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Introductory Comments

Introduction

1.1 In my introductory comments each of the last two years, I have focused on the four things that the government should do to improve the integrity and transparency of its reporting on the Province's financial situation. I believe there is still room for improvement in three of these four areas.

Release of financial statements

1.2 One area I have mentioned in the past is the timing of the release of the Province's financial statements. The Financial Administration Act requires the Province to release its financial statements no later than 30 September in each year. The Province released its audited financial statements for the year ended 31 March 2009 on 28 September 2009. The financial statements for the previous two years were released on 28 September 2007 and 26 September 2008.

1.3 These dates are interesting because subsection 2(4)(a) of the *Legislative Assembly Act* requires that the next provincial general election be held on 27 September 2010. I believe the government should make a clear statement of whether it intends to release its financial statements for the year ended 31 March 2010 in advance of 27 September 2010.

Year end grant payments

1.4 Another area that I raised in our 2006 Report, and again in both the 2007 and 2008 Reports, was the government's practice of accelerating the payments of operating grants to the Maritime Provinces Higher Education Commission. These accelerated payments stopped in the year ended 31 March 2009, thereby making the operating grant look artificially low – the financial statements indicate that the grant for the year ended 31 March 2008 was $274.0 million, but for the year ended 31 March 2009 it was only $123.4 million. It is my opinion that the government finally stopped the practice of advancing these operating grants not because it was the right thing to do, but because it was already facing a significant deficit for the year. My concern with the prepayment of these grants is that it obscures the normal operating results and I sincerely hope the government will not resume the practice any time in the future.

Future oriented information

1.5 In the past I have asked the government to provide more future oriented information. Both the 2009-2010 and 2010-2011 budgets included tables of projected revenues, expenses and surplus or deficits for a multi-year period. The 2010-2011 budget presentation of these projected numbers was much clearer than the 2009-2010 presentation, and I was also pleased to see the government presented its 2010-2011 budget well in advance of the beginning of that fiscal year – I believe this to be a best practice.

1.6 However, the future oriented information released by the government is still limited. While the 2010-2011 budget shows projected deficits for the fiscal years 2010-2011 through 2013-2014 before returning to a surplus in 2014-2015, the budget only projects Net Debt to 31 March 2011. The projected Net Debt expected at 31 March 2011 is almost $9.6 billion. Readers are left on their own to estimate the level of Net Debt beyond 2011. The budget indicates further deficits of $1.5 billion beyond 31 March 2011, but it does not provide estimates of future capital spending. It is obvious however that Net Debt is expected to rise to at least $11.0 billion.

1.7 The following table shows the actual percentage growth in revenue and expenses for the year ended 31 March 2009 and the estimated annual percentage growth through until 31 March 2015:

	Years ended 31 March						
	Actual	**Estimated**					
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Revenue	2.1%	0.1%	1.8%	0.1%	2.6%	4.5%	4.5%
Expenses	6.4%	7.8%	1.6%	(0.8%)	0.7%	0.6%	0.6%

1.8 These numbers show that the growth in expenses was significantly above the growth in revenue for the year ended 31 March 2009, and they show the gap is expected to increase in the year ended 31 March 2010. The government then expects it can reduce the growth in expenses to a level below the growth in revenue for the next five year period, including two years where revenue growth will exceed expense growth by almost four percentage points.

The budget is signaling significant expense restraint in the future, but it does not provide much explanation about how this restraint will be achieved. This illustrates that the government has not yet reached the level of transparency necessary for people to understand how the government intends to eliminate annual deficits, and how and when it intends to start paying down its Net Debt. The government still needs to provide more future oriented information.

Public-private partnerships

1.9 One additional transparency concern I have this year is about the approval of public-private partnerships or P3s. The government has announced a number of P3 projects, however I am not sure how they are reflected in the Province's Capital Estimates. I believe if the government is going to enter into contractual arrangements for P3s, they should be obtaining approval of the legislature through an appropriation before the contract is signed.

Information in this volume

1.10 This volume contains a lot of 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.

Acknowledgements

1.11 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.

1.12 I want to specifically thank all of the staff of the Office of the Auditor General for another year of hard work; they truly are dedicated to improving government's accountability and transparency.

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 2009 Public Accounts contain sections called "Indicators of Financial Health,""Results for the Year," and "Major Variance Analysis." These sections contain important information which is useful in assessing the Province's financial position. We are pleased to see the government continuing to provide, and even expanding upon, information which helps the reader understand its financial operations.

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 ten years. These are the same charts we included in our 2008 Report. These charts are similar to those in the Public Accounts except they are for a longer time period (ten versus six years) and they include a chart showing changes in Net Debt and GDP (Exhibit 2.2) which does not appear in the Public Accounts. 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] In May 2009, the Public Sector Accounting Board (PSAB) of the CICA issued SORP-4, a statement of recommended practice, building on the CICA research report and using many of the same indicators of financial condition.

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. In future years we will be using the guidance provided in SORP-4.

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. The 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 deficit of $192.3 million and an increase in net debt for the year of $438.6 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 ten years show that the Province of New Brunswick's financial condition has improved or remained relatively stable in sustainability, flexibility and vulnerability. Over the last two years, the indicators of sustainability have been unfavourable.

Sustainability

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

2.9 It is now well understood by the general public that increases in the cost of servicing the public debt will eventually impact the

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

quantity and quality of programs and services to which the public has access.

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.

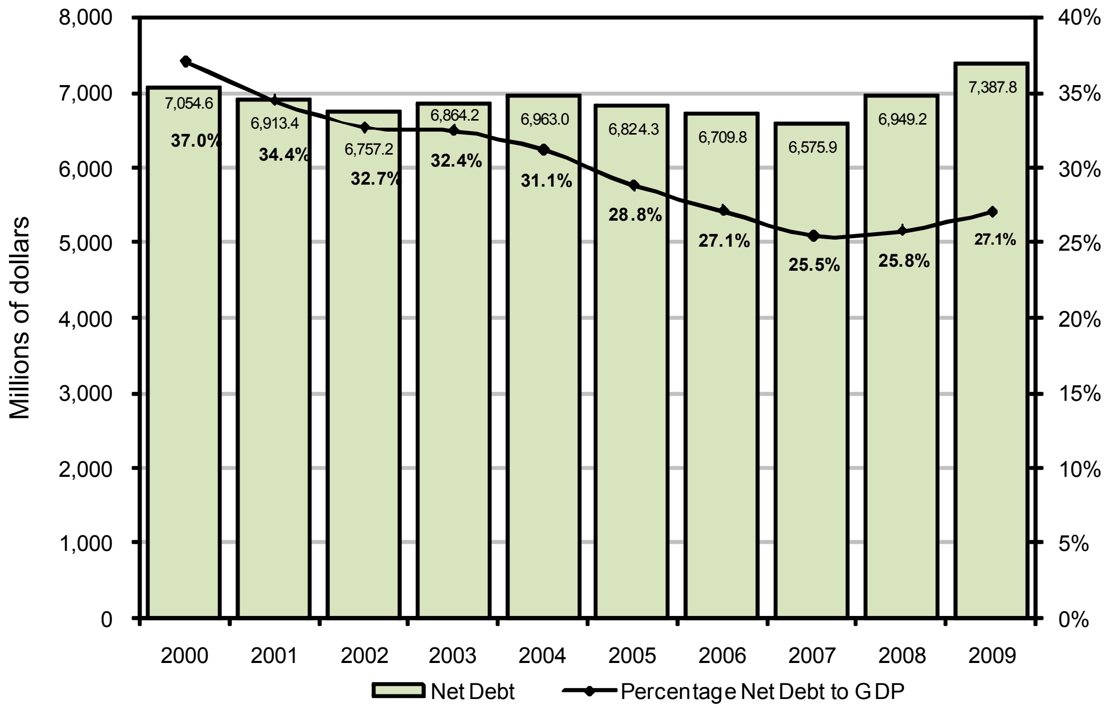
2.12 Gross Domestic Product (GDP) is the total value of all goods and services produced in the Province during a specific period. GDP is often used to measure the growth of the economy.

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 2009 indicate that net debt stands at $7.39 billion - $333.2 million higher than its level ten 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 ten years – showing the Province's increasing ability to sustain existing programs and services. In the past two years, 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, and a downturn in the economy.

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



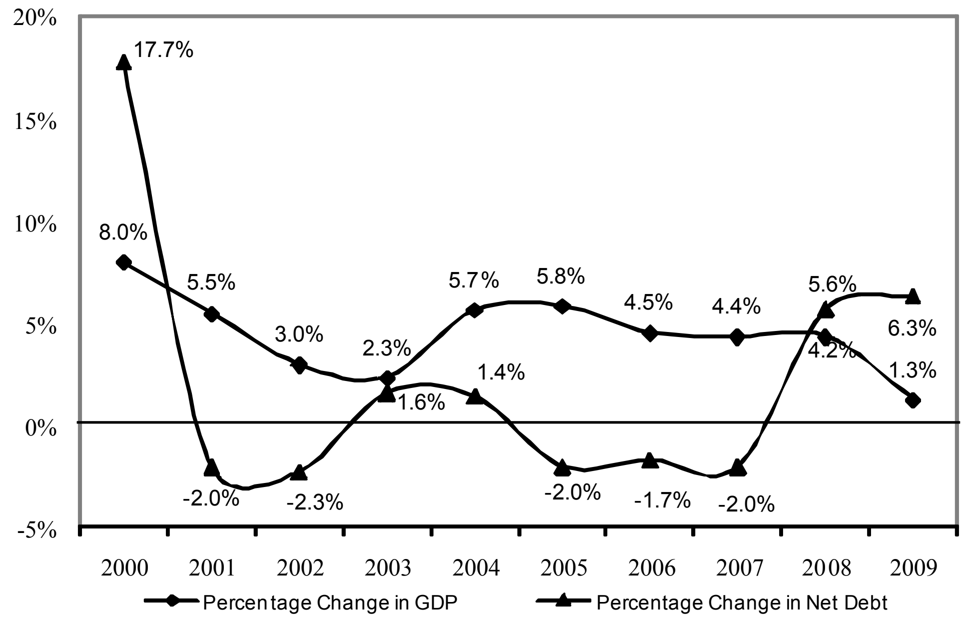
Change in net debt and GDP as a measure of sustainability

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 experienced economic growth in excess of growth in the net debt (favourable) every year from 2001 to 2007. In 2009 there was a small increase in percentage for GDP, but a large increase in percentage for Net Debt. This was due to the economic recession, increase in pension expense due to poor returns, and increased spending by government.

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 ten 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]

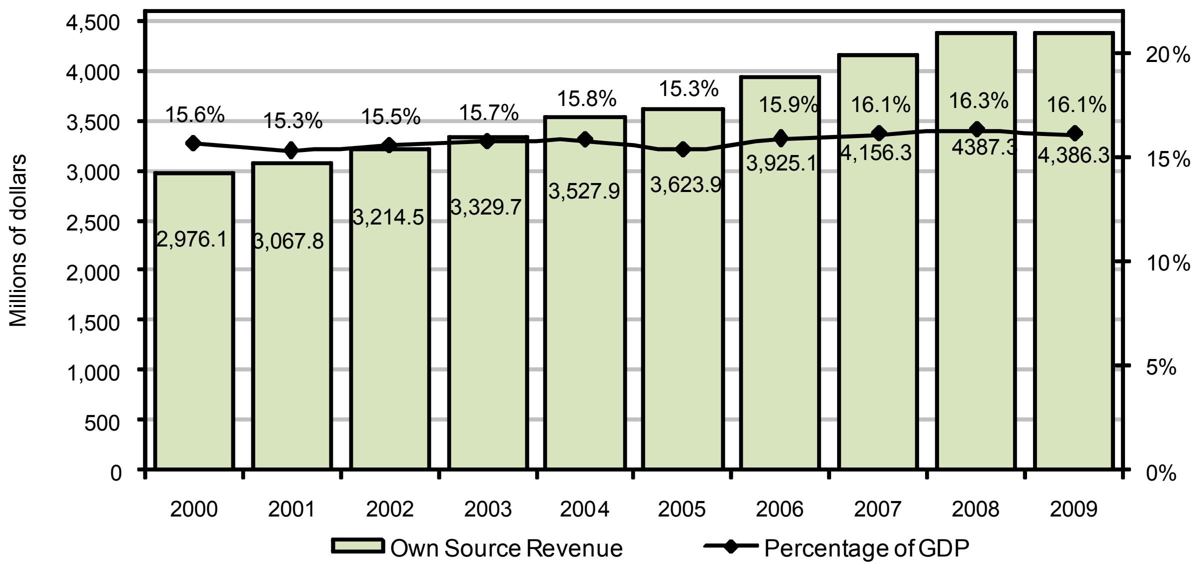
2.18 Funding for programs and services is provided by either revenue or borrowing during the year. It is a useful measure of flexibility to know to what extent the Province is able to raise revenue from existing and potential sources should new commitments arise.

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 ten 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 ten years. This exhibit shows that the dollars extracted by the Province from the New Brunswick economy as a percent of GDP remained relatively stable over the past ten years.

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

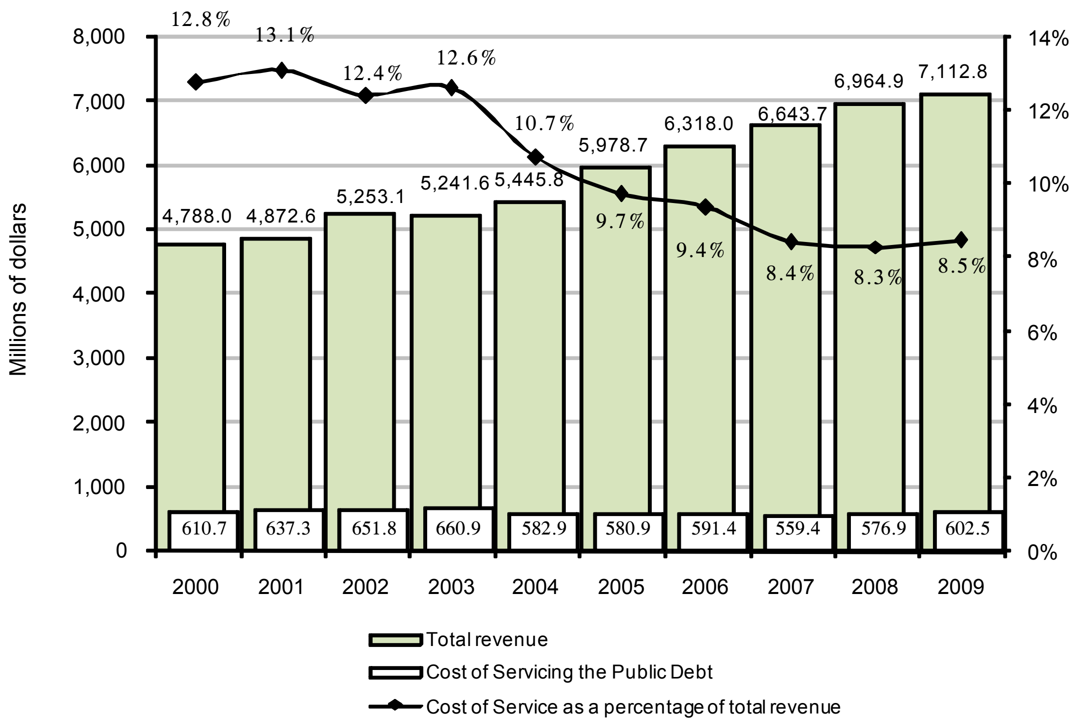
2.21 One of the most publicized factors which affects the flexibility of governments is the cost of servicing the public debt.

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.

