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Chapter 9 - Office of the Auditor General

Chapter 1
Introductory Comments

Contents

Introductory Comments

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

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

Improving integrity and transparency in financial reporting

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

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

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

1.5 My assessment of these four areas this year is:

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

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

Report on a timely basis

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

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

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

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

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

Provide future oriented information

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

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

Net debt plan

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

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

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

Future operations

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

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

Self-sufficiency plan

1.18 Last year I said:

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

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

Year end grant payments

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

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

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

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

Discuss the financial results

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

Recommendation

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

Financial management weaknesses

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

Other information in this volume

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

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

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

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

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

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

Acknowledgements

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

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

Michael Ferguson, CA
Auditor General

Chapter 2
Comments on the Province's Financial Position

Contents

Comments on the Province's Financial Position

Introduction

2.1 The Province's 2008 Public Accounts contain for the first time a section called "Indicators of Financial Health." As well, the discussion found in "Results for the Year" and the "Major Variance Analysis" have been much improved over prior years. This is a positive initiative.

Indicators of the Province's financial condition

2.2 Nevertheless, we have included again this year charts which show trends in the Province's financial health over the past nine years. These are the same charts we included in our 2007 Report with the exception of the chart on foreign currency risk. We have not included this chart as the risk in 2008 and the prior three years appears to be relatively small. These charts are similar to those in the Public Accounts except they are for a longer time period (nine versus five years) and they include a chart showing changes in Net Debt and GDP (Exhibit 2.2) which does not appear in the Public Accounts. This chart had an unfavourable result for 2008. Continued use of these charts in our Report will depend on the future information provided in the Public Accounts.

Background

2.3 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.

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 five can be considered meaningful in the context of the Province of New Brunswick. We have, over the years, focused on six indicators in order to present readers with a consistent analysis, however, as indicated earlier, we feel that the indicator related to foreign currency debt is no longer relevant. The remaining five indicators 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*

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 $86.7 million and an increase in net debt for the year of $367.8 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 nine 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]

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

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.

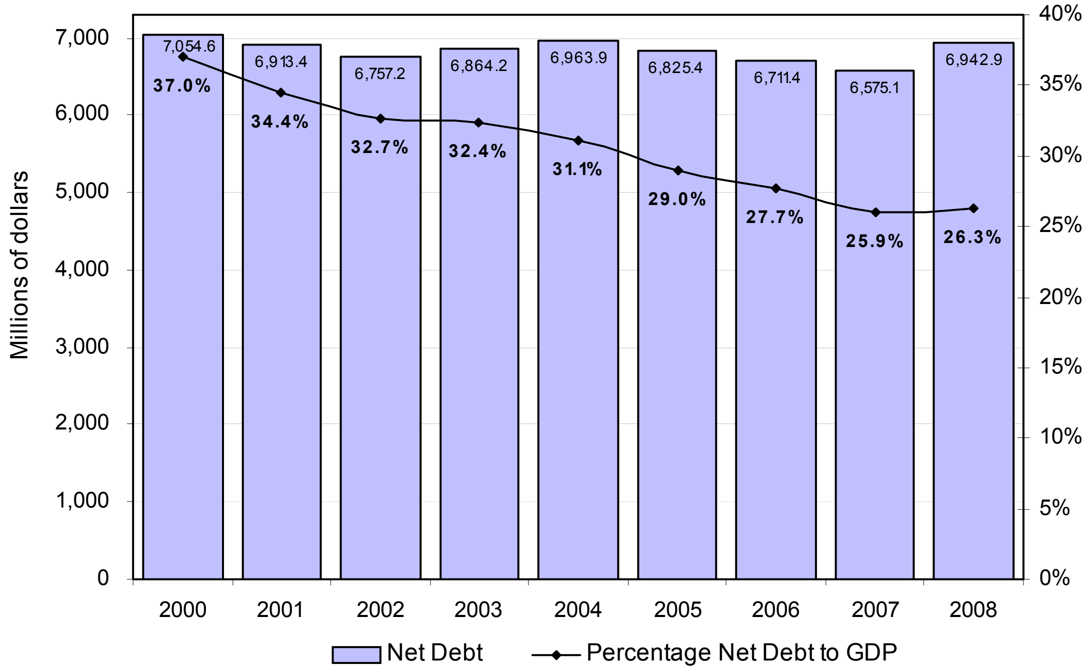
2.12 Gross Domestic Product (GDP) is the total value of all goods and services produced in the Province during a specific period. GDP is often used to measure the growth of the economy.

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 2008 indicate that net debt stands at $6,942.9 million - $111.7 million less than its level nine 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) in eight of the last nine years – showing the Province's increasing ability to sustain existing programs and services. In 2008, net debt increased (unfavourable) because of heavy investment in capital infrastructure, largely related to the twinning of the Trans-Canada Highway between Woodstock and Grand Falls.

Exhibit 2.1
Net debt as a percentage of GDP[1] for the last nine years



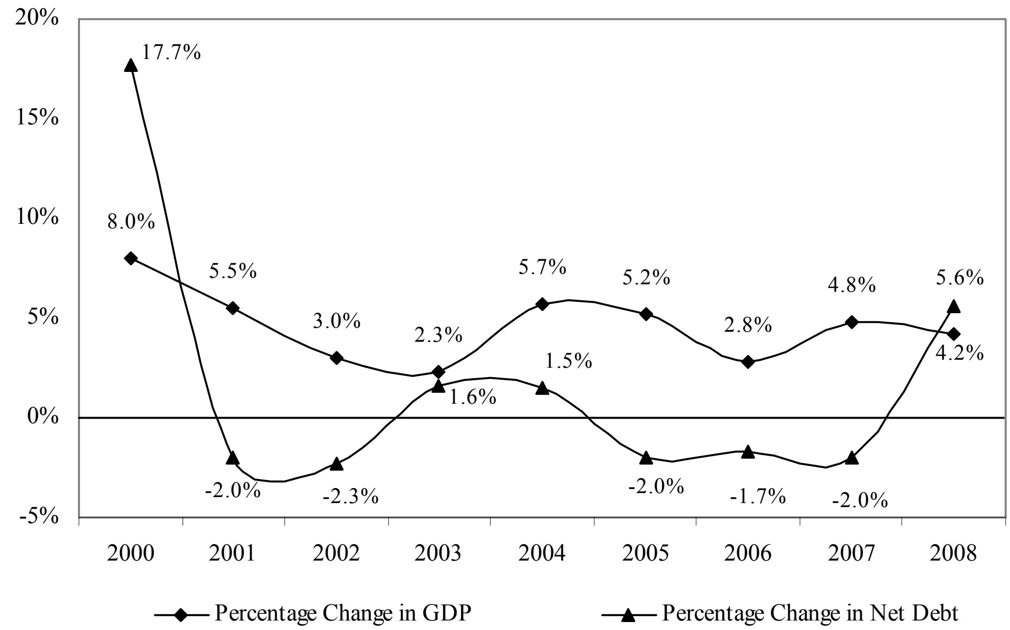
Change in net debt and GDP as a measure of sustainability

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 except for 2008. Growth in net debt was greater than economic growth in the year 2000 due to the effects of the Fredericton to Moncton highway and in 2008 due to the effects of the Woodstock to Grand Falls highway. Large capital investments can result in the growth of net debt exceeding the economic growth rate.

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 nine 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.

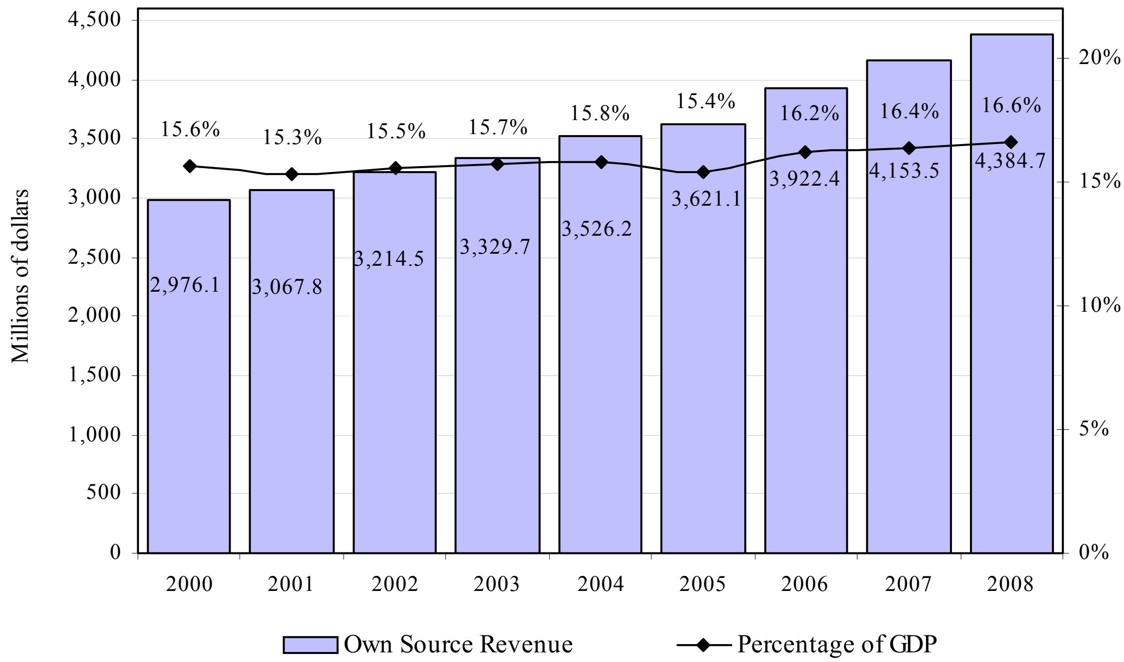
Own source revenue as a percentage of GDP as a measure of flexibility

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 nine 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 nine 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 nine-year period, but increased in 2006, 2007 and 2008.

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

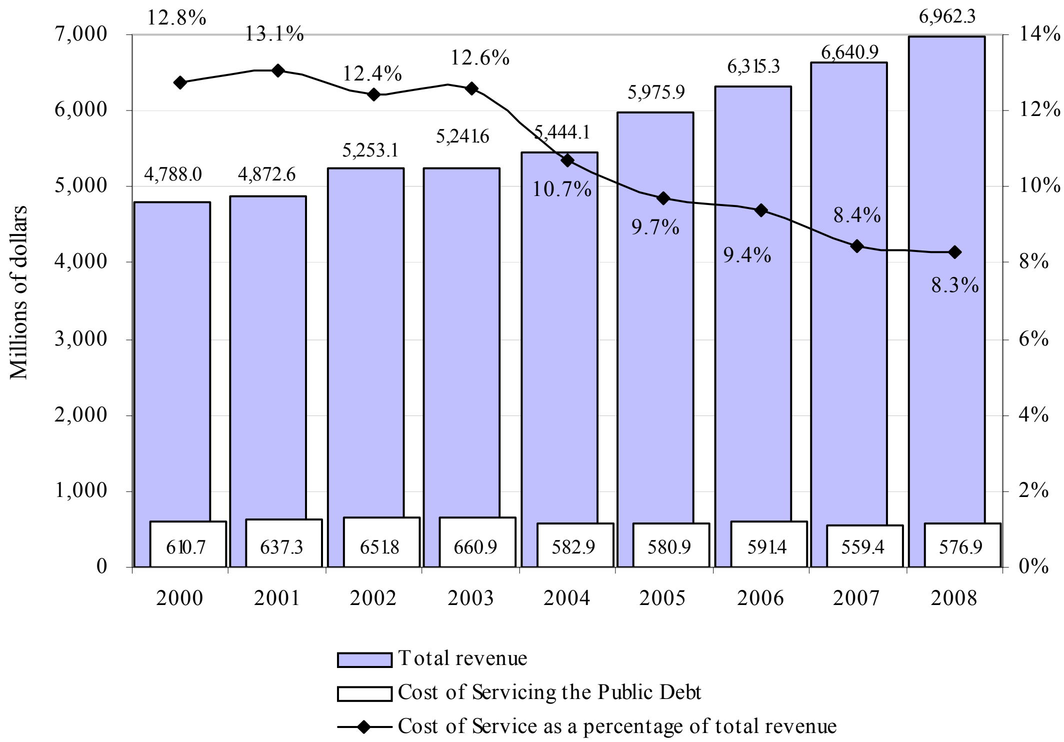
2.21 One of the most publicized factors which affects the flexibility of governments is the cost of servicing the public debt.

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 nine years.

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



2.24 This exhibit shows the cost of servicing the public debt increased in 2008 compared to 2007 by $17.5 million to $576.9 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 8.3%. 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 nine 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.

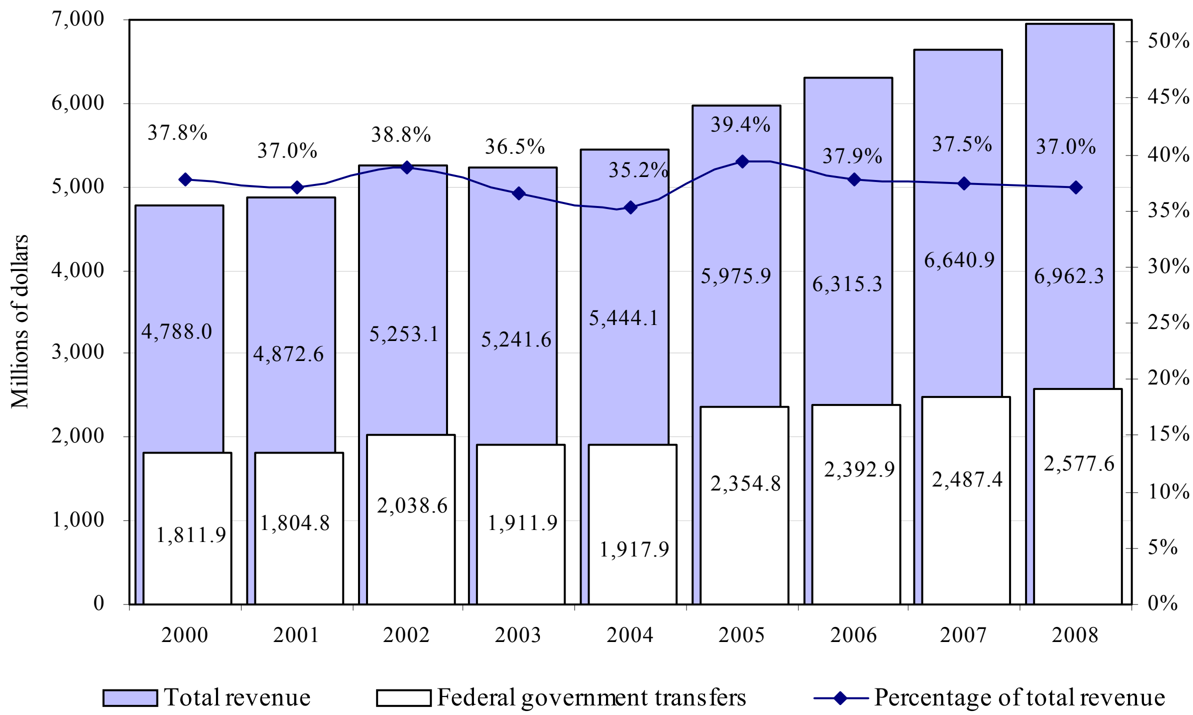
2.26 Funding for programs and services can only come from two sources: revenue or borrowing.

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

2.27 In 2008, 37% 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 nine 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 nine years. This exhibit shows that the trend over the past nine years has been relatively stable. To maintain comparability, revenue from 2000 to 2007 has been restated to reflect current accounting policy.

Summary

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

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

Exhibit 2.6
Summary of financial indicators

Financial Indicator	2008	Impact on Financial Condition of the Province: 2 year trend	Impact on Financial Condition of the Province: 9 year trend
Sustainability			
Net debt as a percentage of GDP	26.3%	No significant change	Favourable
Change in net debt and GDP	5.6%/4.2%	Unfavourable	Favourable
Flexibility			
Own source revenue as a percentage of GDP	16.6%	No significant change	No significant change
Cost of servicing the public debt as a percentage of total revenue	8.3%	Favourable	Favourable
Vulnerability			
Federal government transfers as a percentage of total revenue	37.0%	No significant change	No significant change

Comments on components of the Province's financial statements

2.32 In this section we have examined various components of the Province's financial statements for the year ended 31 March 2008. We have broken this into three areas:

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

2.33 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

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

- Cash net of short term borrowing
- 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

Cash net of short term borrowing

2.35 The following table shows the change in the Province's cash net of short term borrowings for the last nine years.

	($ millions)								
	2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Cash net of short term borrowing (short term borrowing net of cash)	(283.0)	249.2	56.0	148.3	9.8	(26.8)	(352.3)	(484.8)	(455.5)

2.36 This table shows that the cash position of the Province can fluctuate on an annual basis and that even when the Province reports a surplus, the cash position of the Province can be negative, as in 2008.

Receivables and advances

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

	($ millions)								
	2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
General receivables	207.4	185.4	168.6	153.5	231.2	200.1	197.8	174.8	156.7
Receivables from Canada	204.9	169.7	164.0	141.6	132.3	121.5	122.8	119.5	106.9
Guarantee payouts	75.3	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	23.1	33.6	62.0	67.5					
Subtotal	510.7	434.5	444.7	415.0	402.7	361.6	357.2	326.5	291.8
Interest receivable	45.5	37.1	33.4	26.3	30.8	30.3	25.6	24.1	27.1
Subtotal	556.2	471.6	478.1	441.3	433.5	391.9	382.8	350.6	318.9
Consolidated entities	47.9	51.2	48.3	43.3	42.8	47.4	N/A	N/A	N/A
Total	604.1	522.8	526.4	484.6	476.3	439.3	382.8	350.6	318.9
Allowance for doubtful accounts	201.2	155.7	140.7	132.9	118.5	113.3	97.7	87.4	77.5
Receivables and advances	402.9	367.1	385.7	351.7	357.8	326.0	285.1	263.2	241.4

2.38 Not all of these receivables should 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 should require active management to ensure collection, and compares that value to the value of the accounts that are considered doubtful.

	($ millions)								
	2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Total before allowance	604.1	522.8	526.4	484.6	476.3	439.3	382.8	350.6	318.9
Receivables from Canada	204.9	169.7	164.0	141.6	132.3	121.5	122.8	119.5	106.9
Consolidated entities	47.9	51.2	48.3	43.3	42.8	47.4	N/A	N/A	N/A
Advances of grants	12.7	21.9	51.5	55.2					
Net amount	338.6	280.0	262.6	244.5	301.2	270.4	260.0	231.1	212.0
Allowance for doubtful accounts	201.2	155.7	140.7	132.9	118.5	113.3	97.7	87.4	77.5
Allowance percentage	59.4%	55.6%	53.6%	54.4%	39.3%	41.9%	37.6%	37.8%	36.6%

2.39 In the year ended 31 March 2008:

- the Province reported $604.1 million in receivables and advances, which is about 16% higher than the 31 March 2007 balance;
- $47.9 million of the $604.1 million was receivable by and managed by the consolidated entities;

- another $204.9 million was due from the federal government and so there should not be any doubt about its collection;
- another $12.7 million were advances on operating grants for April 2008;
- this left $338.6 million in receivables that the Province has to actively manage to ensure collection; and
- the collection of 59.4% of these amounts, or $201.2 million, is considered to be in doubt.

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

2.41 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 $75.3 million at 31 March 2008.
- Amounts due from Canada should not normally require active management as noted above. However, the amount receivable from Canada under the Official Languages program was $6.6 million at 31 March 2000 and it was $55.5 million at 31 March 2008. This raises questions about whether this funding is being received on a timely basis. This receivable from Canada under the Official Languages program is commented on in more detail in chapter five of this Report.
- 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.

2.42 This analysis indicates that there is need to improve the management of the general accounts receivable of the Province. An allowance for doubtful accounts of 59.4%, a rate that has been growing, significant guarantee payouts and questions about the timeliness of collections all point to opportunities for improvement.

Taxes receivable

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

	($ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Gasoline and motive fuel tax	19.6	22.8	20.7	26.0	21.9	20.0	17.2	21.5	14.6
Metallic minerals tax	0.1	112.5	--	--	--	--	--	--	--
Real property tax	855.1	791.4	411.0	395.3	384.0	374.3	359.9	342.4	323.8
Royalties and stumpage on timber	5.1	22.0	24.3	21.8	28.0	18.2	18.4	22.7	19.1
Sales tax	60.5	87.0	87.9	32.7	107.7	85.4	68.9	68.9	69.5
Tobacco tax	8.5	8.4	8.5	10.2	11.3	9.0	7.4	5.3	4.4
Other	5.3	2.5	2.5	2.9	0.3	0.1	0.1	0.1	0.2
Subtotal	954.2	1,046.6	554.9	488.9	553.2	507.0	471.9	460.9	431.6
Allowance for doubtful accounts	55.1	77.0	85.4	80.7	86.6	89.5	89.5	84.5	83.9
Total	899.1	969.6	469.5	408.2	466.6	417.5	382.4	376.4	347.7

2.44 To analyze the taxes receivable, we compared the outstanding receivable balance at the end of the year with the tax revenue for the year, for certain tax types. Note that the real property tax amounts were adjusted in 2008 to include the municipal portion of the receivable and the 2007 amount has been comparatively restated. However, amounts prior to 2007 do not include the municipal portion.

	($ millions)								
Tax Revenue	2008	2007	2006	2005	2004	2003	2002	2001	2000
Gasoline and motive fuel tax	198.1	215.2	232.1	239.7	234.9	222.1	184.3	186.5	185.5
Real property tax	352.3	345.6	335.2	328.3	298.2	295.0	288.6	274.7	258.1
Forest royalties	45.8	58.8	56.9	60.2	62.9	53.1	54.6	58.3	54.5
Tobacco tax	79.9	81.9	90.5	96.5	101.4	91.9	69.7	49.8	47.8
Metallic minerals tax	119.7	120.2	10.5	2.8	2.2	5.7	2.3	3.3	3.9

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

	2008	2007	2006	2005	2004	2003	2002	2001	2000
Gasoline and motive fuel tax	9.9%	10.6%	8.9%	10.8%	9.3%	9.0%	9.3%	11.5%	7.9%
Real property tax	242.7%	229.0%	122.6%	120.4%	128.8%	126.9%	124.7%	124.6%	125.5%
Forest royalties	11.1%	37.4%	42.7%	36.2%	44.5%	34.3%	33.7%	38.9%	35.0%
Tobacco tax	10.6%	10.3%	9.4%	10.6%	11.1%	9.8%	10.6%	10.6%	9.2%
Metallic minerals tax	0.1%	93.6%							

2.46 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. Also, because the Province assumes the risk of collection for the municipal portion of property tax, they also record the municipal receivable which is offset by a payable to the municipalities rather than revenues. 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 over the last two years due to increases in zinc prices. At 31 March, all metallic minerals receivables had been collected.

2.47 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)								
	2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Taxes receivable	954.2	1,046.6	554.9	488.9	553.2	507.0	471.9	460.9	431.6
Allowance for doubtful accounts	55.1	77.0	85.4	80.7	86.6	89.5	89.5	84.5	83.9
Percentage	5.8%	7.4%	15.4%	16.5%	15.7%	17.7%	19.0%	18.3%	19.4%

2.48 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

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

	($ millions)								
	2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Business New Brunswick	218.9	196.1	200.2	206.7	201.8	239.0	228.0	224.2	215.8
Education and/or Training and Employment Development	336.4	296.0	258.3	0.2	0.2	0.2	0.2	0.2	0.2
Energy Efficiency and Conservation Agency of New Brunswick	3.6	2.3	0.2	-	-	-	-	-	-
Environment and/or Local Government	7.7	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	4.0
Social Development	34.0	34.8	34.5	33.6	32.7	31.8	30.9	31.3	24.9
Finance	-	-	1.0	1.6	1.6	1.9	1.7	1.9	2.3
Public Safety	10.0	10.2	10.4	10.7	10.9	11.2	11.4	11.6	12.2
Regional Development Corporation	11.4	7.3	3.6	5.3	3.8	3.6	3.2	3.2	3.0
Supply and Services	-	-	-	-	-	-	-	0.5	0.5
Subtotal	626.0	560.6	512.9	262.7	255.6	292.3	280.1	277.6	263.6
Allowance for doubtful accounts	229.3	207.2	192.9	142.6	129.3	143.9	133.7	124.7	122.3
Total	396.7	353.4	320.0	120.1	126.3	148.4	146.4	152.9	141.3

2.50 During the year ended 31 March 2006, the Province took over responsibility for loans to students. Since 31 March 2006 the student loans receivable have increased by over 30%. We consider this increase alarming, however, we understand that mechanisms are currently being put in place to better manage those student loans that are in default. As a result, repayments should increase, and the balance of loans outstanding may not have as high a growth rate in the future. We will continue to monitor the balance of these loans closely. The following table analyzes the loan balance for the past three years; and estimates the 2009 balance based on budget figures from Main Estimates.

	$ millions			
	Budget 2009	**2008**	**2007**	**2006**
Opening Balance	336.4	296.0	258.3	0.0
Student Loan Advances	70.5	64.5	61.7	270.1
Repayments	27.9	26.3	20.2	10.1
Other	-	2.2	(3.8)	(1.7)
Closing Balance	379.0	336.4	296.0	258.3

2.51 The increase in the Regional Development Corporation loan balance was due to a loan issued to l'Office de stabilisation de la Fédération des caisses populaires acadiennes for $4.0 million during the year ended 31 March 2008.

2.52 Some of the loans receivable that are not collectible should be written off. For example, 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.

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

	($ millions)								
	2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Loans	626.0	560.6	512.9	262.7	255.6	292.3	280.1	277.6	263.6
Allowance for doubtful accounts	229.3	207.2	192.9	142.6	129.3	143.9	133.7	124.7	122.3
Percentage	36.6%	37.0%	37.6%	54.3%	50.6%	49.2%	47.7%	44.9%	46.4%

2.54 The reduction in the percentage in 2006 is caused by the addition of the student loan program to the Province's loan portfolio; however, it has remained consistent for the past three years.

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

	2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Agricultural Development Act	68.2%	69.0%	72.4%	73.2%	71.0%	69.0%	66.3%	48.0%	37.5%
Economic Development Act	62.1%	64.9%	65.1%	56.8%	46.0%	45.0%	41.7%	37.2%	30.5%
Fisheries Development Act	71.8%	71.9%	73.8%	71.6%	76.8%	74.3%	74.3%	77.9%	82.2%
Provincial Holdings Ltd.	75.6%	80.6%	73.3%	44.6%	34.3%	30.9%	25.9%	18.8%	32.5%
Loans to students	19.4%	18.6%	15.9%	100%	100%	100%	100%	100%	100%
Local Government loans	5.2%	3.0%	100%	100%	100%	100%	100%	100%	100%
La Fondation du quotidien francophone	100%	100%	100%	100%	100%	100%	100%	100%	100%
New Brunswick Housing Act	14.1%	6.9%	7.0%	6.3%	7.6%	7.9%	8.1%	9.2%	10.8%
DRIE agreements	N/A	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%	100%

2.56 The four largest categories of loans, which represent 93.8% of all loans and advances outstanding at 31 March 2008, are:

- Loans to students 53.7%

- *Economic Development Act* loans 28.2%
- *Fisheries Development Act* loans 6.4%
- *New Brunswick Housing Act* loans 5.4%

Accounts payable and accrued expenses

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

	($ millions)								
	2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Accounts payable	446.3	446.8	417.4	388.2	372.4	300.5	375.6	255.0	275.9
Due to Canada	207.4	228.9	249.9	211.4	186.2	34.8	10.3	9.5	16.2
Accrued interest	214.7	227.0	236.8	244.2	231.0	229.5	164.2	164.3	166.5
Employee benefits	640.8	609.2	599.6	575.4	542.2	419.5	404.1	403.9	352.5
Other	487.5	440.0	137.6	201.1	148.5	268.1	182.7	210.4	219.0
	1,996.7	1,951.9	1,641.3	1,620.3	1,480.3	1,252.4	1,136.9	1,043.1	1,030.1

2.58 The largest component of the due to Canada account relates to overpayments by Canada to the Province under federal government transfers. Approximately $166.7 million of the $207.4 million payable in 2008 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.

