Table of Contents

Contents

Chapter 1 - Introductory Comments

Introduction . . . 3
The Province's financial statements . . . 3
Comments on the Province's financial condition . . . 6
Reducing the other audits we do . . . 6
Importance of net debt . . . 7
Net debt and the *Fiscal Responsibility and Balanced Budget Act* . . . 8
Appointment of Grant Thornton . . . 9
Acknowledgements . . . 10

Chapter 2 - Matters Arising from our Financial Audits

Introduction . . . 13
Background . . . 13
Scope . . . 14
Matters arising from our audit of the financial statements of the Province . . . 15
Compliance with PSAB recommendations . . . 20
Other audit work in departments and Crown agencies . . . 35

Chapter 3 - Comments on the Province's Financial Position

Introduction . . . 47
Indicators of the Province's financial condition . . . 47
Comments on components of the Province's financial statements . . . 56

Chapter 4 - Office of the Auditor General

Background . . . 85
Office role and relevance . . . 85
Strategic plan . . . 86
Performance indicators . . . 86
Financial information . . . 90
Staff resources . . . 90

Chapter 1
Introductory Comments

Contents

Introduction 3
The Province's financial statements 3
Comments on the Province's financial condition 6
Reducing the other audits we do 6
Importance of net debt 7
Net debt and the *Fiscal Responsibility and Balanced Budget Act* 8
Appointment of Grant Thornton 9
Acknowledgements 10

Introductory Comments

Introduction

1.1 Each year, we conduct two types of audits; financial audits to express an opinion about the fairness of financial statements, and value-for-money audits, to comment on the economy, efficiency and effectiveness of government programs. During the past year we have examined many parts of government and its programs.

1.2 This volume of our 2006 Report includes only our financial audit related work. It reports on our audit of the Province's financial statements, our financial audits of other government organizations, and provides comments about the Province's financial condition. It also provides information about the operations of the Office of the Auditor General.

1.3 The results of our value-for-money audits will be reported once the Legislature resumes and a Public Accounts Committee and a Crown Corporations Committee have been appointed. We expect to include chapters about:

- the tracking system for wood harvested from private woodlots;
- Community Economic Development Agencies;
- the Health Levy;
- New Brunswick Credit Union Deposit Insurance Corporation;
- the NB 9-1-1 system;
- New Brunswick Investment Management Corporation;
- the Office of the Superintendent of Pensions; and
- the role of the Auditor General.

The Province's financial statements

1.4 Our audit report on the Province's financial statements is included in Volume 1 of the Province's Public Accounts. Mr. K.D. Robinson, C.A., Deputy Auditor General for the Province of New Brunswick, signed the audit opinion. The opinion is dated 28 July 2006.

1.5 The audit opinion says that the Province's "…financial statements present fairly, in all material respects, the financial position of the Province as at 31 March 2006 and the results of its operations, the changes in its net debt and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles."

1.6 This is an unqualified opinion. We have issued unqualified opinions in each of the past eight years.

1.7 Mr. Robinson was responsible for the audit, and, therefore, he issued the audit opinion. I was not involved with the audit of the Province's financial statements since I had served as the Province's Comptroller for part of the fiscal year being audited. The rules of professional conduct for Chartered Accountants required that I not take part in or influence the audit.

1.8 We were pleased with the timeliness of the Province's financial statements for the year ended 31 March 2006. The Province issued the statements on 16 August 2006, a three month improvement over the previous year. Timely financial statements means the information is available to users of those financial statements while it is relevant and useful.

1.9 Even though our audit opinion was unqualified, we were concerned by some items that arose during our audit. These did not result in significant accounting misstatements, and therefore we were able to issue an unqualified opinion. We discuss these issues in Chapter 2 of this volume.

1.10 I want to highlight one item that caused us concern. At the end of the fiscal year, the government paid an extra $60 million to the universities. The authority for this was obtained by special warrant. However, this $60 million was not additional funding to the universities, as it was offset by a reduction in the budgeted funding they will receive in the 2006-2007 fiscal year. This is obvious from looking at the 2006-2007 Main Estimates, and actual funding for previous years:

($ millions)					
2002	**2003**	**2004**	**2005**	**2006**	**2007 (Budget)**
$168	$182	$180	$185	$259	$148

1.11 The $74 million increase in funding in 2006 followed by the $111 million decrease in funding in 2007 shows that the extra $60 million payment was an accelerated payment of what normally would be a 2007 expense. If the payments had been made normally, they would have looked something like:

($ millions)					
2002	**2003**	**2004**	**2005**	**2006**	**2007 (Budget)**
$168	$182	$180	$185	$199	$208

1.12 The $60 million payment was properly accounted for. It was authorized and paid during the year ended 31 March 2006 and the Province could not get it back, so it was a legitimate expense of that year. We were satisfied with the accounting for the payment.

1.13 My concern is that the expense may have been incurred with an eye to the 2007 budget, rather than for prudent fiscal management purposes. Had this expense been incurred in the normal fashion, the surplus for the year ended 31 March 2006 would have been $303.6 million rather than $243.6 million, and the budgeted forecast for the 2006-2007 fiscal year, assuming no other changes, would have been a deficit of $38 million rather than a surplus of $22 million.

1.14 But, of course, in 2007-2008 we would expect the funding to return to its normal level of approximately $210 million. The accelerated payment allowed a budgeted surplus for 2006-2007, but it did not make a structural change to the Province's expenses; it simply pushed an expense back one year.

1.15 This transaction has made it difficult to understand the fiscal challenges the Province must face in the future. It simply added confusion to any assessment of the Province's fiscal situation. In fact, while the 2006-2007 Main Estimates showed that funding for universities was dropping from $259 million to $148 million, the budget speech was highlighting the increased funding the government has provided to universities:

> *We are increasing funding to universities and we will meet our commitment of a 13 per cent increase over this mandate by 2007-2008. This will mean by 2007-2008, annual funding to universities will have increased by over 34 per cent, or $54.7 million, since we first came to office in 1999.*

1.16 While this statement in the budget speech was correct, there was no mention of how the accounting for the funding was being used to affect the surplus for the 2005-2006 fiscal year, or its potential impact on the budgeted surplus for 2006-2007.

1.17 By moving regular operating grants in and out of fiscal years, the government makes it difficult for readers of the financial statements to assess the government's fiscal management.

1.18 I recognize that there is now a new government in place in the Province. Nevertheless, I wanted to highlight the importance of the government being clear and transparent in its budgeting and in reporting its results. We will continue to highlight these types of transactions in the future should they occur.

Comments on the Province's financial condition

1.19 Chapter 3 contains our comments on the Province's financial condition. As in past years we present multi-year indicators for sustainability, flexibility and vulnerability. Our analysis shows positive trends in all three of these areas.

1.20 This year we have added some comments about individual components of the Province's financial statements. In this analysis we identify:

- there is room for the Province to improve its collection of loans and receivables;
- the Province's liability for injured workers is growing at a significant rate; and
- in two of the past four years, the percentage growth in expenditures has exceeded the percentage growth in both GDP and revenue.

1.21 We also provide multi-year trends for the components of the Province's Statement of Financial Position and its Statement of Operations as well as items reported in the notes to the financial statements.

Reducing the other audits we do

1.22 Our audit of the Province's financial statements is not the only financial audit we do. We also audit the financial statements of various other government corporations, agencies and boards. These are identified in Chapter 2. For most of these organizations, legislation directs us to perform an audit.

1.23 Auditing these organizations consumes a significant portion of our resources. In the future they may consume even more resources. New assurance standards issued by the Canadian Institute of Chartered Accountants will require us, in common with all other chartered accounting firms, to do more work and to document aspects of our work more thoroughly. This is true for all of our audits, including the audit of the Province's financial statements. We expect that this will increase our financial audit time by 20% to 30%. This will seriously affect the number of value-for-money audits that we are able to conduct.

1.24 One way to offset the increased audit effort would be to reduce the number of organizations audited. Some of the organizations that we audit are small, and the government has access to the information it needs to hold them accountable even without an audit. We would like to have the opportunity to discuss this with government, and to have government remove the legal requirement for us to audit certain organizations. We also intend to stop auditing any organizations that we are not required by law to audit.

Importance of net debt

1.25 In the Introductory Comments to Volume 2 of the 2005 Report of the Auditor General, I commented on the Province's adoption of tangible capital asset accounting. In those comments I stated that:

> *Readers of the Province's financial statements will need to become familiar with this new method of reporting. Under the old method, the results for the year could be summarized in one number, the increase or decrease in net debt for the year. Under the new model, there are two summary indicators of the results for the year. The increase or decrease in net debt is still reported, but it is no longer the bottom line on the Province's Statement of Operations. The new bottom line is simply called the annual surplus or deficit. For the year ended 31 March 2005, both of these numbers were positive. The surplus for the year was $242.2 million and the net debt reduced by $131.5 million.*

1.26 For the year ended 31 March 2006, the numbers were again positive. The surplus for the year was $243.6 million, and net debt reduced by $122.6 million. (The 31 March 2005 reduction in net debt was restated from $131.5 million to $145.3 million as a consequence of an accounting change.)

1.27 The change in net debt is an important measure of the Province's results for the year, just as important as the surplus or deficit for the year. In the financial statements for the years ended 31 March 2005 and 31 March 2006, and in the 2005-2006 budget documents, both indicators were given equal attention.

1.28 However, in the 2006-2007 Budget and Main Estimates, the focus shifted to the budgeted surplus, and it takes some work to find the budgeted increase in net debt of $87.0 million.

1.29 The statement of surplus or deficit included in the budget plan attached to the 2005-2006 budget speech included a line that showed the budgeted decrease in net debt. It also included a statement of net debt that reported the budgeted decrease in net debt. The 2006-2007 budget speech did not report the budgeted increase in net debt in any of the statements attached to it. The only reference to the budgeted increase in net debt in the 2006-2007 budget documents is contained on page 15 of the Main Estimates.

1.30 In my opinion, the government should give equal attention to both the surplus or deficit for the year and the increase or decrease in net debt for the year. One of these indicators should not be de-emphasized when it does not reflect an improvement.

Net debt and the *Fiscal Responsibility and Balanced Budget Act*

1.31 In my opinion, net debt is important. It needs to be managed. I was therefore disappointed when the new *Fiscal Responsibility and Balanced Budget Act* did not include a target for net debt. In fact, even if the government achieves all of the targets included in this legislation, the Province's net debt could grow.

1.32 For example, the Act sets out the objective that the total amount of expenses for the period not exceed the total amount of revenue. Since net debt changes by the difference between revenue and expenditures, not revenue and expenses, and since the amount of expenses can be significantly different than the amount of expenditures because of capital asset acquisitions,the government can produce a balanced budget while net debt is increasing.

1.33 The Act also includes an objective to reduce the ratio of net debt to Gross Domestic Product (GDP) over the period. Again, this can be achieved even while net debt increases. Volume 1 of the Province's 2006 Public Accounts includes the following information:

	($ millions)		
	2004	**2005**	**2006**
Net Debt	6,923.6	6,778.3	6,655.7
GDP (31 December)	22,179.0	22,976.0	23,727.0
Ratio of Net Debt to GDP	31.2%	29.5%	28.1%

1.34 If net debt at 31 March 2006 had been $7,400 million rather than $6,655.7 million, that is if net debt had increased by about $740 million rather than decreased by about $270 million, the net debt to GDP ratio would still not have exceeded the 31 March 2004 percentage.

1.35 So, my concern is that the new legislation about fiscal responsibility includes the easy targets but does not address the harder issue of managing the absolute amount of net debt.

1.36 The government of the day made a decision not to include any specific net debt targets in the new legislation. In my opinion, the government should make sure there is a plan to manage the amount of net debt even though it is not set out in the Act.

Appointment of Grant Thornton

1.37 The new government contracted with "the independent accounting firm Grant Thornton to conduct a review of the financial situation of the Province." The government stated in its 11 October 2006 press release that:

> *The accounting firm will be asked to review, comment and make recommendations on such items as the anticipated current year financial results, future financial obligations already committed to, financial challenges in the health care system and the funding status of pension plans.*

1.38 I believe that this is an appropriate course of action for a new government, and I have full confidence in the ability and professionalism of Grant Thornton. However, I am concerned that this review has been called an independent audit in multiple media stories, including in quotes attributed to members of the government.

1.39 As the press release clearly states, Grant Thornton is acting as a consultant to government to look at a number of specific issues. It is not conducting an audit of the Province.

1.40 Under the *Auditor General Act*, the Auditor General is appointed the auditor of the Province's financial statements. I am required to report to the Legislative Assembly, not to any member of government, which, coupled with my professional responsibilities as a chartered accountant, means that the work of the Office must be conducted in an independent and objective manner.

1.41 The independence provided to us under our Act is what fundamentally sets us apart from government and allows us to fulfill our duties.

1.42 When media reports refer to the government bringing in Grant Thornton to perform an independent audit, I, as well as staff in the Office of the Auditor General, become concerned that this diminishes the work we do.

1.43 It is important to me that government makes it very clear to the media, and in their comments to the media, that Grant Thornton is not conducting an audit. And that while Grant Thornton is an independent accounting firm, the Office of the Auditor General comprises the group of independent auditors who are responsible to annually audit the Province's financial statements.

Acknowledgements

1.44 I want to acknowledge the cooperation that we receive from government departments and agencies during the course of our financial audit work; they are universally helpful to us. Specifically the cooperation we get from the Office of the Comptroller is critical to our work.

1.45 I want to thank all of the staff of the Office of the Auditor General for their fine work during my first full year in the position, and specifically Mr. Ken Robinson, C.A. for taking responsibility for the audit of the Province's financial statements, and the everyday operations of our Office.

Michael Ferguson, CA
Auditor General

Chapter 2
Matters Arising from our Financial Audits

Contents

Introduction 13
Background 13
Scope 14
Matters arising from our audit of the financial statements of the Province 15
Compliance with PSAB recommendations 20
Other audit work in departments and Crown agencies 35

Matters Arising from our Financial Audits

Introduction

2.1 This chapter covers three separate, but related, topics:

- Matters arising from our audit of the financial statements of the Province

  This section provides information on matters arising from our 2006 audit of the Province's financial statements.

- Compliance with PSAB recommendations

  This section discusses the recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. It focuses on those recommendations with which the Province is not in compliance in its summary financial statements.

- Other audit work in departments and Crown agencies

  This section summarizes issues related to departments and Crown agencies arising from our financial audit work.

Background

2.2 Our audit work encompasses financial transactions in all government departments. As well, we audit pension plans and other trust funds.

2.3 We also audit the Crown Corporations, Boards, Commissions and other Agencies which are listed below.

Agencies included in the Public Accounts:

- Advisory Council on the Status of Women
- Kings Landing Corporation
- Lotteries Commission of New Brunswick
- New Brunswick Advisory Council on Seniors
- New Brunswick Advisory Council on Youth
- New Brunswick Credit Union Deposit Insurance Corporation
- New Brunswick Crop Insurance Commission

- New Brunswick Electric Finance Corporation
- New Brunswick Highway Corporation
- New Brunswick Legal Aid Services Commission
- New Brunswick Municipal Finance Corporation
- New Brunswick Research and Productivity Council
- New Brunswick Securities Commission
- Premier's Council on the Status of Disabled Persons
- Provincial Holdings Ltd.
- Regional Development Corporation
- Regional Development Corporation - Special Operating Agency

Other Agencies:

- Le Centre communautaire Sainte-Anne

Scope

2.4 To reach an opinion on the financial statements of the Province, we carry out audit work on the major programs and activities in departments. In addition, we audit major revenue items and a sample of expenditures chosen from departments. We also test controls surrounding centralized systems.

2.5 We take a similar approach to our testing of the Province's pension plans. Our objective in doing this work is to reach an opinion on the financial statements of each plan.

2.6 Because of the limited objectives of this type of audit work, it may not identify matters which might come to light during a more extensive or special examination. However, it often reveals deficiencies or lines of enquiry which we might choose to pursue in our broader scope audit work.

2.7 It is our practice to report our findings to senior officials of the departments concerned, and to ask for a response. Some of these findings may not be included in this Report, because we do not consider them to be of sufficient importance to bring to the attention of the Legislative Assembly, or because public attention to weaknesses in accounting controls before they are corrected could possibly result in loss of government assets.

2.8 Our work in Crown agencies is usually aimed at enabling us to give an opinion on their financial statements. During the course of this work, we may note errors in accounting records or weaknesses in accounting controls. We bring these matters to the attention of the agency, together with any recommendations for improvement.

2.9 This chapter of our Report summarizes issues related to departments and Crown agencies which we consider to be significant to the Members of the Legislative Assembly.

2.10 Our examination of the matters included in this chapter of our Report was performed in accordance with Canadian generally accepted auditing standards, including such tests and other procedures as we considered necessary in the circumstances. The matters reported should not be used as a basis for drawing conclusions as to compliance or non-compliance with respect to matters not reported.

Matters arising from our audit of the financial statements of the Province

Responsibilities of the government

2.11 The government is responsible for the preparation and the content of the Province's financial statements. The Statement of Responsibility at the front of Volume 1 of the Public Accounts is signed by the Minister of Finance on behalf of the government. The Comptroller is responsible for preparing the financial statements in accordance with the government's stated accounting policies. When preparing the financial statements, the government must make significant estimates, as not all information is available or determinable at the time of finalizing the statements. Examples of where estimates are used include: the set up of tangible capital assets as only limited records were kept for prior years; the pension liability and pension expense for the public service and other groups; and allowances for loss on loans felt to be uncollectible.

Responsibilities of the Office of the Auditor General

2.12 Our Office is responsible for auditing the financial statements. An audit provides reasonable, but not absolute, assurance that the Province's financial statements are free of material misstatement. Material misstatement refers to an item or group of items that if omitted or misstated, would alter the decisions of reasonably knowledgeable financial statement users. The tolerable level of error or misstatement is a matter of judgment.