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

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 2.4 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 2009 compared to 2008 by $25.6 million to $602.5 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 8.5%. This is a significant decrease, attributable mainly to the strengthening of the Canadian dollar against its U.S. counterpart, and also to a general lowering of interest rates. The exhibit indicates that, on a percentage basis, the Province has more of its total revenues available for current needs today than it did ten years ago.

Vulnerability

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]

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

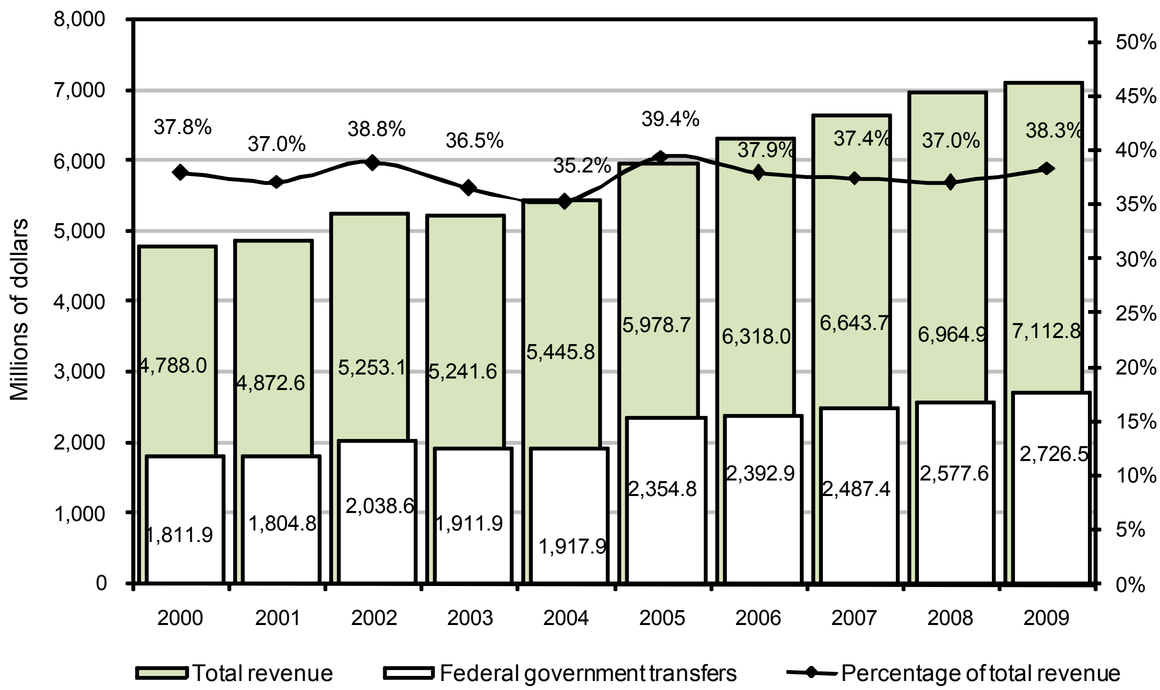
1. Indicators of Government Financial Condition, 1997 published by the Canadian Institute of Chartered Accountants.

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

2.27 In 2009, 38.3% 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 ten 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 ten years. This exhibit shows that the trend over the past ten 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 ten years, the indicators of sustainability, flexibility and vulnerability show that the Province of New Brunswick's financial condition has improved or remained relatively stable. Over the last two years, the indicators of sustainability have been unfavourable.

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

		Impact on Financial Condition of the Province	
Financial Indicator	**2009**	**2 year trend**	**10 year trend**
Sustainability			
Net debt as a percentage of GDP	27.1%	Unfavourable	Favourable
Change in net debt and GDP	6.3%/1.3%	Unfavourable	Mixed
Flexibility			
Own source revenue as a percentage of GDP	16.1%	No significant change	No significant change
Cost of servicing the public debt as a percentage of total revenue	8.5%	No significant change	Favourable
Vulnerability			
Federal government transfers as a percentage of total revenue	38.3%	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 2009. 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.

2.34 We would like to highlight three points that are included in the following section. They are areas that we feel could be better managed. They are:

- **collection of receivables;**

- **management of the increasing liability for injured workers; and**
- **growth of allowances for doubtful accounts**.

2.35 These items are discussed in more detail through this chapter.

Statement of Financial Position

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

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

2.37 For the purposes of the following tables, the 2008 figures reflect those published in the 2009 Public Accounts Volume 1. These numbers have been restated from last year. The main reason for the restatement is due to the consolidation of more Crown agencies including Kings Landing, New Brunswick Legal Aid Services Commission, Fundy Linen and Ambulance NB.

2.38 Years prior to 2008 have not been restated for those consolidated entities as the effect would be immaterial.

Receivables and advances

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

	($ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
General receivables	227.2	207.4	185.4	168.6	153.5	231.2	200.1	197.8	174.8	156.7
Receivables from Canada	182.0	205.0	169.7	164.0	141.6	132.3	121.5	122.8	119.5	106.9
Guarantee payouts	94.7	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	23.5	23.1	33.6	62.0	67.5					
Subtotal	527.4	510.8	434.5	444.7	415.0	402.7	361.6	357.2	326.5	291.8
Interest receivable	52.1	45.5	37.1	33.4	26.3	30.8	30.3	25.6	24.1	27.1
Subtotal	579.5	556.3	471.6	478.1	441.3	433.5	391.9	382.8	350.6	318.9
Consolidated entities	43.2	51.4	51.2	48.3	43.3	42.8	47.4	N/A	N/A	N/A
Total	622.7	607.7	522.8	526.4	484.6	476.3	439.3	382.8	350.6	318.9
Less: Allowance for doubtful accounts	244.0	201.3	155.7	140.7	132.9	118.5	113.3	97.7	87.4	77.5
Receivables and advances	378.7	406.4	367.1	385.7	351.7	357.8	326.0	285.1	263.2	241.4

2.40 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)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Total before allowance	622.7	607.7	522.8	526.4	484.6	476.3	439.3	382.8	350.6	318.9
Less: Receivables from Canada	182.0	205.0	169.7	164.0	141.6	132.3	121.5	122.8	119.5	106.9
Less: Consolidated entities	43.2	51.4	51.2	48.3	43.3	42.8	47.4	N/A	N/A	N/A
Less: Advances of grants	13.0	12.7	21.9	51.5	55.2					
Net amount	384.5	338.6	280.0	262.6	244.5	301.2	270.4	260.0	231.1	212.0
Allowance for doubtful accounts	244.0	201.3	155.7	140.7	132.9	118.5	113.3	97.7	87.4	77.5
Allowance percentage	63.5%	59.5%	55.6%	53.6%	54.4%	39.3%	41.9%	37.6%	37.8%	36.6%

2.41 In the year ended 31 March 2009:

- the Province reported $622.7 million in receivables and advances, which is about 2.5% higher than the 31 March 2008 balance;
- $43.2 million of the $622.7 million was receivable by and managed by the consolidated entities;

- another $182.0 million was due from the federal government and so there should not be any doubt about its collection;
- another $13.0 million were advances on operating grants for April 2009;
- this left $384.5 million in receivables that the Province has to actively manage to ensure collection; and
- the collection of 63.5% of these amounts, or $244.0 million, is considered to be in doubt.

2.42 At the year ended 31 March 2000, the percentage of doubtful accounts was 36.6%. The percentage has been steadily increasing since that time.

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

- The amount of receivables for guarantee payouts is about six times higher, rising from $15.9 million at 31 March 2000 to $94.7 million at 31 March 2009.

- Amounts due from Canada should not normally require active management as noted above. However, as we noted in our 2008 Report, funding under the official languages program was not being claimed from Canada on a timely basis. Subsequent to our report to the Department of Education, they prepared the necessary claims and the receivable decreased by almost $20 million from last year. Subsequent to 31 March 2009, more of the receivable from Canada has been collected.

2.44 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 63.5%, a rate that has been growing, significant guarantee payouts and questions about the timeliness of collections all point to opportunities for improvement.

Taxes receivable

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

	($ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Gasoline and motive fuel tax	17.7	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	911.0	855.1	791.4	411.0	395.3	384.0	374.3	359.9	342.4	323.8
Royalties and stumpage on timber	10.8	5.1	22.0	24.3	21.8	28.0	18.2	18.4	22.7	19.1
Sales tax	154.5	60.5	87.0	87.9	32.7	107.7	85.4	68.9	68.9	69.5
Tobacco tax	21.7	8.5	8.4	8.5	10.2	11.3	9.0	7.4	5.3	4.4
Other	7.2	5.3	2.5	2.5	2.9	0.3	0.1	0.1	0.1	0.2
Subtotal	1,122.9	954.2	1,046.6	554.9	488.9	553.2	507.0	471.9	460.9	431.6
Allowance for doubtful accounts	56.5	55.1	77.0	85.4	80.7	86.6	89.5	89.5	84.5	83.9
Total	1,066.4	899.1	969.6	469.5	408.2	466.6	417.5	382.4	376.4	347.7

2.46 To analyze the taxes receivable, we compared the outstanding receivable balance at the end of the year with the tax revenue for the year, 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)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Gasoline and motive fuel tax	195.1	198.1	215.2	232.1	239.7	234.9	222.1	184.3	186.5	185.5
Real property tax	385.3	352.3	345.6	335.2	328.3	298.2	295.0	288.6	274.7	258.1
Forest royalties	40.4	45.8	58.8	56.9	60.2	62.9	53.1	54.6	58.3	54.5
Tobacco tax	103.7	79.9	81.9	90.5	96.5	101.4	91.9	69.7	49.8	47.8
Metallic minerals tax	4.7	119.7	120.2	10.5	2.8	2.2	5.7	2.3	3.3	3.9

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

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Gasoline and motive fuel tax	9.1%	9.9%	10.6%	8.9%	10.8%	9.3%	9.0%	9.3%	11.5%	7.9%
Real property tax	236.4%	242.7%	229.0%	122.6%	120.4%	128.8%	126.9%	124.7%	124.6%	125.5%
Forest royalties	26.7%	11.1%	37.4%	42.7%	36.2%	44.5%	34.3%	33.7%	38.9%	35.0%
Tobacco tax	20.9%	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%							

2.48 Some observations:

- Because the property tax bills for a calendar year are sent out before 31 March, but are not due until after 31 March, the financial statements will always report a large balance of property taxes receivable. 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 amount receivable for tobacco tax is higher than normal because of a court settlement with manufacturers; $12.8 million was outstanding at 31 March 2009.

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

	($ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Taxes receivable	1,122.9	954.2	1,046.6	554.9	488.9	553.2	507.0	471.9	460.9	431.6
Allowance for doubtful accounts	56.5	55.1	77.0	85.4	80.7	86.6	89.5	89.5	84.5	83.9
Percentage	5.0%	5.8%	7.4%	15.4%	16.5%	15.7%	17.7%	19.0%	18.3%	19.4%

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

Loans

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

	($ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Business New Brunswick	291.5	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	369.2	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	7.3	3.6	2.3	0.2	-	-	-	-	-	-
Environment and/or Local Government	5.8	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	4.0
Social Development	35.5	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	9.7	10.0	10.2	10.4	10.7	10.9	11.2	11.4	11.6	12.2
Regional Development Corporation	13.8	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	736.8	626.0	560.6	512.9	262.7	255.6	292.3	280.1	277.6	263.6
Allowance for doubtful accounts	297.9	229.3	207.2	192.9	142.6	129.3	143.9	133.7	124.7	122.3
Total	438.9	396.7	353.4	320.0	120.1	126.3	148.4	146.4	152.9	141.3

2.52 During the year ended 31 March 2006, the Province took over responsibility for loans to students. Since 31 March 2006 the student loans receivable have increased by over 40%. We are concerned by this increase, however, we understand that mechanisms are now 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 four years, and estimates the 2010 balance based on budget figures from Main Estimates.

	$ millions				
	Budget 2010	2009	2008	2007	2006
Opening Balance	369.2	336.4	296.0	258.3	0.0
Student Loan Advances	68.4	62.8	64.5	61.7	270.1
Repayments	30.8	31.3	26.3	20.2	10.1
Other	-	1.3	2.2	(3.8)	(1.7)
Closing Balance	406.8	369.2	336.4	296.0	258.3

2.53 The increase in the Regional Development Corporation loan balance in 2008 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.

2.54 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.

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

	($ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Loans	736.8	626.0	560.6	512.9	262.7	255.6	292.3	280.1	277.6	263.6
Allowance for doubtful accounts	297.9	229.3	207.2	192.9	142.6	129.3	143.9	133.7	124.7	122.3
Percentage	40.4%	36.6%	37.0%	37.6%	54.3%	50.6%	49.2%	47.7%	44.9%	46.4%

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

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

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Agricultural Development Act	46.3%	68.2%	69.0%	72.4%	73.2%	71.0%	69.0%	66.3%	48.0%	37.5%
Economic Development Act	66.8%	62.1%	64.9%	65.1%	56.8%	46.0%	45.0%	41.7%	37.2%	30.5%
Fisheries Development Act	75.8%	71.8%	71.9%	73.8%	71.6%	76.8%	74.3%	74.3%	77.9%	82.2%
Provincial Holdings Ltd.	100.0%	75.6%	80.6%	73.3%	44.6%	34.3%	30.9%	25.9%	18.8%	32.5%
Loans to students	20.1%	19.4%	18.6%	15.9%	100%	100%	100%	100%	100%	100%
Local Government loans	6.9%	5.2%	3.0%	100%	100%	100%	100%	100%	100%	100%
La Fondation du quotidien francophone	100.0%	100%	100%	100%	100%	100%	100%	100%	100%	100%
New Brunswick Housing Act	13.2%	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	N/A	0.0%	54.5%	42.9%	35.3%	31.6%	26.1%
Unsatisfied judgments	100.0%	100%	100%	100%	100%	100%	100%	100%	100%	100%

2.58 The four largest categories of loans, which represent 93.2% of all loans outstanding at 31 March 2009, are:

- Loans to students 50.1%
- *Economic Development Act* loans 33.4%
- *Fisheries Development Act* loans 4.9%
- *New Brunswick Housing Act* loans 4.8%

Accounts payable and accrued expenses

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

	($ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Accounts payable	458.2	452.4	446.8	417.4	388.2	372.4	300.5	375.6	255.0	275.9
Due to Canada	184.6	207.4	228.9	249.9	211.4	186.2	34.8	10.3	9.5	16.2
Accrued interest	205.6	215.2	227.0	236.8	244.2	231.0	229.5	164.2	164.3	166.5
Employee benefits	718.0	641.4	609.2	599.6	575.4	542.2	419.5	404.1	403.9	352.5
Other	519.9	487.5	440.0	137.6	201.1	148.5	268.1	182.7	210.4	219.0
	2,086.3	2,003.9	1,951.9	1,641.3	1,620.3	1,480.3	1,252.4	1,136.9	1,043.1	1,030.1

2.60 The largest component of the due to Canada account relates to overpayments by Canada to the Province under federal government transfers. Approximately $145.8 million of the $184.6 million payable in 2009 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.

2.61 Note that the large increase in Other from 2007 and on 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.

2.62 Two components of the accrued employee benefit expenses are:

	($ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Liability for injured workers	135.6	126.8	105.8	103.3	95.7	89.6	83.2	68.9	55.7	42.3
Retirement allowances	311.6	308.3	303.1	289.4	272.3	264.0	247.6	232.4	230.7	224.9

2.63 The difference in the growth of these two accrued expenditures is noticeable. The liability for injured workers has increased 220.6% over a nine-year period, while the liability for accrued retirement allowances has only increased 38.6%. 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

2.64 The following table provides the history of the allowance for losses balance over the past ten years.

	($ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Allowance for losses	101.8	103.1	95.8	84.0	83.3	104.2	74.2	68.7	30.9	16.2

2.65 This allowance at 31 March 2009 was over six times its balance at 31 March 2000. The components of the allowance are:

	($ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Business New Brunswick	46.4	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	32.0	36.0	0.2	0.2	0.2	0.7	0.2	0.2	0.2	0.2
Property tax appeals	23.4	23.4	26.8	23.3	16.2	28.4	24.0	24.0	-	-

2.66 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 in 2008 is due to an increase in provision for loss in Central Government.