2.59 Note that the large increase in Other in 2007 and 2008 relates to the recording of a payable due to municipalities which is the offset to the municipal portion of property taxes receivable. Amounts prior to 2007 have not been restated.

2.60 Two components of the accrued employee benefit expenses are:

	($ millions)								
	2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Liability for injured workers	126.8	105.8	103.3	95.7	89.6	83.2	68.9	55.7	42.3
Retirement allowances	307.7	303.1	289.4	272.3	264.0	247.6	232.4	230.7	224.9

2.61 The difference in the growth of these two accrued expenditures is noticeable. The liability for injured workers has increased 199.8% over an eight-year period, while the liability for accrued retirement allowances has only increased 36.8%. 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

2.62 The following table provides the history of the allowance for losses balance over the past nine years.

	($ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Allowance for losses	103.1	95.8	84.0	83.3	104.2	74.2	68.7	30.9	16.2

2.63 This allowance at 31 March 2008 was over six times its balance at 31 March 2000. The components of the allowance are:

	($ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Business New Brunswick	43.7	68.8	60.5	36.2	40.0	19.9	19.1	12.2	14.7
Education	-	-	-	30.7	35.1	30.1	25.4	18.5	1.3
Other	36.0	0.2	0.2	0.2	0.7	0.2	0.2	0.2	0.2
Property tax appeals	23.4	26.8	23.3	16.2	28.4	24.0	24.0	-	-

2.64 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 decreased in 2008 due to the payout of a loan guarantee. The increase in Other is due to an increase in provision for loss in Central Government.

All allowances

2.65 The Province has various allowances for losses. If we look at them in total we get a comprehensive picture of the allowances:

	($ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Allowance for losses	103.1	95.8	84.0	83.3	104.2	74.2	68.7	30.9	16.2
Allowance for doubtful accounts (Loans and advances)	229.3	207.2	192.9	142.6	129.3	143.9	133.7	124.7	122.3
Allowance for doubtful accounts (Taxes receivable)	55.1	77.0	85.4	80.7	86.6	89.5	89.5	84.5	83.9
Allowance for doubtful accounts (Accounts and interest receivable)	201.2	155.7	140.7	132.9	118.5	113.3	97.7	87.4	77.8
Total all allowances	588.7	535.7	503.0	439.5	438.6	420.9	389.6	327.5	300.2

2.66 These numbers are concerning. As at 31 March 2008, the Province expects to lose $588.7 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 $5.9 million to the Province.

2.67 In 2006, 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 (CRA). 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. In the summer of 2008, an agreement was signed and plans are in place for the Department of Post-Secondary Education and Labour to send defaulted student loans to CRA for set-off. Many of the Province's other credit and loan programs need to be reviewed to determine if any changes should be implemented.

Obligations under capital leases

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

	($ millions)								
	2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Capital leases	798.9	817.1	834.1	849.4	865.8	873.7	871.9	900.0	900.7

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

	($ millions)								
	2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Fredericton to Moncton highway lease	775.2	792.4	808.4	823.0	837.0	843.8	844.6	871.8	872.0

2.70 Over the past eight years, the Province has paid $96.8 million against the outstanding principal owing on the Fredericton to Moncton highway lease.

Pension liability (surplus)

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

	($ millions)								
	2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Pension liability (surplus)	(244.7)	(126.4)	30.2	156.7	271.5	362.1	372.6	442.6	596.0

2.72 Over the long run, the pension liability (surplus) can only be accurate if the assumptions used to calculate it reflect actual economic and demographic conditions. The accounting adjustments row in the table below is a barometer of how far the long term assumptions used to date differ from the estimated current position of the plans. While the table above shows an orderly improvement in the pension liability from a deficit to a surplus position, the accounting adjustment row below shows much more volatility.

2.73 There has been a steady decline in the outstanding pension liability from 2000 to 2006 with a surplus reported in 2007 and 2008 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)								
	2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Estimated accrued benefits liability	8,289.3	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	8,024.1	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	265.2	(165.0)	(124.8)	197.9	294.4	1,057.4	158.0	(68.4)	(680.9)
Accounting adjustments	(509.9)	38.6	155.0	(41.2)	(22.9)	(695.3)	214.6	511.0	1,276.9
Pension liability (surplus)	(244.7)	(126.4)	30.2	156.7	271.5	362.1	372.6	442.6	596.0

2.74 This table shows a steady increase in the estimated accrued benefits earned by members of the Province's various pension plans. However, the market value of the pension plan assets fluctuates significantly. Over the nine 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.

2.75 The table also reports the difference between the market value of the plans' assets and the estimated accrued benefit liabilities of the plans at each year end. At 31 March 2000, the market value of the assets actually exceeded the estimated liability for benefits earned by plan members by $680.9 million. By 31 March 2003, that situation had reversed, and the value of the estimated liabilities exceeded the market value of the plans' assets by $1,057.4 million. By 31 March 2006, the situation had again reversed such that the market value of assets once again exceeded the estimated liability by $124.8 million. 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. In 2008, the situation reversed again with the estimated liability exceeding the market value by $265.2 million.

2.76 The accounting rules for pensions for governments allow adjustments that reduce the effects of large changes in the components of the pension liability, such as market returns on assets. For example, even though the assets of the Province's pension plans exceeded the estimated benefit obligations at 31 March 2000 by $680.9 million, the Province's financial statements actually reported a pension liability of $596.0 million. Similarly, at 31 March 2003 the value of the plans' estimated accrued benefits exceeded the market value of the plans' assets by $1,057.4 million, however, the pension liability reported on the Province's financial statements was $362.1 million. As at 31 March 2008, the estimated accrued benefits exceeds the market value by $265.2 million, however, the pension surplus reported on the Province's financial statements was $244.7 million.

2.77 The 2009 pension expense could be further affected by poor market conditions. The New Brunswick Investment Management Corporation has indicated that to the end of September 2008, the pension fund assets they manage have dropped in value by over 6%. The effect that such a drop or similar drops in value could have on pension expense for the Public Service and Teachers' plans for 2009 is illustrated below.

Public Service and Teachers' Pension Plans
Pension Expense Estimate for 2009 ($ millions)

	5% Asset Decrease	**6% Asset Decrease**	**7% Asset Decrease**
2009 Estimated Expense	$143	$147	$153
2008 Pension Expense	88	88	88
Expense Increase	$55	$59	$65

2.78 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)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Pension expense	154.5	101.1	109.9	108.4	124.2	90.4	(0.7)	(51.1)	(9.1)
Employer contributions	272.8	257.7	236.4	223.2	214.8	100.9	69.1	102.3	167.6
Reduction in pension liability	118.3	156.6	126.5	114.8	90.6	10.5	69.8	153.4	176.7

2.79 The pension expense has risen dramatically over the years and had a 50% increase in 2008 from 2007. This has been caused mostly by returns on the pension plan assets being less than what the actuary for the largest plans estimated they should be. The Province has increased its contribution to offset at least partly the difference. In the short run, the table shows that increasing provincial contributions cannot offset lower than anticipated returns.

Funded debt for provincial purposes

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

	($ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Funded debt for provincial purposes	9,461.7	9,272.8	8,942.4	8,397.0	8,485.8	8,418.7	8,004.7	7,656.2	7,408.5

2.81 The Province's funded debt for provincial purposes at 31 March 2008 is $2,053.2 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 is lower than it was nine years ago. 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 nine years.

	($ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Sinking fund book value	4,161.9	3,968.2	3,984.0	3,773.8	3,716.2	3,543.0	3,358.8	3,130.2	2,925.5

2.82 So, while the Province's funded debt for provincial purposes increased by $2,053.2 from 31 March 2000 until 31 March 2008, $1,236.4 million of those borrowings were put aside in the Province's sinking fund. In fact, the Province's funded debt for provincial purposes net of the sinking fund dropped in 2008 for the first time as shown below. This resulted from lower borrowing than in 2007 together with a steady return on the sinking fund's investments.

	($ millions)								
	2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Funded debt for provincial purposes	9,461.7	9,272.8	8,942.4	8,397.0	8,485.8	8,418.7	8,004.7	7,656.2	7,408.5
Sinking fund book value	4,161.9	3,968.2	3,984.0	3,773.8	3,716.2	3,543.0	3,358.8	3,130.2	2,925.5
Funded debt for provincial purposes net of sinking fund	5,299.8	5,304.6	4,958.4	4,623.2	4,769.6	4,875.7	4,645.9	4,526.0	4,483.0

2.83 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 nine years.

Tangible capital assets

2.84 The following table provides the history of the tangible capital asset balance over the past five years.

	($ millions)				
	2008	**2007**	**2006**	**2005**	**2004**
Tangible capital assets	6,212.2	5,645.5	5,518.9	5,404.0	5,294.9
Deferred capital contributions	(818.3)	(680.2)	(659.8)	(657.3)	(644.9)
Provincial investment in tangible capital assets	5,393.9	4,965.3	4,859.1	4,746.7	4,650.0

2.85 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 four years.

	($ millions)			
	2008	**2007**	**2006**	**2005**
Opening balance	680.2	659.8	657.3	644.9
Funds received to acquire tangible capital assets	165.4	43.5	24.9	34.3
Amortization of deferred capital contributions	(27.1)	(23.1)	(22.4)	(21.9)
Ending balance	818.5	680.2	659.8	657.3

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

	($ millions)			
	2008	**2007**	**2006**	**2005**
Opening balance	5,645.5	5,518.9	5,404.0	5,294.9
Acquisitions	820.0	365.0	342.2	326.7
Amortization of tangible capital assets	(251.3)	(238.1)	(226.9)	(215.3)
Loss on disposal of tangible capital assets	(2.0)	(0.3)	(0.4)	(2.3)
Ending balance	6,212.2	5,645.5	5,518.9	5,404.0

2.87 Below is the annual investment in tangible capital assets from 2005 to 2008. It shows that the large majority of our infrastructure projects have been funded by the provincial government in that timeframe. However, the amount and percent of federal funding for infrastructure projects significantly increased in 2008.

	($ millions)			
	2008	**2007**	**2006**	**2005**
Provincial investment	654.6	321.5	317.3	292.4
Federal investment	165.4	43.5	24.9	34.3
Total investment	820.0	365.0	342.2	326.7
Provincially funded	79.8%	88.1%	92.7%	89.5%

Net debt

2.88 Net debt is an important measure of the financial position of the Province.

2.89 Since 2000, net debt has been reduced by $111.7 million. It is confusing that net debt rose during 2008 at the same time as the Province recorded an $86.7 million surplus. While there are many reasons for this, the single largest reason is the increase in investment in tangible capital assets. The largest portion of this was a payment of over $540 million relating to a design-build contract for the Trans-Canada Highway.

2.90 One way to assess the significance of the size of our net debt is to compare it to the net debt of 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	**2008**	**2007**
Saskatchewan	5,950	6,446
New Brunswick	6,943	6,575
Manitoba	10,188	10,465
Nova Scotia	12,115	12,357

Net debt per capita	2008	2007
Saskatchewan	$5,969	$6,528
New Brunswick	$9,257	$8,769
Manitoba	$8,585	$8,880
Nova Scotia	$12,971	$13,216

Net debt as a percentage of GDP	2008	2007
Saskatchewan	11.6%	14.0%
Manitoba	21.3%	23.4%
New Brunswick	26.3%	25.9%
Nova Scotia	36.0%	39.0%

Items reported in the notes

2.91 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

2.92 The Province has guaranteed certain debt of external entities. Guarantees, net of the recorded allowance for losses for the past nine years were:

	($ millions)								
	2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Agricultural Development Act	0.6	0.6	0.4	0.4	0.1	0.2	0.2	0.9	0.8
Economic Development Act	83.4	113.8	108.6	102.1	122.5	44.8	28.9	29.9	36.4
Employment Development Act	4.4	4.5	4.5	3.9	5.3	4.3	3.6	2.0	2.3
Fisheries Development Act	14.8	16.6	20.8	5.0	6.5	10.4	5.9	3.3	4.3
Livestock Incentives Act	0.8	0.9	0.9	0.9	1.5	1.6	1.5	1.7	0.5
Nursing Homes Act	8.1	8.7	9.4	10.3	10.6	10.6	10.7	10.6	11.0
New Brunswick Credit Union Deposit Insurance Corporation	2,816.5	2,800.0	2,700.0	2,600.0	2,500.0	2,300.0	2,100.0	1,900.0	1,800.0
New Brunswick Municipal Finance Corporation	569.5	560.1	496.1	466.6	421.4	386.7	366.9	350.9	346.2
Provincial Holdings Ltd.	29.0	14.7	14.9	1.7	2.3	2.6	4.9	6.0	7.3
Regional Development Corporation Act	4.6	3.6	3.8	3.6	3.7	4.0	3.8	4.3	4.2
Youth Assistance Act	-	-	-	209.1	186.8	168.2	136.6	107.9	-
Subtotal	3,531.7	3,523.5	3,359.4	3,403.6	3,260.7	2,933.4	2,663.0	2,417.5	2,213.0
Allowance for losses	49.9	69.0	60.7	67.6	75.8	50.2	44.7	30.9	16.2
Contingent liability for guaranteed loans	3,481.8	3,454.5	3,298.7	3,336.0	3,184.9	2,883.2	2,618.3	2,386.6	2,196.8

2.93 The large decrease in 2006 was caused by the change in student loans from guarantees to loans receivable.

2.94 In 2007 the Province reported, for the first time, its guarantee of the deposits of credit unions and caisse populaires. As of 31 December 2007, total deposits guaranteed amounted to $2,893.1 million. Given the significance of the amount, the risk associated with the guarantee must be managed. NBCUDIC guarantees the repayment of deposits with New Brunswick credit unions and caisse populaires. NBCUDIC is included in the Province's reporting entity through the consolidation method. Prior to 2006, there was a maximum of $100,000 insured for each account, however, at 31 March 2008 there was no maximum limit in place.

2.95 The decrease under the Economic Development Act was due to the payout of a loan guarantee.

Commitments

2.96 The following table reports the Province's outstanding commitments for the past nine years.

	($ millions)								
Commitments	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Operating leases	422.5	409.5	436.4	407.8	392.0	398.5	369.8	308.9	329.7
Nursing home debt funding	169.2	121.5	111.8	84.4	84.8	86.3	81.0	78.6	68.2
Authorized capital projects	684.0	1,470.3	1,572.0	708.1	206.4	751.1	838.0	36.6	36.5

2.97 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 decreased in 2008 due to the completion of some projects. As these commitments are met, they will put pressure on the Province's net debt position. The notes to the financial statements provide details about the nature of these significant commitments, however, there is no explanation in the results for the year discussion that accompanies the financial statements.

2.98 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 increased significantly due to guarantees for construction of new facilities.

Foreign exchange fluctuations

2.99 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.

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

	($ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Unrealized foreign exchange losses (gains)	(87.7)	(48.9)	(48.7)	(39.9)	(22.8)	59.7	159.2	182.8	110.1

Market value of sinking fund investments

2.101 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 2007.

	($ millions)							
Sinking Fund	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Book value - provincial portion	3,968.2	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	300.6	336.4	391.6	363.7	351.3	327.4	297.3	295.1
Total book value	4,268.8	4,320.4	4,165.4	4,079.9	3,894.3	3,686.2	3,427.5	3,220.6
Market value	4,577.3	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	308.5	316.0	417.9	496.0	361.0	226.8	275.8	227.8

2.102 This shows that at 31 March 2007, the sinking fund had a market value that was significantly higher than its recorded book value.

Statement of Operations

Surplus

2.103 For the year ended 31 March 2008, the Province reported a surplus of $86.7 million.

2.104 The following table shows the surplus for the past five years as originally recorded and as restated.

	($ millions)				
Surplus (Deficit)	**2008**	**2007**	**2006**	**2005**	**2004**
As originally recorded	86.7	236.8	243.6	242.2	(103.2)
As restated	86.7	236.8	235.0	233.7	(181.9)

Change in net debt

2.105 For the year ended 31 March 2008, the Province reported an increase in net debt of $367.8 million.

Revenue

2.106 In Chapter 3, we report that there is an incorrect accounting treatment with respect to provincial rebate programs. These programs are netted against personal income tax revenue. By applying the correct accounting treatment, Personal Income Tax revenue would be higher, and expenses would be higher by $18.7 million (2007 - $11.0 million). The netting affects several of the following tables - those that report "provincial source revenue" and "personal income tax revenue." As the amount of the rebate programs is growing, netting makes it appear that taxes are growing at a slower rate. Netting also makes the rate of growth of expenses appear lower than it actually is.

2.107 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

2.108 Provincial source revenue has increased 47.4% since the year ended 31 March 2000, while federal source revenue has increased 42.3%. The following table reports the share of annual revenue that is made up of each primary source.

Revenue	2008	2007	2006	2005	2004	2003	2002	2001	2000
Provincial sources	63.0%	62.5%	62.1%	60.6%	64.8%	63.5%	61.2%	63.0%	62.2%
Federal sources	37.0%	37.5%	37.9%	39.4%	35.2%	36.5%	38.8%	37.0%	37.8%

2.109 Over the past nine years, there has been no significant change in the composition of revenue.

Revenue from provincial sources

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

	($ millions)							
	2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Provincial source revenue	4,384.7	4,153.5	3,922.4	3,621.1	3,526.2	3,329.7	3,214.5	3,067.8
GDP (GDP is for the previous calendar year)	26,410	25,346	24,190	23,534	22,366	21,169	20,684	20,085
Provincial source revenue as a % of GDP	16.6%	16.4%	16.2%	15.4%	15.8%	15.7%	15.5%	15.3%
Percentage growth in provincial source revenue	5.6%	5.9%	8.3%	2.7%	5.9%	3.6%	4.8%	3.1%
Percentage growth in GDP	4.2%	4.8%	2.8%	5.2%	5.7%	2.3%	3.0%	5.5%

2.111 In six of the past eight years, provincial source revenue has increased at a rate that exceeds the rate of growth of the GDP. The result is that in 2008, provincial source revenue was 16.6% of GDP, compared to 15.3% in 2001.

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

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

	($ millions)								
Provincial Source Revenue	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Taxes on consumption	1,119.1	1,169.2	1,161.4	1,059.3	1,139.5	1,050.1	913.7	889.6	824.1
Taxes on property	352.3	345.6	335.2	328.3	298.2	295.0	288.6	274.7	258.1
Taxes on income	1,642.7	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	85.5	86.6	90.8	94.7	103.4	85.0	81.9	69.2	65.8
Licenses and permits	114.5	109.7	106.7	96.9	99.8	98.2	96.5	102.0	100.3
Royalties	63.8	68.7	67.8	70.7	70.4	60.0	61.1	66.5	62.5
Investment income	417.2	308.6	409.6	283.7	252.7	176.7	246.3	156.4	211.3
Other provincial revenue	358.9	320.4	302.1	290.1	275.9	271.9	205.0	197.4	203.3
Sinking fund earnings	230.7	231.8	226.4	221.6	222.5	243.0	230.9	220.0	203.7
Total	4,384.7	4,153.5	3,924.4	3,621.4	3,528.0	3,331.4	3,216.1	3,067.7	2,974.3

Taxes on consumption

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

	($ millions)								
Taxes on consumption	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Gasoline and Motive Fuels Tax	198.1	215.2	232.1	239.7	234.9	222.1	184.3	186.5	185.5
Harmonized Sales Tax	841.0	872.1	838.7	723.0	803.1	736.0	659.6	653.2	590.7
Tobacco Tax	79.9	81.9	90.5	96.5	101.4	91.9	69.7	49.8	47.8
Other	0.1	-	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total	1,119.1	1,169.2	1,161.4	1,059.3	1,139.5	1,050.1	913.7	889.6	824.1
Increase (decrease)	(50.1)	7.8	102.1	(80.2)	89.4	136.4	24.1	65.5	10.1
Percentage increase (decrease)	(4.3%)	0.7%	9.6%	(7.0%)	8.5%	14.9%	2.7%	7.9%	1.2%
Total as a percentage of GDP	4.3%	4.6%	4.8%	4.5%	5.1%	5.0%	4.4%	4.4%	4.3%

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

	($ millions)								
	2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Harmonized Sales Tax	841.0	872.1	838.7	723.0	803.1	736.0	659.6	653.2	590.7
GDP (GDP is for the previous calendar year)	26,410	25,346	24,190	23,534	22,366	21,169	20,684	20,085	19,041
Ratio	3.2%	3.4%	3.5%	3.1%	3.6%	3.5%	3.2%	3.3%	3.1%

Taxes on income

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

	($ millions)								
Taxes on income	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Corporate income tax	266.6	217.6	150.3	173.1	111.1	134.9	179.9	178.6	141.0
Metallic minerals tax	119.7	120.2	10.5	2.8	2.2	5.7	2.3	3.3	3.9
Personal income tax	1,256.4	1,175.1	1,063.6	1,000.2	952.3	910.9	909.9	910.0	900.3
Total	1,642.7	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)	6.2%	6.0%	5.1%	5.0%	4.8%	5.0%	5.3%	5.4%	5.5%

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

	($ millions)								
	2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Corporate Income Taxes	266.6	217.6	150.3	173.1	111.1	134.9	179.9	178.6	141.0
Corporation profits before taxes (previous calendar year)	2,743	2,733	2,343	2,470	1,933	1,832	1,904	1,846	1,769
Percentage	9.7%	8.0%	6.4%	7.0%	5.7%	7.4%	9.4%	9.7%	8.0%

2.118 The percentage increases in personal income taxes over the past eight fiscal years have been:

	2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Personal Income Tax	6.9%	10.5%	6.3%	5.0%	4.5%	0.1%	0.0%	1.1%

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

	2007	2006	2005	2004	2003	2002	2001	2000
Increase in per capita income	4,8%	4,0%	3,5%	4,7%	3,4%	2,5%	2,5%	4,8%
Increase in wage component of GDP	5,0%	4,2%	4,4%	4,8%	5,5%	4,3%	0,5%	6,1%
Increase in wage, interest and unincorporated business component of GDP	4,8%	4,1%	3,7%	4,3%	5,0%	2,4%	0,7%	5,5%

2.120 This is confusing because while per capita income has grown at a reasonably consistent rate in recent years, personal income taxes collected by the Province have grown more significantly. 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.

2.121 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.

2.122 The components of personal income tax revenue over the past eight years are:

	($ millions)							
Personal Income Taxes	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Current year estimate	1,221.6	1,097.3	1,029.6	979.2	939.1	903.6	881.2	893.5
Prior year adjustment	34.8	77.8	34.0	21.1	13.2	7.4	28.7	17.4
Other	-	-	-	(0.1)	-	(0.1)	-	(0.9)
Total	1,256.4	1,175.1	1,063.6	1,000.2	952.3	910.9	909.9	910.0

2.123 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.

Other provincial source revenues

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

	($ millions)								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
Insurance Premium Tax	40.7	40.1	39.4	39.7	42.2	34.3	30.3	28.2	25.9
Large Corporation Capital Tax	31.2	34.7	36.3	39.5	47.3	38.7	39.0	30.6	28.1
Motor vehicle licenses	91.5	89.3	86.3	76.2	73.7	74.0	74.0	76.0	73.7
Forest royalties	45.8	58.8	56.9	60.2	62.9	53.1	54.6	58.3	54.5
Lottery revenue	117.0	113.0	111.2	118.1	116.7	109.1	89.2	89.7	86.3
NB Electric Finance Corporation	104.5	18.7	131.6	7.8	(18.0)	(77.4)	19.0	(78.0)	17.0
NB Liquor Corporation	144.9	131.5	126.1	122.6	118.6	110.1	106.8	103.0	100.8
Sinking fund earnings	230.7	231.8	226.4	221.6	222.5	243.0	230.9	220.0	203.7

2.125 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	Eight year annual average growth rate
Insurance Premium Tax	6.1%
Large Corporation Capital Tax	4.9%
NB Liquor Corporation	4.7%
Lottery revenues	4.1%
Motor vehicle licenses	2.9%
Sinking fund earnings	1.7%
Forest royalties	(1.5%)

2.126 While the Large Corporation Capital Tax has had an eight-year annual growth rate of 4.9%, it has actually declined four years in a row.

Revenue from federal sources

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

	($ millions)							
Federal source revenue	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Canada Health and Social Transfer	737.4	706.9	696.3	607.3	545.2	498.9	494.9	404.0
Health Reform Transfer	-	-	-	35.3	-	-	-	-
Fiscal Equalization Payments	1,476.5	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	1.9	1.7	1.9	1.9	1.9	1.9
Conditional grants	334.7	304.6	324.3	292.8	259.9	243.8	200.6	194.8
Harmonization Transitional Payment	-	-	-	-	-	-	-	34.0
Amortization of deferred contributions	27.1	23.2	22.4	22.0	21.3	20.4	19.9	19.6
Total	2,577.6	2,487.4	2,392.9	2,354.6	1,917.6	1,911.9	2,038.6	1,804.8
Increase (decrease)	90.2	94.5	38.3	437.0	5.7	(126.7)	233.8	1,804.8
Percentage increase (decrease)	3.6%	3.9%	1.6%	22.8%	0.3%	(6.2%)	13.0%	(0.4%)

Expenses

2.128 The main items of expenses we have analyzed are:

- total expenses
- expenses by financial statement line
- interest expense
- provision expense
- expenditure

Total expenses

2.129 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. Five years' worth of comparative expense figures are available.

2.130 The following table reports the Province's expenses for the past five years.

Expenses	2008		2007		2006		2005		2004	
	$ millions	%	$ millions	%	$ millions	%	$ millions	%	$ millions	%
Education and training	1,431.4	20.8	1,305.5	20.4	1,309.7	21.5	1,189.0	20.7	1,168.1	20.7
Health	2,283.4	33.2	2,110.2	33.0	1,957.8	32.2	1,837.0	32.0	1,788.5	31.8
Social Development	903.4	13.2	818.0	12.8	769.6	12.7	724.7	12.7	710.9	12.6
Protection services	187.2	2.7	233.8	3.6	161.3	2.7	151.3	2.6	145.3	2.6
Economic Development	229.2	3.4	205.6	3.2	181.2	3.1	183.6	3.2	167.0	3.0
Labour and employment	119.1	1.7	120.4	1.9	117.4	1.9	117.5	2.0	121.5	2.2
Resource sector	179.2	2.6	193.0	3.0	160.1	2.6	166.8	2.9	159.0	2.8
Transportation	380.4	5.5	347.5	5.4	336.3	5.5	310.5	5.4	307.5	5.5
Central government	585.4	8.5	510.7	8.0	495.5	8.1	479.1	8.4	475.0	8.4
Service of the Public Debt	576.9	8.4	559.4	8.7	591.4	9.7	580.9	10.1	582.9	10.4
Total	6,875.6	100.0	6,404.1	100.0	6,080.3	100.0	5,740.4	100.0	5,625.7	100.0

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

Expenses	2008		2007		2006		2005	
	$ millions	%	$ millions	%	$ millions	%	$ millions	%
Education and training	125.9	9.6	(4.2)	(0.3)	120.7	10.2	20.9	1.8
Health	173.2	8.2	152.4	7.8	120.8	6.6	48.5	2.7
Social Development	85.4	10.4	48.4	6.3	44.9	6.1	13.8	1.9
Protection services	(46.6)	(19.9)	72.5	44.9	10.0	6.6	6.0	4.1
Economic Development	23.6	11.5	24.4	13.5	(2.4)	(1.3)	16.6	9.9
Labour and employment	(1.3)	(1.1)	3.0	2.6	(0.1)	(0.1)	(4.0)	(3.3)
Resource sector	(13.8)	(7.2)	32.9	20.5	(6.7)	(4.0)	7.8	4.9
Transportation	32.9	9.5	11.2	3.3	25.8	8.3	3.0	1.0
Central government	74.7	14.6	15.2	3.1	16.4	3.4	4.1	0.9
Service of the Public Debt	17.5	3.1	(32.0)	(5.4)	10.5	1.8	(2.0)	(0.3)
Total	471.5	7.4	323.8	5.3	339.9	5.9	114.7	2.0
Rate of Growth of GDP		4.2		4.8		2.8		5.2

2.132 The large increase in protection services in 2007 was primarily the result of a $60 million estimate for credit union stabilization and support. This proved to be a very conservative estimate as only $40 million was needed. The remaining $20 million was subsequently recorded as a recovery in general government revenues.

