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Chapter 1
Introductory Comments

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Introductory Comments

Introduction

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

1.2 We are including only our financial audit work in this volume of our 2007 Report. This includes information about our audit of the Province's financial statements, and our financial audits of other government organizations. We have also included comments about the Province's financial condition.

Improving integrity and transparency in financial reporting

1.3 I believe there are four things that the government should do to improve the integrity and transparency of its reporting of the Province's financial situation. I will discuss each of these in this chapter.

1.4 Our audit report on the Province's financial statements is included in Volume 1 of the Province's Public Accounts. 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 2007 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."

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

Report on a timely basis

1.6 The opinion is dated 6 September 2007. Last year our opinion was dated 28 July 2006. The Province issued the financial statements on 28 September 2007, which was within the deadline established by section 48.1 of the *Financial Administration Act*, although it was about six weeks later than last year.

1.7 One thing that the government can do to improve the integrity and transparency of its reporting of the Province's financial situation is to release the audited financial statements earlier. Alberta, Saskatchewan and British Columbia all issue their audited financial statements before the end of July. New Brunswick has released its financial statements within six months of the year end in each of the past two years. This is an improvement on previous years, however the Province should be able to release its financial statements before the end of July. This would send a message that it takes financial reporting to its citizens seriously.

1.8 For the year ended 31 March 2007, the Province reported a surplus of $236.8 million and a reduction in its net debt position of $136.3 million. These were achieved even after accruing $60 million for credit union stabilization and support, recording $26.6 million for Saint John Harbour clean-up and advancing $68.0 million to the Maritime Provinces Higher Education Commission as an acceleration of their 2007-2008 funding.

1.9 The surplus is not the same as the reduction in net debt because of the method of accounting for capital assets. Out of a surplus of $236.8 million, the Province used $136.3 million to pay down its net debt and the other $100.5 million was used to increase the Province's stock of capital assets. These assets will provide service in future years.

1.10 I have heard it said that since the Province generated such a large surplus both in 2007 and 2006, the government took too much money from the taxpayers and should therefore give some back in a tax reduction. I am a believer that high taxes are a disincentive and a drag on the economy. However, even though the Province has paid down its net debt by about $250 million over the past two years, there is still over $6.5 billion of net debt owing. Furthermore, the Province's 2007-2008 Budget estimates that net debt will increase by about $356 million during the current fiscal year. This increase will primarily be caused by the opening of the new four-lane highway.

Provide future oriented information

1.11 So, the second thing the government can do to improve the integrity and transparency of its reporting of the Province's financial situation is to produce more future oriented information. This would provide citizens with information to assess the government's long term plans. There are three items that should be included in these long-term future plans. They are; net debt management, operations forecasts and self-sufficiency financial statement targets.

1.12 I believe the Province should produce a long-term net debt plan that explains to citizens the level of net debt that the government expects to have over the next five to ten years, as well as a discussion about what level of net debt is appropriate. In chapter 2 of this volume of our Report we have included a twenty-year history of the

Province's net debt. It shows that, on a comparative basis, net debt has increased from $4.2 billion at 31 March 1987 to $6.6 billion at 31 March 2007. It also shows that net debt reached a high of $7.1 billion at 31 March 2000.

1.13 The information about the history of net debt also shows that at 31 March 1987 the net debt to Gross Domestic Product (GDP) ratio was 40.1% while at 31 March 2007 it was at 26.1%. But what about the future? We know that the 2007-2008 Budget forecasts a significant increase in net debt, but does the government have plans to reduce net debt, or is there a ceiling that the government intends to put on the absolute amount of net debt?

1.14 The *Fiscal Responsibility and Balanced Budget Act* does include an objective to reduce the ratio of net debt to GDP. I believe that this target is not sufficient on its own. The net debt to GDP target can improve even when net debt is growing – a potentially dangerous situation.

1.15 The second type of multi-year plan that the government should produce is future operations forecasts. The Grant Thornton report issued in December 2006 included forecast information for three years into the future. However, when the Province produced its 2007-2008 budget, it did so in the normal fashion. The budget did not include estimates of operations beyond the 2007-2008 budget year. If three year forecasts could be produced as part of Grant Thornton's review of the Province's financial position, similar three-year forecasts should be able to be produced and included with each year's budget.

1.16 The final type of future-year forecast that should be prepared is related to the government's self-sufficiency plan. The government's goal of achieving self-sufficiency is one that I support. I believe that there needs to be a concise definition of self-sufficiency in order to assess when it has been achieved. I also believe that the Province should prepare forecasts of its financial position and operating statements against which progress can be measured. If the Province will be self-sufficient in 2026, what will its statement of financial position look like in 2026? How much net debt will there be in 2026? What will its statement of operations look like in 2026? How much equalization revenue will there be? What will the surplus be? Not only should these forecast statements be prepared for 2026, but also for 2021, 2016 and 2011 to gauge progress.

Year-end grant payments

1.17 The third thing the government can do to improve the integrity and transparency of its reporting of the Province's financial situation is to stop making large grant payments at year end to manage the amount of surplus reported.

1.18 Even though our audit opinion on the Province's financial statements was unqualified, we did bring some items to the government's attention that we were concerned about during the course of our audit. These items are discussed in chapter 3 of this volume.

1.19 One of the items that caused us concern was the accelerated payment of operating grants to the Maritime Provinces Higher Education Commission. This was a year-end grant that did not have to be paid in 2007. It was paid to reduce the surplus in 2007 and provide budget room in 2008. We raised the same issue in our 2006 Report, and we were surprised that the current government used the same approach in 2007. After the previous government announced their intention to accelerate $60.0 million in funding to MPHEC in 2006, we received a document from the then office of the opposition that included the opinion that such a move "defies financial logic." In 2007 the current government accelerated a payment of $68.0 million. We continue to believe that altering the timing of regular operating grants creates confusion and makes it difficult to assess the government's performance.

1.20 Readers of the Province's financial statements have to remember that the $68 million is not additional funding to the universities; it is offset by a reduction in the budgeted funding the universities will receive in the 2007-2008 fiscal year. This is obvious from looking at the 2007-2008 Main Estimates, in which the government goes through some contortions to try to explain this. Page 134 of the Main Estimates tries to explain to readers that even though the revised expenditure amount for MPHEC in 2007 is $215.5 million, and the estimated expenditure for 2008 is $163.8 million, this does not represent a reduction.

1.21 The Main Estimates say that "The 2007-2008 estimate of $163.3 million <u>does not</u> represent a reduction in Assistance to Universities. There has been a corresponding $68 million <u>increase</u> in assistance in 2006-2007 to reflect an additional grant of $68 million <u>over and above</u> the original 2006-2007 estimate which will be paid by 31 March 2007." The underlining is in the original document, presumably to provide emphasis for the reader.

1.22 The point here is that the money did not have to be paid in 2007. It was paid to reduce the 2007 surplus and create budget room in 2008. By accelerating these grants the government is obscuring its operating results and not being transparent. The surplus of $37.1 million forecast in the 2007-2008 budget was created, not through a structural adjustment of revenues or expenses, but by using the 2007 results as a quick fix. If the grant was not paid in 2007, the money would not disappear. There would have been a larger surplus in 2007, and a projected deficit in 2008 – a more accurate picture.

1.23 An example of a problem with these year-end grant payments is the grant for the Early Learning and Child Care Trust that was recorded as an expense in the year ended 31 March 2006. As we say in chapter 3 of this volume of our Report, this money was still in the Trust's bank account at 31 March 2007. So the government in 2006 took credit for spending $8.0 million on early learning and child care, when in reality none of it had been spent even a year later. In fact a second announcement was made in June 2007 about the implementation of this trust fund. This essentially announced the same spending for a second time.

Discuss the financial results

1.24 The fourth thing the government can do to improve the integrity and transparency of its reporting of the Province's financial situation is to provide a full discussion of the results for the year. In chapter 3 we compare the information contained in Volume 1 of the Public Accounts under the headings "results for the year" and "major variance analysis" to the recommended practices for preparing a financial statement discussion and analysis as issued by the Public Sector Accounting Board. We evaluated six areas of recommended practice and found that the government is not doing three of them and needs to improve on the other three.

1.25 To summarize, there are four things that the government should do to improve the integrity and transparency of its reporting of the Province's financial situation, they are:

- release the audited financial statements earlier;
- produce more future oriented information, specifically, a long-term net debt plan, future operations forecasts, and self-sufficiency related pro-forma financial statements for 2011, 2016, 2021 and 2026;
- stop making large grant payments at year end to manage the amount of surplus reported; and
- provide a full discussion of the results for the year.

1.26 None of these should be particularly difficult to do, with the possible exception of preparing pro-forma financial statements related to the self-sufficiency vision.

1.27 The Province has made some steps to improve its financial reporting. As I noted earlier, the audited financial statements for each of the past two years have been released within six months of the year end. Also, as we report in chapter 3, the Province made significant progress in improving its compliance with the accounting recommendations of the Public Sector Accounting Board during 2007.

1.28 In this volume, we are also reporting on other items that resulted from our financial audits.

Financial indicators

1.29 In chapter 2 we report the six financial indicators that we have tracked for a number of years. These show that since 31 March 2000, the Province has made significant improvements in its net debt to GDP ratio; in keeping its change in net debt below the increase in GDP; in the amount of annual revenue that is dedicated to the "interest-bite"; and to its exposure to foreign currency risk. The areas without any significant change since 31 March 2000 are related to the sources of the Province's revenue.

Components of the Province's financial statements

1.30 Chapter 2 also contains our comments on the components of the Province's financial statements. This is a detailed breakdown of the numbers contained in the financial statements, and it is aimed at the reader who wants to drill down an extra level to understand the Province's financial position and results of operations.

1.31 In the comments on the components of the financial statements, there are three things I want to highlight.

1.32 The first is that we are still concerned about the level of the Province's doubtful accounts, and believe there is an opportunity to better manage these accounts.

1.33 The second comes out of our comparison of the Province's net debt position to other provinces. We think that it is relevant to the self-sufficiency vision to recognize that even though Nova Scotia has a population that is 25% larger than New Brunswick and an economy that is 33% larger, it has net debt that is more than 80% larger than New Brunswick. This means that, depending on your definition of self-sufficiency, a larger economy and larger population are not guarantees of success.

1.34 The third is the growth of income tax revenue. Personal income tax revenue is increasing at a rate that is significantly above what the economic data would suggest it should be. This appears to be a national phenomenon for which there is not a definite explanation.

Other financial audits we do

1.35 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 3. For most of these organizations, legislation directs us to perform an audit.

1.36 As I noted last year, auditing these organizations consumes a significant portion of our resources. New assurance standards issued by the Canadian Institute of Chartered Accountants 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. This has led to an increase in our financial audit time, causing us to look for new ways to accommodate the extra time requirements.

1.37 We continue to believe that some of the organizations we audit do not need audits, although they are required by legislation to have audits. Some of the organizations we audit are small, and the government has access to all the information it needs to hold them accountable even without an audit. We would like to have government remove the legal requirement for us to audit some organizations.

Acknowledgements

1.38 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.

1.39 I want to thank all of the staff of the Office of the Auditor General for their fine work during the year. We continue to look for ways to do our work better, and the staff of the Office has embraced this challenge

.

Michael Ferguson, CA
Auditor General

Chapter 2
Comments on the Province's Financial Position

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Comments on the Province's Financial Position

Introduction

2.1 This chapter covers three 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 eight 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 seven or eight years.

- History of net debt

  This section analyzes reported net debt over a twenty-year period. Its purpose is to increase awareness of changes in net debt as an important component of the Province's financial condition.

Indicators of the Province's financial condition

Background

2.2 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] This report continues to be supported by the CICA.

---

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

2.3 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. For this reason, we will continue to present this section as we have in prior years.

Scope

2.4 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.

2.5 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 a consistent analysis. 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

2.6 In this section, our analyses are based on the current year financial statements as presented in the Public Accounts. These financial statements report an annual surplus of $236.8 million and a decrease in net debt for the year of $136.3 million. Prior year numbers used in our analyses may include restated figures obtained from the Office of the Comptroller.

Results in brief

2.7 In general, the indicators for the last eight years show that the Province of New Brunswick's financial condition has improved or remained relatively stable in sustainability, flexibility and vulnerability.

Sustainability

2.8 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]

2.9 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.

2.10 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.

2.11 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.

2.12 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

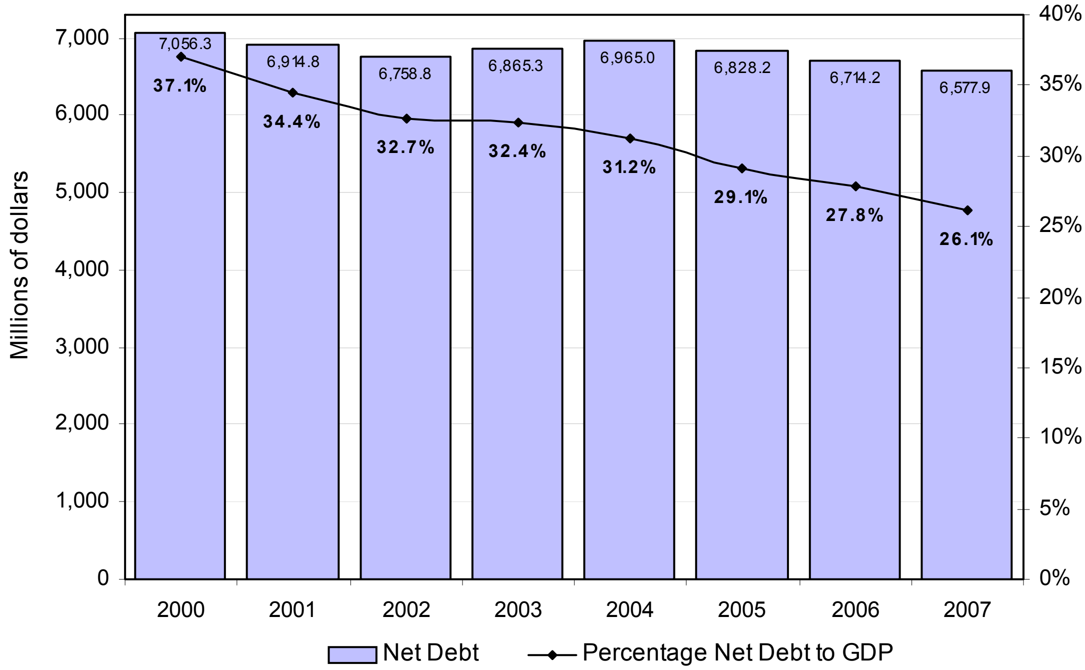
2.13 Net debt is an accounting measure of the extent to which total liabilities of the Province exceed financial assets. The financial statements for 2007 indicate that net debt stands at $6,577.9 million - $478.4 million less than its level eight years ago.

2.14 The New Brunswick economy has also grown. Exhibit 2.1 shows that the Province's net debt to GDP ratio decreased (favourable) over the last eight years – showing the Province's increasing ability to sustain existing programs and services.

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

Exhibit 2.1

Net debt as a percentage of GDP[1] for the last eight years



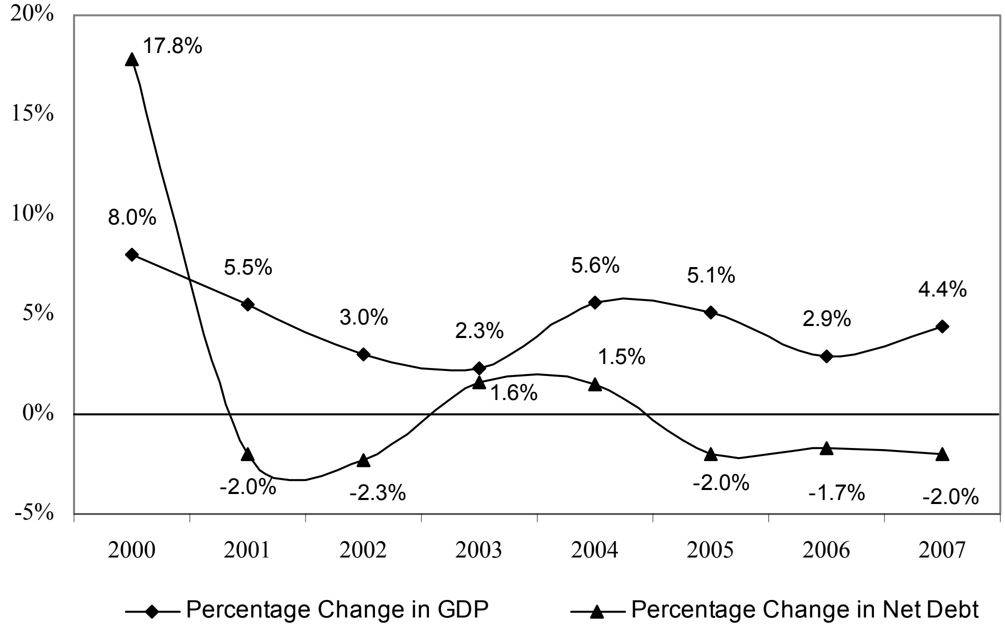
Change in net debt and GDP as a measure of sustainability

2.15 The Province can positively influence sustainability in two ways: by reducing net debt 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.

2.16 The rate of growth in the surplus or deficit and their impact on net debt is much more controllable. Exhibit 2.2 shows that the Province has experienced economic growth in excess of growth in the net debt (favourable) every year since 2001. Growth in net debt was greater than economic growth in the year 2000 due to 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.

Exhibit 2.2
Change in net debt and GDP[1] for the last eight years



Flexibility

2.17 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]

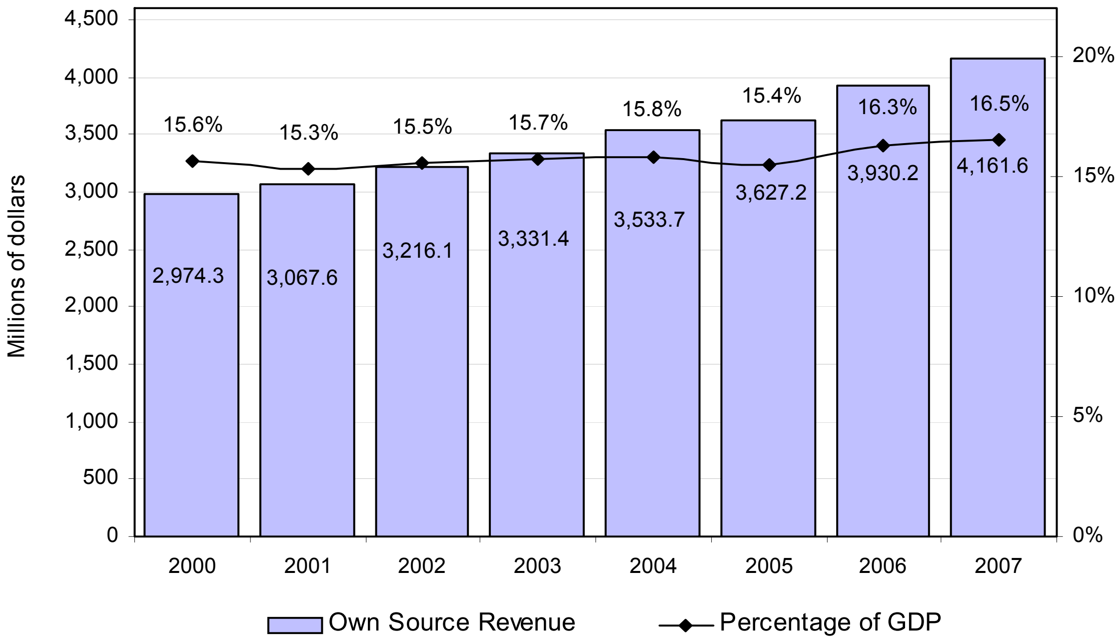
2.18 Funding for programs and services is provided by either revenue or borrowing during the year. It is a useful measure of flexibility to know to what extent the Province is able to raise revenue from existing and potential sources should new commitments arise.

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

2.19 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 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.
2. Indicators of Government Financial Condition, 1997 published by the Canadian Institute of Chartered Accountants.

Exhibit 2.3
Own source revenue as a percentage of GDP[1] for the last eight years



2.20 Exhibit 2.3 shows the extent to which the Province has removed dollars from the provincial economy through taxes and user fees/licenses during the last eight years. This exhibit shows that the dollars extracted by the Province from the New Brunswick economy as a percent of GDP remained relatively stable during the first six years of the eight-year period, but increased in 2006 and in 2007.