All allowances

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

	($ millions)									
	2009	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Allowance for losses	101.8	103.1	95.8	84.0	83.3	104.2	74.2	68.7	30.9	16.2
Allowance for doubtful accounts (Loans)	297.9	229.3	207.2	192.9	142.6	129.3	143.9	133.7	124.7	122.3
Allowance for doubtful accounts (Taxes receivable)	56.5	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)	244.0	201.3	155.7	140.7	132.9	118.5	113.3	97.7	87.4	77.8
Total all allowances	700.2	588.8	535.7	503.0	439.5	438.6	420.9	389.6	327.5	300.2

2.68 These numbers are concerning. As at 31 March 2009, the Province expects to lose $700.2 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 $7.0 million to the Province.

2.69 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 the Department of Post-Secondary Education, Training and Labour now sends defaulted student loans to CRA for set-off. We understand that some of the Province's other credit and loan programs are being considered for this arrangement.

Obligations under capital leases

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

	($ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Capital leases	785.9	805.4	817.1	834.1	849.4	865.8	873.7	871.9	900.0	900.7

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

	($ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Fredericton to Moncton highway lease	756.6	775.1	792.4	808.4	823.0	837.0	843.8	844.6	871.8	872.0

2.72 Over the past nine years, the Province has paid $115.4 million against the outstanding principal owing on the Fredericton to Moncton highway lease.

Pension liability (surplus)

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

	($ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Pension liability (surplus)	(210.2)	(244.7)	(126.4)	30.2	156.7	271.5	362.1	372.6	442.6	596.0

2.74 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.

2.75 There has been a steady decline in the outstanding pension liability from 2000 to 2006 with a surplus reported from 2007 to 2009 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)									
	2009	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Estimated accrued benefits liability	8,642.5	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	6,512.4	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	2,130.1	265.2	(165.0)	(124.8)	197.9	294.4	1,057.4	158.0	(68.4)	(680.9)
Accounting adjustments	(2,340.3)	(509.9)	38.6	155.0	(41.2)	(22.9)	(695.3)	214.6	511.0	1,276.9
Pension liability (surplus)	(210.2)	(244.7)	(126.4)	30.2	156.7	271.5	362.1	372.6	442.6	596.0

2.76 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. For the ten year ends reported in the table, the market value of the plan assets for the current year has the largest change experienced - a decline of $1.5 billion.

2.77 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. This number fluctuates significantly from year to year. We saw an excess of assets over liability of $680 million for 31 March 2000. At 31 March 2009 we had the largest deficiency of assets over liabilities of $2.13 billion.

2.78 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. As at 31 March 2009, the estimated accrued benefits exceeds the market value by $2.13 billion, however, the pension surplus reported on the Province's financial statements was $210.2 million.

2.79 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)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Pension expense	323.1	154.5	101.1	109.9	108.4	124.2	90.4	(0.7)	(51.1)	(9.1)
Employer contributions	288.6	272.8	257.7	236.4	223.2	214.8	100.9	69.1	102.3	167.6
Reduction (increase) in pension liability	(34.5)	118.3	156.6	126.5	114.8	90.6	10.5	69.8	153.4	176.7

2.80 The pension expense has risen dramatically over the years and had a 50% increase in 2008 from 2007 and more than doubled in 2009. The pension expense for 2009 was higher than anticipated due to significant losses on pension fund assets because of the economic downturn. In the short run, the table shows that increasing provincial contributions cannot offset lower than anticipated returns.

Funded debt for provincial purposes

2.81 The following table provides the history of the funded debt for provincial purposes, sinking fund book value and funded debt for provinical purposes net of sinking fund balance over the past ten years.

2.82 The Province's funded debt for provincial purposes at 31 March 2009 exceeded $10 billion.

2.83 The table shows significant increases over the past ten years for funded debt, but only moderate increases in the sinking fund. The sinking fund actually decreased in value at 31 March 2009 over the prior year value.

	($ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Funded debt for provincial purposes	10,127.6	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	4,159.9	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	5,967.7	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

2.84 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 ten years.

Tangible capital assets

2.85 The following table provides the history of the tangible capital asset balance over the past six years.

	($ millions)					
	2009	2008	2007	2006	2005	2004
Tangible capital assets	6,394.0	6,234.1	5,645.5	5,518.9	5,404.0	5,294.9
Deferred capital contributions	(852.2)	(818.3)	(680.2)	(659.8)	(657.3)	(644.9)
Provincial investment in tangible capital assets	5,541.8	5,415.8	4,965.3	4,859.1	4,746.7	4,650.0

2.86 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 five years.

	($ millions)				
	2009	2008	2007	2006	2005
Opening balance	818.3	680.2	659.8	657.3	644.9
Funds received to acquire tangible capital assets	64.9	165.3	43.5	24.9	34.3
Amortization of deferred capital contributions	(31.0)	(27.2)	(23.1)	(22.4)	(21.9)
Ending balance	852.2	818.3	680.2	659.8	657.3

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

	($ millions)			
	2009	2008	2007	2006
Opening balance	6,234.1	5,651.5	5,523.4	5,408.8
Acquisitions	440.7	837.7	367.1	342.4
Amortization of tangible capital assets	(279.9)	(253.3)	(238.7)	(227.4)
Loss on disposal of tangible capital assets	(0.9)	(1.8)	(0.3)	(0.4)
Ending balance	6,394.0	6,234.1	5,651.5	5,523.4

2.88 Below is the annual investment in tangible capital assets from 2005 to 2009. It shows that the large majority of our infrastructure projects have been funded by the provincial government in that timeframe. The amount and percent of federal funding for infrastructure projects varies significantly from year to year.

	($ millions)				
	2009	**2008**	**2007**	**2006**	**2005**
Provincial investment	375.9	672.4	321.5	317.3	292.4
Federal investment	64.9	165.3	43.5	24.9	34.3
Total investment	440.8	837.7	365.0	342.2	326.7
Provincially funded	85.3%	80.3%	88.1%	92.7%	89.5%

Net debt

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

2.90 At 31 March 2009, net debt reached an all-time high of $7.39 billion.

2.91 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	**2009**	**2008**	**2007**
Saskatchewan	3,848	6,049	6,446
New Brunswick	7,388	6,949	6,575
Manitoba	11,498	10,599	10,465
Nova Scotia	12,324	12,115	12,357

Net debt per capita	**2009**	**2008**	**2007**
Saskatchewan	$3,787	$6,051	$6,528
Manitoba	$9,518	$8,881	$8,880
New Brunswick	$9,864	$9,299	$8,769
Nova Scotia	$13,138	$12,943	$13,216

Net debt as a percentage of GDP	2009	2008	2007
Saskatchewan	6.0%	11.7%	14.0%
Manitoba	22.4%	22.0%	23.4%
New Brunswick	27.1%	25.8%	25.9%
Nova Scotia	36.0%	37.0%	39.0%

Items reported in the notes

2.92 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

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

	($ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Agricultural Development Act	1.8	0.6	0.6	0.4	0.4	0.1	0.2	0.2	0.9	0.8
Economic Development Act	98.2	83.4	113.8	108.6	102.1	122.5	44.8	28.9	29.9	36.4
Employment Development Act	4.1	4.4	4.5	4.5	3.9	5.3	4.3	3.6	2.0	2.3
Fisheries Development Act	12.4	14.8	16.6	20.8	5.0	6.5	10.4	5.9	3.3	4.3
Livestock Incentives Act	0.8	0.8	0.9	0.9	0.9	1.5	1.6	1.5	1.7	0.5
Nursing Homes Act	7.6	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	3,000.0	2,900.0	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	612.9	569.5	560.1	496.1	466.6	421.4	386.7	366.9	350.9	346.2
Provincial Holdings Ltd.	12.6	29.0	14.7	14.9	1.7	2.3	2.6	4.9	6.0	7.3
Regional Development Corporation Act	3.9	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	3,754.3	3,615.2	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	40.6	49.9	69.0	60.7	67.6	75.8	50.2	44.7	30.9	16.2
Contingent liability for guaranteed loans	3,713.7	3,565.3	3,454.5	3,298.7	3,336.0	3,184.9	2,883.2	2,618.3	2,386.6	2,196.8

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

2.95 In 2007 the Province reported, for the first time, its guarantee of the deposits of credit unions and caisse populaires. As of 31 December 2008, total deposits guaranteed amounted to $3,050.7 million. Given the significance of the amount, the risk associated with the guarantee must be managed. NBCUDIC guarantees the repayment of individual deposits with New Brunswick credit unions and caisse populaires up to a maximum of $250,000. NBCUDIC is included in the Province's reporting entity through the consolidation method.

Commitments

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

	($ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Operating leases	479.4	422.5	409.5	436.4	407.8	392.0	398.5	369.8	308.9	329.7
Nursing home debt funding	171.5	168.7	121.5	111.8	84.4	84.8	86.3	81.0	78.6	68.2
Authorized capital projects	587.1	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.

2.98 The operating lease commitments and the nursing home funded debt have steadily increased since 31 March 2001. Nursing home commitments include 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 ten years:

	($ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Unrealized foreign exchange losses (gains)	(38.2)	(87.8)	(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 2009.

	($ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Book value - provincial portion	4,159.9	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
Book value - NB Power portion	415.4	309.4	300.6	336.4	391.6	363.7	351.3	327.4	297.3	295.1
Total book value	4,575.3	4,471.3	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	4,845.4	4,765.7	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	270.1	294.4	308.5	316.0	417.9	496.0	361.0	226.8	275.8	227.8

2.102 This shows that at 31 March 2009, the sinking fund had a market value that was higher than its recorded book value.

Statement of Operations

Deficit

2.103 For the year ended 31 March 2009, the Province reported a deficit of $192.3 million.

2.104 The following table shows the surplus or deficit for the past six years as originally recorded and as restated. Most of the restated amounts are due to the consolidation of additional Crown corporations.

	($ millions)					
	2009	2008	2007	2006	2005	2004
As originally recorded	(192.3)	86.7	236.8	243.6	242.2	(103.2)
As restated	(192.3)	96.7	236.4	235.1	235.8	(181.9)

Change in net debt

2.105 For the year ended 31 March 2009, the Province reported an increase in net debt of $438.6 million.

Revenue

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

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

Total revenue

2.107 Provincial source revenue has increased 47.4% since the year ended 31 March 2000, while federal source revenue has increased 51.1%. The following table reports the share of annual revenue that is made up of each primary source.

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Provincial sources	61.7%	63.0%	62.5%	62.1%	60.6%	64.8%	63.5%	61.2%	63.0%	62.2%
Federal sources	38.3%	37.0%	37.5%	37.9%	39.4%	35.2%	36.5%	38.8%	37.0%	37.8%

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

Revenue from provincial sources

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

	($ millions)								
	2009	2008	2007	2006	2005	2004	2003	2002	2001
Provincial source revenue	4,386.3	4,387.3	4,156.3	3,925.1	3,623.9	3,527.9	3,329.7	3,214.5	3,067.8
GDP (GDP is for the previous calendar year)	27,288	26,947	25,825	24,748	23,672	22,366	21,169	20,684	20,085
Provincial source revenue as a % of GDP	16.1%	16.3%	16.1%	15.9%	15.3%	15.8%	15.7%	15.5%	15.3%
Percentage growth in provincial source revenue	0.0%	5.6%	5.8%	8.4%	2.7%	6.0%	3.6%	4.8%	3.1%
Percentage growth in GDP	1.3%	4.3%	4.4%	4.5%	5.8%	5.7%	2.3%	3.0%	5.5%

2.110 In six of the past nine years, provincial source revenue has increased at a rate that exceeds the rate of growth of the GDP. The result is that in 2009, provincial source revenue was 16.1% of GDP, compared to 15.3% in 2001.

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

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

	($ millions)									
Provincial Source Revenue	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Taxes on consumption	1,359.7	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	385.3	352.3	345.6	335.2	328.3	298.2	295.0	288.6	274.7	258.1
Taxes on income	1,439.1	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	68.7	85.5	86.6	90.8	94.7	103.4	85.0	81.9	69.2	65.8
Licenses and permits	116.6	114.5	109.7	106.7	96.9	99.8	98.2	96.5	102.0	100.3
Royalties	79.5	63.8	68.7	67.8	70.7	70.4	60.0	61.1	66.5	62.5
Investment income	357.3	417.3	308.6	409.6	283.7	252.7	176.7	246.3	156.4	211.3
Other provincial revenue	346.7	361.4	323.2	302.8	292.6	275.8	271.9	205.0	197.4	203.3
Sinking fund earnings	233.4	230.7	231.8	226.4	221.6	222.5	243.0	230.9	220.0	203.7
Total	4,386.3	4,387.3	4,156.3	3,925.1	3,623.9	3,527.9	3,331.4	3,216.1	3,067.7	2,974.3

2.113 In 2009, the significant increase in property tax revenue was the result of increased assessment values and the temporary discontinuance of the Forestry Industry Investment Tax Credit.

Taxes on consumption

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

	($ millions)									
Taxes on consumption	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Gasoline and Motive Fuels Tax	195.1	198.1	215.2	232.1	239.7	234.9	222.1	184.3	186.5	185.5
Harmonized Sales Tax	1,060.8	841.0	872.1	838.7	723.0	803.1	736.0	659.6	653.2	590.7
Tobacco Tax	103.7	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	0.1
Total	1,359.7	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)	240.6	(50.1)	7.8	102.1	(80.2)	89.4	136.4	24.1	65.5	10.1
Percentage increase (decrease)	21.5%	(4.3%)	0.7%	9.6%	(7.0%)	8.5%	14.9%	2.7%	7.9%	1.2%
Total as a percentage of GDP	5.0%	4.2%	4.5%	4.7%	4.5%	5.1%	5.0%	4.4%	4.4%	4.3%

2.115 Both harmonized sales tax and tobacco tax revenues saw substantial increases in 2009. Increased HST revenues resulted from an increased share of the national revenue pool as well as a large prior period adjustment. Tobacco tax revenues increased in 2009 due to a settlement with manufacturers.

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

	($ millions)									
	2009	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Harmonized Sales Tax	1,060.8	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)	27,288	26,947	25,825	24,748	23,672	22,366	21,169	20,684	20,085	19,041
Ratio	3.9%	3.1%	3.4%	3.4%	3.1%	3.6%	3.5%	3.2%	3.3%	3.1%

Taxes on income

2.117 The following table reports the details of revenue from taxes on income over the past ten years. Metallic minerals tax is down due to a significant reduction in the average price of zinc triggered by the economic downturn.

	($ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Corporate income tax	111.4	266.6	217.6	150.3	173.1	111.1	134.9	179.9	178.6	141.0
Metallic minerals tax	4.7	119.7	120.2	10.5	2.8	2.2	5.7	2.3	3.3	3.9
Personal income tax	1,323.0	1,256.4	1,175.1	1,063.6	1,000.2	952.3	910.9	909.9	910.0	900.3
Total	1,439.1	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)	5.3%	6.1%	5.9%	4.9%	5.0%	4.8%	5.0%	5.3%	5.4%	5.5%

2.118 The following table compares corporate income taxes to the component of GDP that is from corporation profits before taxes. Corporate income tax is down due to a large negative prior-period adjustment and reduced federal estimates.