2.133 The large increase in resource sector expenses in 2007 was primarily the result of a contribution of $26.6 million towards the clean up of the Saint John Harbour.

2.134 Since 2006, the rate of growth of expenses was higher than the rate of growth of GDP.

Expenses by financial statement line items

2.135 The following table provides a three year comparison of the financial statement line items with the six largest expenses during the year ended 31 March 2008.

	2008		2007		2006	
	$ millions	%	$ millions	%	$ millions	%
Regional Health Authorities	1,544.0	22.5	1,444.9	22.6	1,284.9	21.1
Education	896.4	13.0	850.4	13.3	817.0	13.4
Social Development	884.8	12.9	811.9	12.7	755.6	12.4
Health and Wellness	672.4	9.8	603.3	9.4	615.6	10.1
Service of the Public Debt	576.9	8.4	559.4	8.7	591.4	9.7
MPHEC	274.0	4.0	215.8	3.4	258.5	4.2

2.136 One notable observation from the above table is that the Regional Health Authorities have 22.5% of all expenses of the Province.

2.137 The increase in payments to Maritime Provinces Higher Education Commission (MPHEC) was due to the accelerated payments of operating grants. A payment of $100 million was made to the universities that did not have to be paid in the 31 March 2008 year.

Interest expense

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

	($ millions)								
	2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Interest	744.6	732.4	737.1	749.8	758.8	791.2	809.7	843.2	825.8
Interest on Fredericton to Moncton highway capital lease	54.3	55.4	56.5	57.5	58.1	55.8	22.5	0	0
Interest on other capital leases	2.1	2.2	2.2	2.3	2.3	2.4	2.4	2.5	2.5
Foreign exchange expense	(16.7)	(30.8)	(7.8)	(21.7)	(40.3)	35.4	56.6	44.5	27.2
Amortization of discounts and premiums	8.1	7.3	7.4	7.1	7.4	7.9	7.5	7.9	7.6
Other expenses	1.9	2.1	1.7	1.9	2.1	3.3	1.8	1.2	8.5
Subtotal	794.3	768.6	797.1	796.9	788.4	896.0	900.5	899.3	871.6
Interest recovery - Electric Finance Corporation	(217.4)	(209.2)	(205.7)	(216.0)	(205.5)	(235.1)	(248.7)	(262.0)	(260.9)
Service of the public debt	576.9	559.4	591.4	580.9	582.9	660.9	651.8	637.3	610.7
Less sinking fund earnings	(230.7)	(231.8)	(226.4)	(221.6)	(222.5)	(243.0)	(230.9)	(220.0)	(203.7)
Subtotal	346.2	327.6	365.0	359.3	360.4	417.9	420.9	417.3	407.0
Pension interest charged	(9.1)	0.4	30.9	17.6	85.4	27.9	3.5	(53.6)	(9.1)
Interest on student loans	13.6	11.6	6.8	0	0	0	0	0	0
Total	350.7	339.6	402.7	376.9	445.8	445.8	424.4	363.7	397.9

2.139 The subtotal that deducts sinking fund earnings from service of the public debt is the best indicator of net interest costs.

Provision expense

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

	($ millions)								
	2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Provision expense	58.6	69.9	59.7	77.5	71.2	33.0	43.2	65.3	46.5

Expenditure

2.141 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:

	($ millions)					
Expenditure	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
Expenditure ($ millions)	7,476.3	6,525.0	6,203.8	5,849.6	5,569.2	5,377.8
Increase ($ millions)	951.3	321.2	354.2	280.4	191.4	298.1
Percentage increase	14.6%	5.2%	6.1%	5.0%	3.6%	5.9%

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

	2008	**2007**	**2006**	**2005**	**2004**	**2003**
Expenditure growth	14.6%	5.2%	6.1%	5.0%	3.6%	5.9%
GDP growth (GDP is for the previous calendar year)	4.2%	4.8%	2.8%	5.2%	5.7%	2.3%
Revenue growth	4.8%	5.2%	5.7%	9.8%	3.9%	(0.2%)

2.143 In 2008, expenditure growth was greater than both GDP growth and revenue growth.

Chapter 3
Matters Arising from our Financial Statement Audits

Contents

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 2008 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
- 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 2008 audit.

Provincial Reporting Entity

3.15 Note 1 of the Province's financial statements lists various agencies, commissions and corporations that are controlled by the government, and the methods by which those entities are included in the financial statements.

3.16 In 1995 the Board of Management established a policy outlining the criteria to be followed for how an entity would be recorded in the Province's summary financial statements. At that time, the Board of Management listed those entities that were identified as Government Enterprises, and as such were to be recorded in the Province's financial statements using the modified equity method of accounting. Some of the entities listed (Algonquin Properties Limited, Worker's Compensation and New Brunswick Research and Productivity Council) are currently not recorded using the modified equity method of accounting. NB Municipal Finance Corporation was listed as an entity that was to be consolidated, but currently that entity is recorded using the modified equity method. The policy also listed those entities that were to be consolidated, however, some are no longer in existence, and more have been created since 1995.

3.17 Several of the entities that should be consolidated are currently listed in note 1 as using the transaction method "because the appropriate methods would not produce a materially different result". We believe the aggregate difference between the current method of accounting for these entities and the effect of consolidating them is significant to the Province's summary financial statements.

3.18 We recommended the Board of Management rescind the 1995 decision on the accounting treatment for government enterprises and agencies.

3.19 We recommended all entities that meet the criteria for consolidation be consolidated in the Province's summary financial statements.

3.20 The Comptroller responded:

I agree that the Public Sector Accounting Standard (PS 1300) is the appropriate authority when determining which government enterprises and agencies to include in the Province's summary statements as well as how to account for them. The Office of the Comptroller has been working, in cooperation with the various Crowns and agencies to appropriately implement PS 1300, since it came into effect. PS 1300 came into effect after the 1995 Board of Management decision. This would explain why the accounting treatment for some organizations differs from that of the Board decision. We intend to have the 1995 decision rescinded.

International Financial Reporting Standards (IFRS)

3.21 New accounting standards that must be in place for public companies in 2011 also apply to some public sector organizations. Government business enterprises must follow IFRS at that date. The Public Sector Accounting Board (PSAB) is currently working to determine what the appropriate standards will be for government business-type organizations and government not-for-profit agencies.

3.22 It is imperative that the Comptroller's office determine (in consultation with those in each organization charged with oversight responsibilities for financial reporting) which category the Crown agencies and other government organizations fit into, so that these agencies can plan accordingly for the necessary changes in accounting standards.

3.23 We recommended the Office of the Comptroller, in consultation with each organization, determine what type of entity each of the Crown agencies, commissions, and corporations are.

3.24 The Comptroller responded:

The Office of the Comptroller is aware of the pending changes for public companies and awaiting the outcome of PSAB's decision on the appropriate standards to be applied to government business enterprises, government business-

type organizations and government not-for-profit agencies. Consultations with some of the organizations have commenced. More will occur as PSAB and the Accounting Standards Board of the CICA make decisions.

Currently, there are in excess of forty five organizations (i.e. Crowns and agencies) included in the PNB financial statements. Every effort is being made to appropriately account for each organization as the accounting standards evolve. Due to the complexity and cost involved, combined with the fact that the authoritative accounting bodies have not finalized their decisions, it may take some time to work through any required changes.

Accounting Principles for Regional Health Authorities

3.25 Section 51 of the *Regional Health Authority Act* states that "A regional health authority shall apply generally accepted accounting principles as determined by the Auditor General". We are not currently exercising this authority, nor do we feel that it is the position of our Office to determine the accounting principles of any government organization. If our Office becomes part of the choosing of accounting policies for a government organization, there would be a perceived conflict with us being the auditor of the provincial government. Accounting principles should be applied based on generally accepted accounting principles set by the appropriate accounting body. We feel that it is essential for the government to determine what type of entity the Regional Health Authorities are. This will dictate the appropriate accounting principles to be followed.

3.26 We recommended Section 51 of the *Regional Health Authority Act* be modified.

3.27 We recommended the Office of the Comptroller consult with the Department of Health to determine what type of entity the Regional Health Authorities are.

3.28 The Comptroller responded:

The Regional Health Authority Act *falls under the mandate of the Department of Health. Your recommendation has been communicated to the Department. The perceived conflict for your Office is understood and it is agreed that the accounting principles should be applied based on GAAP set by the appropriate accounting body. We* *anticipate the modification to the act will be included the next time other amendments are made.*

In the meantime, the Office of the Comptroller is consulting with the Department of Health to determine what type of entity the Regional Health Authorities are. Every effort is being made by the Office of the Comptroller, Department of Health and the Regional Health Authorities to follow the appropriate accounting standards.

Provincial Rebate Programs

3.29 There are four provincial rebate programs netted on Schedule 14 of the Public Accounts against personal income tax revenue. The tax revenue is collected from individuals in New Brunswick who file personal income tax returns. This tax revenue is collected annually by the federal government and remitted to the Province on a monthly basis. The cost of the four programs is outlined below (in millions of dollars).

Program	**2004**	**2005**	**2006**	**2007**	**2008**
Low Income Senior Benefit	3.3	3.0	6.2	3.3	6.7
First-time University Students	-	-	-	5.2	5.1
NB Tuition Rebate	-	-	-	-	2.4
Home Energy Assistance	-	-	-	2.5	6.9
Totals	3.3	3.0	6.2	11.0	21.1

3.30 These four provincial rebates are paid separately by the provincial government.

3.31 Public Sector accounting standards say that revenue and expense should be recognized at the gross amount. This is not intended to apply to tax expenditures. Tax expenditures, as defined in the PSAB Exposure Draft on Tax Revenues are "preferential provisions of the tax law that provide taxpayers with concessions. They are available only to taxpayers…"

3.32 Of the four programs, the tuition rebate program is the only program that could be considered a "tax expenditure" program as it is a "refund" of personal income tax paid. Having paid personal income tax is not a requirement of the other three programs. The *New Brunswick Income Tax Act* "deems" a tax liability for the individuals who meet the eligibility criteria of these programs.

3.33 Government should properly report those programs that are offered. Section 36(2) of the *Financial Administration Act* states that "the estimates are to contain the statutory appropriations not required to be voted by the Legislature". Therefore, these programs should be included in Main Estimates.

3.34 We recommended the amounts for the three rebate programs that do not meet the definition of "tax expenditures" should be shown at their gross amount, and not be netted.

3.35 We recommended all the four programs noted above be included in Main Estimates.

3.36 The Comptroller responded:

> *Your recommendations on this issue have been discussed with the Department of Finance. The department has agreed to review the options available and work towards a solution which will achieve the goal of improved transparency and accountability.*

Federal Trusts

3.37 Federal Trusts are agreements made between the Government of Canada (the settler) and a trust company, with the beneficiaries being the Provinces and Territories of Canada. Generally, there are trusts set up each year in the federal budget with most of them spanning a period of 1-3 years, some longer. There are currently ten trust funds that list the Province of New Brunswick as a beneficiary.

3.38 When the Government of Canada sets up a trust fund, it is expensed in its entirety and the money placed in a trust where it earns interest. The Province of New Brunswick usually recognizes revenue from the trusts when the money is received; the balances of the trusts are not recorded on the financial statements. With all trusts, there is a designated time period and a notional yearly allocation for withdrawals. However, individual provinces have the flexibility to depart from the federal notional allocation according to their needs and priorities. Generally, the Province of New Brunswick follows the federal time frames and notional allocations; most differences are due to the timing of when the trusts were announced (i.e. close to 31 March) and not because of alterations in the proposed schedules.

3.39 Total revenue recorded from the Trust Funds for the year ended March 31, 2008, net of interest was $90.1 million. Interest is earned by the trustee and paid out when the withdrawals are made. The total interest earned for the year ended March 31, 2008 was $3.7 million. Below is a chart showing the expected future revenue, not including interest (in millions of dollars).

Name of Trust	2008-09	2009-10	2010-11	Totals
Wait Times Reduction Transfer Fund	13.7			13.7
Public Transit Capital Trust	10.4			10.4
Public Transit Capital Trust 2008	5.7	5.6		11.3
Affordable Housing Trust	13.6			13.6
Off-Reserve Aboriginal Housing Trust	3.3			3.3
Patient Wait Times Guarantee Trust	19.2	2.1		21.3
Immunization Trust Human Papillomavirus Vaccine	4.2	2.6		6.8
Canada ecoTrust for Clean Air and Climate Change	14.0	14.0		28.0
Community Development Trust	10.0	10.0	10.0	30.0
Police Officers' Recruitment Fund				8.8*
Totals	**94.1**	**34.3**	**10.0**	**147.2**
* $8.8 million over 5 years, distribution has not yet been determined				

3.40 We feel that the availability of such funding is information that the taxpayers should be aware of as the Province has the discretion to take this money into revenue as it sees fit.

3.41 We recommended the amount of Federal Trust funding available but not yet drawn down be disclosed in the notes to the financial statements.

3.42 The Comptroller responded:

Your recommendations on this issue have been discussed with the Department of Finance. The Department has agreed in principle with the recommendation that the Federal Trust funding available but not yet drawn down, be disclosed in the notes of the financial statements.

Liability for Injured Workers

3.43 The liability for provincial government employees injured on the job is a significant part of the Province's financial statements and has increased considerably over the past six years, as shown in the following table (in millions of dollars).

	2008	2007	2006	2005	2004	2003	2002
Regional Health Authorities	62.5	58.4	57.0	49.8	45.5	42.0	35.8
NB Government	42.4	27.0	26.8	26.0	25.4	23.7	20.8
Dept of Education	21.1	19.5	18.5	18.9	17.7	16.7	13.5
NB Liquor	0.7	0.9	0.9	1.0	1.1	1.2	1.2
Total	126.7	105.8	103.2	95.7	89.7	83.6	71.3
% changed	19.8%	2.5%	7.8%	6.7%	7.3%	17.3%	

3.44 Overall, this liability has increased by 78% in the last six years. We are particularly concerned about the 75% increase in liability for the Regional Health Authorities.

3.45 The *Report of the Independent Review Panel on New Brunswick's Workplace Health, Safety and Compensation System* released in March 2008 suggests that the government examine the potential benefits of becoming a rate assessed employer. The report states "Government might be better served by participating as it may not currently be providing all the rigor that the private sector is using, i.e., return to work programs and prevention initiatives".

3.46 We recommended the government investigate the large increase in its liability for the Regional Health Authorities.

3.47 We recommended the government act upon the recommendation of the *Independent Review Panel* to examine the potential benefits of becoming a rate assessed employer.

3.48 We also recommended the Public Accounts note 1c) on specific accounting policies include information on the injured worker liability.

3.49 The Comptroller responded:

With respect to the liability for injured workers, a review is underway by the Audit and Consulting Services section of our Office. This work will include an investigation of the underlying reasons for the increase and will make recommendations to the appropriate parties. Changes to note 1c) on the specific accounting policies will be considered for 2008-09.

Payment Policy Needs to be Modified

3.50 This year we conducted a special audit to determine if departments pay invoices in accordance with government policy. The results of this audit are reported later in this chapter. One observation we noted from our work is that the government's payment policy is not documented completely.

3.51 We recommended the Office of the Comptroller develop and document a payment policy for the Province. This policy should become part of the administration manual.

3.52 The Comptroller responded:

> *Updating the government's policy with respect to the payments will be considered as work plans permit. We will schedule this work in relation to other priorities. . . . .We are not aware of any difficulties in departments with respect to processing payments.*

Metallic Mineral Tax Audits

3.53 Last year we commented that Metallic Mineral Tax audits are not up to date. Returns for the past nine years have not been verified for accuracy, therefore adjustments may be required. Following up on this issue this year, we were informed that audits on the tax returns would not be completed until December 2010. We have concerns around these audits not yet being complete. Significant amounts of revenue have been recognized in the financial statements for the past two years. These figures might not be accurate and could result in either more tax being owed to the Province or the Province having a liability.

3.54 We again recommended Metallic Mineral Tax audits be performed on a timely basis.

3.55 The Comptroller responded:

> *Your recommendations on this issue have been discussed with the Department of Finance. At this point in time the Department is on track to make significant progress on the Metallic Mineral Tax Audits. The goal will continue to be the performance of timely audits.*

Public Sector Accounting Standards

3.56 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.

3.57 Last year the Comptroller commented that she needed to review the wording of the *Financial Administration Act* to ensure both the Act and the potential change to the financial statement note coincide.

3.58 We again 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. We recommended changes be made to the *Financial Administration Act*, if necessary, to comply with Public Sector Accounting Standards.

3.59 The Comptroller responded:

> *Note 1 to the financial statements contains a lengthy description of the accounting policies followed. The note, now six pages long, continues to evolve as we make improvements each year. As you are aware, every effort is made to ensure we are following generally accepted accounting policies of the Public Sector.*
>
> *We intend to consider the appropriate amendments to the* Financial Administration Act *the next time the Act undergoes a review.*

Other Comprehensive Income

3.60 For the year ended 31 March 2008, the Province's financial statements include for the first time an item called Other Comprehensive Income (OCI). According to the Statement of Change in Accumulated Deficit, Other Comprehensive Income for the year was $54.1 million.

3.61 The Statement of Financial Position reports that the Accumulated Deficit decreased from $1,499.2 million at 31 March 2007 to $1,404.6 million at 31 March 2008, a reduction of $94.6 million. The Statement of Change in Accumulated Deficit indicates that the reasons for this decrease were:

- the annual surplus for the year of $86.7 million, plus
- Other Comprehensive Income for the year of $54.1 million, minus

- the initial recognition of accounting changes for financial instruments by the New Brunswick Electric Finance Corporation of $46.2 million.

3.62 The Other Comprehensive Income comes from the results for the year of the New Brunswick Electric Finance Corporation (NBEFC). NBEFC recorded OCI as a result of applying new accounting standards for financial instruments. Financial instruments can be very simple instruments such as cash, accounts receivable, portfolio investments and debt. They can also be very complex instruments such as certain types of contracts called derivatives.

3.63 The new accounting standards mean that many of NBEFC's financial instruments must be reported in their year end Statement of Financial Position at their market value on the year end date. However, the amount that the market value of those financial instruments changes during the year is not necessarily recorded as part of the Annual Surplus. The change in market value of these financial instruments is either recorded as part of the Annual Surplus or as Other Comprehensive Income. How the annual change in market value is recorded depends on the nature of the financial instruments, and on NBEFC's intention about how they will use the instruments in the future.

3.64 As a result of this new accounting treatment, the increase in market value of certain financial instruments of $54.1 million during the year ended 31 March 2008 was recorded as Other Comprehensive Income, not as part of the Annual Surplus. Of the $54.1 million, $50 million was initially recorded in NBEFC's subsidiary company New Brunswick Power Holding Corporation, and $4.1 million was related specifically to NBEFC's operations.

3.65 If a financial asset was acquired for resale before maturity it is designated as "held-for-trading" and any changes in market value during the year are recorded as part of the Annual Surplus. If the financial asset was not intended for trading, but could be sold, it is designated as "available-for-sale" and any changes in market value during the year are recorded as Other Comprehensive Income. Some financial assets that are intended to be "held-to-maturity" are not required to be adjusted to market value at the end of each year.

3.66 The end result is that some changes in market value of financial instruments affect the Annual Surplus, and some changes in market value are recorded as an in-year adjustment to the accumulated deficit through Other Comprehensive Income.

Canada to adopt International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISAs)

3.67 The Canadian Institute of Chartered Accountants is committed to the adoption of International Financial Reporting Standards (IFRS) for publicly accountable enterprises. Other recognized accounting bodies outside Canada either have adopted or plan to adopt these standards.

3.68 Effective for fiscal periods beginning on or after 1 January 2011, financial statements of publicly accountable enterprises in Canada will have to follow International Financial Reporting Standards (IFRS). The Public Sector Accounting Board confirmed that government business enterprises and government business type organizations are publicly accountable enterprises. Therefore, the conversion from Canadian GAAP to IFRS will be required for these types of government entities.

3.69 Some of the government Crown agencies which are self-sustaining and following private sector accounting standards (for example NB Power Group and NB Liquor Corporation) will have to converge to IFRS. These entities should be carrying out or planning to carry out a review of the effects of this change on their current financial reporting system and other business areas. And then a conversion plan should be established to ensure the smooth convergence. Crown entities which carry out some commercial operations but are not self-sustaining may or may not need to convert to IFRS.

3.70 Government financial reporting, as in Volume I of the Public Accounts, will be exempt. The Public Sector Accounting Board standards are still applicable for the public accounts.

3.71 IFRS is a set of concept-based standards which is similar to Canadian GAAP. However, significant accounting differences often reside in the details, which could cause recognition, measurement, and presentation differences. One of the most significant challenges an entity is facing is to determine which variations from Canadian GAAP will impact the entity.

3.72 As well, Canada's Auditing and Assurance Standards Board (AASB) decided to adopt International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board

(IAASB). These new standards will become effective in Canada for audits of financial statements with periods beginning on or after December 15, 2009.

3.73 The ISAs have many similarities to current Canadian Generally Accepted Auditing Standards (GAAS), although the current proposed and approved standards are significantly different in some areas. Potentially, the most significant impact on our Office would be the new standards regarding the audit of group financial statements. These new standards require us, as the auditor of the Province, to be much more involved in the audit of such significant components of the Province as RHAs, NB Power Group, and NB Liquor.

3.74 Our Office is assessing the impacts of the changing standards. We will need to determine how the changes in auditing standards affect our current audit methodologies and the impact of the changes in financial reporting standards on the financial statements of the government organizations we audit.

Compliance with PSAB recommendations

3.75 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

3.76 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. 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 recommendations that they were not complying with. Last year we reported that the Province implemented nine more recommendations leaving six recommendations outstanding. The following table shows the progress made in the six areas for the year ended 31 March 2008:

Partially complied with in the year ended 31 March 2008	3
Situation did not occur during the year ended 31 March 2008	1
Not complied with in the year ended 31 March 2008	2

3.77 The specific PSAB accounting recommendations under consideration were:

PSAB Reference	2006 Report of the Auditor General Vol. 1 Reference	31 March 2008 Compliance	31 March 2008 Financial Statement Reference
3050.38	2.79 2.80	No	
3050.54	2.85	Partially	Note 1 (c) Accrual Accounting
3070.56	2.91	N/A	
3070.60	2.99	No	
3100.24	2.103	Partially	Note 5
3310.31	2.125	Partially	Note 15 (c) New Brunswick Credit Union Deposit Insurance Corporation

3.78 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	2008
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
2.125	We recommend the Province provide a brief description of the general terms and conditions of loans guaranteed under its significant loan guarantee programs.	Partially

3.79 The reasons we concluded that these recommendations still remain partially implemented follow.

3.80 The 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.

3.81 Note 5 to the 2008 financial statements on Special Purpose Accounts 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 $56.1 million in assets.

3.82 Note 15 (c) to the 2008 financial statements on Contingent Liabilities related to the New Brunswick Credit Union Deposit Insurance Corporation was added in 2007. However, there is still no description of the general terms and conditions of the $116.7 million of loan guarantees listed in note 15 (a) Guaranteed Loans.

3.83 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	2008
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

3.84 We are again recommending the Province make these changes.

Financial statement discussion and analysis

3.85 The Public Sector Accounting Board (PSAB) has established a statement of recommended practice for financial statement discussion and analysis (SORP-1).

3.86 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.

3.87 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","major variance analysis" and "indicators of financial health" which immediately precede the audited financial statements in Volume 1 of the Public Accounts.

3.88 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.

3.89 In 2008, the Province added the section "indicators of financial health" as well as expanded the information under "results for the year" and "major variance analysis." These three sections contain some components of SORP-1's recommended practices for FSD&A. As the following analysis shows, we believe that additional improvements could be made which would further explain and highlight information underlying the Province's financial statements.

Summary

3.90 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	Needs improvement
.30 b) ii)	Variance analysis	Needs improvement
.30 b) iii)	Trend analysis	Needs improvement

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

Reference to the financial statements

3.92 Paragraph .12 of SORP-1 recommends:

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

3.93 The Province prepares summary financial information which was taken directly from the 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

3.94 Paragraph .14 of SORP-1 recommends:

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

3.95 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 the Public Accounts.

Summary of significant events

3.96 Paragraph .30 subsection (a) of SORP-1 recommends:

Financial statement discussion and analysis should include:

.30 (a) a highlights section that provides a brief, concise summary of the significant events affecting the financial statements.

3.97 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."

3.98 The Province presents summary financial information for fiscal years 2007 and 2008 which highlights the financial position of the Province, its Statement of Operations and its Statement of Change in Net Debt. Also, historical information back to 2004 is presented for revenue, expense, surplus, net debt, and cost of servicing the public debt, as well as results according to the *Fiscal Responsibility and Balanced Budget Act*. A brief description was provided along with the historical data explaining the results, however, the focus was only on the Statement of Operations.

Information on risks and uncertainties

3.99 Paragraph .30 subsection (b) (i) of SORP-1 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;

3.100 The Province's financial statement discussion and analysis section "indicators of financial health" acknowledges that there are variables outside of the government's direct control which can significantly influence financial results. A limited list of these variables is also provided, however, no explanation of the government's policies to mitigate those risks and uncertainties is provided.

Variance analysis

3.101 Paragraph .30 subsection (b) (ii) of SORP-1 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;*

3.102 The Province has made considerable improvement in its presentation for major budget-to-actual and previous-year-actual-to-current-year-actual variances in 2008. Budget-to-actual and previous-year-actual-to-current-year-actual variance analysis is provided for major revenue and expense lines, as well as a narrative describing the reason for any significant variations. We believe, however, that the information could be improved to provide the reader with more useful explanations. As well, the Province could expand this section to include items from the Statement of Financial Position and the Statement of Change in Net Debt instead of only focusing on the Statement of Operations.

Trend analysis

3.103 Paragraph .30 subsection (b) (iii) of SORP-1 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.*

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

3.105 Although the Province has improved its presentation of trend analysis, we believe there is further room to improve in this area. For instance, no trend analysis was done for financial assets and liabilities as the Province has mainly chosen to emphasize the Statement of Operations. The Province is also now reporting other ratios and indicators recommended by the CICA in the "indicators of financial health" section. Of the available indicators to report, however, the Province chose to report only the ones which tend to cast a more favourable light. For instance, they did not report the change in net debt and GDP as a measure of sustainability, which for 2008 shows a substantial percentage increase in net debt and a slight percentage decrease in GDP, which is unfavourable.

PSAB projects in progress

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

Government transfers

3.107 The topic of government transfers was introduced in Volume 1 of our 2007 Report and to date PSAB has received 48 responses to the Re-Exposure Draft on government transfers. They are currently waiting for feedback on the matter from the PSAB/Deputy Ministers of Finance joint working group. The future of this project is still unclear.

Tax Revenue

3.108 PSAB has proposed that a new section in the PS Handbook be issued. The new section, PS 3510, would provide principles on recognition, measurement and disclosure of tax revenue on government financial statements. The standard is based on principles from the International Public Sector Accounting Standards Board, IPSASB. In December 2007, an Exposure Draft on Tax Revenue was approved by PSAB.