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

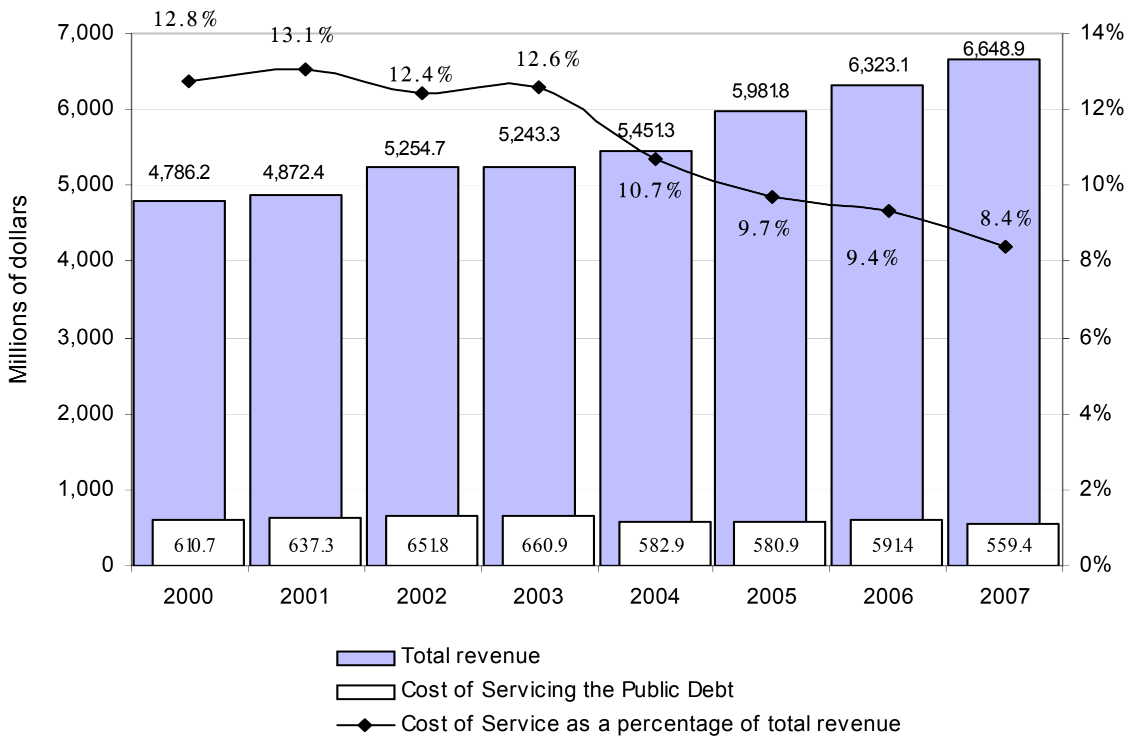
2.21 One of the most publicized factors which affects the flexibility of governments is the cost of servicing the public debt.

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

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.

2.23 Exhibit 2.4 shows debt servicing costs as compared to total provincial revenue for the last eight years.

Exhibit 2.4
Cost of servicing the public debt as a percentage of total revenue for the last eight years



2.24 This exhibit shows the cost of servicing the public debt decreased in 2007 compared to 2006 by $32.0 million to $559.4 million. It also shows that the Province has decreased its overall "interest-bite" percentage from its 2000 level of 12.8% to its current level of 8.4%. 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 eight years ago.

Vulnerability

2.25 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.

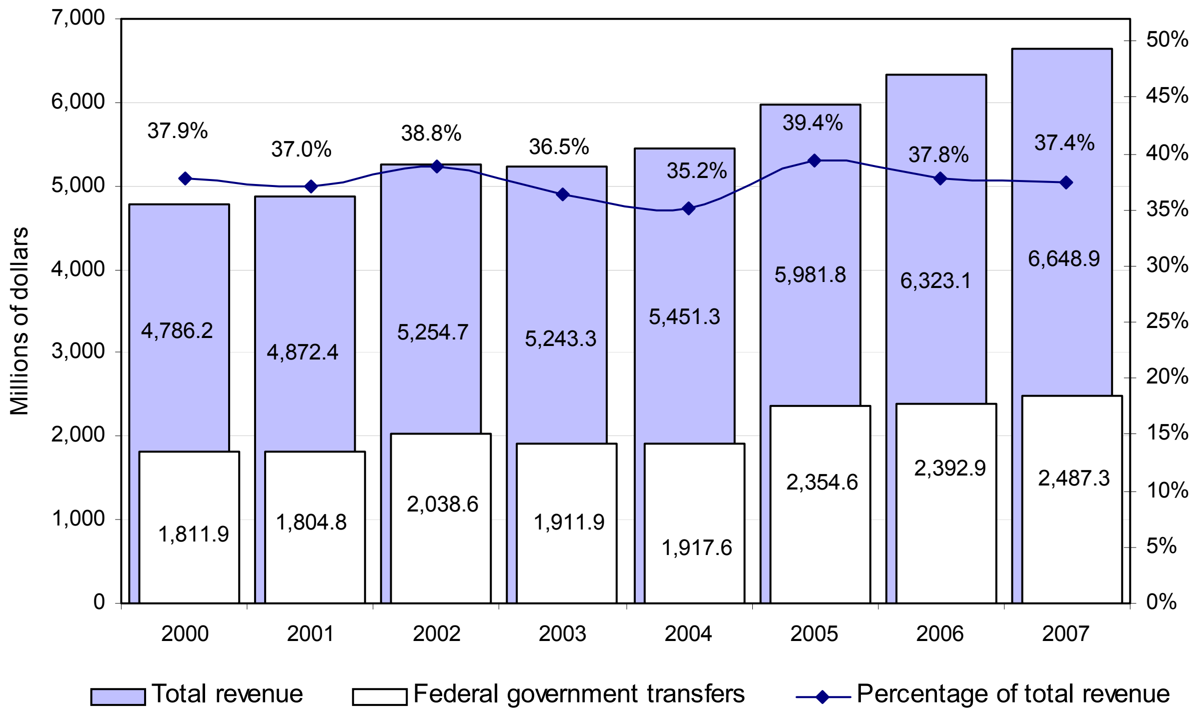
2.26 Funding for programs and services can only come from two sources: revenue or borrowing.

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

2.27 In 2007, 37.4% 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.

2.28 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 2.5
Federal government transfers as a percentage of total revenue for the last eight years



2.29 Increasing New Brunswick's reliance on federal transfers will leave the Province more vulnerable to variables outside of its own control. Exhibit 2.5 details the Province's reliance on federal transfers over the last eight years. This exhibit shows that the trend over the past eight years has been relatively stable. To maintain comparability, revenue from 2000 to 2006 has been restated to reflect current accounting policy.

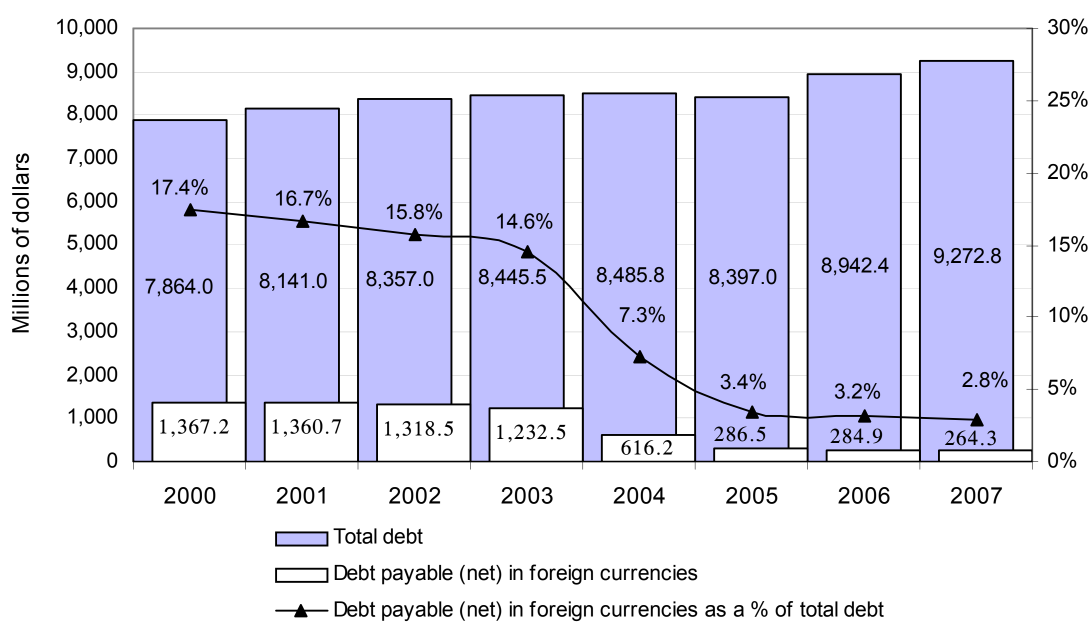
Foreign currency debt as a percentage of total debt for provincial purposes as a measure of vulnerability

2.30 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.

2.31 Exhibit 2.6 shows the relationship of foreign currency debt to total debt for provincial purposes over the last eight 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 2.6
Exposure to foreign currency risk for the last eight years



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

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

Summary

2.34 In general, over the last eight years, the indicators of sustainability, flexibility and vulnerability show that the Province of New Brunswick's financial condition has improved or remained relatively stable.

2.35 The following exhibit provides a summary of the financial indicators and their impact on the financial condition of the Province.

Exhibit 2.7

		Impact on Financial Condition of the Province	
Financial Indicator	**2007**	**2-year trend**	**8-year trend**
Sustainability			
Net debt as a percentage of GDP (Exhibit 2.1)	26.1%	Favourable	Favourable
Change in net debt and GDP (Exhibit 2.2)	-2.0%/4.4%	Favourable	Favourable
Flexibility			
Own source revenue as a percentage of GDP (Exhibit 2.3)	16.5%	Unfavourable	No significant change
Cost of servicing the public debt as a percentage of total revenue (Exhibit 2.4)	8.4%	Favourable	Favourable
Vulnerability			
Federal government transfers as a percentage of total revenue (Exhibit 2.5)	37.4%	No significant change	No significant change
Foreign currency debt as a percentage of total debt (Exhibit 2.6)	2.8%	No significant change	Favourable

Note: Less than 1% change is considered insignificant.

Comments on components of the Province's financial statements

2.36 In this section we have examined various components of the Province's financial statements for the year ended 31 March 2007. We have broken this into three areas:

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

2.37 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

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

- Receivables and advances
- Taxes receivable
- Loans
- Accounts payable and accrued expenses
- Allowance for losses
- All allowances
- Obligations under capital leases
- Pension liability (surplus)
- Funded debt for provincial purposes
- Tangible capital assets
- Net debt

Receivables and advances

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

	($ millions)							
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
General receivables	185.4	168.6	153.5	231.2	200.1	197.8	174.8	156.7
Receivables from Canada	169.7	164.0	141.6	132.3	121.5	122.8	119.5	106.9
Guarantee payouts	45.8	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	106.5	126.1	125.9					
Subtotal	507.4	508.8	473.4	402.7	361.6	357.2	326.5	291.8
Interest receivable	37.1	33.4	26.3	30.8	30.3	25.6	24.1	27.1
Subtotal	544.5	542.2	499.7	433.5	391.9	382.8	350.6	318.9
Consolidated entities	51.2	48.3	43.3	42.8	47.4	N/A	N/A	N/A
Total	595.7	590.5	543.0	476.3	439.3	382.8	350.6	318.9
Allowance for doubtful accounts	155.7	140.7	132.9	118.5	113.3	97.7	87.4	77.5
Receivables and advances	440.0	449.8	410.1	357.8	326.0	285.1	263.2	241.4

2.40 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)							
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Total before allowance	595.7	590.5	543.0	476.3	439.3	382.8	350.6	318.9
Receivables from Canada	169.7	164.0	141.6	132.3	121.5	122.8	119.5	106.9
Consolidated entities	51.2	48.3	43.3	42.8	47.4	N/A	N/A	N/A
Advances of grants	21.9	51.5	55.2					
Net amount	352.9	326.7	302.9	301.2	270.4	260.0	231.1	212.0
Allowance for doubtful accounts	155.7	140.7	132.9	118.5	113.3	97.7	87.4	77.5
Allowance percentage	44.1%	43.1%	43.9%	39.3%	41.9%	37.6%	37.8%	36.6%

2.41 In the year ended 31 March 2007:

- the Province reported $595.7 million in receivables and advances, which is about 1% higher than the 31 March 2006 balance;
- $51.2 million of the $595.7 million was receivable by and managed by the consolidated entities;
- another $169.7 million was due from the federal government and so there should not be any doubt about its collection;
- another $21.9 million were advances on operating grants for April 2007;
- this left $352.9 million in receivables that the Province has to actively manage to ensure collection; and
- the collection of 44.1% of these amounts, or $155.7 million, is considered to be in doubt.

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

2.43 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 $45.8 million at 31 March 2007.

- The amount receivable from Canada under the Official Languages program was $6.6 million at 31 March 2000 and it was $39.6 million at 31 March 2007. 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.

2.44 This analysis indicates that there is need to improve the management of the general accounts receivable of the Province. A doubtful collection rate of 44.1%, a rate that has been growing, significant guarantee payouts and questions about the timeliness of collections all point to opportunities for improvement.

Taxes receivable

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

	($ millions)							
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Gasoline and motive fuel tax	22.8	20.7	26.0	21.9	20.0	17.2	21.5	14.6
Metallic minerals tax	101.9	--	--	--	--	--	--	--
Real property tax	406.2	411.0	395.3	384.0	374.3	359.9	342.4	323.8
Royalties and stumpage on timber	22.0	24.3	21.8	28.0	18.2	18.4	22.7	19.1
Sales tax	87.0	87.9	32.7	107.7	85.4	68.9	68.9	69.5
Tobacco tax	8.4	8.5	10.2	11.3	9.0	7.4	5.3	4.4
Other	13.1	2.5	2.9	0.3	0.1	0.1	0.1	0.2
Subtotal	661.4	554.9	488.9	553.2	507.0	471.9	460.9	431.6
Allowance for doubtful accounts	77.0	85.4	80.7	86.6	89.5	89.5	84.5	83.9
Total	584.4	469.5	408.2	466.6	417.5	382.4	376.4	347.7

2.46 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	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Gasoline and motive fuel tax	215.2	232.1	239.7	234.9	222.1	184.3	186.5	185.5
Real property tax	351.5	341.0	334.1	303.9	295.0	288.6	274.7	258.1
Forest royalties	58.8	56.9	60.2	62.9	53.1	54.6	58.3	54.5
Tobacco tax	81.9	90.5	96.5	101.4	91.9	69.7	49.8	47.8
Metallic minerals tax	120.2	10.5	2.8	2.2	5.7	2.3	3.3	3.9

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

	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Gasoline and motive fuel tax	10.6%	8.9%	10.8%	9.3%	9.0%	9.3%	11.5%	7.9%
Real property tax	115.6%	120.5%	118.3%	126.4%	126.9%	124.7%	124.6%	125.5%
Forest royalties	37.4%	42.7%	36.2%	44.5%	34.3%	33.7%	38.9%	35.0%
Tobacco tax	10.3%	9.4%	10.6%	11.1%	9.8%	10.6%	10.6%	9.2%
Metallic minerals tax	84.8%							

2.48 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%.

- The metallic minerals tax has become an important revenue source due to increases in zinc prices. The full amount of this receivable was collected shortly after year end.

2.49 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)							
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Taxes receivable	661.4	554.9	488.9	553.2	507.0	471.9	460.9	431.6
Allowance for doubtful accounts	77.0	85.4	80.7	86.6	89.5	89.5	84.5	83.9
Percentage	11.6%	15.4%	16.5%	15.7%	17.7%	19.0%	18.3%	19.4%

2.50 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

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

	($ millions)							
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Business New Brunswick	196.1	200.2	206.7	201.8	239.0	228.0	224.2	215.8
Education and/or Training and Employment Development	296.0	258.3	0.2	0.2	0.2	0.2	0.2	0.2
Energy Efficiency and Conservation Agency of New Brunswick	2.3	0.2						
Environment and/or Local Government	9.9	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	4.0
Family and Community Services	34.8	34.5	33.6	32.7	31.8	30.9	31.3	24.9
Finance	0.0	1.0	1.6	1.6	1.9	1.7	1.9	2.3
Public Safety	10.2	10.4	10.7	10.9	11.2	11.4	11.6	12.2
Regional Development Corporation	7.3	3.6	5.3	3.8	3.6	3.2	3.2	3.0
Supply and Services							0.5	0.5
Subtotal	560.6	512.9	262.7	255.6	292.3	280.1	277.6	263.6
Allowance for doubtful accounts	207.2	192.9	142.6	129.3	143.9	133.7	124.7	122.3
Total	353.4	320.0	120.1	126.3	148.4	146.4	152.9	141.3

2.52 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, and $296 million for 2007. This change essentially doubled the size of the loans receivable by the Province and makes it difficult to compare to years prior to 2006.

2.53 During the year ended 31 March 2007, the Department of Local Government issued a loan to the city of Saint John for $9.2 million.

2.54 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 include \$9.5 million for unsatisfied judgments, which 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.

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

	($ millions)							
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Loans	560.6	512.9	262.7	255.6	292.3	280.1	277.6	263.6
Allowance for doubtful accounts	207.2	192.9	142.6	129.3	143.9	133.7	124.7	122.3
Percentage	37.0%	37.6%	54.3%	50.6%	49.2%	47.7%	44.9%	46.4%

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

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

	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Agricultural Development Act	69.0%	72.4%	73.2%	71.0%	69.0%	66.3%	48.0%	37.5%
Economic Development Act	64.9%	65.1%	56.8%	46.0%	45.0%	41.7%	37.2%	30.5%
Fisheries Development Act	71.9%	73.8%	71.6%	76.8%	74.3%	74.3%	77.9%	82.2%
Provincial Holdings Ltd.	80.6%	73.3%	44.6%	34.3%	30.9%	25.9%	18.8%	32.5%
Loans to students	18.6%	15.9%	100%	100%	100%	100%	100%	100%
Local Government loans	2.6%	100%	100%	100%	100%	100%	100%	100%
La Fondation du quotidien francophone	100%	100%	100%	100%	100%	100%	100%	100%
New Brunswick Housing Act	6.9%	7.0%	6.3%	7.6%	7.9%	8.1%	9.2%	10.8%
DRIE agreements	N/A	N/A	0.0%	54.5%	42.9%	35.3%	31.6%	26.1%
Unsatisfied judgments	100%	100%	100%	100%	100%	100%	100%	100%

2.58 The four largest categories of loans, which represent 92.0% of all loans and advances outstanding at 31 March 2007, are:

- Loans to students 52.8%
- *Economic Development Act* loans 26.0%
- *Fisheries Development Act* loans 7.0%
- *New Brunswick Housing Act* loans 6.2%

2.59 Two of these loan categories have had increases in the rate of uncollectible accounts. The percentage of uncollectible loans under the *Economic Development Act* has significantly increased from 30.5% to 64.9% from 31 March 2000 to 31 March 2007. The percentage of uncollectible loans to students has increased from 15.9% to 18.6% from 31 March 2006 to 31 March 2007.

2.60 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 71.9% from 31 March 2000 to 31 March 2007. The percentage of uncollectible loans under the *New Brunswick Housing Act* has decreased from 10.8% to 6.9%. The allowance for doubtful accounts for these two categories of loans should be reviewed.

Accounts payable and accrued expenses

2.61 The following table provides the history of the accounts payable and accrued expenses balance over the past eight years.

	($ millions)							
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Accounts payable	446.8	417.4	388.2	372.4	300.5	375.6	255.0	275.9
Due to Canada	228.9	249.9	211.4	186.2	34.8	10.3	9.5	16.2
Accrued interest	227.0	236.8	244.2	231.0	229.5	164.2	164.3	166.5
Employee benefits	609.2	599.6	575.4	542.2	419.5	404.1	403.9	352.5
Other	127.7	137.6	201.1	148.5	268.1	182.7	210.4	219.0
	1,639.6	1,641.3	1,620.3	1,480.3	1,252.4	1,136.9	1,043.1	1,030.1

2.62 The largest component of the due to Canada account relates to overpayments by Canada to the Province under federal government transfers. Approximately $187.5 million of the $228.9 million payable in 2007 relates to overpayments by Canada under equalization. This demonstrates how payments from Ottawa based on estimates are subject to large changes as estimated amounts become final.

2.63 Two components of the accrued employee benefit expenses are:

	($ millions)							
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Liability for injured workers	105.8	103.3	95.7	89.6	83.2	68.9	55.7	42.3
Retirement allowances	303.1	289.4	272.3	264.0	247.6	232.4	230.7	224.9

2.64 The accrued retirement allowance amounts for fiscal years prior to 2007 have been restated to reflect the recording of the retirement allowances of Regional Health Authorities which the Province recorded as a change in accounting policy.

2.65 The difference in the growth of these two accrued expenditures is noticeable. The liability for injured workers has increased 150.1% over a seven-year period, while the liability for accrued retirement allowances has only increased 34.8%. 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 slower rate.

Allowance for losses

2.66 The following table provides the history of the allowance for losses balance over the past eight years.

	($ millions)							
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Allowance for losses	95.8	84.0	83.3	104.2	74.2	68.7	30.9	16.2

2.67 This allowance at 31 March 2007 was over five times its balance at 31 March 2000. The components of the allowance are:

	($ millions)							
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Business New Brunswick	68.8	60.5	36.2	40.0	19.9	19.1	12.2	14.7
Education	0	0	30.7	35.1	30.1	25.4	18.5	1.3
Other	0.2	0.2	0.2	0.7	0.2	0.2	0.2	0.2
Property tax appeals	26.8	23.3	16.2	28.4	24.0	24.0	-	-

2.68 This table shows the 31 March 2005 balance for Education disappeared as a result of 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 six years.

2.69 In 2007 the allowance for property tax appeals was added to this schedule and the amounts from prior years were added based on our best estimate. In prior years these amounts were shown as accrued liabilities or as allowance against property tax receivables.

All allowances

2.70 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	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Allowance for losses	95.8	84.0	83.3	104.2	74.2	68.7	30.9	16.2
Allowance for doubtful accounts (Loans and advances)	207.2	192.9	142.6	129.3	143.9	133.7	124.7	122.3
Allowance for doubtful accounts (Taxes receivable)	77.0	85.4	80.7	86.6	89.5	89.5	84.5	83.9
Allowance for doubtful accounts (Accounts and interest receivable)	155.7	140.7	132.9	118.5	113.3	97.7	87.4	77.5
Total all allowances	535.7	503.0	439.5	410.2	396.9	365.6	327.5	299.9

2.71 These numbers are concerning. As at 31 March 2007, the Province expects to lose $535.7 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 $5.4 million to the Province.

