type

of financial accountability that could not be ignored from 1918-1967. “Although the Opposition could not force the Government’s hand, the Government bankers and bond-buyers apparently could” (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick*, *1951* 62).

Forbes, for instance, states that the 1930s in particular were a difficult time to govern and that during this decade New Brunswick “had difficulty in selling bonds and faced tough negotiations with chartered banks” (“Cutting the Pie Into Smaller Pieces: Matching Grants and Relief in the Maritime Provinces in 1930” 43). Francisco highlights “endless and often acrimonious negotiations” (67) between the province and its creditors and bankers during this period. The province’s Depression-era financial problems were further compounded when the banks refused to extend loans to the hard-hit counties of Northumberland, Restigouche, and Gloucester, creating pressure on the already strained provincial coffers to extend bail outs to the counties. Following the difficult financial negotiations of the Depression years, the bankers again intervened to apply stringent conditions on the province’s financial affairs in both 1940 and 1950. These two interventions included imposing an outside accountant, James C. Thompson, as a supervisor over government financial affairs. It was a bit like being placed in receivership. While the McNair administration was able to wrestle free from James Thompson’s oversight in this first intrusion in 1940, the government had to submit to the 1950 version under the threat of being shut out of the financial markets at a time of financial need. Given the weight of the province’s debt load, and the need to float bond issues on the capital market to refinance that debt repeatedly during the 50 year period

between 1918 and 1967, the government of New Brunswick had to deal with an accountability phenomenon I am calling the St. James Street rules.

Public Finance Without an Auditor General

The new *Audit Act* of 1918 abolished the Office of the Auditor General, but the incumbent at the time, Wilson A. Loudoun, did not find himself on the unemployment line. Instead, Loudoun became the first comptroller-general in the province, a new position developed under this legislation. In establishing this new position though, the Foster administration did not adhere fully to the advice provided by Price Waterhouse. Price Waterhouse advised that this comptroller-general should report directly to the Legislative Assembly (Price Waterhouse & Co.). This did not happen. Rather, the new legislation called for the comptroller-general to be an employee of the Treasury Branch with appointment coming by way of the Lieutenant Governor in Council (Act to Provide for the Auditing of Public Accounts). Direct reporting to the Legislative Assembly was out.

For Price Waterhouse, however, this failure of the New Brunswick government to adopt one of its recommendations actually proved beneficial to the firm. With the auditor general's office abolished, and the comptroller-general not reporting directly to the House, the Foster administration engaged the firm to provide an audit opinion on the Public Accounts, the Province's financial statements. Price Waterhouse continued to report in this manner for the next several years.[14]

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[14] The Report of the Comptroller-General on the Public Accounts of the Province of New Brunswick shows Price Waterhouse receiving an annual fee of $1,800, the same amount as the annual salary of Loudoun's

In 1925 the firm of P. S. Ross and Sons, Chartered Accountants, who like Price Waterhouse were situated on St. James Street[15] in the financial district of Montreal (Campbell), began carrying out this annual external audit function on the provincial financial statements. This move to replace Price Waterhouse came quickly after the Conservatives under John Baxter defeated the incumbent Liberal administration. Within a few days of assuming power, Premier Baxter and P. S. Ross and Sons began discussion leading to this change in auditors (P.S. Ross & Sons to Baxter). Although the reasons were unclear as to why the new Baxter administration decided to change the firm doing the external audit, it may have had something to do with the sting of the Price Waterhouse findings in their 1917 report. The Price Waterhouse report had been harsh in its judgments of the Conservative administration in which Baxter had been a minister. As Baxter sat at his desk in the Legislative Assembly in 1917, listening to the Foster government drawing on Price Waterhouse's report to show illustration after illustration "of our point that the Published Accounts do not reflect the financial position of the Province in a sufficiently clear and intelligible manner" (Price Waterhouse 3), it could be that the future premier made a mental note to remember this firm from Montreal, should he encounter them again. In other words, in 1925, Baxter may have had a score to settle. One source tells us that in 1917, after the Foster Liberals introduced the Price Waterhouse study to the House, a study focused on "deprecating certain methods" (Hopkins 704) of the previous Conservative administration, along with adjusting the

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assistant. This annual fee would continue to be classified in the Public Accounts as "Unforeseen Expenses" for over forty years. One does wonder how difficult it would have been to foresee an expense of $1,800 that seems to be showing up year after year.

[15] The first piece of correspondence from P. S. Ross & Sons shows the firm headquartered at 142 Notre Dame Street West. But by the time of Campbell's letter, the firm had moved to St. James Street.

"real" provincial debt upwards, Baxter and a colleague "replied at length for the late Government and handled a great mass of figures to prove the late Treasurer correct in methods and facts" (Hopkins 705). In 1925, Price Waterhouse would pay the price of disagreeing with Baxter and his Conservative friends. This change in appointment also serves as a clear illustration that the auditor did not report to the Legislative Assembly, but to the executive branch.

P. S. Ross & Sons retained the audit relationship until 1968. In carrying out their work, P. S. Ross addressed the auditors' report to the various premiers they reported to over their long term of service. There was no direct reporting to the Legislative Assembly, though the members would receive a copy of the Public Accounts each session once this official document was printed and tabled.[16] The audit client, as chartered accountants say in the business, that person or group that Price Waterhouse and subsequently P. S. Ross and Sons were doing the audit for, was the premier of the day and the other members of the cabinet. In addition to the audit reports, the detailed management letters sent by P. S. Ross each year describing weaknesses in accounting systems and internal control were addressed directly to the premier, not the full House or the Public Accounts Committee. Year after year, similar recommendations on control weaknesses appeared. For example, one such report is prefaced with a letter to the premier stating "many points mentioned in this report have been raised in previous reports submitted by us" (P. S. Ross & Sons, 1954). In 1959 the auditors advised "there is

[16] As Opposition Leader Hugh Mackay said in rejoinder to a government member one day, "This only proves to me that my young friend never read the Public Accounts; or if he did, that he can't add or subtract" (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick*, *1951* 54). Delivery of the financial statements is no assurance that they will be read or understood.

still no general ledger control over the revenues of this department" (Ross, Touche & Co. 2). A year earlier, we see a phrase about another matter "again, we strongly recommend . . . " (P. S. Ross & Sons, 1958, 3). One gets the picture of the auditors dusting off last year's letter, changing a few dates and names, and repeating many of the same observations and recommendations and posting it to the premier. But perhaps that is the key. The report went to the premier and by extension his cabinet colleagues, not to the full Legislative Assembly. As a result, if the government did not choose better controls, there would be no pressure from the Legislative Assembly. The accountants from St. James Street were applying the St. James Street rules: client confidentiality was carefully protected and the client was the premier, and by extension the executive. The recommendations could be repeated as a matter of professional duty, but unlike the auditor general, the private sector auditors had no public forum to persuade the administration to adopt them.

Another thing to be considered is that if the executive branch did not implement the auditors' recommendations, it certainly did not hurt the auditors. It may have actually benefited these outside accountants. That is, the executive's handling of financial matters inside government, especially in the years of the growing state, may have created an opportunity for the auditors to perform lucrative consulting engagements to expand on weaknesses noted in their audit work. For example, in 1950 the external auditors delivered a series of reports to the premier surveying the accounting systems and procedures in four government departments (P. S. Ross & Sons, 1950). In the one examining the Department of Health and Social Services, the consultants made special note of the fact that New Brunswick began receiving the federal government National

Health Grants in the 1949 fiscal year, leading to increased services for New Brunswick citizens and an expanding department trying to cope with this new operational environment. To help McNair bring order to the situation, P. S. Ross provided the premier with 12 recommendations on how to improve control over revenues and expenditures in this rapidly growing and reorganizing department. In 1951 the accountants returned again to provide a *Study of Reallocation of Space for Government Departments*. The report provided recommendations on how the government could organize its facilities to efficiently conduct its work while confronted with the practical demands of finding workspace for an expanding civil service (P. S. Ross & Sons, 1951). That same year, the government paid the auditors for another report, this one dealing with bringing order to the various revenue functions in government (P. S. Ross & Sons, *Report on the Consolidation of Revenue Functions*, 1951).

In addition to the annual audit of the financial statements for the Province of New Brunswick, in 1933 P. S. Ross & Sons (and its various successor firms in the accounting industry's continuing succession of mergers) were awarded the audit of the largest provincial Crown agency, the New Brunswick Electric Power Commission (P. S. Ross & Sons to Tilley). This relationship continued until the fiscal year ending 31 March 2015. P. S. Ross also served as the auditors of the provincial university, the University of New Brunswick, and still remains UNB's auditor as the reconstituted firm now known simply as Deloitte.[17] In short, P. S. Ross & Sons has had a long and profitable relationship with

[17] Deloitte was originally called Deloitte Touche when it emerged following the consolidation of the two major firms Deloitte, Haskins & Sells, and Touche Ross in the 1990s. In subsequent years, the Touche name has disappeared from the public face of the firm. This is perhaps symbolic of Schwieker's criticism of the ahistorical nature of accounting. George Touche, founder of the firm, was in many respects the original chartered accountant, having obtained a charter for his fledgling profession from Queen Victoria.

the province and its related organizations, regardless of whether the administration was Liberal or Conservative. The accountants of P. S. Ross and Sons were no doubt happy to continue serving this client, the Province of New Brunswick, generating a steady and predictable source of revenue for the firm. It is certainly possible that the starting point for this relationship may be linked to Premier Baxter's distaste for the manner in which Price Waterhouse criticized the administrative weaknesses of a previous Conservative administration in which Baxter served. Such were the lessons of being on the right side at the right time and of a reporting relationship being directly to the premier versus the full Legislative Assembly.

Interestingly enough though, despite changing audit firms, the new Baxter administration decided to stick with the comptroller-general model of accountability exactly as the Liberals had set it up in the *Audit Act*. Wilson A. Loudoun, the pre-1918 auditor general, remained comptroller-general. And Loudoun continued to report directly to the administration, and not the Legislative Assembly as called for in that 1917 Price Waterhouse report that preceded the 1918 changes to the *Audit Act*.

Loudoun also advanced the accounting profession in the province as a key member of the executive of the fledgling New Brunswick Institute of Chartered Accountants (NBICA). Loudoun served as an officer of the Institute and his contributions as detailed in the minute books of the Institute's first twenty years are substantial (NBICA). George Hudson's retrospective, written in the jubilee year of the Institute, devotes a significant part of the discussion to Loudoun and the other two founding members, Paul F. Blanchet and Robert A. McIntyre. These three members worked diligently to establish the chartered accountant profession in the province, including

drafting a governing act, establishing by-laws, setting and marking examinations, and liaising with national counterparts. One would think that perhaps Loudoun's close proximity to prominent elected officials would have assisted the Institute in its efforts to incorporate. Perhaps this was the case, though the fact that the first attempt to incorporate was rebuffed by the government is an important reminder that the NBICA had to approach the initiative with rigour (Hudson). This initial rejection indicates that the elected officials in New Brunswick, similar to their counterparts in other provinces during this period of expansion of professional self-regulation, did not just "act as a 'rubber stamp,' as some sociologists imply is usually the case" (Adams 185).

Loudoun also seems to have been a valued advisor to government during his career, more than just a bookkeeper. For instance, he had a prominent role in advising the Cabinet on the timing, size, and terms of provincial debt issues (Loudoun to Lieutenant Governor in Council; Loudoun to Leger). He achieved a welcome notoriety for his practice of saving significant amounts of interest on provincial bonds by buying back certain issues when the price dropped in the London market ("W. A. Loudoun, N. B.'s Comptroller-General, Dies at Fredericton").[18] As well, Loudoun took on a prominent role as Treasurer of the New Brunswick Provincial Committee for the Celebration of the Diamond Jubilee of Confederation, alongside such luminaries as the premier, various federal and provincial ministers, several mayors and the Countess of Ashburnham (Black). In November 1935, at the age of 61, Wilson Andersen Loudoun died of a cerebral hemorrhage while still serving as comptroller-general (*Province of New*

[18] One of the sub-headings on the 25 November 1935 *Telegraph-Journal* article covering Loudoun's death was *Death Mourned Through Province*. It is difficult to imagine a similar response to the death of the Province's chief bookkeeper today.

Brunswick – Certificate of Registration of Death #3393, 1935*)*. In discussing Loudoun's death, his successor wrote that the former comptroller-general was "raised head and shoulders above all men" (Cormier to Richard), despite having suffered his share of abuses "at the hands of previous governments" (Cormier to Richard). The respect in which Loudoun was held is indicated by the fact that a few days after his death, the deputy provincial secretary-treasurer wrote to Cabinet to provide a number of options for compensating his wife, Maude Loudoun, under the *Superannuation Act* (Trites to Richard). In Trites' letter advising the Cabinet on pension options, he noted that in addition to the superannuation fund, the government could consider providing additional funds out of the Consolidated Fund, that is, the general revenue and expenditures of government. Shortly before the Cabinet meeting of 10 January 1936, the premier advised the deputy attorney general to "kindly place on the Agenda the matter of the late Mr. Loudoun and the request by his widow for special consideration" (Dysart to Dickson). In addition to superannuation, Maude Loudoun also received the salary of the late comptroller-general for four months, totaling $1,133.33 (*Report of the Comptroller-General on the Public Accounts of the Province of New Brunswick for the Fiscal Year Ended 31 October 1936)*. It was a different time and a different place, with smaller government, and a smaller civil service, where Loudoun could have a substantial impact on the government and the profession.

After Loudoun – A Period of Expanding Government

In one sense, the death of William A. Loudoun is a defining date in the history of public finance in New Brunswick. During Loudoun's long tenure, government revenues grew tenfold, from $600,000 to $6,000,000 ("W. A. Loudoun, N. B.'s Comptroller-

General, Dies at Fredericton"). It is difficult to judge the role of inflation in expanding New Brunswick's revenue during this time. For one, the Government of Canada did not begin collecting measures of inflation until 1915, almost ten years into Loudoun's tenure; therefore, we do not have an index to cover the period 1906-14. Second, the First World War and the two years following comprised a highly inflationary period, reaching 19.9 percent in 1917. And, in opposition to these war years, a recession after the First World War and the Great Depression of the 1930s set off deflationary cycles, with a peak price decline of 9.9 percent in 1931 (Canada). In short, taking into account these considerable peaks and valleys of rises and declines means the provincial government revenues in inflated adjusted terms were seven to eight times higher by the end of Loudoun's term.

New Brunswick had not yet launched many social programs prior to Loudoun's death in November 1935. Old Age Pensions, the first major social program, did not begin until 1 July 1936, with Blind Pensions starting a little over a year later, on 1 September 1937 (Anderson to Tweedie). In fiscal year 1934, for example, the largest program of government was spending on bond interest at approximately $1.7 million of about $6.3 million in expenditures (Francisco). When we consider another $164,000 represented payments to the sinking fund, an amount set aside to eventually repay the principal on provincial bonds to the bondholders, then 30 percent of provincial expenditures were devoted to debt service (Francisco). Public Works, charged with building and maintaining roads and bridges, spent close to another million, or about 16 per cent of the government's resources; there was not a lot left for social programs (Francisco, 1992). Beginning with the change in government shortly before Loudoun's death, the public works program became a social program of sorts as jobs in road building and

maintenance became a way of delivering relief payments during the Depression (Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick 1944)**,** while welfare and unemployment payments ranked far below averages in the rest of the country (Forbes "Cutting the Pie Into Smaller Pieces: Matching Grants and Relief in the Maritime Provinces During the 1930s;" Young).

After Loudoun's death, his successors Edmond J. Cormier and Robert (Bob) FitzRandolph, presided over an expanding administration. Cormier was appointed soon after Loudoun's death and held office until his retirement on 31 March 1946 (Trites to Executive Council) when FitzRandolph took over the post. Some evidence indicates that though FitzRandolph was assistant comptroller-general, and nominally reported to Cormier, he was, in a sense, sharing the office with his boss. For one thing, FitzRandolph was a chartered accountant whereas Cormier was not. On a number of occasions, FitzRandolph wrote directly to members of the Executive Council without a sign-off from Cormier, indicating he had a fairly loose reporting relationship with the comptroller-general. In addition, prior to joining the Office of the Comptroller-General, FitzRandolph had worked for the province's auditing firm, P. S. Ross & Sons in Montreal. FitzRandolph had returned from St. James Street to his hometown and was obviously familiar with the St. James Street rules. Further, in the final full year they worked together, Cormier and FitzRandolph earned identical salaries of $3,756, even though FitzRandolph was still classified as the assistant (*Report of the Comptroller-General on the Public Accounts of the Province of New Brunswick for the Fiscal Year Ended 31 October 1945)*. Given that there is a lack of documentation on the functions of the comptroller-general and his assistant at the Provincial Archives of New Brunswick,

especially before the 1950s, it is difficult to conclude firmly on the relative roles of Cormier and FitzRandolph in administering public finance, but it certainly seems reasonable to suggest that they were, in a sense, co-comptroller-generals.

One thing that can be said with some certainty is that the transition year of 1946 not only marked a significant point in accounting functions, it also acts as a valuable marker in terms of the expansion of the provincial government and the administrative framework. This was a time of changes in fiscal structure between the federal government and the provinces, brought about by the Commission on Dominion-Provincial Relations (otherwise known as the Rowell-Sirois Commission), the related federal-provincial conferences, and the federal government's tax rental agreements that began in the Second World War. FitzRandolph's financial skills were no doubt important as the provincial government began to take on additional responsibilities in the 1940s and 1950s. At the time of Loudoun's death, government revenues were six million dollars. By 1945, revenues were more than double that at 14.5 million dollars (Francisco). But in the post-War years of FitzRandolph's tenure, government's reach expanded even more dramatically as both the public purse and the public debt grew.

This expansion of government is often referred to as the rise of the welfare state (Finkel). Doug Owram tells us that "nothing marked the first half of the twentieth century so much as this change in the nature and the role of the state" (x). These changes began in the context of a country to some extent still reeling from of the Depression, where one of the clear lessons was that this type of crisis "was manifestly not manageable at the local level" (Owram 223). To address these social security issues, the nation needed Ottawa's spending, borrowing and taxation resources. David Tough illustrates that with more and

more citizens paying income tax in support of the increased public spending during the Second World War, many Canadians began to imagine that this universal income tax could fund universal social programs.