3.109 Features and implications of the Exposure Draft:

- Transfers paid through a tax system are recognized as expenses not netted against tax revenue.
- Tax revenue should be reported at its gross amount so that the total of government revenue from that source is shown on the financial statements, specifically the statement of operations. Only tax expenditures can be netted against tax revenue.
- Tax revenue is recognized by the government that imposes the tax. For example, if a government has the choice on whether or not to impose a tax on behalf of an entity and does levy it, the

government must gross up transactions rather than recognizing it on a net basis.

- Taxes are to be recognized as assets and revenue when the taxable event occurs and is authorized except when tax stipulations create a liability for the taxing government. As tax stipulations are met revenue is recognized and the liability is reduced.
- Assets acquired through a tax transaction should be initially measured at their fair value at the date of acquisition.
- Taxes receivable are to be evaluated on a regular basis for collectability. Valuation allowances should be included in taxes receivable and shown on the statement of financial position at their net amount. Changes in taxes receivable valuation allowances must be recognized as expenses.

Assessment of Tangible Capital Assets

3.110 In March 2008, PSAB approved a Draft Statement of Recommended Practice (SORP). PSAB expects to approve the Final Statement of Recommended Practice in November 2008. The SORP would apply to all governments and government organizations that decide to report on the physical condition of their tangible capital assets and it provides guidance on how to report.

3.111 Some of the main aspects of the SORP are that tangible capital assets can be reported on individual, specific categories or group basis. Supplementary information on the physical condition of the tangible capital assets should be reported. This information does not necessarily need to be included with the financial statements. Government may choose to provide this information in a special report or include it with other government documents like budget documents. This information should at least include the average age, useful life and overall average physical condition rating and the nature and extent of each category of asset. Trend information on changes in the physical condition and basis of measurement used to assess would be included in this information, which indicates whether the physical condition of the assets are improving or deteriorating. Government would report on this information over an appropriate period of time, considering the nature and use of the assets.

Environmental Liabilities

3.112 Government environmental obligations can result from many different sources. They can stem from legislation of the reporting government or another government, agreements with third parties, or voluntary obligations, for example health and safety needs. They can also be the result of requirements to improve existing operations, such as reducing waste or recycling. Moreover, environmental liabilities can be caused by normal operations. For example, disposal of nuclear waste and decommissioning of existing facilities could be considered normal operations.

3.113 In June 2006, PSAB approved a Project Proposal for Environmental Liabilities. The focal point will be providing guidance to government on the recognition, measurement, and disclosure of environmental obligations that result in liabilities. A final Statement of Principles has not been released yet.

Other audit work in departments and Crown agencies

Testing of Payments

Background

3.114 During the audit year, our financial audit team carries out three main types of audits:

- Financial statement audits
- Audits of systems and controls
- Audits of compliance with government acts, regulations and policies.

3.115 At times, aspects of more than one of these audits can be combined into the same audit assignment, resulting in one combined report containing our findings and recommendations. In this section we are reporting on work we did with respect to all three types of audits covering payments made by a number of government departments. Part of that work was required for our standard expenditure testing as part of our financial statement audit of the Province of New Brunswick for the year ended 31 March 2008. The second part of our work was a specific sampling of expenditures to check for compliance with aspects of Administrative Policy AD-6402: Approval of Payments.

Scope

3.116 Our work covered payments made by 17 government departments during the fiscal year ended 31 March 2008. We have shown those departments in Exhibit 3.1. Exhibit 3.1 also shows the number of test items in each department for each part of our work, the standard expenditure testing and what we have called the AD-6402 work, for want of a more precise term.

Exhibit 3.1 Extent of Testing by Department[1]

Department	Standard Expenditure Testing	AD-6402 Work
Business New Brunswick	*5*	*47*
Health	*41*	*50*
Social Development	*3*	*50*
Supply and Services	*14*	*50*
Education	3	N/A
Environment	4	N/A
Finance	1	N/A
General Government	2	N/A
Intergovernmental Affairs	2	N/A
Justice and Consumer Affairs	4	N/A
Local Government	3	N/A
Natural Resources	5	N/A
Post-Secondary Education, Training and Labour (PETL)	*11*	*N/A*
Public Safety	4	N/A
Tourism and Parks	1	N/A
Transportation	*22*	*N/A*
Wellness, Culture and Sport	1	N/A
Total	**126**	**197**

3.117 Our testing criteria covered a variety of areas ranging from proper spending and payment authority to ensuring transactions were recorded in the correct period, otherwise known as "proper cut-off." Our criteria were drawn from our knowledge of financial statement assertions and related controls, as well as from the policy direction of AD-6402. Our criteria are summarized in Exhibit 3.2 in the column titled "Type of Reportable Item/Criteria."

3.118 We communicated observations and recommendations to each department concerning our findings in that particular department.

Findings

3.119 We found a number of reportable items in our work. These reportable items were in the six departments featured in italics in

1. Departments in *italics* are the departments where we had reportable issues resulting in management letters.

Exhibit 3.1. We have summarized these in Exhibit 3.2. Following Exhibit 3.2 we continue with some discussion of particular findings and recommendations.

Exhibit 3.2 Number of Reportable Items by Test Type

Type of Reportable Item/Criteria	Standard Expenditure Testing	AD-6402 Work	Total
Improper Spending Authority	7	13	20
Improper Payment Authority	8	5	13
Improper Vote Coding	0	N/A	0
Does not Agree to Contract/Tender Price	1	N/A	1
Insufficient and/or Inappropriate Back-up	0	0	0
Mathematically Incorrect	2	1	3
Invoice Does not Support Payment	0	0	0
Incorrect Primary Coding	0	0	0
Improper Cut-off	1	3	4
Late Payment	N/A	46	46

No Reportable Items for Four Criteria

3.120 We were pleased that we did not find any issues of:

- Improper Vote Coding
- Incorrect Primary Coding
- Insufficient and/or Inappropriate Back-up
- Invoice amount not equal to the payment amount.

3.121 We are not making additional comments on these criteria.

Reportable Items for Six Criteria

3.122 We found a variety of errors, issues or reportable items with our criteria on:

- Spending Authority
- Payment Authority
- Agreeing Payment Amount to Contract/Tender Price
- Mathematical Correctness of Back-up

- Proper Cut-off
- Timely payment of invoices

3.123 We discuss these findings in the paragraphs that follow.

Spending Authority

3.124 AD-6402 defines spending authority as "approval to spend funds out of the approved budget prior to making a purchase or commitment. Approval indicates sufficient funds are available to pay for the purchase." This is an important control to ensure spending stays within amounts approved by the Legislative Assembly. Policy AD-6402 goes on to note that government employees who exercise spending authority are responsible and accountable for:

- expenditures charged against the related budget;
- ensuring sufficient funds are available in the budget prior to entering into any contract or purchase order; and
- ensuring that prices quoted for goods and services match the prices in the related contract.

3.125 Based on this important list of responsibilities, one can see how spending authority has a lot to do with ensuring proper control over a department's expenditures. Exhibit 3.3 shows we found 20 errors on the 323 items tested for spending authority (about a 6% error rate).

Exhibit 3.3 Description of Spending Authority Errors

Department	# of Errors	Spending Authority Limit	Actual Amount Spent	Nature of Error
Supply & Services	1	$200,000	$226,987	**Limit Exceeded**
Social Development	1	$0	$64,742	**Person who signed was not authorized for that budget line**
Social Development	1	$500	$2,175	**Limit Exceeded**
Health	12	$0	Range from $4,798 to $28,267	**7 different employees were not authorized for the budget line they signed for**
PETL	1	$0	$160,994	**Person who signed not authorized for that budget line**
Transportation	1	$75,000	$211,387	**Limit Exceeded**
Transportation	1	$75,000	$230,450	**Limit Exceeded**
Transportation	2	$0	$2.7 million and $4.3 million	**Person not authorized for that budget line.**

3.126 In looking at these errors, we can see that in some cases the person who signed for spending authority exceeded their signing limit. The differences by which the amount spent exceeded the authorized amount are significant. For example, in the Department of Transportation cases, in two sample items staff with limits of $75,000 signed for expenditures well over $200,000.

3.127 In other cases, the person signing had spending authority for certain items in the budget, but they were not authorized to sign for a particular budget item they actually signed for. In other words, they had no authority to approve the expenditure. The *Auditor General Act* requires the Auditor General to report when “an expenditure was made without authority” per Section 13 (2) (d).

3.128 We recommended to a number of departments in our sample that they ensure their lists for signing authorities are kept up to date and that they ensure employees only sign documents within their spending limits and within their authorized area of responsibility.

Payment Authority

3.129 AD-6402 defines payment authority as

> *approval to make a payment. This approval ensures the expense was incurred for government business, complies with legislative and government policy and goods have been received or services have been provided. . . . Employees exercising payment authority are responsible and accountable for accuracy, authenticity and legality of payments.*

3.130 Ensuring the expense was for government business; ensuring compliance with legislation and policy; ensuring the goods were received. These are all important factors in making sure that taxpayers' money is spent appropriately. Payment authority is an important part of an effective internal control system.

3.131 We found 13 payment authority errors in the 323 items tested. We have summarized them in Exhibit 3.4.

Exhibit 3.4 Description of Payment Authority Errors

Department	**Actual Amount Paid**	**Nature of Error**
Business NB	5 amounts ranging from $1,218 to $18,684	**No payment authority signature**
PETL	$160,994	**Person exceeded authority limit of $100,000**
Health	4 amounts ranging from $32,351 to $804,901	**Person has spending authority; department states it had intended person to have payment authority**
Health	3 amounts ranging from $140,874 to $867,082	**Person signing not on approved payment authority listing**

3.132 As we had seen with spending authority, we had a case where the person had payment authority for certain items in the budget but they were not authorized to sign for the particular budget item they actually approved payment on. But in the other cases, the staff were not authorized to sign for payment or the payment signature simply wasn't there. As we did with spending authority, we made recommendations to departments that they ensure their signing authority listings are properly maintained. Again, we point out that the *Auditor General Act* requires us to report where "an expenditure was made without authority or without being properly vouched or certified."

Combined Comments on Maintaining Signing Authority Lists

3.133 Our findings for spending and payment authorities illustrate the importance of updating and maintaining the forms for spending and payment authorities. We noted at least one case where the listings were not maintained in a very orderly manner and where signing authority sheets dating back to 1992-93 were still present in the documentation we were shown. We found another instance where an individual was no longer in the Department's employ but was listed on the signing authority form.

3.134 AD-6402 places a high priority on deputy head responsibility for signing authorities for both spending and payment. It says that the deputy head is responsible for all expenditures in the department and that "they may authorize their employees to exercise (spending and payment) authority on their behalf through written delegation of financial signing authorities." Given this priority on properly documenting and exercising these signing authorities, we encourage the departments to take our recommendations in this area seriously. We intend to revisit aspects of this compliance in our ongoing work with expenditures.

Agreeing Payment Amount to Contract/Tender Price

3.135 We found one error under this criterion. The Department of Transportation purchased temporary ferry services without tender. Since the service exceeded $10,000, it should have been tendered according to the *Public Purchasing Act*. The Department told us that there is no other provider for the service. The Department could have applied for an exemption under the *Public Purchasing Act*. Since the Department did not get the exemption, it made an expenditure without complying with the *Public Purchasing Act*.

Mathematical Correctness

3.136 We found three of these "math" errors. In one, the department used an HST rate of 15% versus the 14 % it should have paid. In another, there was a small error on a travel claim when HST was not backed out as it should have been, resulting in the expense being understated by a small amount.

3.137 The third error occurred when the Department of Social Development paid an invoice late and paid interest to the supplier as a result. Interest should only be paid if the Deputy Minister specifically approves it or if the contract terms require it. The Department was unable to provide documentation supporting either one. Once again, it appears a department may have made an expenditure without the proper authority.

Cut-off Errors

3.138 When a cut-off error occurs, it means that a department has recorded an invoice in the wrong year. This year's expenditure gets charged against the prior year's budget, or vice-versa. This creates accounting errors. Expenditure totals are incorrect in both years. Further, since our client, the Legislative Assembly, approves a budget for a specific fiscal year, it is important that the expenditures end up getting charged against the budget year they were approved for. It is a serious matter in terms of legislative approval of expenditures.

3.139 We found four cut-off errors in our test.

3.140 Two of the errors were in the Department of Health. In both cases it appeared the invoices were received in plenty of time to be recorded in the proper year. We made a couple of recommendations to the Department to help it ensure it records transactions on a timely basis.

3.141 The other two errors were in the Department of Social Development. They related to the same supplier. The Department informed us that the particular supplier was late in submitting invoices and that the accounts payable section didn't receive them in time to record the amounts in the proper year.

3.142 We decided to do a bit more audit work surrounding the invoicing pattern of this supplier with respect to the Department of Social Development. It appears the Department did not record about $170,000 in services from this supplier in the correct fiscal year. In our opinion, the late delivery of invoices should not preclude proper accounting. Accordingly, we recommended the Department develop reasonable estimates of amounts in cases such as this.

Timely payment of invoices

3.143 Appendix A of AD-6402 advises those exercising payment authority to ensure that the "pay date is in accordance with government policy." It does not actually state what "government policy" means.

3.144 After some enquiry, we were directed by the internal audit staff at the Office of the Comptroller towards a 1993 internal memo. The memo says government should be paying all supplier invoices within 30 days unless there are extenuating circumstances. If, for instance, the supplier offers a discount for a fast turn around time such as ten or fifteen days, the department is encouraged to take advantage of that. If, on the other hand, there is a dispute regarding such things as the receipt of the goods in question, payment can be delayed until the matter is resolved.

3.145 When we began the audit, we were aware of the "30 day rule." But we were not aware the rule was essentially unwritten. Therefore, we made a recommendation to the Office of the Comptroller that the Board of Management revise the administration manual to provide guidance around the 30 day payment rule.

3.146 Our interest in the compliance with the "30 day rule" comes from at least a couple of perspectives. On the one hand, we wanted to see if departments were paying invoices well before the 30 days were up. Early payment means the Province loses the interest on its cash for a number of days (or pays additional interest on cash it has to borrow to pay bills early). On the other hand, if departments are paying suppliers after the 30 days have expired, without a valid reason, then the Province is not treating some suppliers fairly. We checked 197 payments to see if they complied with the "30 day rule." We did not find any significant "early payment" issues. As noted in Exhibit 3.2 though, we found 46 late payments. In short, between 20%-25% of the payments were late. We have attempted to categorize them by explanation in Exhibit 3.5 below. In the last column of Exhibit 3.5, we have placed our opinion as to whether the Province (PNB) was primarily responsible for the delay.

Exhibit 3.5 Explanation for Late Payments

Explanation	**Number**	**PNB Caused Delay?**
Invoice Received Late	18	No
Incorrect Address	1	No
Additional information requested from supplier	4	No
Government created Population Growth Secretariat; new entity had some administrative learning curve issues	8	**Yes**
"Employee Error" as system did not allow pay date to be entered in advance	4	**Yes**
Internal delays	6	**Yes**
Email invoice overlooked by staff	1	**Yes**
Vacation	2	**Yes**
Lengthy process within department	2	**Yes**
Totals	**46**	**23**

3.147 Our column titled "PNB Caused Delay?" shows that in 23 of the 46 cases the various departments could have taken some action to speed up the payments and ensure more timely payment to the suppliers. When we look at our sample size of 197 items, and project the results, this means that about 11.6 % of the Province's payments to suppliers were late due to matters within the Province's control.

3.148 To provide some perspective on how late these payments were, we prepared Exhibit 3.6. This exhibit shows how late these late payments were in the cases where the Province caused the delay. Rather than look at all 23 of these cases, though, we determined that it would be more appropriate to exclude those eight payments that were late due to the administrative delays associated with the Province creating the Population Growth Secretariat. It was felt that the eight late payments associated with this situation of creating a new organization might unfairly skew the results, according too much weight to this one-time, start-up situation and causing our readers to make inaccurate assumptions about how wide-spread late payments to suppliers were.

3.149 Nonetheless, it is important to note that when the government sets up a new organization, it is not enough to staff the programs which will carry out the policy objectives directly. The government also has to ensure that an appropriate administrative framework accompanies the program initiatives, one which ensures proper systems and controls are established, including day-to-day tasks such as paying vendors on time.

Exhibit 3.6 Extent of Delay in Late Payments

Number of Days in which Payment was Made	Number of Late Payments
31- 35 Days	5
36- 40 Days	5
41-50 Days	2
51–60 Days	3

3.150 One recommendation we made to more than one of the departments with late payments was that they "date stamp" all invoices when received. This practice can help instill a discipline on the payment and the cut-off procedures. It can help ensure our suppliers are paid within thirty days. And, it can also assist departments in resolving disputes with suppliers who complain that they have not been paid on time. That is, if a supplier claims that the invoice has not been paid within 30 days, and a date stamp can clearly establish the supplier was late in submitting the invoice, then the department has a strong case for the apparent delay.

3.151 Because of the high percentage of late payments, we are considering additional work on this attribute in our ongoing examination of expenditures.

Conclusions

3.152 Our testing of expenditures for financial statement purposes did not reveal a level of error that would have required a reservation in our report on the financial statements. However, our standard expenditure testing and the additional AD-6402 work demonstrate areas of control weakness, particularly in regard to the spending and payment authority. We encourage improvements in this area and we intend to continue this testing.

Regional Development Corporation (RDC)

3.153 While looking at the Board of Management minutes, we found that RDC contributed an amount that exceeded the approved budget of $500,000 under the Acadian Peninsula Economic Development Fund for Phase II of the Complexe Industriel du Grand Caraquet. The contribution was $100,000 over the amount approved.

3.154 We recommended the Regional Development Corporation ensure that the proper authority is obtained before making a contribution to an entity.

Kings Landing Corporation
Policies

3.155 During our audit it came to our attention that Kings Landing does not have formal documented polices in place. Having formal documented policies will eliminate inconsistencies within the organization and provide better accountability of staff members.

- Currently there is no policy in place regarding the appropriate amortization method for capital assets. Several of the assets are amortized using the declining balance method while some are amortized using the straight-line method.
- The current travel policy in place indicates that "*business related expenses such as meals, ground transportation, appropriate telephone charges and accommodations will be reimbursed with the completion of an official expense report form and with all receipts attached. No reimbursement will be authorized without a receipt. Government guidelines for daily maximum meal allowances should be followed as a general rule of acceptable levels of expense.*" During the course of our audit, we found instances where this policy was not being applied consistently by staff members. We also noted that there is no policy in place for the approval of the General Manager's travel claim; claims submitted by the General Manager were not approved or verified by any other staff.
- There were expenses in the year relating to the purchase of retirement gifts and staff social functions for which no policies exist.

3.156 We recommended Kings Landing develop a capital asset policy appropriate to the capital assets of Kings Landing and obtain approval from the Board.

3.157 We recommended Kings Landing review their current travel policies and improve on the policies already in place to ensure that policies are consistently applied to all staff and that all claims have proper authorization.

3.158 We recommended Kings Landing develop policies relating to the purchase of retirement gifts and staff social functions and obtain approval for them from the Board.

Control Weaknesses

3.159 During our audit we noted that when employees purchase gasoline using the Kings Landing credit card, the receipt provided to accounting staff is not signed by the employee that made the purchase. Having the employee sign the receipt holds them accountable for the purchases that they make on behalf of Kings Landing.

3.160 We recommended Kings Landing staff sign the credit card slips for any purchases made prior to giving the slip to the accounting staff.

Mirrored Backup System

3.161 During the fiscal year, a mirrored backup computer system was installed at Kings Landing. The purpose of the mirrored backup system is to provide a backup of the main computer system should it crash. During the course of our audit, we learned that the mirrored backup system was being stored in the same room as the main server system. Having the two systems stored together is only beneficial should the main system crash and has no benefit should there be a fire or a break-in since it would be likely that both systems would be lost.

3.162 We recommended Kings Landing store the mirrored backup system in a different secured location on site.

Passwords

3.163 During the year, Kings Landing implemented a new accounting software package. It came to our attention that the system does not require the users to log-in with a username and password. The weakness increases the risk of unauthorized access to the system, which could result in fraudulent entries being made. Having passwords in place also provides a trail to identify who made particular entries.

3.164 We recommended Kings Landing establish usernames and passwords for all users of the new accounting software.

Payroll Approval

3.165 We noted during the course of our audit that the payroll is not always approved before the Electronic Funds Transfer (EFT) run. Having approval before the EFT run would help detect any errors in the payroll before payment and limit the number of adjustments needed in subsequent pays.

3.166 We recommended Kings Landing management approve the payroll before the EFT run.

Confidentiality of Employee Information

3.167 During the course of our audit, we learned that the payroll is currently being sent to an outside source instead of being directly uploaded to the bank. The reason for this provided by staff is that changes to the banks's requirements makes it difficult for Kings Landing to upload their own payroll since they do not have high speed internet. Allowing an outside source to have access to personal information of employees increases risk for Kings Landing.

3.168 We recommended Kings Landing ensure that the proper procedures are in place to protect the personal information of staff.

Collection Purchase

3.169 During the fiscal year, Kings Landing purchased a valuable collection of artifacts. This purchase was approved by the Board, with a condition that funding be sought to cover the costs of the collection. The collection was purchased despite receiving only a minimal amount of outside funding.

Kings Landing response

3.170 The Board of Directors responded positively to our findings and recommendations and indicated that action was planned, or had already been taken, to address our concerns.

NB Securities Commission
Inclusion of additional information in the annual report

3.171 The Commission in prior years did not disclose the compensation of board members and senior management in its annual report. We noted that some Commissions in other jurisdictions did disclose this information (Alberta for example). Also, we noted that the provincial Comptroller's Office is changing the current Public Accounts disclosure for Crown agencies to in effect put more of the responsibility for public reporting in the hands of Crown agencies themselves.

3.172 We recommended the Commission disclose the salaries and benefits of board members and senior management in the Annual Report.

3.173 The Commission responded:

The Commission takes its governance responsibilities very seriously and regularly reviews its policies and practices with an orientation for excellence. The 2007-2008 Annual Report devotes seven pages to corporate governance. Included in those pages are disclosures of Commission Member remuneration and expense reimbursements. The

Human Resources and Governance Committee will assess the adequacy of the current disclosure for applicability to senior management prior to the issuance of the next annual report.

New Brunswick Credit Union Deposit Insurance Corporation
Length of the audit

3.174 The audit began in the week of February 11th and the financial statements were released at the end of May. There were a number of factors that contributed to this:

1. NBCUDIC did not receive the audited or draft financial statements of its Trust Funds until April. The audited statements of the RMA trust fund were not received until late May.

2. There were a number of complex issues to be dealt with in the preparation of this year's statements that caused many "starts and stops" during the course of our field work. These included:

- The potential of a contingent liability with regard to the Caisse populaire de Shippagan.
- Income tax had to be paid for the first time resulting in research into various issues surrounding it
- The method for collecting money from the trust funds to cover operating expenses changed during the year
- The net assets of NBCUDIC were no longer based on a calculation; instead they became the existing net assets of the trust funds. There was some initial confusion over this change and whether the trust funds had to pay back any amounts to the stabilization boards.

3.175 We recommended NBCUDIC make the two trust fund administrators aware of the Corporation's mandate to report by April 30th of each year and discuss with them the possibility of receiving the draft statements by March 15 and the audited statements by March 31 next year.

3.176 We recommended NBCUDIC continue to consult with an accounting firm and / or the Department of Finance to resolve any current income tax issues before the next year end. Given the expected increase in investment income this could include ways to reduce taxable income and related taxes payable and the possibility of being exempted from provincial income tax.

3.177 It was noted in the 2008 April board minutes that a new formula for the trust fund calculation will be determined. We recommended NBCUDIC formulate its policy well before the next year end in regard to the required balance of the two trust funds. Consideration should also be given at that time as to whether any amounts need to be repaid to either stabilization board as a result of any prior year freezes on transfers to the two stabilization boards from the trust funds.

Losses through fraud, default or mistake

3.178 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.

3.179 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	$10,468
Department of Natural Resources	
• Missing equipment from various regions	$5,714
Department of Post-Secondary Education, Training and Labour	
• Missing equipment	$6,531
Department of Transportation	
• Missing equipment, supplies, tools and cash	$4,511

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

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

3.182 In 2008, the Province reported lost tangible public assets in the amount of $104,279 compared to a loss of $64,500 reported in 2007.

Chapter 4
Financial Statements of New Brunswick Power Holding Corporation

Contents

Financial Statements of New Brunswick Power Holding Corporation

4.1 The financial statements of the New Brunswick Power Holding Corporation (NB Power) are complex. Consistent with other organizations that follow the accounting standards set by the Accounting Standards Board of the Canadian Institute of Chartered Accountants (CICA), the financial statement complexity increased in the year ended 31 March 2008 with the introduction of Other Comprehensive Income (OCI). Financial statement complexity also increased with NB Power's recognition of regulatory deferrals. In order for Members of the Legislative Assembly to properly hold NB Power accountable for its results, it is important to try to understand the information contained in the Corporation's financial statements, and to ask questions about anything that is unclear or confusing.

4.2 In this analysis, we will specifically look at the following components of NB Power's financial statements:

- financial instruments;
- regulatory deferrals; and
- transition to International Financial Reporting Standards (IFRS).

Financial instruments

4.3 Note 4(n) to NB Power's financial statements for the year ended 31 March 2008 describes the Corporation's accounting policy for financial instruments. Note 26 describes the financial instruments held by NB Power, and Note 5 describes the impact on the financial statements of the new accounting policy NB Power put in place for financial instruments. The end result is that the value of some balance sheet items changed. Some of that change affected Net Earnings, and some of the change was recorded as Other Comprehensive Income. Elsewhere in this Report we have provided a brief explanation of Other Comprehensive Income.

4.4 While NB Power provides a lot of information about its financial instruments, it is not easy to tie the information together to get a clear picture. For example in Note 5 it is not clear that the 1 April 2007 figure of $8 million is a total and it is arrived at by adding the four numbers above it together – and in doing so the $53 million for Derivative Liabilities has to be treated as a negative.

4.5 In the same note, the information about the 31 March 2008 impacts is also difficult to understand.

4.6 Below is how some of the information is presented in Note 5 ($ millions):

For 1 April 2007:	
Increase (decrease)	
Derivative assets	$12
Nuclear decommissioning and used fuel management funds	28
Future special payments in lieu of taxes – other comprehensive income (asset)	5
Derivative liabilities	53
Accumulated other comprehensive income (deficit)	(8)
31 March 2008:	
Balance Sheet – increase (decrease)	
Nuclear decommissioning and used fuel management funds	$32
Long-term receivable	93
Derivative assets	62
Derivative liabilities	30
Future special payments in lieu of taxes – other comprehensive income (liability)	22
Other comprehensive Income – increase (decrease)	
Other comprehensive income	50
Accumulated other comprehensive income (deficit)	42

4.7 Trying to make sense of the numbers reported above is not easy. A presentation similar to the following would have been clearer:

	31 March ($ millions)		
	Balance Sheet		OCI
	2007	2008	2008
Changes recorded in other comprehensive income			
Increase in nuclear decommissioning and used fuel management funds	$28	$32	$4
Increase in derivative assets	12	62	50
Increase in future special payments in lieu of taxes – other comprehensive income asset	5		(5)
(Increase) in derivative liabilities	(53)	(30)	23
(Increase) in future special payments in lieu of taxes – other comprehensive income liability		(22)	(22)
Accumulated other comprehensive income (deficit)	**($8)**	**$42**	
Other comprehensive income			**$50**
Changes recorded in net earnings			
Increase in long-term receivable	**0**	**$93**	

4.8 While such a presentation is still complicated, it is easier to tell which numbers are added together, which are treated as negatives and whether the change affected net earnings or other comprehensive income.

