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 2009 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
- 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 Lotteries and Gaming Corporation
- New Brunswick Municipal Finance Corporation
- 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
- New Brunswick Research and Productivity Council

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 2009 audit.

Federal agreements

3.15 During our audit of Regional Development Corporation Special Operating Agency (RDC SOA), we reviewed several agreements between the Province and the Federal government for the administration of various programs or projects.

3.16 For one agreement, the Building Canada Fund (BCF), the amount of revenue reported in the RDC SOA financial statement is $25 million for the 31 March 2009 year end. This corresponds to the amount of money that was received from the federal government for BCF projects. An annual capital plan is submitted to and approved by the federal government that outlines the projects that the BCF will fund. For the 31 March 2009 year, all approved projects were of a capital nature, and the Province was the recipient or beneficiary. The RDC SOA role is to administer the projects.

3.17 Of the $25 million received from the federal government, only $22 million was spent by the Province on capital projects. This $22 million was capitalized in the books of the Province, and there is an offsetting $22 million of deferred capital contributions. The $3 million that wasn't spent last year will likely be spent on provincial capital projects in 2009-2010. One would expect to see the asset set up in the provincial books, as well as the deferred capital contribution. As the unspent $3 million was already recorded as revenue in 2008-2009, an accounting adjustment will be needed next year to reduce revenue or restate net debt. Due to the nature of this funding, we feel that an adjustment should have been made upon consolidation of RDC SOA, to reflect this amount as deferred revenue in the current year.

3.18 Another concern we have is that the Province may not be in compliance with all of the terms in the agreements with the federal government. Under the Building Canada Fund agreement, interest is to be accrued on the unspent funds. Accrued interest is to be spent on

Building Canada Fund projects. For the year ended 31 March 2009, there was no accrued interest set aside for the purpose of Building Canada Fund projects.

3.19 We recommended the proper adjustments be made on consolidation of Crown agencies.

3.20 The Comptroller responded:

My office makes every effort to ensure that all proper adjustments on consolidation are made at year end. I would like to note the specific issue in your letter was raised very late in the audit process and it was agreed that since that amount was immaterial to the Province, no adjustment was required. My staff relies on the departments administering these agreements to identify situations where there may be accounting adjustments required. We have already discussed with staff at Regional Development Corporation (RDC), the need to identify to us situations such as this so the appropriate adjustments can be made on consolidation.

3.21 We recommended the Province ensures it is in compliance with all aspects of the agreements it enters into.

3.22 The Comptroller responded:

I believe RDC as administrator of this program should be accruing interest on the unspent funds. My Office will initiate discussions with staff at RDC to ensure that the agreement is examined and interest is properly accrued when warranted.

Federal trust funds

3.23 Government has assigned RDC SOA the responsibility for administering funds received from several of the trust funds set up by the federal government for the Province. Each of these trust funds (e.g. ecoTrust Fund) has a purpose set out in it for which all trust funds are to be used. Monies distributed to the Province from these trust funds include both trust capital and income earned by the trust; however government has assigned responsibility for only the capital distributions to RDC SOA. Income distributions are directed to the general fund of the Province. This results in trust fund distributions not being subjected to the controls RDC SOA has in place to ensure these funds are used for the purpose set out in the trust.

3.24 We recommended the Province spend interest earned on trust fund balances for the purpose set out in the trust. As RDC SOA has the administrative responsibility for spending the trust fund money, it should be responsible for distributing the interest for the intended purposes.

3.25 The Comptroller responded:

My Office will discuss this matter with officials at the Department of Finance and RDC to determine the best way for interest to be accrued and to ensure that any requirements under the agreement are fully met.

Reconciliation of accounts with Crown agencies

3.26 During our audit we noted that the financial statements of Regional Development Corporation did not fully reconcile to the balances in Oracle. The necessary adjustments should be made to the Oracle accounts to bring them in line with the audited financial statements.