Granatstein and Morton note that as the tide began to turn in the Allies favour around 1943, surveys carried out by the Canadian Institute of Public Opinion and the Wartime Information Board revealed a citizenry afraid that the post-war period might lead to economic suffering similar to that of the 1930s. In the face of that fear, Canadians were asking for security. Citizens had watched as government intervened so heavily in the wartime economy, raising the standard of living for many. "Why should controls and planning not work just as well in peacetime" (164)? Prompted to some extent by fears of electoral defeat as both the Progressive Conservatives and the Cooperative Commonwealth Federation adopted interventionist arguments, the MacKenzie King administration in Ottawa took steps towards building this post-war welfare state (Granatstein and Morton). The administration was already supported in this by the groundwork of the Rowell-Sirois Commission (Owram) and by the Committee on Reconstruction, begun in 1941 under the direction of the Department of Pensions and National Health (Granatstein and Morton). This Committee studied a number of areas, but its most pivotal work was the Marsh report on social security (Granatstein and Morton). Building on both Rowell-Sirois and Marsh, "the Speech from the Throne that opened the new session of Parliament on January 27, 1944 largely ignored the war. Instead, it set out the government's 'reconstruction' plans" (168). The federal government was planning a stronger role in protecting the population against economic

and social crises, and it wanted the provinces to join it in these efforts. Granatstein and Morton refer to it as a "virtual social revolution" (168).

In 1944, Family Allowances became the first Canadian universal social program, receiving unanimous consent in Parliament (Tough), with the first payments 1 July 1945 (Granatstein and Morton).[19] After the 1946 Conference on Reconstruction, despite the failure to obtain unanimous approval from the provinces for adoption of the social service policy aims and the corresponding taxation powers sought by the King government, the federal government entered the "fields of health, welfare, education, resource development and the general achievement of national minimum standards of services and life" (*White Paper on the Responsibilities of Government* 15). Old age pensions, introduced in 1937, saw increased spending (Francisco). The federal government became an active promoter of a more generous national pension scheme, bringing it into place in 1951, obtaining the unanimous agreement of the provinces to amend the *British North America Act* in order to mandate the federal action in this area (Finkel).

R. A. Young notes that in the fifteen years beginning in 1947, federal transfer payments to provincial governments increased by 470 percent. The taps were flowing. Much of the money came in the form of conditional grants, such as the federal grants to construct hospitals, where between the five short years 1948 through 1953, the provinces expanded their inventory of hospital beds by 46,000 (Finkel). New Brunswick's Department of Health and Social Services joined in by participating in grants for health expenditures from Ottawa.

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[19] New Brunswick hade started a program of Mothers' Allowances 1 May 1944 (Anderson to Tweedie).

By 1950, New Brunswick's revenues were nearly $31 million, nearly double the amount in 1945 (Francisco) with $10.4 million coming out of the federal treasury through so-called 'fifty-cent dollars' funding social programs. As Young so aptly observed, the "grants distorted provincial priorities, but were almost impossible for the weaker provinces (e.g. New Brunswick) to refuse" (88). Reading the temper of the times, the Public Accounts Committee noted "increased demands are continually being pressed upon the Government for improvements and extensions in public services" (*Journals of the Legislative Assembly of New Brunswick, Being the First Session of the Thirty-Ninth Legislative Assembly* 131). This bipartisan committee then warned the government that "we cannot refrain from recommending that the utmost care be taken to ascertain the needs, advantages and costs of any change, improvement or extension contemplated" (131). But, for all intents and purposes, the train had left the station.

One way to illustrate this growth is to examine the expansion in the civil service of New Brunswick. At the same time, given the focus of this paper on the accounting and audit functions of government, it is also instructive to see how the Office of the Comptroller-General increased at this time. This comparison is made below in Table 3.1

Table 3.1 - Growth in the Civil Service and the Office of the Comptroller-General[20]

Year	# Civil Service Employees	# Comptroller-General Employees
1949	1,693	20
1950	1,845	26
1951	1,879	26
1953	2,125	28
1954	2,212	26
1955	2,349	25
1956	2,430	24
1957	2,615	33
1958	2,839	29
1959	2,936	38
1960	2,908	No data

Table 3.1 shows that in about 10 years, 1949 to 1959, the Civil Service grew by over 70 percent. In raw numbers, there were 1,243 more people working for the provincial government in 1959 than there were in 1949. Beginning in 1942, the federal government began paying the province close to $3 million a year under the Wartime Tax Rental agreement, so it would seem to make sense that employment began to increase at that time (Francisco). Certainly, the comptroller-general's staff grew as well. As programs were added, more accounting staff were required to keep track of the burgeoning revenue and expenditures. In 1940, the comptroller's branch had 10 employees (*Report of the Comptroller-General on the Public Accounts of the Province of*

[20] **Data Sources:** Number of employees in Civil Service taken from printed annual reports of the Civil Service Commission at PANB, RS 311 C, Civil Service Commission Printed Annual Reports. The Commission began publishing these statistics in 1949. The number of employees in the Comptroller-General's Office was calculated by counting the employees listed in the various Reports of the Comptroller-General on Public Accounts for the respective years.

New Brunswick for the Fiscal Year Ended 31st October 1940). By 1947 there were 19 on staff *(Report of the Comptroller-General on the Public Accounts of the Province of New Brunswick for the Fiscal Year Ended 31st October 1947)*, rising to 26 by 1950 and 38 by 1959. Even more dramatic was the increase in size of the former Tobacco Tax Branch as it expanded to include responsibility for the new Social Services and Education Tax (SS&E) in 1950. Looking at the dollars spent ($98,766 in 1950, the first year of SS&E versus only $49,252 in 1949), it seems as if the size of the taxation branch doubled. By 1952 it had doubled again to $183,404, representing a major increase in manpower, equipment and supplies (*Report of the Comptroller-General on the Public Accounts of the Province of New Brunswick for the Fiscal Years Ended 31st October 1949, 31st October 1949, & 31 March 1952)*. Administering the taxes to pay for additional social services no doubt required a major deployment of new government accountants to keep track of the revenue and auditors to ensure vendors remitted the correct amounts to the treasury in Fredericton. Though these tax branch employees did not work directly for FitzRandolph at the Office of the Comptroller-General, the growth in their numbers illustrates the overall rise in accountants and auditors to look after public finance in the new welfare state.

In addition to the expanding social programs, highway spending in the Department of Public Works, that old favourite of politicians, remained a big part of government expenditures. In the 1950s, federal capital funds began to flow for the Trans-Canada Highway (Francisco). But even before that date, as Jennifer D. Francisco notes, in 1946 the McNair government "began a heavy borrowing programme for the construction of bridges and highways" (111). By 1950, highways and bridges accounted

for about $110 million (roughly 70 percent) of New Brunswick's funded debt[21] of $163 million (Francisco). The next largest chunk of the debt at about $27 million came from funding the capital expansion of the New Brunswick Electric Power Commission. The role of government was expanding in both social programs and capital spending, and this created significant strain on the public finances. By November of 1947, Moody's, a major bond-rating firm, punished the province by dropping its rating from A to BBB (Francisco). By dropping the rating, Moody's made it more costly for the McNair government to borrow money while signaling to the investment community that holding New Brunswick bonds was a riskier proposition.

One of the impacts of this financial strain was that the government began searching for new sources of revenue. Francisco notes that NB tended to avoid controversy with the voters by borrowing rather than taxing, but eventually the bills had to be paid. Though the province resisted previous advice from financiers to establish additional sources of taxation, by 1950 New Brunswick joined the four other provinces that had introduced a consumer sales tax (McNair to MacDonald). This measure was widely unpopular, as can be imagined, and the McNair papers in RS 414 at the Provincial Archives of New Brunswick contain a file over an inch thick filled with telegrams and letters protesting the plan to introduce this new four percent tax on many consumer purchases. The taxpayers' sentiments are aptly summarized by one hardworking Dalhousie resident who signs his telegram simply M. J. LeBlanc, Milkman: "We the

[21] Funded debt is debt for which there is a formal, contractual obligation such as a bond.

common people make the government. We oppose the sales tax as we are only existing now" (LeBlanc to McNair).

Remarkable among the contents of this particular correspondence file of McNair's, both for its position of tacit support for the tax measure and its author, is an editorial submitted to the news editor of the *Telegraph Journal* by the Mayor of Bathurst, one Edward Byrne (Byrne to Editor of *Telegraph Journal*). Byrne would, of course, go on to play a pivotal role in reorganizing New Brunswick public finance in the 1960s through the Royal Commission he headed. His telegram to the editor noted taxes were necessary to pay for public services, like social services and highways, and that "there is no such thing as free government service" (Byrne to Editor of *Telegraph Journal* 1), a factor he lamented that too few Canadians understood.

Smith, Barney's Proposal

While Byrne lamented the fact that too few knew the bills had to be paid, this fact was not lost on the province's bankers. Premier McNair had written to one concerned constituent that without this new sales tax, the province would run a deficit of $2 million in the next budget (McNair to Robertson). To put this into some perspective, total operational spending in 1950 was less than $30 million. This new taxation source, though, was insufficient to satisfy the bondholders. On 21 August 1950, Smith, Barney & Company, the lead investment bank on a syndicate of major brokerage houses, wrote a number of key financiers (including First Boston Corporation; Dominion Securities Corporation; McLeod, Young, Weir, Inc.; and, Wood, Gundy & Co., Inc.) to discuss the province's financial state, urging the readers to study the contents of the enclosure and to attend a meeting to follow four days later at the offices of Smith, Barney at 14 Wall

Street (Hardwick to First Boston Corporation et al). The letter also noted that earlier in August, Smith, Barney had visited Fredericton to make a number of recommendations to the provincial government. While the files at the Provincial Archives do not contain any notes from either this Fredericton meeting or the one that followed at the Wall Street offices of Smith, Barney on 25 August 1950, we do get some sense of what may have been said via a report that arrived a little later that year.

On 3 October 1950 the consortium of major investment banks, led by Smith, Barney & Co. submitted their "Proposals Regarding the Provincial Debt and Related Fiscal Matters" to the McNair government. Looking at the province's planned capital expenditures for the next several years, including those of the expanding New Brunswick Electric Power Commission, and considering the high per capita debt in New Brunswick, the Smith, Barney consortium concluded that without additional revenue, New Brunswick was unlikely to maintain a credit standing required to raise the minimum capital it needed to finance its plans. Then, Smith, Barney and its partners proceeded to read the province the riot act, stating "it would seem, therefore, that some rather drastic revisions in the fiscal plans of the Province are called for and the following suggest themselves to us" (5). Following this rather brusque introduction, Smith, Barney continues with a series of tough measures, beginning with "some tightening of the belt on (the) ordinary account" (5). Further, Smith, Barney advised the province to cut back on its capital expenditures, to improve its debt structure, to increase the amounts going towards sinking funds that would be used to redeem bonds as they mature, to meet its obligations "squarely" and, to adopt and adhere to "realistic fiscal budgets" (5). Perhaps most galling to the premier**,** the Provincial Secretary-Treasurer, and Robert Somers

FitzRandolph, was recommendation number 4: “serious consideration should be given, in our judgment, to employment by the Province of a professional financial manager to assist the Government in its fiscal planning” (5). Essentially, the investment firms would be calling the shots for the next little while and the professional advisor from outside the province was going to keep an eye on things for the moneylenders. If New Brunswick complied, the financial syndicate offered to assist the province in placing between $10 and $12 million of government bonds on the market. The McNair government, with its healthy majority, may have been able to ride roughshod over the Legislative Assembly in terms of financial accountability to the House, but it could not ignore the Canadian financiers and accountants of St. James Street in Montreal, and their American friends located on Wall Street, New York. The McNair government was now dealing with the accountability regime one might call the St. James Street rules. The bondholders could get whatever accountability reporting they wanted or the funds would stop flowing.

Subsequent Orders-in-Council and reports on file at the Provincial Archives of New Brunswick, show that the government did accept this outside advisor, employing James C. Thompson of the accounting firm Peat, Marwick, Mitchell & Co. to provide a written financial check-up on the province every few months. The man from Peat, Marwick acted a bit like a minister of finance, outlining the province’s financial state on a short-term basis and recommending certain actions. Thompson reported a number of times to Premier McNair, beginning in 1951 and continued with a report to the new Flemming administration (Thompson 1953). Thompson’s reports included a combination of an analysis of actual results as well as projections for the coming months. At times, he provided advice on other financial matters, including the spending plans of NB Power.

Thompson was to continue to play some role in public finance for about the next decade, extending his reach into the early days of the Robichaud administration (Treasury Board 60-45).

In addition to accepting the outside administrator looking over their shoulders, the Government of New Brunswick complied with the other Smith, Barney conditions. First, at a meeting of Executive Council, 26 September 1950 (actually preceding the 3 October 1950 report by a few days, though there can be little doubt the government must have known what was coming after that August meeting in Fredericton), the McNair government acceded to an increase in contributions to sinking funds (Smith, Barney and Dominion Securities Corp Exhibit K). Acknowledgement of other conditions accepted, however, would wait until a speech in March 1951 in the Legislative Assembly.

In the Smith, Barney proposal, the brokers also focused attention on the province's inadequate procedures and systems for accounting. In 1948, P. S. Ross & Sons, at the invitation of the premier, had taken a look at the situation in the Department of Public Works, the largest government department. Two years later, this same firm of chartered accountants examined four other departments, with the object of improving accounting control of expenditures "and to provide information for more efficient and economical operation and administration" (Smith, Barney and Dominion Securities 4). Smith, Barney used observations made by P. S. Ross in consulting engagements in various government departments to conclude that the province of New Brunswick suffered from four key weaknesses in its accounting systems. The first of these was the province's failure to control commitments; that is, when a department issued a purchase order or a contract to acquire goods and services, the accounting system remained blind

to the fact. This created a problem for budget control. Managers could easily overspend their budgets, especially later in the year, as they would only know what money had been spent, as opposed to knowing the total of what had been spent and what additional funds had been committed for items ordered. Closely related to this first weakness was a general lack of control over expenditures incurred. The third weakness was that the accounting records had too little detail on expenditures at a departmental level, another problem of control over expenditures. Finally, Smith, Barney noted poor control over revenue receivable, meaning that the province was not collecting all the revenue that it should have been collecting.

To fix these problems, Smith, Barney and Dominion Securities called for more centralization of the accounting functions in government as well as better control over government's daily expenditures and the corresponding legislative commitments for these expenditures. Smith, Barney demanded better controls over revenues of the province, including a move to accrual (versus the cash basis)[22] accounting, and increased recognition of the authority of the comptroller-general over "matters of accounting principle, theory and practice" (Smith, Barney & Co. *Proposals Regarding the Provincial Debt and Related Fiscal Matters* 4). Further, the investors advised the province to integrate its payroll functions through a central payroll bureau and to change the fiscal year end to 31 March to align with its federal government partner on the various joint projects and programs. Smith, Barney and its partners in the consortium were not only

[22] In the accrual basis of accounting, a revenue becomes the revenue of government based on when the critical event occurs. For example, sales tax revenue accrues to the province when collected by the merchant at the time of sale. In the cash basis, the province records the revenue when it receives the cash. If a vendor waits two years to submit it, that's when it gets recorded under the cash basis.

constructing a tight fiscal framework for the provincial politicians; the brokers were also exercising their muscle by getting into the nitty-gritty of accounting practice and procedures. In effect, insisting on better accounting control was a means of protecting their investment.

This emphasis probably had a bit of the "I told you so" phenomenon for Comptroller-General R. S. FitzRandolph (Report to the Provincial Secretary-Treasurer on Certain Financial and Accounting Matters). In 1941, while still serving as assistant comptroller, he had written the provincial secretary-treasurer, calling for some of these same things that Smith, Barney now advocated. As early as 1937, FitzRandolph appealed to the provincial secretary-treasurer for additional resources for the comptroller-general function by pointing out several key accounting and control areas that were going unattended, including the newly formed Old Age Pension Board (FitzRandolph to Richard). Ten years before Smith, Barney, FitzRandolph pointed out the value of changing to a 31 March year end, emphasizing the need to share the same year end as the federal administration that was funneling cash to the province for shared-cost programs (Report on Proposed Change of Fiscal Year End to March 31). As well, he proposed a number of other changes, including the need to first create, then strengthen, the role of the Treasury Board in overseeing government expenditure. The financial legislation had set the legal framework for such a board as far back as 1908 but it was largely inactive.

FitzRandolph though, as comptroller-general, was an employee of the Department of the Provincial Secretary-Treasurer. He did not report to the Legislative Assembly, so his suggestions for improvements in government controls and operations had to be directed inside government. And since his recommendations were directed to those who

controlled his employment and his staffing, FitzRandolph had to be somewhat circumspect in approaching his superiors with suggestions for change. In other words, his recommendations did not have the same moral suasion as that of an auditor general's report tabled in the Legislative Assembly, and widely available to the press, the Opposition, and the public. Unlike the federal system, whereby this time Auditor General of Canada, Watson Sellar, was tabling lengthy reports full of criticism of government methods (Ward), there was no immediate cost to the New Brunswick Executive Council for failing to abide by the recommendations of its internal watchdog, the comptroller-general. The government could ignore FitzRandolph throughout the 1940s and wait until financiers like Smith, Barney, and their man on site, James C. Thompson, insisted certain administrative measures be adopted to help address an untenable financial situation.

For Thompson, this role as consultant on provincial finances may have seemed liked déjà vu. In 1940, the Liberal government of Allison Dysart found itself in somewhat similar financial straits when Montreal financiers would not agree to refinance New Brunswick bonds maturing in the spring of that year unless the administration agreed to accept the help of accountant James Thompson of Peat, Marwick & Mitchell in preparing the provincial budget. Under this pressure, Thompson was invited in by Premier Dysart.[23] Thompson advised the painful measures of new taxes, including a sales tax, and tightening the reins on spending (Young 1988). But it appears that James Thompson was not welcomed with open arms by Dysart's Liberal colleagues. On 8 March, "after long

[23] According to the Public Accounts, James Thompson was paid two amounts during the 1940 fiscal year, $1,779.81 and $304.17. This exceeds the total $1,800 audit fee of P. S. Ross & Sons, indicating Thompson must have worked a substantial number of hours on his assignments. Unfortunately, the report he prepared on the province's revenue structure is not on file at PANB.

meetings of cabinet and the Liberal caucus, Dysart was replaced as leader by J. B. McNair" (Young 132). The new premier defied the bankers. James Thompson was sent packing. McNair would defend his move by declaring "as long as the Liberal Party remains in office we and not St. James Street will write the Province's budget'' (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick*, *1951* 59). In 1940, with a boom in economic activity fueled through federal spending in such areas as increased port activity and troop movements in the province, McNair was able to postpone the financial intervention and speak quite boldly (Francisco; Taylor). As Young observes, by 1950, "the Liberal government had come full circle" (165). James Thompson was back. The bankers and outside accountants of St. James Street were in charge.