	($ millions)									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Corporate Income Taxes	111.4	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)	2,824	3,289	3,200	2,892	2,566	1,933	1,832	1,904	1,846	1,769
Percentage	3.9%	8.1%	6.8%	5.2%	6.7%	5.7%	7.4%	9.4%	9.7%	8.0%

2.119 The percentage increases in personal income taxes over the past nine fiscal years have been:

	2009	2008	2007	2006	2005	2004	2003	2002	2001
Personal Income Tax	5.3%	6.9%	10.5%	6.3%	5.0%	4.5%	0.1%	0.0%	1.1%

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

	2008	2007	2006	2005	2004	2003	2002	2001	2000
Increase in per capita income	4.3%	4.9%	4.0%	3.5%	4.8%	3.4%	2.5%	2.5%	4.8%
Increase in wage component of GDP	4.5%	4.9%	4.0%	3.8%	4.8%	5.5%	4.3%	0.5%	6.1%
Increase in wage, interest and unincorporated business component of GDP	3.8%	4.7%	4.0%	3.6%	4.8%	5.0%	2.4%	0.7%	5.5%

2.121 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. The growth in personal income tax continues to be 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.

2.122 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.

2.123 The components of personal income tax revenue over the past nine years are:

	($ millions)								
	2009	2008	2007	2006	2005	2004	2003	2002	2001
Current year estimate	1,284.3	1,221.6	1,097.3	1,029.6	979.2	939.1	903.6	881.2	893.5
Prior year adjustment	38.7	34.8	77.8	34.0	21.1	13.2	7.4	28.7	17.4
Other	-	-	-	-	(0.1)	-	(0.1)	-	(0.9)
Total	1,323.0	1,256.4	1,175.1	1,063.6	1,000.2	952.3	910.9	909.9	910.0

2.124 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

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

	($ millions)									
	2009	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Insurance Premium Tax	41.2	40.7	40.1	39.4	39.7	42.2	34.3	30.3	28.2	25.9
Large Corporation Capital Tax	13.5	31.2	34.7	36.3	39.5	47.3	38.7	39.0	30.6	28.1
Motor vehicle licenses	95.0	91.5	89.3	86.3	76.2	73.7	74.0	74.0	76.0	73.7
Forest royalties	40.4	45.8	58.8	56.9	60.2	62.9	53.1	54.6	58.3	54.5
Lottery revenue	120.6	117.0	113.0	111.2	118.1	116.7	109.1	89.2	89.7	86.3
NB Electric Finance Corporation	34.4	104.5	18.7	131.6	7.8	(18.0)	(77.4)	19.0	(78.0)	17.0
NB Liquor Corporation	152.7	144.9	131.5	126.1	122.6	118.6	110.1	106.8	103.0	100.8
Sinking fund earnings	233.4	230.7	231.8	226.4	221.6	222.5	243.0	230.9	220.0	203.7

2.126 For the year ended 31 March 2009, there was a significant decline in the large corporation capital tax and NB Electric Finance Corporation revenues. The large corporation capital tax is down consistent with the planned phase-out for this particular revenue source. NB Electric Finance Corporation's revenue is down due to one-time revenue generated in the previous fiscal year.

2.127 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	Nine year annual average growth rate
Insurance Premium Tax	5,6%
NB Liquor Corporation	4,8%
Lottery revenues	4,0%
Motor vehicle licenses	3,0%
Sinking fund earnings	1,6%
Forest royalties	(2.7%)
Large Corporation Capital Tax	(4.2%)

Revenue from federal sources

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

	($ millions)								
	2009	2008	2007	2006	2005	2004	2003	2002	2001
Canada Health and Social Transfer	764.4	737.4	706.9	696.3	607.3	545.2	498.9	494.9	404.0
Health Reform Transfer	-	-	-	-	35.3	-	-	-	-
Fiscal Equalization Payments	1,583.8	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	1.9	1.7	1.9	1.9	1.9	1.9
Conditional grants	345.5	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	30.9	27.1	23.2	22.4	22.0	21.3	20.4	19.9	19.6
Total	2,726.5	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)	148.9	90.2	94.5	38.3	437.0	5.7	(126.7)	233.8	1,804.8
Percentage increase (decrease)	5.8%	3.6%	3.9%	1.6%	22.8%	0.3%	(6.2%)	13.0%	(0.4%)

Expenses

2.129 The main items of expenses we have analyzed are:

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

Total expenses

2.130 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. Six years' worth of comparative expense figures are available.

2.131 The following table reports the Province's expenses for the past six years.

	2009		2008		2007		2006		2005		2004	
	$ millions	%	$ millions	%	$ millions	%	$ millions	%	$ millions	%	$ millions	%
Education and training	1,452.7	19.9	1,430.9	20.8	1,305.5	20.4	1,309.7	21.5	1,189.0	20.7	1,168.1	20.7
Health	2,445.7	33.5	2,272.3	33.2	2,110.7	32.9	1,958.2	32.2	1,837.4	32.0	1,788.9	31.8
Social Development	941.8	12.9	903.1	13.1	818.0	12.8	769.6	12.7	724.7	12.7	710.9	12.6
Protection services	223.8	3.0	187.5	2.7	235.1	3.7	162.3	2.7	152.0	2.6	145.3	2.6
Economic Development	293.7	4.0	230.4	3.4	207.0	3.2	182.4	3.1	184.8	3.2	168.3	3.0
Labour and employment	123.5	1.7	119.1	1.7	120.4	1.9	117.4	1.9	117.5	2.0	121.5	2.2
Resource sector	173.2	2.4	178.4	2.6	193.0	3.0	160.1	2.6	166.8	2.9	159.0	2.8
Transportation	399.8	5.5	380.3	5.5	347.5	5.4	336.3	5.5	310.5	5.4	307.5	5.5
Central government	648.4	8.9	589.3	8.6	510.7	8.0	495.5	8.1	479.1	8.4	475.0	8.4
Service of the Public Debt	602.5	8.2	576.9	8.4	559.4	8.7	591.4	9.7	580.9	10.1	582.9	10.4
Total	7,305.1	100.0	6,868.2	100.0	6,407.3	100.0	6,082.9	100.0	5,742.7	100.0	5,627.4	100.0

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

	2009		2008		2007		2006		2005	
	$ millions	%	$ millions	%	$ millions	%	$ millions	%	$ millions	%
Education and training	21.8	1.5	125.4	9.6	(4.2)	(0.3)	120.7	10.2	20.9	1.8
Health	173.4	7.6	161.6	7.7	152.5	7.8	120.8	6.6	48.5	2.7
Social Development	38.7	4.3	85.1	10.4	48.4	6.3	44.9	6.2	13.8	1.9
Protection services	36.3	19.3	(47.6)	(20.2)	72.8	44.9	10.3	6.8	6.7	4.6
Economic Development	63.3	27.5	23.4	11.3	24.6	13.5	(2.4)	(1.3)	16.5	9.8
Labour and employment	4.4	3.7	(1.3)	(1.1)	3.0	2.6	(0.1)	(0.1)	(4.0)	(3.3)
Resource sector	(5.2)	(2.9)	(14.6)	(7.6)	32.9	20.5	(6.7)	(4.0)	7.8	4.9
Transportation	19.5	5.1	32.8	9.4	11.2	3.3	25.8	8.3	3.0	1.0
Central government	59.1	10.0	78.6	15.4	15.2	3.1	16.4	3.4	4.1	0.9
Service of the Public Debt	25.6	4.4	17.5	3.1	(32.0)	(5.4)	10.5	1.8	(2.0)	(0.3)
Total	436.9	6.4	460.9	7.2	324.4	5.3	340.2	5.9	115.3	2.0
Rate of Growth of GDP		1.3		4.3		4.4		4.5		5.8

2.133 For the year ended 31 March 2009 there were significant increases in health and economic development expenses. Several reasons contributed to the increase in health expenses including an increase in expenses of Hospital Services, Medicare, Ambulance Services and the Prescription Drug Program. The increase in economic development relates to an increase in Business New Brunswick's provision for loss expense.

2.134 Since 2006, the rate of growth of expenses was higher than the rate of growth of both GDP and revenues, as shown in the following table.

	2009	2008	2007	2006	2005
Expense growth	6.4%	7.2%	5.3%	5.9%	2.0%
GDP growth (GDP is for the previous calendar year)	1.3%	4.3%	4.4%	4.5%	5.8%
Revenue growth	2.1%	4.8%	5.1%	5.7%	9.8%

Expenses by financial statement line items

2.135 The following table provides a four year comparison of the financial statement line items with the five largest expenses during the year ended 31 March 2009.

	2009		2008		2007		2006	
	$ millions	**%**	**$ millions**	**%**	**$ millions**	**%**	**$ millions**	**%**
Regional Health Authorities	1,637.3	22.4	1,519.7	22.1	1,444.9	22.6	1,284.9	21.1
Education	966.1	13.2	896.1	13.0	850.4	13.3	817.0	13.4
Social Development	935.8	12.8	884.5	12.9	811.9	12.7	755.6	12.4
Health and Wellness	622.0	8.5	631.4	9.2	603.3	9.4	615.6	10.1
Service of the Public Debt	602.5	8.2	576.9	8.4	559.4	8.7	591.4	9.7

2.136 One notable observation from the above table is that the Regional Health Authorities have 22.4% of all expenses of the Province.

Interest expense

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

	($ millions)									
	2009	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Interest	778.5	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	53.0	54.3	55.4	56.5	57.5	58.1	55.8	22.5	-	-
Interest on other capital leases	2.0	2.1	2.2	2.2	2.3	2.3	2.4	2.4	2.5	2.5
Foreign exchange expense	(6.6)	(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	8.1	7.3	7.4	7.1	7.4	7.9	7.5	7.9	7.6
Other expenses	1.8	1.9	2.1	1.7	1.9	2.1	3.3	1.8	1.2	8.5
Subtotal	836.8	794.3	768.6	797.1	796.9	788.4	896.0	900.5	899.3	871.6
Interest recovery - Electric Finance Corporation	(234.3)	(217.4)	(209.2)	(205.7)	(216.0)	(205.5)	(235.1)	(248.7)	(262.0)	(260.9)
Service of the public debt	602.5	576.9	559.4	591.4	580.9	582.9	660.9	651.8	637.3	610.7
Less sinking fund earnings	(233.4)	(230.7)	(231.8)	(226.4)	(221.6)	(222.5)	(243.0)	(230.9)	(220.0)	(203.7)
Subtotal	369.1	346.2	327.6	365.0	359.3	360.4	417.9	420.9	417.3	407.0
Pension interest charged	20.6	(9.1)	0.4	30.9	17.6	85.4	27.9	3.5	(53.6)	(9.1)
Interest on student loans	9.1	13.6	11.6	6.8	-	-	-	-	-	-
Total	398.8	350.7	339.6	402.7	376.9	445.8	445.8	424.4	363.7	397.9

2.138 The subtotal that deducts sinking fund earnings from service of the public debt is the best indicator of net interest costs. This amount increased by 5.7% in the year ended 31 March 2008 and a further 6.6% in the year ended 31 March 2009. In the year ended 31 March 2009, the Province paid $41.5 million more in net interest costs than two years earlier in the year ended 31 March 2007.

Provision expense

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

	($ millions)									
	2009	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Provision expense	116.1	88.5	72.8	73.8	33.9	71.2	33.0	43.2	65.3	46.5

2.140 The increase in the provision expense for 2009 is due to a $60 million increase in allowance from *Economic Development Act* loans, with an offsetting decrease in provision expense for Central Government of $29 million.

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	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
Expenditure ($ millions)	7,457.2	7,484.5	6,528.2	6,206.4	5,851.2	5,570.9
Increase (decrease)($ millions)	(27.3)	956.3	321.8	355.2	280.3	191.4
Percentage increase (decrease)	(0.4%)	14.6%	5.2%	6.1%	5.0%	3.6%

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

	2009	2008	2007	2006	2005	2004
Expenditure growth	(3.9%)	18.9%	5.2%	6.1%	5.0%	3.6%
GDP growth (GDP is for the previous calendar year)	1.3%	4.3%	4.4%	4.5%	5.8%	5.7%
Revenue growth	2.1%	4.8%	5.1%	5.7%	9.8%	3.9%

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.

Chapter 4
Testing of Payments

Contents

Testing of Payments

Background

4.1 As part of our audit of provincial expenditures, each year we statistically select a sample of payments made by all departments throughout the year. We use the results of this testing to help express our opinion on the Province's financial statements.

4.2 We also work on special projects throughout the year. The purpose of this work is to help improve financial processes in departments. This year we looked at two types of payments in addition to our statistical sample – US payments and travel expense payments.

4.3 In this chapter, we report the results of all three types of testing.

4.4 In addition, this chapter reports on a separate sample of payments made by the Department of Social Development through the NB Families system.

Scope

4.5 Our work covered payments in 20 departments during the fiscal year ended 31 March 2009. We have shown those departments and the number of test items in Exhibit 4.1. Our testing of payments through the NBFamilies system is excluded from this exhibit, and reported separately later in the chapter.

Exhibit 4.1 Number of items tested by department by type of test.

	Number of Items			
Department	**Statistical Sample**	**US Payments**	**Travel Expense Payments**	**Total**
Agriculture	1			**1**
Attorney General	*1*	*1*		***2***
Business NB	*8*	*4*	*1*	***13***
Education	*3*	*8*	*57*	***68***
Energy	0	0	1	**1**
Environment	2			**2**
Fisheries	0	1	0	**1**
General Government	1			**1**
Health	*59*	*9*	*2*	***70***
Intergovernmental Affairs	2			**2**
Justice	*2*			***2***
Local Government	3			**3**
Natural Resources	*3*	*2*		***5***
Post-Secondary Education, Training and Labour (PETL)	*12*	*5*		***17***
Public Safety	*5*	*3*		***8***
Social Development	*11*		*41*	***52***
Supply and Services	*13*	*3*		***16***
Tourism and Parks	*2*	*4*		***6***
Transportation	*25*	*5*		***30***
Vehicle Management Agency	4			**4**
Wellness, Culture and Sport	1			**1**
Total	**158**	**45**	**102**	**305**

4.6 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 and are summarized in Exhibit 4.2 in the column titled “Type of Reportable Item/Criteria.”

4.7 In the statistical sample, we selected and tested 158 items which totaled approximately $182 million.

4.8 In the US payments audit, we selected and tested a sample of forty-five payments which totaled approximately $2 million.

4.9 In the travel expense payments audit, we selected and tested a sample of eighty-nine travel claims from the Departments of Education and Social Development. We also selected and tested a sample of thirteen relocation expenses from several departments made over the past few years. The payments tested totaled approximately $315,000.

Summary of findings

4.10 We found a number of reportable items in our work. These reportable items were in the thirteen departments highlighted in italics in Exhibit 4.1. We have summarized these in Exhibit 4.2. Following Exhibit 4.2 we continue with some discussion of particular findings and recommendations.

Exhibit 4.2 Number of reportable items by test type

	Number of Reportable Items			
Type of Reportable Item/Criteria	**Statistical Sample**	**US Payments**	**Travel/ Relocation Expense**	**Total**
Improper spending authority	4	7	0	**11**
Improper payment authority	7	12	0	**19**
Improper program coding	0	0	0	**0**
Does not agree to contract/tender price	0	4	NA	**4**
Insufficient and/or inappropriate back-up	0	0	3	**3**
Mathematically incorrect back-up	0	1	0	**1**
Invoice does not support payment	0	0	NA	**0**
Incorrect primary/account coding	0	4	34	**38**
Improper cut-off	1	6	2	**9**
Incorrect HST calculation and coding	0	3	5	**8**
Discount not used	0	1	NA	**1**
US Payments				
Exchange rate not reasonable	NA	4	NA	**4**
Withholding tax not deducted	NA	4	NA	**4**
Travel and Relocation Expense Payments				
Expense does not comply with travel policy	NA	NA	4	**4**
Improperly recorded year-to-date kilometers	NA	NA	14	**14**

4.11 Some of the criteria listed above only apply to the special project work that we carried out. For example, the criterion "Withholding tax not deducted" relates only to our testing of US payments. Other criteria, such as spending authority, relate to all of our payment testing. In the pages that follow, we discuss the criteria that relate to all projects under "General findings." We discuss the criteria that relate to specific special projects in the sections "US payments findings" and "Travel expense payments findings."