2.13 We obtain reasonable assurance on the financial statement figures because it would not be cost effective to obtain absolute assurance - our auditors cannot test every transaction. By applying audit procedures to test the accuracy or reasonableness of the figures appearing in the financial statements, we achieve our desired level of assurance. We use audit procedures such as tracing samples of transactions to supporting documents, testing the effectiveness of certain internal controls, confirming year-end balances with third parties and reviewing the reasonableness of estimates.

Our opinion on the financial statements

2.14 In our opinion, the financial statements present fairly, in all material respects, the financial position and results of operations of the Province of New Brunswick in accordance with Canadian generally accepted accounting principles and in accordance with Note 1 to the financial statements.

Matters arising from our audit

2.15 In almost every audit, there are matters arising that need to be discussed with management. These matters, although significant, are not sufficiently large in dollar terms to affect our opinion on the financial statements. The following is a summary of significant issues raised with the Office of the Comptroller related to our 2006 audit.

Accounting for grants

2.16 During our audit we noted some inconsistency in the way that grants were accounted for. There were some payments made to universities in March of 2006 that were accounted for as advances, while other payments in the same month were treated as expenses of the period. The government paid the regular April grant in March and set this up as an advance. However, a one-time payment of $60.0 million was recorded as an expense of the 2005-2006 year. It could be argued that unconditional grants, once paid, are expenses at that time and both of the payments noted were 2006 expenses. Since the practice of paying the regular April grant in March has been in place for a number of years, the effect on the results for 2005-2006 would have been minimal.

2.17 There is a PSAB Exposure Draft dealing with government transfers that was released in August 2006. The proposed standard will apply to governments for fiscal years beginning on or after January 1, 2009, giving sufficient time for governments to consider the impact of the new standards. This Exposure Draft recommends that a grant be recognized as an expense when the events giving rise to the transfer occur, as long as the transfer is authorized and the eligibility criteria, if any, have been met by the recipient.

2.18 We recommended the Office of the Comptroller review the accounting for grants to ensure consistent application of accounting policy. Further, the new accounting policies for government transfers should be considered when developing any new accounting policy for recording grants.

2.19 The Comptroller responded:

I would like to note this issue was discussed with the Deputy Auditor General and staff early in the course of the year end audit. My opinion was, and still is, that the University grants in question by their nature are discretionary items, therefore the accounting for such grants is determined based on when government chooses to issue such discretionary funding. There was a clear government decision to authorize (by way of a Special Warrant) the one-time payment of $60.0 million in March 2006 thus in the 2005-06 fiscal year. The advance payment was specifically authorized in the 2006-07 budget as an expense of the 2006-07 fiscal year.

The advance payment of these items is a long time practice done solely to ensure the money is in the hands of the institution on the first day of the month as per our agreement with them. The timing of the actual cash flow should not be the determining factor for accounting purposes since we use accrual accounting, not the cash basis.

Classification of prepaids and advances

2.20 We noted inconsistencies in what was classified as prepaid expenses and as advances for other payments that were made, and inconsistencies in what was reclassified for the previous year. Advances are shown as financial assets and prepaid expenses as non-financial assets. According to the CICA Public Sector Accounting handbook, a prepaid expense such as prepaid rent should be classified as a non-financial asset. However, prepaid rent was moved from prepaid and deferred charges and recorded as advances as part of the financial assets. We feel that the accounting policy was not applied consistently and, as a result, the net debt is not properly stated.

2.21 We recommended accounting policies for financial assets be examined to ensure that they are applied consistently and in accordance with the CICA Public Sector Accounting handbook.

2.22 The Comptroller responded:

The Province has a long standing practice of advancing certain payments at the end of a month for the sole reason of ensuring the payee has the money by the first day of the month. For this reason we do not feel this constitutes a prepaid expense in that we are not paying a month in advance, merely a few days for the convenience of the landlord. In view of this, we believe the rent "prepayments" are more in line with a rolling advance and are properly *accounted for as financial assets. However, my Office is making efforts to reduce these situations by increasing the use of electronic funds transfer for the payment of suppliers.*

New Brunswick Power Holding Corporation

2.23 In future years we will be assessing whether New Brunswick Power Holding Corporation (Holdco) continues to meet the definition of a government enterprise. Currently, ratepayers are financing the operations of Holdco, and it is accounted for in the Province's financial statements as a self-sufficient government organization. If Holdco begins to realize losses as a result of a cap on energy rates, then it will be the taxpayers who will be called upon to subsidize the operations. Should that occur, full consolidation of Holdco may be required. Because there are substantial differences in these methods of accounting, the effects on the Province's financial statements will be significant.

Litigation against the Province

2.24 Potential contingent liabilities exist for legal actions taken against the Province that are not reflected in the Public Accounts. For individual claims greater than materiality where an amount has not been accrued, information about the claim should be disclosed in a note. A general reference to potential contingencies should also be included in the Public Accounts for those claims that are known but for which likelihood of payment is uncertain.

2.25 We recommended the financial statements of the Province disclose information about contingent liabilities for legal actions taken against the Province.

2.26 The Comptroller responded:

My Office will look at this disclosure for the coming fiscal year and make any necessary adjustments.

Missing loan guarantee

2.27 During our audit of Provincial Holdings Ltd., subsequent to completion of our audit of the Province, we found a loan guarantee for $15 million that was in place at 31 March 2006 that was not on the list of guarantees prepared by the Department of Business New Brunswick. As a result, the amount of loan guarantees in Note 14 to the Province's financial statements is understated.

Accounting for consolidated entities

2.28 There is inconsistency in the way that amortization for the consolidated entities is presented. For the Regional Health Authorities, the amortization is shown as a separate amount, but for all other consolidated entities the amortization is not shown separately.

2.29 We recommended the accounting presentation for consolidated entities be consistent.

2.30 The Comptroller responded:

I understand this item relates to the disclosure of amortization for consolidated entities on the expense schedules only. The full amortization expense is included in both the Statement of Cash Flow and Note 16 - Expense by Primary Classification. My staff will undertake to correct this inconsistency in the 2007 financial statements.

Establishment of Trust Funds

2.31 The Early Learning and Child Care Trust Fund (ELCC) was established on 27 March 2006. However, we do not feel that the ELCC fund was sufficiently well defined and structured to demonstrate it was a separate entity from the Province at that time. There were no board members, by-laws, or operating principles in place at year end. The three applicants named on the application of incorporation were all staff of the Department of Family and Community Services. As a result, we feel that this fund was being controlled by the Province at year end, as there was no information provided to us to indicate otherwise. Consequently, it could be argued that the $8 million paid into the ELCC trust fund was not a valid expense of the 2006 fiscal year.

2.32 We recommended the governance structure of all trust funds set up by the Province be in place before any payments are made to those funds.

2.33 The Comptroller responded:

I will take this recommendation under advisement.

Public Sector Accounting Standards

2.34 If reference could be made in note 1 to the financial statements that the Province is following the CICA Public Sector Accounting Standards, this would allow for a less complicated auditor's report to the Legislature.

2.35 We recommended the Province include, in note 1 to the financial statements, a clear statement that the financial statements are prepared in accordance with the recommendations of the CICA Public Sector Accounting Board.

2.36 The Comptroller responded:

The requested sentence will be added to Note 1 of the Financial Statements for the 2006-07 fiscal year.

Business continuity plan

2.37 A business continuity plan outlines the procedures to follow, and the resources needed, to ensure systems continue to operate if an interruption or disaster occurs. Business continuity planning includes such things as a business impact analysis, emergency response procedures and an information technology recovery plan. There is no such plan in place for the Oracle Financials system. Without such a plan, there is an increased risk of a disruption of government programs or services in the event of a disaster.

2.38 We recommended the Comptroller's Office develop and document a complete business continuity plan to help ensure that government programs are not seriously affected if an interruption or disaster affects Oracle Financials. The plan should be reviewed and tested regularly.

2.39 The Comptroller responded:

My Office is committed to commence work on the development of a business continuity plan.

Compliance with PSAB recommendations

2.40 The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants, the national body that establishes accounting standards, issues accounting standards for provincial governments.

2.41 The 2005 annual report of the Office of the Comptroller includes the following self assessment of the Province's compliance with PSAB's accounting standards:

In a review of accounting recommendations issued by PSAB we have determined that the Province of New Brunswick complies with 217 out of 250 recommendations for a compliance rate of 86.8%.

2.42 We issued an unqualified opinion on the Province's financial statements for the year ended 31 March 2006, which stated in part:

…… these financial statements present fairly, in all material respects, the financial position of the Province as at 31 March 2006 and the results of its operations, the changes in its net debt and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

2.43 Therefore, the Province's non-compliance with some PSAB recommendations did not result in a material misstatement of the Province's financial statements. However, we wanted to review the areas of non-compliance to determine if better financial statement information could be provided to the users of the Province's financial statements.

2.44 This section of this chapter has not been discussed with the Office of the Comptroller, and, as a result, the Comptroller has not had an opportunity to review our recommendations and respond to them. We plan to meet with the Comptroller to discuss our assessment of compliance and our recommendations prior to completion of our 2007 audit.

Summary of compliance

2.45 We analyzed compliance in a slightly different way than the Comptroller's Office did. In our analysis we treated any recommendation paragraph with multiple subsections as one recommendation. In order to be in compliance with such a recommendation the Province had to comply with all of the subsections. Using this approach we concluded that the Province complied with 165 out of 187 applicable recommendations for a compliance rate of 88.2%. There were also 70 recommendation paragraphs that were not applicable.

2.46 A PSAB recommendation would not be applicable if it deals with a specific set of circumstances that the Province has never encountered.

2.47 We have made recommendations, described below, that would result in the Province complying with 15 of the 22 PSAB recommendations that they currently do not comply with. This would bring the overall compliance rate to 96.3%, and would improve the information provided to the users of the financial statements.

2.48 The following is an analysis of each PSAB recommendation paragraph that the Province did not comply with for the year ended 31 March 2006, followed by our recommendations to the Province to improve their compliance. We also refer to examples of other provinces that are complying with recommendations that New Brunswick did not comply with during the year ended 31 March 2006.

Financial statement presentation - federal, provincial and territorial governments

2.49 In the section on financial statement presentation, the Province did not comply with paragraphs .046, .061 and .129.

2.50 Paragraph .046 recommends in subsection b):

> *The statement of financial position should report financial assets segregated by main classifications, such as:*
>
> *(b) temporary investments;*

2.51 The Province aggregates its cash and short term investments and nets them from its short term borrowings. The net result is reported on the statement of financial position. For the year ended 31 March 2006, short term investments were $601.8 million. The Province does disclose the details of its short term investments in schedule 1 to the financial statements. We feel this treatment is acceptable and do not recommend any changes.

2.52 Paragraph .061 recommends in subsections b), c), d), and e):

> *The financial statements should disclose, for each major category of tangible capital assets and in total:*
>
> *(b) additions in the period;*
> *(c) disposals in the period;*
> *(d) the amount of any write-downs in the period;*
> *(e) the amount of amortization of the costs of tangible capital assets for the period;*

2.53 The year ended 31 March 2005 was the first year that the Province accounted for its tangible capital assets. Note 9 to the financial statements discloses the cost, accumulated amortization and net book value for each category of tangible capital asset. It does not, however, disclose the additions, deletions and write-downs for the year and it does not disclose the amortization for the year for each class of tangible capital asset. We recommend the Province include this information in its note.

2.54 The Province should include in its note to the financial statements on tangible capital assets the additions in the year, the disposals in the year, the amount of any write downs in the year and the amount of amortization for the year for each class of tangible capital asset.

2.55 Saskatchewan's 2005 financial statements are an example of statements that include this disclosure.

2.56 Paragraph .129 recommends:

> *The statement of change in net debt should present a comparison of the items that comprise the change in net debt for the accounting period, as well as the change in net debt*

for the period, with the figures originally planned. Planned amounts should be presented for the same scope of activities and on a basis consistent with that used for actual amounts.

2.57 The Province reports a statement of change in net debt in its financial statements, however it does not include budgeted figures so there is no comparison of actual results to planned results. We recommend the Province include budget figures in this statement.

2.58 We recommend the Province report the budgeted change in net debt figures with a comparison to the actual change in net debt for the year.

2.59 Note 4 to Alberta's 2005 financial statements is an example of budget to actual comparison for the components of the changes in net financial position.

Foreign currency translation

2.60 Paragraph .48 of the section on foreign currency translation recommends in subsections a) and e):

The government should disclose the following:

(a) the government's policy for managing foreign currency risk, including a general description of the nature of the hedges undertaken to mitigate the government's currency exposure, the government's method for assessing hedge effectiveness, and information about the magnitude of hedging activities;

(e) a sensitivity analysis illustrating the impact on the unhedged foreign currency denominated monetary item of foreign exchange rate changes.

2.61 The Province does not disclose this information. PSAB has recommended this disclosure…

… …to provide information that will enhance understanding of the significance of the government's currency exposure as well as the extent to which financial instruments are used to manage the currency risk.

2.62 The sensitivity analysis information is recommended because it

… …provides useful information about [government's] *exposure to foreign currency fluctuations by indicating the*

> *effect of a hypothetical change in the foreign exchange rate on the balance of long-term foreign currency denominated monetary items. Such currency rate sensitivity information may, for example, be based on an assumed one-cent change in the foreign exchange rate occurring at the reporting date. When disclosing currency rate sensitivity information, the government indicates the basis on which it has prepared the information, including any significant assumptions.*

2.63 We recommend the Province include note disclosure of its policy for managing foreign currency risk, and a brief sensitivity analysis of the impact of fluctuations in exchange rates.

2.64 Note 20 to British Columbia's 2005 financial statements on risk management and derivative financial instruments is an example of note disclosure that includes interest rate risk, foreign exchange risk and credit risk and also includes a sensitivity analysis.

Temporary investments

2.65 Paragraph .04 of the section on temporary investments recommends:

> *Where there are holdings of marketable securities, their quoted market value as well as their carrying value should be disclosed.*

2.66 The Province reports that as at 31 March 2006 it had short term investments with a book value of $ 601.8 million, however they do not report the market value of these investments. The market value would not be significantly different from the book value, however disclosure of market value would still be useful information.

2.67 We recommend that the Province report the market value of its short term investments.

2.68 Note 7 to Ontario's 2005 financial statements, on temporary investments, is an example of disclosure of the market value of short term investments.

Portfolio investments

2.69 Paragraph .25 of the section on portfolio investments recommends:

> *Portfolio investments should be reported separately on the statement of financial position.*

2.70 The Province's statement of financial position reports total investments at 31 March 2006 of a negative $34.6 million. Details are provided in schedule 6 to the financial statements. Schedule 6 indicates that the total investments number is made up of investments in government business enterprises with a value of a negative $38.6 million and other long term investments or portfolio investments of $4.0 million. PSAB would require separate reporting of these two figures on the statement of financial position if they are material. Since the value of the portfolio investments is small in relation to the other items on the statement of financial position the amount would not be material and so separate reporting is not required. We do not recommend any change.

2.71 Paragraph .27 recommends:

Income from portfolio investments should be reported separately on the statement that reports the surplus or deficit in the accounting period.

2.72 Income from the Province's portfolio investments is included in the investment income number reported on the statement of operations. Because the value of the portfolio investments is only $4.0 million, the income from these investments is not material and so separate reporting is not required. We do not recommend any change.

2.73 Paragraph .28 recommends:

When portfolio investments include marketable securities, the quoted market value of such securities as well as their carrying value should be disclosed.

2.74 The Province's portfolio investments are disclosed in schedule 6 to the financial statements. Because the value of the portfolio investments is not material, disclosure of market value is not necessary. We do not recommend any change.

Loans receivable

2.75 Paragraph .38 of the section on loans receivable recommends:

When the amount of a loss is known with sufficient precision, and there is no realistic prospect of recovery, the loan receivable should be reduced by the amount of that loss.

2.76 The *Financial Administration Act* requires:

29(1) Subject to subsection (2), the Board, in accordance with the regulations, may delete from the assets of the Province in whole or in part any obligation or debt due to the Province or any claim by the Province.

> *29(2) The Secretary of the Board, in accordance with the regulations, may delete from the assets of the Province any obligation or debt due to or claim by the Province that does not exceed one hundred dollars.*

2.77 Many of the Province's uncollectible loans and receivables are not written off when there is no realistic prospect of recovery. Uncollectible loans are provided for, so they are properly valued on the Province's statement of financial position. However, to be written off, they have to go through the process outlined in the *Financial Administration Act,* which means a request to write off any amount in excess of $100 must go before Board of Management.

2.78 We believe that departments should be able to write off small amounts themselves. There should be a three tiered system, with departments writing off small amounts, for example anything less than $500, the Secretary to the Board responsible to write off certain amounts, and the Board of Management writing off the large amounts. Also, a review of accounts across all departments for write off should be part of the year end process.

2.79 We recommend that the process for writing off uncollectible accounts receivable be changed to allow departments to write off certain receivables themselves.

2.80 We recommend that annually, all loans and other receivables for which there is no realistic prospect of recovery should be written off.

2.81 Paragraph .43 recommends:

> *Interest revenue should be recognized on a loan receivable when earned. Interest revenue should cease to be accrued on a loan when the collectibility of either principal or interest is not reasonably assured.*

2.82 The Province continues to record interest income and a related expense for uncollectibility until such time as a receivable is written off. This is required by the *Financial Administration Act*. However, it means that interest income that will never be collected is being recorded. If departments could write off receivables themselves, and if an annual write off of receivables was part of the year end process, then the recommendation would be met.

2.83 Paragraph .54 says in subsection c):

In describing the accounting policies selected by a government and applied to its loans receivable, governments should disclose:

(c) the policy for the recognition of interest revenue.