Mackay Enters the Debate

In insisting on this type of accountability, the bankers and bondholders were focused on protecting their investment. If the government followed the plan and listened to the advice of Montreal accountant James C. Thompson, the provincial government could have its financing. Indeed, in February of 1951, the province offered a bond issue of $13.36 million. The terms, however, were not overly favourable. As a vice-president of a prominent American firm wrote in his letter to a Canadian dealer, "I was quite shocked to see the rate obtained by the Province. It has been a long time since any Province in Canada has had to sell a 4 percent coupon so this rate was quite a surprise" (Mivalia to McFadgen). He went on to add that as comparators, both Vancouver and Saskatchewan had recent bond issues with a 3.2 percent rate. New Brunswick, a

provincial government, would pay more to borrow than a municipal government. The cost of accountability to St. James Street can be expressed in dollars and cents.

There was nothing in the financiers' plan though that required the McNair government to be frank with the public by declaring the nature of the financial emergency facing the province. Nothing required Premier McNair and his colleagues to have a full public accounting of what might be termed mismanagement of the debt situation. Today, we often hear from the Office of the Auditor General that the New Brunswick is on a dangerous fiscal path. Auditor General Kim MacPherson has said, for instance, "the Province's fiscal situation is not sustainable" (*Report of the Auditor General of New Brunswick 2018. Vol. I* 7) and "I again encourage the Province to set and achieve targets for debt control and reduction" (*Report of the Auditor General of New Brunswick 2018. Vol. III.* 4). But in the days when McNair's government held 47 of the 52 seats in the Legislative Assembly, and with no auditor general looking over their shoulders, the governing Liberals did not have to make any potentially embarrassing statements to the House, the press, or the public.

Yet while the Liberal government may have showed some reluctance to disclose the full extent of the financial restrictions, the badly outnumbered Progressive Conservatives did not. The Leader of the Opposition, Hugh Mackay, was particularly well-suited to address financial issues. Mackay had been senior partner of his own investment firm, Mackay and Associates, and president of another, W. C. Pitfield and

Company (Mr. Hugh Mackay).[24] He understood the financial world of rates and risk very well. In rising in the House in March of 1951 to respond to the Speech from the Throne, Mackay countered the impression that "apparently everything in New Brunswick, every business and every person, is thriving" (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick*, *1951* 52). From Mackay's viewpoint, "the only great expansion I can see now taking place in New Brunswick is a tremendous rise in all our debts and a tremendous rise in taxation" (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick*, *1951* 54). Mackay then proceeded to share with the assembled MLAs a little bit of news about James C. Thompson: "It will soon be general knowledge around the Province that one of the most expert accountants in Canada is now acting as a watchdog of the Provincial Treasury" (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick*, *1951* 60). The government had not told the public about Thompson, but Mackay would certainly do so, perhaps through information received directly from his contacts on St. James Street. Indeed, a few years earlier in the Legislative Assembly, in referring to Mackay's thorough knowledge of the bankers' attempts to intervene in 1940, Premier McNair said "he appears to have been informed on all such points but not through us" (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick*, *1944* 387).

[24] Readers of a certain age might well remember Mackay's successor firm through the 1970s television advertisements with the tag line "Pitfield, Mackay, Ross . . . Choosing us could be your most important investment decision" https://www.youtube.com/watch?v=FzEXH910ZNI.

Whatever its provenance, Mackay then began to refer to the prospectus that accompanied the recent $13.36 million bond issue.[25] Noting that public was probably not aware Premier McNair had supplied the brokers with a letter that formed part of the prospectus, a legal document that outlines various parameters for offerings of bonds or stocks as specified by relevant securities agencies, Mackay began reading from the premier's letter. Mackay noted the stringent steps the McNair government had committed to; a list which essentially replicates the demands of the Smith, Barney consortium to increase revenues, to keep ordinary expenditures at less than ordinary revenues, to restrict capital expenditures, to put the Power Commission on a self-sufficient rate structure, and to pay an increased rate on the sinking funds. As Mackay began to wind down his reading of McNair's letter of assurances to the financial community, he could not seem to resist adding "it's a good thing they bought the ash trays, sofas, etc. last year" (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick*, *1951* 61), a reference to an earlier controversy of Power Commission executives paying $25 for ash trays and $20 for waste baskets, amounts that seem more than a trifle high even at our time.

It was probably not the most comfortable moment for Premier McNair. Mackay's speech was front page news in the next morning's paper (Kilfoil). McNair's "private" letter of the previous month was reprinted in the provincial daily for all New Brunswickers to read with their morning coffee. It was a strange form of financial accountability, but in the absence of a legislative auditor reporting financial condition to the Assembly, it would have to do. Similarly, Mackay had to explain in his speech that P.

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[25] I have made attempts to locate the prospectus at both the PANB and the Legislative Library, but this document does not seem to have been retained.

S. Ross had, in effect, qualified their audit report of the previous year due to the province's failure to record the Power Commission's deficit. Because the amount had been excluded, the reported provincial surplus was really a deficit. Without an auditor general to explain the significance in a written report, at least on this occasion New Brunswickers were fortunate enough to have a public spokesman who understood what that auditors' report meant and could elaborate on it in the Legislative Assembly.

How Did New Brunswick Compare?

It is instructive to ask how the New Brunswick model of using no auditor general compared to its fellow provinces in 1950. Certainly, it was not unique. As noted in chapter two, three provinces in Canada had installed the comptroller-general model on the advice of the same external consultants, Price Waterhouse, Chartered Accountants. In A. E. Buck's mid-century look at Canadian public finance, he expresses disagreement with the comptroller-general model because the same individual is carrying out mixed roles of both chief accountant and auditor. But Buck further observed that "a confused notion of the proper sphere of auditing seems to prevail in the Canadian provinces which is quite similar to that which existed prior to 1931 in the Dominion government" (269). For instance, in Alberta the auditor kept accounts and issued cheques. The Ontario and Saskatchewan auditors had to countersign the cheques of the provincial treasurer. Before 1931, the federal auditor general had acted as both a comptroller, who authorized the spending of money from an appropriation made by Parliament, and then as an auditor who examined the transaction after the fact. As Buck observed, the federal auditor general was, in effect, "an administrative officer part of the time and a legislative officer the remainder of the time – a wholly inconsistent position, to say the least" (134). This

inconsistency was remedied by the R. B. Bennett government through the *Consolidated Revenue and Finance Act* of 1931. Buck observed this Act brought the auditor general's "powers more closely in line with those exercised by the British parliamentary auditing officer" (135), an important consideration given Canada's close ties to the Westminster model.

As Buck surveyed the situation in the provinces at mid-century, he did point out that Nova Scotia had a different set of practices for handling its accounting, auditing, and reporting compared to the other jurisdictions. To a certain extent, he seems to have admired the Nova Scotian model in comparison to its sister provinces, stating that it had "some virtues, particularly when applied to a small province" (135). The current website for the Nova Scotia auditor general notes that Nova Scotia discontinued the Office of the Auditor General in 1926 (Nova Scotia), not long after New Brunswick, Manitoba, and British Columbia wound up their legislative audit offices. Nova Scotia continued with a private sector audit of the financial statements (or public accounts) up until the mid-1990s, although the province did recreate an independent Office of the Auditor General in 1958 with duties for such matters as auditing Crown corporations and performing audits of a broader scope than a pure financial statement examination.

In New Brunswick, similar to the timing in Nova Scotia, the late 1950s may have seen the first tentative moves towards restoring the Office of the Auditor General. After the sudden death of R. S. FitzRandolph in 1958, D. W. Gallagher from the Office of the Economic Advisor took over on the Treasury Board. Soon after, Gallagher wrote H. J. Flemming regarding the Premier's intention "to apply the Federal approach to expenditure control" (Gallagher to Flemming 3). In other words, late in the Flemming

administration, the government was taking notice of the federal *Financial Administration Act*. Further support for this comes from the secretary to the Byrne Commission who observed "that (after much prior consideration and debate) the provincial government is now attempting to adopt measures very similar to those implemented by the federal government in the 1930's" (O'Sullivan 6). New Brunswick, like a number of other provinces was moving towards the federal model of accountability and audit by strengthening its Treasury Board and appointing an auditor general who would serve the Legislative Assembly.

The Robichaud government's move to reinstate the auditor general's office began to be discussed early in its first term, with an Order in Council providing authority for the policy change in 1961 (Order-in-Council 61-813). The government's announcement that an auditor general would be installed was strongly supported by external studies of both the Public Administration Service and the Byrne Commission. But with all the vast social, municipal, and financial reforms of the 1960s in New Brunswick, the new *Financial Administration Act* was not introduced until 1965 (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick*, *1965 - Volume III*). It was then revised and passed in 1966, subject to much debate in the Committee of the Whole. Much of the debate centred on the changes creating two new officers, a comptroller and an auditor general. New Brunswick, after nearly 50 years without an auditor general, admitted a key flaw in the accountability setup established in the 1918 *Audit Act* which remained unchanged through the various amendments up to the 1960s. In introducing the new legislation, the Finance Minister DesBrisay said, "In effect, the present legislation asks the Comptroller-General to do the accounting for one agency and then to audit his

own work for another" (1124). With a keen eye toward the rapid expansion in government, he observed "as public expenditures increase, this combination of duties becomes less and less tenable" (1124). The Office of the Auditor General was on its way back.

Conclusion

This chapter argues that after the abolition of the Office of the Auditor General of New Brunswick in 1918, and the related loss of control by the Legislative Assembly over the expenditures of the executive branch, the premier and his Cabinet colleagues had, as Shirley Tillotson would say, "a relatively unchecked hand " (59).[26] The Legislative Assembly's role in financial monitoring was limited. Financial statements can be complicated and difficult to understand. Terms like accruals, sinking fund, allowance for bad debts, funded debt, capital versus ordinary expenditures, and funds held in trust require some explanation. Without an auditor general to assist them in their deliberations, the opposition did not have all the tools it needed to carry out its own surveillance of the government accounts (Ward). For instance, it was only the sharp eye of Hugh Mackay that spotted a qualification in the 1950 auditors' report and explained to the House exactly what that meant. It is unlikely that most of the members sitting in the Assembly between 1918 and 1968 had Mackay's thorough experience with financial affairs. Further, as Forbes concludes with respect to the Dysart government in the Depression, "although the province was virtually bankrupt, the Liberals were successful in concealing

[26] Tillotson's observations were focused on the federal scene where in the 1920s in Ottawa the auditor general position was unfilled at times. Sometimes a private sector auditor did the annual audit while nobody did it 1923 and 1924.

this from the public" ("The 1930s: Depression and Retrenchment" 303). If the Liberals were successful in concealing it from the public, they must also have been successful in keeping it from the Conservatives. Otherwise, the public would have been alerted by an Opposition rush to the media. Having no auditor general mattered to the party in power.

There was still an external audit of the financial statements each year, but since the external auditors were reporting to the premier of the day and his cabinet, the rest of the MLAs did not have access to all pertinent reports. Key recommendations made by accountants P. S. Ross to government around control over commitments, central to the Legislative Assembly's control of the public purse, were ignored. P. S. Ross had no power to ensure their recommendations were followed. One might even say that they did not care as long as the cheque from the Province of New Brunswick cleared the bank. An accounting partnership is a business. The auditors may have felt a professional obligation to note weaknesses in financial control in their written reports to the executive, but they did not have any power to enforce their recommendations or to report them publicly. Client confidentiality was a key principle. They could explain their recommendations to government and its civil servants. They could urge the executive as to why the recommendations should be implemented. But in the absence of those reports being in the hands of all members of the Legislative Assembly, the government could avoid the potential political embarrassment of having its financial administration criticized in the Assembly and the media.

Yet the executive branch still had to respond to another form of financial accountability during this time. For the 50 years between 1918 and 1967, the government of New Brunswick had an ongoing need to float bond issues and to refinance debt.

Because of this need, the government had to submit to the direct interventions by its financiers and advisors from St. James Street. At times, this included the bankers installing an accountant from a large Montreal firm to perform oversight on their behalf on site in Fredericton. In a sense, we might call him an auditor general reporting to the bondholders.

As Mackay had observed, if New Brunswickers "could not force the Government's hand, the Government bankers and bond-buyers apparently could" (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick, 1951* 62). As Forbes and Francisco noted, the bankers pressed the province in negotiations throughout the 1930s. The bankers were back both 1940 and 1950, imposing their outside accountant, James C. Thompson, to supervise financial matters on their behalf. Though McNair was able to interrupt the imposition of James C. Thompson in 1940, the province's financing needs in 1950 were such that he could not evade the repeat. He had to submit to Thompson as well as a host of accounting and financial reforms. Such were the misfortunes of being offside with the St. James Street rules.

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Chapter Four – The Usual Unusual: New Brunswick's Approach to Auditor Independence (1967-2019)

Introduction

This chapter addresses the audit role in the modern era of public finance in New Brunswick. It describes how New Brunswick became one of the first provincial governments to adopt an audit regime similar to that put in place in Ottawa in the 1930s. As part of the many reforms enacted by the Robichaud administration in the 1960s, the government passed the *Financial Administration Act,* which reestablished the Office of the Auditor General after an absence of 50 years. While being early among the provinces in modernizing the audit role is to be recognized, it has had, however, some lasting negative impacts. These impacts are chiefly in the key area of audit independence. In addition to exploring the development of this new *Financial Administration Act,* this paper will show that since 1968 the province has appointed four auditors general (out of the total number of seven) who were or are in conflict with the accounting profession's rules on independence. Despite this conflict, there has been almost no protest about these violations from the political class, the public, the press, or even the accounting profession, a disturbing phenomenon that has continued to the present.

In the years after New Brunswick abolished its Office of the Auditor General in 1918, the province had an audit and accountability regime similar to most of the other provinces. In A. E. Buck's 1949 seminal work on public finance in Canada, one striking finding was his observation that "a confused notion of the proper sphere of auditing seems to prevail in the Canadian provinces which is quite similar to that which existed prior to 1931 in the Dominion government" (269). That is, in most of the provinces part

of the time the chief auditor, (known as the auditor general in some jurisdictions or the comptroller-general in others), was a part-time administrator within government and the rest of the time he was a part-time servant to the legislators. Though the federal auditor general had functioned under the same model for some time in the earlier part of the century, the Bennett government corrected the problem via the *Financial Administration Act* of 1931. Prior to passing this piece of legislation, the federal auditor general had to pre-authorize the expenditures of government, much the same as his provincial counterparts. Then these auditor generals had to audit those same expenditures for Parliament or the Legislative Assembly. As Buck rightly observed, this was "a wholly inconsistent position, to say the least" (134).

In addition to putting auditor/comptroller-generals into a difficult conflict of interest, this work of pre-auditing expenditures must have grown to be quite a burden in the years of expanding government associated with the rise of the welfare state. If we look at provincial expenditures for all provinces in the years associated with the growth of the welfare state, they grew from $665 million in 1947 to $6.658 billion in 1967, roughly speaking a ten-fold increase (Bird). That is a lot of growth in spending for an auditor to pre-audit before the cheques could be signed. The Ontario office had a legend that one auditor general, Gordon Brown, assigned employee F. H. Lee to sign cheques on the office's behalf as Lee had the shortest signature among the audit staff (Ontario). A shorter signature sped up the job. Considering that Brown left office in 1938, one can well imagine that the increase in pre-audit workload opened up a space for many more people with signing authority between then and the 1960s.

In the 1960s and 1970s, several Canadian provinces introduced new legislation on financial administration. Part of this legislative wave sought to remove the conflict of interest inherent in the jobs of those called comptroller-general, auditor general or provincial auditor, by setting up clear legislative boundaries between the audit and accounting functions. No longer would the one signing the cheques also be reporting to the legislative branch on the propriety of those expenditures. New Brunswick was one of the first provinces to make these changes. Early in its first term, the Robichaud government passed an Order-in-Council establishing its policy to separate the comptroller-general function into separate auditor and comptroller positions (Order-in-Council 61-813). New Brunswick was not far behind its neighbour Nova Scotia, which had legislated a new and independent auditor general in 1958 after having been without one since 1926 (*History*).

Manitoba followed suit in 1969 (Manitoba). Quebec passed legislation to set up an independent auditor general in 1970, through an act having a couple of best practices (McInnes), practices that other jurisdictions would take a while longer to adopt.[27] Prior to this time, Quebec's provincial auditor had a close association with the provincial treasury department, clearly impinging on auditor independence. In 1977 British Columbia abandoned its old comptroller-general model, one similar to the one New Brunswick replaced a decade earlier (*Comments on Independence and Objectivity*). Alberta changed to the modern auditor general model in 1979. Up until that year, the provincial auditor kept the province's key book of accounts, known as the general ledger, while also

[27] For one, McInnes supported that the legislative auditor should be hired and dismissed by the Assembly.

handling the payroll for the government, and carrying out the cheque signing, just like F. H. Lee in Ontario. Speaking of Ontario, though the provincial auditor had received some strengthening of independence via the 1950 *Audit Act,* it was not until the early 1970s that the auditor ceased doing the heavy administrative activity of pre-auditing all payments (Ontario). Throughout the 1960s and 1970s, provincial auditors moved away from this heavy pre-auditing of all these increasing expenditures to a more manageable post-audit of a sample of both revenues and expenditures. It was not practical to audit everything. Sampling was taking over as a beneficial technology of efficiency in the auditing ranks. It was probably some combination of the sheer work demands of this overwhelming volume of the pre-audit of expenditures, and the concerns of observers like Buck over the "wholly inconsistent position" (134) of having one officer serve as both an administrator and an auditor, that began to prompt provincial governments in this era to reconsider their auditor/comptroller-general models.

The Financial Administration Act

As noted, Order-in-Council 61-813 clearly established the Robichaud government's policy to separate the audit and accounting functions. Louis J. Robichaud had a strong interest in administrative reform (Stanley) and this move to equip New Brunswick with an independent auditor general reporting to the Legislative Assembly seems to fit squarely within this bent. Stanley points out "Robichaud had recognized, even before he came to power in 1960, that the civil service needed to be expanded and moulded into a more efficient advisory decision-making and policy-formulating body" (91). Robichaud began these administrative moves very early in his mandate. Less than a month after being sworn-in, the government called for a survey of its data processing

capabilities, with a view towards centralization (Treasury Board Minute TB 60-22). Within the first few months of its mandate, the new government sought outside consulting assistance to help with its reorganization of administration. First, Payne-Ross, the management consulting arm of the financial auditors, Touche, Ross, Bailey and Smart, was engaged to recommend changes to help with budgetary control, to improve internal reporting of expenditures, and to "reduce bottleneck operations" (Treasury Board Minute TB 60-45).