Detailed findings

Spending authority errors

What is spending authority?

4.12 The Approval of Payments policy 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. The policy 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.

4.13 Spending authority provides an important control over a department's expenditures.

Spending authority error rate

4.14 Exhibit 4.3 shows we found 11 errors in the 305 items we tested for spending authority (about a 3.6% error rate). We note that overall the Province has improved from last year's error rate of 6%.

Details on spending authority errors

4.15 The following exhibit provides details on the nature of the spending authority errors by department.

Exhibit 4.3 Departments with spending authority errors and the nature of the error.

Department	# of Errors	Spending Authority Limit	Actual Amount Spent	Nature of Error
Justice	1	$0	$373 417	Person not authorized for that budget line
Attorney General	1	$0	$19 112	Person did not have spending authority (acting capacity)
Transportation	1	Unknown	$195	Signature did not match specimen signature
Transportation	1	$0	$7 769	Employee did not have authority for document signed
Business New Brunswick	2	$0	$22 255 $50 784	Person did not have spending authority (acting capacity)
Business New Brunswick	1	$0	$31 588	Person not authorized for that budget line
Education	2	$10 000	$24 920 $10 203	Limit exceeded
Education	1	$0	$76 868	Person not authorized for budget line
PETL	1	$25 000	$39 869	Limit exceeded

Discussion of spending authority errors

4.16 Seven errors occurred either because the employees signing did not have authority for the budget line for which they signed, employees had exceeded their signing limit or the employees were signing for a document for which they had not been given authority.

4.17 Three errors were because the employees did not have signing authority. All of these cases related to situations where the regular employees who signed documents were on vacation. The two employees who signed were supposed to be acting but the acting period had expired or the employee had not been given temporary authority.

4.18 The last error occurred because we were unable to match the signature on the payment document to the specimen signature on the approval form.

4.19 Based on our testing, we conclude that eleven payments were made without proper spending authority. Section 13 (2) (d) of the *Auditor General Act* requires the Auditor General to report when "an expenditure was made without authority."

Recommendations and responses

4.20 We recommended to five of the six departments that they ensure that correct spending authority is exercised on documents prior to payment. We made recommendations to two departments relating to employees signing documents when in an acting role. We received favorable responses from all departments.

Payment authority errors

What is payment authority?

4.21 The Approval of Payments policy 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.*

4.22 The responsibilities listed above are important in ensuring that taxpayers' money is spent appropriately. Payment authority is an important part of an effective internal control system.

Payment authority error rate

4.23 Exhibit 4.2 shows we found 19 errors in the 305 items we tested for payment authority (about a 6.2% error rate). We note that overall the Province has not improved from last year (4% error rate).

Details on payment authority errors

4.24 Fourteen payment authority errors occurred in the Department of Health; however, thirteen of the errors occurred because the Department prepared the wrong delegation form. The Department prepared a spending authority delegation form for the relevant employees instead of a payment authority delegation form. The remaining case related to a Medicare payment where no one signed as payment authority. The Department indicated that this was caused by either the signing sheet not being printed or the absence of an employee who would normally sign these documents.

4.25 Five payment authority errors occurred in the Department of Education. In all five cases, the employees exceeded their spending limit. In one case, the employee exceeded her limit by $160,493.

4.26 We concluded that these 19 payments were made without proper payment authority and we are reporting these items as expenditures made without authority as required by Section 13 (2) (d) of the *Auditor General Act*.

Recommendations and responses

4.27 We recommended to the Department of Health that it ensure the correct delegation forms are completed for staff and that proper authority is exercised on documents prior to payment. In its response, the Department of Health indicated that it has corrected the issue with the delegation form which related to one group of employees.

4.28 We recommended to the Department of Education that it review the spending limits delegated to staff and ensure proper payment authority is exercised on documents prior to payment. The Department agreed with our recommendation.

Tendering of goods and services

4.29 In our testing, we found four cases where departments had problems with payments associated with the tendering process. We found three errors in the Department of Education and one error in the Department of Public Safety.

4.30 In Education, we found three cases where the Department did not comply with the *Public Purchasing Act*. The Department did not tender three purchases for services in excess of $10,000 and it did not obtain a tendering exemption from the Department of Supply and Services as required by the Act. In two of these cases, staff indicated that they did receive quotes from other service providers but did not go through the proper tendering process. By not tendering, not only is the Department not complying with legislation, but it may not be obtaining the services at the most economical cost.

4.31 In Public Safety, we found that the Department of Supply and Services issued a purchase order in Canadian dollars but the supplier issued its invoice in US dollars. Public Safety contacted Supply and Services when it discovered the discrepancy and was told to pay the invoice. Supply and Services automatically issues purchase orders in Canadian dollars unless otherwise notified.

Recommendations and responses

4.32 We recommended the Department of Education comply with the *Public Purchasing Act*. The Department agreed with our recommendation and indicated that it will send its staff on a *Public Purchasing Act* seminar.

4.33 We recommended the Department of Public Safety specify the currency when obtaining a purchase order from the Department of Supply and Services.

Sufficient and/or appropriate backup

4.34 In our testing of travel expense claims, we found three cases where departments made payments without sufficient backup to support the payment.

4.35 In the Department of Social Development, we found one case where the kilometers claimed did not agree to the travel description. After discussion with the Department, we determined the kilometers claimed were reasonable; however, the description of the travel needed to be improved.

4.36 In the Department of Education, we had two items where no backup was provided to support the reimbursed expenses. In first case, we found no backup to support a claim of $450 classified as other. In the second case no receipt was provided for a meal that was over the allowable amount.

Recommendations and responses

4.37 We recommended to both departments that they ensure sufficient appropriate backup is provided to support expenses paid to employees. The departments agreed with our recommendations.

Mathematical correctness of back-up

4.38 We found one case in our US payment work where the back-up for a payment was not mathematically correct. This error occurred in the Department of Education. In this case, an invoice totaled US$15,266 but the backup supporting the invoice only added to $13,912. Education staff told us that there had been a mix-up with the payment in 2007 and the staff wanted to clear this problem up so that teachers could receive their material for the school year. The variance of $1,354 is unsupported.

Recommendation and response

4.39 We recommended to the Department that it keep appropriate backup on hand to ensure that payments are supported. The Department agreed with our recommendation and has emphasized with its accounting staff the importance of

having appropriate back-up on hand before making any payments.

Proper account coding

4.40 Proper account coding of expenses is important for budgetary purposes and for comparisons within and across various departments. Also, proper account coding is important to help ensure departments and employees are accountable for monies spent. We found 38 errors relating to this testing criterion.

4.41 In our travel expense work, we found 31 errors in the Department of Education. These errors occurred because the Department coded travel amounts to Other In Province Travel rather than the appropriate travel account, such as kilometers, lodging, meals, etc. We found three errors in the Department of Social Development when the wrong travel code was used on travel claims.

4.42 We found four errors where departments recorded expenses to the wrong type of account (primary). The amounts of these four errors were: $24,920, $10,203, $13,000 and $150. The first three cases related to the Department of Education and the last case related to the Department of Post-Secondary Education, Training and Labour.

Recommendations and responses

4.43 We recommended to the three departments that they ensure the expenses are coded to the proper accounts. All the departments agreed with our recommendations and were going to take action to help prevent further errors from occurring.

Proper cutoff

4.44 When a cut-off error occurs, it means that a department has recorded an invoice in the wrong year. The current 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.

4.45 We found nine cut-off errors in our testing:

- three errors in Public Safety;
- one error in Supply and Services;
- one error in Health;

- one error in Education; and
- three errors in Tourism and Parks.

4.46 Three of the cases above relate to the proper allocation of costs associated with computer licenses/maintenance. These costs covered more than one year and departments should have allocated the costs to the proper years. Two of the errors related to travel and training costs. The services occurred near year end but were not accrued by the departments.

4.47 The error in Health related to a $20,000 advance expensed in 2007-08 when it should have been set up as a prepaid or receivable and expensed in 2008-09. The Department indicated that it has a policy for dealing with advances but in this case the policy was not followed.

4.48 The three remaining errors relate to Tourism and Parks. The Department expensed two invoices which related to 2008-09 in the 2007-2008 year. The third invoice related to 2007-08 but the Department did not receive or pay the invoice until 2008-09. In this case, the Department thought it had paid the invoice and thus had not accrued the amount.

Recommendations and responses

4.49 We recommended to each of the five departments that they ensure expenses are recorded in the proper year. For the most part, departments responded favorably to our recommendations.

Replacement staff for accounts payable entry

4.50 When we reviewed the accounting controls in the Departments of Local Government and Environment, we learned that the departments do not have a backup person to input invoices into the Oracle system. The Departments made arrangements to have an employee from Supply and Services (DSS) perform this function. This DSS employee comes in on her vacation, in the evenings, to input invoices. Best practices for internal control procedures recommend mandatory vacation for employees performing key control functions to reduce the risk of misappropriation of assets or fraud. Also, we believe not having a backup for key procedures puts the departments at risk. Further, although we are not experts in human resources, literature consistently supports the value of an uninterrupted vacation.

Recommendations and responses

4.51 We recommended the departments have a backup person available to input invoices into the Oracle system as this would help ensure that the person who currently inputs invoices into Oracle would have an uninterrupted vacation. The departments agreed with our recommendations but were going to delay implementing the recommendations because the Internal Services Alignment has plans to move the Accounts Payable function to a Shared Services Agency.

HST coding

4.52 Proper coding of expenses to HST/GST accounts is important because the Province recovers the amount of tax paid to suppliers. If departments do not code tax correctly, the Province does not recover all of the taxes it has paid and expenses are overstated by the amount of the taxes.

4.53 In our testing, we found eight cases where the HST/GST was coded incorrectly. Four cases related to travel claims where the Department of Social Development did not properly calculate the HST amount on kilometers claimed.

4.54 In the remaining four cases, four departments did not separately break out the amount of the HST, or in one case GST, on four payments. The loss to the Province was $4,586, $2,100, $1,900 and $665. In two cases, departments subsequently prepared an accounting adjustment to correct the problem.

Recommendations and responses

4.55 We recommended to the departments that they ensure the tax amounts are recorded properly in Oracle. The departments agreed with this recommendation.

4.56 We also made the following recommendation to the Office of the Comptroller who is responsible for maintaining the accounting records of the Province.

4.57 We recommended the Office of the Comptroller address this issue with all departments, to ensure that HST and GST is properly broken out and coded on invoices. Proper due diligence should be taken to ensure that eligible HST/GST is claimed with the federal government.

4.58 The Comptroller provided us with the following response:

I agree it is very important that departmental staff take due diligence in the processing of invoices, including claiming eligible HST/GST from the federal government. My Office will issue a memo on the subject outlining the procedures to be followed with respect to claiming HST/GST on purchases.

Use of discounts

4.59 In the Department of Post-Secondary Education, Training and Labour, we tested an invoice that offered a 10% discount if paid within 15 days. The invoice had been faxed to the Department on the day it was prepared, giving the Department ample time to have the payment processed and sent within the 15 day discount period. The departmental staff indicated that they were not aware that discounts should be taken when available. The loss to the Province exceeded US$7,000. We shared with this Department the 15 June 1988 memo prepared by the Office of the Comptroller which instructs that documents must be processed in time to take advantage of discounts unless early payment would result in lost interest to the Province greater than the discount. We feel that the use of discounts is an important cost savings measure. A new policy should be implemented and departments should be reminded to take advantage of discounts when offered.

Recommendation and response

4.60 We recommended the Office of the Comptroller formalize a policy and inform departments that the use of discounts is acceptable if it saves the Province money.

4.61 The Comptroller provided the following response:

We are in the process of updating the Approval of Payments Administrative Policy. We plan to add a section with respect to taking advantage of discounts from suppliers.

US payments findings

Withholding of tax under Income Tax Act (federal)

Background

4.62 During our testing we noticed several payments made to the Canada Revenue Agency (CRA) out of the U.S. bank account by the Department of Transportation (DOT) for withholding tax. Looking at these items further indicated that they were made due to an agreement between Maine DOT, New Brunswick DOT, and CRA for payments made to a US contractor to do work on the St. Stephen/ Calais bridge. The withholding tax payments, which represent the portion of the fees paid for work done on the Canadian side of the bridge, were made to CRA and appear to be correct.

Withholding requirements

4.63 The existence of withholding tax on these payments prompted us to look further into the need to withhold tax under the *Income Tax Act*. Section 105 of the federal Income Tax Regulations states "every person paying to a non-resident person a fee, commission or other amount in respect of services rendered in Canada, of any nature whatever, shall deduct or withhold 15% of such payment."

4.64 From our research, it does not appear that the Province of New Brunswick is exempt from the 15% withholding tax required under section 105. It appears that tax must be withheld from any payments to non-residents providing services in Canada. There are very few exceptions to this rule.

Remitting requirements

4.65 The remitting requirements for the Regulation 105 withholding tax are outlined under subsection 108(1) of the Regulations (Regulation 108). Regulation 108 requires that the withholding taxes are to be remitted by the 15th of the month following the month in which the amounts were deducted or withheld.

4.66 The only alternative to the requirements of Regulation 108 is for the non-resident to obtain a waiver, or a reduction in the withholding tax. If the payer has not obtained written notification from the CRA, the required withholding tax is mandatory. Failure to deduct or remit an amount under Regulation 105 may result in an assessment of the outstanding amount, plus interest and penalty, pursuant to section 227 of the Act.

Reporting requirements

4.67 All payers must report to the CRA the payments to non-resident persons for services provided in Canada. These payments are to be reported on a T4A-NR slip. This slip is to be completed and issued by the payer(s), regardless of the amount paid or the taxes withheld.

4.68 All T4A-NR slips must be sent to the CRA by the payer together with a T4A-NR Summary, by the last day of February of the year following the year in which the payment was made. The non-resident recipient must be given a copy of this slip by the same date.

Withholding tax testing results

4.69 During our testing we found four payments made by four different departments that we feel should have had tax withheld, as the payments were made to non-residents for services rendered in

Canada. The departments, with the exception of the Department of Transportation, did not realize they were required to withhold tax.

4.70 The approximate amount of tax that should have been withheld is $18,000. The Province may be liable for this amount, plus interest and penalties. As well, there could be numerous other payments that have been made over the years that required tax to be withheld.

4.71 The staff from the Office of the Comptroller and the Department of Finance that we spoke to did not realize that withholding tax was required.

Recommendations and response

4.72 We made the following recommendations to the Office of the Comptroller.

4.73 We recommended the Province determine what their requirements are with respect to withholding, remitting, and reporting of tax to CRA.

4.74 Following the determination of the requirements, we recommended the Office of the Comptroller instruct departments on the proper procedures to follow when making payments to a non-resident of Canada.

4.75 The Comptroller provided the following response:

> *We undertake to determine the requirements under the Income Tax Act with respect to withholding and remitting taxes on payments to non-residents. Once this has been determined, my Office will issue instructions to departments on the proper procedures to follow.*
>
> *We are also planning an enhancement to the Oracle financial system in the future to process foreign exchange transactions for US dollar invoices using Oracle's functionality. We may also look at the possibility of a prompt to consider the withholding tax requirement for non-resident suppliers.*

Other alternatives

4.76 In researching what other provinces do, we learned that in Nova Scotia all payments made in foreign currencies are processed centrally by the Department of Finance. Given that most departments do not process foreign currency payments on a regular basis, having one department control the process might eliminate errors such as:

- improper exchange rate used when posting invoices to Oracle;
- foreign currency gains and losses being incorrectly or not posted; and
- lack of withholding, remitting, and reporting tax.