4.9 Note 26 to NB Power's financial statements, which provides details about the Corporation's financial instruments, is also confusing. While it starts out with a table that can be tied into the balance sheet through the "Total" column, it is not easy to tie the numbers in the body of the table to the information contained in the rest of the note. For example, the table shows the fair value of Heavy Fuel Oil derivatives at $21 million, while the detail says the fair value asset for 2008 was $51 million. It is also not easy to tell where the changes in fair value of each of the financial instruments listed in Note 26 are recorded; in Net Earnings or in Other Comprehensive Income.

4.10 Like other organizations providing financial instrument information, NB Power is trying to establish a level of disclosure that is appropriate and useful to the reader of their financial statements. We feel there is still room for improvement.

Regulatory deferrals

History of Regulatory Accounting at NB Power

4.11 In previous years, NB Power recorded regulatory assets and liabilities. This method of accounting has resulted in confusion to the readers of NB Power's financial statements and in significant accounting adjustments. The 31 March 2008 financial statements of New Brunswick Power Holding Corporation indicate that regulatory assets and liabilities are going to become significant items on the Corporation's balance sheet in the future.

4.12 Note 3 to the financial statements entitled Basis of Regulation says:

> *…regulatory assets or liabilities may arise as a result of the rate-setting process. Regulatory assets represent future revenues associated with certain costs incurred in current or prior periods that are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of revenue increases associated with amounts that are expected to be refunded to customers.*

4.13 In 1995, NB Power recognized the problems caused by the recognition of some regulatory balance sheet items and started to eliminate them. In the Management's Discussion and Analysis section of the company's annual report for the year ended 31 March 1995 there is an explanation of its accounting policy changes that resulted in:

> *…the elimination of equalization and stabilization accounting practices originally designed to smooth the impact of hydro and nuclear generation fluctuations and export sales fluctuations.*

4.14 The annual report goes on to say:

> *These accounting approaches have proven to be confusing to readers of the Corporation's financial statements. They are also uncommon among utilities today and would not be acceptable for a non-regulated company.*

4.15 It is our opinion that regulatory accounting is still confusing to the readers of an organization's general purpose financial statements. And it is still true that accounting approaches resulting in the recording of regulatory assets or liabilities would not be acceptable for a non-regulated company. The recognition of regulatory assets and liabilities is common for utilities today that meet the accounting definition of being rate regulated. However, in order for regulatory accounting to properly reflect the substance of the transactions of an organization, the regulatory process must be credible. The New Brunswick Energy and Utilities Board, in its 26 June 2008 *Report to the Minister of Energy Concerning the Decision by the New Brunswick Power Distribution and Customer Service Corporation to Increase its Rates by 3% on April 1, 2008,* said that:

> *The current regulatory structure does not match the actual operations of the NB Power Group of Companies resulting in significant impediments to effective and credible setting of electricity rates.*

4.16 In our opinion this seriously calls into question whether the regulatory structure the government has put in place around the NB Power Group of Companies is sufficiently robust to support the recognition of regulatory assets and liabilities. If it is not, we believe there is a risk that the recognition of regulatory assets and liabilities could result in future significant accounting adjustments, as has been the case in the past.

4.17 NB Power's recording of regulatory assets and liabilities under the government's previous regulatory regime resulted in net income smoothing or "levelizing," interspersed with accounting adjustments such as the one in 1995 to remove deferrals of over $200 million. As indicated by Grant Thornton in its 30 September 1999 review of the Province's financial situation, this accounting approach also contributed to the amount that the nuclear facility was written down in 1999. For example Grant Thornton said:

> *In the past, N.B. Power prepared its financial statements in accordance with accounting principles appropriate for a rate-regulated entity. These principles permitted the capitalization of many costs that would not have been capitalized under the accounting principles generally accepted in the private non-regulated sector. N.B. Power management has specifically identified $152 million of these costs and has indicated there are more that have not been specifically identified. As a result, the capital assets of N.B. Power include significant amounts that would, under its current application of accounting principles, have been expensed.*

4.18 And they concluded that:

Given the inclusion in the carrying value of N.B. Power's capital assets of significant amounts that would have been expensed under the current accounting practice…we recommend the Government of New Brunswick accept the 1998 write-down of $450 million.

4.19 It should be noted that, in 1998, our Office qualified our opinion on the Province's financial statements because we did not agree with the way this $450 million was accounted for.

31 March 2008 Regulatory Deferrals

4.20 The impact of recording regulatory deferrals on NB Power's 31 March 2008 financial statements is described in Note 17 to the financial statements, which says that this accounting resulted in a decrease in earnings for the year of $73 million. This presumably means that if NB Power followed accounting policies used by non-regulated businesses, the Net Earnings for the year would have been significantly different. Note 17 would lead the reader to believe that without regulatory accounting the corporation's net income would have been $162 million, not $89 million. Unfortunately Note 17 does not record all of the impact of regulatory accounting and so it is not possible to tell from the financial statements what the impact on Net Earnings of regulatory accounting is.

4.21 Some details provided in the financial statements related to regulatory accounting include:

1. According to a parenthetical comment in note 7, miscellaneous revenue includes $29 million in revenue caused by the "One-time recovery of costs previously written off." According to the 22 February 2008 decision of the Energy and Utilities Board (EUB) NB Power was proposing to recognize $47 million in revenue but the EUB decided on $29 million. This represents a small part of the total settlement with the Venezuelan company PDVSA.

2. NB Power now has a regulatory deferral liability established for $75 million also related to the PDVSA settlement. Note 3 gives an explanation that is not very helpful; it says "…the projected benefits of the settlement, which will be realized over the projected 23 year remaining life of Coleson Cove Generating Station, will be accumulated in this deferral. Such accumulated

projected benefits will be passed through to customers on a levelized basis over 17 years…"

3. Note 3 says that "Since allowance for funds used during construction includes a cost-of-equity component as well as an interest component, it exceeds the amount that would be capitalized in similar circumstances in the absence of rate regulation." There is no indication of how much the excess is.

4. Note 3 also says that "Disco also has a regulatory asset related to the refurbishment of the Point Lepreau Generating Station. This regulatory deferral was created as a result of legislation enacted related to the refurbishment of the Point Lepreau Generating Station. The purpose of this deferral is to record the normal period costs (net of any revenues), and the costs of replacement power, that are charged to Disco by Nuclearco and Genco respectively during the period of refurbishment. The amounts are to be recovered from customers by Disco over the operating life of the refurbished Point Lepreau Generating Station, and are to be reflected in the charges, rates and tolls charged to customers by Disco." Note 17 indicates that the impact on earnings of this deferral was $2 million.

4.22 From this list of explanations, we believe that the concern that regulatory accounting is confusing to the readers of the financial statements is valid.

Point Lepreau Outage Deferral

4.23 The fourth item in the list above is worth particular scrutiny since it is causing items, such as purchased fuel, that a non-regulated company would record as expenses to be capitalized and expensed over a long period of time – the useful life of the new station. The $2 million deferral related to the Point Lepreau outage is significant because the outage started on the evening of 28 March 2008, so $2 million represents the cost of about three days of outage. This indicates that the deferred costs that will be recorded over a full year will be very large.

4.24 The deferral of the costs related to the outage of Point Lepreau is legislated through Section 143.1 of the *Electricity Act*. The accounting is imposed on NB Power and on the regulator - the New Brunswick Energy and Utilities Board (EUB) – by the government rather than as part of a normal, independent rate setting process.

4.25 Based on the information contained in NB Power's 31 March 2008 financial statements, we can estimate that, without regulatory accounting, the Corporation would have had a significantly larger surplus in 2008, and would be facing large deficits in the years ended 31 March 2009 and 2010. This would then be followed by the need to create modest annual surpluses in future years to pay for the large deficits.

4.26 It should also be understood that NB Power's results for a given year are reflected in the Surplus or Deficit for the year of the Province. The Province's results for the year ended 31 March 2008 included NB Power's Net Earnings of $89 million. So any large losses incurred by NB Power in the future would also affect the Province's results. However, this is simply a combining of the results of all organizations under the control of the Province; it does not imply that taxpayers have subsidized ratepayers in years where NB Power has losses, or that ratepayers have subsidized taxpayers in years of NB Power profits. The degree of subsidization between the two groups is determined by the rate setting process, not by the Province's accounting.

International Financial Reporting Standards

4.27 Note 5 (c) to NB Power's financial statements entitled International financial reporting standards says:

> *On February 13, 2008, the Accounting Standards Board confirmed that the use of international financial reporting standards will be required by January 1, 2011, with appropriate comparative data from the prior year. Accordingly, the NB Power Group will adopt the new standards for its fiscal year beginning April 1, 2011. While international financial reporting standards uses a conceptual framework similar to Canadian generally accepted accounting practices, there are significant differences in accounting policy that must be addressed. The Group is currently evaluating the impact of the adoption of this new Section on its combined financial statements.*

4.28 The adoption of international financial reporting standards by NB Power could have a significant impact on NB Power's accounting. While the note refers to "…the adoption of this new Section…" it is in fact the adoption of a whole new set of accounting standards, some of which are consistent with current Canadian accounting standards and some of which are different.

4.29 While NB Power has met the technical accounting requirements required for disclosure about the impact of adopting IFRS accounting standards, Note 5 (c) does not provide the reader of NB Power's financial statements with any assessment of how significant the impact of moving to IFRS will be on NB Power's financial statements. Such an assessment need not be quantitative; it could be a discussion of areas that are significant and that will have to be carefully considered under IFRS, such as the recording of regulatory assets and liabilities.

Chapter 5
Amounts Receivable from Canada under the Official Languages in Education Program

Contents

Amounts Receivable from Canada under the Official Languages in Education Program

Background

5.1 The Official Languages in Education Program started in the 1970s following a report of the Royal Commission on Bilingualism and Biculturalism. The program was put in place to recognize that there were additional costs to provincial and territorial governments as a result of providing education in the minority language in each jurisdiction and as a result of teaching a second official language to Canadian citizens.

5.2 For minority-language education and second-language instruction, a Protocol for Official Languages Support programs was established in 1983 between the Government of Canada and the provincial and territorial governments. This Protocol is revised every 5 years, and is the basis for a number of federal-provincial or territorial agreements.

5.3 In Volume 1 of the 2007 Report of the Auditor General, we made the following comment in paragraph 2.43 which was also raised in Volume 1 of our 2006 Report:

> *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.*

5.4 Because the government did not actively pursue the collection of this funding in the fiscal year ended 31 March 2008, we decided to look at the issue further.

5.5 The first thing we found was that the outstanding amount at 31 March 2007 was actually $50.8 million. $38.2 million of this was receivable by the Province through the Departments of Education and Post-Secondary Education, Training and Labour, and $12.6 million was receivable by the Province on behalf of Université de Moncton and University of New Brunswick. The Province does not record on its balance sheet the receivable from the federal government relating to the universities because the money is supposed to be paid to the universities immediately upon receipt from the federal government.

5.6 As at 31 March 2008, the outstanding amount receivable was about $72.2 million. $54.3 million of this was receivable by the Province through the Departments of Education and Post-Secondary Education, Training and Labour, and $17.9 million was receivable by the Province on behalf of the universities. Of the total amount receivable at 31 March 2008, $7.8 million relates to the 2004-2005 fiscal year.

5.7 In addition, the Province was eligible to receive a 50% advance on its 2008-2009 funding, worth another $10.9 million, including the university funding. The Province has failed to collect this money from the federal government - a total of $83.1 million - even though it is available to them once they provide the necessary accountability information.

Scope

5.8 Official Language Support programs include a variety of agreements. In our work, we reviewed the Canada-New Brunswick Agreement on French First-Language Education and French Second-Language Instruction in the agreements in the area of Education (Official Languages in Education Program) for the period 2005-06 to 2008-09.

Official Languages in Education Program

5.9 The Official Languages in Education Program agreement is a multi-year agreement. The basis of the agreement is an action plan that must be submitted by New Brunswick to Canada. New Brunswick has submitted this action plan covering the period from 2005-2006 until 2008-2009.

5.10 The action plan describes the following elements:

- New Brunswick’s general approach, objectives and strategic priorities for 2005-06 to 2008-09;
- the way New Brunswick’s action plans contribute to attaining the objectives set out in Canada’s Action Plan;

- the complementary and non-duplicative nature of the measures included in the action plans related to New Brunswick's regular programs and additional strategies described in the agreement;
- the student participation numbers and rates in French first-language education and French second-language instruction programs;
- the strategy that New Brunswick shall use to measure the expected results in a meaningful way, and the data sources that shall be used for that purpose;
- the consultations carried out in developing New Brunswick's action plans, the consultation process established concerning the progress and strategies implemented for the duration of this agreement and, as deemed necessary, the participants included in the consultations;
- the expected outcomes;
- the measures to be implemented to ensure that the expected outcomes are achieved;
- the performance indicators by which New Brunswick shall measure achievement of the outcomes; and
- a breakdown by measure and by fiscal year of the estimated expenditures and Canada's and New Brunswick's financial contributions.

5.11 Also, under section 9.1 of the agreement, New Brunswick agreed that it must be accountable to the Legislature and the general public for the proper use of the funds. Therefore, New Brunswick agreed to provide Canada with the financial statements and reports required for each year covered by the agreement.

Eligible expenses and funding

5.12 For the purposes of the Official Languages in Education Program agreement, the eligible expenses for each of the measures described in New Brunswick's action plan may include, salaries and benefits, professional fees, administrative costs, and expenses linked to purchasing or renting essential supplies and equipment, purchasing and producing educational materials and providing training.

5.13 The schedule of regular funding included in the agreement is:

Year	Regular Funding	French First Language Education Funding	French Second Language Instruction Funding	Total Funding
2005-2006	$17,515,000	$ 2,978,390	$818,416	$21,311,806
2006-2007	17,515,000	3,050,790	1,108,976	21,674,766
2007-2008	17,515,000	2,705,201	1,194,932	21,415,133
2008-2009	17,515,000	2,943,758	1,243,934	21,702,692
Total	**$70,060,000**	**$11,678,139**	**$4,366,258**	**$86,104,397**

5.14 Of the total $86.1 million of funding available under the agreement for the period 2005-2006 to 2008-2009, the Province could have already collected $75.3 million including a 50% advance on 2008-2009 funding. The Province has collected none of this, and in addition, has not collected $7.8 million outstanding under the predecessor agreement, for a total uncollected amount of $83.1 million.

Eligibility for funds

5.15 In order for New Brunswick to collect funds under the Official Languages in Education Program agreement, it must provide the financial statements and reports required under the agreement to Canada for each year of the agreement. This primarily includes submitting certified interim financial statements for each year as well as a report on the outcomes achieved for each year and a final certified financial statement for each year.

5.16 Exhibit 5.1 shows the conditions for funding set out in the agreement, whether the Province has fulfilled those conditions, the amount of funding available upon satisfaction of the conditions and the amounts received.

Exhibit 5.1 Compliance with terms of payment of agreement as of September 30 2008

Section	Conditions	Status	Description of Funding Available	Amount Available ($)	Year Available	Collected
N/A	Requirements under 2004-05 agreement have been fulfilled	Not done	Last 50% for 2004-2005 First 50% for 2005-2006	7,839,500 10,655,903	2005-2006	No
1.1.1	Submission of NB action plans	Done				
1.1.1	Signing of agreement	Done				
1.1.1.2	Submit a report on outcomes achieved and a certified financial statement under the 2004-05 agreement	Not done	Last 50% for 2005-2006 First 50% for 2006-2007	10,655,903 10,837,383	2006-2007	No
1.1.2.1	Submit a certified interim financial statement for 2005-06	Not done				
1.1.2.2	Report on outcomes achieved and a certified financial statement for the 2005-06 fiscal year	Not done	Last 50% for 2006-2007 First 50% for 2007-2008	10,837,383 10,707,567	2007-2008	No
1.1.2.1	Submit a certified interim financial statement for 2006-07	Not done				
1.1.2.2 1.1.2.1	Report on outcomes achieved and a certified financial statement for the 2006-2007 fiscal year	Not done	Last 50% for 2007-2008 First 50% for 2008-2009	10,707,567 10,851,346	2008-2009	No
1.1.3.1	Submit a certified interim financial statement for 2007-08	Not done				
Total Available but Uncollected				**83,092,552**		

5.17 Before an amount can be collected for any given year, all reporting conditions for all previous years covered by the agreement must have been satisfied.

5.18 It is obvious from the previous table that Province is well behind in submitting its reports and collecting the funds it is eligible for.

Interest cost

5.19 If the Province had collected the funding available under the agreement as soon as it was eligible to do so, the Province would have had additional cash which could have been used to reduce its borrowing or could have been invested. By not claiming the funding available from the federal government, the Province and the universities are incurring interest costs. Estimating the interest cost depends on the assumptions used. If we assume an interest rate of 4.5%, and we assume that claims could be paid six months after a year end, we estimate that from 30 September 2005 until 30 September 2008, the Province has incurred the following interest costs - including interest incurred by the universities:

Year	Interest Cost ($)
2005-2006	400,000
2006-2007	1,300,000
2007-2008	2,400,000
To 30 September 2008	1,500,000
Total	**5,600,000**

5.20 If the Province does not collect any of this funding before the end of the current fiscal year which ends on 31 March 2009, an additional $1.9 million in interest costs will be incurred; the Province is currently incurring approximately $11,000 a day in interest costs. The Province informed us that in October they submitted the required documents to the Government of Canada to claim the last payment of the 2004-2005 fiscal year and the first 50% payment for the 2005-2006 fiscal year.

Findings and recommendations

5.21 The Province of New Brunswick is presently not fulfilling its reporting requirements in order to receive funds from the federal government under the Official Languages in Education Program agreement in a timely manner. We have been told that the main reason for the delay is a lack of time and resources.

5.22 Because the Province has not claimed the money from the federal government, funds owing to two of the Province's universities have not been paid.

5.23 We estimated the total interest costs incurred to date because of not claiming available funds to be $5.6 million, and the interest continues to accumulate at $11,000 per day, which is more than enough to pay for the resources needed to submit the claims.

5.24 We recommended the Province of New Brunswick immediately prepare the reports required to receive its funding from the Government of Canada under the Official Languages in Education agreement. The Province should make sure the resources necessary to complete the reporting requirements are acquired.

Chapter 6
Department of Health
Fee for Service Physicians' Retention Fund

Contents

Department of Health Fee for Service Physicians' Retention Fund

6.1 While our Office was performing regular year end procedures for the March 31, 2008 audit of the Province, back-up was requested for the Fee for Service Retention Fund amount of $15 million. When this was not readily available, additional procedures were performed to assess the reasonableness of the fund balance. Subsequent to our year end audit, we made further inquiries to gain an understanding of how the retention fund works, to determine if it is functioning properly, to ensure its accounting treatment is correct and to further ensure the balance is accurate. Our findings and recommendations with respect to the retention fund are outlined below.

Establishment of the fund

6.2 The Fee for Service Master Agreement between the New Brunswick Medical Society (NBMS) and the Province of New Brunswick, represented by the Minister of Health was signed on July 20, 2006. Schedule H of the agreement establishes a fund that aims to "maximize retention of New Brunswick Participating Medical Practitioners," the Retention Fund.

6.3 According to the agreement, contributions will be made by the Department of Health on a yearly basis to a fund administered by an independent party agreed upon by the NBMS and the Department. A Board of Management (BOM) minute from May 1, 2007 allowed the retention fund to be held on the balance sheet of the Province until a trust fund can be established. It also directed that the Department report the progress of the establishment of the permanent trust fund by April 30, 2008.

6.4 Currently, the retention fund is still being administered by the Department; it is accounted for under deposits held in trust in the Province's books, because a separate trust has not yet been established. There was no progress to report to the BOM on the required date. We were told that the parties involved (Department of Health and NBMS) are negotiating a new Fee for Service Master Agreement that may include a structure change for the retention fund.

6.5 We recommended the fund be established as intended, or if the structure is not suitable, alternatives should be investigated and an agreement reached with the NBMS as soon as possible.

Terms of the agreement

6.6 According to the agreement, any income earned will be left in the fund for the benefit of the physicians. Also, investment policy is required. Any expenses incurred including audits, administration and taxation are to be deducted from the amount in the fund.

6.7 Currently, interest is being earned quarterly and is being administered by the Treasury Division of the Department of Finance and then transferred into the deposits held in trust account. The interest being earned is the 90-day T-bill rate; there is no investment policy in place. If this fund was being administered by an independent party, as it is intended to be, the fund would likely have to pay income tax on the interest earned.

6.8 We recommended an investment policy be put into place for the fund.

Contributions to the fund

6.9 According to the agreement, there will be a contribution made by the Department for each physician "annually by the end of the first quarter based on an estimate for the current fiscal year and adjustment for variance of prior year estimate." The amount is based on years worked in the Province and whether the physician's office location is considered urban or rural. Each physician will receive a share corresponding to the contribution made every year. For example, if the physician has worked less than 5 years and is in a city, the contribution by the Department would be $2,000/year and the physician will receive 2 shares.

6.10 Contributions began in 2005-06 with an amount of $4.67 million. This was calculated using estimates of the number of doctors who are working in urban and rural areas and their years of service as per the agreement. Both the 2006-07 and 2007-08 contribution amounts used this initial estimate as a base and added a percentage increase from the fee distribution of the Department, which ended up being $85,000 and $100,000 respectively. There were no adjustments made for actual numbers in either 2006-07 or 2007-08. As a result, the contract is not being enforced as agreed upon; the contributions are being based on estimates.

6.11 We recommended the contributions be made in accordance with the agreement; adjustments should be made annually to reflect actual numbers from the prior year and estimations for the current year.

Redemption of shares

6.12 When a physician closes their practice and meets the criteria agreed upon (at least 15 years of continuous service or 20 years of interrupted service in the Province, provided any interruption in service does not exceed three years) they are paid out an amount from the fund based on their number of shares. For example, if the fund has $1 million in it, 1,000 shares have been issued and the retiring physician has 10 shares, the physician would receive $10,000. The amount paid out and the shares retired are deducted from the fund balance and outstanding shares. If a physician is to retire or move away from the Province before he or she meets the qualifications of the retention fund, their shares are forfeited but the contributions stay in the fund to the benefit of the other physicians in the Province.

6.13 There have been physicians who have retired between when the agreement was signed and now. These physicians have yet to be paid out of the retention fund and no calculations have been made to determine how much each retired doctor is owed. When settling obligations, the Department will have to recalculate the fund balance after each payment is made, taking into account the retired shares and payments to ensure the physicians are receiving their proper entitlement.

6.14 We recommended the doctors who are owed money under this agreement be paid their entitlement in a timely fashion, and that all efforts be made to properly recalculate the fund taking into account each payout.

Reports and accuracy of fund balance

6.15 According to the agreement, "the trustee will provide the parties with quarterly reports detailing fund activity." As there is no trustee in place, the Department is essentially acting as the trustee. There have been no quarterly reports as required. According to the agreement, the Department "will provide appropriate reports at the beginning of the fiscal year. Data will include physicians practicing in the Province as of March 31, urban/rural, # years of continuous service and income." We were told that there is no system in place to produce this information.

6.16 We are uncertain as to the accuracy of the fund balance. Proper calculations have not been performed for the provincial contributions required by the fund. Administrative expenses and redemption of shares have not yet been deducted from the fund balance. Interest has been calculated on the entire fund balance, not taking into account any deductions.

6.17 We recommended the quarterly reports be issued in a timely matter.

6.18 We recommended a system be put in place immediately that can make the required calculations, as the entire framework of the retention fund is dependant on it.

Canada Revenue Agency (CRA)

6.19 The CRA has issues with the physicians receiving shares in the retention fund and believe they should be paying a taxable benefit for them annually. If the physician does not work long enough for their payout, they would receive a deduction from the CRA for the amount they had been taxed. This issue remains unresolved.

6.20 Originally, the NBMS believed that the physicians would not be taxed until after their payout at retirement. We were told that due to time constraints during the negotiations of the agreement, both parties agreed to forego an advance ruling from the CRA on the issue.

6.21 We recommended CRA be contacted immediately for a ruling in this matter.

The future of the fund

6.22 The Department and the NBMS are currently in contract talks for the Fee for Service Master Agreement. The retention fund, we understand, is part of that discussion.

6.23 We recommended that once a new agreement is in place, the retention fund be administered in full compliance with the agreement.

General comments

6.24 This agreement was entered into and a fund established without a sufficient amount of research. There was no advanced CRA ruling to ensure the intended tax treatment was allowed. There is no system or framework in place to accurately calculate the provincial contribution. There is no system or framework in place to maintain this fund, pay administrative expenses, and accurately calculate payments to physicians. The Province is currently in an agreement for which many of the conditions are not being met. Violating terms of a signed agreement could have several negative consequences.

6.25 We recommended that, before any agreements are entered into, proper due diligence be performed.

Chapter 7
General Sinking Fund

Contents

General Sinking Fund

Background

7.1 A sinking fund is a dedicated fund where money is set aside by an organization to help repay a debt when the debt matures or is redeemed.

7.2 Section 12 of the *Provincial Loans Act* (the Act) requires the Minister of Finance to maintain one or more sinking funds for the payment of funded debt either at maturity or upon redemption in advance of maturity. The Act defines “funded debt” as securities issued by the Province of New Brunswick having a term to maturity of more than one year from their date of issue and that are not subject to serial repayment.

7.3 The Province maintains a general investment sinking fund (Sinking Fund) that accumulates fixed income investments on behalf of both the Province and the New Brunswick Electric Finance Corporation (NBEFC) for the purpose of Section 12 of the Act.

7.4 At 31 March 2008, the Province did not have any outstanding securities that are subject to serial repayment. Securities that are subject to serial repayment would not require a sinking fund since the principal would be repaid periodically during the life of the security rather than all on the date of maturity.

Purpose of the Sinking Fund

7.5 The purpose of the Sinking Fund differentiates it from other investment portfolios such as pension and endowment funds, where there may be objectives to grow the capital on an inflation adjusted basis. The purpose of a sinking fund is to accumulate sufficient assets to retire debt as it matures or is redeemed. As such the management of the Sinking Fund is somewhat restricted by the Act.

7.6 Although the purpose of the Sinking Fund is to match fixed income securities to fixed payment debt obligations, the Province does not track specific Sinking Fund assets against specific debt obligations. The Province manages the Sinking Fund assets and funded debt liabilities on a pooling basis considering such factors as the maturity and foreign currency profiles.

7.7 The existence of the Sinking Fund provides increased credit support for bondholders. The Department of Finance has indicated that the Sinking Fund is a debt management tool that can provide liquidity for outstanding New Brunswick bonds and can be used to manage the Province's interest rate and foreign currency exposure.

7.8 Foreign denominated assets are purchased to offset foreign denominated debt. As at 31 March 2008, the Province had issued US$1,300 million in United States dollar denominated bonds, the earliest of which are due in the year ended 31 March 2013. At 31 March 2008, the Sinking Fund held US$404 million in United States dollar denominated assets. The Province also uses other financial instruments to manage its foreign currency exposure outside of the Sinking Fund.

Financial information

7.9 The following table provides a history of the value of the Province's total Funded Debt, including Funded Debt issued for NBEFC; and the book value of the Sinking Fund for the past eight years.

Year	Total Funded Debt ($ millions)	Book Value of Sinking Fund ($ millions)	Sinking Fund as % of Total Funded Debt
2008	$13,064.3	$4,471.3	34.2%
2007	12,981.9	4,268.7	32.9%
2006	12,203.9	4,320.4	35.4%
2005	11,713.6	4,165.4	35.6%
2004	11,583.8	4,079.9	35.2%
2003	11,391.5	3,894.3	34.2%
2002	11,126.4	3,686.2	33.1%
2001	10,717.3	3,427.5	32.0%

7.10 The Sinking fund has consistently been kept at a value that is approximately one third the value of the Province's total Funded Debt outstanding.