2.72 Last year we reported there is at least one mechanism to help 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. In August 2007 an Order-in-Council gave approval to the Minister of Finance to enter into a Memorandum of Understanding with the Government of Canada to take advantage of this service. 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

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

	($ millions)							
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Capital leases	817.1	834.1	849.4	865.8	873.7	871.9	900.0	900.7

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

	($ millions)							
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Fredericton to Moncton highway lease	792.4	808.4	823.0	837.0	843.8	844.6	871.8	872.0

2.75 Over the past seven years, the Province has paid $79.6 million against the outstanding principal owing on the Fredericton to Moncton highway lease.

Pension liability (surplus)

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

	($ millions)							
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Pension liability (surplus)	(126.4)	30.2	156.7	271.5	362.1	372.6	442.6	596.0

2.77 This reports a steady decline in the outstanding pension liability over the previous six years with a surplus reported in 2007 using estimates that are appropriate for accounting purposes. 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)							
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Estimated accrued benefits liability	7,865.5	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	8,030.5	7,449.3	6,521.7	6,086.5	4,926.3	5,445.1	5,407.4	5,819.1
Subtotal	(165.0)	(124.8)	197.9	294.4	1,057.4	158.0	(68.4)	(680.9)
Accounting adjustments	38.6	155.0	(41.2)	(22.9)	(695.3)	214.6	511.0	1,276.9
Pension liability	(126.4)	30.2	156.7	271.5	362.1	372.6	442.6	596.0

2.78 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 eight 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 $8,030.5 million at 31 March 2007.

2.79 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. This trend continued for the year ended 31 March 2007 which reported that the market value of assets exceeded the estimated liability by $165.0 million.

2.80 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 2007, the market value of the plans' assets exceeds the estimated accrued benefits by $165.0 million, however, the pension surplus reported on the Province's financial statements was $126.4 million.

2.81 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)							
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Pension expense	101.1	109.9	108.4	124.2	90.4	(0.7)	(51.1)	(9.1)
Employer contributions	257.7	236.4	223.2	214.8	100.9	69.1	102.3	167.6
Reduction in pension liability	156.6	126.5	114.8	90.6	10.5	69.8	153.4	176.7

Funded debt for provincial purposes

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

	($ millions)							
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Funded debt for provincial purposes	9,272.8	8,942.4	8,397.0	8,485.8	8,418.7	8,004.7	7,656.2	7,408.5

2.83 The Province's funded debt for provincial purposes at 31 March 2007 is $1,864.3 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 eight years.

	($ millions)							
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Sinking fund book value	3,968.2	3,984.0	3,773.8	3,716.2	3,543.0	3,358.8	3,130.2	2,925.5

2.84 So, while the Province's funded debt for provincial purposes increased by $1,864.3 from 31 March 2000 until 31 March 2007, $1,042.7 million of those borrowings were put aside in the Province's sinking fund.

2.85 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.

2.86 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 eight years.

2.87 The increase in funded debt for provincial purposes that occurred during the fiscal year ended 31 March 2007 is especially confusing at first look since the Province recorded a surplus and reduction of net debt in 2007. Despite this, funded debt for provincial purposes increased $330.4 million, while the sinking fund actually decreased by $15.8 million. However, a quick look at the statement of financial position reveals that cash net of short-term borrowing increased by $193.2 million, and, as the previous section reported, the Province's pension liability was paid down by $156.6 million during the fiscal year ended 31 March 2007. These two items illustrate why funded debt for provincial purposes increased.

Tangible capital assets

2.88 The following table provides the history of the tangible capital asset balance over the past four years.

	($ millions)			
	2007	**2006**	**2005**	**2004**
Tangible capital assets	5,645.5	5,518.9	5,404.0	5,294.9
Deferred capital contributions	(680.2)	(659.8)	(657.3)	(644.9)
Provincial investment in tangible capital assets	4,965.3	4,859.1	4,746.7	4,650.0

2.89 The following table is an analysis of the change in deferred capital contribution from the federal government for the acquisition of tangible capital assets for the past three years.

	($ millions)		
	2007	**2006**	**2005**
Opening balance	659.8	657.3	644.9
Funds received to acquire tangible capital assets	43.5	24.9	34.3
Amortization of deferred capital contributions	(23.1)	(22.4)	(21.9)
Ending balance	680.2	659.8	657.3

2.90 Below is an analysis of the change in the tangible capital asset balance for the past three years:

	($ millions)		
	2007	**2006**	**2005**
Opening balance	5,518.9	5,404.0	5,294.9
Acquisitions	365.0	342.2	326.7
Amortization of tangible capital assets	(238.1)	(226.9)	(215.3)
Loss on disposal of tangible capital assets	(0.3)	(0.4)	(2.3)
Ending balance	5,645.5	5,518.9	5,404.0

2.91 Below is the annual investment in tangible capital assets from 2005 to 2007. It shows that the large majority of our infrastructure projects have been funded by the provincial government in that timeframe. Approximately 10% was federally funded on average in the last three years.

	($ millions)		
	2007	**2006**	**2005**
Provincial investment	321.5	317.3	292.4
Federal investment	43.5	24.9	34.3
Total investment	365.0	342.2	326.7
Provincially funded	88.1%	92.7%	89.5%

Net debt

2.92 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 eight years.

	($ millions)							
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Net debt	6,577.9	6,714.2	6,828.2	6,965.0	6,865.3	6,758.8	6,914.8	7,056.3

2.93 Over this seven-year period, net debt has been reduced by $478.4 million. The Province's net debt per capita for the past eight years is:

	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Net debt ($ millions)	6,577.9	6,714.2	6,828.2	6,965.0	6,865.3	6,758.8	6,914.8	7,056.3
Population	749,000	749,000	752,000	752,000	751,000	750,000	750,000	750,000
Net debt per capita	$8,782	$8,964	$9,080	$9,262	$9,142	$9,012	$9,220	$9,408

2.94 At 31 March 2000, the share of the Province's net debt for each citizen of the Province was $9,408. By 31 March 2007 that share had reduced to $8,782.

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

	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Net debt ($ millions)	6,577.9	6,714.2	6,828.2	6,965.0	6,865.3	6,758.8	6,914.8	7,056.3
GDP (GDP is for the previous calendar year)	25,221	24,162	23,487	22,346	21,169	20,684	20,085	19,041
Net debt as a percentage of GDP	26.1%	27.8%	29.1%	31.2%	32.4%	32.7%	34.4%	37.1%

2.96 These indicators of net debt all reflect improvement over the seven-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 website.

($ millions)	
Net debt	**2007**
Saskatchewan	6,446
New Brunswick	6,578
Manitoba	10,403
Nova Scotia	12,357

Net debt per capita	2007
Saskatchewan	$7,390
New Brunswick	$8,782
Manitoba	$8,833
Nova Scotia	$13,245

Net debt as a percentage of GDP	2007
Saskatchewan	16.0%
Manitoba	23.6%
New Brunswick	26.1%
Nova Scotia	36.0%

Items reported in the notes

2.97 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

2.98 The Province has a number of guaranteed loans. Guaranteed loans, net of the recorded allowance for losses for the past eight years were:

	($ millions)							
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Guaranteed loans	654.5	598.7	736.0	684.9	583.2	518.3	486.6	396.8

2.99 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. The guarantees have again increased in 2007 to a balance of $654.5 million net of recorded allowance for losses.

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

	($ millions)							
	2007	**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	0.3
Agricultural Development Act	0.6	0.4	0.4	0.1	0.2	0.2	0.9	0.8
Economic Development Act	128.5	123.5	103.8	124.8	47.4	33.8	35.9	43.7
Employment Development Act	4.5	4.5	3.9	5.3	4.3	3.6	2.0	2.3
Fisheries Development Act	16.6	20.8	5.0	6.5	10.4	5.9	3.3	4.3
Livestock Incentives Act	0.9	0.9	0.9	1.5	1.6	1.5	1.7	0.5
Nursing Homes Act	8.7	9.4	10.3	10.6	10.6	10.7	10.6	11.0
Regional Development Corporation Act	3.3	3.5	3.3	3.4	3.7	3.5	4.0	3.9
Youth Assistance Act	0	0	209.1	186.8	168.2	136.6	107.9	0
New Brunswick Municipal Finance Corporation	560.1	496.1	466.6	421.4	386.7	366.9	350.9	346.2
Subtotal	723.5	659.4	803.6	760.7	633.4	563.0	517.5	413.0
Allowance for losses	69.0	60.7	67.6	75.8	50.2	44.7	30.9	16.2
Contingent liability	654.5	598.7	736.0	684.9	583.2	518.3	486.6	396.8

2.101 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 $128.5 million at 31 March 2007. Also, guarantees under the *Fisheries Development Act* increased from $4.3 million at 31 March 2000 to $20.8 million at 31 March 2006. For 31 March 2007 they decreased to $16.6 million which still represents a significant eight-year increase of $12.3 million.

2.102 The table also reports a significant increase in the value of guarantees made by the New Brunswick Municipal Finance Corporation during the fiscal year ended 31 March 2007.

2.103 In 2007 the Province reported, for the first time, its guarantee of the deposits of credit unions and caisse populaires. As of 31 December 2006, total deposits guaranteed amounted to $2,740.4 million. Given the significance of the amount, the risk associated with the guarantee must be managed.

Commitments

2.104 The following table reports the Province's outstanding commitments for the past eight years.

	($ millions)							
Commitments	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Operating leases	409.5	436.4	407.8	392.0	398.5	369.8	308.9	329.7
Nursing home debt funding	121.5	111.8	84.1	84.8	86.3	81.0	78.6	68.2
Authorized capital projects	1,470.3	1,572.0	708.1	206.4	751.1	838.0	36.6	36.5

2.105 The significant increase in authorized capital projects in 2002 and 2003 were due to NB Power's capital projects. The value of authorized capital projects increased significantly in the year ended 31 March 2006 and has remained comparatively high for the year ended 31 March 2007. 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.

2.106 Both the operating lease commitments and the nursing home funded debt commitments have steadily increased from 31 March 2001 to 31 March 2006. Nursing home funded debt continued to increase while operating lease commitments declined in 2007.

Foreign exchange fluctuations

2.107 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.

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

	($ millions)							
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Unrealized foreign exchange losses (gains)	(48.9)	(48.7)	(39.9)	(22.8)	59.7	159.2	182.8	110.1

Market value of sinking fund investments

2.109 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 2006.

	($ millions)						
Sinking fund	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Book value – provincial portion	3,984.0	3,773.8	3,716.2	3,543.0	3,358.8	3,130.2	2,925.5
Book value – NB Power portion	336.4	391.6	363.7	351.3	327.4	297.3	295.1
Total book value	4,320.4	4,165.4	4,079.9	3,894.3	3,686.2	3,427.5	3,220.6
Market value	4,636.4	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	316.0	417.9	496.0	361.0	226.8	275.8	227.8

2.110 This shows that at 31 March 2006, the sinking fund had a market value that was significantly higher than its recorded book value.

Statement of Operations

Surplus

2.111 For the year ended 31 March 2007, the Province reported a surplus of $236.8 million.

2.112 The following table shows the surplus for the past four years as originally recorded and as restated.

	($ millions)			
Surplus (Deficit)	**2007**	**2006**	**2005**	**2004**
As originally recorded	236.8	243.6	242.2	(103.2)
As restated	236.8	235.0	233.7	(181.9)

Change in net debt

2.113 For the year ended 31 March 2007, the Province reported a reduction in net debt of $136.3 million.

2.114 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	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
As originally recorded	136.3	122.6	131.5	(103.2)	(109.4)	143.8	181.8
As restated	136.3	114.0	136.8	(99.7)	(106.5)	156.0	141.5

Revenue

2.115 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

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

	($ millions)							
Revenue	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Provincial sources	4,161.6	3,930.2	3,627.2	3,533.7	3,331.4	3,216.1	3,067.7	2,974.3
Federal sources	2,487.3	2,392.9	2,354.6	1,917.6	1,911.9	2,038.6	1,804.8	1,811.9
Total	6,648.9	6,323.1	5,981.8	5,451.3	5,243.3	5,254.7	4,872.4	4,786.2

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

Revenue	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
($ millions)							
Provincial sources	231.4	303.0	93.5	202.3	115.3	148.5	93.4
Federal sources	94.4	38.3	437.0	5.7	(126.7)	233.8	(7.1)
Total	325.8	341.3	530.5	208.0	(11.4)	382.3	86.3
%							
Provincial sources	5.9	8.4	2.6	6.1	3.6	4.8	3.1
Federal sources	3.9	1.6	22.8	0.3	(6.2)	13.0	(0.4)
Total	5.2	5.7	9.7	4.0	(0.2)	7.8	1.8

2.118 Provincial source revenue has increased 40.7% since the year ended 31 March 2000, while federal source revenue has increased 37.5%. The following table reports the share of annual revenue that is made up of each primary source.

Revenue	2007	2006	2005	2004	2003	2002	2001	2000
Provincial sources	62.6%	62.2%	60.6%	64.8%	63.5%	61.2%	63.0%	62.1%
Federal sources	37.4%	37.8%	39.4%	35.2%	36.5%	38.8%	37.0%	37.9%

2.119 Over these eight years, the provincial source revenue has been as high as 64.8% of total revenue and as low as 60.6%. Currently it is at 62.6%, similar to the 62.1% level in 2000.

Revenue from provincial sources

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

	($ millions)						
Revenue	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Provincial sources	4,161.6	3,930.2	3,627.2	3,533.7	3,331.4	3,216.1	3,067.7
GDP (GDP is for the previous calendar year)	25,221	24,162	23,487	22,346	21,169	20,684	20,085
Provincial source revenue as a % of GDP	16.5%	16.3%	15.4%	15.8%	15.7%	15.5%	15.3%
Percentage growth in provincial source revenue	5.9%	8.4%	2.6%	6.1%	3.6%	4.8%	3.1%
Percentage growth in GDP	4.4%	2.9%	5.1%	5.6%	2.3%	3.0%	5.5%

2.121 In five of the past seven years, provincial source revenue has increased at a rate that exceeds the rate of growth of the GDP. The result is that in 2007, provincial source revenue was 16.5% of GDP, compared to 15.3% in 2001.

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

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

	($ millions)							
Provincial source revenue	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Taxes on consumption	1,169.2	1,161.4	1,059.3	1,139.5	1,050.1	913.7	889.6	824.1
Taxes on property	351.5	341.0	334.1	303.9	295.0	288.6	274.7	258.1
Taxes on income	1,512.9	1,224.4	1,176.1	1,065.6	1,051.5	1,092.1	1,091.9	1,045.2
Other taxes	86.6	90.8	94.7	103.4	85.0	81.9	69.2	65.8
Licenses and permits	116.4	113.8	103.0	104.1	103.0	101.6	106.6	105.4
Royalties	68.7	67.8	70.7	70.4	60.0	61.1	66.5	62.5
Investment income	308.5	409.6	283.7	252.7	176.7	246.3	156.4	211.3
Other provincial revenue	315.9	295.0	284.0	271.6	267.1	199.9	192.8	198.2
Sinking fund earnings	231.8	226.4	221.6	222.5	243.0	230.9	220.0	203.7
Total	4,161.5	3,930.2	3,627.2	3,533.7	3,331.4	3,216.1	3,067.7	2,974.3

Taxes on consumption

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

	($ millions)							
Taxes on consumption	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Gasoline and Motive Fuels Tax	215.2	232.1	239.7	234.9	222.1	184.3	186.5	185.5
Harmonized Sales Tax	872.1	838.7	723.0	803.1	736.0	659.6	653.2	590.7
Tobacco Tax	81.9	90.5	96.5	101.4	91.9	69.7	49.8	47.8
Other	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total	1,169.2	1,161.4	1,059.3	1,139.5	1,050.1	913.7	889.6	824.1
Increase (decrease)	7.8	102.1	(80.2)	89.4	136.4	24.1	65.5	10.1
Percentage increase (decrease)	0.7%	9.6%	(7.0%)	8.5%	14.9%	2.7%	7.9%	1.2%
Total as a percentage of GDP	4.6%	4.8%	4.5%	5.1%	5.0%	4.4%	4.4%	4.3%

2.125 Over this eight-year period, the major change in Gasoline and Motive Fuels Tax was in 2003 which was due to tax increases. The decrease in this revenue source in 2007 was the result of a reduction in the tax rate. Also, over this eight-year period there has been a steady increase in harmonized sales tax except for 2005. This decrease was due to prior-year adjustments related to harmonized sales tax revenue. 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)					
	2007	**2006**	**2005**	**2004**	**2003**	**2002**
Extra Gasoline and Motive Fuels Tax	30.9	47.8	55.4	50.6	37.8	0
Interest on highway debt	55.4	56.5	57.5	58.1	55.8	22.5

2.126 The ratio of harmonized sales tax revenue to GDP over the past eight years is as follows:

	($ millions)							
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Harmonized Sales Tax	872.1	838.7	723.0	803.1	736.0	659.6	653.2	590.7
GDP (GDP is for the previous calendar year)	25,221	24,162	23,487	22,346	21,169	20,684	20,085	19,041
Ratio	3.5%	3.5%	3.1%	3.6%	3.5%	3.2%	3.3%	3.1%

Taxes on income

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

	($ millions)							
Taxes on income	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Corporate income tax	217.6	150.3	173.1	111.1	134.9	179.9	178.6	141.0
Metallic minerals tax	120.2	10.5	2.8	2.2	5.7	2.3	3.3	3.9
Personal income tax	1,175.1	1,063.6	1,000.2	952.3	910.9	909.9	910.0	900.3
Total	1,512.9	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)	6.0%	5.1%	5.0%	4.8%	5.0%	5.3%	5.4%	5.5%

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

	($ millions)							
	2007	2006	2005	2004	2003	2002	2001	2000
Corporate Income Tax	217.6	150.3	173.1	111.1	134.9	179.9	178.6	141.0
Corporation profits before taxes (previous calendar year)	2,750	2,324	2,468	1,953	1,832	1,904	1,846	1,769
Percentage	7.9%	6.5%	7.0%	5.7%	7.4%	9.4%	9.7%	8.0%

2.129 The percentage increases in personal income taxes over the past seven fiscal years have been:

	2007	2006	2005	2004	2003	2002	2001
Personal Income Tax	10.5%	6.3%	5.0%	4.5%	0.1%	0.0%	1.1%

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

	2006	2005	2004	2003	2002	2001	2000
Increase in per capita income	4.2%	3.4%	4.0%	3.5%	2.5%	2.5%	4.8%
Increase in wage component of GDP	4.0%	3.5%	4.0%	5.5%	4.3%	0.5%	6.1%
Increase in wage, interest and unincorporated business component of GDP	3.8%	3.8%	3.8%	5.0%	2.4%	0.7%	5.5%

2.131 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.

2.132 Further analysis of the personal income tax revenue source shows that prior years' adjustments have a significant impact on the amount of revenue recorded in any given year.

2.133 The components of personal income tax revenue over the past seven years are:

Personal Income Taxes	($ millions)						
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Current year estimate	1,097.3	1,029.6	979.2	939.1	903.6	881.2	893.5
Prior year adjustment	77.8	34.0	21.1	13.2	7.4	28.7	17.4
Other	0.0	0.0	(0.1)	0.0	(0.1)	0.0	(0.9)
Total	1,175.1	1,063.6	1,000.2	952.3	910.9	909.9	910.0

2.134 Even after taking into account the effect of prior year adjustments, the increases in personal income tax revenue in recent years are significantly above what the economic data would suggest.

2.135 This is apparently not unique to New Brunswick. In the federal government's 2007 Budget Plan, they include a discussion in their Fiscal Outlook about the "Income Elasticity of Personal Income Tax Revenues" which says in part:

> *The income elasticity of personal income tax (PIT) revenues measures the percentage change in PIT revenues resulting from a 1-per-cent change in personal income. It is a key element of the PIT revenue forecast.*
>
> *PIT revenues usually grow slightly faster than personal income, reflecting the progressive nature of the income tax system, under which marginal tax rates rise as taxable income rises.*
>
> *In 2006–07, the underlying elasticity is estimated to be about 1.8, well above the elasticity assumption of 1.2 used by most economists. The unusually high elasticity in 2006-07 may be due to a variety of factors, including strong overall real income gains and a concentration of income growth among higher-income earners (who face a higher effective tax rate). It is also possible that current estimates of personal income growth may be somewhat underestimated. Which of these factors is at play in 2006-07 will only be determined two years from now, when detailed data on tax assessments for 2006 is available.*

Other provincial source revenues

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

	($ millions)							
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Insurance Premium Tax	40.1	39.4	39.7	42.2	34.3	30.3	28.2	25.9
Large Corporation Capital Tax	34.7	36.3	39.5	47.3	38.7	39.0	30.6	28.1
Motor vehicle licenses	96.0	93.4	82.3	78.0	78.8	79.1	80.6	78.8
Forest royalties	58.8	56.9	60.2	62.9	53.1	54.6	58.3	54.5
Lottery revenues	113.0	111.2	118.1	116.7	109.1	89.2	89.7	86.3
NB Electric Finance Corporation	18.7	131.6	7.8	(18.0)	(77.4)	19.0	(78.0)	17.0
NB Liquor Corporation	131.5	126.1	122.6	118.6	110.1	106.8	103.0	100.8
Sinking fund earnings	231.8	226.4	221.6	222.5	243.0	230.9	220.0	203.7

2.137 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	Seven year annual average growth rate
Insurance Premium Tax	6.4%
Lottery revenues	3.9%
NB Liquor Corporation	3.9%
Large Corporation Capital Tax	3.1%
Motor vehicle licenses	2.9%
Sinking fund earnings	1.9%
Forest royalties	1.1%

2.138 While the Large Corporation Capital Tax has had a seven-year annual growth rate of 3.1%, it has actually declined three years in a row.