2.84 Note 1 to the Province's financial statements discloses the significant accounting policies. It does not make any reference to the accounting policy for the recognition of interest revenue. Such a note should make reference to how interest revenue is accrued at year end, and the policy for recording interest on uncollectible accounts.

2.85 We recommend that the Province's note on significant accounting policies should include the policy for the recognition of interest revenue.

2.86 Note 1 to Quebec's 2005 financial statements, on significant accounting policies, is an example of disclosure of an accounting policy for the recognition of interest revenue, including when interest revenue ceases to be recorded.

Government partnerships

2.87 The Province has determined that it does not have any material government partnerships and therefore none of the recommendations in this section apply. However, Nova Scotia discloses the Atlantic Provinces Special Education Authority, Canadian Blood Services and the Council of Atlantic Premiers as government partnerships that New Brunswick also participates in.

2.88 We recommend the Province review whether it is a member of any government partnerships, with specific emphasis on the Atlantic Provinces Special Education Authority, Canadian Blood Services and the Council of Atlantic Premiers.

Investment in government business enterprises

2.89 Paragraph .56 of the section on investment in government business enterprises recommends:

When the circumstances affecting a government organization change such that it no longer meets the definition of a government business enterprise, the resulting change in accounting treatment, the underlying reasons for the change, and the financial effect of the change should be disclosed.

2.90 During the year ended 31 March 2005, Algonquin Golf Limited no longer met the definition of a government business enterprise, however in the Province's 31 March 2005 financial statements, there was no mention of the underlying reasons for the change in the Province's financial statements. This would not be a usual set of circumstances, however, should it reoccur, note disclosure of the reasons should be made.

2.91 We recommend that when an organization no longer meets the definition of a government business enterprise, there should be note disclosure of the underlying reasons for the change.

2.92 Paragraph .57 recommends:

> *A government's investment in government business enterprises should be reported separately on the consolidated statement of financial position.*

2.93 The Province's statement of financial position reports total investments at 31 March 2006 of a negative $34.6 million. Details are provided in schedule 6 to the financial statements. Schedule 6 indicates that the total investments number is made up of investments in government business enterprises with a value of a negative $38.6 million and other long term investments or portfolio investments of $4.0 million. PSAB would require separate reporting of these two figures on the statement of financial position if they are material. Since the value of the portfolio investments is small in relation to the other items on the statement of financial position the amount would not be material and so separate reporting is not required. We do not recommend any change.

2.94 Paragraph .58 recommends:

> *Income from investments in government business enterprises should be reported separately on the consolidated statement of results.*

2.95 Income earned by the Province's government business enterprises is included in the investment income number reported on the statement of operations. The investment income number also includes income from the Province's portfolio investments. Because the value of the portfolio investments is only $4.0 million, the income from these investments is not material and so separate reporting is not required. We do not recommend any change.

2.96 Paragraph .60 recommends in subsection c):

> *Government summary financial statements should disclose, in notes or schedules, condensed supplementary financial*

information relative to government business enterprises. Such financial information should be provided on:

(c) transactions and balances with other organizations included in the government reporting entity.

2.97 Note 8 to the Province's 2006 financial statements discloses information about the Province's government business enterprises. However, it does not disclose information about the transactions and balances that each government business enterprise has with other organizations included in the government reporting entity. The Province does disclose in Note 11 to the financial statements the details of the balance owing by New Brunswick Electric Finance Corporation to the Province. While it would not be necessary to disclose every transaction or balance, the Province should consider disclosing more information than it does. For example, some information is readily available. A quick review of the 2005 edition of Volume 2 of the Public Accounts finds the following payments by government departments to NB Power:

Department	Amount
Agriculture Fisheries and Aquaculture	$67 763
Education	18 153 214
Environment and Local Government	65 250
Family and Community Services	4 093 135
General Government	33 440
Natural Resources	362 515
Supply and Services	2 688 482
Tourism and Parks	526 485
Training and Employment Development	1 721 336
Transportation	2 497 152
Total	$30 208 772

2.98 This of course does not include payments by hospitals or other organizations that are not part of the Province's consolidated fund. However, it would not be difficult to disclose that $30 million of NB Power's $1,403 million in revenue comes from core government departments.

2.99 We recommend that the Province consider if there are any significant transactions and balances involving government business enterprises and other organizations that are part of the

Province' reporting entity and report them in the note to the financial statements on government business enterprises.

2.100 Schedule 3 to Saskatchewan's 2005 financial statements is an example of disclosure about government business enterprises that includes lines for amounts due from government organizations, debt owing to government organizations, revenue from government organizations and expenses paid and owing to government organizations.

Restricted assets and revenues

2.101 Paragraph .24 of the section on restricted assets and revenues recommends in subsection a):

> *Government financial statements should disclose, in notes or schedules, condensed supplementary financial information relative to internally restricted entities. The financial information should be provided for internally restricted entities or groups of similar entities, and for all internally restricted entities as a whole. The information provided should report the financial position and results of operations, including:*
>
> > *(a) Total assets and liabilities segregated by main classification;*

2.102 Note 6 to the Province's 2006 financial statements discloses information about its special purpose accounts, many of which are internally restricted entities. The Province discloses the name of each special purpose account, its balance at the beginning of the year, the revenue earned during the year, the expenses incurred during the year and the balance in the account at the end of the year. However it does not disclose any information about the assets or liabilities related to each account. Many of the accounts are small, and information about their assets and liabilities would not be material, however there is one account within the Department of Family and Community Services called CMHC Funding that contains $ 52.5 million. Some disclosure of the purpose of this account and the assets held on its behalf would be useful.

2.103 We recommend the Province disclose information about the purpose of the CMHC Funding special purpose account, and information about the assets and liabilities of this account. The Province should establish a policy to make such disclosure for any account that exceeds a certain value in assets, for example $20 million.

2.104 We could not find an example of another Canadian jurisdiction that was disclosing the information recommended by PSAB in this subsection.

Long-term debt

2.105 Paragraph .03 of the section on long-term debt recommends in subsection a):

> *When a government has externally restricted sinking funds set aside to retire its long-term debt, the following information should be provided:*
>
> > *(a) the gross amount of the long-term debt to be retired by the sinking funds;*

2.106 The Province's statement of financial position discloses the book value of its sinking fund investments. Note 11 to the financial statements discloses information about the Province's outstanding funded debt, including some more information about the sinking fund. However, there is not any disclosure about how the sinking fund is used to retire debt. For example, note 11 reports that the amount of funded debt issued for provincial purposes that matures during 2006-2007 is $764.9 million. However, there is no explanation about whether the retirement of this debt will all come from the sinking fund. Some explanation about how the sinking fund is used to retire maturing debt would be useful to the readers of the financial statements.

2.107 We recommend that the Province include in its notes to the financial statements a brief explanation about how the sinking fund is used to retire funded debt.

2.108 Note 6 to Manitoba's 2005 financial statements includes an example of disclosure about the management of the sinking fund.

2.109 Paragraph .10 recommends in subsection a):

> *When there is sufficient evidence that debt has been issued by a government specifically on behalf of a government business enterprise:*
>
> > *(a) the debt issued on behalf of the government business enterprise and the related receivable from the government business enterprise should be presented on a net basis in the consolidated statement of financial position.*

2.110 The Province's statement of financial position reports debt issued on behalf of NB Power, through the New Brunswick Electric Finance Corporation, using a contra approach rather than netting. For the year ended 31 March 2006 the statement of financial position reports total funded debt of $12,203.9 million and then reports a deduction of $3,261.5 million for borrowing for New Brunswick Electric Finance Corporation. The recommendation contained in this subsection requires that the Province should only report the net amount, $8,942.4 million on the statement of financial position and report the details in the notes to the financial statements. In this case the Province is reporting more information than is required on the statement of financial position, so the only reason to change the presentation would be to make the statement less cluttered. We do not recommend any change.

Retirement benefits

2.111 Paragraph .084 of the section on retirement benefits recommends in subsections r) and s):

> *Financial statements should disclose:*
>
> *(r) the amount of benefits paid during the period;*
> *(s) the expected return and actual return on plan assets during the period;*

2.112 Note 13 to the Province's 2006 financial statements discloses information about the Province's pension plans. This note has eight subsections and is about seven pages long. It discloses a large amount of information, but is missing the information that these subsections recommend should be disclosed. Specifically, there is no disclosure of the value of benefits paid out of each pension plan, and while there is disclosure of the expected return on plan assets, there is no disclosure of the actual return on plan assets.

2.113 We recommend the Province disclose the actual amount of benefits paid out of its pension plans and the actual annual return on plan assets for each plan.

2.114 Note 7 to Saskatchewan's 2005 financial statements is an example of disclosure of benefit payments and the return on plan assets.

2.115 Paragraph .093 recommends in subsection d):

For joint defined benefit plans, in addition to the disclosures required in paragraphs PS 3250.084 government financial statements should disclose:

(d) the total financial status of any joint plans.

2.116 A joint defined benefit plan is one in which the Province does not have full control over the retirement benefit plan. Control is shared between the Province and another plan sponsor. Sharing of control does not necessarily mean that all parties have the same level of control; one party may have more control than another. In such an arrangement there is an equitable relationship between the funding by the parties, the extent of control each party is able to exercise over the plan and the risks and benefits that accrue to the parties from the plan. The Province has two plans that it describes as defined benefit plans with fixed employer contributions. These plans are the Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals and the Pension Plan for Canadian Union of Public Employees of New Brunswick Hospitals. These plans probably meet the definition of joint defined benefit plans, and the Province should disclose the financial status of these plans in the notes to the financial statements.

2.117 We recommend the Province disclose the financial status of its two defined benefit plans with fixed employer contributions in the notes to the financial statements.

2.118 No other Province has joint plans structured in the same way as New Brunswick's defined benefit plans with fixed employer contributions so it is not possible to find parallel note disclosure.

Loan guarantees

2.119 Paragraph .29 of the section on loan guarantees recommends:

Government financial statements should disclose information to describe the accounting policies selected and applied to loan guarantees, including:

(a) the basis for initial recognition and measurement of the provision for losses on loan guarantees; and

(b) the policy with respect to changes in the amount of the provision.

2.120 Note 14 to the Province's 2006 financial statements discloses information about loans guaranteed by the Province. Note 1 to the financial statements is a summary of the Province's significant accounting policies. Neither note includes information about the basis for the initial recognition and measurement for losses on loan guarantees or the policy with respect to changes in the amount of the provision.

2.121 We recommend that the note to the financial statements that summarizes the Province's accounting policies should include information about the Province's accounting policy for recording and changing the amount of provision for losses on loan guarantees.

2.122 Note 1 to Quebec's 2005 financial statements is an example of disclosure of the accounting policy for recording and changing the amount of provision for losses on loan guarantees.

2.123 Paragraph .31 recommends in subsection d):

> *Government financial statements should disclose in notes or schedules the nature and terms of significant classes of loan guarantees. Information that should be disclosed includes:*
>
> *(d) general terms and conditions.*

2.124 Note 14 to the Province's 2006 financial statements discloses information about loans guaranteed by the Province. It does not disclose any information about the general terms and conditions of the significant classes of loan guarantees. The Province had one significant class of loan guarantees as at 31 March 2006. These were guarantees issued under the *Economic Development Act* with an authorized limit of $123.6 million and an outstanding balance of $123.5 million. A brief description of the general terms and conditions of the loans guaranteed under this program would be useful to the readers of the Province's financial statements.

2.125 We recommend that the Province provide a brief description of the general terms and conditions of loans guaranteed under its significant loan guarantee programs.

2.126 Appendix 17 to Quebec's 2005 financial statements is an example of brief disclosure of general terms and conditions of significant loan guarantee programs.

Other audit work in departments and Crown agencies

Department of Family and Community Services

Weak access controls for NBCase system

2.127 Our Office tested internal controls in the Department as part of our audit of the provincial financial statements for the year ended 31 March 2006.

2.128 We noted weaknesses with the Department's automated NBCase system access controls. The weaknesses related to password protection and password change procedures.

2.129 These weaknesses increase the risk that NBCase users can login under another user's account. If this occurs, the Department cannot rely on the built-in NBCase system controls such as maintaining the separation of incompatible functions or ensuring benefits are properly approved.

2.130 The risk of fraudulent transactions also increases significantly.

2.131 In March 2003 the Government of New Brunswick released "Password Standard for User Accounts" which outlines baseline security for all user accounts. Because of a grandfather exemption, the NBCase system does not have to comply with these standards. However, we believe the recommendations in the standards represent good access controls for all systems.

2.132 We recommended the Department modify the NBCase password security thus improving the effectiveness of key business process controls. As much as possible, the system should meet the baseline security recommendations of the provincial standards.

2.133 We recommended the Department discontinue the use of the NBCase password look-up utility.

Regional investigators' work not followed up

2.134 In the period April 2005 – February 2006, regional investigators recommended changes to social assistance payments in 32% of their investigations. However, 52% of these changes were not followed up by their supervisors.

2.135 A client could continue to receive ineligible payments if the regional investigator's supervisor does not verify that the case manager has reviewed and implemented (when justified) the recommendations of the regional investigators.

2.136 Department policy is that regional investigators' supervisors receive a follow-up task automatically from NBCase six weeks after the regional investigators complete their reviews.

2.137 We recommended the Department ensure the work of the regional investigators is followed up promptly by supervisors.

2.138 We recommended the Department monitor the regional investigators' supervisors to ensure that they are completing their follow-up promptly as required

Case reviews not done for alert clients

2.139 We found 62 cases where "alert" clients had overdue case reviews. (If clients are considered violent, they are given an "alert" status.) Fifteen of these "alert" clients had never received a case review. We also found that the Department had very little contact with some of these "alert" clients over the past 2 – 3 years.

2.140 The following table shows the number of "alert" clients with overdue case reviews and the year that the reviews were supposed to be completed.

Number of alert clients whose case review is overdue	Year the case review was supposed to be completed
3	2000
2	2001
18	2002
11	2003
15	2004
13	2005

2.141 By not completing regular case reviews and by not having regular contact with all social assistance clients:

- the risk of error in clients payments increases;
- the risk that the client is no longer eligible to receive social assistance payments increases; and
- the Department is not complying with its internal policy.

2.142 Department policy requires case reviews to be completed for all clients on a regular basis (which is determined based on the type of client). No exceptions are noted for "alert" clients. Normally, students are hired to complete the case reviews in the summer months. However, case managers or supervisors are supposed to complete case reviews for "alert" clients.

2.143 We recommended the Department complete the overdue case reviews for all "alert" clients.

2.144 We recommended the Department also ensure case managers have regular contact with "alert" clients.

NBCase system not always updated

2.145 We found 780 clients where the NBCase system indicated that case reviews were overdue. When we reviewed documentation for a sample of these clients, we found that the Department **had** completed timely case reviews. However, the NBCase system was not updated to show that the case reviews had been completed.

2.146 By not updating NBCase when case reviews are completed:

- the Department is not able to monitor the accuracy and effectiveness of the case review process; and
- some clients will receive a case review more often than required by policy, while other clients, if resources are scarce, may not receive a case review when required.

2.147 We recommended the Department ensure that NBCase is properly updated for completed client case reviews.

Departmental response

2.148 The Department responded positively to each of our recommendations and indicated action would be taken to address our concerns.

Department of Justice and Consumer Affairs

2.149 In connection with our audit of the financial statements of the Province for the year ended 31 March 2006, we randomly selected and tested a sample of twenty payments made by the Department.

HST coding error on US payment

2.150 We found that HST was paid to one US supplier but coded to the expenditure account instead of the GST/HST account.

2.151 Accounting personnel indicated they were not aware that HST is coded separately for US payments.

2.152 We recommended the Department check all US fund payments made in the current fiscal year to ensure that the HST was coded properly.

2.153 The Department responded:

Review of HST coding for U.S. payments is now closely scrutinized by accounts payable staff as part of their standard process.

Invoice did not add properly

2.154 For one sample item, the invoice was overstated by $164.

2.155 Accounting staff indicated they:

- were not checking the detailed extensions or calculations on invoices;
- were only adding invoices and verifying the HST amounts; and
- assumed that the spending authority approver was responsible for verifying invoice extensions and detailed calculations.

2.156 Government policy specifies the roles and responsibilities of both payment and spending authority. This policy indicates that the responsibility of verifying the accuracy of invoices lies with the person acting as payment authority.

2.157 We recommended the Department ensure that persons applying payment authority be familiar with government policy. Before approving payments, these individuals should perform all of the procedures outlined in the policy.

2.158 The Department responded:

Total verification of detailed extensions and calculations on invoices has been incorporated into the standard process followed by accounts payable staff.

Cut-off errors

2.159 The Department paid two of our sample items in the 2005-06 fiscal year. The items related to the prior fiscal year but were not accrued, even though the invoices were received by the Department prior to the accrual cut-off deadline for the fiscal year.

2.160 We recommended the Department ensure that all outstanding invoices are accrued at year end.

2.161 The Department responded:

... ... it is our standard practice to establish an accrual for any outstanding invoice at year end. The two invoices in question had not been received by Financial Services prior to the accrual deadline cut-off.

> *Financial Services will be more diligent in communicating and following up on year end cut-off dates with managers in this fiscal year.*

Department of Supply and Services

2.162 In connection with our audit of the financial statements of the Province for the year ended 31 March 2006, we randomly selected and tested a sample of twenty payments made by the Department.

Expired lease agreement

2.163 One payment related to the lease of a property for which the lease agreement had expired on 31 December 2004. The new lease agreement, which was approved by the Department, was sent to the lessor for approval but had not been returned. As a result, the Department had been making lease payments on this property for over a year based on the draft lease agreement.

2.164 We recommended the Department ensure all lease payments are supported by a current signed lease agreement.

2.165 The Department responded:

> *The Department will endeavour to ensure that all future lease payments are supported by the proper lease commitments.*

Kings Landing Corporation

Information technology (IT)

2.166 During our audit we noted there is no formal IT plan for Kings Landing. There are no written policies and procedures regarding IT. We noted some areas where we feel IT procedures could be enhanced in order to properly manage business risks associated with the use of information technology.