The most comprehensive of the consulting engagements, however, and the one which would address the issue of restoring the Office of the Auditor General was that undertaken by the Public Administration Service from Chicago. The Public Administration Service began its work in May 1961, less than one year after Robichaud had defeated Flemming (Ricketts to Murray). In January 1962, these Chicago consultants began releasing their comprehensive findings in several reports, each one focusing on particular aspects of government administration. Most germane to the auditor's role was *Report II: Financial Management and Administrative Services in the Provincial Government*. In addition to discussing various accounting and control matters, *Report II* observed that the Robichaud government had already recognized the problems inherent in the comptroller-general model and that the government was drafting legislation to separate the audit and accounting functions by creating a provincial auditor general. The Public Administration Service strongly supported this move to create this independent position to serve the legislators (II-40). In other words, Robichaud's Chicago consultants were solidly in his corner on the issue of restoring the Office of the Auditor General.

In addition, the November 1963 *Report of the New Brunswick Royal Commission on Finance and Municipal Taxation* – the Byrne Report – echoed the Public Administration Service in supporting the government's move to reinstate the auditor general. Byrne saw the auditor general as playing a key role in addressing public apathy and assisting in control of public spending. His report described the auditor general as "a watchdog appointed by the Legislative Assembly" (Byrne et al 318), and he emphasized the importance of the "watchdog" reporting only to that body. Byrne's report also urged the government to legislate the auditor general as the auditor of all municipal spending in addition to all provincial accounts. As the commission observed, examination of both levels of government was required as "the provincial government is responsible for the totality of government functions performed in this province, both directly by it and the municipalities" (Byrne et al 318). The new legislation though, did not include the municipalities in the auditor general's scope. Similarly, the legislation did not follow Byrne's advice on auditor independence either.

In 1966, after extensive debate, the Legislative Assembly passed a new *Financial Administration Act* to set up the Office of the Auditor General and carry out a number of other financial changes. The Office would not actually be constituted until 1967 (Parr to Tansley) with the first reporting in 1968. To a fairly large extent, this enabling legislation in New Brunswick followed Buck's advice to adopt legislation similar to the federal government's *Financial Administration Act*. Indeed, in introducing the legislation to the Assembly, Finance Minister L. G. (Dud) DesBrisay said that the province had borrowed heavily from the federal legislation, taking "roughly 50 sections out of 75" (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick*, *1965 - Volume*

III, 1124). DesBrisay was assisted to a considerable extent by W. L. Parr (Parr to Tansley), a director with the federal comptroller's office who helped to draft the new legislation. As well, New Brunswick received "valuable advice and assistance" from H. R. Balls, the federal Comptroller (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick, 1965, Vo1ume III,* 1125).

In New Brunswick, after nearly 50 years without an auditor general, the Robichaud government was moving to address a key flaw in the arrangements for financial accountability created by the *Audit Act* of 1918. In introducing a new *Financial Administration Act*, Finance Minister DesBrisay focused on the independence problem inherent in the old *Audit Act*, noting "in effect, the present legislation asks the Comptroller-General to do the accounting for one agency and then to audit his own work for another" (1124). In a later speech DesBrisay acknowledged the comptroller-general was a government officer, serving the Executive Council, not the Legislative Assembly (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick, 1966, Vo1ume I*). He could not be independent of government. As Buck so aptly noted a few years earlier in his discussion of the comptroller-general model in Canada, "there can be little wonder that the audit findings, under these circumstances, are either entirely lacking or seem confused, incomplete, and generally unsatisfactory" (269). This comptroller-general was in a difficult position of doing two jobs; an officer in the executive branch of government most of the time and a part-time servant of the Legislative Assembly on occasion.

DesBrisay also observed this audit independence was now more crucial. With government growing, combining the duties of audit and accounting in one officer, the

comptroller-general, "becomes less and less tenable" (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick, 1965, Vo1ume III,* 1124). Certainly, the government expenditures in New Brunswick had increased rapidly in the years following the Second World War with the growing list of federal-provincial funding arrangements. Just around the corner, beginning 1 January 1967, the Robichaud government was going to assume several municipal government functions under the Equal Opportunity banner. The conflicting duties of the old comptroller-general model were going to be even more problematic in a transformed province.

The new *Financial Administration Act* addressed this by creating two new officers and eliminating the position of comptroller-general. First, the act created a comptroller, an employee of the Department of Finance who became, in DesBrisay's words, "the chief accounting officer of the government" (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick, 1965, Vo1ume III,* 1125). Second, the new legislation created a second officer, the auditor general. DesBrisay spoke of how the government established the auditor general's independence, a status he viewed as "essential for the proper performance of his duties" (1125). If we think back to Norman Ward's principles and rules for governing the public purse under the Westminster model, New Brunswick was moving forward with the notion of an independent auditor reporting directly to the Legislative Assembly.

Or was it? As an early adopter of the modernized auditor general model, it is important to see if New Brunswick had approached the whole question of independence according to the accounting profession's guidance and standards. New Brunswick, as an early adopter, moving faster than larger provinces like Ontario, British Columbia, and

Quebec, made some key compromises in defining audit independence. Since restoring the Office of the Auditor General in the 1960s, four of the seven auditors general have moved directly from the position of comptroller to auditor general, without the benefit of any cooling-off period (See Table 4.1). One day a chartered accountant was the chief bookkeeper; the next the same chartered accountant was the auditor of those books. Such a transition raises questions about how the province responds to the way the profession has articulated auditor independence. As Appendix A shows, New Brunswick is an exception in Canada. Most jurisdictions have never gone down the road of appointing someone inside government to the auditor general's chair. In New Brunswick, however, we have an "usual" occurrence of an "unusual" appointment process, where more often than not the comptroller's job is a stepping-stone to the more public role of auditor general.

Table 4.1 - The Seven Auditors General of New Brunswick

Period	Auditor General	Previous Position/other notes	Apparent Independence Issue
1967 – 1977	William McNichol	Comptroller-General, Province of New Brunswick	**Yes**
1977 – 1983	W.D. (Duke) Cumberland;	Senior executive in Office of the Auditor General, Province of New Brunswick	No
1983 – 1993	John S. Astle	Comptroller, Province of New Brunswick	**Yes**
1993 – 1997	Ralph W. Black	Retired Partner, CA firm	No
1997 – 2005	Daryl C. Wilson	City Treasurer, City of Saint John	No
2005 – 2010	Michael Ferguson	Comptroller, Province of New Brunswick	**Yes**
2010 –	Kim MacPherson	Comptroller, Province of New Brunswick	**Yes**

Given that independence is a question of both appearance and fact, we are left wondering how the various power structures in New Brunswick political circles and the accounting profession approach the subject of independence. New Brunswick has adopted a rather unusual manner in dealing with auditor general independence, one that runs contradictory to written professional guidance on the subject. In chapter one, Table

1.1, this dissertation introduced an important self-assessment tool for accountants known as the Five Threats to Independence (Self-Interest, Self-Review, Advocacy, Familiarity, and Intimidation). As noted, on every audit engagement each member of the audit team must assess their standing with respect to each of these threats. If any member has even one threat that cannot be mitigated sufficiently, that accountant should resign from the audit team.

In the case of both DesBrisay's and Buck's criticisms of the comptroller-general model, they were effectively recognizing the threat of self-review. The outside reasonable observer would have every right to question how objective an auditor could be in criticizing their own work. Taken together, these two aspects of independence, fact and appearance, form "the foundation for public confidence in the reports of assurance providers" (CPANB 31). In short, independence is essential to the value of an auditor's assurance work and to protecting the public. And protection of the public is foundational to professional discourse in maintaining accountancy as a self-governing profession.

What Did the New Act Say About Independence?

In examining the new *Financial Administration Act*, assented to on 10 June 1966, we can see that the auditor general's independence was somewhat compromised from the beginning. Perhaps most importantly, the auditor general would not be appointed by the Legislative Assembly. Much like the private sector auditors Price Waterhouse and P. S. Ross & Sons who were hired directly by the premier of the day, the auditor general would be appointed by the Lieutenant Governor in Council (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick*, *1966 - Volume I*). In other

words, the Cabinet under the direction of the premier would choose the auditor general.[28] The files of the Byrne Commission indicate that earlier in the 1960s, the intention seemed to be that the auditor general's "appointment and pay would be under the control of the legislature" (O'Sullivan A.7). The Public Administration Service in their extensive consulting reports offered that while the auditor general might be nominated by Cabinet, the nomination would have to be ratified by a two-thirds vote of the Legislative Assembly. By the time the government created the new position, however, government, and not the legislature, controlled both appointment and pay. The Legislative Assembly was not even part of the appointment process.

Closely related to the appointment process are the provisions for dismissal. Here too, the Robichaud administration lessened the auditor general's independence. Byrne seemed to understand that the auditor general would only be removed from office by a vote supported by two-thirds of the MLAs (O'Sullivan). Similarly, the Public Administration Service had advised that the new auditor general "would serve for life on good behavior unless removed by a two-thirds vote of the Legislative Assembly" (II-40). The consultants from Chicago further emphasized their point by saying "establishment of the office with these appointment and removal provisions that make the Provincial Auditor a truly independent voice and arm of the Legislature is so necessary as to seem non-controversial" (II-40).

The Liberal administration though, did not see things quite the same way. Instead, the new *Act* allowed the government to dismiss the auditor general by a simple majority

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[28] One former Cabinet member interviewed said that in his recollection, "other than perhaps the finance minister, the premier's office, there would be little involvement from other cabinet ministers on the (auditor general) appointment process" (Richard).

vote in the House. In New Brunswick's long history, minority governments are rare. Therefore, at most times a simple majority means those in power can remove the auditor general at will. As one Progressive Conservative member noted, "if the cabinet or the government wants to fire the Auditor General, he is fired. . . . Let's face the facts" (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick*, *1966 - Volume I* 316) . Granted, there may be a public relations backlash in the face of such a move, but governments have faced and survived far greater than that.

Effectively, the Robichaud government was imposing what accountants now call an intimidation threat on their new legislative officer. This type of threat can occur when it appears the auditor may feel threatened in some manner by the client. For a private sector auditor, such a threat can occur when a client hints that they may not pay the audit fee, or that they are considering changing auditors next year, unless the current audit yields their specified result. For an auditor general, looking forward to a reasonably comfortable salary and eventual government pension, early termination by vote of a straight majority of whipped government members in the House might create an appearance that an auditor general would hold back on the tough findings. And as we have seen with independence, appearance is at least as important as fact.

This two-thirds versus simple majority provision was the subject of significant debate during the 1966 Committee of the Whole hearings on Bill 4, the new *Financial Administration Act*. Former provincial treasurer D. D. Patterson, who had served as a minister in the H. J. Flemming administration, zeroed in on the fact that the new auditor general position had less security of tenure than the former comptroller-general (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick*, *1966 - Volume*

I). Since the Foster government's *Audit Act* of 1918, a government could only dismiss the comptroller-general with cause and the support of two-thirds of the members of the Legislative Assembly (Act to Provide for Auditing Public Accounts). Now this new and supposedly more independent officer, the auditor general, could be dismissed more easily than this former servant of the executive, the comptroller-general. A. E. Stairs, another Progressive Conservative member focused in on this anomaly, noting that given this change regarding dismissal of the auditor general, "how independent is he?" (313). G. E. McInerny also stressed his opinion that the auditor general should be dismissed only on a two-thirds majority vote in the Legislative Assembly. Carleton County representative, F. A. McCain, wondered how despite DesBrisay's lofty language, this new legislation gave the Legislative Assembly "more control of expenditures instead of less" (313). For members of the Opposition, those who would probably benefit most by the frank disclosures of an auditor general, the impacts on auditor independence were clear and obvious. Despite these well-argued objections, however, the government did not amend the legislation.

These provisions were also of concern to the new auditor general, William McNichol. In January 1971 he wrote to then Minister of Finance Simard, asking that the *Financial Administration Act* be revised. McNichol sought a two-thirds vote for removal of the auditor general and he also recommended that his salary be equivalent to the Ombudsman, a legislative officer where independence of appearance was also crucial. Indeed, as a former comptroller-general, McNichol had previously enjoyed the protections of the two-thirds vote. As auditor general, his security of tenure was lessened by the simple majority vote. His letter stressed that these important revisions would give

the auditor general "the degree of independence that is rightfully required for the discharge of his duties" (McNichol to Simard). There did not appear to be a lot of sympathy within the ranks of the civil service for W.A. McNichol's concern. A senior civil servant briefed Simard in how to respond to McNichol's request by noting the Robichaud government chose the simple majority path to "retain some freedom . . . to dismiss an Auditor General should the need arise" (Williamson to Simard). Impinging upon an auditor general's independence was indeed by design.

Another restriction on the auditor general was a requirement that his reports be delivered to the Legislative Assembly through the minister of finance (*Financial Administration Act*). Granted, if the minister did not carry out his responsibility to table the report, Section 20 (3) of this new legislation did require the auditor general to table it directly within ten days of the House opening. Nonetheless, this reporting through the minister, as opposed to reporting directly to the House, sent a certain signal that the auditor general was still part of the bureaucracy, not a separate legislative officer. His independence was compromised. As well, the minister of finance could essentially control the timing of the report's release, allowing the government to be well prepared for any findings. This matter would remain a problem until 1981 when the auditor general received his own act and became an officer of the Legislative Assembly *(Report of the Auditor General of New Brunswick 1995).*

Duke Cumberland, who replaced McNichol in 1977, began carrying out a public relations campaign to secure this legislation shortly after his appointment. He did this largely through direct requests contained in public *Reports of the Auditor General of New Brunswick,* progressively strengthening his position each passing year. His actions in this

regard were supported by the best practices advocated by McInnes in his 1977 survey of the provincial audit functions where he stated, "generally it is agreed that separate legislation clearly exhibits the independence of the Auditor from Treasury and cabinet" (54). Beginning with his 1978 report, Cumberland highlighted how other provinces were securing such separate audit legislation "to guarantee the independence of the Auditor General and to recognize the unique responsibilities to the Legislative Assembly" (2). In his 1979 report, Cumberland noted that he had been encouraged by the response to his previous year's request for new legislation, and he had taken the liberty of preparing a draft of an audit act based to a large extent on a 1975 federal Report of the Independent Review Committee on the Office of the Auditor General.[29] The next year, 1980, Cumberland stepped up the public pressure by pointing out that although he had forwarded a draft of his proposed legislation to several key government ministers, he had "not received a response as to the action, if any, being contemplated on this matter" (2). Perhaps that was enough to create the climate for change as, in his 1981 report, Duke Cumberland was "pleased to report that a new audit Act (Auditor General Act) received Royal assent on 17 July 1981" (2). The four-year campaign was successful and the New Brunswick legislative auditor was now reporting directly to the legislators rather than through the executive branch.

One last problem inherent in this 1966 *Financial Administration Act* was that the Office of the Auditor General's own financial records would be audited by an auditor appointed by the Treasury Board (*Financial Administration Act*). In effect, the

[29] Much of this Review Committee's Report had been incorporated into the first federal *Auditor General Act*, proclaimed 1 August 1977.

government being audited by the new auditor general would choose who would audit him. Again, in terms of appearance, it's certainly not the best model for independence, particularly since until very recently the government chose the Office of the Comptroller to audit the Office the Auditor General. With the same two parties auditing each other, the situation raised threats of familiarity, intimidation and self-interest.

DesBrisay had stated that the new *Financial Administration Act* would "guarantee the supremacy of the Legislature in matters of financial management control" (*Synoptic Report of the Proceedings of the Legislative Assembly of New Brunswick*, *1966 - Volume I* 311). Yet, when we consider the auditor general could be appointed without involving the Legislative Assembly, could be dismissed by a simple majority of the House through the party in power, would be reporting to the House through the minister of finance, and would himself be audited by the government's chosen auditor, the nature of this supremacy was muted by legislation, rather than being guaranteed. Though DesBrisay's speech identified independence as a value, the government ignored the advice of the experts like Byrne, the Public Administration Service, Ward, and Buck in articulating that value, thereby restricting the scope of the new audit office's independence. We might say that the Robichaud administration was choosing a "made in New Brunswick" definition of auditor independence, one which benefitted the party in power.

Why did the Liberal administration choose to impose these restrictions on the auditor general, particularly given the attention focused by Opposition members on the issue? One explanation could be that since New Brunswick was one of the first provinces to move ahead with an auditor general model, it didn't have the benefit of having several recently revised acts from other jurisdictions. For instance, had New Brunswick waited a

couple of more years, it could have benefitted by examining the much stronger provisions of the Quebec legislation, one which required the auditor general to be both appointed and dismissed by the National Assembly (McInnes). But there could have been another factor at play.

It is well established that the Byrne commission report formed the basis for much of the Robichaud government's Equal Opportunity reforms. As noted, Byrne strongly supported the auditor general initiative, and, further, he recommended the auditor general should be the auditor for all municipalities in addition to all provincial revenues and expenditures. But the government did not implement that part of the report. Byrne would declare in later years that "all of Equal Opportunity is in the Byrne Report, but not all of the Byrne Report is in Equal Opportunity" (Veniot 7). In particular, Robichaud rejected Byrne's recommendations for independent administrative commissions. Stanley describes the disagreement as follows:

> Byrne placed considerable faith in the proposed administrative commissions as a means of countering the dominant influence of the central government. 'I was not prepared to kill off a bunch of little tigers,' he said, 'and create a man-eater.' Destroying the counties should not mean that Fredericton would become all powerful. Robichaud, however, had no liking for faith in such a go-between jurisdiction, seeing it only as a dangerous tool of political patronage. Like a traditional Canadian politician, Louis jealously treasured the power of his office to build roads, hospitals and schools, wherever his government thought they would be of the greatest benefit, politically and economically. He did not want to share this form of patronage with a number of administrative commissions. (142).

Stanley noted that in a personal letter Byrne "implored" (182) Robichaud to implement the full report or to reject the whole thing. In the Veniot article, Byrne actually refers to Robichaud's action as a "double-cross." This jealous guarding of political power and patronage may have also influenced the restriction of the auditor general's limits.

Better to keep the auditor general on the shorter rope of a simple majority dismissal, particularly in the face of the vast government expansion of the 1960s, when increased spending could well have created increased opportunity for government spending abuses, a rich area for audit investigation. Should an auditor general range too far and wide, a government had the means to rein him in.