Revenue from federal sources

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

	($ millions)						
Federal source revenue	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Canada Health and Social Transfer	706.9	696.3	607.3	545.2	498.9	494.9	404.0
Health Reform Transfer	0	0	35.3	0	0	0	0
Fiscal Equalization Payments	1,450.8	1,348.0	1,395.5	1,089.3	1,146.9	1,321.3	1,150.5
Other unconditional grants	1.9	1.9	1.7	1.9	1.9	1.9	1.9
Conditional grants	304.6	324.3	292.8	259.9	243.8	200.6	194.8
Harmonization Transitional Payment							34.0
Amortization of deferred contributions	23.2	22.4	22.0	21.3	20.4	19.9	19.6
Total	2,487.4	2,392.9	2,354.6	1,917.6	1,911.9	2,038.6	1,804.8
Increase (decrease)	94.5	38.3	437.0	5.7	(126.7)	233.8	(7.1)
Percentage increase (decrease)	3.9%	1.6%	22.8%	0.3%	(6.2%)	13.0%	(0.4%)

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

Expenses

2.141 The main items of expenses we have analyzed are:

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

Total expenses

2.142 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 four years' worth of comparative expense figures are available.

2.143 The following table reports the Province's expenses for the past four years.

Expenses	2007		2006		2005		2004	
	$ millions	%	$ millions	%	$ millions	%	$ millions	%
Education and training	1,305.5	20.4	1,309.7	21.5	1,189.0	20.7	1,168.1	20.7
Health	2,110.2	32.9	1,957.8	32.2	1,837.0	32.0	1,788.5	31.7
Family and Community Services	824.0	12.9	775.4	12.7	730.5	12.7	716.6	12.7
Protection services	233.6	3.6	161.2	2.6	151.2	2.6	145.2	2.6
Economic Development	205.6	3.2	181.2	3.1	183.6	3.2	167.0	3.0
Labour and employment	120.4	1.9	117.4	1.9	117.5	2.0	121.5	2.2
Resource sector	193.0	3.0	160.1	2.6	166.8	2.9	159.0	2.8
Transportation	347.5	5.4	336.3	5.5	310.5	5.4	307.5	5.5
Central government	512.9	8.0	497.6	8.2	481.1	8.4	476.9	8.5
Service of the Public Debt	559.4	8.7	591.4	9.7	580.9	10.1	582.9	10.3
Total	6,412.1	100.0	6,088.1	100.0	5,748.1	100.0	5,633.2	100.0

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

Expenses	2007		2006		2005	
	$ millions	%	$ millions	%	$ millions	%
Education and training	(4.2)	(0.3)	120.7	10.2	20.9	1.8
Health	152.4	7.8	120.8	6.6	48.5	2.7
Family and Community Services	48.6	6.3	44.9	6.1	13.9	1.9
Protection services	72.4	44.9	10.0	6.6	6.0	4.1
Economic Development	24.4	13.5	(2.4)	(1.3)	16.6	9.9
Labour and employment	3.0	2.6	(0.1)	(0.1)	(4.0)	(3.3)
Resource sector	32.9	20.5	(6.7)	(4.0)	7.8	4.9
Transportation	11.2	3.3	25.8	8.3	3.0	1.0
Central government	15.3	3.1	16.5	3.4	4.2	0.9
Service of the Public Debt	(32.0)	(5.4)	10.5	1.8	(2.0)	(0.3)
Total	324.0	5.3	340.0	5.9	114.9	2.0
Rate of Growth of GDP		4.4		2.9		5.1

2.145 The large increase in protection services was primarily the result of $60 million for credit union stabilization and support.

2.146 The large increase in resource sector expenses was primarily the result of a contribution of $26.6 million to the clean up of the Saint John Harbour.

2.147 In 2005 the rate of growth of expenses was less than the rate of growth of GDP, while in 2006 and 2007, it was greater.

2.148 The notes to the financial statements also provide a detail of the expenses by what is referred to as primary classification:

Primary	2007		2006		2005		2004	
	$ millions	%	$ millions	%	$ millions	%	$ millions	%
Personal services	2,053.3	32.0	1,994.3	32.8	1,966.6	34.2	1,916.9	34.0
Other services	1,335.9	20.8	1,195.0	19.6	1,044.3	18.2	980.3	17.4
Materials and supplies	148.6	2.3	127.3	2.1	124.7	2.2	113.5	2.0
Property and equipment	102.9	1.6	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	166.2	2.6	151.2	2.5	143.7	2.5	145.1	2.6
Individuals	1,016.4	15.9	971.0	15.8	943.2	16.4	894.0	15.9
Nursing homes	169.1	2.6	144.6	2.4	131.8	2.3	125.1	2.2
Other	517.5	8.1	497.8	8.2	471.7	8.2	435.2	7.7
Debt and other charges	664.2	10.4	691.2	11.4	633.4	11.0	663.3	11.8
Amortization	238.0	3.7	226.9	3.7	215.4	3.7	290.4	5.2
Total	6,412.1	100.0	6,088.1	100.0	5,748.1	100.0	5,633.2	100.0

Expenses by department

2.149 The following table provides a four or two-year comparison of the departments or categories with the ten largest expenses during the year ended 31 March 2007. The Department of Education and the Department of Training and Employment Development have a two-year comparison due to departmental reorganizations.

	2007		2006		2005		2004	
	$ millions	%	$ millions	%	$ millions	%	$ millions	%
Regional Health Authorities	1,444.9	22.5	1,284.9	21.1	1,192.7	20.7	1,106.9	19.6
Family and Community Services	817.8	12.8	761.4	12.5	724.3	12.6	710.5	12.6
Health and Wellness	603.3	9.4	615.6	10.1	593.6	10.3	550.4	9.8
Service of the Public Debt	559.4	8.7	591.4	9.7	580.9	10.1	582.9	10.3
MPHEC	215.8	3.4	258.5	4.2	185.2	3.2	179.7	3.2
Amortization	238.1	3.7	226.9	3.7	215.4	3.7	290.4	5.2
Transportation	209.9	3.3	204.1	3.4	182.2	3.2	179.1	3.2
Public Safety	119.4	1.9	112.1	1.8	105.0	1.8	99.8	1.8
Education	850.4	13.3	817.0	13.4				
Training and Employment Development	293.2	4.6	289.8	4.8				

Interest expense

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

	($ millions)							
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Interest	739.7	744.5	756.9	766.2	799.1	817.2	851.1	833.4
Interest on Fredericton to Moncton highway capital lease	55.4	56.5	57.5	58.1	55.8	22.5	0	0
Interest on other capital leases	2.2	2.2	2.3	2.3	2.4	2.4	2.5	2.5
Foreign exchange expense	(30.8)	(7.8)	(21.7)	(40.3)	35.4	56.6	44.5	27.2
Other expenses	2.1	1.7	1.9	2.1	3.3	1.8	1.2	8.5
Subtotal	768.6	797.1	796.9	788.4	896.0	900.5	899.3	871.6
Interest recovery – Electric Finance Corporation	(209.2)	(205.7)	(216.0)	(205.5)	(235.1)	(248.7)	(262.0)	(260.9)
Service of the public debt	559.4	591.4	580.9	582.9	660.9	651.8	637.3	610.7
Less sinking fund earnings	(231.8)	(226.4)	(221.6)	(222.5)	(243.0)	(230.9)	(220.0)	(203.7)
Subtotal	327.6	365.0	359.3	360.4	417.9	420.9	417.3	407.0
Pension interest charged	0.4	30.9	17.6	85.4	27.9	3.5	(53.6)	(9.1)
Interest on student loans	11.6	6.8	0	0	0	0	0	0
Total	339.6	402.7	376.9	445.8	445.8	424.4	363.7	397.9

2.151 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 an eight-year low of $327.6 million in 2007.

Provision expense

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

	($ millions)							
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Provision expense	69.9	59.7	77.5	71.2	33.0	43.2	65.3	46.5

Expenditure

2.153 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 six years:

Expenditure	2007	2006	2005	2004	2003	2002
Expenditure ($ millions)	6,548.2	6,211.6	5,857.3	5,576.7	5,379.2	5,081.3
Increase ($ millions)	336.6	354.3	280.6	197.5	297.9	353.6
Percentage increase	5.4%	6.0%	5.0%	3.7%	5.9%	7.5%

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

	2007	2006	2005	2004	2003	2002
Expenditure growth	5.4%	6.0%	5.0%	3.7%	5.9%	7.5%
GDP growth (GDP is for the previous calendar year)	4.4%	2.9%	5.1%	5.6%	2.3%	3.0%
Revenue growth	5.2%	5.7%	9.7%	4.0%	(0.2%)	7.8%

2.155 In 2007, like in 2006, expenditure growth exceeded both GDP growth and revenue growth.

History of net debt since 31 March 1987

2.156 At 31 March 2007, the net debt of the Province of New Brunswick was $6,577.9 million, which was 26.1% of the Province's Gross Domestic Product. Net debt, as its name implies, means that the Province owes more money than it has; it is the difference between the Province's liabilities and its financial assets.

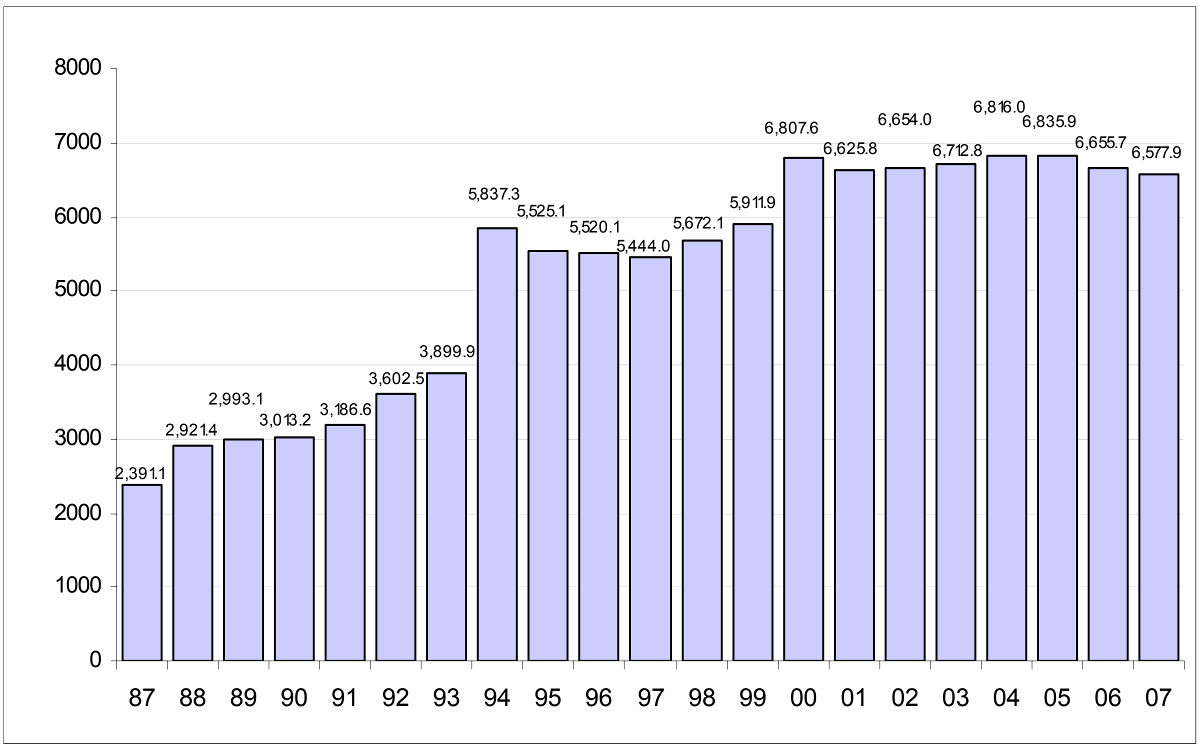
2.157 The Province had total liabilities as at 31 March 2007 of $8,204.7 million and total financial assets of $1,626.8 million resulting in net debt of $6,577.9 million.

2.158 In our opinion, net debt is important and it needs to be properly managed. The annual change in net debt is a measure of performance that is as important as the annual surplus or deficit. This section is intended to provide a focus on net debt and how it has accumulated over the past twenty years.

History of net debt

2.159 At 31 March 1987, the Province's net debt was reported as $2,391.1 million. The following table and graph show the net debt as originally reported at 31 March of each year from 1987 to 2007.

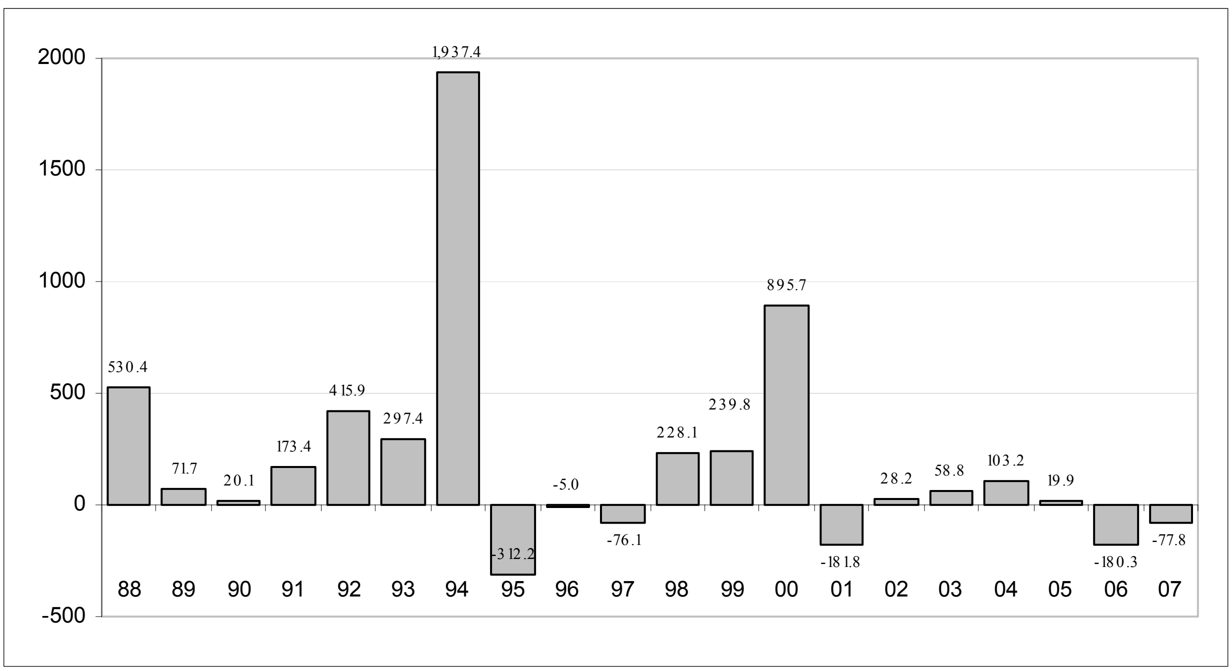
Year	Net Debt ($ millions)	Year	Net Debt ($ millions)
1987	2,391.1	1998	5,672.1
1988	2,921.4	1999	5,911.9
1989	2,993.1	2000	6,807.6
1990	3,013.2	2001	6,625.8
1991	3,186.6	2002	6,654.0
1992	3,602.5	2003	6,712.8
1993	3,899.9	2004	6,816.0
1994	5,837.3	2005	6,835.9
1995	5,525.1	2006	6,655.7
1996	5,520.1	2007	6,577.9
1997	5,444.0		



2.160 Based on these end-of-year numbers, the following table and graph show the change in net debt in each year as originally reported.

Year	Increase (decrease) in Net Debt ($ millions)
1988	530.4
1989	71.7
1990	20.1
1991	173.4
1992	415.9
1993	297.4
1994	1,937.4
1995	(312.2)
1996	(5.0)
1997	(76.1)

Year	Increase (decrease) in Net Debt ($ millions)
1998	228.1
1999	239.8
2000	895.7
2001	(181.8)
2002	28.2
2003	58.8
2004	103.2
2005	19.9
2006	(180.3)
2007	(77.8)



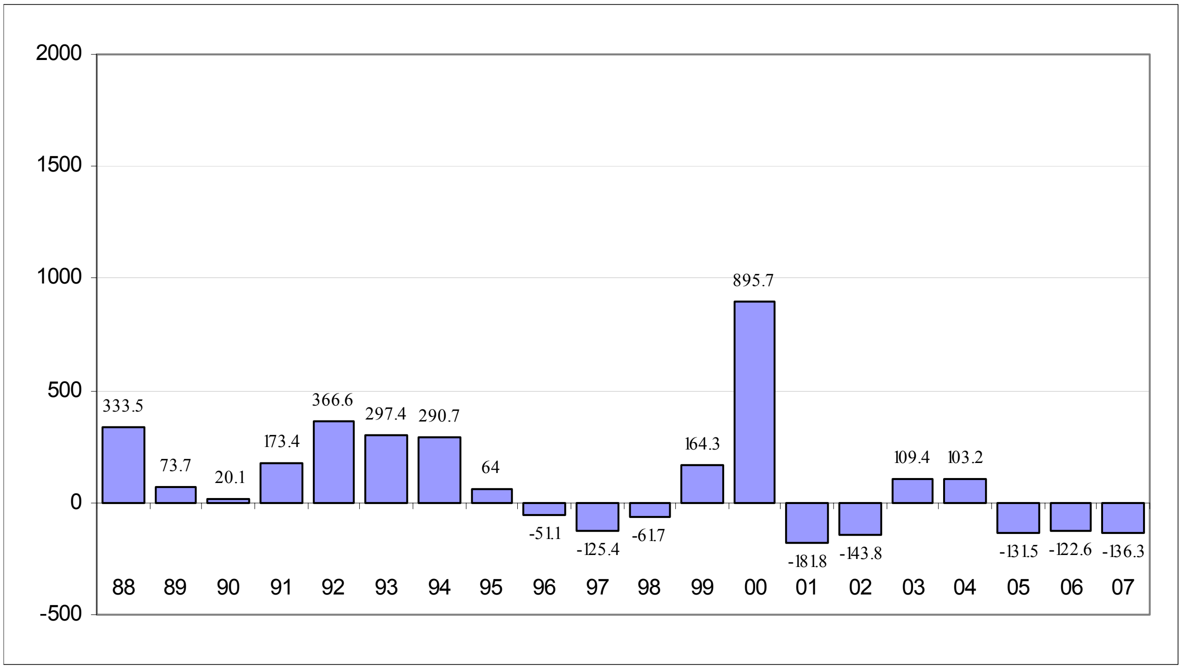
2.161 In any given year, however, some of the change in net debt may have resulted from changes in accounting policies to comply with Canadian Generally Accepted Accounting Principles for governments. In such years, only a portion of the change in net debt was caused by events that happened during the year. The following table divides the change in net debt for each year between the in-year change and the amount of the change that affected previous years.

2.162 The in-year change in net debt is the portion of the change in net debt that was under the direct control of the government of the day. The prior years' change in net debt is the portion that resulted from applying new accounting policies to earlier years as required by generally accepted accounting policies.

Year	Increase (decrease) in net debt ($ millions)	Change related to previous years	In-year change as originally reported
1988	530.4	196.9	333.5
1989	71.7	(2.0)	73.7
1990	20.1	0.0	20.1
1991	173.4	0.0	173.4
1992	415.9	49.3	366.6
1993	297.4	0.0	297.4
1994	1,937.4	1,646.7	290.7
1995	(312.2)	(376.2)	64.0
1996	(5.0)	46.1	(51.1)
1997	(76.1)	49.3	(125.4)
1998	228.1	289.8	(61.7)
1999	239.8	75.5	164.3
2000	895.7	0.0	895.7
2001	(181.8)	0.0	(181.8)
2002	28.2	172.0	(143.8)
2003	58.8	(50.6)	109.4
2004	103.2	0.0	103.2
2005	19.9	151.4	(131.5)
2006	(180.3)	(57.7)	(122.6)
2007	(77.8)	58.5	(136.3)
Total	**4,186.8**	**2,249.0**	**1,937.8**

2.163 The large increase in net debt in 2000 was a result of the recognition of the capital lease liability for the Fredericton to Moncton highway, none of which was attributed to prior years for accounting purposes.

2.164 Graphically the in-year change in net debt looks like this:



2.165 Therefore, of the $4,186.8 million increase in net debt as it was originally reported over the past twenty years, $2,249.0 million was recorded as adjustments to previous years because of changes in accounting policies.