- Back-ups of computer data are performed daily and stored off-site. However, these back-ups are not stored in a secure location.

- Back-ups are not tested regularly to ensure they are working properly.

- No disaster recovery plan exists to recover data and to ensure the operation of key systems in the event of a disaster such as a fire or a flood.

2.167 A comprehensive IT plan is important to ensure that financial and other pertinent information is secure, complete, and available for management. Such a plan would look at the potential business risks and their effect on the Corporation should any risk come to fruition. The cost of risk mitigation strategies as well as the Corporation's responsibilities under various statutes (*Protection of Personal Information Act* for example) would be considered. This plan need not be unduly onerous and could be developed over time.

2.168 We recommended an IT plan be developed. The plan should include ensuring that information stored and system access is secure. The plan when developed should be updated annually and tested periodically.

2.169 The Board responded:

> *……please be assured that the Board has fully discussed this matter with the management of the site and that interim measures have been developed to ensure the safe-keeping of all computer data and that a comprehensive IT plan will be developed for Kings Landing this year.*

Lower warehouse asbestos issue

2.170 During our audit it came to our attention that Kings Landing owns a building that contains asbestos. This building is used for storage of artifacts and equipment. Recommendations from the Department of Supply and Services fifteen years ago indicated that the asbestos should be cleaned up, or the building should stop being used. This had not been done.

2.171 Our concern is that the Supply and Services report was not acted upon for such a long period. Clearly the current Board was willing to tackle the problem once the issue was raised. To minimize the likelihood of this happening again we made the following recommendations:

2.172 We recommended the Board review its policy regarding the reporting process to the Board. Individuals with knowledge of health and safety issues, environmental issues or other areas important to the Board (Department heads, health and safety committee, etc.) should report to the Board regularly on any issues they feel are of concern.

2.173 We also recommended that all major consulting reports be tabled with the Board. Recommendations from the consultant should be documented in the Board minutes as accepted or not. The status of accepted recommendations should be reported to the Board by staff until implementation is complete or the Board feels the recommendations are no longer applicable.

2.174 The Board responded:

… … please be assured that the Board took this matter very seriously when informed of the issue last winter by the current General Manager, and that direction was given to put in place immediate measures to address this urgent health and safety question. I am happy to report that, this past spring, steps were taken to clean up the warehouse of dormant asbestos fibres and that current air quality in the building meets acceptable standards. As well, an asbestos management plan has been developed for the building, proper clothing and equipment for staff working in the structure has been purchased, and staff have been trained in how to wear and use this equipment. Finally, management is currently working on long-term solutions to eventually transfer the existing collection of artifacts from this building to the site and to see to the removal of all asbestos insulation in the building. This will be done over the next two to three years.

New Brunswick Electric Finance Corporation

2.175 The following matter was identified during our audit for the year ended 31 March 2005 and followed up on during our audit for the year ended 31 March 2006.

Payments in lieu of taxes

2.176 Section 37 of the *Electricity Act* requires the New Brunswick Power Holding Corporation and its subsidiaries (NB Power Group) to make special payments in lieu of income taxes to New Brunswick Electric Finance Corporation (NBEFC) each year. The Act requires the calculation of the payments to be made based on sections of the *Income Tax Act* of Canada and the *New Brunswick Income Tax Act*. For the 2005 and 2006 audit years the actual calculation was based on an agreement reached between NB Power Group and NBEFC. This agreement is not in compliance with the *Electricity Act.*

2.177 It is our understanding, based on the Corporation's reply to our 2005 recommendation on this matter, that the Corporation is exploring options that will allow it to be in full compliance with the *Electricity Act*.

New Brunswick Legal Aid Services Commission

2.178 In our letter following the 31 March 2004 audit we recommended that staff at the head office of the Commission review and abide by the CRA rules for claiming HST.

Compliance with Canada Revenue Agency (CRA) Requirements

2.179 In our review of a sample of expenditures for the 2006 audit, we once again noted cases where HST was calculated incorrectly on the travel claims of employees of the Commission. We found instances where HST was not claimed when it was allowable, and instances where HST was claimed when it was not allowable. While there were no material variances found, we feel that it is important for the head office staff to comply with the rules set out by CRA for claiming HST.

2.180 We recommended the staff at the head office abide by the CRA rules for claiming HST.

2.181 The Commission responded:

A new process has been put in place to have all travel expenses verified by a second employee before processing the final payment of all travel expenses. Also, with the new accounting system to be implemented, this will reduce the chance of error. The new accounting system has an HST calculator incorporated when processing data.

New Brunswick Research and Productivity Council

Employee retirement allowance

2.182 The accrued retirement allowance is a significant liability of the Council. It is a complex estimate involving many variables. Up to this point the Council has used management estimates in calculating the accrued retirement allowance with no consultation with an actuary.

2.183 We recommended the Council consider consulting with an actuary to determine the most appropriate method of calculating the accrued retirement allowance.

2.184 The Council responded:

… … it is indeed our intention to consult with an actuary and solicit his opinion as to the reasonableness of our estimation method as well as other options that might be available to a group of our relatively small size.

Premier's Council on the Status of Disabled Persons

Agreement between the Board and DAW Executive Committee

2.185 The Council has significant involvement in the organization of the annual Disability Awareness Week (DAW). The involvement of the Council with the DAW is approved by the board of directors of the Council each year. Another connection between the Council and the DAW is that the responsibility for chairing the DAW Executive Committee is held by the Executive Director of the Council and another staff member.

2.186 There are a number of terms to the agreement between the Council and the Committee. While these arrangements appear to have been in place for some time, they have never been included in the form of a written agreement. We understand the terms of the relationship to include the following:

- DAW expenses are first paid by the Council then reimbursed by DAW;
- there is an annual payment of $3,000 made by DAW to the Council in lieu of administrative costs incurred on its behalf (when DAW funding levels permit);
- if DAW has insufficient funds to cover its expenses the Council will cover these costs, following the approval of the Board; and
- the Council is responsible for maintaining the accounting records for the DAW Executive Committee.

2.187 We recommended there be a written agreement which sets out the details of the relationship between the two organizations and defines the limits of the responsibilities of the Council's board of directors in respect of the operation of the DAW.

Losses through fraud, default or mistake

2.188 Section 13(2) of the *Auditor General Act* requires us to report to the Legislative Assembly any case where there has been a significant deficiency or loss through fraud, default or mistake of any person.

2.189 During the course of our work we became aware of the following significant losses. Our work is not intended to identify all instances where losses may have occurred, so it would be inappropriate to conclude that all losses have been identified.

Department of Education

• Missing equipment, money and supplies in various school districts and head office	$24,082

Department of Family and Community Services

• Cheques cashed by persons not eligible to receive the funds	$15,300

Department of Health and Wellness

- Missing cash, coupons and equipment; and ineligible Medicare service claims $5,176

Department of Natural Resources

- Missing equipment and supplies in various regions $34,950

Department of Training and Employment Development

- Missing equipment in various community colleges $16,664

Department of Transportation

- Missing equipment, supplies and tools in various districts $4,359

2.190 Losses reported by our Office only include incidents where there is no evidence of break and enter, fire, or vandalism.

2.191 The Province reports in Volume 2 of the Public Accounts the amount of lost tangible public assets (other than inventory shortages).

2.192 In 2006, the Province reported lost tangible public assets in the amount of $105,600 compared to a loss of $140,000 reported in 2005.

Chapter 3
Comments on the Province's Financial Position

Contents

Introduction 47
Indicators of the Province's financial condition 47
Comments on components of the Province's financial statements 56

Comments on the Province's Financial Position

Introduction

3.1 This chapter covers two separate, but related, topics:

- Indicators of the Province's financial condition

  This section takes some of the information disclosed in the Province's financial statements, adds other objective information such as the Province's Gross Domestic Product, and attempts to chart the results in a way that is clear and understandable. It shows trends in the Province's financial health over the past ten years as measured by sustainability, flexibility and vulnerability.

- Comments on components of the Province's financial statements

  This section analyzes various components of the Province's financial statements. It provides information and shows trends over the past six or seven years.

Indicators of the Province's financial condition

Background

3.2 In 1997, a research report published by the Canadian Institute of Chartered Accountants (CICA) defined financial condition as a government's "financial health as measured by sustainability, vulnerability and flexibility, looked at in the context of the overall economic and financial environment."[1]

3.3 Some of the information presented below has been included in the discussion of the Results for the Year in volume 1 of the Public Accounts. We are pleased to see such analysis included in the Public Accounts. However not all of the indicators are presented there and the Public Accounts information is for a six not a ten-year period. For these reasons, we will continue to present this section as we have in prior years.

1. Indicators of Government Financial Condition, 1997 published by the Canadian Institute of Chartered Accountants.

Scope

3.4 The purpose of this section is to provide readers with useful information about the Province's financial condition using the CICA research report as a guideline.

3.5 Though many potential indicators of sustainability, vulnerability and flexibility were considered in preparing the research report, only ten indicators were found which were relevant, necessary, measurable and clear to users of government financial information. Of these, our Office has concluded that six can be considered meaningful in the context of the Province of New Brunswick. We have, over the years, focused on these same six indicators in order to present readers with consistent analysis over a ten-year period. They are:

Sustainability
- *Net debt as a percentage of gross domestic product (GDP)*
- *Change in net debt and GDP*

Flexibility
- *Own source revenue as a percentage of GDP*
- *Cost of servicing the public debt as a percentage of total revenue*

Vulnerability
- *Federal government transfers as a percentage of total revenue*
- *Foreign currency debt as a percentage of total debt for provincial purposes*

Financial results used in analyses

3.6 In this section, our analyses are based on the current year financial statements as presented in the Public Accounts. These financial statements report a decrease in net debt for the year of $122.6 million. Prior year numbers used in our analyses may include restated figures obtained from the Office of the Comptroller.

3.7 The 31 March 2000 financial statement expenditure figures included $903.8 million relating to the capital cost of the Fredericton to Moncton highway. This transaction resulted in a one-time increase in net debt of $903.8 million. The magnitude of this transaction can be seen in Exhibit 3.1. The net debt increased to a higher level in that year and has remained at, or close to, that level ever since.

Results in brief

3.8 In general, the indicators for the last ten years show that the Province of New Brunswick's financial condition has improved in sustainability, flexibility and vulnerability, with some deviations from this trend showing in 1999 and 2000. For the most part, the indicators affected by these deviations showed more positive results in the past six years.

Sustainability

3.9 Sustainability is the degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy.[1]

3.10 It is now well understood by the general public that increases in the cost of servicing the public debt can directly impact the quantity and quality of programs and services to which the public has access. Accordingly many provinces, including New Brunswick, are striving to control their debt in order to ensure an optimum amount of funding is allocated to programs and services.

3.11 There are circumstances when governments may tolerate increases in their debt load. For example, when revenues are increasing, a higher cost of servicing the public debt might be tolerated without impacting existing programs and services. However, the ability to generate such revenues (e.g. through taxes, user fees, or licenses) is closely linked to the performance of the economy.

3.12 Therefore, any growth in New Brunswick's debt must remain in line with growth in the economy to ensure that our Province can sustain its programs and services. If debt is growing faster than the economy, New Brunswick will suffer reduced capacity for sustainability. Programs and services offered to the public may eventually suffer.

3.13 Gross Domestic Product (GDP) is the total value of all goods and services produced in the Province during a specific period. GDP is often used to measure the growth of the economy.

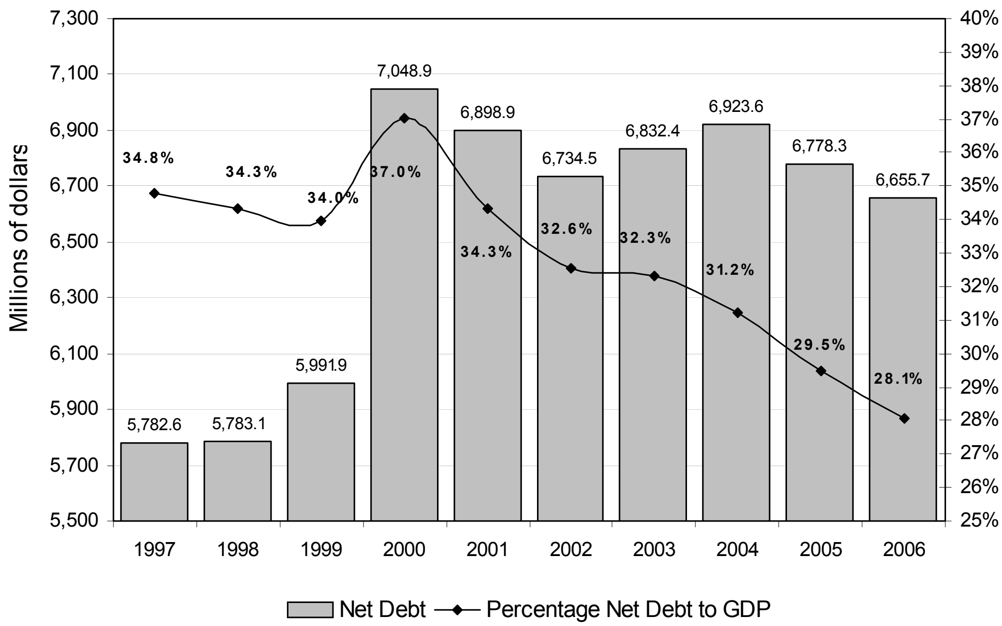
Net debt as a percentage of GDP as a measure of sustainability

3.14 Net debt is an accounting measure of the extent to which total liabilities of the Province exceed financial assets. The financial statements for 2006 indicate that net debt stands at $6,655.7 million - $873.1 million more than its level ten years ago, but $393.2 million less than in 2000.

3.15 The New Brunswick economy has also grown. Exhibit 3.1 shows that the Province's net debt to GDP ratio generally decreased (favourable) over the last ten years – showing the Province's increasing ability to sustain existing programs and services. The only exception to this trend came in the year 2000 as a result of recording the debt for the Fredericton to Moncton highway.

1. Indicators of Government Financial Condition, 1997 published by the Canadian Institute of Chartered Accountants.

Exhibit 3.1
Net debt as a percentage of GDP[1] for the last ten years



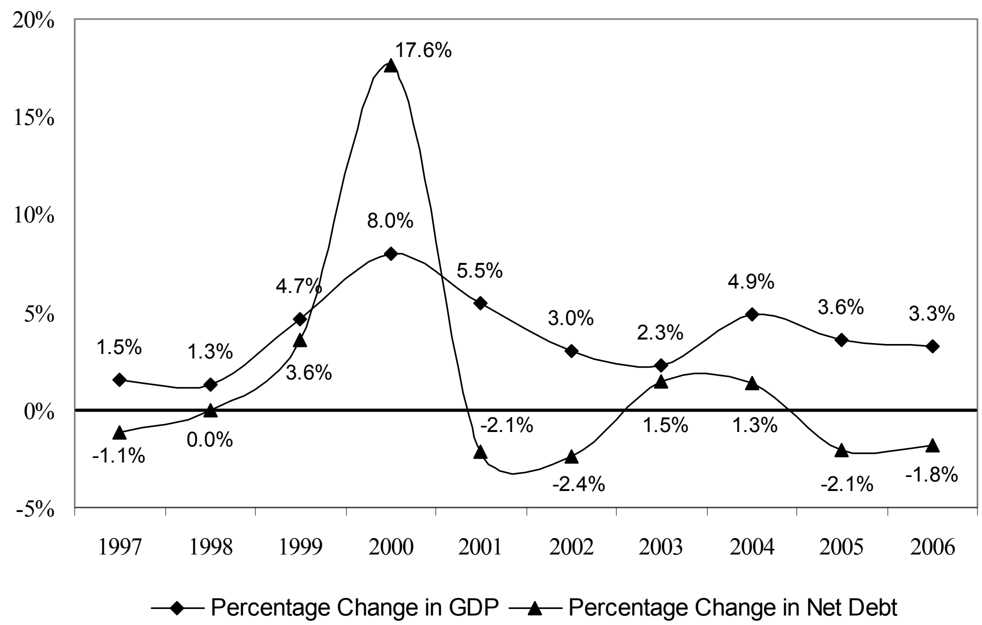
Change in net debt and GDP as a measure of sustainability

3.16 The Province can positively influence sustainability in two ways: by increasing surpluses and by increasing growth in the economy. Though governments use various political, legislative and regulatory powers to stimulate the economy, the effect is neither guaranteed nor timely.

3.17 The rate of growth in the surplus or deficit and their impact on net debt is much more controllable. Exhibit 3.2 shows that the Province has experienced economic growth in excess of growth in the net debt (favourable) every year since 1997, with the exception of the year 2000. The deviation in the year 2000 resulted from the effects of the Fredericton to Moncton highway.

1. GDP is measured on a calendar year basis. The GDP used in our tables for each 31 March year end is the GDP for the calendar year ended during that fiscal year. GDP information is provided by N. B. Department of Finance: actual GDP for calendar years 1996-2005.

Exhibit 3.2
Change in net debt and GDP[1] for the last ten years



Flexibility

3.18 Flexibility is the degree to which a government can increase its financial resources to respond to rising commitments, by either expanding its revenues or increasing its debt burden.[2]

3.19 Funding for programs and services is provided by either revenue or borrowing during the year. It is a useful measure of flexibility to know to what extent the Province is able to raise revenue from existing and potential sources should new commitments arise.