4.77 We advised the Office of the Comptroller that it might investigate whether mechanisms could be put in place in the Oracle system to prompt accounts payable input users when they enter an invoice for a vendor with an address outside of Canada, to consider whether withholding of tax is required.

Reasonable exchange rate used

4.78 We noted four cases in three departments where exchange rates used by departments did not appear reasonable when compared to the rate provided by the Bank of Canada. This resulted in a -16.64%, 2.53%, -10.35%, and 2.84% variance in the expense account when converted to Canadian dollars. The amounts of these payments were $15,605, $33,069, $12,919, and $19,841.

4.79 Exchange rates used should be consistent with those used by other departments and as suggested by the Office of the Comptroller (OoC) through the Accounts Payable Manual. The OoC suggests that departments go to the Integrated Financial Information System website to access the Foreign Exchange Converter site.

Recommendations and responses

4.80 We recommended to each department that it ensure that the correct exchange rate is used when payments are posted to Oracle. Two of the departments indicated that they do use the exchange rates recommended by the Comptroller as at the date payments are entered. The other department agreed with our recommendation.

Additional documentation

4.81 For the seven of the eight departments we tested, we noted that employees did not indicate on invoices the exchange rate or the date that was used when converting the expense to Canadian dollars. We believe that this would be a good control for the departments and would help those who exercise signing authority.

Recommendations and responses

4.82 We recommended to the seven departments that they indicate the date and the exchange rate used when converting an invoice into Canadian dollars. The departments agreed with our

recommendations and have instructed staff to start recording this information on invoices.

Travel expense payments findings

Complying with the travel policy

4.83 During our audit, we found three cases in two departments where employees claimed more days of incidental expenses than allowed by policy. The travel policy allows for employees to claim incidental expenses of up to five dollars per night of travel status cumulative over the trip period. In the Department of Education, an employee claimed five days of incidental expenses without any corresponding lodging expenses. In the Department of Social Development, two employees claimed four days of incidental expenses instead of three days as allowed by policy. Departments need to enforce the requirements of the travel policy and ensure that ineligible amounts are not paid to employees for incidental expenses.

Recommendations and responses

4.84 We recommended to the departments that they ensure travel expenses follow the requirements of the travel policy. The departments agreed with our recommendations.

Recording year-to-date kilometers

4.85 In the Department of Education, we found fourteen cases where the year-to-date kilometers were not recorded on the travel claims. This is a necessary control as there are different rates used depending on how many year-to-date kilometers have been accumulated. If year-to-date kilometers are not written on the claim, the employee may be overpaid.

Recommendation and response

4.86 We recommended that the Department ensure year-to-date kilometers be filled out on all relevant travel claims to ensure proper payment is made for this travel expense. The Department responded that it will advise the school districts to keep an eye on these types of issues.

Travel in excess of 30,000 kilometers

4.87 In the Department of Social Development, we found one travel claim where the total approved annual kilometers was greater than 30,000 and that the employee used his/her own vehicle. The Vehicle Policy states that "Vehicle Management Agency ... may assign light vehicles under the general rule of travelling more than 30,000 kilometers". Although we do not consider this travel claim to be an error, we believe assigning a vehicle to the employee may provide a cost savings for the Department.

Recommendation and response

4.88 We recommended to the Department that it review travel expense claims that have total approved annual kilometers

greater than 30,000 for employees and see if it would be more cost effective for the Department to have vehicles assigned to these individuals by Vehicle Management Agency. The Department agreed with our recommendation and will be reviewing the necessary travel claims.

NB Families payments

Background

4.89 As part of our audit of expenditures for the Province, we statistically select and test a sample of payments from the NBFamilies system in the Department of Social Development (the Department). We use the results of this testing to help express an opinion on the Province's financial statements.

4.90 In addition to the testing of payments, we also document and test internal controls associated with the NBFamilies system. In this section, we report the results of our testing.

4.91 The Department uses the NBFamilies system to provide payment information to the provincial Oracle system which, in turn, produces a payment. The NBFamilies system processes approximately $251 million of transactions for the child protection and long-term care programs in the Department. The system also tracks information on clients, service providers and adult residential facilities.

4.92 Various internal controls are built into the system to ensure only authorized payment information is transferred to the Oracle system for payment. The NBFamilies system has an electronic interface which enables service providers to electronically input payment information into the system. Various controls are in place to verify the accuracy of this information before a payment is made.

Scope

4.93 Our work covered payments made in both the child protection and long-term care programs. We tested 38 payments processed by various regions throughout the fiscal year 2009. The following chart shows the types of payments tested.

Type of Service Tested	Number of Payments Tested
Adult residential facility (ARF)	15
In-home services	9
Alternative family living arrangements	3
Guardianship	5
Autism intervention	2
Other – post guardian services subsidized adoption child subsidy mental health assessment	4

Summary of results by region

4.94 Our sample covered seven of the eight regions in the Department. Our findings are reported by region and by audit criteria. The following table shows the number of payments tested for each region and the number of reportable items by region.

Region	Number of Payments Tested	Number of Reportable Items
Acadian Peninsula	6	12
Chaleur	2	2
Edmundston	2	3
Fredericton	6	5
Miramichi	3	2
Moncton	9	11
Saint John	10	13
Total	**38**	**48**

4.95 As you can see from the table, we found a significant number of errors in each region. Our statistical sample did not produce any test items from the Restigouche region.

General findings

Filing of client information

4.96 One observation that we found again this year was that client information is not stored in one location. We found that financial assessment information is not stored with client assessments. This often makes obtaining client information difficult for the Department. We recommended to the Department last year that it store client information in one location and the Department agreed with our recommendation. Again this year, we recommended the

Department work towards consolidating client information in one location.

Recommendation

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

Departmental response

4.98 *The Department agrees with the recommendation that complete client information should be stored in a main file that is accessible to pertinent staff.*

Co-operation of Department

4.99 We would like to thank the IT section in the Department for the help it provided to our auditors in carrying out this year's audit. The staff in this section were very quick to answer our requests and this in turn enabled us to complete some of our control testing much quicker.

4.100 We did encounter some difficulty this year obtaining information from the regions. This was caused by client information not stored in one location, lack of knowledge by the Department of where or who has specific information, staff vacations, or slow response to audit requests. As we are required to complete this work for the provincial audit opinion, obtaining this information in a timely manner would be helpful. Next year, we would like to meet with appropriate departmental staff to determine the most efficient way to obtain the required audit evidence.

Summary of test results by criteria

4.101 Our testing criteria covered a variety of areas ranging from proper payment and spending authority to ensuring clients were eligible to receive payments. We based our criteria on our knowledge of the departmental programs and related system controls. Our testing criteria and testing results are summarized in the table below.

Type of Reportable Item/Criteria	Number of Reportable Items
Improper spending authority	1
Improper payment authority	0
Improper program and account coding	0
Improper cutoff	0
Payment does not agree to contract	3
Backup does not support payment	1
Payment is not supported by a requisition	0
Service provider is not eligible to receive payment	1
Client financial documentation not on file or not current	13
Client contribution is incorrect	9
Long-term care assessment not on file or not current	16
ARF inspection and licensing documentation is incomplete	4

4.102 We are pleased to find no errors in the following testing criteria:

- proper payment authority;
- proper program and account coding;
- proper cutoff; and
- payment is supported by a requisition.

Summary of test results by region by criteria

4.103 The following table shows the number of errors by testing criteria and by region.

Criteria	Saint John	Moncton	Fredericton	Miramichi	Acadian Peninsula	Edmundston	Chaleur
Improper spending authority					1		
Payment does not agree to contract	1	1			1		
Backup does not support payment	1						
Service provider is not eligible to receive payment	1						
Client financial documentation not on file or not current	5	1	2	1	3	1	
Client contribution is incorrect	1	2	2		3	1	
Long-term care assessment not on file or not current	4	5	1	1	3	1	1
ARF inspection and licensing documentation is incorrect		2			1		1
Total	**13**	**11**	**5**	**2**	**12**	**3**	**2**

Proper spending authority

4.104 The Province's Approval of Payments policy 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." All payments must have spending authority approval before they are paid.

4.105 Deputy Ministers are charged with the responsibility to delegate spending authority to their staff. They do this by signing a spending authority delegation form which specifies who can approve purchases and what the spending limit is for the approver.

4.106 For NBFamilies payments, employees exercise spending authority electronically. The Department inputs into a system table a list of who can approve payments and the spending limits for each approver. Only users listed in this table can approve payments.

4.107 As part of our audit, we ensured that each payment in our sample had proper spending authority. We did this by agreeing the electronic spending authority with the Deputy Minister approved spending delegation form.

Acadian Peninsula region

4.108 We found one case where a payment did not have proper spending authority. An employee authorized a $5,400.88 payment in NBFamilies but the Deputy Minister approved spending delegation form only had a spending limit of $2,000. The spending limit in NBFamilies for this employee was $50,000.

4.109 We discussed this error with the Department and were told that there is a discrepancy between what is authorized by the Deputy Minister on the spending delegation form and what is input into the NBFamilies system. The Department indicated that it does not have a timely and consistent way to manage the electronic spending authority in NBFamilies with the spending authority delegation process. Regional User Support Analysts (RUSA) in the regions have the ability to change the spending authority limits in the system whenever necessary. Although encouraged, RUSAs are not required by the system or electronic account process to ensure that the Deputy Minister approved the spending authority changes before updating the system.

4.110 We believe the Department should develop and document a standard process for managing changes to spending authority information in NBFamilies. The process should ensure that all spending authority changes are approved by the Deputy Minister.

Recommendation

4.111 We recommended the Department ensure that the electronic spending authority information in NBFamilies agrees with the Deputy Minister approved spending authority delegation forms. Both the employees who can approve transactions in NBFamilies and their corresponding spending limits should agree with the Deputy Minister approved delegation forms.

Departmental response

4.112 *The Department agrees that electronic spending authorities in NBFamilies should agree with the Deputy Minister approved spending authority delegation.*

Recommendation

4.113 We recommended the Department develop and document a process for changing spending authority information in NBFamilies to ensure this information is only changed after it has been approved by the Deputy Minister.

Departmental response

4.114 *The Department is committed to reviewing and improving the current process and some discussions have already taken place with that goal in mind. At the present time there is an issue logged in our* *system as part of this exercise and there will be an on-going effort to respond to the recommendations contained in the report.*

Payment agrees to contract

4.115 Each year, the Department signs contracts with service providers authorizing them to provide services to departmental clients at a specified rate. The contract also sets out terms and conditions that the service providers must meet. As part of our testing, we agreed service provider invoices to the rates in the approved contracts.

Acadian Peninsula region

4.116 During our testing, we found one case where the hourly rate paid to the service provider did not agree to the amount set out in the contract. In this case, the Department paid the service provider $16.45 per hour for a service instead of $18.00 as set out in the contract. For this invoice, the Department underpaid the service provider $49.60. When we discussed this error with the Department, it agreed that it should have used the rate stated in the contract. The Department indicated that it would change the rate in the NBFamilies system and it would ensure that the service provider was paid the correct amount.

Moncton and Saint John regions

4.117 We had two cases where the Department did not provide us with copies of contracts for two service providers, even though we requested this information from the Department on several occasions. For these two cases, we concluded that the Department made payments to service providers who did not have signed contracts with the Department. We had a similar finding in our previous year's audit.

Recommendation

4.118 We recommended the Department only make payments to service providers who have signed contracts with the Department.

Departmental response

4.119 *The Department agrees that payments should only be made to those services providers with whom the Department has signed contracts.*

Recommendation

4.120 We recommended the Department ensure that the rates used to pay service providers agree to the approved contract rates.

Departmental response

4.121 *The Department agrees that the rates used to pay service providers must agree with the approved contract rates.*

Backup supports payment

4.122 The Department offers service providers the option to electronically submit their invoices through a web-based invoicing system. As part of our audit process, we ask the Department to contact service providers and obtain supporting documentation for selected electronic invoices. We review the supporting documentation to ensure it agrees with the amounts paid to service providers.

Saint John region

4.123 We found one instance where the supporting documentation did not agree with the electronic invoice that the service provider had submitted. The supporting documentation totaled 81 hours but the service provider had submitted and was paid 84 hours. This resulted in an overpayment of $40.83 to the service provider. The Department indicated that it would set up an overpayment recovery for this amount.

4.124 While in this case, the dollar amount of the overpayment is not significant, the error rate in our test is significant. In our sample of 38 payments only 10 are paid using electronic invoicing. Finding one error in a sample of 10 items results in a 10% error rate.

4.125 If a service provider electronically submits payment information, the risk of overpayment increases because no one in the Department reviews the accuracy of the supporting documentation before it makes a payment. The Department should have a strategy in place that deters service providers from submitting electronic payment information without having accurate supporting backup. For example, if the Department finds a problem with a service provider, the Department may want to select this service provider for an extensive future audit. Also, the Department may want to prohibit the service provider from submitting electronic payment information. Instead, the service provider would be required to submit its invoices manually.

Electronic payment audit function

4.126 Currently, the Department has a process in place to audit electronic payments. We reviewed this process to ensure that it is working appropriately. The audit process is as follows:

- Quarterly, central office selects a random sample of electronic payments from each region.

- Staff in each region tests the selected items.

- For each sample item, the regional staff must obtain an invoice from the service provider and ensure that the invoice is correct.

- Central office sets up overpayments to recover amounts when the requested invoices do not agree with the amounts paid through NBFamilies.

4.127 We reviewed the testing results of the September 2008 samples for all eight regions. We also contacted individuals in four regions to see if they were performing the audit testing correctly.

4.128 We found some inconsistencies between the regions. In one region, we found that the individual performing the audit testing was very competent and knowledgeable in the audit process. This person had access to NBFamilies which helped when she wanted to review service provider/payment information.

4.129 In another region, the individual performing the audit testing was not very knowledgeable about the audit process. This person seemed uncertain of what was required to adequately test a sample item. When we reviewed the audit testing results for this individual, we noticed that the sample items were checked off with no comments on the sample items. By not putting comments next to the sample items, we have no evidence that the audit testing was actually performed.

4.130 In another region, the individual performing the work was unsure of her role and she questioned how much follow-up she should be doing. This individual did not have access to the NBFamilies system.

4.131 We found one region sent in its testing results almost one year after it received the sample. The individual in this region told us that she finds it difficult to complete her work on time as her region is understaffed. The testing results that were submitted to head office had an in-depth analysis for the completed items, however, not all items were completed.

4.132 From our review, we believe the Department should review the process of auditing electronic payments to ensure that it is meeting its objectives. The Department stated that initially the Office of the Comptroller (OOC) would only approve the electronic invoicing function if the Department used a software package to randomly select invoices for audit. We believe this recommendation was warranted at that time. The Department has tried to follow this recommendation for a number of years, but, in our opinion, it has not effectively implemented the recommendation as regions are not completing the sample testing on a timely basis. The Department should determine whether or not random selection is the best way to audit these payments. One region suggested that the sample be selected based on high risk service providers rather than randomly, as some service providers are more of a problem than others. The Department should consult with the OOC to determine the most efficient and effective way to audit the electronic payments. The Department should provide training to the staff who are completing the work to ensure that all regional staff are knowledgeable about the audit process and that they are performing the testing consistently. Also, the Department should review the audit testing timeframe. Sampled items should be completed on a timely basis so that overpayments are detected promptly.

Recommendation

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

Departmental response

4.134 *The Department currently recovers from service providers when the requested invoices do not agree with the amounts paid through NB Families. The Department agrees to document additional strategies to ensure service providers meet our requirements.*

Recommendation

4.135 We recommended the Department review the process of auditing electronic payments to ensure that it is effective and it is meeting its objective.

Departmental response

4.136 *The Department agrees to review the process of auditing electronic payments.*

Recommendation

4.137 We recommended the Department provide training to all employees who perform the electronic payment audit function to ensure it is performed accurately and consistently across regions.