As Norman Ward observed, the legislative auditor must be independent and "responsible only to Parliament" (4) to fully serve the legislative body through his reporting. Indeed, we might say that being responsible only to Parliament is part of what makes the auditor general independent. In New Brunswick, the new *Financial Administration Act* gave some hints that a strong and independent auditor general might be a problem from the start. In the section that follows, we will see that not only did this legislation create problems on the independence account; successive governments have also negatively impacted on the concept of auditor independence through their choice of auditor general.

Two out of (the First) Three Ain't Bad, At Least in NB

When introducing this new *Financial Administration Act* to the Legislative Assembly, there certainly was an emphasis on the word "independence" in DesBrisay's description of the legislation. We have seen though, that the *Financial Administration Act* restricted the degree of independence through certain of its provisions, particularly with respect to appointment by the executive and dismissal by a simple majority in the Legislative Assembly. Did the various governments of New Brunswick also impair the appearance of auditor independence by their choice of appointee for auditor general?

A look again at the Five Threats to Independence suggests the answer is “yes,” or, at the very least, a strong “maybe.” Remembering the equal importance of appearance in the accountability equation, “maybe” may be enough to reject an applicant. Two of the first three auditors general, William McNichol and J. S. Astle, moved directly from the role of chief accountant for the executive branch into the auditor general’s chair. By looking at the choices of Premier Robichaud and his successor, Richard Hatfield, in the earlier days of the Office of the Auditor General, we can see New Brunswick had an independence problem that seemed to cross the party lines as well. This created a problem of bad precedent for New Brunswick, as in later years, when the standards on independence became even more explicit, some of those defending appointing a comptroller to the auditor general’s position would refer to the past experience in New Brunswick as support for their current decision. In fact, the word got around. When the Liberal administration in British Columbia tried and failed to make their former comptroller into an auditor general, Finance Minister Carole Taylor tried unsuccessfully to defend the appointment by noting that New Brunswick had similarly appointed its comptroller to the auditor general post (Kines "Auditor's Objectivity Questioned”).

William McNichol, the first appointee, was heavily involved in government administration prior to being appointed auditor general, having served for many years in the Office of the Comptroller-General and finally becoming comptroller-general himself. Therefore, he certainly would have faced aspects of the Five Threats to Independence even if they weren’t quite so clearly articulated as they are today. For example, he was thoroughly familiar with senior government officials, having served on treasury board in addition to his comptroller-general’s post. The reasonable observer could well conclude

this familiarity could make it hard for him to audit those same officials. As well, he was part of a three-person team to draft legislation for the government's new financial systems in the 1960s (O'Sullivan). McNichol also served on the Accounting Review Committee of senior government managers (*Accounting Review Committee Minutes*). William NcNichol was an insider in the executive branch, who was then expected to become an independent servant of the Legislative Assembly, a transition that would at least have the appearance of difficulty.

This discussion of McNichol's committee work leads to consideration of another threat to independence: self-review. That is, an auditor is not perceived to be independent if he or she reviews their own work. William McNichol was responsible for bookkeeping and accounting systems, as well as developing the financial legislation. As auditor general, he would not only be viewing accounting decisions he had made or influenced, but also the structural framework of systems and legislation that supported it. For example, as comptroller-general McNichol had been responsible for installing the government's accounting systems. An auditor in the Office of the Auditor General who discovered a serious error in one of these systems McNichol had installed as comptroller, might have been reluctant to bring this issue to the attention of his new boss, Auditor General McNichol. He was responsible for so much for so long that he was in a difficult position to avoid the threat of self-review.

The 1960s in New Brunswick was a time of standardization of ethics in the New Brunswick Institute of Chartered Accountants (NBICA). In November 1964, D. L. Johnson, President of the Canadian Institute of Chartered Accountants visited New Brunswick where he spoke to the NBICA of his desire to see all of the various provincial

institutes adopt a uniform code of ethics (NBICA 1962-1965). Johnson felt this consistency would create a very positive view of the profession by outsiders. Given that except for some small differences in timing, most provinces had been adopting similar rules of conduct, Johnson's request was certainly reasonable (Neu and Saleem). New Brunswick formally addressed the code of ethics issue in 1965, adopting a list of 31 rules. (NBICA 1962-1965). Dud DesBrisay's new *Financial Administration Act* turned his former comptroller-general into an auditor general in this context of independence.

Rule 3 of these Rules of Professional Conduct adopted by the NBICA at the 1965 annual meeting prohibited a member from providing an opinion on the financial statements of an organization where the member or their immediate family had a substantial financial interest. Similarly, members had to avoid audits where they had "any other interest which could materially influence the independence of the member" (NBICA 1965-6). This phrase "any other interest" could be construed to cover things such as strong familiarity with the senior players in government and having worked extensively on government's internal systems and policies. Rule 3, however, did provide the member with an out that is no longer allowed in current professional guidance. Rule 3 concluded with the conditional phrase "unless the report discloses such interest" (NBICA 1965-1966). In other words, if the audit report clearly stated the member's independence issue, he could conduct the audit.

To some extent, William McNichol did adopt this approach, at least in his first report in 1968. McNichol mentioned that he did not take office until 1 October 1967 and that the accounting records of the province were under his supervision until then. Therefore, he carried out the financial audit jointly with Touche, Ross, Bailey and Smart,

the successor firm for P. S. Ross and Sons (*Report of the Auditor General of New Brunswick 1968*). McNichol used the indirect statement "it was agreed" the audit "should be done jointly" (8).

In the files for the Byrne Commission there is a letter from Cabinet Minister Joseph E. LeBlanc that speaks to his understanding of audit independence, as a member of the executive branch. At one point in his work, Byrne disclosed to LeBlanc that he wished to engage the consulting arm of P. S. Ross to assist in some analysis. LeBlanc asked Byrne to defer engaging the firm until he could speak to the Treasury Board, noting that since P. S. Ross was the auditor of the province, he wanted to "be sure that there will be no conflict of interest" (LeBlanc to Byrne). In other words, at least one person in Cabinet clearly knew there was such a thing as the appearance of independence and wanted to consult his Treasury Board colleagues on the implications. LeBlanc was still a member of Cabinet in 1966, but whether he raised the independence issue in McNichol's appointment is unknown.

In the NBICA minutes book nothing appears regarding William McNichol's appointment. While it is probably too much to call this unusual, it should be noted that in the Minutes of Council of 9 December 1959 the council did make mention of William McNichol's promotion to comptroller-general and agreed to forward a letter of congratulations to him. At the meeting of 14 January 1966, Council reviewed the pending *Financial Administration Act* but decided to make no suggestions as members felt "the wording was favourable to C.A.'s" (NBICA 1965-1966). In other words, after reviewing the proposed legislation, the Council was confident that a chartered accountant, rather than a member of a competing organization of accountants, would be appointed as the

auditor general. This seems like an element of a standard professional project where the members' attention is focused on building accountancy. As long as the candidate was a CA, the members of the profession seemed fine with the other provisions. It should also be noted that in August 1965, McNichol became a member of Council. This tells us two things. One, McNichol knew, or should have known, Rule 3, newly adopted by the NBICA that year. But, perhaps more importantly, McNichol's presence on the board would have made it uncomfortable for Council to contest the issue of his independence. Even if some members felt he should not have been given the auditor general's post, it probably would have been difficult to speak against a colleague in a small group while sitting around the same council table.

In his first report, William McNichol also offered additional intriguing commentary regarding his new role. In explaining limitations to his first report, he stated that in the six months following 1 October 1967, much of the Office of the Auditor General's work "was devoted to phasing out the accounting functions formerly performed by the Comptroller-General" (8) and assisting the new comptroller in taking on his functions while maintaining proper accounting controls. The whole audit office was essentially tied up with the accounting and control functions throughout the transition year, casting doubt on the appearance of independence of all the staff. For all intents and purposes, the new Office of the Auditor General was carrying out managerial services for the new comptroller and the province of New Brunswick. Rules have become much more explicit about the independence of an auditor carrying out substantial management services for a client, particularly in the aftermath of the Enron crash. But long before Enron, many auditors were trained using a classic text, *The Philosophy of*

Auditing. Would-be chartered accountants in this region were required to study this book up until the early 1980s. Therefore, it offers a contemporary perspective on professional discourse surrounding the appointments of both McNichol and Astle. Mautz and Sharaf, writing in 1964, prior to the *Financial Administration Act* and McNichol's appointment, stressed that if auditing was to continue as a respected profession, "it must be and must appear to be quite independent" (224). The authors concluded the roles of auditor and management consultant were incompatible. "This incompatibility leads to no other solution than the desirability and indeed the necessity for a separation of these two types of service" (224). You cannot be the helpful consultant one day and the objective auditor the next. According to his own Report, McNichol's whole office was launched into this uncomfortable territory in year one of his mandate. This clouding of independence would have lasted beyond the initial year with the audit office having been so closely entwined with the accounting functions in that transition.

McNichol was succeeded in 1977 by Duke Cumberland, one of the senior office staff. In December 1982 Premier Richard Hatfield announced a number of transitions within the senior ranks of the civil service. In addition to shifting some personnel, he also recognized two women by promoting them to be the first female deputy ministers in New Brunswick.[30] He also revealed that the current auditor general, Duke Cumberland, would be retiring early in the new year to be replaced by the comptroller, John S. Astle, in

[30] Richard Hatfield may have missed an excellent opportunity to advance a female to a deputy-level post when he chose W. D. Cumberland as auditor general in 1977. The other obvious choice would have been Erma P. Morrison, CA, a female chartered accountant with considerable tenure who went on to win a nation-wide competition as the first auditor general of British Columbia. As the first female auditor general in Canada, Morrison became somewhat of a legend. One source indicates that the premier's first choice may have been Morrison but she chose the BC post instead (Anonymous #2).

February (MacDonald). In effect, rather than being announced separately as a new legislative officer, this transition was treated just like any other shuffle within the senior civil service ranks. The appointment seems like it is a natural progression; take the accountant who was comptroller and make him your next 'independent' auditor general.

As a former comptroller who had previously served in a senior role in the rapidly expanding health department, Astle would have faced the same concerns around the appearance of independence as McNichol, but there appears to have been no media discussion of the matter.[31] The way the media announcement reads, it is as if John Shearer Astle was just being shuffled to any other civil service executive post. When McNichol's appointment occurred, the government made a separate news release to disclose the new auditor general and his duties to the press and the public. Years later, Steven Salterio, J. R. Smith Chair of Accounting and Auditing in the Smith School of Business at Queen's University, and a renowned governance expert, criticized the practice of naming an auditor general as 'just another deputy minister' during a shuffle process. At the time of Kim McPherson's appointment in a similar shuffle, Salterio commented that "the way that the new auditor general was appointed, they treated it as if the Auditor General's Office was just another deputy minister. That is not the case" (McHardie). An auditor general is supposed to be a servant of the Legislative Assembly, as Norman Ward so clearly declared, and crowding the appointment in with a long list of senior government staffers blurs those lines. We can think back to the days when Buck wrote of a confused notion of independence. The confused notion appears to have

[31] Astle had just finished a term as president of the New Brunswick Institute of Chartered Accountants, so the profession may have had the same uncomfortable vantage point to raise the independence issue as it had in the case of former Council member, William McNichol.

continued into the Hatfield regime and to have impacted John Astle in more ways than one.[32]

There certainly is sufficient evidence to say that, even by the independence standards of the time, it is difficult to see how a comptroller could so easily become an auditor general in 1967 or 1983. Yet, there was no significant reaction to the appointments. Two individuals I spoke with did seem to recall that John Astle was asked one question about the transition during one of his early appearances as auditor general at the Public Accounts Committee. But the recollection was that this was a very minor matter, treated in a light-hearted fashion by the new auditor general (Robinson).

A comptroller's work on transactions, systems, and policies would impact government operations for many years into an auditor general's tenure. Salterio offered that "it is very difficult to see what exactly the auditor general could be auditing either financially or operationally that would not bring them in conflict through what they previously worked on" (McHardie). Having established systems, policies and practices, a comptroller turned auditor general would be revisiting his own work for years to come. It is far from a simple matter of not doing the audit during the transition year or doing a joint audit with a private firm for one year as McNichol did.

We cannot give a free pass to William McNichol, John Astle, those that appointed them, or those that maintained an eloquent silence around their appointments. There were written rules on independence and the prominent guidance of Mautz and Sharaf to guide auditors. Even by the standards of the day one has to wonder how the appointments

[32] Jack Blackier of the NBICA also recommended that the appointment of the auditor general not be combined with a general shuffle of senior appointees inside government.

merited no more than one minor comment at a Public Accounts Committee meeting. To gain an understanding of how and why the various power structures in New Brunswick have continued to define independence in an unusual manner into the twenty-first century, in the face of what more detailed guidance is saying, it is necessary to turn to the two most recent appointments.

The Two Most Recent Appointees - Mike Ferguson and Kim MacPherson

In the fall of 2005 Michael Ferguson, the provincial comptroller, was appointed auditor general by Premier Bernard Lord. Ferguson resigned half-way through his 10-year term to assume the position of provincial deputy minister of finance. In addition to his appointment from comptroller to auditor general, one can also question how Ferguson's move to the senior financial position of deputy minister of finance fits with the rules of professional conduct for chartered accountants. Since the Province of New Brunswick is a listed entity – that is, its bonds trade on the financial markets – and since prior to becoming deputy minister of finance Ferguson had signed the audit opinion on several Province of New Brunswick Public Accounts (its financial statements), one wonders if this impacted audit work by the Office of the Auditor General. For example, Rule 204.4 (16) forbids an audit firm from auditing a listed entity (such as the Province of NB) when someone who has participated in an audit takes on a financial oversight role with the audited entity. The firm, or in this case the Office of the Auditor General, would normally have to sit out of the audit for one year. This one-year cooling-off did not appear to have happened. It seems the government of New Brunswick really can have it both ways; they get the accountant they want both coming to and going from the Office

of the Auditor General. While not the main subject of this paper, clearly Michael Ferguson's move back inside government raises additional independence issues.

Ferguson was replaced as auditor general in 2010 by still another provincial comptroller, Kim MacPherson, who continues to serve as auditor general today. For both appointments, there was almost no public discussion of the potential independence issues. New Brunswick's experience should be compared to what took place in British Columbia during the same time period. In 2006, the Liberal administration in that province attempted to appoint a former comptroller-general, Arn van Iersel, as the auditor general. In addition to the Opposition in the Legislature, a range of individuals from various organizations spoke against the appropriateness of the appointment.[33] This included the Institute of Chartered Accountants of British Columbia, quoted as saying "there is clearly a potential problem" ("Auditor's Objectivity Questioned: B.C. Overseer Could Wind Up Scrutinizing His Own Work, Accountants Say"). Even inside the Office of the Auditor General of British Columbia, the senior executives who served under the auditor general in the office hierarchy, courageously insisted van Iersel comply with certain restrictions on his involvement with the office's work in order to ensure ongoing compliance with independence standards (Jones). Though he sought a permanent appointment, even to the point of writing an opinion piece in a major newspaper stating his case (van Iersel), the would-be auditor general, Arn van Iersel, resigned in less than a year. The discourse probably hastened his departure. In fact, on the date he submitted his resignation, a member of the Opposition was set to table a motion to resume a search for an auditor

[33] As Barry O'Neill, the CUPE President in British Columbia, stated "Any issue that can unite CUPE and the Taxpayers Federation is one the people of British Columbia should be concerned about." See "Independence of AG's Office 'Seriously Compromised'."

general (*Report of Proceedings (Hansard) Select Standing Committee on Public Accounts 2007*). Perhaps we might say the circumstances greatly hastened van Iersel's departure.[34] Of some significance is that in an editorial following this resignation, a leading provincial daily newspaper declared "Arn van Iersel has done the right thing" ("A Legitimate Auditor General"). In a similar vein, the executive director of the Institute of Chartered Accountants of British Columbia said, "It was just like 'Do our rules mean anything?'. . . That's sort of what it ultimately got down to" (Rees).

While turning your comptroller into your auditor general overnight certainly gets noticed in British Columbia, in New Brunswick we find that the profession, the press, and the politicians consistently ignored it. In both Ferguson's and MacPherson's appointments, only voices from outside the province raised concern in public. That is, in 2005, Roy Salmon, the Auditor General of Nova Scotia, was the lone voice speaking publicly against New Brunswick's choice, while in 2010, Steven Salterio of Queen's University in Kingston, Ontario, appeared to be the only one who criticized the process.

In 2005, in analyzing Michael Ferguson's appointment, Roy Salmon said, "the process in New Brunswick was flawed" (Godin). Since he was nearing retirement himself, Salmon added he did "everything he can to ensure his (Nova Scotian) replacement is chosen with openness" (Godin). Further, he added "Nova Scotia would never appoint an AG from another government position" (Godin), not just that of comptroller. From information in interviews I conducted, it appears that Salmon, as a senior statesman among the auditor general community, was perhaps voicing the opinion

[34] Despite attempts to arrange an interview with Arn van Iersel, including an approach made to him on my behalf by one of his friends, he showed no interest in revisiting the matter with me.

of that larger group. Daryl C. Wilson, a retired auditor general of New Brunswick, recalled Salmon's comments and stated, "I think a lot of people were pleased that he said what he said." He went on to add "You know, he took the initiative. . . . I think he must have gone out of his way to let his views be known. So I think the general feeling, and certainly my own was that, 'Well, good for him'" (Wilson). Similarly, an official from a professional organization in the auditing field, who wished to remain anonymous, said Salmon's comments were sent to all of the auditors general, and they all essentially agreed with the points the Nova Scotia Auditor General had made (Anonymous #1). Of course, the other auditors general had no power to revoke the decision.

During a group coffee break on Mike Ferguson's first day at the Office of the Auditor General, one brave chartered accountant asked him a rather provocative question about the rules of professional conduct. This accountant asked Mike Ferguson if he could explain, especially since he was a member of Council of the NBICA, how the transfer from comptroller to auditor general fit with Rule 204 on independence. Ferguson's stance, which included reference to John Astle's transfer from comptroller to auditor general, was something to the effect "you people would know the answer to that question better than me."

It should be noted, however, that Ferguson did have some discussion of his move from comptroller to auditor general in his first two public reports. In 2005, he talked briefly about his transition into the office. In 2006 he stated how the deputy auditor general assumed responsibility for one of the office's key outputs, the audit of the provincial financial statements. He explained that as he had been comptroller for part of the year ending 31 March 2006, "the rules of professional conduct for Chartered

Accountants required that I not take part in or influence the audit" (*Report of the Auditor General of New Brunswick 2006 – Volume I* 4). There was no other discussion on how Ferguson or the Office of the Auditor General evaluated or mitigated the Five Threats to Independence with respect to the office's many other assurance engagements, such as financial audits, value-for-money audits, or compliance audits.