2.166 As the following table shows, the accounting changes made over the past twenty years have been significant, and make it difficult to compare year to year results. The accounting changes were:

Year and area	Description	Increase (decrease) net debt ($ millions)
1988 Foreign exchange	The method of recording foreign currency denominated assets and liabilities, which had previously been recorded at the exchange rates in effect when such items were issued, was changed so that the items would be recorded at the exchange rate in effect at 31 March each year. The unrealized exchange gains or losses were amortized over the remaining outstanding term of the related instrument.	64.9
1988 Capital leases	Long term leases under which the Province assumes substantially all of the benefits and risks of ownership related to the leased property, which had previously been recorded as rentals, were recorded as capital leases and the present value was charged as a capital expenditure.	15.3

Year and area	Description	Increase (decrease) net debt ($ millions)
1988 Loans to hospitals	Loans made to hospitals that were to be repaid through future grants from the Province were reclassified as capital expenditures.	21.7
1988 Land purchases	Purchases of farm lands as part of the Province's Land Lease Program that were recorded as loans and advances were charged to capital expenditures.	6.0
1988 Property held for resale	Properties held for resale were charged to capital expenditures if not sold within two years of acquisition.	4.7
1988 Advances to NB Housing	Certain loans and advances made to the New Brunswick Housing Corporation were charged as expenditures.	84.3
1989 Special purpose	Special purpose account balances were reclassified from liabilities to surpluses.	(2.0)
1992 Vehicles and equipment	The Province stopped capitalizing and amortizing the cost of vehicles and equipment. The cost was now to be recorded as a capital expenditure in the year of acquisition.	49.3
1994 Pensions	Effective 1 April 1993, the Province changed its accounting policy for recording its Accrued Pension Liability and the related Pension Expense to conform with the recommendations of the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants. This Accounting treatment reports the Accrued Pension Liability and Pension Expense based on actuarial valuations using the projected unit credit method for the Province's defined benefit plans. Previously, a Pension Liability was not recognized in the Province's Statement of Financial Position and Pension Expense was recorded in the amount of funding provided to the pension funds for the year.	1,646.7
1995 Government business enterprises (GBEs)	The Province included the following enterprises in its reporting entity through modified equity accounting: • New Brunswick Liquor Corporation; • New Brunswick Municipal Finance Corporation; • New Brunswick Power Corporation; • Workplace Health, Safety and Compensation Commission.	(376.2)
1996 Pensions	The Province had an actuarial valuation completed on the Members' Superannuation Plan. This was the final valuation required to complete the Province's adoption of full accrual accounting for its pension liability and pension related expenditure.	22.9
1996 GBEs	The Province changed its method of accounting for two organizations. Algonquin Properties Limited was changed from the modified equity method to consolidation. The Mental Health Commission of New Brunswick was changed from the transaction method to the consolidation method.	23.2

Year and area	Description	Increase (decrease) net debt ($ millions)
1997 GBEs	The Workplace Health, Safety and Compensation Commission started recording a liability for the estimated cost of future claims that are expected to result from latent occupational diseases. Previously, these costs were not recorded as liabilities. The Commission also started to include, as part of its benefits liability, the estimated liability for future administration costs of existing claims. The Province changed its method of accounting for New Brunswick school districts from the transaction method to the consolidation method, because, effective 1 March 1996, the Province dissolved publicly elected school boards, and made the school districts accountable to the Minister of Education.	46.6
1997 Accounts receivable	The Province's 31 March 1996 financial statements overstated the value of Accounts Receivable from municipalities.	2.7
1998 Retirement allowance	The Province began recording the retirement allowance for government employees and employees of consolidated entities except employees of hospitals.	195.2
1998 Teacher's summer pay	The Province started to record an accrued liability for the portion of the summer pay of teachers that was earned at 31 March each year.	47.3
1998 Vacation pay	The Province started to record an accrued liability for its earned vacation pay obligations.	16.3
1998 Self insured workers compensation	The Province is self-insured for workers' compensation. In 1988 it began recording the actuarial value of this liability.	31.0
1999 Capital leases	The Province started recording real property leases as capital leases in accordance with PSAB rules. Previously real property leases were only considered capital if ownership of the real property transferred to the Province during the lease term or if the lease term was extremely long.	29.6
1999 GBEs	The accounting for Hospital Corporations' financial position and results of operations was changed to include them in the reporting entity using the equity method. In prior years, they were included using the transaction method.	45.9
2002 NB Power foreign exchange	NB Power Corporation changed its method of accounting for foreign exchange gains and losses. Previously the Corporation deferred any unrealized gains or losses on the translation of foreign currency denominated monetary assets and liabilities, and amortized those gains or losses to income over the remaining term of the related debt issue. The new accounting policy requires foreign exchange gains or losses to be recognized immediately.	172.0

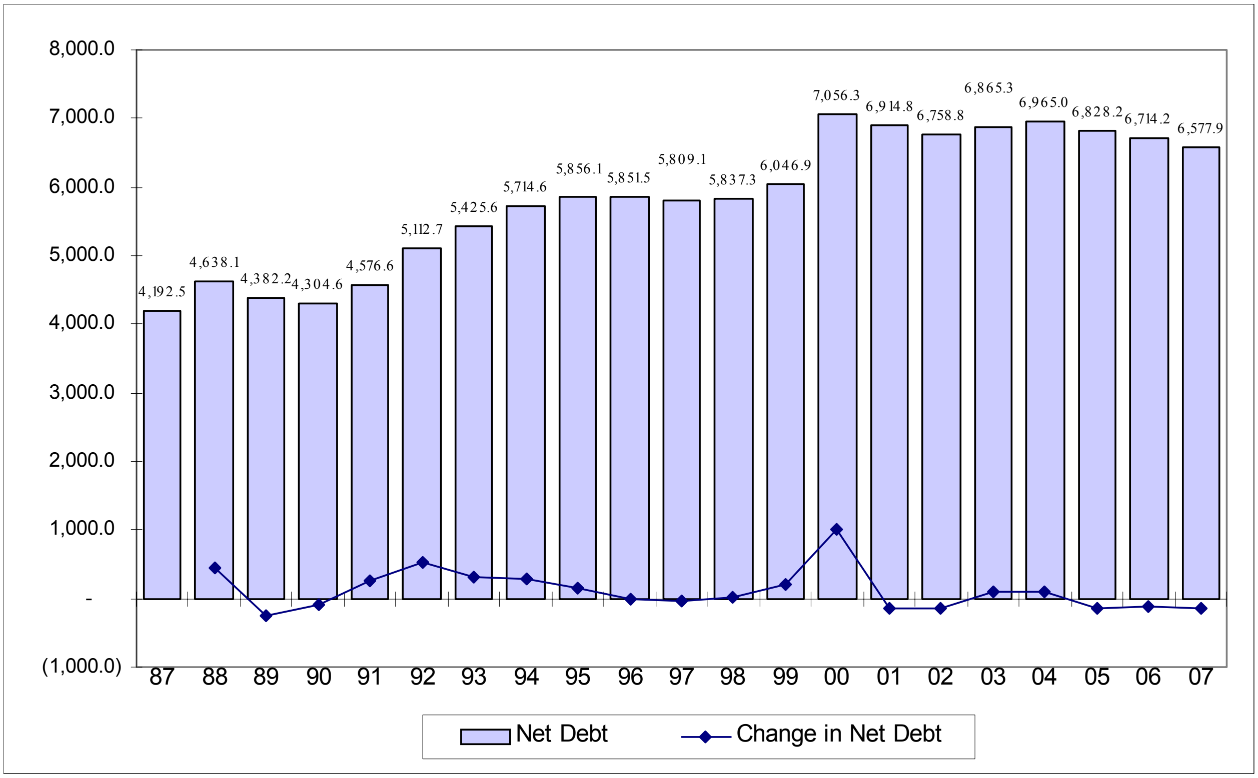
Year and area	Description	Increase (decrease) net debt ($ millions)
2003 NB Power decommissioning liability	During the year ended 31 March 2003, NB Power Corporation changed its method of accounting for asset retirement obligations, so as to be in compliance with the accounting standard set by the Canadian Institute of Chartered Accountants. This standard applies to the plant decommissioning and used nuclear fuel management liabilities recorded by the Corporation. The new standard requires the recognition of the net present value of these liabilities when incurred. Income and retained earnings for the Corporation from prior years were restated to reflect the new standard.	(44.0)
2003 GBEs	Effective with the year ended 31 March 2003, the Province no longer consolidated the Workplace Health, Safety and Compensation Commission due to revisions to the accounting recommendations issued by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.	(6.6)
2005 Inventory of supplies	Inventory of Supplies was reclassified to a non-financial asset.	40.2
2005 Recording of prepaid expenses	Prepaid Expenses were reclassified to non-financial assets.	111.2
2006 Reclassify advances	Certain items previously classified as prepaid expenses (a non-financial asset) were reclassified as advances as they represent advances to other entities for the next fiscal year.	(57.7)
2007 Retirement allowances of regional health authorities	The Province began recording the retirement allowance for employees of regional health authorities.	58.5

2.167 These adjustments were recorded in the fiscal year indicated in the above table, however, many of them affected more than one previous year. Therefore in order to recalculate the increase or decrease in net debt in any given year using consistent accounting policies, each of these accounting changes would have to be reallocated to the appropriate years. In some cases, the adjustment required for each year can be reasonably accurately determined. In other cases, extrapolations or estimates are required. By making these adjustments to the results as originally reported in each year, we arrive at adjusted changes to net debt for each of the past twenty years, using consistent accounting policies, as shown in the following table.

	($ millions)				
Year	**Opening**	**In Year Change As Originally Reported**	**Adjustments Increase (Decrease) Net Debt**	**Adjusted In Year Change**	**Adjusted Ending**
Opening net debt 31 March 1987	2,391.1		1,801.4		4,192.5
1988		333.5	112.1	445.6	4,638.1
1989		73.7	(329.6)	(255.9)	4,382.2
1990		20.1	(97.7)	(77.6)	4,304.6
1991		173.4	98.6	272.0	4,576.6
1992		366.6	169.5	536.1	5,112.7
1993		297.4	15.5	312.9	5,425.6
1994		290.7	(1.7)	289.0	5,714.6
1995		64.0	77.5	141.5	5,856.1
1996		(51.1)	46.5	(4.6)	5,851.5
1997		(125.4)	83.0	(42.4)	5,809.1
1998		(61.7)	89.9	28.2	5,837.3
1999		164.3	45.3	209.6	6,046.9
2000		895.7	113.7	1,009.4	7,056.3
2001		(181.8)	40.3	(141.5)	6,914.8
2002		(143.8)	(12.2)	(156.0)	6,758.8
2003		109.4	(2.9)	106.5	6,865.3
2004		103.2	(3.5)	99.7	6,965.0
2005		(131.5)	(5.3)	(136.8)	6,828.2
2006		(122.6)	8.6	(114.0)	6,714.2
2007		(136.3)	0	(136.3)	6,577.9
Total	2,391.1	1,937.8	2,249.0	6,577.9	

2.168 The above adjustments are based on information that is readily available. A more detailed analysis of each change in accounting might produce more refined numbers.

2.169 These adjusted numbers can be graphically represented as:



2.170 Comparing this graph and the first graph it becomes obvious that by using consistent accounting policies over the twenty year period, the increase in net debt that occurred between 1988 and 1995 was significantly lower than the increase produced by using the original unadjusted numbers. The graph also shows two periods of significant increase in the Province's net debt. The first was from 1990 until 1995 when net debt increased by $1,500 million, using consistent accounting policies. The second was from 1998 until 2000 when net debt increased by $1,200 million.

2.171 Finally we have compared net debt to GDP for the past 21 years. In 1987 the net debt to GDP ratio was 40.1%. In 2007 it was 26.1%. The following table shows the ratio for each of the last 21 years; the ratio is shaded for years in which it increased.

	($ millions)					($ millions)		
Year	**Net debt**	**GDP**	**Ratio %**		**Year**	**Net debt**	**GDP**	**Ratio %**
1987	4,192.4	10,462	40.1		1998	5,837.2	16,845	34.7
1988	4,638.0	11,572	40.1		1999	6,046.8	17,633	34.3
1989	4,382.1	12,438	35.2		2000	7,056.3	19,041	37.1
1990	4,304.5	13,128	32.8		2001	6,914.8	20,085	34.4
1991	4,576.5	13,458	34.0		2002	6,758.8	20,684	32.7
1992	5,112.6	13,647	37.5		2003	6,865.3	21,169	32.4
1993	5,425.5	14,038	38.6		2004	6,965.0	22,346	31.2
1994	5,714.5	14,693	38.9		2005	6,828.2	23,487	29.1
1995	5,856.0	15,286	38.3		2006	6,714.1	24,162	27.8
1996	5,851.4	16,380	35.7		2007	6,577.9	25,221	26.1
1997	5,809.0	16,626	34.9					

2.172 While this report shows that net debt has grown by over $2.4 billion on an adjusted basis over the past twenty years, it has decreased since 31 March 2000, and the net debt to GDP ratio is much better than it was twenty years ago. It is important for the government to continue to plan and manage its net debt position into the future.

Chapter 3
Matters Arising from our Financial Statement Audits

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Matters Arising from our Financial Statement Audits

Introduction

3.1 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 2007 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 statement audit work.

Background

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

3.3 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 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

3.4 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.

3.5 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.

3.6 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.

3.7 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.

3.8 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.

3.9 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

3.10 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

3.11 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.

3.12 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

3.13 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 the stated accounting policies of the Province, which are in accordance with Canadian generally accepted accounting principles.

Matters arising from our audit

3.14 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 2007 audit.

Early Learning and Child Care Trust Fund

3.15 Last year we reported that we did not feel that the Early Learning and Child Care Trust Fund (ELCC) was a separate entity from the Province for the year ended 31 March 2006. There were no board members, by-laws, or operating principles in place at that time. The three applicants named on the application of incorporation were all staff of the Department of Family and Community Services (FCS).

3.16 At the end of March 2007, three board members were appointed by the Minister of FCS. The by-laws of the board that existed at the time stated that the board will appoint future members from a list of nominations provided to them by FCS. As a result, we feel that this fund was still being controlled by the Province at 31 March 2007.

3.17 We recommended the Office of the Comptroller review and document the structure of such trust funds when they are created to ensure they are outside the provincial reporting entity.

3.18 The Comptroller responded:

> *….. the by-laws for the ELCC Trust Fund have recently been changed, so that future appointees will come from nomination lists provided by existing Board members (two of which are non government), and not from a list provided by the Department of Family and Community Services as had previously been stated.*
>
> *As per your recommendation, my Office will attempt to review and ensure proper documentation of the structure*

of such trust funds when they are created so as to ensure they are outside of the Provincial reporting entity.

3.19 Furthermore, in our opinion, the establishment of and announcements surrounding this $8 million trust have caused confusion. Even though this expenditure was recorded by the Province in the fiscal year ended 31 March 2006, with a June 2006 press release announcing the spending, as at 31 March 2007 the money was still in the Trust's bank account and none of it had been spent on improving child care in New Brunswick. A second announcement was made in June 2007 announcing the "implementation of the $8 million Early Learning and Child Care Trust Fund". This essentially announced the same spending for a second time.

Payment of grants

3.20 Last year we noted that the one-time payment to the universities through Maritime Provinces Higher Education Commission (MPHEC) of $60.0 million was recorded as an expense of the 2005-2006 year. This payment was for use by the universities in the 2006-2007 year. Normal grant payments were suspended in the first few months of 2006-2007 up to this amount. Late in 2006-2007, a further $68.0 million payment was made to MPHEC that was for 2007-2008 operations.

3.21 Payments made late in the year for ongoing programs which are offset by immediate changes in funding in the next fiscal period create confusion in regard to the ongoing level of funding for the program. It appears through the financial statements that funding for universities is fluctuating, when that is not necessarily the case.

Accounting differences with Crown agencies/service provider

3.22 Last year we reported that, during the audit of Provincial Holdings Limited (PHL), 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 (BNB). This year during our audit of PHL we found that a loan had been fully provided in the books of the Province by BNB, but it was not fully provided in the books of PHL.

3.23 During our audit of the student loans receivable, we noted that there were unexplained differences between the amounts recorded by the Province, and the balances reported by the service providers that administer the loans.

3.24 There were also unexplained differences between amounts that were recorded by the Province and those on the financial statements of the Regional Health Authorities.

3.25 We recommended the Office of the Comptroller ensure Departments perform reconciliations each year on a timely basis and discrepancies are investigated and resolved.

3.26 The Comptroller responded:

> *We agree that Departments must perform reconciliations each year on a timely basis. We will make every effort to ensure departmental staff complete these reconciliations by the requested deadlines and ensure discrepancies are investigated and resolved.*

New Brunswick Power Holding Corporation (Holdco) audited financial statements

3.27 Last year we reported that New Brunswick Power Holding Corporation financial statements are required, by legislation, to be submitted to the Minister of Energy by September 30th of each year. This is the same date that the Province's financial statements, which include the results of Holdco, are to be laid before the Legislative Assembly according to the *Fiscal Responsibility and Balanced Budget Act*. We may require audited financial statements for Holdco be presented to us before we can issue an auditor's report on the Province's financial statements.

3.28 We recommended the legislated date of the Holdco financial statements be changed to ensure that we can issue an audit report to meet the September 30th deadline set out in the *Fiscal Responsibility and Balanced Budget Act*.

3.29 The Comptroller responded:

> *In a letter from the Deputy Minister of Finance to the President of the New Brunswick Power Holding Corporation (HOLDCO) it was formally requested that HOLDCO provide its audited financial statements well in advance of the September 30th deadline set out in the* Fiscal Responsibility and Balanced Budget Act. *HOLDCO has agreed to provide the audited financial statements in a timely fashion.*
>
> *It has also been requested that the Department of Energy amend the* Electricity Act *to provide for an earlier*

requirement for HOLDCO to provide their audited financial statements. This request has been agreed to in principle and the Department of Energy will bring this recommendation forward as part of any future amendment to the Electricity Act.

Public Sector Accounting Standards

3.30 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.

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

3.32 The Comptroller responded:

Although we had agreed to include the requested sentence to Note 1 of the financial statements in our response to the 2005-06 management letter, upon further consideration, we noted the need to review the wording of the Financial Administration Act *to ensure that both the Act and the potential change to the financial statement note coincide.*

Actuarial valuations

3.33 Note 14 (a) to the Province's financial statements shows that actuarial valuations for accounting purposes have not been done for the *Members' Superannuation Act* and *Members' Pension Act* since April 1996 and for the Early Retirement/Workforce Adjustment Program since April 1999. As a result, the liability in the financial statements may need to be adjusted.

3.34 We recommended actuarial valuations be done on the pension plans noted above.

3.35 The Comptroller responded:

A valuation is currently in progress for the Early Retirement/Workforce Adjustment program, which should be finished before the 2007-08 financial statements are prepared. As well, a valuation has been completed for the Members' Superannuation Act *and* Members' Pension Act. *This valuation was completed in*

April 2005, but the actuarial valuation date has not been updated in the notes. We will ensure it is updated for the 2007-08 financial statements.

Business continuity plan

3.36 Last year we reported that there was no business continuity plan in place for the financial information system. 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. Without such a plan, there is an increased risk of a disruption of government programs or services in the event of a disaster. It is our understanding that a business continuity plan is now being worked on, but is not complete.

3.37 We recommended the Office of the Comptroller complete the development and documentation of a complete business continuity plan to help ensure that government programs are not seriously affected if an interruption or disaster affects the financial information system.

3.38 The Comptroller responded:

In last year's response to your management letter, I responded that my Office was committed to commence work on the development of a business continuity plan. We have worked on the development of a plan during the 2006-07 year and the project is still in progress. It is an extensive undertaking but we are working on the project with a goal to completing the development and documentation of a business continuity plan.

Metallic mineral tax audits

3.39 Metallic mineral tax audits are not up to date. Returns for the past six years have not been verified for accuracy, therefore adjustments may be required. For the 31 March 2007 year end, this resulted in the Province recording an estimate of metallic mineral tax revenue without having verification of recent tax returns on which to base the estimate.

3.40 We recommended metallic mineral tax audits be performed on a timely basis.

3.41 The Comptroller responded:

This issue is now being addressed as the [Department of Finance] *is carrying out plans to accelerate the completion of audits on the remaining older years while concurrently performing audits as current-year returns are filed. Within two years, the department will have completed all prior year audits.*

Oracle financial information system

Disabling user accounts

3.42 User accounts are not disabled in a timely manner:

- We found 62 user accounts that were not disabled after 90 days of inactivity.
- The number of days that user accounts were inactive ranged from 100 to 2,230 days.
- The average number of days that the 62 user accounts were inactive was 247.

3.43 Failing to disable a user's account increases the risk of unauthorized access to the system and makes it harder to track software licenses.

3.44 In March 2003, the government released "Password Standard for User Accounts" which outlines baseline security for all user accounts. This policy requires that inactive user accounts be disabled after ninety days of inactivity.

3.45 Comptroller's Office staff said that they are aware that they are past due in terminating inactive user accounts. They had started a project in January to review inactive accounts but the project was not completed. Also, disabling user accounts that belong to other departments makes the process more difficult as departments want their users to be left alone.

3.46 We recommended the Office of the Comptroller disable Oracle user accounts that have been inactive for more than ninety days.

3.47 The Comptroller responded:

We have completed two improvements in this area since the time of your audit.

First, we moved all of our Oracle users to Single Sign On in late June 2007. This means that user names in Oracle Financials are now tied to network user names and passwords. When employees leave government or change departments, the network administrators are much more likely to keep their departmental network information up to date. Without a network login, there is no Oracle access.

In addition, we have automated a process that looks at the last date logged in for all users, and automatically end dates them if they have not accessed the system in more than 100 days.

Service requests

3.48 There is also a lack of documentation to support changes made to the Oracle system. In our testing of nine service requests, we found the following:

- six service requests did not have evidence that the Director of Accounting Services authorized the request.
- five service requests did not have evidence of testing.
- seven service requests did not have evidence that the Director of Accounting Services authorized the request to be put into production. However in two of these cases, other members of Accounting Services authorized the requests.