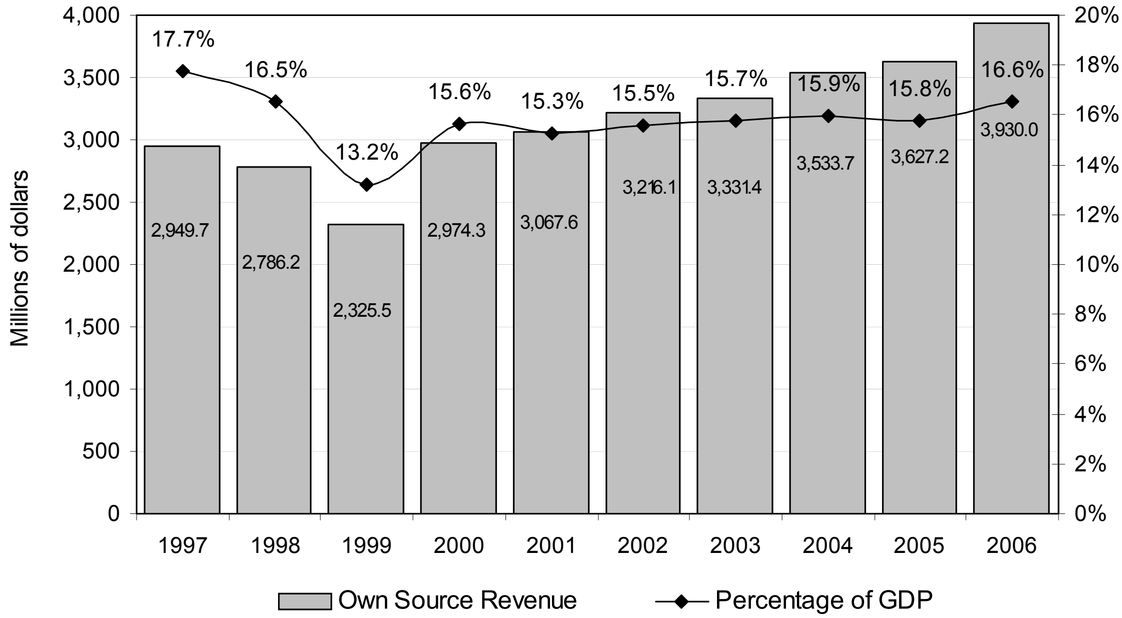
Own source revenue as a percentage of GDP as a measure of flexibility

3.20 One could assume that any additional funding for new programs or services might not be possible from existing revenue sources. A reasonable alternative would be to raise revenue from new provincial sources. However, the Province is only able to extract a finite amount of dollars from the economy of New Brunswick before the economy begins to falter. Though the exact capacity of the economy to bear such a burden is not known, one can determine the relative increase or decrease over time.

---

1. GDP information provided by N. B. Department of Finance.
2. Indicators of Government Financial Condition, 1997 published by the Canadian Institute of Chartered Accountants.

Exhibit 3.3
Own source revenue as a percentage of GDP[1] for the last ten years



3.21 Exhibit 3.3 shows the extent to which the Province has removed dollars from the provincial economy through taxes and user fees/licenses during the last ten years. This exhibit shows that the dollars extracted by the Province from the New Brunswick economy as a percent of GDP decreased (favourable) during the first three years of the ten-year period, but has been increasing gradually over the past seven years. However, the current percentage is still lower than in 1997.

3.22 The large reduction in own-source revenue in 1999 was due to a $450 million one-time write-down in the Province's investment in the New Brunswick Power Corporation.

Cost of servicing the public debt as a percentage of total revenue (or "interest-bite") as a measure of flexibility

3.23 One of the most publicized factors which affects the flexibility of governments is the cost of servicing the public debt.

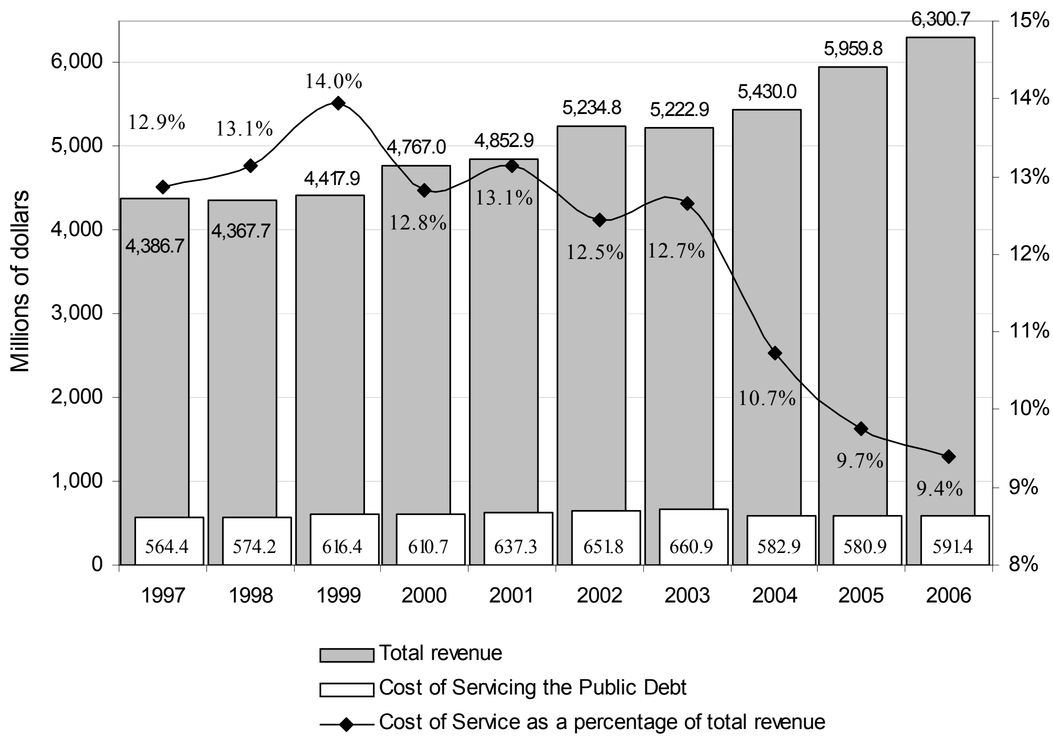
3.24 The cost of servicing the public debt is comprised mainly of interest on the funded debt of the Province. It also includes foreign exchange paid on interest and maturities during the year, the amortization of foreign exchange gains and losses, and the amortization of discounts and premiums which were incurred on the

1. GDP information provided by N. B. Department of Finance.

issuance of provincial debt. It does not include principal repayments on the funded debt of the Province.

3.25 Exhibit 3.4 shows debt servicing costs as compared to total provincial revenue for the last ten years.

Exhibit 3.4
Cost of servicing the public debt as a percentage of total revenue for the last ten years



3.26 This exhibit shows the cost of servicing the public debt increased in 2006 over 2005 by $10.5 million to $591.4 million. However, it also shows that the Province has decreased its overall "interest-bite" percentage from its 2003 level of 12.7% to its current level of 9.4%. This is a significant decrease, attributable mainly to the strengthening of the Canadian dollar against its U.S. counterpart, and also to a general lowering of interest rates. The exhibit indicates that, on a percentage basis, the Province has more of its total revenues available for current needs today than it did ten years ago.

Vulnerability

3.27 Vulnerability is the degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence, both domestic and international.[1]

1. Indicators of Government Financial Condition, 1997 published by the Canadian Institute of Chartered Accountants.

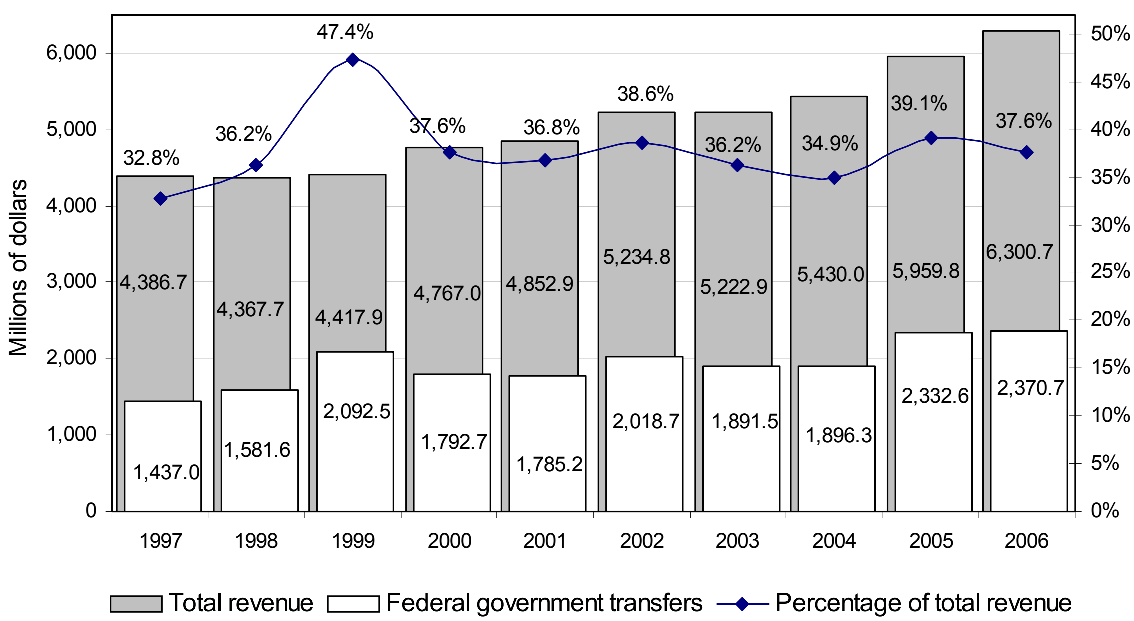
3.28 Funding for programs and services can only come from two sources: revenue or borrowing.

Federal government transfers as a percentage of total revenue as a measure of vulnerability

3.29 In 2006, 37.6% of the Province's total revenue came from federal transfers. This is significant because revenue from federal sources is not considered to be as controllable as revenue generated in the Province.

3.30 Own-source revenue is more controllable because the government can directly impact the amount generated using tax legislation as well as implementation or adjustment of user-fees/licensing rates. Federal transfers are subject to very different variables, few of which are under the jurisdiction of the provincial government. Federal fiscal policy decisions can severely impact provincial governments by determining the amount and timing of future transfers.

Exhibit 3.5
Federal government transfers as a percentage of total revenue for the last ten years



3.31 Increasing New Brunswick's reliance on federal transfers will leave the Province more vulnerable to variables outside of its own control. Exhibit 3.5 details the Province's reliance on federal transfers over the last ten years. Though a significant fluctuation occurred in 1999, this exhibit shows that the trend over the past ten years has been relatively stable. To maintain comparability, revenue from 1997 to 2004 has been restated to reflect current accounting policy.

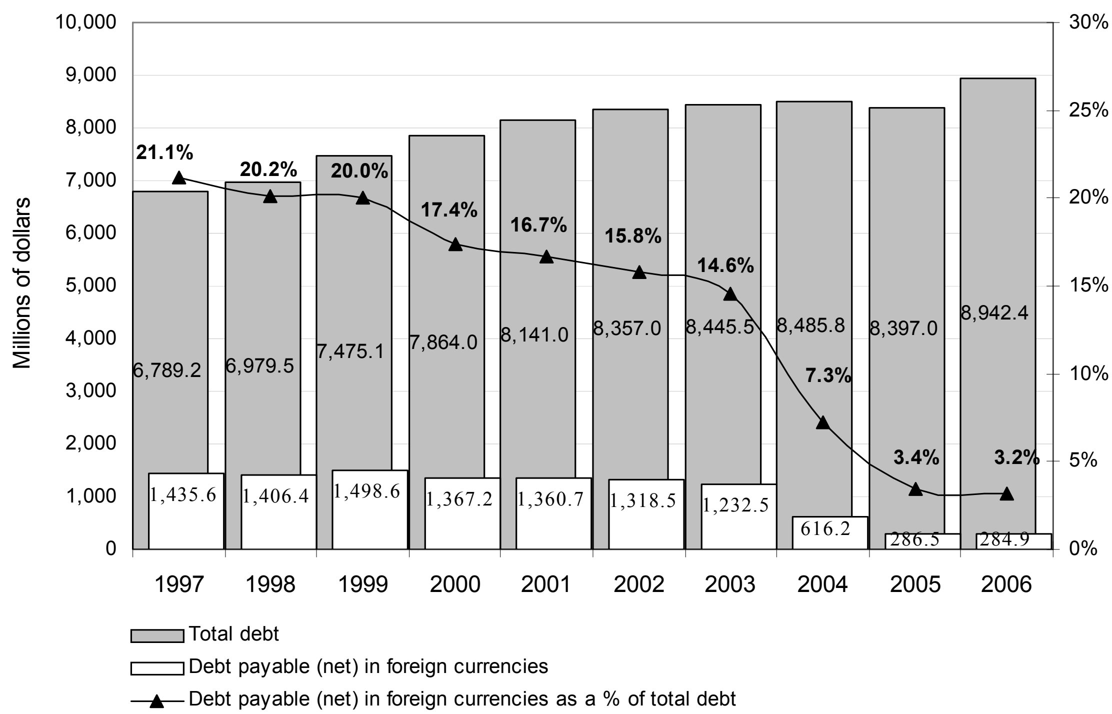
Foreign currency debt as a percentage of total debt for provincial purposes as a measure of vulnerability

3.32 When borrowing is required, there are choices to be made by the Province. For instance, if the Province chooses to issue its debt in a foreign currency instead of Canadian dollars, the Province will assume the risk of foreign exchange fluctuations. Such fluctuations can increase or decrease the amount ultimately payable in Canadian dollars for interest, and later, redemption of foreign currency debt.

3.33 Exhibit 3.6 shows the relationship of foreign currency debt to total debt for provincial purposes over the last ten years. The Province has several alternatives to reduce (hedge) the risk associated with debt repayable in foreign currencies:

- purchasing assets denominated in foreign currencies for the Province's sinking fund;
- entering into debt swap agreements which allows repayment of the debt in Canadian dollars; and
- entering into forward contracts (which allow the Province to purchase foreign currency at a stipulated price on a specified future date).

Exhibit 3.6
Exposure to foreign currency risk for the last ten years



3.34 The exhibit reflects the Province's exposure to foreign currency risk after eliminating the effect of hedges against foreign currency fluctuations.

3.35 The exhibit demonstrates that the Province's vulnerability to foreign currency risk has experienced continuous decline (favourable) over the past ten years.

Summary

3.36 In general, over the last ten years, the indicators of sustainability, flexibility and vulnerability show that the Province of New Brunswick's financial condition has improved. While there were unfavourable deviations in 1999 and 2000 with some of the indicators, these for the most part have improved in the past six years.

Comments on components of the Province's financial statements

3.37 In this section we have examined various components of the Province's financial statements for the year ended 31 March 2006. We have broken this into three areas:

- Statement of Financial Position
- Items reported in the notes
- Statement of Operations

3.38 We intend this information to help members of the Legislative Assembly understand the information contained in the Province's financial statements, and to help them formulate questions about those financial statements.

Statement of Financial Position

3.39 We have analyzed the following components of the Province's Statement of Financial Position:

- Receivables and advances
- Taxes receivable
- Loans
- Accrued expenses
- Allowance for losses
- All allowances
- Obligations under capital leases
- Pension liability
- Funded debt for provincial purposes
- Tangible capital assets
- Net debt

Receivables and advances

3.40 The following table breaks down the Province's receivables and advances.

	($ millions)						
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
General receivables	171.4	153.5	231.2	200.1	197.8	174.8	156.7
Receivables from Canada	161.2	141.6	132.3	121.5	122.8	119.5	106.9
Guarantee payouts	50.1	52.4	32.0	32.7	26.8	21.6	15.9
Other receivables			7.2	7.3	9.8	10.6	12.3
Advances	126.1	125.9					
Subtotal	508.8	473.4	402.7	361.6	357.2	326.5	291.8
Interest receivable	33.4	26.3	30.8	30.3	25.6	24.1	27.1
Subtotal	542.2	499.7	433.5	391.9	382.8	350.6	318.9
Consolidated entities	48.3	43.3	42.8	47.4	N/A	N/A	N/A
Total	590.5	543.0	476.3	439.3	382.8	350.6	318.9
Allowance for doubtful accounts	140.7	132.9	118.5	113.3	97.7	87.4	77.5
Receivables and advances	449.8	410.1	357.8	326.0	285.1	263.2	241.4

3.41 Not all of these receivables require active management by the Province to ensure collection, for example, receivables from Canada, receivables of consolidated entities that are responsible for their own collection, and advances of grants. The following table calculates the value of the accounts and interest amounts owing to the Province that require active management to ensure collection, and compares that value to the value of the accounts that are considered doubtful.

	($ millions)						
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Total before allowance	590.5	543.0	476.3	439.3	382.8	350.6	318.9
Receivables from Canada	161.2	141.6	132.3	121.5	122.8	119.5	106.9
Consolidated entities	48.3	43.3	42.8	47.4	N/A	N/A	N/A
Advances of grants	51.6	55.2					
Net amount	329.4	302.9	301.2	270.4	260.0	231.1	212.0
Allowance for doubtful accounts	140.7	132.9	118.5	113.3	97.7	87.4	77.5
Allowance percentage	42.7%	43.9%	39.3%	41.9%	37.6%	37.8%	36.6%

3.42 In the year ended 31 March 2006:

- the Province reported $590.5 million in receivables and advances, which is about 9% higher than the 31 March 2005 balance;
- $48.3 million of the $590.5 million was receivable by and managed by the consolidated entities;
- another $161.2 million was due from the federal government and so there should not be any doubt about its collection;

- another $51.6 million were advances on operating grants for April 2006;

- this left $329.4 million in receivables that the Province has to actively manage to ensure collection; and

- the collection of 42.7 % of these amounts, or $140.7 million, is considered to be in doubt.

3.43 At the year ended 31 March 2000, the percentage of doubtful accounts was 36.6%.

3.44 Some other figures in the receivables and advances that raise questions are:

- The amount of receivables for guarantee payouts has risen from $15.9 million at 31 March 2000 to $50.1 million at 31 March 2006.