In his 2010 comments to the CBC regarding Kim MacPherson's appointment, Steven Salterio referred to ethical standards of the chartered accountants. Salterio commented that "It's about as basic and fundamental rule in accounting that exists" (McHardie). Salterio, like Roy Salmon, noted the problems in the process stating that "managers don't get to pick their auditors. This loses the idea that the auditor general is servant of the legislative assembly not the government" (McHardie). As a Times-Colonist editorial writer had noted a few years earlier during the van Iersel controversy, "imagine, for a moment, that the federal sponsorship scandal had been investigated not by Auditor General Sheila Fraser, but by someone within the bureaucracy chosen by Jean Chrétein" ("Auditor Must Be Independent"). Salterio's reasoning is justified.

Intriguingly enough, on her first day in the Office of the Auditor General, MacPherson gathered all the staff together and asked if they were aware of the CBC story in which Salterio was quoted. She downplayed the significance of the potential independence issues raised. But, similar to her predecessor, Kim MacPherson did use the Report of the Auditor General to briefly discuss how her transition from comptroller to auditor general impacted on her activities for one engagement, the audit of the province's financial statements. She stated that since she "was responsible for the overall accounting of the Province for nine months of the fiscal year" prior to her appointment as auditor

general on 1 December 2010, "professional audit standards prevented me from participating or influencing this year's provincial financial statement audit" (*Report of the Auditor General of New Brunswick 2011 – Volume II* 3). Therefore, the deputy auditor general signed the auditor's report on those statements. Similar to the case of Mike Ferguson's comments in 2006, there was no discussion in this 2011 report regarding how Kim MacPherson and the Office of the Auditor General evaluated or mitigated the Five Threats to Independence with respect to the office's other financial audits, value-for-money audits, or compliance audits. While the appointments of both Ferguson and MacPherson may have been well-intended, this misses the point on the appearance side of independence and the fact that the five threats must each be evaluated before taking on any audit assignment. Based on the public reports, the Legislative Assembly had very little information available to make any assessment with respect to these matters.

A former auditor general, Daryl Wilson, took umbrage with the practice of having a deputy auditor general sign the audit report as the auditor general waited on the sidelines, so to speak. Recalling a past controversy over accounting issues with the province's financial statements, he said "what type of friction and problems would that create" (Wilson)? In other words, a comptroller who became auditor general could very well refrain from signing the report in the transition year, but their impact on the deputy auditor general, who has to sign the auditor's report, could still be substantial. He went on to add "I mean, you've got a subordinate doing the audit. Is there pressure there" (Wilson)? Wilson felt that it would be very difficult for the deputy to qualify the audit opinion under these circumstances even if he or she felt strongly opposed to some accounting treatment.

In a personal interview, Steven Salterio raised further concerns about this second appointment from within the civil service in five years. He began by expressing surprise that the comptroller to auditor general story "didn't have any legs" in the news media, especially because the MacPherson appointment was so close to the Ferguson case. Salterio said that the government may have been able to make the argument in 2005 that "the first time you can always say there's an extraordinarily able individual that we really want to see appointed and yeah once in a generation it would be something that you'd do" (Salterio). Salterio went on to add that even if the government had been able to argue this successfully, "you don't get two exceptional individuals five years apart." Further, he argued that the root problem was "the second time around you're basically beginning to establish a pattern and I thought that that was the bigger problem." He also noted that Ferguson's move back inside the executive branch "was a little ridiculous." In his view, the government was establishing a new model of career progression for its civil servants, one with no supporting policy provision. That is, "they do the books for the province, then they audit the books, and then they go back to doing the books for the province again" (Salterio).

Kim MacPherson, like Michael Ferguson, and also like John Astle and William McNichol before them, was a member of Council of the Institute. One can only speculate on what role this may have played in tempering comments of chartered accountants, including her colleagues at the Council table, and others in the community. Further, each time over the years that the Institute refrained from taking a public stance on these appointments, it communicated an implied approval. This may have prompted silence among any of the membership who were concerned or had unresolved questions about

the appearance of these appointments. Staff inside the Office of the Auditor General were troubled by the appointments but were uncertain of what action to take.[35]

Ken Robinson, Deputy Auditor General at the time of the appointment of Kim MacPherson, did send a letter of concern to Premier Alward. Robinson shared his letter with a number of us in the office and we were heartened by his attempts to address the independence concerns. Robinson was quite frank, noting to the premier that "the way this appointment was made shows disrespect for the position of auditor general" (Robinson to Alward). He went on to say "that the lack of independence accompanying Kim MacPherson to her new position will make the transition extremely awkward for her." Aside from Ken Robinson's letter, however, I know of no other formal response from inside the Office of the Auditor General of New Brunswick.[36] This is in stark contrast to British Columbia, where in addition to the frank discussions with Arn van Iersel by senior staff, a number of auditors in the office wrote to the Institute of Chartered Accountants of British Columbia (Jones). Further, there were discussions inside the office on perhaps suing the government of the province as some saw the government's imposition of the former comptroller as a form of constructive dismissal. That is, professional accountants unable to feel comfortable working on audits under Arn van Iersel's watch may have felt it necessary to resign (Jones).

Among the Liberal members, Donald Arsenault, a former Cabinet minister and deputy premier in the Graham administration, "refrained from discussing whether the

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[35] This comment is based on my own observation and discussion with colleagues at the time.

[36] I did contact my local MLA by phone to raise my concerns, but as he was a backbencher, it soon became obvious that although he understood my concerns, nothing would change. To his credit, he did ask what could be done to prevent the problem in the future.

Liberals felt there was a conflict of interest of having the province's comptroller move over to the Office of the Auditor General" ("N.B. Liberals Question AG Selection Process"). Arsenault did note, however, that Premier Alward had not consulted the Liberals in advance of this announcement, breaking a tradition established by Premier McKenna.[37] But the Opposition, or no one else for that matter, came forward to support Steven Salterio as he contested Kim MacPherson's implicit claims to independence and Mike Ferguson's return to the executive branch. Ralph W. Black, F.C.A, a retired auditor general of New Brunswick, who came to the post after serving as a partner in a national firm of chartered accountants, stated that in terms of media discussion "there was nothing in my recall. . . Amongst CAs, there was the odd thing, that's all." That is, there were casual comments on the street but no formal complaints to the Institute (Black). The profession did not offer a formal response. In both recent cases, the issue, if one could even call it that, died quickly.[38]

It is worth noting though, that it was not only New Brunswick accountants who were quiet. In 2011, Mike Ferguson resigned his post as a deputy minister in New Brunswick and he was appointed as the Auditor General of Canada. In his appearance as a nominee for this position before the Public Accounts Committee in Ottawa, members did refer to Mike Ferguson's resume and his career path in New Brunswick. No member

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[37] I attempted to arrange an interview with Arsenault but I was not successful.

[38] Just before Kim MacPherson's appointment, the Liberal party suffered a major defeat and had only 13 seats versus 42 for the Progressive Conservatives. It is possible this weak political position may have muted the Opposition objections to the appointment. At the time of the 2005 appointment, however, the Liberal party had almost as many seats as the Lord government, following a 2003 election in which Graham surprised many by coming close to toppling the premier. One would speculate that the Liberals would have been anxious for any public issue to assert Premier Lord's governance failures. But they did not oppose Michael Ferguson's appointment.

of the committee, however, including two qualified accountants, raised the independence issues inherent in his New Brunswick experiences. Perhaps it had been some time since these members had brushed off their rules of professional conduct. The main objections Ferguson faced were related to his lack of fluency in both official languages (Canada).[39]

When considering the lack of action and discourse by the profession, one is reminded of a recent study from Ontario. This research looked at all 417 professional misconduct cases, brought before the Institute of Chartered Accountants of Ontario against its members from June 1987 to February 2013 (Leonard et al). Though the authors did not offer specific comments on independence violations, they did say a total of only 417 individuals were charged by the Institute over a period of 27 years. The authors believed this "is a questionably low ratio considering the level of CA membership (Annual average = 30,210)" (180). In other words, in Ontario, the centre of Canada's financial industry and home to large numbers of chartered accountants, the Institute investigated only 15 chartered accountants per year. The authors wondered: "Do these low numbers indicate that only a trickle of CAs breach the rules of conduct or that there is a porous system in place failing to make CAs accountable to their professional code of ethics and ultimately to the public" (180)? They went on to "ponder if the process is as strict as it should or could be" (180). That question should be asked across the accountancy profession, including in New Brunswick, though it is beyond the reach of

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[39] In a section of the transcript that touched on my incredulity boundary, two members asked Mike Ferguson if he had read the advertisement for the job he was applying for, the federal auditor general's post. In particular, members focused on the line in the ad stating "proficiency in both official languages is essential." Ferguson noted he was not aware of this requirement as he had been approached directly by an executive search firm and had submitted his resume directly to that firm, relying on them to screen. While this is certainly possible, it seems somewhat of a stretch to think that an accomplished government executive, especially one trained to evaluate documentary evidence as an auditor, would not consult the written requirements for a job prior to updating and submitting his resume (Canada 5).

this dissertation. Certainly, if the profession does not self-regulate to maintain its image of protecting the public, it risks intervention by the state. Perhaps worse, if this intervention does not come, one could conclude that the profession lacks appropriate separation between it and the political apparatus of the state, another huge blow to the credibility of accountancy in post-Enron and post-financial crisis world.

Understanding Independence in NB

In 1966, at the time of debate over the Robichaud government's *Financial Administration Act*, there was at least some understanding of auditor independence, particularly among Opposition members as they spoke in the House during the debates on the legislation. For example, the issue of dismissing the auditor general by a simple majority as opposed to a two-thirds vote certainly caught their attention. Further, the reports of the Byrne Commission and the Public Administration Service spoke quite clearly to the need for independence in an auditor general. Recall, in particular, the Public Administration Service's contention that the independence of the auditor general was "so necessary as to seem non-controversial" (Public Administration Service II-40). As well, we know that Cabinet member Joseph LeBlanc understood the notion of auditor independence, based on his concerns over the Byrne Commission contracting with P. S. Ross and Sons, the province's auditor (LeBlanc to Byrne). Therefore, at least one Cabinet minister understood independence in accountancy, to the point of instructing a powerful personality like Byrne to hold off on one of his plans until independence could be verified. In other words, the government decision makers knew, or ought to have known, not to appoint the comptroller to auditor general. But, as observed, the appointment of William McNichol occurred anyway.

In recent years, though, there does not appear to have been any appreciable level of knowledge surrounding the subject of auditor independence, at least not enough to serve as the foundation for any public debate around the threats to independence posed by the appointments This may explain both how this "usual unusual" of making the comptroller into an auditor general continues to happen in New Brunswick (consult Appendix A to see how rare this is in Canada). Even when the accounting profession in New Brunswick passed on the opportunity to comment on these appointments in both 2005 and 2010, had the Opposition, or other significant societal groups (e.g., local members of the academy, editorial writers, union representatives, etc.) followed up on the comments of outside experts like Roy Salmon or Steven Salterio, launching a genuine public debate on the merits of the appointments, the media would have kept the story alive, similar to the experience in British Columbia where it played out over several months.

In another Maritime province, Prince Edward Island (PEI), the Joseph Ghiz government tried to appoint an insider, Ernest Brennan, a Liberal party fundraiser, as auditor general shortly after being elected in 1986. Brennan resigned his office a few days after his appointment was announced, citing the adverse publicity from the leaders of the Opposition Progressive Conservatives and New Democrats, as well as the local media commentary, as the reasons for his resignation ("Auditor-General Resigns in PEI").[40] Brennan's case, like that of Arn van Iersels's in British Columbia, reminds us of what can happen when public debate and controversy impact upon the decisions of an

[40] A CA friend of mine from PEI humorously referred to Brennan as "AG for a day."

individual in a highly-public position. Had New Brunswick's Opposition parties and media[41] responded with anything like the vigour of their counterparts on PEI, this may have prompted a different outcome in the cases of Ferguson and MacPherson. In an interview with me, Steve Salterio said had the CBC focused more attention on the appointment of Kim MacPherson and "run with it a bit longer, I think then there would have been" a reaction. The newspapers in New Brunswick, which he described as being very reactive in their journalism, may then have jumped in, "and there would have been an unravelling" (Salterio). It appears, however, that these important elites in New Brunswick were not well-versed in the role of the auditor general and the importance of auditor independence in the field of public finance.

To gain perspective on this knowledge deficit, with university ethics approval, I conducted over twenty interviews with key informants[42] that used the Five Threats to Independence as a framework to discuss auditor general independence. A number of these interviews provide valuable insight as to the levels of understanding of the independence issue within New Brunswick and the problems inherent in auditor general appointment process in the province. Because of the central role of the audit function, these interviews also offer important perspective on role of provincial politicians in carrying out their important roles regarding public finance in general. Therefore, extracts from these interviews can help explain how these audit appointments occurred without

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[41] Following several attempts, I was unable to secure an interview with any member of the NB media to talk to on the matter. That in itself is a finding of sorts.

[42] These interviews were conducted using a semi-structured questionnaire. I performed all of the interviews. In three of them, I was assisted by a colleague, Professor Rhonda McIver, of St. Francis Xavier University. Written consent of the participants was obtained using a form approved by the Mount Allison University Research Ethics Board. All but two of these interviews were recorded and transcribed. In these two exceptions, the individuals provided a written copy of their responses. Where anonymity was requested, I referred to the interviewees by names such as Anonymous # 1 or Anonymous #2.

public debate or discussion of the importance of these matters in addition to offering perspectives on what may need to change in the New Brunswick model of public finance.

A number of the interview respondents cited serious weaknesses in the New Brunswick's politicians' understanding of auditing and public finance. A long-time senior employee from a legislative audit office, remarked "one would think that PAC (Public Accounts Committee) members would be quite knowledgeable in their and the AG's roles. However, this did not appear evident while I attended the PAC sessions" (Anonymous #2). In other words, these Members of the Legislative Assembly (MLAs) charged with reviewing the various reports of the auditor general and the accounts of government departments and agencies, seemed to be lacking a basic level of knowledge. Daryl C. Wilson, a retired Auditor General of New Brunswick, added that he did not believe either the Opposition members or the local media "really fully appreciate the importance of the auditor general, the whole concept of independence and the importance of taking the time and being involved to make a good selection" (Wilson). This is in contrast to the MLAs in British Columbia who were seriously engaged in the issues around Arn van Iersel's appointment from the start and exhibited this forcefully in their comments to the legislative committees and to the media.

Jack Blackier, the last executive director of the NBICA prior to its absorption into the unified accounting body CPANB, noted that accountants would know that independence is a "two-pronged test"; it consists of both independence in fact and independence in appearance. But he further offered "I hardly doubt that anyone in government understands any of these threats" (Blackier). This lack of knowledge at governmental levels is supported by observations of our former premiers. Regarding the

Five Threats to Independence, Bernard Lord said that because of his work following his retirement from politics, "I'm familiar with these. I sit on certain boards and I sit on audit committees for different companies" (Lord). In other words, he was introduced to the threats to independence after his political life was over through board and committee work. David Alward stated regarding his appointment of Kim MacPherson "never did anybody come to me and say 'There's a question if the AG comes out of the office of government'" (Alward). He did not comprehend the importance of the independence issue, and neither it seems, did his senior advisors within government. Shawn Graham, a former premier who was in Opposition when both Mike Ferguson and Kim MacPherson were appointed said "you take the premier at his word that they've done the due diligence" (Graham). We have seen, however, that these two premiers, Bernard Lord and David Alward, did not have the knowledge to do the "due diligence." And as Alward pointed out, the senior members of the civil service did not inform them about any independence issues. In fact, I interviewed a second senior public servant who served at a high-level during the Alward administration. When I broached the subject of the Five Threats to Independence, and before I handed out a document explaining them, the interviewee questioned "well, the five threats, are you going to define them" (Anonymous #3)? This individual was apparently not in a position to advise Premier Alward on independence or to contest the appointment of the comptroller.

Of course, one can suggest that the senior civil service advisors within government may have been very happy to advise the two premiers to hire an auditor general that they were already familiar with: the incumbent comptroller. A document that does speak to this possibility is a 2005 recruiting advertisement for the auditor general of

New Brunswick, the one that resulted in the Mike Ferguson appointment. This and Duke Cumberland's appointment appear to be the only two that were publicly advertised. The ad specified that the successful candidate "will take a proactive problem-solving approach with senior government managers in their delivery of efficient and well-managed programs" (Auditor General). This sounds like the language of managers looking for a consultant, not MLAs looking for an independent auditor. The advertisement, it should be noted, had no prohibition on applicants who could not meet the independence criteria. Further, it invited applications from senior public servants with no proviso that being a senior public servant from New Brunswick excluded you. When I showed this advertisement to former Nova Scotia Auditor General Roy Salmon in an interview, he said it sounded more like an "internal involvement than an external independent opinion about the process" (Salmon). Steve Salterio raised a related point that those being audited (senior civil servants) should not get to pick their own auditor.[43]

Other than this one advertisement in 2005, little documentation exists on the auditor general hiring process in New Brunswick. Daryl Wilson said when he was recruited for the job in 1997, he was not even required to submit a resume or attend an interview. Wilson stated that essentially, he was hired over the phone by a senior government executive. MLAs were not involved, though Wilson said he was informed that after the choice had been made, the executive branch contacted the two Opposition parties in the Legislature regarding the appointment details before it became official. Ralph Black said a government minister invited him to apply for the job in 1993 and told

[43] A retired government executive indicated that his view of the ad was that it may have indicated the civil servants were looking for an auditor general who understood the context within government and who was not interested in "gotcha" auditing (Anonymous #4).

him there would be other candidates. He did prepare a resume and had to attend an interview where he was interviewed by the comptroller, the deputy minister of finance, and another senior civil servant. In short, it seems that the recruitment practices were dominated by the civil service. In the case of Ralph Black, the two key financial people, the comptroller and the deputy minister of finance, were at centre stage. In the hiring of auditors general in New Brunswick, government executives, rather than members of the Legislative Assembly, are the de facto decision-makers.

Daryl Wilson pointed out that when he was leaving the post in 2005, he was asked if he could recommend a replacement. He stated that he put forward the name of an accomplished employee at the Office of the Auditor General of Canada, an accounting professional who happened to be from New Brunswick, and, therefore, seemed to fit the image of repatriating provincial citizens that Bernard Lord was promoting so heavily at the time. Wilson said the candidate did receive an interview, and she phoned him afterwards to explain how things went. As he recalled, she said "I don't think I'll be getting the job because I know the approach I presented didn't go over very well" (Wilson). Her approach included informing the panel of civil servants interviewing her for the job that since they were the ones being audited, they should not be the ones making this hiring selection. In being so frank with the interview panel, this candidate clearly exhibited the qualities of courage and competence the secretary to the Byrne commission documented as necessary for an auditor general (O'Sullivan). But, in the minds of the civil servants conducting the interviews, those no longer appeared to be the defining criteria.