3.49 Lack of documentation to support program changes increases the risk that unauthorized system changes could be made. Also, if untested changes are accidentally put into production, the system could produce inaccurate results or be unable to process information.

3.50 The Office of the Comptroller has a service request policy that requires:

- the Director of Accounting Services to approve all service requests before they are made;
- Accounting Services to sign off on the testing of service requests before they are put into production; and
- the Director of Accounting Services to authorize service requests to be put into production.

3.51 The Director of Accounting Services indicated that she is aware of all system changes as they are discussed in their regular meetings. The errors that we found are more from a lack of documentation than from unauthorized or untested system changes being made.

3.52 We recommended the Office of the Comptroller improve the process for documenting service requests. In particular the Office of the Comptroller should ensure documented evidence exists for all service requests to ensure that they are approved, tested and authorized for production.

3.53 The Comptroller responded:

> *We have enhanced the process since the time of the audit, reminding FIS Support and Accounting Services staff of the need for good documentation and director sign-off before anything goes into production. As well, we are in the process of acquiring some helpdesk software which will be used to not only log help desk calls, but also to document a knowledge base and service requests/ approvals.*

Compliance with PSAB recommendations

3.54 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.

Summary of compliance

3.55 In volume 1 of our 2006 Report, we reported on the Province's compliance with the accounting standards for provincial governments issued by the Public Sector Accounting Board (PSAB). We concluded that the Province had complied with 165 of 187 applicable recommendations for a compliance rate of 88.2%. We also made recommendations that would result in the Province complying with 15 of the 22 PSAB recommendations that they were not complying with. This year we are pleased to report that the Province has implemented many of our recommendations. The following table shows the progress made in the 15 areas:

Complied with in the year ended 31 March 2007	9
Partially complied with in the year ended 31 March 2007	3
Situation did not occur during the year ended 31 March 2007	1
Not complied with in the year ended 31 March 2007	2

3.56 The specific PSAB accounting recommendations under consideration were:

PSAB Reference	2006 Report of the Auditor General Vol. 1 Reference	31 March 2007 Compliance	31 March 2007 Financial Statement Reference
1200.061	2.54	Yes	Note 9
1200.129	2.58	Yes	Statement of Change in Net Debt
2600.48	2.63	Yes	Note 1 (c) Foreign Currency Translation and Risk Management
3030.04	2.67	Yes	Note 6
3050.38	2.79 2.80	No	
3050.54	2.85	Partially	Note 1 (c) Accrual Accounting
3060	2.88	Yes	
3070.56	2.91	N/A	
3070.60	2.99	No	
3100.24	2.103	Partially	Note 5
3230.03	2.107	Yes	Note 1 (c) Sinking Funds
3250.084	2.113	Yes	Note 14 (c) Summary Pension Information
3250.093	2.117	Yes	Note 14 (c) Summary Pension Information
3310.29	2.121	Yes	Note 1 (c) Allowances
3310.31	2.125	Partially	Note 15 (b) New Brunswick Credit Union Deposit Insurance Corporation

3.57 The following table outlines the nine recommendations that the Province agreed with and implemented.

2006 Report of the Auditor General Volume 1 Reference	Recommendation	2007
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.	Yes
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.	Yes

2006 Report of the Auditor General Volume 1 Reference	Recommendation	2007
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.	Yes
2.67	We recommend the Province report the market value of its short term investments.	Yes
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.	Yes
2.107	We recommend the Province include in its notes to the financial statements a brief explanation about how the sinking fund is used to retire funded debt.	Yes
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.	Yes
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.	Yes
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.	Yes

3.58 Recommendation 2.88 did not result in any change to the Province's financial statements. It recommended that 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. It is our understanding that the Province reviewed its possible government partnerships and determined that no change was required.

3.59 The following table outlines the three recommendations that the Province agreed with and partially implemented.

2006 Report of the Auditor General Volume 1 Reference	Recommendation	2007
2.85	We recommend the Province's note on significant accounting policies should include the policy for the recognition of interest revenue.	Partially
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, for example $20 million.	Partially
2.121	We recommend the Province provide a brief description of the general terms and conditions of loans guaranteed under its significant loan guarantee programs.	Partially

3.60 The reasons we concluded that these recommendations have been partially implemented are as follows.

3.61 The new note disclosure on interest revenue contained in note 1 (c) Accrual Accounting, does not indicate under what circumstance interest would cease to be recorded on doubtful interest bearing receivables.

3.62 Note 5 to the 2007 financial statements on Special Purpose Accounts now includes descriptions of two significant special purpose accounts, the CMHC Funding account and the School District Self Sustaining Accounts. However, the description of the CMHC funding account could be improved by more fully explaining the types of programs that fall under the administration of the Social Housing Agreement, and the rate of return that is being earned on the account's $54.1 million in assets.

3.63 Note 15 (b) to the 2007 financial statements on Contingent Liabilities related to the New Brunswick Credit Union Deposit Insurance Corporation has been added. However, there is still no description of the general terms and conditions of the $723.5 million of loan guarantees listed in note 15 (a) Guaranteed Loans.

3.64 The following table outlines the three recommendations that the Province has not implemented; these three recommendations relate to two PSAB recommendations.

2006 Report of the Auditor General Volume 1 Reference	**Recommendation**	**2007**
2.79	We recommend the process for writing off uncollectible accounts receivable be changed to allow departments to write off certain receivables themselves.	No
2.80	We recommend that annually, all loans and other receivables for which there is no realistic prospect of recovery should be written off.	No
2.99	We recommend the Province consider if there are any significant transactions and balances involving government business enterprises and other organizations that are part of the Province's reporting entity and report them in the note to the financial statements on government business enterprises.	No

3.65 We are again recommending that the Province make these changes.

Financial statement discussion and analysis

3.66 The public sector accounting board (PSAB) has established a statement of recommended practice for financial statement discussion and analysis (SORP-1).

3.67 The recommended practices do not form part of generally accepted accounting standards but do offer guidance for governments to better communicate their financial condition and performance to the public.

3.68 The government of New Brunswick does not specifically state that Volume 1 of the Public Accounts includes financial statement discussion and analysis (FSD&A). However, the government does prepare "results for the year" and "major variance analysis" discussions which immediately precede the audited financial statements in Volume 1 of the Public Accounts.

3.69 The Province has made progress in the discussion and analysis of its financial statements that it presents in Volume 1 of the Public Accounts. In 1997, there was no discussion or analysis accompanying the financial statements. The major variance analysis was added to the Public Accounts in 1998. The "results for the year" section was added in the 2004 Public Accounts, and it was expanded in 2005.

3.70 As they appear in the 2007 Public Accounts, the two sections "results for the year" and "major variance analysis" contain some components of PSAB's recommended practices for FSD&A. As the following analysis shows, we believe that further improvements could be made which would further explain and highlight information underlying the Province's financial statements.

Summary

3.71 SORP-1 contains six main recommendations. The following table provides a summary of our assessment of the Province's current financial statement discussion and analysis.

Paragraph	Area	Assessment
.12	Reference to the financial statements	Needs improvement
.14	Government responsibility	Not done
.30 a)	Summary of significant events	Needs improvement
.30 b) i)	Information on risks and uncertainties	Not done
.30 b) ii)	Variance analysis	Needs improvement
.30 b) iii)	Trend analysis	Not done

3.72 We address each of these areas in the remainder of this section.

Reference of the financial statements

3.73 Paragraph .12 of SORP-1 Financial statement discussion and analysis recommends:

> *Financial statement discussion and analysis should be clearly referenced to the related summary financial statements.*

3.74 The Province prepares summary financial information which was taken directly from audited financial statements, and its discussion and analysis immediately precedes the financial statements in Volume 1 of the Public Accounts. However, no clear reference is made to the financial statements.

Government responsibility

3.75 Paragraph .14 of SORP-1 Financial statement discussion and analysis recommends:

> *Financial statement discussion and analysis should include a statement acknowledging the government's responsibility for its preparation.*

3.76 The Province prepares a Statement of Responsibility acknowledging the government's responsibility for the preparation of the financial statements. However, a Statement of responsibility for the preparation of FSD&A is not included in Volume 1 of Public Accounts.

Presentation

Summary of significant events

3.77 Paragraph .30 subsection (a) of SORP-1 Financial statement discussion and analysis recommends:

> *Financial statement discussion and analysis should include:*
>
> *.30 (a) highlights section that provides a brief, concise summary of the significant events affecting the financial statements.*

3.78 The SORP provides a further explanation of the purpose of the highlights section in paragraph .35 which says that "The purpose of the highlights section is not to simply reiterate the information that is presented in the financial statements, but to add value by providing an executive overview of those statements and the significant in-year activities that have affected them."

3.79 The Province presents summary financial information for fiscal year 2006 and 2007 which highlights the financial position of the Province, its Statement of Operations and its Statement of Change in Net Debt. Additionally, a brief explanation of the surplus is included in the General Comments section. However, the Province does not provide a concise summary of other significant events affecting the financial statements.

Information on risks and uncertainties

3.80 Paragraph .30 subsection (b) (i) of SORP-1 Financial statement discussion and analysis recommends:

> *Financial statement discussion and analysis should include:*
>
> *(b) an analysis section that:*

> *(i) includes information on known significant risks and uncertainties inherent in the government's financial position and changes in financial position, and briefly outlines the strategies, policies and techniques adopted to manage those risks and uncertainties;*

3.81 The Province's financial statement discussion and analysis does not provide an identification, description and discussion of risks and uncertainties inherent in the government's financial position and changes in financial position, and it does not explain government's policies to mitigate those risks and uncertainties.

Variance analysis

3.82 Paragraph .30 subsection (b) (ii) of SORP-1 Financial statement discussion and analysis recommends:

> *Financial statement discussion and analysis should include:*
>
> *(b) an analysis section that:*
>
> *(ii) identifies and explains:*
>
> *significant variances between current year actual results and budget;*
>
> *significant variances between current year actual results and prior year actual results; and*
>
> *changes that have occurred but are not readily apparent from the quantitative analysis;*

3.83 The Province provides brief explanations for major budget-to-actual or previous-year-actual-to-current-year-actual variances. However, we believe that a better format could be used to make the explanations more understandable. For example, the explanations could be preceded by a summary table of the variances as follows:

Revenue

2007 Budget to Actual ($ million)				
Item	**Budget**	**Actual**	**Change**	**% change**
Provincial sources				
Taxes	2,879.1	3,120.2	241.1	8.4
Investment income	232.2	308.5	76.3	32.9
Other provincial revenue	276.5	339.1	62.6	22.6
Federal sources				
Fiscal equalization payments	1,432.2	1,450.8	18.6	1.3

Taxes

- Metallic minerals tax is up $112.2 million primarily due to significant increases in world zinc prices, and prior-year adjustments.

- Personal income tax is up $70.4 million and corporate income tax is up $39.2 million both due to positive prior-year adjustments related to the 2005 taxation year.

- Harmonized sales tax is up $57.8 million due to increased federal payments and the elimination of the home energy HST rebate.

- Gasoline and motive fuels tax is $21.1 million lower than budget largely due to a 3.8-cent per litre tax reduction in October 2006.

- Tobacco tax is $11.1 million lower due to lower-than-anticipated volumes.

Investment income

This increase is mainly due to a $64.7 million improvement in net income for the New Brunswick Electric Finance Corporation (NBEFC). NBEFC net income was higher than budget as a result of NB Power experiencing an above-average year in 2006-2007 with warm winter weather, high water levels and increased exports. The above-average results for NB Power more than offset the impact of an 8% cap on electricity rate increases.

Other provincial revenue

This reflects increases in various sales of goods and services and other miscellaneous revenue as well as new public sector accounting guidelines to report the amortization of deferred capital contributions of $23.2 million.

Fiscal equalization payments

This increase reflects the fixed payment announced in the 2006-2007 federal budget.

2006 Actual-to-2007 Actual ($ million)				
Item	**2006 Actual**	**2007 Actual**	**Change**	**% change**
Provincial sources				
Taxes	2,817.6	3,120.2	302.6	10.7
Investment income	409.6	308.5	(101.1)	(24.7)
Other provincial revenue	317.4	339.1	21.7	6.8
Federal sources				
Fiscal equalization payments	1,348.0	1,450.8	102.8	7.6
Unconditional grants	698.2	708.8	10.6	1.5
Conditional grants	324.3	304.6	(19.7)	(6.1)

Taxes

- Personal income tax is up $111.5 million due to prior year adjustments and strong growth in the tax base.

- Corporate income tax is up $67.3 million due to prior year adjustments.

- Metallic minerals tax is up $109.7 million due to significant increases in world zinc prices, and prior-year adjustments.

- The harmonized sales tax has increased by $33.4 million as a result of economic growth.

- Provincial real property tax is $10.5 million higher than the previous year as a result of the growth in the assessment base.

- Gasoline and motive fuels tax is $16.9 million lower than the previous year largely due to a 3.8-cent per litre tax reduction in October 2006

- Tobacco tax is $8.6 million lower due to lower volumes.

Investment income

The reduction is primarily due to a $112.9 million decrease in net income for NBEFC. NBEFC net income was lower than the previous year as a result of the impact of a cap on electricity rate increases in 2006-2007 and an extraordinary fiscal performance for NB Power in 2005-2006.

Other provincial revenue

This reflects increases in various sales of goods and services and other miscellaneous revenue.

Fiscal equalization payments

Due to an increase in the fixed payment to the province.

Unconditional grants

Mainly due to increased federal funding for the Canada Health Transfer and the Canada Social Transfer.

Conditional grants

Mainly due to lower federal funding related to health and education.

3.84 The above information has been taken directly from Volume 1 of the Public Accounts and simply reorganized. We have not attempted to improve the explanations provided. However, we believe that the explanations could be improved. For example the explanation that Other Provincial Revenue in 2007 was higher than in 2006 because of "increases in various sales of goods and services and other miscellaneous revenue" does not really provide the reader with a useful explanation.

Trend analysis

3.85 Paragraph .30 subsection (b) (iii) of SORP-1 Financial statement discussion and analysis recommends:

Financial statement discussion and analysis should include:

(b) an analysis section that:

> *(iii) includes an analysis of significant trends related to financial assets, liabilities, net debt, tangible capital assets, net assets, revenues, expenses / expenditures, net revenues (expenses / expenditures), and cash flows.*

3.86 Paragraphs .53 to .81 further explain what the assessment of trends should include.

3.87 The Province presents net debt and net debt as a percentage of GDP for eight years, as well as the surplus for three years. However, no assessment of other trends is provided. Other ratios and indicators recommended by the CICA are not included.

3.88 We have found examples of other jurisdictions that appear to be presenting a financial statement discussion and analysis that is closer to the practices recommended by PSAB. The 2007 Public Accounts of British Columbia contain a good example of a financial statement discussion and analysis.

PSAB projects in progress

3.89 PSAB is currently working on several projects. We have highlighted four below.

Government transfers

3.90 There is a PSAB Re-exposure Draft dealing with government transfers that was released in April 2007. This Re-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. The recipient records the transfer as revenue unless there is an obligation associated with the transfer. In that instance, the recipient recognizes the transfer as a liability; however, as the terms are met the transfer is recognized as revenue.

3.91 In the re-exposure draft government transfers include monetary assets and tangible capital assets. The transfers can be made to individuals, organizations or other governments. The re-exposure draft states that for the expenditure to be recognized as a transfer the government making the transfer can not:

> *i) receive any goods or services directly in return, as would occur in a purchase/sale or other exchange transaction;*

ii) *expect to be repaid in the future, as would be expected in a loan; or*

iii) *expect a direct financial return, as would be expected in an investment.*

3.92 If PSAB approves the new guidance on transfers, the accounting for some grants in the Province's financial statements will need to change.

Identifying and reporting performance indicators

3.93 In June 2007 PSAB approved the proposal for a project on *Identifying and Reporting Performance Indicators*. The project's objective "…is to provide guidance on the factors to consider for identifying and reporting performance indicators." This direction from PSAB will help enhance and will support the Statement of Recommended Practice (SORP-2), Public Performance Reporting. This guidance will allow performance indicators to be prepared using a consistent approach across governments.

3.94 PSAB expects to have the Final Statement of Recommended Practice (SORP) approved by March 2009.

3.95 We will encourage the Province to adopt the SORP on *Identifying and Reporting Performance Indicators* when it is in place.

Indicators of government financial condition

3.96 In September 2007 PSAB approved a *Statement of Principles for Indicators of Government Financial Condition*. The project's goal is to set a new Statement of Recommended Practice (SORP), which would propose indicators of financial condition for each tier of government.

3.97 A Research Report entitled *Indicators of Government Financial Condition*, was issued by PSAB in 1997 and will be the basis for the new SORP. The report will be used to help identify indicators of financial condition that will provide meaningful and useful information to users in assessing government's performance.

3.98 PSAB expects the Final Statement of Recommended Practice approval in September 2008.

3.99 We will encourage the Province to adopt the SORP on *Indicators of Government Financial Condition* when it is in place.

Segment disclosures

3.100 Government produces consolidated financial statements, which provides information to the public regarding financial affairs and resources of government. At times, it is more useful to separate out key financial information into segments that can be used for decision making purposes and to provide accountability.

3.101 As of April 1, 2007 a new standard on segmented reporting is in effect. This section provides a means for defining, identifying and disclosing segments, which are defined by PS 2700.07 as "distinguishable activity or group of activities of a government…"

3.102 As a result of the new standard we expect to see segment disclosures in the Province's 31 March 2008 financial statements.

Other audit work in departments and Crown agencies

Kings Landing Corporation

New point of sales system (gift store and admissions)

3.103 Kings Landing implemented a new point of sales system at the beginning of the year. We noted some areas of weak controls upon its implementation and throughout the year.

- Upon implementation of the new system, no reconciliation of the new system with the old system was done for inventory.
- Regular reconciliations between the general ledger and the system were not being performed for admissions and gift store revenue throughout the year.
- Cost of goods sold in the general ledger is adjusted using actual inventory counts. Comparisons were not performed between the general ledger balance and the point of sale system balance. Discrepancies of approximately $8,000 were identified during the audit between the two balances. It appeared as though this inventory was missing, and staff was unable to explain the variance. Plausible reasons for the differences were eventually provided by staff. However, there is no evidence that the explanations account for all or most of the discrepancy.
- There is no formal process in place to transfer goods from the gift store to the Grant store.

3.104 These weaknesses increase the risk that Kings Landing does not identify areas of concern on a timely basis and does not take any corrective action to prevent problems from escalating. These weaknesses also increase the risk that fraudulent transactions go without notice by Kings Landing staff.

3.105 We recommended Kings Landing reconcile the point of sales system with the general ledger at least at the end of every month and any differences between the two systems be investigated immediately.

3.106 We also recommended a more formalized process be established in recording items taken from the gift store and transferred to other areas on site in order to ensure that proper sales are being recorded and that inventory is properly controlled.

3.107 The Board responded:

> *The recommendation of reconciling the point of sale system with the general ledger at the end of every month and investigating differences has been implemented. As well, a more formalized process of transferring items from one retail outlet to another has been put into effect. The items are recorded in the computer and these purchase orders are tallied and a journal entry completed to move the items from one retail area to another. Gross profit calculations are being prepared and reviewed monthly against budget and the previous month to ensure the retail area is on track.*

Increased costs of food items

3.108 During our audit it came to our attention that Kings Landing had a significant increase in the cost of their food items. Kings Landing staff were unable to explain this increase to us and the increase did not appear to be in line with an increase in sales. It should also be noted that Kings Landing charges the same amount for a dinner regardless of the type of food ordered, despite there being a significant difference in the costs of the various items.

3.109 We recommended Kings Landing perform a detailed gross profit analysis on a monthly basis in order to ensure that issues are addressed on a timely basis.

3.110 We also recommended a detailed costing analysis be done to help Kings Landing determine the appropriate costs for their various dinners.

3.111 The Board responded:

> *…… we have implemented the recommendations of performing detailed gross profit analysis monthly, have*

developed forms that are easier for recording the inventory, and data entry of the inventory items and tabulation of the COGS is done in a more timely fashion at the end of each month. The itemized data will be used to check variances against budget and running averages. In addition, Kings Landing has sought the assistance of industry experts to assist in determining theoretical food cost versus actual food cost such that we can analyze the difference and determine why and where the variance occurred. The staff have been retrained in utilizing the waste forms, recording spoilage and we are monitoring portions and have tightened portion controls at the various food outlets. As well, Kings Landing is calculating gross profit at the restaurants on a monthly basis.

Calculation of HST

3.112 During our audit we noticed several instances where Kings Landing was not properly recording HST on purchases. This oversight by Kings Landing staff resulted in them not receiving back the full amount of HST that they were eligible to receive.

3.113 We recommended Kings Landing staff abide by the CRA rules for claiming HST and take a more diligent approach to ensuring that invoices are properly coded for HST.

3.114 The Board responded:

….. Accounts Payable will be more diligent in checking invoices to ensure the HST has been coded properly.

New Brunswick Credit Union Deposit Insurance Corporation

Deposit Insurance Fund

3.115 The method of calculating the level of net assets to be maintained in the deposit insurance fund is determined using an adaptation of a model created by the Canadian Deposit Insurance Corporation. The adapted model accepted by the Board at the inception of the fund does not consider credit unions in unusually high risk situations. The current methodology creates a general allowance for payout of deposit insurance as opposed to a specific allowance for credit unions presenting an unusually high risk situation.

3.116 We recommended the Corporation revisit the methodology used to calculate the level of net assets to be maintained in the Deposit Insurance Fund.