Departmental response

4.138 *The Department agrees that training should be provided to employees who perform electronic payment audit functions to ensure accuracy and consistency across regions.*

Service provider is eligible to receive payment
Saint John region

4.139 One of the items in our sample was a client classified under Post Guardianship Services. This client receives out-of-Province care because his specialized needs cannot be provided within the Province. The client has received out-of-Province care since 2001.

4.140 This client was last visited by representatives from the Department in 2005. Since that time, the Department has not reviewed the needs of the client nor has it visited the agency to ensure that the client is receiving the required level and quality of service. We also saw no evidence, other than the agency's invoice and a letter from this agency stating general rate increases, to indicate that the client is still receiving care from this service provider. Consequently, we are unable to conclude that the service provider is eligible to receive the payment.

4.141 The cost of care for this client is approximately $14,000 per month. Given the significance of these payments, we believe the Department should have procedures in place to address situations where clients are placed in care outside the Province. These procedures should ensure that the Department receives, on a regular basis:

- information on the clients' health status;
- evidence that the clients exist; and
- reports on the standard of care provided to the clients.

Recommendation

4.142 We recommended the Department develop and document procedures to address situations where clients receive care outside of the Province. The procedures should require the Department to receive regular feedback from service providers on the clients' health and well being and the standard of care that they are receiving.

Departmental response

4.143 *The Child-In-Care provincial program standards, Transfer of a Case to a Jurisdiction Outside New Brunswick, (Section 4.6.4) states that:*

> *When a child-in-care moves to a jurisdiction outside New Brunswick, the social worker must:*
>
> - *telephone the receiving local agency*
> - *send a letter containing the following information, to the receiving province, country or state*
> - *name of child and foster parents*

- *new address*
- *case plan and a summary of services given*
- *send a photocopy of this letter to the Provincial Child in Care, Consultant*
- *photocopies of relevant documents*
- *refer to Interprovincial/Territorial Protocol (see Section 8, Appendix 5)*

4.144 *The **Interprovincial/Territorial Protocol on Children Moving between Provinces/Territories**, provide a framework for consistent, quality services to children and families moving between provinces. The intent is that clients should experience smooth transitions and receive emergency responses with minimal service disruption. This protocol exemplifies the desire of the provinces to cooperate and share responsibility for mutual clients.*

4.145 *According to the Interprovincial/Territorial Protocol, when the guardian province places a child directly in an out-of-province residential treatment facility, the guardian province agrees to notify the Director of Child Welfare, or equivalent person, of the child's placement.*

4.146 *When a young adult past the age of majority who is receiving services by agreement or court order moves to another province, the originating province agrees to forward to the receiving province no less than:*

i. the agreement or court order

ii. social history

iii latest case plan review

iv. any assessments completed within the past two years

v. outline of the required services

4.147 *Therefore, the receiving province agrees to complete and forward to the guardian or originating province:*

i. for a child with guardianship status: regular contact and reviews on the child's progress completed according to the standard in the receiving province or as agreed to with the guardian province at the time of placement; all assessments and follow-up reports.

ii. for a young adult past the age of majority receiving services by agreement: contact and reports, as negotiated between the originating and receiving provinces.

4.148 *As for the Financial Arrangements, it is agreed that the guardian province pay for any needed placement in a treatment institution or a group home, unless otherwise negotiated between the provinces.*

Financial documentation and client contribution correct

4.149 Clients are required to contribute to the services they receive through NBFamilies if their income is above a certain amount. There are two financial documents that must be completed to determine the amount of the client contribution – a financial declaration form and a financial contribution form. The financial declaration form is completed by the client and it records the client's income. Using this information, the Department completes a financial contribution form which uses a pre-determined formula to calculate the amount of the client contribution.

4.150 One of our audit criteria was to ensure that the financial documents were up-to-date and on file for each client. We also verified that the amount of client contribution was calculated correctly. The Department's policy requires it to complete client financial reassessments every two years. If a client is receiving social assistance, this reassessment is not required.

4.151 Of the 38 payments tested, we found 13 financial documentation errors and 9 client contribution errors. The errors can be broken down as follows:

- 7 - financial documentation was not provided resulting in 4 client contribution errors,
- 6 - financial documentation was out-of-date resulting in 3 client contribution errors, and
- 2 - client contributions were not correct because out-of-date OAS/GIS rates were used to calculate the amount of the client contribution.

Saint John region

4.152 We found five financial documentation errors and one client contribution error in the ten payments we tested from this region. In four cases, the Department did not provide us with any financial documentation for the four clients. All four of these clients were not making a client contribution. Three of these clients were under 65 years of age and most likely were not required to make a client contribution. The fourth client, however, was over 65 so he/she would have been receiving Old Age Security and thus should have been making a client contribution.

4.153 In the fifth case, the financial documentation was out of date – it was dated December 1999. We believe, however, that it is unlikely that this client should have been making a client contribution because the client was under the age of 65.

Acadian Peninsula region

4.154 In the six payments we tested in this region, we found three financial documentation errors and three client contribution errors.

4.155 In the first case, the Department did not provide us with any financial documentation for the client. A client contribution of $519.96 was set up in the system, however, we had no way to determine if the amount of the contribution was correct.

4.156 In two cases, the Department provided us with financial documentation that was out-of-date. The financial documents for both clients were from around 2004. In one case, the client was making a client contribution of $1,169.47. We did find some more recent financial information recorded in NBFamilies, however, the Department advised us that it was unable to locate the original financial documentation. Therefore, we were unable to verify that the amount of the client contribution was correct. In the second case, the client was under 65 years of age and most likely would not have been required to make a client contribution.

4.157 In the last case, the client contribution was not correct. The client contribution was based on 2007 rates for Old Age Security and Guaranteed Income Supplement. At the time of payment, the client contribution was $67.99. The client contribution should have been $74.82 resulting in an overpayment of $6.83 per month. When discussed with the Department, it agreed to set up an overpayment recovery for this amount.

Fredericton region

4.158 We found two financial documentation errors and two client contribution errors in the six payments tested in this region. In one case, the Department did not provide us with any financial documentation to support a client contribution of $98.30. We were unable to verify that the amount of the client contribution was correct.

4.159 In the second case, the Department provided us with financial documentation that was out of date and the amount of the client contribution was not correct. The financial documentation was from February 2004 and the client contribution was based on the 2004 rates for Old Age Security. The client contribution at the time of payment was $90.64 and should have been $116.88. This resulted in an overpayment of $26.24 per month. When we discussed this error with the Department, it agreed with the error and indicated that an overpayment recovery would be set up for this client.

Edmundston region

4.160 We found one financial documentation error and one client contribution error in the two payments tested for this region. The Department did not provide us with any financial documentation to support a client contribution of $71.29. We were unable to verify that the amount of the client contribution was correct.

Miramichi region

4.161 We found one financial documentation error in the three payments tested in the Miramichi region. The Department provided us with outdated financial documentation from March 2003. The Department had not updated the client's financial documentation as required by departmental policy. This client was under 65 years of age and most likely would not have been required to make a client contribution.

Moncton region

4.162 We found one financial documentation error and two client contribution errors in the nine payments we tested for this region. For the first item, the financial documentation was out of date and the amount of the client contribution was incorrect. The financial documentation was from September 2003 and the amount of the client contribution was $15.16. The client contribution should have been $102.05 resulting in an overpayment of $86.89 per month for this client. The Department plans to revise the client contribution to reflect the new amount.

4.163 In the second case, the client contribution was based on Old Age Security and Guaranteed Income Supplement rates from 2007. Using the current rates, the amount of the client contribution should have been increased by $25.03 per month.

4.164 In both of these cases, the Department has agreed to set up overpayment recoveries for these amounts.

Recommendation

4.165 We recommended the Department complete financial reassessments within a two year time frame for clients not on social assistance as required by policy.

Departmental response

4.166 *The Department will reinforce the requirement for financial reassessments to be conducted at least every two years as per policy.*

Recommendation

4.167 We recommended the Department implement a procedure whereby client files are automatically updated with rate increases for Old Age Security and Guaranteed Income Supplement where applicable.

Departmental response

4.168 *The Department is currently working on a process to automatically update client incomes with rate increases for Old Age Security and Guaranteed Income Supplement where applicable.*

Recommendation

4.169 We recommended the Department ensure client contributions are properly calculated.

Departmental response

4.170 *The Department agrees that client contributions should be properly calculated.*

Long-term assessments

4.171 In the 38 payments we tested, we found 16 clients had either a long-term care assessment that was out of date or had not received an annual case review. For two clients, the Department did not provide us with copies of the clients' long-term care assessments. We observed similar results in our previous year's audit. Departmental guidelines suggest that an annual case review be conducted on clients in an adult residential facility or at home. Regular case reviews and client contact helps ensure clients continue to receive an appropriate level of care to meet their needs.

Region	Long-term assessment out of date No client review	Long-term assessment not provided
Acadian Peninsula	3	
Chaleur	1	
Edmundston	1	
Fredericton	1	
Miramichi	1	
Moncton	5	
Saint John	2	2

Recommendation

4.172 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 by the Department.

Departmental response

4.173 *The Department will reinforce the recommendation for annual client reviews and will work with NBFamilies to ensure the reviews are documented in the electronic system.*

Adult residential facility inspection and licensing documentation

4.174 The Department is required to inspect all Adult Residential Facilities (ARF) before issuing a license to the facility. This license is called a Certificate of Approval. The Department's standards require a complete annual inspection at least 60 days prior to the expiry date of this certificate. This 60 day time period gives the ARFs time to fix any non-compliance issues before their certificate expires. If an ARF has non-compliance issues and its certificate is going to expire, the Department can issue a temporary license for a period of six months. This time period allows the ARF to fix the non-compliance issues and the Department to revisit the ARF to ensure all significant non-compliance issues are fixed before the Department issues a renewal certificate of approval.

4.175 As part of our audit process, we ensure that ARFs are inspected and licensed as required by Departmental policy. We reviewed all licensing and inspection documentation provided for the 15 payments in our sample that related to ARFs. We found four reportable items which are discussed below.

Chaleur region

4.176 We found one case in this region where the Department did not provide any evidence that departmental inspectors had performed a full inspection of an ARF before issuing a Certificate of Approval. Departmental standards require inspectors to complete a standard inspection form as evidence that an inspection was completed prior to issuing a Certificate of Approval. The Department provided us with a document called Report of Visit but the new standard inspection form was not used.

Acadian Peninsula region

4.177 We found one case in this region where the Department inspected the ARF in the same month the Certificate of Approval expired instead of in the 60-day period prior to expiry. The Department issued a Certificate of Approval renewal to the ARF even though it was not in compliance with a significant item - proof of insurance. The inspector should have issued a temporary certificate in this circumstance and returned to see that the ARF had obtained adequate insurance.

Moncton region

4.178 We did not receive any licensing documentation, Certificate of Approval or inspection information for one of the five payments we tested in this region. We were unable to determine whether this information was misplaced by the Department or if the ARF had not completed required documentation.

4.179 We also found one case in this region where the Department did not provide any evidence that departmental inspectors had performed a full inspection of an ARF before issuing a Certificate of Approval. The Department did not provide us with a copy of the standard inspection form even though we requested this information on numerous occasions.

Recommendation

4.180 We recommended the Department complete the standard inspection form prior to issuing a Certificate of Approval to an ARF.

Departmental response

4.181 *The Department agrees that the standard inspection form should be completed prior to the issuing of a Certificate of Approval to an ARF.*

Recommendation

4.182 We recommended the Department ensure that all ARF inspections are performed at least 60 days prior to the expiry of the Certificate of Approval.

Departmental response

4.183 *The Department agrees with the recommendation that all ARF inspections should be performed at least 60 days prior to the expiry of the Certificate of Approval as per Department standards.*

Recommendation

4.184 We recommended complete licensing information be kept on each ARF as required by the Department standards.

Departmental response

4.185 *The Department agrees that complete licensing information should be kept on each ARF as per Department standards*.

Chapter 5
Matters Arising from Our Tests of Controls

Contents

Matters Arising from Our Tests of Controls

Scope

5.1 Auditing standards require us to document and test internal controls in all major systems in government. We classify a major system as any system that processes transactions in excess of $100 million. For most of these systems, we also perform transaction testing. Transaction testing involves selecting a sample of individual transactions and performing detailed testing using a predetermined set of criteria.

5.2 The following table lists the information systems we document and test, the departments which operate the systems and the type of findings for each system.

Information System	Operated by	Type of Findings
Provincial Payment System (Oracle)	Office of the Comptroller	Tests of Controls and Transaction Testing
Social Assistance Payment System (NBCase)	Department of Social Development	Tests of Controls
Long-term Care Payment System (NBFamilies)	Department of Social Development	Transaction Testing
Government Payroll System (HRIS)	Office of Human Resources	Tests of Controls
Medicare System	Department of Health	Nothing to report
Property Tax System	Department of Finance	Tests of Controls

5.3 In this chapter, we report the results of our system control testing. In chapter 4, we report the results of our transaction testing.

Provincial payment system (Oracle)

Background

System significance

5.4 The Oracle application system is the most significant system operated by the Province. The application is made up of a number of Oracle modules, such as Accounts Payable, General Ledger, Accounts Receivable, Cash Management and Treasury. Combined, these modules process billions of dollars for the Province and their data is used to produce the financial statements of the Province.

External vendor contract

5.5 Each year, we have reviewed the controls associated with this complex system and have made recommendations where the Office of the Comptroller (OOC) should improve controls. This year, for a number of reasons, we contracted with an accounting firm that specializes in Oracle control reviews, to conduct a system control review on various modules of the Oracle application. Part of the contract stipulated that our staff would work with the auditors to gain experience and training.

Why contract services

5.6 We outsourced the system control review for the following reasons:

- The Province implemented two new Oracle modules – Treasury and Cash Management in June 2008. Our auditors have limited experience with these applications and we do not have resources to staff an audit of this size.

- Contracting with an accounting firm experienced in auditing Oracle modules provides a valuable training opportunity for our staff.

- The work of the contractors would supplement the control work we have done in the past. We have not had the resources or the expertise to document and evaluate complex application controls. If the controls are operating effectively, we should be able to increase our reliance on controls and reduce the time needed for transaction testing in future audits.

Scope

5.7 Our audit focused on the design, implementation and effectiveness of the general computer controls for the Oracle application and the application controls for the General Ledger, Accounts Payable, Treasury and Cash Management modules.

5.8 During our audit, we evaluated both automated and manual controls associated with these modules.

Results in brief

5.9 During the course of the audit, the external auditors identified twelve issues and made twelve recommendations on areas where the OOC should improve controls. Some of the key findings are outlined below.

- The external auditors noted that for a first time control audit, they typically find many more issues than they identified during this audit.
- The external auditors found that the change management controls were operating effectively during the period of testing. Having an effectively operating change management process significantly reduces the amount of audit testing needed to form our audit opinion.
- We noted that four of the recommendations related to user access. We made recommendations for improving the system access process for granting, transferring, terminating and monitoring system access.
- Two of the recommendations related to segregation of duties at the user responsibility level.
- We noted that five of the twelve recommendations related to segregation of duties at the IT support level. This is a result of the OOC having a small Information Technology group supporting the Oracle application.

Changes to users' access

5.10 Four of the twelve recommendations related to changing users' access. We observed the following:

- The OOC does not conduct a periodic review of who has access to the Oracle application and database. Without a periodic access review, the risk of unauthorized access to the Oracle database and various modules may go undetected.
- The OOC does not have a formal process in place to help ensure application access for transferred users (departmental transfers) remains applicable. Without a process in place to ensure access for users transferred between departments is appropriate, the risk of unauthorized access to the Oracle database and the application increases.