Daryl Wilson also noted that during his term, he and others in the Office of the Auditor General always talked "about reporting to the Legislative Assembly, but it's not the Legislative Assembly that appoints" this officer. This poses a large disconnect. In that regard, Wilson spoke of how he had sought a short extension in his term in order to report to the Legislative Assembly on work he had underway for some time, and, felt would only need a few more weeks past his stated retirement date to finish up. Wilson said that when he came to the job in 1997, he was placed in the difficult position of presenting a report completed by the previous auditor general. He did not want his successor to face that same problem. What made this transition difficult was that the report "was already done by the time I got there, but then I had to go and try and explain it" to the MLAs and the press. One can only imagine the difficulty inherent in such a task. While the Opposition did try to secure a brief extension for Daryl Wilson, the government firmly resisted it. Having the one who did the auditing explain the audit findings was not seen as necessary.

This type of thinking was borne out by a retired senior civil servant who wished to remain anonymous. This individual observed that "except when there is a problem, legislative officers exist only at the edge of political vision" (Anonymous #4). This seems to reinforce the points made by those already quoted. Despite the fact that virtually every public sector decision is a financial decision, the political class in New Brunswick seems to lack comprehension of the importance of the objective information provided by its auditors. Ken Robinson, a former deputy auditor general from New Brunswick, noted that since the auditor general serves as an officer reporting to the Legislative Assembly, his or her appointment should not be at "the whim of the Premier" (Robinson).

Another executive who wished to remain anonymous, (this one from a major professional organization in the auditing field), referred to Michael Ferguson's appointment as "a real shock" (Anonymous #1). When Kim MacPherson was appointed five years later, this executive said the reaction was "Why are they doing this all the time? Is it that they're too lazy" (Anonymous #1)? Lazy may be the answer, but it appears a lack of resources is at least partly to blame. Shawn Graham, Liberal leader at the time of Mike Ferguson's appointment, raised the notion that the Opposition "wouldn't have the resources to be able to go to make sure that the proper selection was undertaken" (Graham). This is quite a telling comment on the general lack of support for legislative debate in New Brunswick. To some extent, this lack of resources for legislative activities has impacted to a degree on my research for this dissertation. I have found it quite difficult to obtain transcripts for meetings of the Public Accounts Committee and the Crown Corporations Committee, two committees where the auditor general regularly testifies. Unlike virtually every other jurisdiction in Canada, New Brunswick does not post its transcripts from legislative committees on its website. They have to be requested on a one-off basis once you have used some other means to track down the date when the auditor appeared. A lack of resources for translation appears to be the problem in this particular case. Public policy dictates that New Brunswick is unable to post documents that are not translated into both official languages, and apparently there are insufficient translation resources allocated to the Assembly.

Ken Robinson, reflecting on his many years attending Public Accounts Committee (PAC) meetings as the deputy auditor general, said he would "like to see them (the members of the committees) have a lot more support in terms of research

capability than they do have" (Robinson). Robinson said that often when the auditor generals he served with appeared before the PAC to speak to the MLAs regarding the Report of the Auditor General, "that would be the first time they'd seen, they'd opened the report" (Robinson). Despite the efforts of various auditors general to put on education sessions for MLAs to "try and get them to see that this was an oversight body for public money," Robinson felt the various parties reverted to a partisan twist to "bash" the other side.[44]

Partisanship of another sort was referenced in a story recalled by the anonymous executive of the auditing organization. He noted that he attended a national meeting where the Canadian auditors general and members of federal and provincial public accounts committees met jointly to share various points about their respective roles in improving accountability for public finance. He recalled that at dinner one evening the subject of New Brunswick appointing a comptroller to the auditor general's job emerged. An MLA from New Brunswick happened to be sitting there and he took offense to the discussion, saying that in New Brunswick "they didn't look around because they had the character right away and he fit the definition of what they wanted at the time" (Anonymous #1).[45] A now retired, long-time employee of a provincial auditor general, offered a different opinion. He said it seemed to him that after someone has served as comptroller for a while, "someone in authority wants the individual moved, and finding

[44] Robinson also remarked, based on his conversations with other deputy auditors general across Canada, that in other jurisdictions, notably Ontario, the PAC operates in a more non-partisan fashion to carry out its oversight duties. Robinson said that Nova Scotia's PAC also operated better than New Brunswick's.
[45] The MLA from New Brunswick apparently made comments to the effect of "you think (just because) you are from a 'have province' you can make these comments." He appeared to be another Maritimer upset by a resident from outside the region criticizing local practices.

no other place to put an accountant, the AG position is given to him/her" (Anonymous #2).

Jack Blackier noted that many times in his role of executive director of the NBICA, a chartered accountant would phone him to discuss an independence issue. Blackier said he did not see his role as telling "them what to do, either to not take an engagement or resign an engagement, or to continue as the auditor. I was there to listen to their concerns, to give my insights on ethical issues" (Blackier). In almost all cases, the accountant would usually start with a statement that they were independent in fact. That is, they were able to maintain objectivity in carrying out the audit. Blackier would usually respond with something like "You tell me you're independent in fact? I've got to accept that." But, then he would add "Here comes a real challenge. Can you defend the perception of you being independent in fact? If somebody knew everything that you just told me . . . what would they say?" As he noted, "the real challenge is always on the perception, appearance level" (Blackier). He noted that "with the exception of one very prominent case, the call always ended up being 'Yeah, you're right. I can't satisfy that perception issue'" (Blackier).

The elected officials that made the appointments seemed to be relying on the independence of mind philosophy to trump any concerns they may have had over the appearance of independence. In New Brunswick, three former premiers referred to the quality of the individuals appointed as a mitigating factor in face of the accounting profession's written rules on independence. When I reviewed a handout describing the Five Threats to Independence with Bernard Lord, he said these threats "have to be considered," but modified that by adding "and that's where the character of the individual

is so important." He went on to add "you can tell then, the right candidate with the right character. . . in my mind specifically with Mike, it was clear to me that once he was going to be auditor general he was going to be completely independent" (Lord). In a similar way, David Alward maintained "I get, I understand the governance piece, but there's a fine line." He noted that "the quality of the individual, the experience of the individual and the level of integrity and confidence and that part of it" was the most important consideration. Shawn Graham said he understood that with the appointments of both Ferguson and MacPherson, "you would have had a controller who was signing off on the books of the province now reviewing the books of the province." He went on to add though, "but that being said, I knew the integrity of both individuals, and I knew that, you know, the professionalism that they brought forward. So, that superseded the, maybe the slight concerns I had" (Graham). A prominent Cabinet minister, Bernard Richard, echoed the approach of the three premiers by his statement that "generally speaking, I think it is possible to take on a new mandate, and new responsibilities without these kinds of issues becoming major impediments to doing your job" (Richard).

In effect, these politicians were claiming that the state of mind aspect of independence trumped the appearance side of the equation, although the professional guidelines do not allow for this distinction. As Jack Blackier would say though, independence is a two-pronged approach; appearance is just as important as reality. Political leaders in New Brunswick referred to the quality of the individuals appointed, almost as if they had returned to the Victorian view Neu described as predominating in the early years of accountancy in Canada. One thing we must remember though about these state of mind claims is that they are ex-post. It is unlikely, given the impact of

cognitive dissonance, that a senior politician is likely to say "Oh, I wish I had known about the threats to independence at the time of the appointment; I have obviously made a dreadful mistake."

To be fair, none of the politicians quoted were professional accountants. No one would expect them to be well-versed in the Five Threats to Independence.[46] This brings the discussion of independence back to accounting profession and individual accountants. There are significant concerns regarding the low level of knowledge that the media, the political class, and even the accounting profession bring to the discussion of the selection and role of the auditor general.[47] The extent to which the pattern of previous appointments of the comptroller to auditor general may have discouraged members from complaining is unclear. As the inventory of precedents accumulated in New Brunswick, perhaps there was some feeling among accountants that the transition from comptroller to auditor general was fine. Jack Blackier indicated that neither Mike Ferguson nor Kim MacPherson reached out to him to discuss any ethical issues prior to accepting their appointments. He commented "look, if I had been invited by the auditor general to come in and have a discussion or to provide my inputs, I'm sure I would have" (Blackier). He added that "I don't recall either one of them asking me for my inputs or insights around this particular issue" (Blackier).

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[46] Of course, the other side of this argument is that when asked by friends and acquaintances to explain what I am researching in my dissertation, I often describe the NB situation with AG independence with the short summary of "one day you're the bookkeeper; the next day you're the AG." Almost invariably my questioners express surprise, despite their backgrounds, educational status, or occupation.

[47] It should be noted Steve Salterio and Jack Blackier both said the appointments did not even seem of great concern to the profession.

In this section, we have seen how former premiers and their colleagues appealed to the character of the appointees to support their decisions even when the appointees had serious flaws with respect to the appearance of independence. How one could be sure of the individuals' state of mind claims remains somewhat of a question. There is no gold standard for providing assurance on someone's character, but the required self-assessment of the Five Threats to Independence puts the onus on the individual accountant. Given this, and the ex-post limitations of their explanations, it is difficult to know if these state of mind claims were in fact firmly held when the appointments were made.

Certainly, even if the three premiers' opinions of the two comptrollers were established through rock-solid, personal experiences with seeing them handle ethical issues over a number of years and scenarios, any reasonable observer outside these narrow government circles, any external user of the financial statements or an auditor general's value-for-money report, would not have the benefit of those same experiences to support this character-based judgment of independence. Indeed, that seems the very purpose of the profession having articulated the five threats in professional literature. Auditors provide assurance to users at a distance, sometimes millions of unknown users. The threats and other independence rules are, in a sense, warning signals for the reasonable external observers. In other words, if I cannot know you well enough to be sure of your state of mind (recognizing, as some have said, that it is difficult to know our own motives let alone those of others) I must rely on professional guidance - such as the Five Threats to Independence - to determine if the auditor does not appear to be objective. As well, it is unclear to what degree those relying on the "exceptional

individual" argument may have made ex-post explanations to account for a possible lack of due diligence initially. No wonder, as former deputy auditor general Ken Robinson stated, in reflecting back on the initial meet and greets hosted by Ferguson and MacPherson on their first days of work as auditor general that "there were a lot of silences, awkward silences" (Robinson).Through their silence, the Opposition, the popular press and the membership of the New Brunswick Institute of Chartered Accountants seemed to be part of the network supporting – or at least not detracting from – the claims to independence of Ferguson and MacPherson (White). The employees in the Office of the Auditor General may have faced a career limiting move in contesting those claims.

Conclusion

In 1966 the Robichaud government passed the *Financial Administration Act*, reinventing the Office of the Auditor General, roughly half a century after it had been abolished. This chapter has argued that since this restoration of this office, various administrations in New Brunswick have interfered with the independence of the auditor general. To begin, the province confounded the construct of auditor general independence through the way it wrote the legislation in the 1960s, reserving for itself the appointment and dismissal provisions, rather than putting these matters in the hands of the full Legislative Assembly. Then, as discussed in this chapter, successive governments have appointed comptrollers to the position auditor general, something clearly at odds with the appearance of auditor independence. Further, these repeated comptroller to auditor general appointments have been met with virtual silence from the Opposition, the

profession, the press and other elites, leaving the province with a rather unique interpretation of auditor general independence (See Appendix A).

New Brunswick was one of the first provinces to implement an auditor general model where the auditor actually audited, as opposed to signing cheques all day. Did being early cause a problem for a New Brunswick government engaged in so many other aspects of reform in the 1960s? It is possible that if New Brunswick had waited until the 1970s when more provinces established a more modern audit practice, it would have had additional legislative examples to draw upon. We do know, however, that in passing legislation in 1966 the government did not listen to the advice of the Byrne Commission and the Public Administration Service with respect to structuring the appointment and dismissal provisions for the auditor general. Perhaps it wasn't a lack of good advice that created an ongoing problem.

The findings show a general lack of knowledge at the political level regarding the importance of auditor independence. Even among chartered accountants, who should, as Jack Blackier pointed out, know the importance of both independence in fact and independence in appearance, he said he received only one inquiry from the profession regarding the two most recent appointments. In New Brunswick, on two occasions within five years, auditor general appointments that seem to violate notions of the appearance of independence, were met with silence. In British Columbia, despite the efforts of the government members, the appointment of former comptroller Arn van Iersel as auditor general became untenable because of the continued discussion and action by the Opposition NDP, the Office of the Auditor General itself, the Institute of Chartered Accountants of British Columbia, the media and prominent citizens.

One reason for the different outcome in British Columbia was its stronger legislation. The British Columbia *Auditor General Act* contained a number of provisions at the time of van Iersel's appointment that were superior to those of the New Brunswick *Auditor General Act.* A key difference was that the British Columbia legislation mandated that a committee of the Legislative Assembly make a unanimous recommendation on the candidate for the auditor general's post, whereas in New Brunswick the lieutenant-governor-in-council appointed the candidates. Members in British Columbia were actively involved in the recruitment and appointment process. Effectively, this meant that the government of the day could not appoint a candidate to the post without the approval of the Opposition parties represented on the committee. This is an important safeguard to auditor general independence, as it allows the committee to block the appointment of someone who was perceived to be in conflict with one of the Five Threats to Independence. It also reinforces an important point raised by Steve Salterio; managers don't get to pick their own auditors. The province of New Brunswick should adopt similar legislative provisions.

As illustrated, the political class in New Brunswick relies on a notion that knowledge of the character of the selected accountants justifies appointing individuals in conflict with the accounting profession's criteria around independence, a view more consistent with the Victorian era of accountancy (Neu). In the minds of the political class, their inside knowledge of character traits overrides the clear requirements of the rules of professional conduct, even though the rules make no provision for such a "exceptional individual." Laying aside that those state of mind claims would be nearly impossible to verify, the character assertions professed by those making the appointments would not be

of use to the many legislators, citizens, media, and other users of the auditor general's reports that have never so much as met William McNichol, John Astle, Michael Ferguson, and Kim MacPherson. Those at a distance, who are relying on the auditors' reports for assurance, need clear compliance with the clear rules around the appearance of independence precisely because they are on the outside. In considering the difficulties involved with relying on these rather nebulous, character-based assertions to the exclusion of the rather clear pronouncements of the Five Threats to Independence, and New Brunswick's past record of four appointments in seven being from the inside, it would seem wise to amend the legislation for the auditor general's appointment process. We have seen in New Brunswick that in the absence of clear legislation, precedent and inaction perpetuate the "usual unusual" practice of auditor general's impaired independence. To paraphrase the redoubtable Edward Byrne, "we must save ourselves from ourselves" (Byrne et al).

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Chapter Five – Discussion and Conclusion

Discussion

This dissertation examines how the legislative audit function in the Province of New Brunswick evolved over time, and how the concept of auditor independence impacted on accountability for public finance. It begins with the retirement of the first post-Confederation auditor general, James Scott Beek, in 1906, and continues to the present time. Through three separate articles, the focus has been on how various governments of New Brunswick have structured the legislative audit function in ways that negatively impacted the executive's accountability for the revenues and expenditures. Recognizing the importance of an independent auditor general reporting directly to the Parliament as a key principle for proper oversight of the public finance, this research examines how successive administrations throughout the twentieth and twenty-first centuries have negatively impacted the level of independence of the audit function. Independence, of course, is always contextual. This work looks at three separate periods or contexts of legislative audit history in New Brunswick to argue that the audit function has been structured to benefit the interests of the party in power over the accountability functions of the Legislative Assembly.

The first article, "Abolishing the Auditor General," discusses the most dramatic event in the first 50 years of the Office of the Auditor General in post-Confederation New Brunswick. In abolishing the Office through the *Audit Act* of 1918, the government of the day was relying on a consultant's report prepared by Price Waterhouse, Chartered Accountants. This representative firm from the expanding accounting profession took over the annual financial audit of the province. In the Progressive Era, the reforms

recommended by Price Waterhouse were perhaps overdue in that environment of progress and efficiency. Yet, this change in the audit function impacted heavily on parliamentary control of the public purse, with legislators having to rely on a new employee of the executive branch, the comptroller-general, to assist them in holding the government to account. Further, with the disappearance of the auditor general, the legislative branch no longer had in its employ the one person who could refuse payment for any expenditure not approved in the Assembly. You might say the Legislative Assembly lost it all.

The second article, "St. James Street Rules," deals with how accountability to the Legislative Assembly and the citizens of New Brunswick operated during the period following the abolition of the auditor general. For roughly 50 years, the legislators had to rely on an employee of the executive branch, the comptroller-general. With no auditor general in place, and majority governments the order of the day, the executive branch had a free hand, so to speak, with respect to control of parliamentary oversight of financial matters. Occasionally, there might arise a member like Opposition leader Hugh Mackay, with the financial skills to skillfully question the government on financial matters and explain to the public the fiscal state of the province. But the audit regime consisted of large, for-profit accounting firms from Montreal that were both engaged by and reported to the executive branch. Any consulting assignments carried out by the private sector firms provided advice to the premier and the Cabinet, not to the full Legislative Assembly. There was no independent auditor to serve the legislators and their need for financial information to hold the government to account. The executive branch was to learn, however, that if the government fell out of favour with the bankers and

bondholders, these financial giants could insist on their own type of accountability through the threat of withholding additional funds.

In the third article, "The Usual Unusual," the research examines the restoration of the Office of the Auditor General by the Robichaud government through the 1966 *Financial Administration Act*. Though the Liberal government trotted out the word independence in promoting this legislation, this article looks at the limitations to auditor independence inherent in that legislation. Further, it examines how New Brunswick has established a "usual unusual" pattern among Canadian jurisdictions in appointing auditor generals from inside the administration. Four times in seven appointments the Lieutenant Governor in Council has appointed its comptroller, government's chief bookkeeper, to the auditor general's post. As evidenced by Appendix A, few other Canadian jurisdictions have allowed the appointment of auditors general from inside the government. Choosing your comptroller as your next auditor general appears to place that accountant in conflict with the accounting profession's Five Threats to Independence. Something appears to have gone very wrong with the political and professional framework in New Brunswick.