3.117 The Board responded:

The Board identified the need to review guiding principles for the credit union deposit trust fund methodology and fund formula for calculating credit union assessments in its 2006 planning session. As a result of this exercise, the Board has recognized the need to engage an expert to complete a review of the trust fund methodology and fund formula and is in the process of doing so. The Board has established the goal of modernizing the trust fund methodology and fund formula to address the concerns identified in its 2006 planning session and audit.

Audit committee

3.118 Part II Section 23 (1) of the Corporation's By-laws indicates that "*The Board may establish a committee being the Audit Committee composed of*

(a) The Chairperson; and

(b) Two directors referred to in paragraph 4(b)."

3.119 Section 23 (2) requires *"The Chairperson of the Audit Committee shall be a director, other than the Chairperson, named by the Board."*

3.120 The audit committee provides independent oversight into the Corporation's accounting and financial reporting and oversees the Corporation's annual audits. The audit committee may oversee a broad range of areas under the blanket of this primary purpose. These areas include:

- governance;
- ethics;
- adequacy of internal controls;
- accuracy of records and reports presented to the board of directors;
- proper authorization of activities and expenditures; and
- protection of employees raising concerns about serious accounting or auditing irregularities.

3.121 We recommended the Board establish an Audit Committee.

3.122 The Board responded:

The Board recognizes the value of establishing an audit committee that would oversee the Corporation's *accounting and financial reporting, annual audits, and other important governance issues. The Board plans to establish an audit committee in the next year in response to your management letter recommendation.*

Income tax issues

3.123 Investment income earned on the Deposit Insurance Fund has been distributed to the Office de Stabilisation de la Fédération des Caisses Populaires Acadiennes Limitée (l'Office) and Brunswick Credit Union Federation Stabilization Board Limited (BCUFSBL). We found during our audit that L'Office has been filing the appropriate tax returns while BCUFSBL filed up to 2004 but neglected to file for the 2005 and 2006 taxation years.

3.124 We recommended the Corporation consult with a tax specialist to determine the position of the Corporation should the requirements of the Income Tax Act not be complied with.

3.125 The Board responded:

….. the Corporation has to date identified a number of tax issues which it intends to address going forward with the assistance of tax experts. This will address the tax concerns you have raised.

New Brunswick Electric Finance Corporation

Payments in lieu of taxes

3.126 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 to 2007 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*.

3.127 It is our understanding, based on correspondence received from the Corporation, that the Corporation is "seeking amendments to Section 37 of the *Electricity Act* in order to ensure full compliance with the Act regarding the calculation of special payments." Nevertheless, for the year ended 31 March 2007, NBEFC is still not in compliance with the *Electricity Act* with respect to the method of calculating special payments in lieu of taxes.

New Brunswick Research and Productivity Council

Audit committee

3.128 A key responsibility of the Board of Directors is to ensure the integrity of the Council's internal control and management information systems. This responsibility has also been described as a board's stewardship responsibility.

3.129 In order to act as good stewards, the board needs to assure themselves that management controls effectively reduce key risks to an acceptable level. They must also assure themselves that the management information systems that produce the information on which they base their decisions are reliable. Finally, they must assure themselves that the third-party information and assurances on which they are relying are truly being developed independent of management.

3.130 A tool used by many boards of directors in both the public and private sectors is the audit committee. In fact, the federal *Financial Administration Act* requires that most federal Crown agencies have an audit committee. Also, TSX listing standards require that all publicly-traded companies have an audit committee in place, and further that all members of that committee be "financially literate." An audit committee allows for a more in-depth review of the effectiveness of controls in place than is possible at meetings of the full board.

3.131 Consequently, we recommended the RPC Board of Directors establish an audit committee to provide additional focus on the boards' stewardship role.

3.132 The board responded:

> *… this will be discussed by the Board at our January meeting.*

Transfers to the capital fund

3.133 A transfer from the operating fund to the capital fund of $1,450,000 was approved by the board in June 2007 and recorded in the financial statements for the period ending 31 March 2007. Transfers for accounting purposes should be recorded in the year they are approved by the board.

3.134 We recommended that transfers between funds be recorded in the year they are approved by the board.

3.135 The board responded:

> *… we will revise the approval process or timing to accommodate your concern.*

Pre-signing of cheques

3.136 It came to our attention that cheques were on occasion being pre-signed. This represents a significant weakness in control over disbursements.

3.137 We recommended all cheques be signed after they are printed and appropriate supporting documents have been reviewed.

3.138 The board responded:

> *… this will be the practice for all checks in the future.*

Premier's Council on the Status of Disabled Persons

HST recoveries on behalf of Disability Awareness Week

3.139 The Council has significant involvement in the organization of the annual Disability Awareness Week. As part of this involvement the Council pays invoices for some DAW activities. The HST portion of these invoices is included as part of the Council's HST rebate claim from the Canada Revenue Agency (CRA). The overall result of this is that DAW receives back 100% of the HST it paid. While the Council is entitled to a rebate of 100% of its HST paid because of its status as a Crown agency, DAW is separate from the Council and so would not be entitled to a 100% rebate. While we recognize that this arrangement provides more funding to DAW, we are concerned that the Council may not be in compliance with the HST rebate rules as established by CRA.

3.140 We recommended the Council discuss the appropriateness of including amounts on behalf of DAW in the HST rebate claims with the provincial Department of Finance and with the Canada Revenue Agency.

Losses through fraud, default or mistake

3.141 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.

3.142 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 in various school districts and head office	$16,434
Department of Natural Resources	
• Missing equipment and supplies in various regions	$14,478
Department of Post-Secondary Education, Training and Labour	
• Missing equipment in various community colleges	$11,790

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

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

3.145 In 2007, the Province reported lost tangible public assets in the amount of $64,500 compared to a loss of $105,600 reported in 2006.

Chapter 4
Matters Arising from Our Information System Audits

Contents

Department of Finance - Property Tax 100
Department of Family and Community Services - Social Assistance Payments 128

Matters Arising from Our Information System Audits

Overview

Introduction

As part of our audit of the Province, we document and test controls in significant information systems. Each year, we test controls and make recommendations if we believe controls should be improved. This chapter reports our findings on those systems where we recommended changes to departments.

In this chapter

This chapter contains the results of the following audits:

Audit	See section
Department of Finance – Property Tax	A
Department of Family and Community Services – Social Assistance Payments	B

Section A

Department of Finance

Property Tax

Overview

Introduction

The purpose of this section is to discuss our findings from the property tax audit and to make recommendations. We did this work in the Fall and Winter of 2006/2007.

In this section

This section contains the following parts:

Part	Topic	Page
A	Background, Objective and Scope	101
B	Department Risks	106
C	General Computer Controls	111
D	Internal Controls	116
E	Accounting Concerns	123

Part A

Background, Objective and Scope

Overview

Introduction

The purpose of this part is to provide background information for property tax and to explain the objective and scope of our work.

Contents

This part contains the following topics:

Topic	See Page
Background	102
Objective and Scope	105

Background

Property Tax Revenue

Property tax is a significant revenue source for the Province of New Brunswick. It accounts for approximately 8.7% of the total revenue from provincial sources.

Trends in Property Tax Revenue and Account Receivable

The following table shows, for the last five years, property tax revenue, property tax receivable at year end and the receivable at year end less the current year revenue. The last column would be approximately equal to the amount of receivables in arrears.

Year	Provincial Property Tax Revenue	Property Tax Receivable 31 March	Receivable Excluding Current Year Revenue
2002	$ 278.3	$ 358.6	$ 80.3
2003	283.2	372.9	89.7
2004	289.8	382.6	92.8
2005	320.9	393.8	72.9
2006	331.7	386.2	54.5

- Figures, in millions of dollars, are from the financial information system.
- Revenue figures do not include municipal property tax, interest or discounts.

Property Tax Billing Information

The following points contain information about property tax billing.

- Provincial property tax is billed yearly on March 1 and is based on a calendar year, with the exception of utility property taxes billed in April.
- As of March 31, the value of property tax accounts receivable is high as the majority of tax bills for the current billing year have not been paid.
- The residential provincial tax rate is $1.50 per $100 of assessed valuation.
- The non-residential provincial tax rate is $2.25 per $100 of assessed valuation.
- The provincial rate of $1.50 per $100 of assessed valuation does not apply to that portion of residential property identified as owner-occupied.

Continued on next page

Background, Continued

Responsibility for Property Tax

The Revenue and Taxation Division in the Department of Finance is responsible for administering property tax revenue and the related accounts receivable.

Account Management is a section in the Revenue and Taxation Division. This section, at the time of our audit, was made up of two units:
- Tax Accounting and Refunds; and
- Accounts Receivable.

Responsibilities of the Account Management Section

Based on our reading of the Department's annual report for 2006, we determined that some of the key property taxation responsibilities of the Account Management section are:
- issuing annual property assessments and tax notices and supplementary notices,
- processing property tax payments and reports,
- monitoring and collecting outstanding receivables for property taxes,
- providing accounting functions related to revenue and receivables,
- carrying out enforced collection procedures, where required, and
- processing property tax refunds.

Responsibilities of Service New Brunswick

From our reading of the Service New Brunswick (SNB) annual report, we determined that SNB is responsible for identifying and assessing all land, buildings and associated improvements for property taxation purposes. SNB is also responsible for the assessment referrals and appeals process and it operates service centers where taxpayers can pay their property tax bills.

We carried out an extensive review of SNB assessments in our Auditor General Report – Volume 1, 2005, Chapter 3.

Continued on next page

Background, Continued

Property Tax System

The Property Assessment and Tax System (PATS) is the computer application used by Finance and SNB to house property assessment and financial information, and process property taxes. Finance and SNB are joint owners of the system.

Some of the main functions of PATS are to determine assessments, produce bills, apply payments and track accounts receivable.

The system was implemented in December 1983 and runs on the government's mainframe computer which is housed in the Marysville Data Center and run by Aliant.

The system is divided into three parts – programs that are owned by Finance, programs that are owned by SNB and programs that are co-owned by both entities.

Changes to the application are made by programmers in the Department of Supply and Services (Supply and Services). Approval for program changes is given by Finance, SNB or both depending on the programs that require changes.

Municipal Property Taxes

The annual property tax bill is called an "Assessment and Tax Notice". The notice includes municipal, as well as provincial property taxes. Municipal property tax is based on:

- SNB assessments, and
- municipal rates which are determined by municipalities, approved by the Department of Local Government and provided to Finance by the last week of January.

Finance is responsible for collecting municipal taxes. It assumes all risk associated with the collection of these taxes, excluding federally owned properties.

Provincial revenue does not include municipal property tax revenue. Finance is only acting as a collection agent for the municipalities.

Provincial receivables do not include the current year's municipal tax receivable. However, provincial receivables do include the amount of municipal receivables owing from previous years.

Objective and Scope

Objective

The objective of our audit was to document and test internal controls for property tax.

Why Property Tax

We selected property tax for audit because of the following reasons:
- Property tax revenue is a significant revenue source for the Province.
- The property tax system is a major computer system for the government and was next in our rotational IT system audit plan.
- The Canadian Institute of Chartered Accountants released new standards that require us to document internal controls for major systems. We had not updated our control documentation for the Property Assessment and Tax system for a number of years.

What We Audited

We interviewed staff in the Account Management section in the Department of Finance. We also spoke with staff at SNB, Supply and Services and Aliant.

Our work included a review of the following areas:
- cash collection process at Finance,
- annual billing process,
- accounts receivable collection procedures,
- revenue and receivable reconciliations to Provincial general ledger, and
- general computer controls.

What We Did NOT Audit

We did not audit:
- municipal property taxes
- cash collection procedures at SNB, or
- property assessments, referrals or appeals process at SNB.

We reported on SNB assessments in our Auditor General Report – Volume 1, 2005, Chapter 3.

Part B

Department Risks

Overview

Introduction

The purpose of this part is to discuss our findings that relate to departmental risks that we identified during our audit.

Contents

This part contains the following topics:

Topic	See Page
Replacing the PAT System	107
Succession planning	109

Replacing the PAT System

Issue

The PAT system is very old and is a business risk for the Department if it is not replaced.

Findings

We make the following observations from our discussions with staff at Finance, SNB and Supply and Services.

- A number of staff were concerned that the PAT system was 24 years old, and written in an out-dated programming language.
- The lead programmer, contracted by the Department of Supply and Services, is nearing retirement age. Another younger programmer does work on the system and is familiar with the programs.
- Over the years, extensive changes were made to the system. Because of this, when a change is made it affects many programs and requires extensive testing to ensure all affected areas are working properly.
- The staff at Finance with the most knowledge of the system are at, or nearing, retirement age. If these individuals retire, Finance may not be able to effectively and efficiently manage changes.
- In 2002/2003, Finance identified the need for a new system and issued requests for information. The “project” never reached the request for proposal stage and no work has been done on this initiative in the last three years. We were not given a reason for the project’s delay.
- SNB is proceeding on its own and developing a new system. It could be more costly if both Finance and SNB developed their own systems than if they developed a system together.
- With the current system, a large number of manual calculations are required when changes to an account are made. These manual calculations can be complex, time consuming and subject to error.

Continued on next page

Replacing the PAT System, Continued

Implication

The implications of not replacing the PAT system are listed below.

- Because of the age of the system and the out-dated programming language, the risk increases that the Department may not be able to make all of the necessary system changes.
- If key staff retire, the loss of knowledge could impact the Department's ability to make error-free changes to the system.
- We were told that it could take a minimum of two years to implement a new system. With the potential retirement of staff, key knowledge necessary in creating a new system may not be available.
- As other departments' applications are removed from the mainframe, the cost of operating the PAT system could increase.

We Recommended

We recommended Finance develop and implement an action plan to deal with the risks associated with the age of the PAT system.

Departmental Response

Although the PATS (Property Assessment and Taxation System) was implemented in 1983, it has proven to be extremely stable and reliable and continues to meet the needs of the department. Since it was implemented, numerous enhancements have been made to the system in order to stay current with business requirements and critical deadlines for implementing business changes have always been met. The department, along with Service New Brunswick, Assessment Services, with whom the system is shared, has from time to time explored the acquisition of a new assessment and taxation system as a means of achieving greater functionality and improved service to the public. While the department will continue to assess business opportunities to replace PATS, there are no immediate plans to do so; however, steps will be taken to ensure that sufficient documentation on PATS is maintained. The department is aware that SNB is contemplating the movement of the assessment component of PATS to newer technology, but is assured that any changes would ensure a continuous and seamless integration with the taxation function.

Succession Planning

Issue

Finance faces a major loss of corporate memory over the next few years.

Findings

From our discussions with staff at the Department, we make the following observations.

- Key staff in the Account Management section are at, or nearing, retirement age.
- Up-to-date documented procedures need to be developed relating to accounts receivable collection, year-end accounting procedures, manual property tax adjustments, etc in order for new staff to be able to function if key staff retire.
- Staff indicated that there would be a big learning curve for those left behind if these staff members retired.
- The director of the Account Management section has a lot of knowledge relating to the PAT system. This person is the key person responsible for testing PATS programming changes, testing and monitoring the annual billing process. A plan should be in place as to how this knowledge will be passed on to other staff.

Implication

Finance faces loss of corporate memory when key staff retire. The Department is at risk of not being able to efficiently and effectively continue its operations unless it deals appropriately with this issue.

Department Comments

The following points were noted in our discussions with management.

- They are aware of this risk to corporate memory.
- They have started looking into succession planning.
- They hope to have a new system in place before the Director of the Account Management section retires. However, as mentioned above, progress has stalled in the system development process.
- They recognize the need for documentation and have started looking at what processes need to be documented.

We Recommended

We recommended the Department continue to develop and document a succession plan to address human resource needs for the Account Management section.

Continued on next page

Succession Planning, Continued

Departmental Response

The department agrees with the recommendation and will continue its efforts along this path with a goal of having a succession plan for this work unit finalized in 2008.

Part C

General Computer Controls

Overview

Introduction

The purpose of this part is to discuss our findings and recommendations for the property tax system general computer controls.

Contents

This part contains the following topics:

Topic	See Page
Implementing System Program Changes	112
Termination of User Accounts	113
Business Continuity and Recovery Plans	114

Implementing System Program Changes

Issue	Unauthorized program changes could be made to the PAT system.
Findings	The following findings result from our work on program changes. • Property tax programmers at Supply and Services authorize program changes into production. The programmers contact staff at the Data Centre instructing them to release programs to the production environment. • Because programmers can release changes to production, we have no way to ensure that the list of changes made to the PAT system during the year is complete. • We selected a sample of program changes from the provided list and ensured that Finance approved and tested the changes. We saw evidence that Finance staff authorized the programmer to release the changes to production.
Implications	Allowing programmers to authorize program changes to production increases the risk of unauthorized changes to the PAT system. Errors in processing could occur if unauthorized and untested system changes are made.
Department Comments	The Department agreed that it would not know if a programmer implemented an unauthorized change as departmental staff do not contact the Data Centre to authorize them to put program changes into production.
We Recommended	We recommended Department of Finance staff authorize the release of program changes to production by instructing the Data Centre staff to only make changes that are approved by the Department of Finance.
Departmental Response	All changes to the PATS must be signed-off by the system owner prior to the changes being moved to production. The sign-off is sent to the programmer responsible for the change and maintained on file as evidence that authority was given. Although the Data Center staff would not be able to determine whether the change requested was the actual change being implemented, the department will direct that a copy of the system owner’s sign-off accompany the request to move the changes into production.

Termination of User Accounts

Issue

Inactive user accounts are not being disabled.

Findings

The following findings result from our work on user accounts.

- We found 20 users who had not logged into the system within 90 days and who were no longer employees with the Revenue and Taxation Division in Finance.
- Five of these accounts were locked which means their passwords would need to be reset before they could access the system.
- The remaining 15 users could access the system, if they remembered their password and if they had the software needed to access the system.

Implication

The risk of unauthorized system access increases if user accounts are not disabled or terminated when employees leave their job function.

GNB Password Standard

In March 2003, the Government of New Brunswick released "Password Standard for User Accounts" which outlines baseline security for all user accounts.

These standards require user accounts be automatically disabled after 90 days of inactivity and that user accounts be immediately disabled when an employee changes job function.

Because of a grandfather exemption, the Property Tax system does not have to comply with these standards. However, we believe the recommendations proposed by the standards represent good access controls for all systems.

We Recommended

We recommended the Department disable user accounts immediately if employees change job functions and after 90 days of inactivity.

Departmental Response

The department agrees that user privileges should be terminated immediately for employees leaving the department or changing job functions where access will no longer be required. Appropriate measures will be taken to ensure that this happens. The department will develop rules around the appropriate time span after which a password will be disabled for non-use of the system. There are some users within the department that would not require access to the PATS on a regular basis, but do require access. The suggested 90 days may or may not be the appropriate duration.

Business Continuity and Recovery Plans

Issue

A completed business continuity plan and a recovery plan does not exist for the property tax system.

Background

Business Continuity Plan (BCP)
A BCP is important as it identifies critical business processes and establishes the information and resources that are needed to ensure that these processes continue to operate in the event of a disruption in service.

A BCP should incorporate components such as:
- a business impact analysis,
- human resource needs,
- a backup and offsite storage program, and
- emergency response procedures.

Recovery Plan
A subset of a BCP is a recovery plan. This plan focuses on the recovery of the computer environment needed to support the critical business processes if a disruption should occur.

A recovery plan should include components such as:
- information technology processing resources; and
- procedures, manuals and other hard copy documents that are required for the resumption of business applications.

Findings

The following findings result from our work on business continuity and recovery plans.
- The Department is working on a BCP for a pandemic influenza. It is a draft plan and the information technology section has not been completed.
- A BCP did exist for Y2K, but it has not been updated since 1999.
- Various backup procedures are in place to protect the information stored on the mainframe.
- Discussion with staff at Finance and at Supply and Services indicates that there is no disaster recovery plan for applications that operate on the mainframe.
- The Government has not contracted disaster recovery services as part of the contract with Aliant. The contract contains only a best efforts provision in the event of a disaster.

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Business Continuity and Recovery Plans, Continued

Implication

Not having documented business continuity and disaster recovery plans increases the risk that critical systems may not continue to operate if a disaster was to occur.

Department Comments

The Department is working on completing the plan for the pandemic influenza. It believes Supply and Services is responsible for completing the IT section of the plan.

The Department plans to update the Y2K plan as resources become available.

We Recommended

We recommended the Department update and complete its business continuity plans which will help ensure the needs of the government are met in the event of a disaster or disruption of service. This would include completing the IT section of the plan.

We recommended the business continuity plan incorporate, if feasible, a tested information technology recovery plan for the PAT system.

We recommended the business continuity plan be reviewed and updated periodically to ensure it reflects changes in infrastructure and the organization.

Departmental Response

The department agrees with the [first] recommendation and steps will be taken to complete the business continuity plan over the course of the coming year.

The department agrees with the [second] recommendation and will ensure that the Information Management and Technology Branch of the department works with Corporate Information Management Services to finalize the business continuity plan for PATS within the next year.

The department agrees with this [third] recommendation.

Part D

Internal Controls

Overview

Introduction

The purpose of this part is to document our findings and recommendations relating to the internal controls associated with property tax.

Contents

This part contains the following topics:

Topic	See Page
Completeness of Property Tax Bills	117
Documenting Year-End Accounting Procedures	118
Accounts Receivable Collection Policy	119
Data Entry of Tax Rates	120
Reconciliation of Suspense Accounts	121

Completeness of Property Tax Bills

Issue

Finance does not calculate the expected number of "Assessment and Tax Notices" to compare to the actual number of "Assessment and Tax Notices" produced.