3.27 We recommended the Office of the Comptroller review the Oracle accounts to ensure the balances correspond to the audited financial statements of the Crown agencies.

3.28 The Comptroller responded:

In the case noted, the variance was relatively immaterial and related to inter-entity accounts which are eliminated on consolidation. I believe it has been satisfactorily resolved with your staff.

Allowances

3.29 The rate of growth of the allowance for doubtful accounts (AFDA) is concerning to us. The following table shows the total of all allowances for the past five years, in millions of dollars.

	2005	2006	2007	2008	2009
AFDA (Accounts and interest receivable)	132,9	140,7	155,7	201,3	244,0
AFDA (Taxes receivable)	80,7	85,4	77,0	55,1	56,5
AFDA (Loans and advances)	142,6	192,9	207,2	229,3	297,9
Allowance for losses	83,3	84,0	95,8	103,1	101,8
Total all allowances	**439,5**	**503,0**	**535,7**	**588,8**	**700,2**

3.30 As of 31 March 2009, the Province expects to lose over $700 million of the various amounts it is owed or that it guarantees. We understand that mechanisms are being considered to collect some of those loans and receivables that are in default. Proper financial management in administering these loans and receivables is critical. Departments should be more actively trying to collect on the loans and receivables that are in place.

3.31 We recommended action continue to be taken to properly manage the growing loans and receivables balances, and the allowances put on these amounts.

3.32 The Comptroller responded:

I share your concern with the growing receivables in government. I would like to note that 2009 saw some of the worst economic conditions in decades which contributed to the spike in allowance for bad debts. My Office encourages departments to collect receivables and works with them to ensure that receivables are appropriately valued on the Statement of Financial Position using allowance for doubtful accounts. We are also working on an initiative to utilize Canada Revenue Agency (CRA) for the collection of certain defaulted receivables.

Actuarial valuations

3.33 Note 14 (a) in the Public Accounts shows that actuarial valuations for accounting purposes have not been done for the Members' Superannuation Act and Members' Pension Act since April 2005 and for the Early Retirement Program since April 2006. As a result, the liability in the financial statements may need to be adjusted. We understand that an actuarial evaluation is being finalized for the members' plans.

3.34 We recommended actuarial valuations be done on the pension plans noted above and the respective liability accounts be adjusted for 31 March 2010.

3.35 The Comptroller responded:

Valuations of the two plans mentioned (the two Members' plans and the Early Retirement program) as at 1 April 2009 are scheduled to be completed in time for inclusion in the 2010 financial statements.

Metallic Mineral Tax audits

3.36 Last year we commented that Metallic Mineral Tax audits are not up to date. Returns for the past nine years had 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. Audits of past returns could change the figures, which could result in either more tax being owed to the Province or the Province having a liability. Due to the volatility of this industry, timely completion of claim audits should be done to ensure that the Province collects all tax revenue it may be owed.

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

3.38 The Comptroller responded:

Staff in the Department of Finance has confirmed that the metallic minerals tax audits will be completed by the December 2010 date that was set originally. The company that is the subject of the audits has not been forthcoming with all information necessary to complete the audit of the 2006 year. However, once the 2006 audit has been completed, this will facilitate an accelerated approach to completing the audits of the remaining years. Support for completing the audits by December 2010 will be obtained from amendments to the Metallic Minerals Tax Act that will be introduced in the very near future. These amendments will bring the administrative provisions of the legislation more in line with those of the Revenue Administration Act, which governs most other provincial taxation statutes. This will enable, among other administrative improvements, the authority for the department to assess taxes based on estimates where necessary, particularly in situations where proper records are not maintained or provided for audit.

Updates on International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA)

IFRS

3.39 We mentioned the changeover to International Financial Reporting Standards (IFRS) in Canada and assessed briefly its effects to the financial reporting of the government of New Brunswick and its Crown agencies in our 2008 Report, Volume 1. The situation has been evolving since then. We thought it would be helpful to provide some updates on further changes to standard development for the public sector in New Brunswick.