- The amount receivable from Canada under the Official Languages program was $6.6 million at 31 March 2000 and it was $48.2 million at 31 March 2006. This raises questions about whether this funding is being received on a timely basis.

- The receivables of consolidated entities were included in the receivables numbers beginning in the fiscal year ended 31 March 2003, however no information is provided about the gross amount of their receivables and their level of doubtful accounts.

3.45 This analysis indicates that there is need to improve the management of the general accounts receivable of the Province. A doubtful collection rate of 42.7%, a rate that has been growing, significant guarantee payouts and questions about the timeliness of collections all point to opportunities for improvement.

Taxes receivable

3.46 The following table breaks down the taxes receivable by the Province.

	($ millions)						
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Gasoline and motive fuel tax	20.7	26.0	21.9	20.0	17.2	21.5	14.6
Real property tax	387.7	395.3	384.0	374.3	359.9	342.4	323.8
Royalties and stumpage on timber	24.3	21.8	28.0	18.2	18.4	22.7	19.1
Sales tax	87.9	32.7	107.7	85.4	68.9	68.9	69.5
Tobacco tax	8.5	10.2	11.3	9.0	7.4	5.3	4.4
Other	2.5	2.9	0.3	0.1	0.1	0.1	0.2
Subtotal	531.6	488.9	553.2	507.0	471.9	460.9	431.6
Allowance for doubtful accounts	85.4	96.9	86.6	89.5	89.5	84.5	83.9
	446.2	392.0	466.6	417.5	382.4	376.4	347.7

3.47 To analyze the taxes receivable, we compared the outstanding receivable balance at the end of the year with the tax revenue for the year, in certain tax types.

	($ millions)						
Tax Revenue	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Gasoline and motive fuel tax	232.1	239.7	234.9	222.1	184.3	186.5	185.5
Real property tax	341.0	334.1	303.9	295.0	288.6	274.7	258.1
Forest royalties	56.9	60.2	62.9	53.1	54.6	58.3	54.5
Tobacco tax	90.5	96.5	101.4	91.9	69.7	49.8	47.8

3.48 The following table shows the ratio of outstanding taxes to the applicable tax revenue for the year.

	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Gasoline and motive fuel tax	8.9%	10.8%	9.3%	9.0%	9.3%	11.5%	7.9%
Real property tax	113.7%	118.3%	126.4%	126.9%	124.7%	124.6%	125.5%
Forest royalties	42.7%	36.2%	44.5%	34.3%	33.7%	38.9%	35.0%
Tobacco tax	9.4%	10.6%	11.1%	9.8%	10.6%	10.6%	9.2%

3.49 Some observations:

- Because the property tax bills for a calendar year are sent out before 31 March, but are not due until after 31 March, the financial statements will always report a large balance of property taxes receivable. This makes it difficult to assess the collection position of property taxes.

- Assuming that gasoline and tobacco taxes are due each month, it would be reasonable for approximately 1/12th of the revenue for the year for those taxes to be outstanding at the end of the year. This would represent 8.3%.

3.50 Because of the timing of the property tax bills and payments, it is difficult to assess the overall doubtful account percentage for the taxes receivable category.

	($ millions)						
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Taxes receivable	531.6	488.9	553.2	507.0	471.9	460.9	431.6
Allowance for doubtful accounts	85.4	96.9	86.6	89.5	89.5	84.5	83.9
Percentage	16.1%	19.8%	15.7%	17.7%	19.0%	18.3%	19.4%

3.51 If we were able to adjust for the timing of real property tax bills and payments, the percentages of doubtful accounts would be significantly higher.

Loans

3.52 The following table breaks down the loans receivable by the Province.

	($ millions)						
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Business New Brunswick	200.2	206.7	201.8	239.0	228.0	224.2	215.8
Education	258.3	0.2	0.2	0.2	0.2	0.2	0.2
Energy Efficiency and Conservation Agency of New Brunswick	0.2						
Environment and Local Government	0.7	0.6	0.6	0.6	0.7	0.7	0.7
Executive Council	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Family and Community Services	34.5	33.6	32.7	31.8	30.9	31.3	24.9
Finance	1.0	1.6	1.6	1.9	1.7	1.9	2.3
Public Safety	10.5	10.7	10.9	11.2	11.4	11.6	12.2
Regional Development Corporation	3.6	5.3	3.8	3.6	3.2	3.2	3.0
Supply and Services						0.5	0.5
Subtotal	513.0	262.7	255.6	292.3	280.1	277.6	263.6
Allowance for doubtful accounts	193.0	142.6	129.3	143.9	133.7	124.7	122.3
Total	320.0	120.1	126.3	148.4	146.4	152.9	141.3

3.53 During the year ended 31 March 2006, the Province took over responsibility for loans to students The amount receivable at 31 March 2006 was $258 million. This essentially doubles the size of the loans receivable by the Province and makes it difficult to compare to previous years.

3.54 Some of the loans receivable should be written off. The Executive Council loan to La fondation du quotidien francophone has a 100% allowance against it and its structure is essentially the same as a grant. The Public Safety loans for unsatisfied judgments are old loans and have a 100% allowance recorded against them. These two items total $13.5 million that the Province knows it will not collect and so they should be written off.

3.55 The percentage of loans accounts that are doubtful is as follows:

	($ millions)						
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Loans	513.0	262.7	255.6	292.3	280.1	277.6	263.6
Allowance for doubtful accounts	193.0	142.6	129.3	143.9	133.7	124.7	122.3
Percentage	37.6%	54.3%	50.6%	49.2%	47.7%	44.9%	46.4%

3.56 The reduction in the percentage in 2006 is caused by the addition of the student loan program to the Province's loan portfolio.

3.57 Here is a history of the allowance percentage for some of the categories of loans:

	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Agricultural Development Act	72.4%	73.2%	71.0%	69.0%	66.3%	48.0%	37.5%
Economic Development Act	65.1%	56.8%	46.0%	45.0%	41.7%	37.2%	30.5%
Fisheries Development Act	73.8%	71.6%	76.8%	74.3%	74.3%	77.9%	82.2%
Provincial Holdings Ltd.	73.3%	44.6%	34.3%	30.9%	25.9%	18.8%	32.5%
Loans to students	15.9%	100%	100%	100%	100%	100%	100%
Other environment loans	100%	100%	100%	100%	100%	100%	100%
La fondation du quotidien francophone	100%	100%	100%	100%	100%	100%	100%
New Brunswick Housing Act	7.0%	6.3%	7.6%	7.9%	8.1%	9.2%	10.8%
DRIE agreements	N/A	0	54.5%	42.9%	35.3%	31.6%	26.1%
Unsatisfied judgments	100%	100%	100%	100%	100%	100%	100%

3.58 The five largest categories of loans, which represent 94.8% of all loans and advances outstanding at 31 March 2006, are:

- Loans to students 50.4%
- *Economic Development Act* loans 26.4%
- *Fisheries Development Act* loans 7.8%
- *New Brunswick Housing Act* loans 6.7%
- *Agricultural Development Act* loans 3.5%

3.59 Two of these loan categories have had significant increases in the rate of uncollectible accounts. The percentage of uncollectible loans under the *Economic Development Act* has increased from 30.5% to 65.1% from 31 March 2000 to 31 March 2006. The percentage of uncollectible loans under the *Agricultural Development Act* has increased from 37.5% to 72.4%.

3.60 Two of these loan categories have had decreases in the rate of uncollectible accounts. The percentage of uncollectible loans under the *Fisheries Development Act* has decreased from 82.2% to 73.8% from 31 March 2000 to 31 March 2006. The percentage of uncollectible loans under the *New Brunswick Housing Act* has decreased from 10.8% to 7.0%.

Accrued expenses

3.61 The following table provides the history of the accrued expenses balance over the past seven years.

	($ millions)						
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Accrued expenses	920.1	927.7	836.2	710.1	676.0	709.9	674.5

3.62 Two components of the accrued expenses balance are:

	($ millions)						
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Liability for injured workers	103.3	95.7	89.6	83.2	68.9	55.7	42.3
Retirement allowances	230.9	222.4	222.6	214.7	208.1	214.8	217.5

3.63 The difference in the growth of these two accrued expenditures is noticeable. The liability for injured workers has increased 144.2% over a six year period, while the liability for accrued retirement allowances has only increased 6.2%. Both of the liabilities are related to the Province's work force, however one is growing at a significant rate while the other is growing at a slow rate.

Allowance for losses

3.64 The following table provides the history of the allowance for losses balance over the past seven years.

	($ millions)						
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Allowance for losses	60.7	67.1	75.8	50.2	44.7	30.9	16.2

3.65 This allowance at 31 March 2006 was over three times its balance at 31 March 2000. The components of the allowance are:

	($ millions)						
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Business New Brunswick	60.5	36.2	40.0	19.9	19.1	12.2	14.7
Education	0	30.7	35.1	30.1	25.4	18.5	1.3
Other	0.2	0.2	0.7	0.2	0.2	0.2	0.2

3.66 This table shows that while the total allowance at 31 March 2006 is lower than the 31 March 2005 balance, the reason for the decrease is the change in the method of providing student loans from guarantees to direct loans. The Business New Brunswick allowance for losses on loan guarantees has been increasing over the past five years.

All allowances

3.67 The Province has various allowances for losses. We have seen these allowances against their respective accounts. If we look at them in total we get a comprehensive picture of the allowances:

	($ millions)						
All Allowances	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Allowance for losses	60.7	67.1	75.8	50.2	44.7	30.9	16.2
Allowance for doubtful accounts (Loans and advances)	193.0	142.6	129.3	143.9	133.7	124.7	122.3
Allowance for doubtful accounts (Taxes receivable)	85.4	96.9	86.6	89.5	89.5	84.5	83.9
Allowance for doubtful accounts (Accounts and interest receivable)	140.7	132.9	118.5	113.3	97.7	87.4	77.5
Total all allowances	479.8	439.5	410.2	396.9	365.6	327.5	299.9

3.68 These numbers are concerning. As at 31 March 2006, the Province expects to lose $479.8 million of the various amounts it is owed or that it guarantees. This would seem to be symptomatic of a flaw in the collection function. It also seems that there is a significant opportunity here. Every one percent of these doubtful accounts that the Province could collect would represent $4.8 million to the Province.

Furthermore, there is at least one mechanism to do this that would be inexpensive and has been successful in other provinces, that is a collection service that is offered by the Canada Revenue Agency. Many of the Province's credit and loan programs need to be reviewed to determine if any changes should be implemented.

Obligations under capital leases

3.69 The following table provides the history of the obligations under capital leases balance over the past seven years.

	($ millions)						
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Capital leases	834.1	849.4	865.8	873.7	871.9	900.0	900.7

3.70 The largest capital lease is the lease of the Fredericton to Moncton highway:

	($ millions)						
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Fredericton to Moncton highway lease	808.4	823.0	837.0	843.8	844.6	871.8	872.0

3.71 Over the past six years, the Province has paid $63.6 million against the outstanding principle owing on the Fredericton to Moncton highway lease.

Pension liability

3.72 The following table provides the history of the Province's pension liability balance over the past seven years.

	($ millions)						
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Pension liability	30.2	156.7	271.5	362.1	372.6	442.6	596.0

3.73 This reports a steady decline in the outstanding pension liability over this time period. This picture is the result of the way that pensions are accounted for. Pension accounting rules include measures that help to remove much of the underlying volatility primarily in the market value of the plans' assets. The pension liability actually includes the following components:

	($ millions)						
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Estimated accrued benefits liability	7,324.5	6,719.6	6,380.9	5,983.7	5,603.1	5,339.0	5,138.2
Market value of pension plan assets	7,449.3	6,521.7	6,086.5	4,926.3	5,445.1	5,407.4	5,819.1
Subtotal	(124.8)	197.9	294.4	1,057.4	158.0	(68.4)	(680.9)
Accounting adjustments	155.0	(41.2)	(22.9)	(695.3)	214.6	511.0	1,276.9
Pension liability	30.2	156.7	271.5	362.1	372.6	442.6	596.0

3.74 This table shows a steady increase in the estimated accrued benefits earned by members of the Province's various pension plans. However, the market value of the pension plan assets fluctuates significantly. Over the seven year ends reported in the table, the plan assets were at a low of $4,926.3 million at 31 March 2003, and at a high of $7,449.3 million at 31 March 2006.

3.75 The table also reports the difference between the market value of the plans' assets and the estimated accrued benefit liabilities of the plans at each year end. At 31 March 2000, the market value of the assets actually exceeded the estimated liability for benefits earned by plan members by $680.9 million. By 31 March 2003, that situation had reversed, and the value of the estimated liabilities exceeded the market value of the plans' assets by $1,057.4 million. By 31 March 2006, the situation had again reversed such that the market value of assets once again exceeded the estimated liability by $124.8 million.

3.76 The accounting rules for pensions for governments allow adjustments that reduce the effects of large changes in the components of the pension liability, such as market returns on assets. For example, even though the assets of the Province's pension plans exceeded the estimated benefit obligations at 31 March 2000 by $680.9 million, the Province's financial statements actually reported a pension liability of $596.0 million. Similarly, at 31 March 2003 the value of the plans' estimated accrued benefits exceeded the market value of the plans' assets by $1,057.4 million, however, the pension liability reported on the Province's financial statements was $362.1 million. As at 31 March 2006, the market value of the plans' assets exceeds the estimated accrued benefits by $124.8 million, however, the pension liability reported on the Province's financial statements was $30.2 million.

3.77 The annual change in the pension liability is not all caused by market returns on assets and accounting adjustments. The Province is also making contributions to the pension funds to reduce the pension liability. The following table compares the pension expense for the year with the contributions to the plans made by the Province.

	($ millions)						
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Pension expense	109.9	108.4	124.2	90.4	(0.7)	(51.1)	(9.1)
Employer contributions	236.4	223.2	214.8	100.9	69.1	102.3	167.6
Reduction in pension liability	126.5	114.8	90.6	10.5	69.8	153.4	176.7

Funded debt for provincial purposes

3.78 The following table provides the history of the funded debt for provincial purposes balance over the past seven years.

	($ millions)						
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Funded debt for provincial purposes	8,942.4	8,397.0	8,485.8	8,418.7	8,004.7	7,656.2	7,408.5

3.79 The Province's funded debt for provincial purposes at 31 March 2006 is $1,533.9 million higher than it was at 31 March 2000. This could be confusing to some readers of the financial statements because it seems inconsistent with the fact that net debt has dropped over that period. The primary reason for this is the Province's sinking fund. The following table reports the book value of the Province's sinking fund for the past seven years.

	($ millions)						
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Sinking fund book value	3,984.0	3,773.8	3,716.2	3,543.0	3,358.8	3,130.2	2,925.5

3.80 So, while the Province's funded debt for provincial purposes increased by $1,533.9 million from 31 March 2000 until 31 March 2006, $1,058.5 million of those borrowings were put aside in the Province's sinking fund.

3.81 Also, during the year ended 31 March 2006, the Province acquired $209.2 million worth of student loans. The acquisition of this financial asset was financed through funded debt.

3.82 Another use of the funds raised through borrowing is to pay down the Province's pension liability. As the last table in the section on pension liability reports, the Province has paid a significant amount of money into its pension funds over the past five years.

Tangible capital assets

3.83 The following table provides the history of the tangible capital asset balance over the past three years.

	($ millions)		
	2006	**2005**	**2004**
Tangible capital assets	4,859.1	4,746.7	4,650.0

3.84 Below is an analysis in the change in the tangible capital asset balance:

	($ millions)	
	2006	**2005**
Opening balance	4,746.7	4,650.0
Acquisitions	342.2	326.7
Funds received to acquire tangible capital assets	(24.9)	(34.3)
Amortization of tangible capital assets	(204.5)	(193.4)
Loss on disposal of tangible capital assets	(0.4)	(2.3)
Ending balance	4,859.1	4,746.7

Net debt

3.85 Net debt is an important measure of the financial position of the Province. The following table provides the history of the Province's net debt over the past seven years.

	($ millions)						
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Net debt	6,655.7	6,778.3	6,923.6	6,832.4	6,734.5	6,898.9	7,048.9

3.86 Over this six-year period, net debt has been reduced by $393.2 million. The Province's net debt per capita for the past seven years is:

	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Net debt ($ millions)	6,655.7	6,778.3	6,923.6	6,832.4	6,734.5	6,898.9	7,048.9
Population	749,000	752,000	752,000	751,000	750,000	750,000	750,000
Net debt per capita	$8,886	$9,014	$9,207	$9,098	$8,979	$9,199	$9,399

3.87 At 31 March 2000, the share of the Province's net debt for each citizen of the Province was $9,399. By 31 March 2006 that share had reduced to $8,886.

3.88 The Province's net debt as a percentage of GDP for the past seven years is:

	2006	2005	2004	2003	2002	2001	2000
Net debt	6,655.7	6,778.3	6,923.6	6,832.4	6,734.5	6,898.9	7,048.9
GDP (GDP is for the previous calendar year)	23,727	22,976	22,179	21,152	20,684	20,085	19,041
Net debt as a percentage of GDP	28.1%	29.5%	31.2%	32.3%	32.6%	34.3%	37.0%

3.89 These indicators of net debt all reflect improvement over the six year period reported. Another way to assess these results is to compare them to provinces with similar population size as New Brunswick. In these tables, net debt is taken from the audited summary financial statements of the individual provinces, information about GDP and population are taken from the Statistics Canada web site.