This research examines how the political and professional elites in New Brunswick have been virtually silent with respect to the accounting profession's rules of conduct. They have defined auditor general independence in a way that is at odds with written direction, focusing instead on the notion of the "exceptional individual," permitting compromised appointments to repeatedly occur. These auditors general were appointed by political leaders with no real knowledge of accountancy's detailed definition of independence. The individuals selected may have found the appeal of a

prestigious appointment as auditor general clouding their own self-assessment. And, of course, each time it happened, it increased the justification for the next wrong decision.

This pattern of dangerous precedents shows a political and professional culture in New Brunswick going down a slippery slope. In looking back at the three chapters, we observe that successive governments of New Brunswick have designed an audit regime that has benefited the executive branch, the party in power. The accounting profession in the province has been virtually silent on the matter of auditor general independence since the Office of the Auditor General was reestablished. In New Brunswick's recent history, our most costly failures can be classified as governance failures. Good auditing is an essential part of good governance. Do we need a major audit failure at one of our provincial institutions to remind us of why it is so important to maintain vigilance around the Five Threats to Independence and related accounting issues? Hopefully not.

Implications for Legislation and Professional Practice

In Ontario, a 2013 national advertisement for a new auditor general is clearly headed 'Legislative Assembly of Ontario' and notes that it is the Assembly, not the executive branch, that is inviting applications ("Auditor General of Ontario"). In British Columbia, legislation requires that a special all-party committee of legislators must unanimously agree on a candidate to put forward as auditor general. After the committee makes its recommendation, the full British Columbia Legislative Assembly must vote on the decision to appoint the successful candidate. A review of all legislative officers in New Brunswick, led by former provincial Ombudsman and highly respected former MLA Bernard Richard, recommended "that the Legislative Assembly take the leadership role in the recruitment and selection of its officers" (Albert et al 37). DeMartinis and

Clark, writing of the governing legislation for auditors general in Australia, another Westminster model democracy, recommended "appointment of the AG by parliament not the executive" (28).

It would be beneficial if the *Auditor General Act* explicitly stated that any candidates for appointment must be in clear compliance with the accounting profession's rules of independence, particularly their stance with respect to the Five Threats to Independence. To move a provincial comptroller to the auditor general's job is a tempting choice for the political class and their senior advisors inside government. Existing comptrollers are known quantities, thoroughly familiar with their colleagues around the decision tables inside government. They are also well versed in the government's financial systems, policies and practices. As well, those comptrollers selected to become auditor general face their own tempting choice of accepting prestige, a comfortable salary with enhanced pension, and, a government automobile, perhaps downplaying their own professional self-examination. We need systems that remove those temptations.[48] A long-time auditor who had served various roles inside a legislative audit office offered that the legislation might be revised to ensure any future appointments be approved by CPANB "as meeting the independence requirements" (Anonymous #2). If New Brunswick's legislation said something like "no candidate employed by the Civil Service is eligible for this position," then future appointments of a comptroller to auditor general would be extremely difficult.

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[48] In this respect, it is wise to remember Upton Sinclair's maxim that "It is difficult to get a man to understand something, when his salary depends upon his not understanding" (109).

The obvious lack of both audit and accounting knowledge of the political class seems to offer excellent educational opportunities for the province's new unified accounting body, CPA New Brunswick (CPANB). CPANB began operations in the fall of 2014 as a new unified body promoting the CPA designation as the successor derived from the former separate professional designations of CA, CMA, and CGA. At one time the former institution representing chartered accountants, the NBICA, offered briefs to the provincial Cabinet. Given the diverse backgrounds of those entering the political arena, the new CPANB should develop a tradition in this respect, perhaps broadening it to include all MLAs following an election. All policy decisions are financial decisions that make their way to the public accounts. Matters of auditor independence and understanding financial statements are suitable subjects for this type of orientation.

Given that CPANB's mission includes protecting the public, and improving the socio-economic conditions in the province, ("About CPANB"), perhaps the organization can start setting positive trends around auditor general appointment. That is, it can learn a lesson from the apparent lack of action by the NBICA, in responding to the four appointments of comptrollers to the auditor general's position. There might also be a role for the Office of the Auditor General in training MLAs, particularly members of the Public Accounts Committee and the Crown Corporations Committee. From my own experience in legislative audit, I am aware that this type of training has occurred on a limited basis in the past. As Simon McInnes noted "much depends on the office" of Canadian auditors general and the public accounts committees working together to advance interests of the taxpayer (44). Maybe it is time for some scholar to replicate

McInnes's work of some forty years ago and engage the two communities of auditors general and these important fiscal oversight committees.

There is also something else that the Office of the Auditor General can consider. In reflecting back on the recent appointments, the Office offered no coordinated response. In British Columbia, however, those responsible for quality control documented a process for handling Arn van Iersel's independence issues on each upcoming audit and individual accountants expressed their concerns to the Institute of Chartered Accountants of British Columbia. The New Brunswick Office of the Auditor General may find it beneficial to contact their colleagues in British Columbia to determine what quality control procedures could be incorporated here to ensure a robust process for confronting any perceived conflicts between future auditors general and the Five Threats to Independence.

In these, the relatively early days of the new CPANB organization, it may behoove the newly-merged profession to take a hard look at what culture it wants to establish in terms of taking a public position on prominent cases of professional ethics. Since the audit of the financial statements of the Province of New Brunswick is likely the largest audit in the province, and certainly one of the more visible, CPANB may want to take a public position of the importance of independence in both fact and appearance for this engagement and the others that our auditors general command. Though it has not been the subject of examination for this dissertation, CPANB may find it beneficial to review their own guidelines for practice inspection[49] of audit offices to determine if any additional focus on the Five Threats to Independence is required.

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[49] Practice inspection is a process designed by CPANB to protect the public by having trained inspectors visit accounting offices and review a sample of files to ensure accountants are complying with professional standards.

Limitations

In addition to the limitations of time, skill, and resources inherent in student research at the graduate level, archival research presents some additional research challenges. Unlike peer-reviewed literature that can be searched in on-line databases, accessing archival artifacts requires personal discussion with archivists as well as a combination of interest, diligence and occasional serendipity. The documents procured through this process are sometimes old, incomplete, hand-written, and illegible, and, may lack context.

For instance, one challenge at the Provincial Archives of New Brunswick has been that very little is organized under the auditor general or audit headings. When I first asked for an auditor general file representing the period from the Robichaud reinstatement of the auditor general to the present, I was presented with a very, very thin file. I am reminded of the statement from a senior civil servant about legislative officers existing on the periphery. Since the auditor general examines the books of the Province of New Brunswick and many of its Crown agencies, those files would offer a great deal of valuable data for historians and other researchers. Much of audit planning consists of developing a thorough knowledge level of the organization, something auditors refer to as knowledge of the client's business. Yet, these are not present at PANB. Revisiting retention schedules applicable to the Office of the Auditor General to ensure a broader range of detailed material is kept would be a valuable step. While carrying out this doctoral research, I have made an effort to assist in this matter by approaching two retired auditors general to encourage them to leave their personal files from their time as auditor

general with the PANB, and I have involved the Manager of Private Collections in this effort. In my opinion, an important source of documents is undeveloped.

Another limitation was restricted access to key informants. Some of those I wanted to interview were unwilling or unavailable to participate. As well, some very informative participants who were willing to be recorded, requested that I avoid personal attribution of their comments. Though they provided informative data, it was exceptionally challenging to use their contributions while still preserving their anonymity. In spite of these challenges, this dissertation does interpret a rich volume of data and paves the way for future research.

Future Research

Future research can include an examination of differing professional cultures in accountancy across Canada. As Adams tells us, "there is significant variation across the provinces" (194) regarding when and how various professions were regulated. Another focus could be the life and work of James Scott Beek, the former mayor of Fredericton who served as auditor general from 1867 up until his retirement in 1906. He was a constant throughout the post-Confederation period when party politics had not yet fully developed in New Brunswick and systems of financial accounting and control were in their developmental stages. We know by examining the applicable legislation that Beek, like the auditors general of our period, reported directly to the Legislative Assembly. As noted in chapter one, Beek had broad powers to ensure the provincial Parliament (as it was called initially), had control of the public purse. But little else is known of these systems of accounting and auditing for this period.

Chapter two, *Abolishing the Auditor General*, briefly touched on how the accounting firm Price Waterhouse worked with three new Liberal administrations in three different provinces within three years in the wake of separate financial crises in each province. The manner in which Price Waterhouse inserted itself into the public policy arena while at the same time expanding its business opportunities holds an intriguing avenue for study of the professionalization of accountancy in early 20th century Canada.

Similarly, this dissertation has referred to Buck's favourable opinion of the Nova Scotia audit practices in the mid-twentieth century. Buck stated that the Nova Scotia model had "some virtues, particularly when applied to a small province" (135). That mode of operation in Nova Scotia may offer a rich area for future research. Moving on to another Atlantic province, Appendix A shows a rather unusual situation in Newfoundland and Labrador where four auditors general seem to be tainted with respect to the appearance of independence, be it by their service prior to appointment, after their term as auditor general, or both. Three of the four individuals listed came from senior government positions. The most recent appointee had served in the most senior civil service position as Clerk of the Executive Council and Secretary to Cabinet prior to her appointment. Further, the concept of an ex-auditor general running for political office raised the eyebrows of Nova Scotia auditor general Roy Salmon during a personal interview (Salmon). In terms of the appearance of independence, close affiliation with a political party after the term is complete might cause some to reflect back and question how independent the auditor may have been in auditing the accounts of his or her new political allies.

Conclusion

In conclusion, this research identified significant issues regarding risks to independence of the legislative audit function and the related financial accountability in New Brunswick. This may have had a negative effect upon the Legislative Assembly's responsibility for the public purse. The following recommendations offer a means of mitigating risks to the independence of the legislative audit function and aim to support stronger relationships that realign all stakeholders towards our common goals in public finance:

1. Amend the *Auditor General Act* to:
    - Ensure that the Legislative Assembly, and not the executive branch, is the hiring entity responsible for selection, appointment and dismissal of any future auditor general.
    - Ensure any candidates are independent in fact and appearance.

2. Greater collaboration between CPANB and the Legislative Assembly to provide regular briefs to all MLAs following each election, addressing such topics as auditor independence, and basic interpretation of financial statements.

3. Greater collaboration between the Office of the Auditor General, the Public Accounts Committee, and the Crown Corporations Committee, to ensure adequate training of those MLAs with key accountability roles for public finance.

4. The Office of the Auditor General and the PANB should collaborate on policy changes regarding the systematic selection, securing, documenting and retaining of auditor general files in the Provincial Archives of New Brunswick.

As DeMartinis and Clark observed, an auditor general's "reporting adds value or credibility only when auditor independence, in fact and in appearance, is not threatened or compromised" (26). New Brunswick, though, seems to have had a series of continual compromises in that regard. To emphasize once again the advice the prominent Chicago

consultants of the Public Administration Service gave to Louis J. Robichaud some sixty years ago, having an independent auditor general is "so necessary as to seem non-controversial" (II-40). Yet our history has shown we have not learned this lesson.

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Appendix A – Auditors General by Jurisdiction, Modern Period

Period	Auditor General	Previous Position (*Italics* indicates possible independence issues)
British Columbia		
1977 – 1986	Erma P. Morrison	Deputy Auditor General, Province of New Brunswick
1988 – 2000	George L. Morfitt	Diamond Group of Companies, private sector organization
2000 – 2006	Wayne Strelioff	Provincial Auditor of Saskatchewan
2006 – 2007	Arn van Iersel	***Associate Deputy Minister of Social Services & provincial Comptroller-General***
2007 – 2013	John Doyle	Deputy Auditor General, Western Australia
2014 – 2019	Carol Bellringer	Auditor General of Manitoba
2020	Michael Pickup	Auditor General of Nova Scotia
Alberta		
1972 – 1986	Douglas Rogers	Assistant Provincial Auditor, Alberta
1986 – 1994	Donald D. Salmon	Provincial Auditor's Office, Alberta
1995 – 2002	C. Peter Valentine	Partner, CA firm
2002 – 2010	Frederick Dunn	Partner, CA firm
2010 – 2018	Merwan N. Saher	Assistant Auditor General, Alberta
2018 – present	Doug Wylie	Assistant Auditor General, Alberta
Saskatchewan		
1967 – 1971	R. C. Hodsman	Deputy Provincial Auditor (1942-1966)
1972 – 1989	W. G. Lutz	Deputy Provincial Auditor (1968-1971)
1990 – 2000	Wayne Strelioff	CICA Public Sector Accounting Board staff member
2000 – 2010	Fred Wendel	Assistant Provincial Auditor
2011 – 2013	Bonnie Lysyk	Private industry
2013 – present	Judy Ferguson	Assistant Provincial Auditor, Saskatchewan
Manitoba		
1969 – 1972	James G. McFee	***Comptroller-General***
1972 – 1985	W. K. (Bill) Ziprick	Assistant Provincial Auditor of Manitoba
1985 – 1992	Fred H. Jackson	Assistant Provincial Auditor of Manitoba
1992 – 1996	Carol Bellringer	Assistant Provincial Auditor of Manitoba
1996 – 2006	Jon Singleton	***Vice-president, Finance, Manitoba Crown Corporations Council, a Crown holding company***
2006 – 2014	Carol Bellringer	***Director Private Funding, University of Manitoba; Board Member - Manitoba Hydro***
2014 – 2020	Norman Ricard	Deputy Auditor General; Acting Auditor General
Ontario		
1963 – 1973	George Spence	Assistant Provincial Auditor of Ontario
1973	William Groom	Assistant Provincial Auditor of Ontario
1974 – 1981	Norman Scott	Assistant Provincial Auditor of Ontario
1982 – 1991	Doug Archer	Assistant Provincial Auditor of Ontario
1993 – 2003	Eric Peters	Vice-President Internal Audit, CBC
2004 – 2013	Jim McCarter	Deputy Auditor General of Ontario
2013 – present	Bonnie Lysyk	Provincial Auditor of Saskatchewan
Canada		
1960 – 1973	Maxwell Henderson	CFO, Canadian Broadcasting Corporation
1973 – 1980	James J. Macdonell	Partner, CA firm
1981 – 1991	Kenneth Dye	Partner, CA firm
1991 – 2001	Denis Desautels	Partner, CA firm
2001 – 2011	Sheila Fraser	Deputy Auditor General of Canada
2011 – 2019	Michael Ferguson	Deputy Minister of Finance, Province of New Brunswick

Period	Auditor General	Previous Position (*Italics* indicates possible independence issues)
2020 –	Karen Hogan	Assistant Auditor General of Canada
Quebec[50]		
1980 – 1991	Rhéal Chatelain	Deputy Auditor General, Canada
1991 – 2001	Guy Breton	Partner, CA firm
2004 – 2011	Renaud LaChance	Professor, HEC Montreal
2015 – present	Guylaine Leclerc	Owner, financial consulting firm
New Brunswick		
1967 – 1977	William McNichol	***Comptroller-General, Province of New Brunswick***
1977 – 1983	W.D. Cumberland;	Office of the Auditor General of New Brunswick
1983 – 1993	John Astle	***Comptroller, Province of New Brunswick***
1993 – 1997	Ralph W. Black	Partner, CA firm
1997 – 2005	Daryl C. Wilson	City Treasurer, City of Saint John
2005 – 2010	Michael Ferguson	***Comptroller, Province of New Brunswick***
2010 – present	Kim MacPherson	***Comptroller, Province of New Brunswick***
Prince Edward Island		
1965 – 1971	H. M. Hughes	Unable to determine[51]
1972 – 1986	T. Kaptein	Unable to determine
1986 – 2002	Wayne Murphy	Audit Director, Office of the Auditor General
2002 – 2012	Colin Yonker	Partner, CA Firm
2012 – 2020	B. Jane MacAdam	Audit Director, Office of the Auditor General
2020 –	Darren Noonan	Owner of automotive dealership group
Nova Scotia		
1965 – 1983	A.W. Sarty	Electric utility
1984 – 1991	O. Paul Cormier	Deputy Auditor General
1992 – 2006	E. Roy Salmon	Director General, Consulting and Audit Canada
2006 – 2014	Jacques Lapointe	Chief internal auditor, Province of Ontario
2014 – 2020	Michael A. Pickup	Audit principal, Auditor General of Canada

[50] Quebec had two acting auditors general with significant tenure. Doris Paradis remained "acting" from 2001-04 while Michel Samson was "acting" from 2011-15. Paradis and Samson were both appointed to their positions from within the Office. This practice of not filling the auditor general's post on a timely basis is an aspect of independence that is beyond the scope of this study.

[51] I contacted Jane MacAdam, who had a long career at the office, to attempt to determine the previous careers of both Hughes and Kaptein. She was not able to provide this information.

Newfoundland and Labrador[52]		
1992 – 2002	Elizabeth Marshall	***Deputy Minister of Works, Services and Transportation***
2002 – 2011	John Noseworthy	Deputy Auditor General
2012 – 2017	Terry Paddon	***Deputy Minister of Finance, Newfoundland and Labrador***
2017 – present	Julia Mullaley	***Several senior executive posts within government, most recently and prominently as the Clerk of the Executive Council and Secretary to Cabinet***

[52] Newfoundland and Labrador's auditor general remained a department that reported through the Minister of Finance up until 1991, Shortly after her service as auditor general, Marshall was elected as a Progressive Conservative Member of the House of Assembly of Newfoundland and Labrador. She was re-elected in 2007, and, in 2010 she was appointed by Conservative Prime Minister Stephen Harper to the Senate of Canada. Details are available at http://www.parl.gc.ca/SenatorsBio/senator_biography.aspx?senator_id=2866, Following his term as auditor general, John Noseworthy was defeated as a Progressive Conservative candidate for the House of Assembly of Newfoundland and Labrador http://www.redirectify.com/people/john-noseworthy.html,Though not the subject under review, one does have to ask how a commitment to partisan political service reflects back on the work of these auditors general? Further, three of four the appointees came from within government and would surely have had issues with the threats to independence. Mullaley, who was the most powerful civil servant as Clerk of the Executive Council and Secretary to Cabinet, would seem to have an impossible task to disentangle herself from the appearance of conflict. Newfoundland and Labrador has, like New Brunswick, decided to make independence mean exactly what they say it means. Perhaps some researcher with ties to that jurisdiction will regard it as a fruitful area of study.

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Re: Permission to reprint an article from JNBS

Dear Professor White,

As Editor of the *Journal of New Brunswick Studies/Revue d'études sur le Nouveau-Brunswick (JNBS)*, I hereby grant you permission to reprint in your doctoral dissertation at the University of New Brunswick your article "Progressive Era Financial Reform in New Brunswick: Abolishing the Auditor General," which appeared in Volume 6, No. 2 (2015) of *JNBS*.

Yours sincerely,

Michael Boudreau, PhD, Editor *JNBS*

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