3.40 Effective 1 January 2011, IFRS will replace the Canadian Institute of Chartered Accountants (CICA) accounting standards for publicly accountable enterprises.

3.41 The applicability of IFRS to government business-like organizations is determined by the Public Sector Accounting Board (PSAB). In February 2009, PSAB asked the government financial community to express their views on the breadth of application of IFRS to these organizations. In July 2009, PSAB proposed changes to the current Public Sector Accounting Standards in regards to the adoption of IFRS. The main features of these proposals were:

- Government business enterprises (GBEs), such as NB Power Group and NB Liquor Corporation, would have to adopt IFRS and follow the same transitional provisions as publicly accountable enterprises (i.e. effective for fiscal periods beginning on or after 1 January 2011).
- The government business-type organization (GBTO) classification would be eliminated. These organizations will be reclassified as either “other government organizations” (OGO) or government not-for-profit organizations (GNFPO). These organizations are primarily government business entities (for example, Algonquin Properties Limited) that carry out some commercial operations but are not self-sustaining.
- Financial reporting by OGOs would generally be based on the Public Sector Accounting Board standards, unless IFRS is determined to be a more appropriate basis of accounting.

3.42 Comments received on these proposed changes were analyzed by PSAB. PSAB reached the following decisions in September 2009:

- GBEs will have to adopt IFRS;

- the GBTO classification is eliminated. Those organizations which were originally classified as GBTOs must be reclassified as either GNFPOs or OGOs.
- OGOs must determine their most appropriate source of GAAP, i.e. IFRS or Public Sector Accounting Handbook, based on their needs and objectives.

3.43 Financial reporting by GNFPOs is currently being developed jointly by the Accounting Standards Board (AcSB) and the PSAB. Currently the accounting for not-for-profit organizations in the CICA Handbook is still applicable to GNFPOs.

3.44 The primary standard applicable to pension plans such as the Public Service, Teachers' and Judges's pension plans in New Brunswick is still Section 4100 (Pension Plans) of the current CICA Handbook. The AcSB will consider whether any changes to Section 4100 are needed.

3.45 Changes to IFRS are also being currently considered, for example, for financial instruments and rate-regulated activities. These could have a significant impact on the future accounting for the NB Power Group.

3.46 For the public sector in New Brunswick, the majority of the government reporting entities are not required to convert to IFRS. The Public Sector Accounting Board standards are still applicable for them. However the GBEs (for example NB Power Group and NB Liquor Corporation) are required to adopt IFRS. Some of the OGOs may choose to as well.

3.47 We are encouraged that the Office of the Comptroller has been assisting the various provincial government organizations in determining which category agencies or other government organizations fit into, so that these agencies can plan accordingly for the necessary changes in accounting standards.

3.48 Since the fiscal year end is March 31 for most the GBEs and OGOs in New Brunswick, the first set of IFRS-based financial statements of these entities would be for the fiscal period from 1 April 2011 to 31 March 2012. Since prior year comparative numbers must be presented in the financial statements, financial results of the fiscal year 2010-2011 will need to be included. Therefore, from 1 April 2010 forwards, those government entities which are adopting IFRS have to prepare an opening IFRS balance sheet and start collecting information to prepare comparative IFRS financial statements in fiscal year 2011-2012, while continuing to report under current Canadian GAAP. These entities now have less than three months to prepare for this transition.

3.49 We stated in our 2008 Report that GBEs and OGOs which chose to adopt IFRS should assess the effects of the adoption of IFRS as part of their transition plan. By now, these entities should be well into the plan implementation stage, including having developed a detailed analysis of the effects with quantification and assessing the options under IFRS in terms of accounting policy choices.

New auditing standards

3.50 Canada is adopting International Standards on Auditing for the audits of financial statements.

3.51 The international standards come into effect for audits of financial statements for periods ending on or after 14 December 2010. This means, in the context of the public sector in New Brunswick, we are going to apply the new auditing standards when auditing the financial statements of some Crown agencies for the fiscal year ending on 31 December 2010 and for the fiscal year ending on 31 March 2011 for most of the Crown agencies and our audit of the Province of New Brunswick.