($ millions)	
Net debt	**2006**
New Brunswick	6,656
Saskatchewan	7,761
Manitoba	10,519
Nova Scotia	12,239

Net debt per capita	2006
Saskatchewan	$7,808
New Brunswick	$8,886
Manitoba	$8,952
Nova Scotia	$13,048

Net debt as a percentage of GDP	2006
Saskatchewan	18.30%
Manitoba	25.10%
New Brunswick	28.10%
Nova Scotia	37.30%

Items reported in the notes

3.90 There are some economic events that accounting rules do not require to be reported immediately, although the notes to the financial statements are required to disclose most of them. The Province's accounting treatment of these items is correct, however, the reader of the financial statements should be aware of these items. The main items are:

- Contingent liabilities
- Commitments
- Foreign exchange fluctuations
- Market value of the sinking fund investments

Contingent liabilities

3.91 The Province's primary contingent liability is for guaranteed loans. Guaranteed loans, net of the recorded allowance for losses for the past seven years were:

	($ millions)						
Contingent liabilities	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Guaranteed loans	102.6	269.4	263.5	196.5	151.4	135.7	50.6

3.92 This reports a significant increase in the value of guarantees issued by the Province over the five year period from 31 March 2000 until 31 March 2005, and then a significant decrease in 2006. The large decrease in 2006 was caused by the change in student loans from guarantees to loans receivable.

3.93 The following is a breakdown of the components of the Province's guarantees.

	($ millions)						
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Adult Education and Training Act	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Agricultural Development Act	0.4	0.4	0.1	0.2	0.2	0.9	0.8
Economic Development Act	123.5	103.8	124.8	47.4	33.8	35.9	43.7
Employment Development Act	4.5	3.9	5.3	4.3	3.6	2.0	2.3
Fisheries Development Act	20.8	5.0	6.5	10.4	5.9	3.3	4.3
Livestock Incentives Act	0.9	0.9	1.5	1.6	1.5	1.7	0.5
Nursing Homes Act	9.4	10.3	10.6	10.6	10.7	10.6	11.0
Regional Development Corporation Act	3.5	3.3	3.4	3.7	3.5	4.0	3.9
Youth Assistance Act	0	209.1	186.8	168.2	136.6	107.9	0
Subtotal	163.3	337.0	339.3	246.7	196.1	166.6	66.8
Allowance for losses	60.7	67.6	75.8	50.2	44.7	30.9	16.2
Contingent liability	102.6	269.4	263.5	196.5	151.4	135.7	50.6

3.94 This table reports that there has been a significant increase in the guarantees issued under the *Economic Development Act*. At 31 March 2000, the value of these guarantees was $43.7 million. That declined to $33.8 million by 31 March 2002, and since then has increased to a value of $123.5 million at 31 March 2006. Also, guarantees under the *Fisheries Development Act* have increased from $4.3 million at 31 March 2000 to $20.8 million at 31 March 2006.

Commitments

3.95 The following table reports the Province's outstanding commitments for the past seven years.

	($ millions)						
Commitments	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Operating leases	436.4	407.8	392.0	398.5	369.8	308.9	329.7
Nursing home debt funding	90.4	84.1	84.8	82.5	81.0	78.6	68.2
Authorized capital projects	1,572.1	708.1	206.4	751.1	838.0	36.6	36.5

3.96 The significant increase in authorized capital projects in 2002 and 2003 were due to NB Power's capital projects. The 2005 value of authorized capital projects was originally reported in the Province's 31 March 2005 financial statements as $97.6 million. This was restated in the 31 March 2006 financial statements to $708.1 million. The value of authorized capital projects increased significantly in the year ended 31 March 2006. As these commitments are met, they will put pressure on the Province's net debt position. The notes to the financial statements do not provide any details about the nature of these significant commitments, nor is there any explanation in the results for the year discussion that accompanies the financial statements.

3.97 Both the operating lease commitments and the nursing home funded debt commitments have steadily increased since 31 March 2001.

Foreign exchange fluctuations

3.98 Accounting rules allow foreign currency fluctuations to be accounted for over the remaining term of the outstanding debt instrument. Foreign currency accounting is complex, and the method used to defer changes in value can seem to be counter-intuitive. When accounting for foreign currency changes, the outstanding debt is revalued using the exchange rate on the year end date, 31 March for the Province of New Brunswick. Then, part of the change is deferred to be expensed in future years. This is done by creating an account for unrealized foreign exchange gains or losses. Unrealized foreign exchange gains are recorded as liabilities and unrealized foreign exchange losses are recorded as assets.

3.99 The following table reports the Province's unrealized foreign exchange gains or losses for the past seven years:

	($ millions)						
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Unrealized foreign exchange losses (gains)	(48.7)	(39.9)	(22.8)	59.7	159.2	182.8	110.1

Market value of sinking fund investments

3.100 The Province does not disclose the market value of its sinking fund investments in its summary financial statements. However, it does produce separate financial statements for the sinking fund which do report the market value of the sinking fund investments. These financial statements are included in Volume 2 of the Province's Public Accounts. The following table reports the book value and market value of the provincial portion of the sinking fund for the years ended 31 March 2000 until 31 March 2005.

	($ millions)					
Sinking fund	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Book value – provincial portion	3,773.8	3,716.2	3,543.0	3,358.8	3,130.2	2,925.5
Book value – NB Power portion	391.6	363.7	351.3	327.4	297.3	295.1
Total book value	4,165.4	4,079.9	3,894.3	3,686.2	3,427.5	3,220.6
Market value	4,583.3	4,575.9	4,255.3	3,913.0	3,703.3	3,448.4
Excess of market value over book value	417.9	496.0	361.0	226.8	275.8	227.8

3.101 This shows that at 31 March 2005, the sinking fund had a market value that was significantly higher than its recorded book value.

Statement of Operations

Surplus

3.102 For the year ended 31 March 2006, the Province reported a surplus of $243.6 million.

3.103 The following table shows the surplus for the past three years as originally recorded and as restated.

	($ millions)		
Surplus (Deficit)	**2006**	**2005**	**2004**
As originally recorded	243.6	242.2	(103.2)
As restated	243.6	242.2	(173.4)

Change in net debt

3.104 For the year ended 31 March 2006, the Province reported a reduction in net debt of $122.6 million.

3.105 The following table shows the change in net debt for the past seven years as originally recorded and as restated.

	($ millions)						
(Increase) Decrease in net debt	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
As originally recorded	122.6	131.5	(103.2)	(109.4)	143.8	181.8	(895.7)
As restated	122.6	145.3	(91.2)	(97.9)	164.4	150.0	(895.7)

Revenue

3.106 The main items of revenue that we have analyzed are:

- Total revenue

- Revenue from provincial sources
- Taxes on consumption
- Taxes on income
- Other provincial source revenue
- Revenue from federal sources

Total revenue

3.107 The following table reports the Province's revenue for the past seven years, divided between revenue from provincial sources and revenue from federal sources.

	($ millions)						
Revenue	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Provincial sources	3,930.0	3,627.2	3,533.7	3,331.4	3,216.1	3,067.7	2,974.3
Federal sources	2,370.7	2,332.6	1,896.3	1,891.5	2,018.7	1,785.2	1,792.7
Total	6,300.7	5,959.8	5430.0	5,222.9	5,234.8	4,852.9	4,767.0

3.108 The following table shows the annual increase (decrease) in each major source of revenue, both in dollars and percentage.

Revenue	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
($ millions)						
Provincial sources	302.8	93.5	202.3	115.3	148.5	93.3
Federal sources	38.1	436.3	4.8	(127.2)	233.5	(7.5)
Total	340.9	529.8	207.1	(11.9)	382.0	85.8
%						
Provincial sources	8.3	2.6	6.1	3.6	4.8	3.1
Federal sources	1.6	23.0	0.3	(6.3)	13.1	(0.4)
Total	5.7	9.8	4.0	(0.2)	7.9	1.8

3.109 Provincial source revenue has increased 32.1% since the year ended 31 March 2000, while federal source revenue has increased 32.2%. The following table reports the share of annual revenue that is made up of each primary source.

Revenue	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Provincial sources	62.4%	60.9%	65.1%	63.8%	61.4%	63.2%	62.4%
Federal sources	37.6%	39.1%	34.9%	36.2%	38.6%	36.8%	37.6%

3.110 Over these seven years, the provincial source revenue has been as high as 65% of total revenue and as low as 61%.Currently it is at the same percentage as it was in 2000.

Revenue from provincial sources

3.111 The following table compares the provincial source revenue to GDP.

Revenue	($ millions) 2006	2005	2004	2003	2002	2001
Provincial sources	3,930.0	3,627.2	3,533.7	3,331.4	3,216.1	3,067.7
GDP (GDP is for the previous calendar year)	23,727	22,976	22,179	21,152	20,684	20,085
Provincial source revenue as a % of GDP	16.6%	15.8%	15.9%	15.7%	15.5%	15.3%
Percentage growth in provincial source revenue	8.3%	2.6%	6.1%	3.6%	4.8%	3.1%
Percentage growth in GDP	3.3%	3.6%	4.9%	2.3%	3.0%	5.5%

3.112 In four of the past five years, provincial source revenue has increased at a rate that exceeds the rate of growth of the GDP. The result is that in 2006, provincial source revenue was 16.6% of GDP, compared to 15.3% in 2001.

3.113 The following table reports the main categories of provincial source revenue and their history over the past seven years.

Provincial source revenue	($ millions) 2006	2005	2004	2003	2002	2001	2000
Taxes on consumption	1,161.3	1,059.3	1,139.5	1,050.1	913.7	889.6	824.1
Taxes on property	341.0	334.1	303.9	295.0	288.6	274.7	258.1
Taxes on income	1,224.4	1,176.1	1,065.6	1,051.5	1,092.1	1,091.9	1,045.2
Other taxes	90.8	94.7	103.4	85.0	81.9	69.2	65.8
Licenses and permits	113.8	103.0	104.1	103.0	101.6	106.6	105.4
Royalties	67.8	70.7	70.4	60.0	61.1	66.5	62.5
Investment income	409.5	283.7	252.7	176.7	246.3	156.4	211.3
Other provincial revenue	295.0	284.0	271.6	267.1	199.9	192.8	198.2
Sinking fund earnings	226.4	221.6	222.5	243.0	230.9	220.0	203.7
Total	3,930.0	3,627.2	3,533.7	3,331.4	3,216.1	3,067.7	2,974.3

3.114 The shading indicates that the revenue in that category is higher than it was in the previous year.

Taxes on consumption

3.115 The following table reports the details of revenue from taxes on consumption over the past seven years.

	($ millions)						
Taxes on consumption	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Gasoline and Motive Fuels Tax	232.1	239.7	234.9	222.1	184.3	186.5	185.5
Harmonized Sales Tax	838.6	723.0	803.1	736.0	659.6	653.2	590.7
Tobacco Tax	90.5	96.5	101.4	91.9	69.7	49.8	47.8
Other	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total	1,161.3	1,059.3	1,139.5	1,050.1	913.7	889.6	824.1
Increase (decrease)	102.0	(80.2)	89.4	136.4	24.1	65.5	10.1
Percentage increase (decrease)	9.6%	(7.0%)	8.5%	14.9%	2.7%	7.9%	1.2%
Total as a percentage of GDP	4.9%	4.6%	5.1%	5.0%	4.4%	4.4%	4.3%

3.116 Over this seven year period, the major change in Gasoline and Motive Fuels Tax was in 2003 which was due to tax increases. The year ended 31 March 2003 was also the first year that a full year's interest expense was recorded on the debt issued for the Fredericton to Moncton highway. If we use the gasoline tax revenue for 2002 as a base year, we can compare the approximate extra revenue generated by the tax increase to the interest on the highway debt:

	($ millions)				
	2006	**2005**	**2004**	**2003**	**2002**
Extra Gasoline and Motive Fuels Tax	47.8	55.4	50.6	37.8	0
Interest on highway debt	56.5	57.5	58.1	55.8	22.5

3.117 The ratio of Harmonized Sales Tax revenue to GDP over the past seven years is as follows:

	($ millions)						
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Harmonized Sales Tax	838.6	723.0	803.1	736.0	659.6	653.2	590.7
GDP (GDP is for the previous calendar year)	23,727	22,976	22,179	21,152	20,684	20,085	19,041
Ratio	3.5%	3.1%	3.6%	3.5%	3.2%	3.3%	3.1%

Taxes on income

3.118 The following table reports the details of revenue from taxes on income over the past seven years.

	($ millions)						
Taxes on income	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Corporate Income Tax	150.3	173.1	111.1	134.9	179.9	178.6	141.0
Mining Tax	10.5	2.8	2.2	5.7	2.3	3.3	3.9
Personal Income Tax	1,063.6	1,000.2	952.3	910.9	909.9	910.0	900.3
Total	1,224.4	1,176.1	1,065.6	1,051.5	1,092.1	1,091.9	1,045.2
Total as a percentage of GDP(GDP is for the previous calendar year)	5.2%	5.1%	4.8%	5.0%	5.3%	5.4%	5.5%

3.119 The following table compares corporate income taxes to the component of GDP that is from corporation profits before taxes:

	($ millions)						
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Corporate Income Tax	150.3	173.1	111.1	134.9	179.9	178.6	141.0
Corporation profits before taxes (previous calendar year)	2,162	2,292	1,862	1,849	1,904	1,846	1,769
Percentage	7.0%	7.6%	6.0%	7.3%	9.4%	9.7%	8.0%

3.120 The percentage increases in personal income taxes over the past six fiscal years have been:

	2006	**2005**	**2004**	**2003**	**2002**	**2001**
Personal Income Tax	6.3%	5.0%	4.5%	0.1%	0.0%	1.1%

3.121 The following table shows the growth over the past six calendar years, in personal income per capita and in certain applicable components of the provincial GDP:

	2005	**2004**	**2003**	**2002**	**2001**	**2000**
Increase in per capita income	3.5%	2.7%	2.9%	2.3%	2.5%	4.8%
Increase in wage component of GDP	3.5%	2.3%	4.8%	4.2%	0.5%	6.1%
Increase in wage, interest and unincorporated business component of GDP	4.1%	2.3%	4.2%	2.4%	0.7%	5.5%

3.122 This is confusing because while per capita income has grown at a reasonably consistent rate over the past four years, personal income taxes collected by the Province have grown more significantly in the past three years. It is hard to understand why the growth in personal income tax is larger than the growth in the wage component of GDP.

This is true even when the growth in the wage component of GDP is added to the growth in the interest and investment component and the income from non-incorporated businesses.

Other provincial source revenues

3.123 The following table reports the details of certain other revenue from provincial sources over the past seven years.

	($ millions)						
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Insurance Premium Tax	39.4	39.7	42.2	34.3	30.3	28.2	25.9
Large Corporation Capital Tax	36.3	39.5	47.3	38.7	39.0	30.6	28.1
Motor vehicle licenses	92.4	82.3	78.0	78.8	79.1	80.6	78.8
Forest royalties	56.9	60.2	62.9	53.1	54.6	58.3	54.5
Lottery revenues	111.2	118.1	116.7	109.1	89.2	89.7	86.3
NB Electric Finance Corporation	131.5	7.8	(18.0)	(77.4)	19.0	(78.0)	17.0
NB Liquor Corporation	126.1	122.6	118.6	110.1	106.8	103.0	100.8
Sinking fund earnings	226.4	221.6	222.5	243.0	230.9	220.0	203.7

3.124 The average annual growth rate of each of these sources of provincial revenue, other than the revenue from the NB Electric Finance Corporation, were:

Revenue source	**Six year annual average growth rate**
Insurance Premium Tax	7.3%
Large Corporation Capital Tax	4.4%
Lottery revenues	4.3%
NB Liquor Corporation	3.8%
Motor vehicle licenses	2.7%
Sinking fund earnings	1.8%
Forest royalties	0.1%

Revenue from federal sources

3.125 The following table reports the main categories of federal source revenue and their history over the past seven years.

	($ millions)						
Federal source revenue	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Canada Health and Social Transfer	696.4	607.3	545.2	498.9	494.9	404.0	369.2
Health Reform Transfer	0	35.3	0	0	0	0	0
Fiscal Equalization Payments	1,348.0	1,395.5	1,089.3	1,146.9	1,321.3	1,150.5	1,152.1
Other unconditional grants	1.9	1.7	1.9	1.9	1.9	1.9	1.8
Conditional grants	324.4	292.8	259.9	243.8	200.6	194.8	203.6
Harmonization Transitional Payment						34.0	66.0
Total	2,370.7	2,332.6	1,896.3	1,891.5	2,018.7	1,785.2	1,792.7
Increase (decrease)	38.1	436.3	4.8	(127.2)	233.5	(7.5)	(299.8)
Percentage increase (decrease)	1.6%	23.0%	0.3%	(6.3%)	13.1%	(0.4%)	(14.3%)

3.126 Even though the growth in federal source revenue has fluctuated significantly over the past six years, as was stated earlier, the percentage of the Province's total revenue that comes from federal sources is at the same level as it was in the year ended 31 March 2000.

Expenses

3.127 The main items of expenses we have analyzed are:

- total expenses
- expenses by department
- interest expense
- provision expense
- expenditure

Total expenses

3.128 The Province implemented tangible capital asset accounting in the year ended 31 March 2005, and restated its 2004 numbers to reflect this change. This means that the Province's Statement of Operations now reports expenses rather than expenditures, and it also means that only three years' worth of comparative expense figures are available.