7.11 The Sinking Fund is accumulated for the purpose of providing funds to repay all Province of New Brunswick debt issues, whether they were issued for Provincial purposes or for the NBEFC. The following table compares the book value of NBEFC's share of the Sinking Fund to the value of the Funded Debt issued for NBEFC.

Year	Funded Debt Issued for NBEFC ($ millions)	NBEFC Share of Sinking Fund ($ millions)	NBEFC share of Sinking Fund as % of Funded Debt Issued for NBEFC
2008	$3,602.6	$309.4	8.6%
2007	3,709.1	300.5	8.1%
2006	3,261.5	336.4	10.3%
2005	3,316.6	391.6	11.8%
2004	3,098.0	363.7	11.7%
2003	2,972.8	351.3	11.8%
2002	3,121.7	327.4	10.5%
2001	3,061.1	297.3	9.7%

7.12 Note 2 (b) to the unaudited financial statements of the Sinking Fund discloses that most of the NBEFC share of the Sinking Fund is held in United States dollars.

7.13 The following table compares the book value of the Province's share of the Sinking Fund to the value of the Funded Debt issued for provincial purposes.

Year	Funded Debt Issued for Provincial Purposes ($ millions)	Provincial Share of Sinking Fund ($ millions)	Provincial Share of Sinking Fund as % of Funded Debt Issued for Provincial Purposes
2008	$9,461.7	$4,161.9	44.0%
2007	9,272.8	3,968.2	42.8%
2006	8,942.4	3,984.0	44.6%
2005	8,397.0	3,773.8	44.9%
2004	8,485.8	3,716.2	43.8%
2003	8,418.7	3,543.0	42.1%
2002	8,004.7	3,358.8	42.0%
2001	7,656.2	3,130.2	40.9%

7.14 There is a significant difference between the value of the Provincial share of the Sinking Fund compared to outstanding provincial debt and the value of the NBEFC share of the Sinking Fund compared to the outstanding debt of NBEFC.

7.15 One reason why there are significant differences in the use of the Sinking Fund between the provincial portion and the NBEFC portion is the nature of the assets that are financed through debt. Most of NBEFC's debt financed assets are long-lived and are expected to directly produce many years of cash flow with which the debt can be paid. Many of the Province's debt financing is for general purposes, and to the extent that it is for long-lived assets, they usually do not have direct cash flows attached to them.

7.16 Another reason for the lower percentage of assets attributed to NBEFC is that historically NBEFC contributes 1% of the value of its debt annually whereas the Province contributes 1.5%.

7.17 The following table compares the market value of the entire sinking fund to its net book value.

Year	Book Value of Sinking Fund ($ millions)	Market Value of Sinking Fund ($ millions)	Market Value as a % of Book Value
2008	$4,471.3	$4,771.8	106.7%
2007	4,268.7	4,577.3	107.2%
2006	4,320.4	4,636.4	107.3%
2005	4,165.4	4,507.8	108.2%
2004	4,079.9	4,387.9	107.5%
2003	3,894.3	4,024.8	103.4%
2002	3,686.2	3,659.6	99.3%
2001	3,427.5	3,419.2	99.8%

7.18 For the past six years, the market value of the investments held in the Sinking Fund has exceeded the recorded book value. However, since the investments held by the Sinking Fund are not actively traded, but are for the most part held until they mature, the market value of the fund is not particularly important. The difference in market value and book value can be attributed to generally declining interest rates during this period. Over the past three years, only 3.5% of Sinking Fund investments have been sold on an annual basis. The sales were made to better match the sinking fund to the debt.

Sinking Fund earnings

7.19 The unaudited financial statements of the Province's Sinking Fund are contained in Volume 2 of the Province's Public Accounts. The Statement of Activity shows how the entire Sinking Fund changes from year to year, which can be summarized as:

($ millions)	2008	2007	2006	2005	2004	2003	2002	2001
Balance Beginning of Year	4,268.7	4,320.4	4,165.4	4,079.9	3,894.3	3,686.2	3,427.5	3,220.6
Income Earned	227.7	226.1	225.1	222.5	219.1	235.5	218.8	213.3
Amortization	(10.0)	21.7	13.7	(3.6)	(12.8)	3.9	33.6	29.4
Installments Received	179.2	160.3	160.3	158.7	150.6	140.3	149.4	142.4
Redemptions Paid	(194.3)	(459.8)	(244.1)	(292.1)	(171.2)	(171.5)	(143.1)	(178.2)
Balance End of Year	4,471.3	4,268.7	4,320.4	4,165.4	4,079.9	3,894.3	3,686.2	3,427.5
Average Rate of Return	5.2%	5.3%	5.3%	5.4%	5.5%	6.2%	6.2%	6.4%

7.20 The annual rate of return on Sinking Fund assets is quite stable, but it has been slowly declining as interest rates have generally fallen during the period.

Sinking Fund installments

7.21 The Act requires the Province pay into the Sinking Fund an installment on or before the anniversary date of each issue of funded debt. The installment payment is required to be not less than one per cent of the then outstanding principal of each issue, and is to be paid in Canadian currency. The Act also stipulates how debt denoted in foreign currencies is to be converted into Canadian currency for the purposes of determining the installment payment.

7.22 Note 1 to the unaudited financial statements of the Sinking Fund says that "Sinking fund installments are paid into the General Sinking Fund on or before the anniversary date of each issue of funded debt, at the prescribed rate." For most debt issues, the Province makes annual Sinking Fund installments of 1.5% per year for debt issued for provincial purposes, while NBEFC makes annual Sinking Fund installments of 1.0% per year.

Sinking Fund investments

7.23 The Act restricts the types of investments that the Sinking Fund can hold. The only allowable investments are direct obligations of certain governments, obligations guaranteed by certain governments or certain instruments issued by Canadian chartered banks.

7.24 The direct obligations of certain governments is limited to the Government of Canada, any Province of Canada, any municipality of New Brunswick or any national government, other than Canada, if the Province of New Brunswick has issued securities in that national government's currency and those securities have not yet matured.

7.25 Guaranteed obligations of certain governments is limited to guarantees of the Government of Canada, any Province of Canada, any agency of the Province of New Brunswick, or any national government, other than Canada, if the Province of New Brunswick has issued securities in that national government's currency and those securities have not yet matured.

7.26 Allowable instruments of Canadian chartered banks include deposit receipts, deposit notes, certificates of deposit, acceptances and other similar instruments.

7.27 The notes to the unaudited financial statements of the Sinking Fund provide some details of the investments held by the Sinking Fund. These fall into three categories:

- bonds and debentures issued or guaranteed by Canada;
- bonds and debentures issued or guaranteed by New Brunswick; and,
- other - bonds and debentures issued or guaranteed by other provinces.

7.28 The following table provides this breakdown, using par value. The par values used in this table are significantly different from the year end book values because the year end book values include unamortized discounts or premiums.

($ millions)				
Year	**Canada**	**New Brunswick**	**Other**	**Total**
2008	164.0	2,253.8	2,487.2	4,905.0
2007	198.0	1,891.8	2,664.0	4,753.8
2006	228.0	1,827.6	2,747.6	4,803.2
2005	282.0	1,634.3	2,770.1	4,686.4
2004	249.3	1,561.0	2,570.5	4,380.8
2003	214.2	1,393.9	2,596.7	4,204.8
2002	179.4	1,515.4	2,346.5	4,041.3
2001	205.7	1,570.9	2,023.4	3,800.0

7.29 The following table reports the percentage each investment type has been of the total portfolio based on par value.

(%)				
Year	Canada	New Brunswick	Other	Total
2008	3.0	45.0	52.0	100.0
2007	4.2	39.8	56.0	100.0
2006	4.7	38.0	57.3	100.0
2005	6.0	34.9	59.1	100.0
2004	5.7	35.6	58.7	100.0
2003	5.1	33.2	61.7	100.0
2002	4.4	37.5	58.1	100.0
2001	5.4	41.3	53.3	100.0

7.30 The Sinking Fund investments are carried on the Statement of Financial Position at net book value which is the par value of the investments less the unamortized balance of discounts and premiums and less the unamortized balance of foreign exchange gains or losses.

7.31 The unamortized amount of discounts and premiums changes each year. Each year a portion of the discount or premium is amortized or recognized as income (either positive or negative) so that at maturity, the net book value of the bond will equal the par value of the bond.

7.32 Par value is the amount stated on the bond. It is the amount that will be paid by the issuer of the bond to the holder of the bond on maturity. Because the amount that a purchaser is willing to pay to own a bond will change depending upon the rates of return available from alternative investments, bonds will usually sell for a discount or a premium. For example, if market interest rates are higher than the interest rate of a bond, the bond will sell below its par value at a discount. In this way the investor is able to acquire an investment that will provide a market rate of return even though its stated interest rate may differ from market interest rates.

7.33 For strategic reasons the Province of New Brunswick may borrow directly from the Sinking Fund. The reasons may be the particular term of the assets being financed, the size of the issue and market conditions. At 31 March 2008 there are two outstanding Province of New Brunswick debt issues that were sold directly to the Sinking Fund totaling $220 million.

7.34 For similar reasons, the New Brunswick Municipal Finance Corporation (NBMFC), whose objective is to provide financing for municipalities and municipal enterprises through a central borrowing authority, will also borrow directly from the Sinking Fund. NBMFC bonds are guaranteed by the Province of New Brunswick. The NBMFC bonds also pay a higher interest rate, which enhances the Sinking Fund earnings. At 31 March 2008 the Sinking Fund owns a total of $274.2 million of NBMFC privately issued serial bonds. Additionally, the Sinking Fund owns $19.8 million of publicly issued NBMFC serial bonds.

Redemptions

7.35 The Act does not direct that funds have to be withdrawn from the Sinking Fund to redeem a funded debt issue on maturity. The current practice for provincial purpose debt that has an original life of at least twenty years is to redeem the full principal value of the debt from the Sinking Fund. Nothing is redeemed from the Sinking Fund if the term to maturity of the bond issue was less than twenty years. For debt issued for NBEFC, when the debt matures, NBEFC withdraws up to the amount that was accumulated in the Sinking Fund for that particular debt issue.

7.36 During the year ended 31 March 2008, the Province had Funded Debt issues of $892.6 million mature. $194.3 million was withdrawn from the Sinking Fund to be used to redeem these maturities; this represented 21.8% of the total principal amount paid.

Series	Interest Rate (%)	Sinking Fund Withdrawal ($ millions)	% of Funded Debt Issue Redeemed By the Sinking Fund
CP-264	9.12	7.9	100
CP-265	11.07	13.9	100
CP-266	9.88	14.5	100
CP-267	9.83	6.0	100
CP-268	9.72	3.5	100
CP-269	10.42	2.7	100
CP-270	10.79	2.4	100
CP-271	11.07	6.6	100
CP-272	9.62	4.9	100
GA	4.78	130.3	16
GH	3.82	1.6	4
Total		**194.3**	**21.8%**

Funding status study

7.37 We have been told that the Department of Finance is in the process of conducting a funding status study of the Sinking Fund. We agree that such a study is necessary. It should address such issues as:

- explicitly stating the purpose of the Sinking Fund and specifically addressing the Sinking Fund's role as a purchaser of New Brunswick and NBMFC debt and providing additional investor confidence;
- the determination of the amount of investments to be held in the Sinking Fund;
- the mix of investments that should be held in the Fund; and
- the level of installments that should be made each year and the amortization period of the debt.

7.38 The last three items would all be determined in a way that is tied into the purpose of the Sinking Fund. Furthermore, once these issues have been addressed, the study should also include future cash flow projections using various assumptions, (debt levels, installment rates, etc) over the fiscal framework period and as far into the future as 10 years.

Chapter 8
Matters Arising from our Information System Audits

Contents

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 Social Development – NBFamilies	A
Department of Social Development – NBCase expenditures	B

Section A

Department of Social Development

NBFamilies

Overview

Introduction

The purpose of this section is to discuss our findings and to make recommendations from our audit of the NBFamilies system. We conducted this work in the Winter and Summer of 2008.

In this section

This section contains the following topics:

Part A

Background, Objective and Scope

Overview

Introduction

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

Contents

This part contains the following topics:

Background

NBFamilies history

The following points provide a history of the development of the NBFamilies system.

- The NBFamilies system was originally part of the Client Service Delivery System (CSDS) in the Department of Health.
- In April 2000, the government of the day reorganized the Department of Health and Community Services and the Department of Human Resources Development, creating a new department called Family and Community Services (FCS).
- The Family and Community Support Services section (FCSS) of the Department of Health and Community Services was transferred to this new department.
- Staff of the FCSS section needed access to the CSDS system. Consequently, FCS made a copy of the CSDS system, renamed the system NBFamilies and continued system development. (The functionality needed by the FCSS staff had not yet been developed.)
- FCS completed the NBFamilies system in November 2004 and rolled out the system over the next seven months.
- By July 2005, NBFamilies was fully implemented in the Department.
- In 2008, the Department's name was changed to Social Development (SD).

Programs that use NBFamilies

Various departmental programs are paid using NBFamilies. The total amount of payments processed by the system is approximately $251 million for the fiscal year ended 31 March 2008. These payments relate to various departmental programs as outlined in the table below.

Types of Services	Amount ($ million)
Child Protection	$ 14.7
Child In-care Services	22.1
Long Term Care Services	183.9
Various Other Services	30.3
Total	**$ 251.0**

Continued on next page

Background, Continued

Management and support

The NBFamilies system was developed by consultants who were under contract with the Department. The Department recently signed another agreement with these consultants for the continued support of the NBFamilies system. The consultants are responsible for supporting the application and maintaining the software.

The Department also has a contract with Aliant for services. Aliant is responsible for monitoring, housing, backup, patching and upgrading the Unix operating system.

Within the Department a number of groups and/or individuals are responsible for managing various aspects of NBFamilies. They are:

Groups/Individuals	Role with NBFamiles
Business Owner	Ensures the functionality of the system meets users' needs
System Owner	Responsible for the technical architecture and technical direction
Business Support Team	Responsible for providing support to end users of the NBFamilies
Information Technology Director	Responsible for oversight for the Department and contract management.

All of these individuals meet regularly to manage and support the system. Minutes from the various meetings are recorded and kept on file.

Objective and Scope

Objective

The objective of our audit was to obtain audit evidence on the completeness, accuracy, valuation and existence of payments made by the NBFamilies system to support our opinion on the Province's financial statements.

Basic audit approach

Because of a change in generally accepted auditing standards, we are now required to document internal controls for all major systems in the Province. The auditor is required to evaluate internal controls, but not necessarily to rely upon them. If we determine internal controls are in place, and that they appear to be operating throughout the period under examination, we can test them and rely on them as audit evidence to support our audit opinion. We can also obtain sufficient and appropriate audit evidence by testing transactions and not relying on internal controls. Typically, once internal controls are documented, it is more efficient to test and rely on internal controls rather than perform detailed transaction testing.

Our planned reliance on controls

Initially, we planned to rely on the internal controls for our audit work on payments processed by the NBFamilies system, provided our initial evaluation of controls indicated that we could rely on them. However, because of a number of challenges encountered throughout this audit, we were unable to do this. As a result, all of our audit evidence was obtained from tests of transactions and we placed no reliance on internal controls.

Audit challenges

Through out this audit, we encountered numerous challenges that prevented us from using the more efficient controls approach. This increased the amount of time needed to complete our work. Some of these challenges were:

- Delays in providing documentation. Our auditors requested information at the start of our audit. Some key information needed for testing controls, took two to three months for us to receive. Information was provided to us on the last day of our audit. Also, information was not provided in a format suitable to our auditors.
- Regional nature of service delivery. This Department is one of the largest in government with numerous regions throughout the Province. Obtaining information from and having discussions with the regions is time consuming and difficult.

Continued on next page

Objective and Scope, Continued

Audit challenges – continued

- Complexity of the range of the programs supported by the system. The NBFamilies system processes payments for various programs in the Department. Finding the person responsible for a particular area is a challenge.

Findings from evaluation of controls

Although we were unable to complete our testing of internal controls because of the various challenges we have outlined, we do have a number of observations and recommendations that we are reporting. These are discussed in the section General Computer Controls starting on page 146.

Results of detailed testing

Our detailed tests of transactions related to the following audit areas.

Audit Area	Number of Items
Adult residential facilities	13
In-home support services	9
Children under guardianship	2
Child protection	1
Subsidized adoption	1
Alternative family living	1
Community based services	1
Total	**28**

Part B

General Computer Controls

Overview

Introduction

This part discusses our findings relating to general computer controls.

Contents

This part contains the following topics:

NBFamilies Security

Objective

To ensure that the NBFamilies system has adequate security to protect its information.

Background

Complex computer applications typically have numerous points where confidential data can be accessed. Each of these access points needs to have an appropriate level of security to protect the accuracy, integrity and confidentiality of the data.

From our limited review of the NBFamilies system, we have identified three key data access points - the application production environment, the database environment and the Unix operating system environment.

We asked the Department to complete a basic security questionnaire for each of these access points. We made a number of observations and recommendations based on the answers to these questionnaires.

Application production environment

The application production environment is how users of the system login to the application. In the case of NBFamilies, approximately 1,150 users have access to the system using a user-id and password.

We noted a number of good security practices in place for this environment. For example:

- password composition is strong,
- passwords are changed regularly,
- each user is uniquely identified by the system, and
- the system automatically terminates the session after a period of inactivity.

We also noted one area where the Department should improve security by monitoring user access logs.

Logs

The Department maintains a log that records logins, logoffs, locked accounts from failed login attempts and other login account usage. No one in the Department, however, has been assigned to review this log for unusual activities. Reviewing access logs is important to ensure unauthorized access attempts are detected. For example, if an unauthorized user was trying to gain access to the system, this activity would be recorded in the log. The Department, however, would not be aware of this because it is not reviewing the logs on a regular basis.

Continued on next page

NBFamilies Security, Continued

Database environment

The production database stores all of the data for the NBFamilies application. The accuracy and integrity of the data could be easily damaged if access to the database is not strictly controlled.

The production database has five accounts. Consultants are responsible for the administration of the database and for changing the passwords on these accounts. From our discussions with the Department, we were informed that the passwords are not changed regularly and that changing these passwords could cause major issues with the application.

We were told that the passwords for two of the five database accounts were changed last year when the consultants staff changed. However, the passwords for one of the remaining three accounts have not changed for at least three years.

Best practices advocate changing database passwords on a regular basis. Not changing the database passwords on a regular basis increases the risk of unauthorized access to the data. We have concerns about an application system where passwords cannot be easily changed when required, especially when that application contains confidential information about New Brunswickers.

Continued on next page

NBFamilies Security, Continued

Unix operating system environment

Unix is the operating system used to run the NBFamilies application. The operating system is managed by Aliant, a third party service provider. Aliant is responsible for monitoring, housing, patching, and upgrading the operating system.

Application users do not login to the operating system to access the NBFamilies application; however, nine system support users have accounts to access the operating system. Typically, system support users have access to all the files stored on the server, including the application database. While the support users could not directly login to the production database, they would have the ability to delete the database. Thus, these users are extremely powerful and strong security should surround their system accounts.

While we did not conduct an in-depth review of the Unix operating system, we noted a number of practices that are not normally associated with "good" security procedures.

Password composition
Password composition does not conform with PNB standards.
The PNB password standards which were effective as of March 2003 require baseline security for user accounts. The standards indicate that administrator accounts are a special class of user accounts for which additional baseline security requirements may apply.

One of the requirements of the standard relates to password composition. The standard requires passwords to contain a combination of upper case, lower case, numeric characters and special characters. The passwords for the Unix operating system users do not meet these requirements. We believe given the powerful level of access of the Unix users, the password requirements should meet or exceed the requirements of the PNB standards. Strong password composition reduces the risk of easy-to-guess passwords thus reducing the risk of unauthorized system access.

Password life
Users are not required to change passwords.
The PNB standards also require users to change passwords at least every 60 days. The settings for the Unix operating system do not require passwords to be changed regularly. Not changing passwords on a regular basis increases the risk of unauthorized system access.

Continued on next page

NBFamilies Security, Continued

Threat risk assessment

Throughout this section, we have highlighted a number of areas where we believe security processes should be improved. As we mentioned in the background of this section, our limited review has identified three access points where data could be comprised. Additional access points could exist where the data could be compromised.

One manner in which the Department can determine where the security weaknesses exist and the potential for data exposure is through a Threat Risk Assessment (TRA). A threat risk assessment will identify potential threats, the likelihood of their occurrence and the measures that should be in place to protect the data.

The Department completed a TRA for one aspect of the system, the Vendor Electronic Invoicing System (VEIS). As well, the Department had a third party vendor perform a security assessment for the VEIS. We would like to see the Department complete a TRA for the entire NBFamilies system to identify potential threats and risk of exposure.

We recommended

We recommended the Department monitor failed login attempts to the production database.

We recommended the Department develop a process whereby database passwords can be changed regularly.

We recommended the Department improve Unix security so that passwords are changed regularly and that password composition complies with the PNB password standards.

We recommended the Department complete a threat risk assessment for the NBFamilies system.

Granting System Access

Objective

To ensure system access is approved by the business owner and that user access is not incompatible resulting in a lack of segregation of duties.

Observations

From our discussions with staff about the process for granting access to system users, we make the following observations.

1. The business owner does not approve user access requests.
   Business owners should approve access to ensure that:
   – the business owner approves who has access to sensitive confidential data,
   – the level of access is appropriate given the user's job responsibilities, and
   – the profiles assigned to users do not conflict.

2. The Department should ensure that users are not assigned conflicting profiles. This is important so that segregation of duties is maintained. For example, a user should not be assigned a profile for creating and approving invoices. The business owner should be responsible for ensuring users' profiles are not incompatible. We found cases where incompatible profiles were assigned to users. See example below.

3. The Department does not have a listing of incompatible profiles. As mentioned above, having this list is important so that approvers of system access are aware of incompatible profiles.

Incompatible profiles

From discussions with staff, we were told that the following profiles are incompatible:
- **NBFSW** *NBF Social Worker* and **NBFADM** *NBF Administrative Support*

From our review of the documents provided by the Department, we found three users with both of these profiles. The assigning of these conflicting profiles to users was an oversight and has since been corrected.

Continued on next page

Granting System Access, Continued

Departmental comments

From our discussions with the Department after our audit, we learned that its staff is in the process of looking into the area of user profiles and access and staff plan to improve this process.

We recommended

We recommended user access requests be approved by the business owner or approved delegate.

We recommended a listing of incompatible profiles be prepared and provided to the individuals responsible for approving system access.

We recommended users should not be assigned incompatible responsibilities.

Terminating Inactive Accounts

Objective

To ensure inactive user accounts are terminated within 90 days as required by the PNB password standards.

Findings

The NBFamilies system does not automatically disable accounts after 90 days of inactivity. Terminating accounts after 90 days of inactivity is a requirement of the PNB password standards.

We found 180 users had not accessed the NBFamilies system within the last 90 days. A breakdown of the 180 accounts is as follows.

63 users have never logged in
6 users had not logged in since 2006
86 users had not logged in since 2007
25 users had not logged in since February 2008

Promptly terminating user access reduces the risk of unauthorized access to confidential data. The Department should modify the system to disable inactive accounts or its staff should manually review and disable inactive accounts.

Departmental comments

The Department agreed with this comment. It indicated, however, in some cases accounts are needed for the hierarchical approval structure even though users do not need access to the system. Its staff will look into disabling these accounts because in addition to not complying with the PNB standards, having inactive user accounts ties up licenses and could increase departmental costs.

We recommended

We recommended the Department disable NBFamilies user accounts after 90 days of inactivity.

Program Changes – Plan Approval Process

Objective

To ensure a process is in place to approve NBFamilies program changes.

Scope

There are three ways changes are made to the NBFamilies system. In this audit, we focused on changes made through the release process.

Improvements needed in plan approval process

The process for making program changes is described in detail in the Operational Framework. We were very impressed with this document and the process described within.

Part of the release process is to create/approve a release plan. We found inconsistencies in the way the release plan was approved. For example, in release 11 the plan was approved in the minutes of the maintenance committee meetings. There was also an email from the business owner to one of the consultants indicating that the plan was approved. For release 12, there was only approval in the maintenance committee meeting minutes.

Also, based on the length of time required by the Department to find documentation and from our review of documentation we received, we believe that finding the plan approval appeared to be a time consuming process.

We expected to find a documented release plan, listing the changes to be included in the release with appropriate signatures from both the Department and the consultants. This release plan would be similar to the scope definition document prepared for other departmental systems. Instead, we found the approval process to be informal and inconsistent.

Departmental comments

The Department agreed with our comments and its staff have held meetings to discuss the best way to implement our recommendations.

We recommended

We recommended the release plans for the NBFamilies system be documented and approved by the consultants and appropriate members of the Department.

Approval of Design Specifications

Objective	To ensure design specification documents are signed off before work is started.
Background	Design specification documents are prepared for most issues included in a release. These documents describe the nature of the change, the work to be done and how the change will be made to the application. Having a well documented design specification helps ensure the appropriate changes are made to the system in the most efficient and economical manner.
Observations	We found that design specifications were not approved by both the consultants and the Department before work begins on the related issue. We believe this sign off is important so that both the developer and the owner agree on the proposed method of changing the application. We noticed that the design specification documents have a front page where approval is required by both a consultant architect and a user authority. However, this page is not signed off. We noted from our work on other systems, design specification documents are signed off prior to work starting. We did find that sign-off is obtained once the work is complete. An “Approval/Sign off” sheet is attached to the design specification. This sheet is signed off by both the Department (after the release is put in production) and the consultants (before the release is put in production).
Departmental comments	The Department agreed with our comments and its staff have held meetings to discuss how to implement our recommendation. We were told that in some cases work on the changes happens at the same time as the design is developed. In these cases, once the design is finalized the document should be signed off.
We recommended	We recommended design specifications be signed off by both the consultant and the Department prior to work commencing.

Program Changes – Testing Signoff

Objective

To ensure a formalized process is in place to test program changes prior to them being implemented into production.

Background

Testing of program changes is an integral step in the program change process. Changes that have not been properly tested could cause applications to produce incorrect results. Proper documentation and sign-off of changes is necessary to provide evidence that all changes were appropriately tested before the changes are put into production.

Observations

We reviewed the testing process for both release 11 and release 12. We saw evidence that the Department was testing program changes. However, we found inconsistencies in the sign off process to inform business owners that all changes were adequately tested and ready for production. For example:

- For release 11: In the Weekly Issue Review Meeting minutes, we saw mention of the fact that all issues have been approved in UAT (User Acceptance Testing). We did not see any communication to the business and system owners that the testing was complete.

- For release 12, we saw an email from the Business Support group to the consultants and the business owner stating that testing was complete and the tests were successful.

The Department should develop a standard process for the sign-off of testing. This would include documented evidence that the testing was completed successfully and that the business owners are notified that testing is complete prior to sign-off to production. The business owners should be notified by the person responsible for ensuring that the testing is complete. Having a well defined process will help ensure untested changes are not put into production.

Departmental comments

The Department agreed with our recommendations and will develop a series of process-related improvements to address the issues identified.

Continued on next page

Program Changes – Testing Signoff, Continued

We recommended

We recommended the Department formalize the testing sign-off process for release changes. In particular, the Department should document and sign off that all testing is complete.

We recommended the business owners be notified formally that the testing is complete before implementing the change into production.

Disaster Recovery and Business Continuity Planning

Objective

To ensure the NBFamilies system is adequately protected from loss of data and is able to resume operations in the event of a disaster.

Background

Contingency planning and protection of data is an important aspect in the management of any mission critical system. Having documented and tested disaster recovery and business continuity plans helps ensure the protection of data and the continuation of service in the event of a disaster.

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 business continuity plan 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.

Observations – No disaster recovery plan

The Department does not have a documented and tested disaster recovery plan or business continuity plan. Section 4.5 of the operational framework states: “The Department of Family and Community Services will need to complete a full Disaster Recovery Plan which covers all of their servers and environments including those used for NBFamilies.” The Department has yet to complete this plan.