3.52 As the new auditing standards are adopted, there will be changes to the Auditor's Report. There will be two new paragraphs outlining management's responsibility for the financial statements and the auditor's responsibility. More importantly, besides expressing our audit opinion on whether the financial statements are presented fairly in all material respects, we may add, when appropriate, a paragraph called "emphasis of matter". This additional paragraph is used to draw attention to a particular matter that we believe is important for readers of the financial statements to consider.

3.53 The risk based audit methodology we are currently using will remain essentially the same. However, we have to review our audit programs and checklists to ensure they are in compliance with the new standards. Some changes may be needed.

3.54 Our Office is preparing for this transition. We are training all our financial audit staff, and developing a communication strategy to inform all our auditees of the impact these changes may have on the nature and timing of our audit work.

Compliance with PSAB recommendations

3.55 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.

Statements of recommended practice

3.56 The Public Sector Accounting Board (PSAB) issues recommended practices, which 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.

Financial statement discussion and analysis

3.57 PSAB has established a statement of recommended practice for financial statement discussion and analysis (SORP-1).

3.58 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.

3.59 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.

3.60 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

3.61 SORP-1 contains six main recommendations. We believe that the Province follows three of the six main recommendations. The following table provides the three areas where we feel improvements can be made.

Paragraph	Area	Assessment
.30 b) i)	Information on risks and uncertainties	Needs improvement
.30 b) ii)	Variance analysis	Needs improvement
.30 b) iii)	Trend analysis	Needs improvement

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

Information on risks and uncertainties

3.63 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;

3.64 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

3.65 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;*

3.66 The Province has made considerable improvement in its presentation for major budget-to-actual and previous-year-actual-to-current-year-actual variances. 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. 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

3.67 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.

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

3.69 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.

Indicators of financial condition

3.70 PSAB has established a statement of recommended practice for indicators of financial condition (SORP-4).

3.71 In 2008, the Province introduced the "Indicators of Financial Health" section in Volume 1 of Public Accounts.

3.72 There are nine main recommendations included in SORP-4. We are pleased to report that most of the recommendations have been addressed in Public Accounts.

Other audit work in departments and Crown agencies

New Brunswick Legal Aid Services Commission

General findings

3.73 During our financial statement audit for 31 March 2009, we identified three control weaknesses in the operations of the New Brunswick Legal Aid Services Commission (Legal Aid). These weaknesses related to problems implementing new accounting and management systems, incomplete payroll records and improper recording of HST/GST on employee expense claims. Below, we provide more detail on each of these weaknesses.

Problems implementing new accounting and management systems

3.74 Currently, Legal Aid uses four separate systems for accounting and case management:

- Simply Accounting and BPI for accounting; and
- LA Pass and Practice Manager for case management.

3.75 While we understand the need to run the systems in parallel to ensure that they are functioning properly, this caused some problems during the 2008/09 year.

3.76 Specifically, there were difficulties reconciling LA Pass and Practice Manager, which still cannot run financial reports. Also, some of the staff in the satellite locations seem to be confused on which case numbers with respect to client contributions and liens recovered should be sent to the Director of Finance, making it difficult to reconcile the accounting systems with the case management systems.

3.77 **We recommended that after the parallel tests are complete and the new systems are functioning properly, only one system for accounting and one system for case management be used.**

3.78 The Commission responded:

> *The NBLASC agrees with this recommendation. As of April 1, 2009, Simply Accounting is the sole accounting system being used. A thorough review of internal processes is currently underway, the purpose of which is to optimize and standardize current practices. Upon completion of this review, LAPass will be shutdown and the Commission will*

be functioning with Practice Manager as the sole case management system. In the meantime, LAPass will be used for financial reconciliation at year end 2009/10.

3.79 We recommended a process be developed and communicated to staff with regards to recording and reporting client contributions and liens recovered.