3.129 The following table reports the Province's expenses for the past three years.

Expenses	2006		2005		2004	
	$ millions	**%**	**$ millions**	**%**	**$ millions**	**%**
Education	1,195.9	19.7	1,077.2	18.8	1,060.6	18.9
Health	1,958.3	32.3	1,837.0	32.1	1,788.5	31.9
Family and Community Services	775.5	12.8	730.5	12.8	716.6	12.8
Protection services	160.7	2.7	151.2	2.7	145.2	2.6
Economic Development	182.0	3.0	183.6	3.2	167.0	3.0
Employment Development and Labour	231.5	3.8	229.3	4.0	229.0	4.1
Resource sector	164.6	2.7	166.8	2.9	159.0	2.8
Transportation	313.7	5.2	288.5	5.0	286.2	5.1
Central government	483.5	8.0	472.6	8.3	468.4	8.4
Service of the Public Debt	591.4	9.8	580.9	10.2	582.9	10.4
Total	6,057.1	100.0	5,717.6	100.0	5,603.4	100.0

3.130 The following table shows the annual growth of the Province's expenses over the past two years:

Expenses	2006		2005	
	$ millions	**%**	**$ millions**	**%**
Education	118.7	11.0	16.6	1.6
Health	121.3	6.6	48.5	2.7
Family and Community Services	45.0	6.2	13.9	1.9
Protection services	9.5	6.3	6.0	4.1
Economic Development	(1.6)	(0.9)	16.6	9.9
Employment Development and Labour	2.2	1.0	0.3	0.1
Resource sector	(2.2)	(1.3)	7.8	4.9
Transportation	25.2	8.7	2.3	0.8
Central government	10.9	2.3	4.2	0.9
Service of the Public Debt	10.5	1.8	(2.0)	(0.3)
Total	339.5	5.9	114.2	2.0
Rate of Growth of GDP		3.3		3.6

3.131 In 2005, the rate of growth of expenses was less than the rate of growth of GDP, while in 2006, it was greater.

3.132 The Notes to the Financial Statements also provide a detail of the expenses by what is referred to as primary classification:

Primary	2006		2005		2004	
	$ millions	**%**	**$ millions**	**%**	**$ millions**	**%**
Personal services	1,985.7	32.8	1,958.1	34.2	1,908.4	34.1
Other services	1,195.0	19.7	1,044.3	18.3	980.3	17.5
Materials and supplies	127.3	2.1	124.7	2.2	113.5	2.0
Property and equipment	88.8	1.5	73.3	1.3	69.4	1.2
Contributions, grants and subsidies to or on behalf of:						
Municipalities and Local Service Districts	151.2	2.5	143.7	2.5	145.1	2.6
Individuals	971.0	16.0	943.2	16.5	894.0	16.0
Nursing homes	144.6	2.4	131.8	2.3	125.1	2.2
Other	497.8	8.2	471.7	8.2	435.2	7.8
Debt and other charges	691.2	11.4	633.4	11.1	663.3	11.8
Amortization	204.5	3.4	193.4	3.4	269.1	4.8
Total	6,057.1	100.0	5,717.6	100.0	5,603.4	100.0

Expenses by department

3.133 The following table provides a three year comparison of the departments or categories with the ten largest expenses during the year ended 31 March 2006.

	2006		2005		2004	
	$ millions	**%**	**$ millions**	**%**	**$ millions**	**%**
Regional Health Authorities	1,284.9	21.2%	1,192.7	20.9%	1,106.9	19.8%
Education	876.5	14.5%	817.9	14.3%	804.0	14.3%
Family and Community Services	761.4	12.6%	724.3	12.7%	710.5	12.7%
Health and Wellness	616.1	10.2%	593.6	10.4%	550.4	9.8%
Service of the Public Debt	591.4	9.8%	580.9	10.2%	582.9	10.4%
MPHEC	258.5	4.3%	185.2	3.2%	179.7	3.2%
Training and Employment Development	230.8	3.8%	228.7	4.0%	228.4	4.1%
Amortization	204.5	3.4%	193.4	3.4%	269.1	4.8%
Transportation	204.1	3.4%	182.2	3.2%	179.1	3.2%
Public Safety	112.1	1.9%	105.0	1.8%	99.8	1.8%

Interest expense

3.134 The Notes to the Financial Statements provide details about debt charges. The following table provides a comparison of the past seven years:

	($ millions)						
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Interest	744.5	756.9	766.2	799.1	817.2	851.1	833.4
Interest on Fredericton to Moncton highway capital lease	56.5	57.5	58.1	55.8	22.5	0	0
Interest on other capital leases	2.2	2.3	2.3	2.4	2.4	2.5	2.5
Foreign exchange expense	(7.8)	(21.7)	(40.3)	35.4	56.6	44.5	27.2
Other expenses	1.7	1.9	2.1	3.3	1.8	1.2	8.5
Subtotal	797.1	796.9	788.4	896.0	900.5	899.3	871.6
Interest recovery – Electric Finance Corporation	(205.7)	(216.0)	(205.5)	(235.1)	(248.7)	(262.0)	(260.9)
Service of the public debt	591.4	580.9	582.9	660.9	651.8	637.3	610.7
Less sinking fund earnings	(226.4)	(221.6)	(222.5)	(243.0)	(230.9)	(220.0)	(203.7)
Subtotal	365.0	359.3	360.4	417.9	420.9	417.3	407.0
Pension interest charged	30.9	17.6	85.4	27.9	3.5	(53.6)	(9.1)
Interest on student loans	6.8	0	0	0	0	0	0
Total	402.7	376.9	445.8	445.8	424.4	363.7	397.9

3.135 The subtotal that deducts sinking fund earnings from service of the public debt is the best indicator of net interest costs. It reached a high of $420.9 million in 2002 and declined to $359.3 million in 2005. In 2006 it increased to $365.0 million.

Provision expense

3.136 The Province establishes allowances for loan receivable, loan guarantees and other possible losses. The provision expense for the past seven years has been:

	($ millions)						
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Provision expense	59.7	77.5	71.2	33.0	43.2	65.3	46.5

Expenditure

3.137 Before the adoption of tangible capital asset accounting in the year ended 31 March 2005, the Province reported expenditures on the Statement of Revenue and Expenditure. Under the expenditure approach, the cost of acquiring tangible capital assets was included as an expenditure and amortization was not recorded. We can compare total expenditures for the past seven years:

Expenditure	2006	2005	2004	2003	2002	2001	2000
Expenditure ($ millions)	6,203.0	5,848.8	5,568.2	5,370.6	5,072.9	4,719.2	4,830.1
Increase (decrease)	354.2	280.6	197.6	297.7	353.7	(110.9)	179.5
Percentage increase (decrease)	6.1%	5.0%	3.7%	5.9%	7.5%	(2.3%)	3.9%

3.138 The following table compares expenditure growth to GDP growth and revenue growth:

	2006	2005	2004	2003	2002	2001	2000
Expenditure growth	6.1%	5.0%	3.7%	5.9%	7.5%	(2.3%)	3.9%
GDP growth (GDP is for the previous calendar year)	3.3%	3.6%	4.9%	2.3%	3.0%	5.5%	8.0%
Revenue growth	5.7%	9.8%	3.2%	0.2%	8.6%	(0.1%)	7.8%

Chapter 4
Office of the Auditor General

Contents

Background 85
Office role and relevance 85
Strategic plan 86
Performance indicators. 86
Financial information 90
Staff resources 90

Office of the Auditor General

Background

4.1 In recent years, our Reports have contained a checklist relating to our assessment of our compliance with the annual report policy of government. A comparative version for 2006 is presented below.

Exhibit 4.1
Self assessment checklist

	2006	2005
Was a report prepared?	Yes	Yes
Is there a discussion of program relevance?	Yes	Yes
Are goals and objectives stated?	Yes	Yes
Does the report discuss achievement of plans?	Yes	Yes
Are performance indicators presented?	Yes	Yes
Are details available on level of client acceptance ?	Yes	Yes
Is actual and budget financial information presented?	Yes	Yes
Does the report explain variances from budget?	Yes	Yes

Office role and relevance

Our role

4.2 Our role within the provincial public service is unique. We are independent of the government of the day and provide information directly to the Legislative Assembly. The Legislative Assembly uses our information to help fulfil its role of holding the government accountable for how public monies are managed and how services are delivered. We also assist government by providing recommendations to senior officials of the departments and agencies we audit.

Our mission

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

Office relevance

4.4 Volumes 1 and 2 of our 2005 Report generated significant interest. 400 copies of each volume were printed and distributed. Access to our Report is also available through the internet, and we are tracking the number of times our Report is visited. Discussions of our findings in the Legislative Assembly and the Public Accounts and Crown Corporations Committees are evidence of the continuing relevance of our work.

4.5 Each year we include in our Report matters that we believe are significant to the Legislative Assembly and the public. These include our findings, conclusions and recommendations arising out of our audit work during the year.

4.6 Our service also includes separate audit conclusions on the reliability of financial statements. These conclusions (auditor's reports) are provided to the Legislative Assembly with the financial statements for the Province as well as the Crown agencies and Trust Funds that we audit.

4.7 We see our work remaining relevant and contributing to:

- public confidence in our system of government;
- the Legislative Assembly's ability to carry out its responsibility of holding the government to account; and
- the government's ability to carry out its responsibilities using sound management systems and practices.

Strategic plan

4.8 Our 2003-2008 strategic plan can be found on our web site. It identifies three main goals that we are concentrating on over the five years. These are:

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

4.9 We have developed strategies around each of these goals, along with specific objectives and actions. We have also identified performance indicators that we are using to measure our progress.

Performance indicators

MLA survey

4.10 In 2004 we surveyed and interviewed Members of the Public Accounts and Crown Corporations Committees in order to measure our effectiveness in meeting their needs.

4.11 The responses to the survey indicated a high degree of satisfaction with the work that we do. We converted the responses into a numerical index, which produced an overall satisfaction rate of 86.8%.

4.12 We surveyed the members of the committees again in 2005, but the number of responses received was insufficient to allow us to draw any meaningful overall conclusions.

Auditee survey

4.13 Following the completion of each audit, we survey the department or Crown agency to determine their level of satisfaction with our work.

4.14 The responses to the survey following our 2005 audits indicate a high degree of satisfaction with the audits we conducted. We converted all the responses into a numerical index, which produced an overall satisfaction rate of 84.6%, compared to a rate of 80.8% in 2004.

4.15 Generally, auditees felt that we communicated well with their organization during our work and in the preparation of our reports, and that we dealt with them in a courteous and professional manner.

Employee survey

4.16 In the fall of 2004 we conducted our second employee satisfaction survey. This provides us with feedback on topics such as quality of work life, communication and career development. We converted the responses into a numerical index, which produced an overall satisfaction rate of 66.3%, compared to a rate of 62.6% in 2003.

4.17 We did not conduct an employee satisfaction survey in 2005, but intend to do so in late 2006.

Acceptance and implementation of recommendations

4.18 Chapter 8 of Volume 2 of our 2005 Report provides an overview of the recommendations included in our 2001 through 2003 Reports. It summarizes the status of our recommendations, and focuses in particular on those recommendations we made in 2001 that have not been fully implemented.

4.19 In general, we are pleased with the actions taken by departments and Crown agencies in response to our work and reports.

4.20 The results of our follow-up work conducted in the current year on the recommendations included in our 2002 through 2004 Reports will be included in a future volume of our 2006 Report

Completion of audits on time and within budget

4.21 Our long-term goal is to complete the audit of the Province's financial statements by 30 June and to complete all Crown agency and Trust Fund audits by 30 September.

4.22 Our ability to achieve this objective is not totally within our control, because it really depends on when our auditees close their books for the year and are ready for us to do our work. Notwithstanding this, we believe the indicator is important because it results in us encouraging our auditees to close their books as quickly as possible. We support timely reporting of financial information. The indicator also places a discipline on our Office to complete the audit work by a specific date.

4.23 The audit of the Province of New Brunswick for the year ended 31 March 2005 was not completed by 30 June 2005. Our auditor's report on the Province's financial statements was dated 30 September 2005.

4.24 We are the auditors of twenty-one Crown agencies, six pension plans and the Fiscal Stabilization Fund. We completed thirteen of the Crown agency audits, three of the pension plan audits and the audit of the Fiscal Stabilization Fund by 30 September 2005. For the eight Crown agency audits that were not completed there were delays related to a lack of available resources in our Office to do the work. And we did not have the resources to complete the audits of three of the pension plans in time to meet our 30 September target.

4.25 We establish detailed time budgets for each of our audits. During the audit, we monitor the time spent by staff members on individual sections of the work. At the end of each audit, we summarize the total time spent, compare it to the total budgeted hours and analyze major fluctuations. For our financial audits, we use the results of this analysis to help us prepare the budget for the following year's work.

4.26 The actual time spent on our 2005 audit of the Province's financial statements exceeded the budgeted time by approximately 500 hours. This was mainly as a result of the Province making a significant change in its accounting that year, recording tangible capital assets for the first time. The audit effort required to verify the calculation of the amounts recorded by the Province took far more time than we had anticipated.

4.27 Most of the 2005 Crown agency and pension plan audits were carried out within or close to budget. Six audits were significantly over budget. One was a first-time audit for our Office; the other five had unanticipated accounting issues that took extra time to resolve.

4.28 We undertook five major value-for-money audits during the past year that led to chapters in our 2005 Report. Two took significantly more time than we had budgeted.

Interest in, and discussion of, our work

4.29 As mentioned earlier, we monitor the number of times our web site is visited to access our Report. In the period from August 2005 to May 2006, covering the release of volumes 1 and 2 of our 2005 Report and the subsequent four months, there were over 16,000 visits to the complete Reports. In addition to this there were specific visits to individual chapters. In the week following 10 August 2005, the day we released volume 1, there were approximately 10,000 visits, or "hits", to our web site. In the week following 10 January 2006, the day we released volume 2, there were over 14,300 hits.

4.30 We would also like to track the number of times our work is mentioned in the Legislative Assembly, and in meetings of the Public Accounts Committee and the Crown Corporations Committee. However, this has proven to be an impossible task. The official record of proceedings in the Legislative Assembly (Hansard) is at least two years behind, and minutes of committee meetings are no longer routinely prepared.

4.31 Nevertheless, we believe that our relevance is demonstrated by the fact that the Public Accounts and Crown Corporations Committees continue to make use of our Reports in carrying out their work. We also offer our services to the committees to provide them with opportunities to explore topics in greater depth.

Use of time

4.32 An important indicator for us is the percentage of time we spend directly on audit work. Our goal is to reach a target of 60% of all professional paid time in our Office being spent directly on financial statement audits or value-for-money audits.

4.33 A detailed analysis of staff time for 2005 indicates that 58.16% of the total paid time of all staff, with the exception of our administrative support staff, was spent directly on audit work (including work on our annual Report). Approximately half of this time is spent on value-for-money audits. Non-audit time includes statutory holidays, vacations, courses for accounting students and professional staff, sick leave and administrative duties not chargeable to a specific audit.

Cost of our audits

4.34 We have always budgeted and tracked the number of hours for each of our audits. However, in an effort to be as economical and efficient as we can be in the work that we do, we are also tracking the cost of each audit. In the broadest sense, the cost of our audits can be said to be the cost of operating our Office, represented by our total expenditures set out later in this chapter.

4.35 More specifically, the cost of the audit of the Province of New Brunswick's financial statements for the year ended 31 March 2005 was $183,000. The total cost of the Crown agency and pension plan audits for 2005 was approximately $206,000. The total cost of the five major value-for-money audits included in our 2005 Report was $351,000. The cost of preparing our 2005 Report, including the work we do to follow up on recommendations made in previous Reports, was approximately $121,000.

Financial information

4.36 Budget and actual expenditure for 2004-05 and 2005-06 by primary classification is shown in Exhibit 4.2. The approved budget for the 2006-07 year is presented for comparative purposes.

4.37 Staff costs continue to account for approximately 90% of our budget and were underspent by $61,000 for the year ended 31 March 2006. This was the result of staff turnover, and the inevitable delays in filling vacant positions, and also of having two staff members on secondment with a government department for a portion of the year.

4.38 We used a portion of the savings in staff costs and other services to purchase additional Oracle licenses to assist our auditors in their work. These licenses account for the overexpenditure in property and equipment costs for the year, since they had not been budgeted for.

Exhibit 4.2
Budget and actual expenditure (thousands of dollars)

	2007	2006		2005	
	Budget	**Budget**	**Actual**	**Budget**	**Actual**
Wages and benefits	1,637.2	1,568.8	1,507.8	1,513.8	1,491.4
Other services	132.8	133.2	117.8	135.6	131.9
Materials and supplies	8.8	8.8	5.8	9.0	5.7
Property and equipment	33.2	33.2	75.2	32.6	34.6
	1,812.0	**1,744.0**	**1,706.6**	**1,691.0**	**1,663.6**

4.39 Our legislation requires an annual audit of our accounts by a qualified auditor, appointed by the Speaker of the Legislative Assembly on the advice of the Board of Management. This audit is conducted by the Office of the Comptroller and their audit report is tabled before the Legislative Assembly.

Staff resources

4.40 Our Office continues to provide experience and training to our employees. New employees must enrol in a professional accounting program, namely CA (Chartered Accountant), CGA (Certified General Accountant) or CMA (Certified Management Accountant). Before staff begin this professional training they must have, as a minimum, one university degree at the bachelor level.

4.41 Staff turnover is an inevitable consequence of being a training office for professionals. During the past year, two staff members left the Office.

4.42 Our staff complement, based on our available budget, is 23. Brent White, CA, Paul Jewett, CA and Phil Vessey, CA are the directors for our three audit teams. At 31 March 2006 there were seventeen professional staff with accounting designations. Our staff also included two students enrolled in accounting programs. Two other members of our staff provide administrative support services. Two positions were vacant, but have subsequently been filled. The following is a list of staff members at 31 March 2006:

Mylène Chiasson, CGA
Cathy Connors Kennedy, CA
Duane Dickinson, CA
Kim Embleton, CGA
Michael Ferguson, CA
Deidre Green, CA
Eric Hopper, CA
Peggy Isnor, CA
Paul Jewett, CA
Cecil Jones, CA
Bill Phemister, CA
Nathan Phillips, CA
Ken Robinson, CA
Jennifer Sherwood (2)
Rebecca Stanley (1)
Al Thomas, CA
Phil Vessey, CA
Yanjun Wang (2)
Brent White, CA
Darlene Wield (1)
Tania Wood-Sussey, CA

(1) Administrative support
(2) Student enrolled in a professional accounting program