Findings

We noted the following information during our audit.

- Finance has some controls in place to ensure the completeness of the "Assessment and Tax Notices". However, we believe these controls should be improved.
- For example:
  - Finance staff ensure that all "Assessment and Tax Notices" produced are mailed to the taxpayers. We believe this is a good control.
  - Finance staff ensure that the number of "Assessment and Tax Notices" produced is reasonable. We believe this control should be improved.
- Rather than ensuring the number of "Assessment and Tax Notices" are reasonable, we believe staff should ensure the number of "Assessment and Tax Notices" are correct.
- This could be done if, before they run the tax roll, staff determined the number of "Assessment and Tax Notices" that should be produced based on the number of assessed properties recorded in the system.
- After the tax roll is run, staff should reconcile the expected number of notices to the actual number of notices produced. This would ensure an "Assessment and Tax Notice" is produced for all assessed properties.

Implications

The risk of not collecting all taxes increases, if the Department does not ensure an "Assessment and Tax Notice" is produced for all assessed properties.

We Recommended

We recommended the Department ensure the completeness of the "Assessment of Tax Notices" by predetermining the number of notices that should be produced and agreeing this number to the actual number produced.

Departmental Response

The department matches the number of notices that the PATS indicates is to be produced with the number actually issued. As this report is produced from the PATS at the time the notices are to be prepared, the department believes this to be an adequate verification procedure.

Documenting Year-End Accounting Procedures

Issue

Year-end procedures are not completely documented.

Findings

We noted the following information during our audit.

- The Director of the Account Management section asked her staff to document year-end accounting procedures.
- The manager of the Tax Accounting and Refunds unit began work on this initiative but has yet to complete this task.
- The manager of the Tax Accounting and Refunds unit is responsible for preparing all year-end accounting entries with the assistance of a financial analyst. We found that the financial analyst requires more cross-training in the preparation the property tax entries. Documented procedures would be helpful in the event that this individual was required to prepare the year-end entries for property tax and to increase the analyst's knowledge in the area.
- Some staff were not clear on the use of the Property Tax Reserve account and the Property Tax Provision account as the purpose of the accounts has changed over the years.

Implications

The lack of documented year end procedures results in:

- increased risk of error in the financial records,
- increased risk of corporate memory loss should key staff not be available,
- a lack of understanding of the "why" of accounting adjustments,
- increased difficulty for staff to efficiently and effectively complete accounting adjustments,
- increased audit time for both external and internal auditors, and
- decreased consistency in carrying out year-end procedures thereby weakening control.

We Recommended

We recommended the Department complete its documentation of year-end accounting procedures. The Department should ensure that the rationale for the adjustments is included in the documentation.

Departmental Response

The department recognizes the need for documented year-end accounting procedures. Work had commenced on this requirement prior to the recommendation being made with a goal to have the necessary documentation completed in time for the 2007-2008 year-end closing process.

Accounts Receivable Collection Policy

Issue

The accounts receivable collection policy is out-of-date and needs to be updated.

Findings

We noted the following observations from our work on accounts receivable collections.

- The accounts receivable collection policy has not been updated since November 1994.
- We recommended in 2002 that the Department review its policies in regards to the timing of client contacts.
- The Department responded that it is in the process of updating its collection procedures with a stronger focus on aging, dollar value and ratio of balance due to assessed value.
- From our discussions with staff, we believe they are working on a new process for collecting receivables. However, the documentation on the process is not yet complete.

Implications

Because the Department does not have an up-to-date documented collection policy:

- collection officers may not be consistent in their collection procedures, and
- a loss of corporate memory could result because key staff of the Accounts Receivable unit are at retirement age.

We Recommended

We recommended the Department update its collection policy to help ensure consistency in the collection process and that corporate memory is appropriately documented before key staff retire.

Departmental response

The department recognizes the need for maintaining up to date documentation of its collection policies and procedures. This work was in process prior to the audit and will continue to completion, which is planned to be by June 30, 2008.

Data Entry of Tax Rates

Issue

Tax rates are not verified by two employees who are independent of the data entry process.

Findings

The following findings result from our work on data entry of tax rates.

- The manager of the Accounts Receivable unit enters municipal tax rates, which he receives from the Department of Local Government, into the PAT system.
- A tax rate report is printed. The manager and one of his staff members reconcile the tax rates on the report to the rates provided by Local Government to ensure they were entered accurately.
- In the past, this reconciliation was performed by two individuals independent from the data entry process. However, over time this process changed, so that only the manager and one other person reconciles the rates.
- Given the importance of having the correct rates entered into the system when the "Assessment and Tax Notices" are run, we believe an independent review of the tax rates should be performed.

Implication

By not having two independent individuals verifying tax rates, the risk of a data input error increases – the individual who enters the rates could make the same mistake twice.

We Recommended

We recommended the Department have two individuals independent from the data entry of tax rates verify the accuracy of the tax rates input into the system.

Departmental Response

The department agrees with this recommendation and will take steps to ensure that independent verification is made of the tax rates input into the system during the 2008 billing process.

Reconciliation of Suspense Accounts

Issue

Cash suspense accounts are not being reconciled on a monthly basis.

Background

Cash suspense accounts are used by the Department as an intermediary step in the recording of cash receipts.

When cash is received, the suspense account is credited. When payments are posted to the accounts receivable balances, the suspense account is debited.

In theory, the balance in the account should be zero. However, because of timing differences in the above process, this is never the case.

At year end, the balance in the account is applied against the accounts receivable balance.

Findings

The following findings result from our work on cash suspense accounts.

- We found that the cash suspense accounts were not being reconciled each month.
- A new staff member was assigned this responsibility but was unsure how to reconcile the ledger accounts, although staff was reconciling the daily cash receipts to the payment files received.
- Also, no one was reviewing the reconciliations to ensure they were completed on time.

Implication

Not reconciling the cash suspense accounts increases the risk of undetected errors in the cash receipts process. Undetected errors would be carried forward from year-to-year.

We Recommended

We made the following recommendations relating to cash suspense accounts.

- We recommended the Department reconcile all cash suspense accounts on a monthly basis.
- We recommended the Department document the procedures that staff should follow to reconcile the cash suspense accounts.
- We recommended someone review the reconciliations to ensure they are completed properly and in a timely manner.

Continued on next page

Reconciliation of Suspense Accounts, Continued

Departmental Response

Although cash receipts are normally balanced on a daily basis, which makes the timeliness of the monthly reconciliations less critical, the department accepts that the reconciliations should be completed on a monthly basis and will take steps to ensure this is done.

The department agrees with this [second] recommendation and will complete the documentation of these procedures within the next six months.

The department agrees with this [third] recommendation and a process covering this review will be included in the documentation of the reconciliation procedures noted above.

Part E

Accounting Concerns

Overview

Introduction

The purpose of this part is to document our findings and make recommendations relating to accounting concerns that we found during audit of property tax.

Contents

This part contains the following topics:

Topic	See Page
Accounts Receivable Balance is Understated	124
Write-off of Uncollectible Accounts Receivable	125
Accounts Receivable from Provincial Departments	127

Accounts Receivable Balance is Understated

Issue

The amount of accounts receivable associated with the current year municipal taxes are not shown on the Province's financial statements.

Findings

We make the following observations relating to municipal accounts receivable.

- As mentioned in the background, Finance is responsible for collecting municipal taxes. It assumes all the collection risk associated with these taxes.
- Provincial receivables disclosed on the financial statements do not include the current year's municipal tax receivable. However, provincial receivables do include the amount of municipal receivables owing from previous years.
- If the Province assumes the collection risk, it should disclose the receivable balance associated with the accounts it will be collecting.
- The amount of municipal receivables is approximately $386 million. On the financial statements, this amount is netted against a corresponding payable to the municipalities. Neither the receivable nor the payable are disclosed in the financial statements.

Implication

The accounts receivable balance reported in Public Accounts is understated by the amount of the municipal receivable by approximately $386 million. Even if this amount is substantially "netted" by the offsetting payable, it could impact debt covenants or other indicators used by the readers of the financial statements.

We Recommended

The Province should ensure the balance of the current year municipal receivable is reflected in the year-end receivable balance.

Departmental Response

The department views this recommendation as relating to Financial Statement disclosure and, as such, will refer this recommendation to the Office of the Comptroller for appropriate response.

Write-off of Uncollectible Accounts Receivable

Issue

Uncollectible accounts receivable are not written off in a timely manner.

Findings

We make the following observations relating to the write-off of receivables.

- In our 2002 Auditor General's Report, we noted a problem with write-offs of uncollectible accounts. The Department indicated that it would submit future requests for write-off approval in a timely manner.
- As of May 2007, 589 property tax accounts totaling $1.2 million had been marked for write-off by the Department.
- Based on our sample, many of these accounts have been flagged for write-off five or more years ago.
- Discussion with staff at Finance indicated that the process for writing off accounts is very time consuming. See a description of the process below.
- We agree with this statement but believe that Finance should try to write off these old accounts. This would help to ensure that the receivables shown on the Province's books are only those amounts which are collectible.

Process to Write off Receivables

To write off accounts receivable in excess of one hundred dollars, the *Financial Administration Act* requires departments to follow the procedures listed below.

- If the department determines an account to be uncollectible, the department shall send to the Office of the Comptroller a Memorandum to the Board of Management.
- The Memorandum to the Board of Management shall contain the following information:
  - a recommendation approved by the Minister or Deputy Minister that the asset be wholly or partially deleted;
  - a statement saying what steps had been taken to collect the account; and
  - a statement saying what financial effect this deletion will have on the Province's accounts.
- The Office of the Comptroller will forward the Memorandum to the Board along with the Comptroller's recommendation.
- Where the Board is satisfied that the deletion is appropriate, the Board may direct that the asset be deleted either in whole or in part from the accounts of the Province.

For accounts receivable of one hundred dollars or less, a similar process is followed. The main difference is that the Secretary of the Board may direct that the asset be deleted – full Board approval is not required.

Continued on next page

Write-off of Uncollectible Accounts Receivable, Continued

Implication

Retaining uncollectible accounts on the active listing can interfere with the active management of the accounts that can still be collected.

We Recommended

We recommended the Department promptly write off old receivables when it is deemed that they will not be collected.

Departmental Response

The department agrees with the recommendation and attempts will be made to have all accounts designated for write-off presented to Board of Management for approval within the next six months.

Accounts Receivable from Provincial Departments

Issue

The aged accounts receivable listing for property tax contains accounts for Provincial departments.

Findings

From our review of the aged accounts receivable listing, we determined that 230 accounts totaling $1.9 million relate to Provincial departments.

The table below lists the departments owing property tax, the number of accounts and the total amount owing.

Department	Number of Accounts	Amount Owing
Natural Resources	146	$1,198,527
Transportation	33	92,921
Agriculture, Fisheries and Aquaculture	30	7,011
Supply and Services	8	129,410
Finance	7	27,795
Tourism and Parks	2	256,777
Business New Brunswick	2	218,786
Environment and Local Government	1	76
Education	1	4
Total	**230**	**$1,931,307**

Approximately $1.8 million is five or more years in arrears.

Implications

We noted the following implications by recording accounts receivable from provincial departments on the balance sheet.

- The Province is essentially setting up receivables from itself, which overstates the balance of the receivable, as the Province cannot “owe” itself money.
- Accounts receivable are overstated by $1.9 million.
- As we noted in the previous section, uncollectible accounts on the active accounts listing can interfere with the active management of the accounts that can still be collected.

We Recommended

The Department should remove accounts receivable owed by other departments from its year-end receivable balance.

Departmental Response

The department agrees with the recommendation and will endeavor to obtain approval to remove these balances prior to year-end 2007-2008.

Section B

Department of Family and Community Services

Social Assistance Payments

Overview

Introduction

The purpose of this section is to discuss our findings relating to our audit of social assistance payments. Social assistance payments are processed by the NBCase system which is operated by the Department of Family and Community Services.

Background

The topics discussed in this section relate to past recommendations that we made to the Department. We are following up to see if the Department has made progress in implementing these recommendations.

In this section

This section contains the following topics:

Topic	See Page
Follow up of Regional Investigators' Work	129
Timely Completion of Case Reviews	133
Improvements Made in Access Controls	136
Progress on Threat Risk Assessment	137

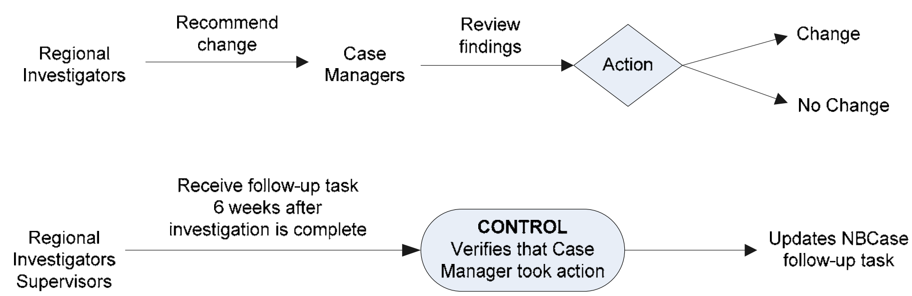
Follow up of Regional Investigators' Work

Introduction

The purpose of this part is to document our findings on the control procedure performed by the Regional Investigators' supervisors.

Investigation Process

The following diagram shows the regional investigation process. (Regional Investigators receive tips from various sources. Based on these tips, they investigate social assistance clients.)



Nature of Our Audit Work

Our work focused on the control *"Verifies that Case Manager took action"*. We gathered data to determine if this control was operating effectively throughout the audit period.

Please note, a failure to perform this control procedure does NOT mean that Case Managers have failed to take action on the Regional Investigators' recommendations. It means that the Regional Investigators' Supervisors have not VERIFIED that the Case Managers have taken action on the recommendations.

Continued on next page

Follow up of Regional Investigators' Work, Continued

Audit Findings

Last year, we reported Regional Investigators recommended changes to social assistance payments in 32% of their investigations. However, only 48% of these changes were followed up by their supervisors.

This year, we found for the period April 2006 – February 2007, Regional Investigators recommended changes to social assistance payments in 34% of their investigations. Regional Investigator Supervisors followed up on 47% of these changes. (Note this follow-up percentage does not include the Moncton region.)

We were unable to determine the follow-up percentage for the Moncton region. Because our numbers for Moncton were very low, the Department contacted a Moncton supervisor. The supervisor was not aware of the purpose of the NBCase follow-up task and had developed her own manual method for tracking/monitoring the Regional Investigators she supervised. We did not review the other tracking method.

To avoid distorting the follow-up percentages, we have removed the Moncton data from the population.

Department's Comments

On March 15, 2007, the Department emailed the Regional Investigators' Supervisors instructing them on how to complete the follow-up process.

Departmental staff informed us that training was given in April and May of 2007 instructing supervisors on how to complete the follow-up process.

Continued on next page

Follow up of Regional Investigators' Work, Continued

Additional Audit Procedures

The Department provided us with additional data from the NBCase system for the Moncton region. From this information, we were able to see evidence of the action taken by the Case Managers on the Regional Investigators' work.

In cases where investigators recommended a client be terminated, we were able to see that the client was indeed terminated. However, in cases where investigators recommended changes in client payments, we were unable to verify that the Case Managers made the recommended changes.

For the Moncton region, we determined that Case Managers made at least 77 % of the changes recommended by the Regional Investigators.

Observations

From our work, we believe the Department needs to improve the training and monitoring of the Regional Investigators' Supervisors.

The Department should monitor the Regional Investigators' Supervisors, at least initially, so that the Department knows that the Regional Investigators' work is being followed up and recorded in NBCase.

Implications

As we mentioned last year, 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.

Recommendations

The Department should ensure Regional Investigators' Supervisors are properly trained so that they know how to follow up on the Regional Investigators' work and how to record that information in NBCase.

The Department should monitor the Regional Investigators' Supervisors to ensure they are completing the follow-up process properly and in a timely manner.

Continued on next page

Follow up of Regional Investigators' Work, Continued

Departmental Response

Investigation Supervisors will meet face to face with staff of Corporate Reporting and NB Case Business Support (CRNBS) to clarify the procedure for the Investigation task and required 6 week Task follow up. Monthly monitoring of the process will be coordinated by CRNBS staff through the Executive Information System (EIS). A conference call will be organized if there are provincial issues. Otherwise follow up will occur with specific supervisors by region as required.

Follow up Requested by the Department

The Department asked us to report on the action taken by the Case Managers on the Regional Investigators' recommendations for all regions. We present the following information based on data as of July 2007.

Investigators' Recommended Action	Case Manager Action	Number of Cases	Comments
Terminate	Terminate	722	
Terminate	Open	94	FCS reviewed 17 items and determined that Case Managers took appropriate action on each case.
Sub-total		**816**	
Reduce	Terminate	113	
Reduce	Open	107	
Sub-total		**220**	
Total		**1036**	

Note: This data does not include cases where the Regional Investigators recommended increases in client payments.

Timely Completion of Case Reviews

Introduction

The purpose of this part is to document our findings relating to the completion of case reviews. We divided this part into two – case reviews for alert clients and case reviews for non-alert clients.

Definitions

Case review: A case review is a process where a departmental employee visits a social assistance client to verify client information and determine that the client is still eligible to receive social assistance benefits. Case reviews are often performed during the summer months by summer students.

Alert client: Clients are given an "alert" status if they are considered to be violent. Case Managers are required to perform case reviews for these clients.

Alert Clients

Issue 1: Case reviews are not always completed on time for alert clients
We reported last year that timely case reviews are not always completed for alert clients. This year, we found that the Department has made progress in completing the case reviews for alert clients. However, more work is needed to ensure these reviews are completed in a timely manner.

The following table shows that the Department improved from last year in completing case reviews for alert clients. This year 7% of alert clients have not received a case review, as compared with 10.7% in 2006. It also shows that more work is needed to ensure that the reviews are completed in a timely manner.

Year Case Review Required	Current Year Number of Overdue Reviews - Alert Clients	Prior Year Number of Overdue Reviews - Alert Clients
2000	0	3
2001	0	2
2002	5	18
2003	2	11
2004	5	14
2005	4	12
2006	25	N/A
Total Overdue	**41**	**60**
Total Number of Alert Clients	**586**	**563**
Percentage of Alert Clients with Overdue Case Reviews	**7%**	**10.7%**

Continued on next page

Timely Completion of Case Reviews, Continued

Non-alert Clients

Issue 2: Case reviews are not always completed on time for non-alert clients

Last year, we reported that 708* clients had overdue case reviews. We noted that some of these case reviews appeared to be completed, but were not updated in the NBCase system.

This year, we found that the number of overdue case reviews has increased to 742 (3.1%) but the Department has made significant progress in completing the older case reviews. We also found the Department is falling behind in completing the more recent case reviews.

The following table shows the number of overdue case reviews for both the current and prior year, as well as the percentage of overdue reviews.

Year Case Review Required	Current Year Number of Overdue Reviews	Prior Year Number of Overdue Reviews
2000	0	0
2001	0	1
2002	1	3
2003	0	19
2004	13	101
2005	84	584
2006	644	NA
Total Overdue	**742**	**708**
Total Number of Non-Alert Clients	**23,638**	**24,527**
Percentage of Non-Alert Clients with Overdue Case Reviews	**3.1%**	**2.9%**

* The prior year number is different from the figure we reported in last year's Report. We removed the number of the alert clients, as well as clients with an on hold status.

Continued on next page

Timely Completion of Case Reviews, Continued

Implications for All Clients

As we noted last year, by not completing regular case reviews:

- 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.

Departmental Policy

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.

Recommendations

The Department should complete the overdue case reviews for all clients.

The Department should complete case reviews in a timely manner as required by departmental policy.

Departmental Response

A) Alert clients

We have made progress in the completion of case reviews for alert clients. We will continue to communicate the importance of completing these reviews in accordance with our policies, however we must be cognizant of safety and security of staff for those few alert clients who could pose a challenge.

B) Non alert clients

It is important to recognize that staff completed 97% of the case reviews in both 2007-08 and during the previous year 2006-07. Some of the case reviews were completed but were not updated in NB Case. To address this, we have established an improved monitoring mechanism for the student case reviews which are conducted each summer so we can track the progress more closely than before and identify whether cases have been keyed in NB Case. We have also provided all regions with reports of reviews to be completed in the current year on an ongoing basis. Regions are making progress, however two regions have not been as successful because of staff turnover issues.

Improvements Made in Access Controls

Weaknesses Noted Last Year

Last year, we reported weaknesses with NBCase access controls.

Access Controls Improved

This year, we found the Department improved NBCase access controls as noted below.

- New users are now required to change their initial default password that is assigned by NBCase support staff.
- Users are not allowed to use their username as their password.
- Information Technology Services (ITS) is no longer able to look-up users' passwords. Now when users forget their password, ITS can reset the password and users are required to immediately change their password.

Future Plans

The Department has implemented the above temporary security measures to comply with our prior year recommendations.

The Department plans to further improve access controls in October 2007.

Progress on Threat Risk Assessment

Prior Year Recommendation

In our 2004 Report, we recommended that the Department perform a threat/risk assessment for the NBCase application. This assessment would identify all potential security risks and help the Department to manage these risks.

Progress Made

This year, we found that the Department has begun work on a Threat Risk Assessment for the NBCase system. We saw this draft document which is in the process of being reviewed by the Department. We congratulate the Department in undertaking this initiative and we will review the content of the Threat Risk Assessment in a future audit.