3.80 The Commission responded:

The NBLASC agrees with this recommendation. As outlined above, a thorough review of internal processes is underway. In the meantime, provincial staff have been identifying the appropriate number when recording and reporting client contributions and liens recovered.

Incomplete payroll records

3.81 We found four instances where there was no Record of Employment (ROE) on file. An ROE is a document issued to any employee when there is an interruption in employment. We were told an ROE was not always issued because the employees are usually rehired. According to the Canada Revenue Agency (CRA) an ROE must be issued within five business days of the last pay period. We also found two instances where TD1s were not on file for employees. CRA requires a TD1 to be on file for every employee.

3.82 We recommended an ROE be issued to terminated employees regardless of whether they may or may not be hired back, to comply with CRA regulations.

3.83 The Commission responded:

The NBLASC often engages the services of casual call-in replacements to cover off in regional offices during staff absences related to sick leave and vacation leave, etc. Historically, the Commission has issued ROE's to these employees upon request, however, going forward, ROE's will be issued annually for these casual call-in replacements.

3.84 We recommended a TD1 be kept on file for all employees.

3.85 The Commission responded:

The NBLASC agrees with this recommendation and is complying with the CRA requirement that a TD1 be kept on file for all new employees.

Coding of HST on expense reports

3.86 We found one error relating to claiming HST/GST. Sometimes, employees submit expense reports with only a credit card statement attached as backup, not the actual receipt or invoice. Without the actual invoice or receipt, the HST amount was not properly broken out and subsequently not claimed. Therefore, Legal Aid lost out on the refundable portion of HST.

3.87 We recommended HST and GST be properly broken out and coded on invoices. Proper due diligence should be taken to ensure that eligible HST/GST is claimed from the federal government.

3.88 The Commission responded:

The NBLASC agrees with this recommendation and is now requiring that employees provide proof of payment where HST amounts are broken out. In addition, Simply Accounting provides an automatic HST calculator that is used to confirm the amount with the invoices.

Regional Development Corporation

3.89 During our audit of the Regional Development Corporation (RDC), we identified five issues that we reported to the President of the Corporation. We describe these five issues below along with our recommendations and RDC's responses to our recommendations.

Accrual of interest for federal/provincial agreements

3.90 Some federal/provincial agreements (including the Building Canada Fund) require a calculation of imputed interest on federal funds advanced to the Province, but not spent in the fiscal year. An accrual of this interest expense for financial statement purposes should also be made. The amount was not accrued in the 2008/09 financial statements as it was not material to the audited financial statements. However to better reflect financial events it should be done in the future.

3.91 We recommended the interest calculation be made and accrued in the relevant fiscal year.

3.92 The Corporation responded:

We agree. In cases where Federal/Provincial Agreements have the requirement, RDC will calculate imputed interest and accrue it in the relevant fiscal year.

Memorandum of understanding between departments and RDC

3.93 Government assigns the administration of many federal/provincial agreements to RDC and, in turn, RDC often uses other provincial departments or agencies to implement projects under these agreements. There is usually an oral understanding between RDC and the implementing department/agency as to what each is responsible for. However as staff and circumstances change there is a possibility the parties involved may not continue to understand their roles and responsibilities. In the worst case this could lead to non-compliance with the agreement.

3.94 We recommended that where projects and related expenditures are assigned to other departments or agencies, RDC and the other party should prepare a memorandum of understanding setting out what each party is responsible for.

3.95 The Corporation responded:

We agree. Where projects and related expenditures are assigned to other departments or agencies, RDC and the other party will enter into a memorandum of understanding outlining the responsibilities of each party.

Classifying unearned funds as deferred revenue

3.96 Under some federal/provincial agreements (e.g. the Building Canada Fund) expenditures have to meet eligibility criteria in order to qualify for reimbursement. Until these criteria are met any funds advanced from the federal government under the agreement are not earned and may be repayable.