Continued on next page

Disaster Recovery and Business Continuity Planning, Continued

Observations – Recovery process not tested periodically

One problem that we noted from our security questionnaire is that for each of the three environments (application, database and operating system), the Department does not test the recovery process periodically. Testing the recovery process is important to ensure data can be recovered and the system can be restored in the event of data loss.

Observations – No business continuity plan

The Department has not completed a business continuity plan for its key systems. We commented on the absence of a plan in our 2004 report on the NBCase system. However, a complete business continuity plan has still not been completed.

We recommended

We recommended the Department periodically test its recovery process for each of the three NBFamilies operating environment.

We recommended the Department document and test a disaster recovery plan for the NBFamilies system.

We recommended the Department complete a business continuity plan for its mission critical systems.

Operational Framework

Issue	The Department does not have a signed copy of the operational framework.
Observations – No signed copy of the operational framework	The operational framework is a key component of the Department's contract with the consultants. It describes the management practices, workflows and responsibilities used to fulfill the contract between the Department and the consultants. We requested a signed copy of the operational framework on February 21, 2008, but the Department was unable to produce one. As we were preparing our draft report in October 2008, the Department emailed a pdf file of a signed document to us. It appears from the email, that the Department forwarded us a document it had obtained from the consultants not from its own files. From this we concluded that the Department did not have its own signed copy of the Operational Framework. Since this is a key document in how the contract is managed, the Department should have had its own signed copy.
We recommended	The Department should ensure it has a signed copy of all contracts and supporting documents.

Work of Audit Services

Objective

- To ensure the reports and recommendations of the Audit Services Unit (Audit Services) are adopted by the Department.
- To ensure Audit Services focuses on areas of risk in the Department.

Implementing Audit Services recommendations

We reviewed two reports from Audit Services each of which had numerous findings and recommendations. The reports related to Long Term Care – In-Home Services and Standard Family Contribution.

In our sample testing, we found a number of the same issues noted by Audit Services in its work. Audit Services had made recommendations to the Department for improvements in these areas. We believe, however, that the recommendations have not yet been implemented by the Department.

The Department has an Audit and Evaluation Committee in place to deal with the recommendations of Audit Services. The responses from the Committee, as well as the implementation of the recommendations, are not always timely. Audit Services told us it has yet to receive a response from the Audit and Evaluation Committee on its 2006 and 2008 reports.

We believe the work of Audit Services provides a valuable service to the Department and the recommendations of this section often provide significant cost saving opportunities to the Department. The timely implementation of Audit Services recommendations is beneficial to both the Department and the taxpayers of New Brunswick. The Department should ensure that a timely process is in place to implement the recommendations of Audit Services.

Audit Services area of work

We were pleased to see that Audit Services had focused some of its resources in the area of long-term care. Given the significance of its findings and the significance of the dollars involved, we believe Audit Services should focus some of its resources on NBFamilies each year.

We agree with Audit Services assessment that the area of long-term care has numerous risks to the Department. We believe these risks could be reduced by establishing a regular audit of this area by the Audit Services unit.

We recommended

We recommended the Department implement the recommendations of Audit Services on a more timely basis.

We recommended Audit Services incorporate in its annual audit plan one or more of the departmental programs processed by the NBFamilies system.

Part C

Results from Sample Testing

Overview

Introduction This part discusses our findings from our sample testing.

Contents This part contains the following topics:

Financial Assessments Not Completed

Objective

To ensure financial assessments are completed regularly and to ensure the amount of client contribution is correct.

Sample information

We selected a sample of 23 long-term care clients and 1 alternative family living arrangements client from the NBFamilies system.

We tested to ensure that an up-to-date financial assessment was on file for each client and that the amount of client contribution was correct.

Observations – Financial assessments not completed on a timely basis

Of the 24 clients we tested, three clients did not have financial assessments completed on time as required by departmental policy.

Two of these clients' financial assessments were completed in 2005. Departmental policy requires staff to perform client financial assessments every two years unless the client is on social assistance. The financial assessments for these clients should have been performed in 2007. One of the clients is deceased as of June 2007.

The third client's financial assessment was completed in 2004. From our review of documentation, we believe the financial reassessment was done in 2006 based on 2004 data.

Observations – Client contribution

We also found nine clients where the client contribution amount was incorrect. As mentioned above, client reassessments are only performed every two years. The NBFamilies system automatically adjusts the client contribution for clients who receive the maximum amount of Old Age Security (OAS) or Guaranteed Income Supplement (GIS). However, for those clients who receive less than the maximum OAS and GIS and who receive CPP, the NBFamilies system does not adjust the client contribution. Therefore, the amount of the client contribution for these clients is incorrect when the rates change each quarter.

This observation was noted by the Department's Audit Services unit in its "Standard Family Contribution" report. Audit Services recommended that client income amounts be adjusted every time there is an increase in OAS/GIS and CPP. Audit Services also gave an example of a region that had a process for updating OAS/GIS and CPP income when an increase occurs and it recommended that the region be considered a model for all regions.

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Financial Assessments Not Completed, Continued

Observations – Client contribution - continued

Audit Services also recommended that financial reassessments be done based on a risk model. For example: (1) clients who receive OAS/GIS only, no reassessment would be required; (2) clients who have indexed pensions, reassessments be done yearly; and (3) clients who have non indexed pensions and investment income in addition to federal pensions be reassessed every 2 years.

We thought both of these recommendations had merit and would help the Department in ensuring all clients are treated consistently and fairly. We did wonder, however, on the risk model for financial reassessments, if the Department should consider some minimal random checking of clients who receive OAS/GIS only.

Observations – Filing of financial assessments

In some cases financial assessments were difficult to locate. These assessments appeared to be stored in a separate area from the other client information. The Department was not surprised with this finding. We were told that with the implementation of "Front-end Integration" the person who performs the financial assessment could be different from the person performing the long-term care assessment and the information could be stored in separate locations. We believe information on a client should be stored in one place, either in an electronic and/or a manual file.

We recommended

We recommended the Department complete financial reassessments on time as required by policy.

We recommended the Department obtain updated client financial information when completing financial reassessments.

We recommended the Department review the recommendations of Audit Services and develop a process where client contributions can be updated when client income changes.

We recommended the Department store client information in one location that is easily accessible to departmental staff.

Contracts Not Signed

Issue

During our testing, we found two cases where payments were made to service providers who did not have a signed contract with the Department.

First case

Discussion with the region indicated that the service provider would not sign an agreement with the Department in 2008, but the Department continued to use the service. However, the hourly rate paid to the service provider was the standard rate paid by the Department to other similar service providers.

Second case

In the second case, the Department informed us that this particular service provider is used by all regions and typically each region has a contract with this service provider. This year the Department considered having one contract for all regions; however, no decision was made to do this. Consequently, no contract was in place for the period April 1, 2007– March 31, 2008.

Our concerns

We believe payments should not be made without signed contracts.

We were told that for the second case various hourly rates were paid to this service provider depending on the negotiation by the social workers. We believe, had a signed contract existed for this service provider, consistent rates would have been used by the social workers.

We recommended

We recommended the Department only make payments to service providers who have a signed contract with the Department.

Supporting Documentation Does Not Backup Payment

Objective

To ensure payments to clients and service providers are supported by invoices and supporting documentation.

Background

In NBFamilies, payments are made to service providers in two manners – electronic invoicing and traditional paper invoice submission. With electronic invoicing the following process is followed:

- Service providers electronically submit invoice lines to the Department.
- The NBFamilies system matches the electronic invoice information with a service requisition previously entered by a social worker.
- If all criteria match, a payment is made to the service provider.
- The service provider is required to maintain manual supporting documentation and if asked, provide copies to the Department.

Supporting documentation did not agree with payment

As part of our sampling, we asked service providers to provide us with supporting document for their electronic invoices. In our work, we found one case where the supporting documentation submitted by the service provider did not agree with the electronic invoice line that it had submitted. The supporting documentation totaled 199 hours but the service provider had submitted (and been paid for) an electronic invoice of 215 hours. The invoice was for the period of May 2007 for $2,808.06. The amount of the overpayment was $210.08. The Department informed us that it was going to set up an overpayment to recover the money. We are not aware if the Department is planning any additional action to prevent and/or detect future over billings by this service provider.

No supporting documentation (subsequently provided December 12)

One service provider was unable to supply the Department with any supporting documentation for an electronic invoice it submitted for the period of May 2007. The amount of the payment was $2,038.03.

The Accounting Services section informed us that it was going to recover this money by withholding future payments to the service provider.

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Supporting Documentation Does Not Backup Payment,
Continued

Our concerns

We are concerned that the Department has made payments that cannot be supported by backup documentation from the supplier. We would like the Department to devise a strategy to deal with service providers whose backup documentation does not support its electronic invoices. In the absence of other action, simply recovering overpayments does little to deter the service provider from submitting an incorrect invoice in the future. Ideas to prevent over billing could include selecting the service provider for extensive future audit or prohibiting the service provider from using electronic invoicing for future payments.

We recommended

We recommended the Department develop procedures to address cases where service providers' supporting documentation does not agree with their electronic invoices. The procedures should have strategies to deter service providers from submitting invoices that are not properly supported by backup.

Services Vary by Region

Issue

The types of services offered to clients can vary by region depending on budget restraints.

Details

In our sample we examined a file for a client who was receiving a particular service. The social worker we spoke with regarding this client believed that the Province had changed its policy and it no longer provided this type of service to clients thus the client was not eligible to receive the service.

From our discussions with staff at head office, we learned that this particular service had not been disallowed by the Province and that regions can decide on the types of services they will provide to its clients. Depending on its budget, a region could disallow a service that is provided by other regions in the Province.

We are concerned that the types of services offered to clients is a regional rather than a Provincial decision. We believe that this will result in inequities in the services provided to clients depending on where they live in the Province.

Head office staff indicated that they were working on a "Menu of Services" project which will help to standardize the services provided to clients across the Province.

We recommended

We recommended the Department review its policy of allowing regions to decide on the types of services offered to clients. Allowing regions this level of decision making promotes inequity of services depending on where clients live in the Province.

Service Requisitions Not Completed Appropriately

Issue

Social workers are not always completing service requisitions appropriately.

Observation – Rate type of "none"

In our sample, we noticed one payment where the social worker did not enter a rate type in a service requisition for a client. A service requisition is the way a social worker sets the limits for the types of services the Department will provide to a client.

In this case, the service requisition indicated that the client was eligible to receive 1 unit of service with a rate type of "none" resulting in a total monthly cost of $2,040. Typically, the unit of service is entered with a rate type of hours or days, etc. (For example, 25 hours @ $8.00 per hour.)

From our discussions with the social worker, she believes that the client was eligible to receive 255 hours @ $8.00 per hour for a total cost of $2,040. The client invoiced the Department for 201 hours @ $7.00 per hour AND 21 days @ $30.00 per day for night care. Total of the invoice and the payment was $2,037.

Completing service requisitions with no rate type, allows the clients to determine the amount and type of services they will receive.

The client in our sample paid the service provider an hourly wage less than the approved hourly departmental rate. The departmental rate requires homemakers to be paid a rate between minimum wage and $8.00. Minimum wage at the time of this payment was $7.25 per hour. This service provider was paid $7.00 per hour.

Also, the client received a service that we were told was disallowed by the region.

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Service Requisitions Not Completed Appropriately, Continued

Discussion with department

From our discussions with staff at head office, we were told that they strongly discourage the use of 1 unit with rate type of “none”. However, it is not possible to have system edits to restrict its use because in some circumstances this requirement is needed. We believe reports could be generated to identify service requisitions using the 1 unit rate type of “none’. A review of these requisitions would identify social workers who are completing service requisitions in this fashion, as well as, identify clients who could be receiving services different from those approved by the Department.

We noted that Audit Services also found this in its work on Long-Term Care In-Home Services review in 2006 and made a recommendation in this area.

We recommended

We recommended the Department investigate service requisitions entered without a rate type to ensure the clients are receiving the approved level of service.

We recommended the Department instruct social workers who use this system function that, except in certain circumstances, it is not an acceptable way to enter in a client’s level of service.

Payments for Clients Whose Level of Care is Unknown

Issue

One payment related to a client who has a very complex case. The level of care required for this client was unknown. The social worker indicated on the service requisition that the service provider would contact the Department each month and inform them of the amount of payment required for the month. The payment amounts for three months were in excess of $25,000 for each month.

When we obtained a copy of the invoice, we found the Department was charged 1,400 hours of care for this client at an hourly rate of $15.48. This payment was made by electronic invoicing. The Department did not review the invoice prior to payment. The social worker entered the cost into NBFamilies and the system paid the invoice.

During our audit, we contacted the supervisor who agreed that the hours seemed high for one month of care. After receiving a copy of the invoice from us, the supervisor investigated the payment and determined that the level of care was reasonable given the client circumstances.

Discussion with department

Head Office informed us that this is not a normal case. This client is a special case and needs constant care. Finding someone to care for this client was a challenge for the Department and the payment method was secondary to finding proper care for the client.

Even though we understand the concerns of the Department, we believe that someone within the Department should be accountable for the payment. In cases such as this, the Department should request the service provider to submit manual invoices that can be reviewed and approved by appropriate levels of management within the Department.

Head Office asked the client’s program delivery officer to review the case. We were informed that the NBFamilies requisition will be updated to more clearly reflect the level of care required and manual invoices will be requested from the service provider and reviewed for reasonableness prior to payment.

We recommended

We recommended that when the Department is unable to determine the level of care needed for a client, the service provider should submit manual invoices to the Department that can be reviewed for reasonableness and approved by the various levels in the Department.

Inspection of Long-term Care Facilities

Objective

To ensure Adult Residential Facilities (ARF) are properly inspected as required by departmental policy.

Background

As part of our long-term care testing, we reviewed ARF inspection documents for clients in our sample to ensure that the facilities were licensed and eligible to receive payments from the NBFamilies system.

We audited ARF inspections in 2005 and made a number of recommendations relating to the inspection process. We followed up on these recommendations last year in our annual Report. See our follow up chapter for more information on the status of these recommendations.

One of our 2005 recommendations was for the Department to develop a standardized inspection form to be used by all regions. The Department implemented this recommendation in January 2008. We reviewed the Department's use of the new form to ensure all regions were using the new form and that they were completing the form properly.

Testing details

We tested 18 ARF inspection files – 11 facilities were inspected before January 2008 using the old inspection form and 7 facilities were inspected after January 2008 when the new form was implemented.

Findings – new form not used when required

In the Moncton region, five facilities were inspected after January 2008. In all five cases, the new inspection form was not used when required.

The Department indicated that this was an oversight and the region is now using the new form.

Findings – inspection not completed properly

A new facility was inspected on October 31, 2007. The old inspection form was used but it was not completed properly. Two pages of the old inspection form were not completed as required.

The Department did not comment on this finding.

Continued on next page

Inspection of Long-term Care Facilities, Continued

Findings – five inspections in one day

Inspection documents indicate four inspections were done on the same day, at different addresses, by the same inspector. Given the process required to complete an inspection, properly completing four inspections on the same day would be very unlikely. Also, licensing documentation for a fifth facility was dated on the same day, but no inspection documents were present.

The Department explained that these facilities were small with few beds. A central office manages the administration of the facilities. The inspector reviews the central files and then visits each facility.

Findings - temporary certificate not issued

Inspection documents indicate that the facility was to receive a temporary license for three months. The facility received a permanent license for one year instead. The inspection documents indicated that the employee files at the home were incomplete and a permanent license should not have been issued.

The Department did not comment on this finding.

We recommended

We recommended the Department ensure all regions are using the new form and the new form is completed properly.

We recommended the Department only issue a permanent license to an ARF if the facility meets all the standards required in the inspection documents.

Client Reviews Not Completed

Issue

Clients are not being visited on a regular basis.

Observations – Client not visited regularly

We reviewed payments from the NBFamilies system for 24 clients and make the following observations:

- One client's last assessment was in 1996. From our review of the client's file on NBFamilies, there was no evidence in NBFamilies that the client had been visited since NBFamilies was implemented. The electronic case plan was dated in 1986. There was no evidence that the plan was revised or updated since that time.
- One client's assessment and case plan was completed in 2000. This client's financial assessment was completed in 2004. This provides evidence that the client was contacted since the time of his last assessment. From our review of the electronic file, there was no evidence that the client had been visited or a reassessed since 2004.
- One client had not been visited since 2004. The current social worker reviewed the information recorded in NBFamilies and saw no evidence that the client had been visited since the initial assessment in 2004. This client had numerous problems with her file that have been discussed through out this report.

Department policy

At the time of our audit, the Department did not have a policy on how often client reviews and/or reassessments should be completed. However, the practice followed by Long Term Care staff was that reassessments would be undertaken when the needs of the client significantly changed, when the client was going from in-home services to a residential placement or when the client him/herself was requesting a reassessment.

In July 2008, the Department developed guidelines suggesting that an annual case review be conducted for Long Term Care clients at home or in an Adult Residential Facility. To conduct the annual review, the social worker personally contacts the client and asks a number of questions relating to the client's condition, the adequacy of the services, the client's satisfaction and the client's financial situation. Depending on the client's response a reassessment may be performed or the service plan may need to be reviewed.

Continued on next page

Client Reviews Not Completed, Continued

Our concerns

We are concerned that some clients have been receiving services for many years without having regular contact with the Department. We hope the new guidelines will eliminate this problem.

We question whether guidelines with suggestions are strong enough to ensure client reviews are performed. Should this be a policy of the Department with a requirement that reviews be completed?

We expect the client reviews to be documented in NBFamilies to show evidence that the client review was completed. Conducting the annual client review will help ensure that the social worker does not automatically click the NBFamilies review task. We will monitor this in future audits to ensure social workers document the annual client review.

We recommended

We recommended the Department conduct client reviews on a regular basis. The client reviews should be documented in the NBFamilies system as evidence that the reviews were completed.

We recommended the Department review the guidelines with suggestions to determine if these suggestions are strong enough to ensure social workers have contact with clients on a regular basis.

Part D

Accounting Issues

Overview

Introduction

This section discusses accounting issues we noted in our testing of NBFamilies

Contents

This part contains the following topics:

Accrual of Unbilled Services

Issue

The Department does not accrue for services received by clients by year end but that have not been billed by service providers.

Process

The following process is used to request services for long-term care clients.
- Social worker determines the level of care required and completes a service requisition.
- Service provider provides care to clients.
- Client or service provider submits invoice for payment.

Cutoff issue

At year end, many clients have received services but the service providers have not billed the Department for payment. Since these services were provided to clients in the period April 1 to March 31, they should be recorded as expenses in the fiscal year the service was provided.

The Department does analyze payments made to service providers from April 1st to the year end cutoff date (April 25 in 2008) and the Department accrues the services that relate to the prior year. However, the Department does not estimate and accrue the amount of services that have been provided but not billed by service providers.

We analyzed NBFamilies data to estimate the amount of unbilled services for the 2008 fiscal year. Based on information obtained from the Department, we estimate these services are in the range of $5 million. Even though this amount is significant, some of it could be offset by the amount of unbilled services that relate to the 2007 year but were paid in the 2008 year. The netting of these two amounts could significantly reduce the amount of the cut off error. However, changes in billing rates and the speed of suppliers submitting their invoices would cause fluctuations in the accrual amounts between the two years.

Discussion with Department

We discussed this issue with the Accounting Services section in the Department. The manager of this section was going to perform his own analysis of the payments for a fiscal year to produce his own estimate of the amount of unbilled services. The manager was hesitant to accrue expenditures based on estimates for budgetary reasons, however, he indicated he was willing to track expenditures after the cutoff period and accrue actual payments.

Continued on next page

Accrual of Unbilled Services, Continued

We recommended

We recommended the Department estimate and accrue the cost of services that have been received by clients at year end but have not been billed by service providers.

Section B

Department of Social Development

NBCase Expenditures

Overview

Introduction

The purpose of this section is to discuss our findings and to make recommendations from our audit of NBCase expenditures.

In this section

This section contains the following topics:

Access Controls – Terminating Users' Access

Issue

During our testing of the NBCase system, we found that 27 NBCase user accounts had not been terminated after 90 days of inactivity. Terminating user accounts in a timely manner reduces the risk of unauthorized access to information stored in the system.

Results of Testing

The table below shows the length of account inactivity and the number of users who had not accessed the system in that amount of time.

Length of Account Inactivity	Number of Users
1 - 3 years	8
7 – 11 months	10
3 - 6 months	9

Discussion with Department

When we discussed this issue with the Department, we were given the following explanations as to why user accounts were not terminated.

Number of Users	Explanation from Department
14	RUSAs did not send a termination request when required.
7	Supervisors did not send a termination request for users who were on sick leave and maternity leave.
6	Supervisors did not send a termination request for users who no longer needed access to the NBCase system.

From our discussions, we learned that the majority of the Regional User Support Analysts (RUSA) (who are responsible for terminating system access) are relatively new and may not be aware of the requirements and the process for terminating system access.

Provincial Standards

In March 2003, the government released "Password Standard for User Accounts". These standards require user accounts to be terminated if they have been inactive for 90 days.

We recommended

We recommended the Department terminate inactive user accounts after 90 days of inactivity.

Continued on next page

Access Controls – Terminating Users' Access, Continued

We recommended (continued)

We recommended the Department train Regional User Support Analysts and supervisors so that they are aware of the process for terminating system access.

Departmental Response

The department agrees with the recommendation to disable NB Case user accounts after 90 days. As of November 2007, NB Case access is tied to Active Directory. With Active Directory, sign in accounts are disabled after 30 days of inactivity; so technically, an NB Case user cannot access NB Case after the Active Directory account has been disabled. Reports are produced monthly and forwarded to supervisors to terminate system access when necessary. This process should address this concern.

Audit and Evaluation Committee

Introduction

The Department of Social Development has an Audit and Evaluation Committee in place whose purpose is to act as a decision making body and to provide leadership and support to the Audit Services unit and the Planning, Research and Evaluation Branch.

Audit Committee – Promotes Strong Control

The Department's Audit and Evaluation Committee has several key roles and responsibilities outlined in its terms of reference. These include :

- identifying areas of concern of a financial and program nature that could benefit from an independent review/evaluation,
- focusing attention on the audit functions such as the effectiveness of management systems, compliance, coordination of internal audits, accountability, and follow-up of both internal and external audit recommendations,
- reviewing and approving the annual Internal Audit Work Plan and the Evaluation Work Plan, and
- accepting or rejecting the Audit or Evaluation recommendations based on the findings in the audit or evaluation report.

In addition, the terms of reference state the Chairman (Deputy Minister) will be responsible to follow-up with lead Assistant Deputy Ministers as to the development and status of the implementation plans. The Terms of Reference also requires the Committee to meet every two months for a maximum of two hours.

This type of senior management support of internal audit's work cannot help but strengthen the overall control environment in the Department. We are pleased to see a committee such as this in place in a government department.

Frequency of Meetings

During the past two years, we noticed that the Audit and Evaluation Committee is not meeting bi-monthly as required by its Terms of Reference. The Committee only met two times in each of the last two years.

Since we believe the existence of this Committee is beneficial to the Department, we recommended the Department continue in its support of the Committee and its ongoing efforts. In order to support a strong control environment, however, we believe the Committee should meet regularly as outlined in the Terms of Reference. Regular meetings will provide the direction needed to allow the Committee to be effective in carrying out its responsibilities.

Continued on next page

Audit and Evaluation Committee, Continued

We recommended

We recommended the Audit and Evaluation Committee should meet regularly as required by its terms of reference.

Departmental Response

Thank you for the acknowledgement of the benefits of the Audit and Evaluation Committee however the bimonthly frequency of this Committee has proven to be unrealistic for senior management availability. The Terms of Reference have been revised so that meetings will be held four times per year.

Improvements in the Follow up of Regional Investigators' Work

Introduction

The purpose of this section is to update our findings on the work of the Regional Investigators' Supervisors. In the past two years, we reported problems with the follow up performed by the Regional Investigators' Supervisors. We noted that the Supervisors were only following up on the Regional Investigators' work in 47% of the cases.

Definition

Regional Investigators: investigate social assistance clients based on tips that the Department receives from various sources.

Regional Investigators' Supervisors: follow-up on the recommendations of the Regional Investigators after six weeks to ensure the Case Managers have made the recommended changes.

Audit Findings

Again this year, we reviewed the work of the Regional Investigators' Supervisors. We found for the period April 2007 – October 2007, Regional Investigators recommended changes to social assistance payments in 33% of their investigations. Regional Investigator Supervisors followed up on 69% of these changes. This is a significant improvement over the 47% figure for the last two years.

We make the following comments from our review.

- We are pleased to see that the Regional Investigators' Supervisors have improved in completing their follow up tasks.
- We would like to see the follow-up percentage increase even more in the future.
- We note that the smaller regions have a lower follow-up percentage than the larger regions.
- We learned from the Department that it periodically monitors the work of the investigators but it was uncertain why two regions had low follow-up percentages.

Continued on next page

Improvements in the Follow up of Regional Investigators' Work, Continued

Observations

From our work, we believe the Department should continue to educate the Regional Investigators' Supervisors so that they are aware of the importance of following up on the work of the Regional Investigators.

The Department should continue to monitor the Regional Investigators' Supervisors and determine why some of the supervisors are not completing their follow up.

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.

Conclusion

The Department has made progress in implementing our recommendations of the past two years. We believe the Regional Investigators' work is a key control and that timely implementation of their recommendations could produce cost savings for the Department. We will continue to monitor the work of the Regional Investigators and their supervisors in future audits.

Departmental Comments

Thank you for the acknowledgement of our significant progress in this area from 47% follow up in the past two years to 69% in the current year. We will continue to monitor this work especially in the regions with the lower percentages to achieve increased percentages that could produce cost savings for the Department. In addition, there are a number of changes proposed for the March 2009 release of NB Case that will address some of the data issues and will no doubt result in improvements.

Improvements in the Timely Completion of Case Reviews

Introduction

The purpose of this section is to update our findings relating to the completion of case reviews. As in the past, we divided this section into two parts – 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.

Continued on next page

Improvements in the Timely Completion of Case Reviews,
Continued

Alert Clients

We previously reported that case reviews are not always completed on time for alert clients.

The following table shows the progress that the Department has made in completing case reviews for alert clients over the past few years.

	Alert Clients		
Year Case Review Required	**2007 Overdue Reviews**	**2006 Overdue Reviews**	**2005 Overdue Reviews**
2000	0	0	3
2001	0	0	2
2002	0	5	18
2003	0	2	11
2004	0	5	14
2005	1	4	12
2006	0	25	NA
2007	14	NA	NA
Total Overdue	**15**	**41**	**60**
Total Number of Alert Clients	**589**	**586**	**563**
Percentage of Alert Clients with Overdue Case Reviews	**2.5%**	**7.0%**	**10.7%**

From the table, we can see that except for one client, the Department has completed the older case reviews for the alert clients. The percentage of alert clients with overdue case reviews has dropped to 2.5% from 10.7% in 2005.

Continued on next page

Improvements in the Timely Completion of Case Reviews,
Continued

Non-alert Clients

We previously reported that case reviews are not always completed on time for non-alert clients. We also noted a number of case reviews were more than one year old.

The following table shows the number of overdue case reviews for the past few years, as well as the percentage of overdue reviews.

	Non-Alert Clients		
Year Case Review Required	**2007 Overdue Reviews**	**2006 Overdue Reviews**	**2005 Overdue Reviews**
2000	0	0	0
2001	0	0	1
2002	0	1	3
2003	0	0	19
2004	0	13	101
2005	2	84	584
2006	7	644	NA
2007	443	NA	NA
Total Overdue	**452**	**742**	**708**
Total Number of Non-Alert Clients	**22,997**	**23,638**	**24,527**
Percentage of Non-Alert Clients with Overdue Case Reviews	**2.0%**	**3.1%**	**2.9%**

From the table, we see that the Department has improved significantly over the past few years in completing the case reviews.

Of the outstanding case reviews for the current year, we note that 382 are due after August 2007. Since the majority of case reviews are completed in the summer by summer students, these cases will not be completed until the following summer. This is an inherent limitation in having summer students perform case reviews.

Conclusion

The Department has made progress in implementing the recommendations that we made in the past two years. As we believe case reviews to be a key control area, we will continue to monitor case reviews in the future to ensure they are completed on time.

Continued on next page

Improvements in the Timely Completion of Case Reviews,
Continued

Departmental Comments

Thank you for the acknowledgement of our progress in the area of timely case reviews. The report is divided in to two parts:

A) Alert clients

We have made a concentrated effort in this area and the outcome is the lowest percentage in [overdue] case reviews for alert clients for years. As noted, the percentage has dropped from 10.7% (60 clients) in 2005 to 2.5% (15 clients from a total of 589) in the reporting period. 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

We have also made improvement in the area of non alert clients. Staff has completed 98% of case reviews this past year as compared to 97% from the previous audit.

Chapter 9
Office of the Auditor General

Contents

Office of the Auditor General

Accountability statement

This chapter of my Report reflects the performance of my Office for the year ended March 31, 2008. It was prepared under my direction. I am accountable for the results achieved, for the selection of performance indicators and for how performance has been reported.

This chapter presents a comprehensive picture of the Office's actual performance. The chapter includes estimates and interpretive statements that represent the best judgment of management. The performance indicators reported are consistent with the Office's mission, goals and objectives, and focus on aspects critical to understanding the performance of the Office.

I am responsible for ensuring that the Office's performance information is measured accurately and in a timely manner. Any significant limitations in the reliability of the performance data have been identified and explained.

This chapter has been prepared following the guidelines established in the Statement of Recommended Practice 2 (SORP-2) contained in the CICA Public Sector Accounting Handbook.

Michael Ferguson, CA
Auditor General

Change in reporting

9.1 In recent years, this chapter of our Report has been prepared in compliance with the annual report policy of government. It has included a self-assessment of the extent to which we have addressed the requirements of the policy. We believe this approach is no longer sufficient.

9.2 The government annual report policy has existed, in its present form, since 1991. When introduced, it was innovative and a major step forward in the Province's performance reporting framework. However, successive governments have failed to ensure departments and agencies comply with the policy, and have not kept up with changes in performance reporting in the last seventeen years. As a result, the policy has fallen into disuse and disrepair. We provide further commentary on the policy and its application in volume 2 of this Report.

9.3 Assessing our compliance with an outdated policy is not useful. Instead, we have used as our guide in preparing this chapter the Statement of Recommended Practice 2 (SORP-2) contained in the CICA Public Sector Accounting Handbook. This SORP represents the current thinking on public performance reporting. We intend to expand our performance reporting, and experiment with its form and content, in the years ahead.

9.4 At the present time, our strategic plan is under review. In this chapter we are reporting against the 2003-2008 strategic plan. A new plan will be in place by January 1, 2009, covering the years 2009-2013. We do not expect our mission and our goals to change substantially. However, there will inevitably be some subtle changes in direction, and in the way we measure our performance, in the coming year.

Mission and values

9.5 Our mission is:

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

9.6 Our values are:

- accountability, credibility and objectivity in our work;
- open communication with ourselves and our stakeholders while maintaining confidentiality; respect for our client, our auditees and each other;

- an enjoyable workplace that fosters a learning culture and an honest work ethic;
- skilled, efficient and effective staff; and
- a commitment to independence that merits the trust of the public and our colleagues.

9.7 Our mandate is set out in the *Auditor General Act*. The Act provides the Auditor General with the independence needed to carry out his work in a fair and objective manner. The Act requires the Auditor General to audit the Province's financial statements, and the financial statements of certain Crown agencies. It also requires the Auditor General to report annually on the results of his work, including whether money has been expended without due regard to economy or efficiency, and whether procedures have been established to measure and report on the effectiveness of programs. Exhibit 9.1 sets out the specific auditing and reporting requirements of our legislation, and indicates how we address each one.

Exhibit 9.1 - Requirements of the legislation and how they are addressed

Requirements of the legislation	How they are addressed
Audit the accounts of the Province as the Auditor General considers necessary	Financial and VFM audit work done in departments each year; evidenced by the comments in our Reports
Audit the accounts of certain Crown agencies	Annual audits of financial statements; evidenced by our auditor's reports attached to the financial statements
Examine the financial statements included in the Public Accounts and express an opinion on them	Evidenced by our auditor's report attached to the Province's financial statements
Report annually to the Legislative Assembly on the work of the Office	Evidenced by the production of our annual Report
Report annually on whether, in carrying on the work of his Office, the Auditor General received all the information and explanations he required	In 2007 we reported in paragraph 1.41 of volume 2 of our Report on instances where we did not receive information. In chapter 8 of volume 1 of our 2008 report we refer to delays in providing information in the Department of Social Development
Report anything the Auditor General considers to be of significance and of a nature that should be brought to the attention of the Legislative Assembly	Evidenced by the production of our annual Report

Requirements of the legislation	How they are addressed
Report any cases observed where: (a) any person willfully or negligently failed to collect or receive money belonging to the Province; (b) public money was not accounted for and paid into the Consolidated Fund; (c) an appropriation was exceeded or applied to a purpose or in a manner not authorized by the Legislature; (d) an expenditure was made without authority or without being properly vouched or certified; (e) there has been a deficiency or loss through fraud, default or mistake of any person; (f) money has been expended without due regard to economy or efficiency; (g) procedures have not been established to measure and report on the effectiveness of programs, where, in the opinion of the Auditor General, the procedures could appropriately and reasonably be used; or (h) procedures established to measure and report on the effectiveness of programs were not, in the opinion of the Auditor General, satisfactory.	We report those matters that come to our attention. We address section (e) each year. In 2008 this information is included at the end of chapter 3 of volume 1. Our value-for-money chapters included in volume 2 address sections (f) and (g).

Factors influencing our performance and results

9.8 Our credibility represents our greatest strength, but it is also our area of greatest risk. Our Office has no power to enforce compliance with our recommendations, but relies on the strength of our arguments, and our reputation with MLAs and the public, to bring about change. Were we to make an incorrect analysis, or reach an inappropriate conclusion, our credibility would be affected.

9.9 Two factors in particular have a bearing on our credibility: our independence, real and perceived, and our capacity to carry out high quality work. We consider them our critical success factors.

Independence of the Office

9.10 As stated above, our independence is enhanced by the *Auditor General Act.* This Act clearly establishes the Auditor General's Office as an organization separate from government. It establishes the Auditor General as an Officer of the Legislative Assembly, and gives him authority to determine the structure of the Office and conditions of employment for the staff. However, the Act was introduced in 1981, and the sections dealing with independence have not been substantially changed since then. We believe there are some changes that could and should be made in order to further enhance the independence of the Office. Chief among them is in the way that the budget for the Office is currently established. Under the current Act, it is the Board of

Management that determines the funding level for the Office. We believe it is inappropriate for government to be setting the financial limitations for an Officer of the Legislative Assembly; this should be done by the Legislative Assembly itself. And there are other areas of our Act that need to be brought up to date. We are currently in discussions with representatives of the Executive Council Office regarding legislative changes.

Budget limitations

9.11 Our capacity to carry out high quality work is connected to the issue of independence. Government can restrict the work we do simply by controlling our budget. This issue is discussed in greater detail later in this chapter. We have noted a gradual reduction in our capacity over the last twenty years. In that time frame, our staffing has reduced from thirty full-time persons to twenty-two, as we have maintained a policy of staying within our assigned budget. We have reacted to the challenge by seeking efficiencies in our work practices, and by eliminating some audits and contracting out others. Despite the reduction in staffing, we have been able to maintain a core of individuals who are able to devote most of their time to what we call value-for-money, or performance, audits. These audits provide the bulk of the comments in our annual Reports.

9.12 In recent years, however, we have been faced with unprecedented changes in accounting and auditing standards. Reacting to these changes has severely stretched our resources. We are now seeing an increase in time spent on our financial audits, together with an increase in training needs. This is having the effect of reducing our ability to carry out value-for-money audits. We believe our value to the Legislative Assembly is enhanced by our ability to provide an independent, objective commentary on government programs. We are now at the stage where this ability is being compromised by our lack of resources. We have raised this issue in our recent budget submissions, and will continue to do so. Ultimately, the Legislative Assembly must decide what it expects the Office of the Auditor General to do, and provide sufficient funds with which to do it.

Linking goals and performance

9.13 Our strategic plan links the resources we have, and the activities we undertake, to the results we expect. It also explains how we go about measuring our performance. Exhibit 9.2 sets out the logic model we use, and Exhibit 9.3 shows our measurement framework. Our ultimate goal is that, as a result of our work, government is made more effective and accountable. However, this can be difficult to measure, as well as hard to attribute to the specific work we do. So our measurement focuses on what we call short-term and intermediate outcomes, which are more directly attributable.

Exhibit 9.2 Logic Model

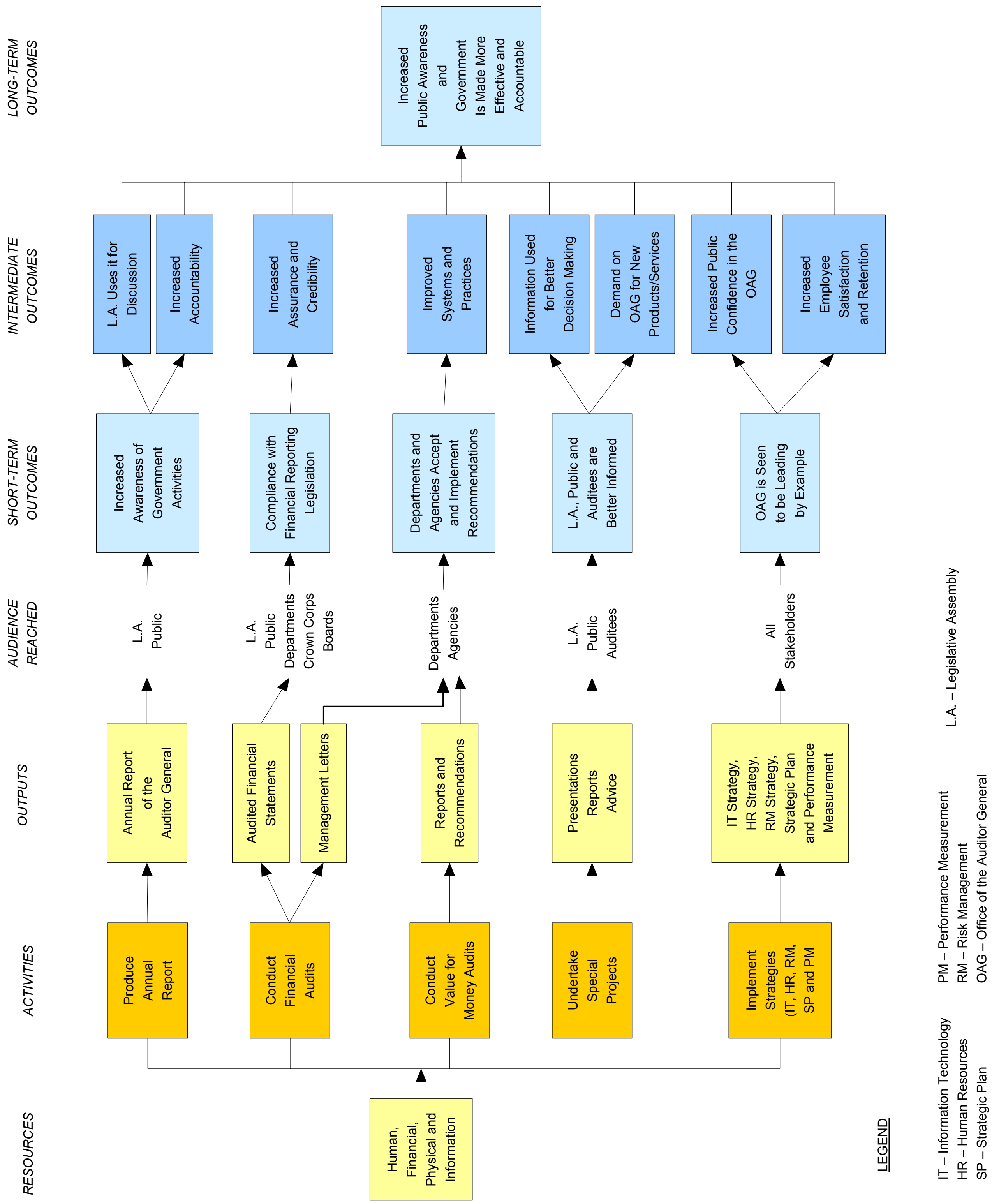

Exhibit 9.3 Measurement Framework

Goals	Activities	Outcomes		Measuring Performance (Indicators)
		Short Term	Intermediate	
The Legislative Assembly and the public are aware of and value all the work that we do, and have confidence in our ability to provide timely, objective and credible information	Produce annual report	Increased Public Awareness of Government Activities	Legislative Assembly uses it for discussion Increased accountability	MLA perception, as determined by survey # of web hits
	Conduct financial audits	Compliance with Financial Reporting Legislation	Increased assurance and credibility	Auditee perception, as determined by survey MLA perception, as determined by survey All audits are carried out within budget and auditee time deadlines are met
	Undertake special projects	Legislative Assembly, Public and Auditees are better informed	Information used for better decision making Demand on our office for new products/services	MLA perception, as determined by survey Auditee perception, as determined by survey
Departments and agencies accept and implement our recommendations	Conduct financial and VFM audits	Departments and agencies accept and implement our recommendations	Improved Systems and Practices	# of recommendations accepted # of recommendations implemented
Our stakeholders - the Legislative Assembly, the public, auditees and our employees - view us as leading by example	Implement Strategies (Information Technology, Human Resource, Risk Management, and Performance Measurement)	OAG is seen to be Leading by Example	Increased public confidence in the OAG Increased employee satisfaction and retention	MLA, auditee and employee perception, as determined by survey Accountability reporting - Cost of Audits (economy) - Percentage of time spent on audit work (efficiency)

9.14 Our performance over the last year is discussed in the following section.

Measuring our progress

9.15 We are using nine indicators to assess our performance. Exhibit 9.3 lists each indicator, and links them to a specific goal in our strategic plan.

MLA survey

9.16 Periodically, we survey the Members of the Public Accounts and Crown Corporations Committees in order to measure our effectiveness in meeting their needs. We did this in 2004, and again in 2008 following the issuance of our 2007 annual Report.

9.17 The Members who responded to our survey indicated a high degree of satisfaction with the work that we do. We converted the responses into a numerical index, which produced an overall satisfaction rate of 87.3%. We are pleased with this result, which is similar to the rate of 86.8% achieved in 2004.

Auditee survey

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

9.19 The responses to our survey following our 2007 audits indicate a high degree of satisfaction with our work. We converted all the responses into a numerical index, which produced an overall satisfaction rate of 80.4%, compared to a rate of 83.6% in 2006 and 84.6% in 2005. Once again, auditees commented favourably on our knowledge, skill and professionalism. However, we received low marks in some of our value-for-money audits for our communication, and for the objectives and criteria we used in the audit.

Acceptance and implementation of recommendations

9.20 We generally assess these two indicators together. Chapter 6 of Volume 2 of our 2007 Report provides an overview of the recommendations included in our 2003 through 2005 Reports. It summarizes the status of our recommendations, and focuses in particular on those recommendations we made in 2003 that have not been fully implemented.

9.21 As we stated in our 2007 Report, our review of our 2003 recommendations revealed a disconcerting number of recommendations that departments did not agree with. This addresses the issue of the acceptance of our recommendations. We noted a trend that line departments are diligent in accepting and trying to implement our recommendations, while central agencies have been less inclined to do so.

9.22 Our work in 2007 showed that departments and agencies had implemented about one third of our recommendations from 2003, 2004 and 2005. Less than half of our recommendations from 2003 had been implemented within the four years. We do not find this an acceptable response rate to recommendations that departments and agencies have agreed with. In our 2007 Report we called on government to be serious about implementing our recommendations, and suggested government consider issuing a short response to each of our annual Reports, listing its intention to pursue implementation of the recommendations.

9.23 The results of our follow-up work conducted in the current year on recommendations included in our 2004 through 2006 Reports are included in volume 2 of this Report.

Employee survey

9.24 In early 2007 we conducted our third employee satisfaction survey. This provides us with feedback on topics such as quality of work life, communication and career development. We converted the responses into a numerical index, which produced an overall satisfaction rate of 69.9%, compared to a rate of 66.3% in 2004, and 62.6% in 2003.

9.25 We were pleased to see the continued increase in the overall satisfaction rate. We have been addressing specific areas of concern identified in the 2007 survey.

9.26 We did not conduct an employee satisfaction survey in 2008, as we are in the process of reviewing and revising our strategic plan. We intend to conduct a survey in 2009.

Completion of audits on time and within budget

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

9.28 Our ability to achieve this objective is not totally within our control, because it depends on when our auditees close their books for the year and are ready for us to do our work. Notwithstanding this, we believe the indicator is important because it results in us encouraging our auditees to be timely in their reporting. It also places a discipline on our Office to complete the audit work by a specific date.

9.29 The audit of the Province for the year ended March 31, 2007 was not completed by June 30, 2007. Our auditor's report on the Province's financial statements was dated September 6, 2007. This represented a significant step backward from 2006, when our auditor's report was dated July 28, 2006. It should be noted that the Province's

Financial Administration Act requires the financial statements of the Province to be laid before the Legislative Assembly no later than September 30; in 2007 they were issued on September 28.

9.30 We are the auditors of seventeen Crown agencies and six pension plans. We completed eight of the Crown agency audits by September 30, 2007. In 2007 we contracted out the audits of the six pension plans to a private sector accounting firm, although we remain responsible for signing the auditor's reports. We did this primarily because of a shortage of staff in the Office to do the work. None of the pension plan audits were completed by September 30.

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

9.32 The time spent on our 2007 audit of the Province's financial statements exceeded the budget by a significant amount. This resulted from a combination of factors, including more time than anticipated on audits of government systems, and extra time at the end of the audit resolving various issues that arose. This was also our first year using a new approach to the audit, involving a greater emphasis on identifying and testing areas of greatest risk.

9.33 Six of our Crown agency audits were significantly over budget. In a number of cases, this was a result of unanticipated accounting issues that took extra time to resolve. In other cases it was a consequence of the new audit approach referred to above, which took more time than had been budgeted.

9.34 We completed four value-for-money audits during the year, which were included in our 2007 Report. One took significantly more time than we had budgeted, due in part to extra time needed at the end of the audit as the findings were discussed and the organization presented its response.

Interest in our work

9.35 We monitor the number of times our web site is visited to access our Report. We realize that this is an imperfect measure, since there could be numerous visits by a small number of individuals, including our own staff, or visits by individuals who did not then take the time to read the Report. But we see this as one indicator of the relevance of our work.

9.36 In the period from February to June 2008, covering the release of our 2007 Report and the subsequent four months, there were over 11,000 visits to the complete Report. In addition, there were specific visits to individual chapters. In the week following February 7, 2008, the day we released our 2007 Report, there were almost 14,000 visits, or “hits”, to our web site.

9.37 We also believe that our relevance is demonstrated by the fact that the Public Accounts and Crown Corporations Committees continue to make use of our Reports in carrying out their work. As stated above, we measure their satisfaction by means of a survey following the release of our Report.

Use of time

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

9.39 A detailed analysis of staff time for the year ended March 31, 2008 indicates that 57.8% of the total paid time of all staff, with the exception of our administrative support staff, was spent directly on audit work (including work on our annual Report). Just under half of this time was spent on value-for-money audits. For the previous year the percentage was 58.7%. Non-audit time includes statutory holidays, vacations, courses for accounting students and professional staff, sick leave and administrative duties not chargeable to a specific audit.

Cost of our audits

9.40 We have always budgeted and tracked the number of hours for each of our audits. However, in an effort to be as economical and efficient as we can be in the work that we do, in recent years we have also tracked the cost of each audit. In the broadest sense, the cost of our audits can be said to be the cost of operating our Office, represented by our total expenditures set out later in this chapter. But we feel there is value in looking at each individual audit, and asking ourselves whether the results of the work done justify the cost of doing it.

9.41 The cost of the audit of the Province’s financial statements for the year ended March 31, 2007 was $240,000. The total cost of the Crown agency audits for 2007 was approximately $178,000. We billed the pension plans a total of $89,000 for their 2007 audits; this was a combination of the time spent by our staff and the amount paid to the private sector accounting firm who we contracted with to do most of the work. The total cost of the four value-for-money audits included in our 2007 Report was $176,000. The cost of preparing our 2007 Report, including the work we do to follow up on recommendations made in previous Reports, was approximately $79,000.

Financial and human resources

Financial results

9.42 Exhibit 9.4 shows the budget and actual expenditures for the Office for 2006-07 and 2007-08, together with the approved budget for 2008-09.

Exhibit 9.4 Budget and Actual Expenditures ($ 000s)

	2009	2008		2007	
	Budget	Budget	Actual	Budget	Actual
Personal services	1,647.8	1,679.2	1,510.9	1,637.2	1,480.0
Other services	239.5	147.7	619.0	132.8	140.8
Materials and supplies	6.8	7.9	5.8	8.8	5.1
Property and equipment	25.9	33.2	20.5	33.2	26.7
Total	**1,920.0**	**1,868.0**	**2,156.2**	**1,812.0**	**1,652.6**

9.43 The year ended March 31, 2008 was, we believe, the first year in the history of the Office where we overspent our budget. We obtained a Supplementary Estimate of $300,000 in March, 2008 to authorize the overexpenditure. The reason for this was that, during the year, we received and accepted a request from the Minister of Finance to carry out a special investigation into the sequence of events leading up to the government intervention in the affairs of the Caisse populaire de Shippagan. To do this work, we hired the services of KPMG Forensic Inc. This special investigation was not complete at March 31, 2008, but our costs incurred during the year were $460,000. This amount is included in Other services, which explains the excess of actual over budget of $471,300.

9.44 Staff costs continue to account for approximately 90% of our budget and were underspent by $168,300 for the year ended March 31, 2008. As was the case in the previous year, we had one senior staff member on secondment with a government department during most of the year; this staff member has now moved permanently to the department. Other savings were realized through delays in filling positions resulting from staff turnover.

9.45 Our legislation requires an annual audit of our accounts by a qualified auditor, appointed by the Speaker of the Legislative

Assembly on the advice of the Board of Management. This audit is conducted by the Office of the Comptroller and their audit report is tabled before the Legislative Assembly. We are not totally comfortable with this arrangement. Although the Comptroller and her staff are extremely professional in their dealings with our Office, we would prefer to have the audit conducted by an auditor who is independent of government, and of the financial systems that we use.

Human resources

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

9.47 Staff turnover is an inevitable consequence of being a training office for highly-motivated professionals. During the past year, three staff members left the Office to further their careers, and one of our audit directors, Phil Vessey, retired.

9.48 Our staff complement, based on our available budget, is 23. Following Phil Vessey's retirement, we reduced our audit teams from three to two; one now deals primarily with value-for-money audits and one with financial audits. Brent White, CA and Paul Jewett, CA are the directors for the two teams. At March 31, 2008 there were fourteen professional staff with accounting designations, and six students enrolled in accounting programs. Two other members of our staff provide administrative support services. At March 31 we had one other administrative support person, providing for an orderly transition for a retiring staff member. The following is a list of staff members at March 31, 2008:

Exhibit 9.5 - List of Staff Members

Shoaib Ansari (2)	Chris James (2)	Ashley Smith (2)
Cathy Connors Kennedy, CA	Paul Jewett, CA	Rebecca Stanley (2)
Caroline Doucet (2)	Cecil Jones, CA	Al Thomas, CA
Kim Embleton, CGA	Teena Laagland (1)	Yanjun Wang, CA
Michael Ferguson, CA	Bill Phemister, CA	Brent White, CA
Eric Frenette, CGA	Denise Nadon (1)	Darlene Wield (1)
Eric Hopper, CA	Ken Robinson, CA	Tania Wood-Sussey, CA
Peggy Isnor, CA	Jennifer Sherwood (2)	

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

9.49 On March 31, 2008 Darlene Wield retired. Darlene served with the Office for 29 years, and for much of that time has been the person responsible for the production of our annual Report. We have greatly appreciated her dedication to the work of the Office, and will miss her valuable contribution.

Looking forward

9.50 As we move forward, there are three major areas that we need to focus our attention on in the immediate future. They are:

- increasing our capacity to do value-for-money audits;
- implementing International Financial Reporting Standards; and
- adapting to more rigorous auditing standards.

Increasing our capacity to do value-for-money audits

9.51 As noted earlier in this chapter, our resources have become increasingly stretched in recent years. Over the last twenty years, the number of full-time staff that we are able to maintain, given the restrictions in our budget, has reduced from 30 to 22. Over that twenty-year period, our Office budget has increased by 32%. Our annual increases, if any, have been limited to cost-of-living adjustments in salaries. In common with many other organizations connected to government, in some years our budget has been reduced. Yet because of promotions, and staff progressing through the steps in each pay band, individual salaries have increased by much more than the cost of living. As a point of comparison, the starting salary for a new student in our Office has increased by 54% over the last twenty years, and for an audit supervisor the increase has been 65%.

9.52 We have reacted to these budget pressures by looking for efficiencies in our work and, periodically, by reducing our staff complement. But we have reached the stage where our capacity to do the work we are legislated to do is being severely restricted. We have six staff members assigned to value-for-money audits, assisted by other staff when available. This means that we are able to complete between four and six small to medium-sized audits each year. And we do not have the resources to tackle large or complex areas of government. This greatly reduces our effectiveness and influence as an Office, and our usefulness to the Legislative Assembly.

9.53 In order to have the flexibility to examine the most complex areas of government, we estimate that we need an increase in our budget of $600,000. An increase of $300,000 would allow us to look at more areas of moderate complexity. Our current funding level places us above only Prince Edward Island as we look at the resources available to legislative audit offices across the country. An increase in our budget of $600,000 would not change that; we would still be about $250,000 less than the Auditor General's Office in Newfoundland and Labrador, and about $500,000 less than Nova Scotia.

Implementing International Financial Reporting Standards

9.54 Canada is in the process of adopting International Financial Reporting Standards as the basis for preparing financial statements for publicly-accountable organizations. Although this has no immediate impact on the financial statements of the Province, it does impact a number of the Province's Crown agencies. This is a major change in financial reporting, and Crown agencies and their auditors will need to invest significant resources over the next few years to prepare for and implement it. We are training our financial audit staff, and are also encouraging our Crown agency auditees to examine the implications and the effects on their financial statements. The time we will need to spend on this issue prior to and beyond the changeover date of 2011 will further stretch our capacity.

Adapting to more rigorous auditing standards

9.55 Coupled with the changes in accounting referred to above is a move to adopt international auditing standards, beginning in 2009. This change will not be nearly as dramatic as the accounting changes, since Canada has for a number of years been moving to harmonize its auditing standards with international best practice. However, there is still a need for additional training for staff. One major change is a move to more risk-based auditing. This requires a greater knowledge of the business of the organization being audited, in order to identify the higher-risk areas. In a large, highly-decentralized organization like the Province, significant audit effort is needed to assess the risks inherent in the operations.

9.56 One particular new standard that we will need to focus our attention on in the coming year relates to the audit of group financial statements. This standard deals with situations where the group auditor is not also the auditor of each organization in the group. It applies to our audit of the Province, because there are significant Crown agencies, such as the NB Power group and NB Liquor, audited by other auditors. The standard will require that we be much more involved in the audits of those Crown agencies, and we will need to devote more resources to this aspect of our work.