3.97 In these circumstances we recommended RDC reflect any funds not yet meeting the criteria as deferred revenue rather than recognizing the funds as revenue when received. In our opinion this better reflects the substance of the transaction and results in better financial statement disclosure.

3.98 The Corporation responded:

We agree. We will implement the recommendation effective fiscal year 2009-2010.

Submitting supporting evidence on a timely basis

3.99 RDC advances funds to clients for various projects and sets up these advances as receivables in its accounts. RDC then requires these clients to submit evidence that the funds were spent on the appropriate project expenditures. For financial statement purposes RDC needs to know how many dollars of these advances have been spent on qualified expenditures prior to year end and how many dollars remain as an outstanding receivable. This work was not completed on a timely basis in 2008/09.

3.100 To allow RDC more time to evaluate the submissions and to aid in the timely completion of the financial statements we recommended the clients be required to submit the supporting evidence on a timely basis.

3.101 The Corporation responded:

> *We agree with the recommendation and will ask clients to submit supporting evidence on a timely basis.*

Trust fund income

3.102 Government has assigned RDC responsibility for administering funds received from several of the trust funds set up by the federal government for the Province. Each of these trust funds (e.g. the ecoTrust Fund) has a purpose set out in it for which all trust funds are to be used. Monies distributed to the Province from these trust funds include both trust capital and income earned by the trust; however, government has assigned responsibility for only the capital distributions to RDC. Income distributions are directed to the general fund of the Province. This results in trust fund distributions not being subjected to the controls RDC has in place to ensure these funds are used for the purpose set out in the trust.

3.103 To ensure all trust fund monies spent by the Province meet the purpose of the trust we recommend RDC ask Government to include all distributions as the administrative responsibility of RDC. RDC can then ensure all distributions are spent for the purpose set out in the trust.

3.104 The Corporation responded:

> *We agree. In the event that Government asks RDC to administer a trust, RDC will recommend that all distributions become the administrative responsibility of*

RDC in order to ensure these funds are used for the purpose set out in the trust.

New Brunswick Electric Finance Corporation

3.105 During our financial statement audit of the New Brunswick Electric Finance Corporation (Electric Finance) we identified one control weakness relating to unrealized inter-company profits. We discuss the issue below in more detail.

Unrealized inter-company gains and losses

3.106 During our audit we found that the unrealized inter-company profits regarding the Point Lepreau regulatory deferrals and future tax benefits were not initially identified by the Corporation. By not identifying unrealized inter-company profits, income from the NB Power Group recorded by Electric Finance in its financial statements could be materially overstated or understated.

3.107 We recommended New Brunswick Electric Finance Corporation communicate with the NB Power Group on a regular basis regarding the regulatory deferral set up and establish policies and procedures to identify unrealized inter-company gains and losses.

3.108 The Corporation responded:

NBEFC is aware that as part of your audit of our financial statements, the Office of the Auditor General reviews the audit files of NB Power's auditor Deloitte and Touche to ensure the results of their audit can be relied upon by your office. It is our understanding that the above noted issues were brought to light during this review. I want to thank you for bringing this omission to our attention.

There is regular contact and discussion with NB Power on a variety of issues including financial statements. It is the position of NBEFC that it relies on the internal and external controls of NB Power to provide correct financial information. However, this issue will be added to the agenda of the next meeting with NB Power for discussion on how to ensure that NBEFC is being provided with all the financial information it requires, especially relating to the deferral accounts.

Losses through fraud, default or mistake

3.109 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.

3.110 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	$6,882
Department of Health	
• Missing equipment	$17,275
Department of Post-Secondary Education, Training and Labour	
• Missing equipment at various campuses	$8,508
Department of Transportation	
• Missing equipment, supplies and tools	$8,296
Department of Social Development	
• Missing cheques	$4,354
Department of Natural Resources	
• Missing equipment from various regions	$1,730

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

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

3.113 In 2009, the Province reported lost tangible public assets in the amount of $89,365 compared to a loss of $104,279 reported in 2008.