- The OOC has a formal process for granting access to users of the Oracle application. In our testing we found three cases where the OOC did not follow this process. Two of the users were members of the IT support team. The risk of unauthorized access to the application and the database increases without appropriate user access requests and approvals.

- During our testing of terminated users' access, we found three users whose Oracle access was not terminated even though these employees were no longer employed by the Province. These three employees no longer had access at the network level so they would be unlikely to have access to the application.

Recommendations and responses

5.11 We made four recommendations to the OOC to address the observations noted above. Two of our key recommendations along with the OOC response are as follows:

- **We recommended management schedule and implement a formal periodic user review, performed at least annually, as a means to validate the on-going appropriateness of all users' access within the database and the application.**

- **We recommended the Province implement a formal process to ensure user access is updated on a timely basis upon transfers within and between departments.**

5.12 The OOC made the following response:

> *A full listing of users and responsibilities will be presented to departments annually for review and sign off.*

Segregation of duties at the user level

5.13 Two of the twelve recommendations related to segregation of duties at the user level. One issue resulted from some users having "super user" accounts in the production environment. Having super user access enables users to make configuration changes to the Oracle modules directly in production. This increases the risk of unauthorized changes to the Oracle application.

5.14 The second issue was that the OOC had unintentionally assigned three users with conflicting responsibilities. Having access to these conflicting functions/responsibilities increases the risk of unauthorized transactions and payments within the Oracle application to either fictitious or unauthorized vendors.

Recommendations and responses

5.15 We recommended users only be provided with access to responsibilities needed to perform their daily jobs. We recommended users only be assigned access to process configuration changes in production on a temporary basis, as part of the formal change management process. The granting of this access should be approved, logged and formally monitored as part of the change management process.

5.16 We recommended the OOC review the responsibilities in conflict to ensure that conflicting functions are either removed or that sufficient monitoring controls are identified and/or implemented to mitigate the risk.

5.17 The OOC issued the following responses:

These responsibilities are assigned in order to provide user support for the various modules. We will create a report that runs weekly and is sent to the DISO and Director of Accounting Services that lists all users with access to a responsibility that includes the words "Super User".

We have end dated the non-compatible responsibilities in the specific situations identified. In addition, auditing will be turned on at the table level to track all changes to supplier name and bank accounts. Report(s) will be developed for management to review the audited data.

Segregation of duties of IT support group

5.18 Five of the twelve recommendations resulted from the Office of the Comptroller having a small information technology group managing the Oracle application. Ensuring proper segregation of incompatible functions is challenging when an organization is restricted by the number of resources available. Some examples of the types of issues encountered by the auditors are as follows:

- The IT group members were sharing generic accounts in production and they had functional user access to various Oracle production modules for troubleshooting. Sharing generic accounts reduces accountability as the OOC would not be able to identify who performed transactions. Providing IT support users with functional access results in segregation of duties issues which increases the risk of data errors in the application and database.

- Some powerful system accounts were being used by two database administrators without being monitored. Using these accounts without monitoring may result in the unauthorized changes of database objects.

- Logging of key database functions was not enabled. By not logging key functions the risk increases that support users can make changes in production without an appropriate audit trail.

- Two database administrators had access to the operating system root account without any monitoring of the activity. By not monitoring the root account, unauthorized changes can go undetected.

5.19 Seven users had both system administrator privileges and also had access to perform Oracle security administration. Providing users with access to both system and security administration privileges increases the risk that changes are made outside of the established security change management process and increases the risk of unauthorized account creation, unauthorized access, and/or unauthorized transactions within the application and database.

5.20 While the issues noted above are not unusual in small IT groups, we made five recommendations to improve controls and to reduce the risks identified above. The OOC response to the recommendations was favorable. In its detailed response, the OOC identified the new control procedures that it will implement to reduce the risks that we identified.

Social assistance payment system (NBCase)

5.21 The purpose of this section is to discuss the findings and recommendations from our audit of the NBCase system controls in the Department of Social Development for the year ended 31 March 2009. We made recommendations in the following areas:

- Disabling NBCase Users' Access
- NBCase System Error
- Completing Client Case Reviews

Disabling NBCase users' access

5.22 In our testing, we found 31 NBCase user accounts had not been disabled after 90 days of inactivity as required by the government's password standards for user accounts. Regional User Support Analysts (RUSA), who are responsible for requesting access be disabled, did not submit access termination forms when required.

Not disabling user accounts in a timely manner increases the risk of unauthorized access to information.

Results of testing

5.23 The following table shows the length of account inactivity and the number of users who have not accessed the system in that time period.

Length of Account Inactivity	Number of Users
1 - 5 years	12
7 - 11 months	8
3 - 6 months	11
Total	**31**

5.24 The Department indicated that not disabling user accounts was not a significant risk as users need a network account to access the NBCase system.

Network access testing

5.25 We reviewed the 31 NBCase user accounts that were not disabled to ensure that these users' network accounts had been disabled thus preventing access to the NBCase system. We found that 17 of the 31 users still had an active network account and thus still had access to the NBCase system.

5.26 Relying on network account disabling as a means of controlling access to an application is not an effective control as employees whose job functions change, but still remain in the Department, could still access the application. The Department should develop and implement a process to ensure access to applications is disabled when the access is no longer required by users.

Recommendation

5.27 We recommended the Department develop and implement a process to ensure that access to NBCase is disabled when access is no longer required by the users.

Departmental response

5.28 *The Department will evaluate the current process for disabling access to the network and NBCase system, and address the inefficiencies to ensure that the disabling of employee accounts occurs in a timely fashion. An additional layer of access for users of specific applications such as NBCase and NBFamilies will be added to our current structure. A monthly report of users who have not accessed NBCase in 90 days will be produced and monitored by NBCase Business Support. The Department also has a supervisor's* *checklist to be completed for employees who terminate or transfer within the Department. Included is the deletion of the employee's user IDs.*

NBCase system error

5.29 During our testing, we found that the NBCase system made an ineligible payment to a client. This error occurred when a case manager approved a five-year-old document in the system, thus triggering the ineligible payment. As this ineligible payment occurred because of a system error, it is possible that the system made similar payments to other clients.

5.30 We discussed this issue with departmental staff and they confirmed that this was an NBCase system error. Staff have set up an overpayment of $1,326, the amount of the ineligible payment. They were also going to request that the system be modified to prevent future ineligible payments of this nature from occurring.

Recommendation

5.31 We recommended the Department review past payments to identify cases where ineligible payments were made to clients. The Department should set up overpayments for any ineligible payments that it identifies.

5.32 We recommended the Department modify the system to prevent future ineligible payments of this nature from occurring.

Departmental response

5.33 *The Department is currently undertaking a review of closed and active cases where retroactive payments were made. In this unusual set of circumstances caused by user action, overpayments will be set up – if applicable. The NBCase system will be modified to redirect retroactive payments to the local office for validation before releasing to the client.*

Completing client case reviews

5.34 During our audit, we determined that client case reviews for the 2008 fiscal year were not completed because the Department decided not to hire summer students. The Department typically hires summer students to complete client case reviews. These client reviews are required by departmental policy and often result in financial savings to the Department. Not completing client case reviews increases the risk of ineligible social assistance payments.

5.35 In 2007, summer students recommended financial changes in 89 of the client reviews performed. Also, they referred 100 cases to regional investigators for further investigation which could have resulted in further cost savings to the Department.

Overdue client reviews

5.36 The following table shows the number of outstanding client case reviews.

	Client Cases		
Year Case Review Required	**2008 Overdue Reviews**	**2007 Overdue Reviews**	**2006 Overdue Reviews**
2002	0	0	6
2003	0	0	2
2004	0	0	18
2005	0	3	88
2006	0	7	669
2007	0	457	NA
2008	4 814	NA	NA
Total Overdue	**4 814**	**467**	**783**
Total Number of Clients	**22 570**	**23 586**	**24 224**
Percentage of Clients with Overdue Case Reviews	**21,3%**	**2,0%**	**3,2%**

5.37 The Department has improved in completing outstanding client case reviews from the prior years.

5.38 For the 2008 year, 21.3% of client cases had overdue case reviews. This is a direct result from the decision not to hire summer students in 2008 and could result in undetected overpayments to clients.

Recommendation

5.39 We recommended the Department complete case reviews for social assistance clients on time as required by policy.

Departmental response

5.40 *The Department has considered the effects of not employing summer students in 2008 to carry out case reviews. It has been decided to hire twenty-three students for the summer of 2009 to complete the outstanding overdue case reviews and then to address a significant portion of those due this year. It is expected to take more than one year to fully address the backlog that has accumulated.*

Government payroll system (HRIS)

Scope

5.41 As part of our audit of the Province's expenditures, we perform testing on the government's payroll system (HRIS). Our testing has two parts:

- We document and test controls at the Office of Human Resources (OHR) – Human Resource Information Services Branch (the branch). This branch is responsible for the operation of the HRIS and provides central control procedures for the government's civil service and casual payroll.

- We document and test controls at two or three government departments. We also select and test a sample of payroll transactions for these departments. Each year, we select different departments to ensure we visit all departments on a rotational basis. This year we selected the Department of Environment, the Department of Local Government and the Department of Public Safety.

5.42 Excluded from our testing is payroll for the Province's teachers. The teachers are paid from a different system which is operated by the Department of Education. We rely on the work of the Office of the Comptroller (OOC) for these payments. The OOC conducts detailed testing on school districts' payroll expenses and we review this testing as evidence to support our audit opinion.

Findings

5.43 In our work, we found issues relating to departmental payroll staffs' knowledge of HRIS and its reports. We communicated our findings to the department, as well as to OHR. We discuss our detailed findings below.

HRIS training

5.44 From our work in departments, we believe that departmental payroll officers are not adequately trained on how to use the HRIS. Inadequate training of departmental users increases the risk of departmental payroll officers incorrectly using HRIS and its reports which may result in payroll errors.

5.45 We found three errors which we believe were caused by inadequate training of some payroll staff. When we discussed the errors with staff and management they indicated they needed more guidance on how to review standard HRIS reports.

5.46 We also found in one department, as a result of high turnover, a payroll officer was assigned new tasks that she was not trained to do. The department provided some limited training, but this training was not sufficient for the payroll officer to competently carry out the new duties.

5.47 From our work in the past, we have noticed that high turnover is a common problem in many departments. This has led to a shortage of experienced and properly trained payroll staff.

5.48 Currently, no centralized training program for HRIS users exists; departments are responsible for training their own payroll staff. We believe departments are struggling with how to effectively train payroll staff, as HRIS is a unique and complex system and they lack experienced payroll staff to provide this training.

5.49 We discussed training alternatives with OHR management at the branch. We were told that the branch offers several services to assist payroll officers in their use of the system and it encourages departments to participate in the Pension Benefits User Group meetings and to enroll their payroll officers in courses offered by The Canadian Payroll Association (CPA). We found from our discussions with several departments that they were not aware of some of the services and the CPA courses.

5.50 We believe that since OHR is the system owner of the HRIS, it has a responsibility to ensure its system users are adequately trained. We believe that the branch should periodically inform departments of the support services that it offers and it should provide these services when requested. If the branch does not have the necessary resources to provide these support services, then it should investigate alternative training methods that may be more cost effective, such as webinars or on-line training.

Recommendation

5.51 We recommended OHR provide effective support and training to HRIS users. The types of support and training should be communicated to all departments. These services should be available to departments when needed.

OHR Response

5.52 [We] *agree with your findings. The lack of a comprehensive corporate HRIS training program is an issue we have recognized and struggled with for some time. The demise of corporate training is rooted in successive years of budget restraint that led to an overall HRI Services staff reduction of over 30%, and with it, a loss of expertise in many areas including program and office management, specialized technical/programming, business analysis, and in particular user training skill sets. Since 2002 the unit that once developed and delivered HRIS training was reduced by 75%.*

5.53 *We have pursued creative solutions with varying degrees of success including an attempt in 2007 to partner with departments to reestablish a corporate training program, and more recently an arrangement with the Department of Finance to have one of their resources administer the Federal Record of Employment application on our behalf, to support this new and more efficient way for departments to manage the program.*

5.54 *As you have acknowledged, HRIS is unique, meaning any training solution requires internal resources for the development, maintenance, and in most cases the delivery. Considering our constraints we are not positioned to redevelop a centralized training program, however we continue to pursue various alternatives, including:*

- *An update of a self training guide is included on the HRI Services work plan for 2009-10.We have recently used this guide as a training tool for our own staff and recognize its potential for broader use.*

- *Considering certain errors uncovered during the audit appear to be basic payroll knowledge issues, programs offered by the Canadian Payroll Association appear to be relevant. To further promote and communicate this type of training, we will add these programs to the OHR corporate training calendar.*

- *We are nearing the completion of a payroll standardization project. This initiative focused on Policy and Collective Agreement provisions where the payroll implementation rules were not clear. Work was completed in conjunction with the Pay and Benefits User Group Committee and HR Directors to gather information on current practices, inconsistencies, and recommendations. A communication will be prepared outlining procedures and promoting consistency.*

- *The payroll function will transfer to a new shared service agency on April 1, 2010. We have agreed to the secondment of the Director of HRIS to the ISA initiative as a project lead for the transition of the payroll and benefits service to the shared services delivery model. A recent focus group session identified process improvement, standardization, and investment in employee training as critical success factors in this transfer and* [the Director of HRIS] *will focus efforts on seeing that these* *requirements are accounted for in the ISA project plan for payroll.*

- *We remain committed to working with HR Directors and the Pay and Benefits User Group and will put a renewed effort into promoting information sharing, identifying areas of weakness, and effectively working with the group to facilitate learning and sharing best practices.*

- *As recommended, we will also communicate your audit findings to departments and remind them of our help desk, on line HRIS documentation, and one on one support services offered.*

New exception reports

5.55 Branch exception reports should identify employees who do not have pension deductions set up when required.

5.56 We found one error where a department incorrectly set up a new employee in HRIS. The departmental payroll officer used an incorrect commencement code which resulted in the system not deducting pension for the employee. The employee must now pay the pension contribution that should have been deducted by the system. Had this error not been detected, the employee could have experienced difficulties receiving her pension benefits upon retirement.

5.57 The HRIS branch staff believe this error should have been detected by the department if the payroll officer had been verifying the accuracy of the data input. Also, branch staff indicated that the system would have issued an attention message to the payroll officer advising her of the commencement code conflict. The payroll officer would have had to ignore this message.

5.58 From our work at the HRIS branch, we know that the branch staff generate and review a number of exception reports to identify potential data errors, however, cases where pension deductions are missing are not included in these reports. We believe the HRIS branch should develop a new exception report to identify cases where pension deductions are not set up for employees when circumstances indicate that they should be. We discussed this with HRIS branch and they agreed that this was possible.

Recommendation

5.59 We recommended the branch generate and monitor an exception report to identify employees who do not have pension deductions set up when required.

OHR Response

5.60 *It is* [our] *understanding that system processes are in place to automatically set up the pension deduction based on specific eligibility criteria, along with attention messaging for conflicts and an automatic navigation feature that takes system users to a summary of deductions to support a quality assurance review. Considering the safeguards, this situation appears to be isolated, and of low risk of recurrence.* [We] *do agree with the significance of the outcome however, and acknowledge that current discrepancy reporting does not cover this case. The HRI Services division will investigate the creation of a new exception report.*

Property tax system

5.61 We had two issues in our audit of the Property Tax System (PATS) – Improving Audit Efficiency and Preparing an Accounts Receivable Listing. We communicated these issues to the Department of Finance and we discuss them in the paragraphs that follow.

Improving audit efficiency

5.62 During our audit we noted three ways we could improve audit efficiency. Making these improvements would reduce the time needed by both our auditors and departmental staff.

Information should be provided in a timely manner

5.63 During the audit, we did not always receive the information we requested in a timely manner. For example, we requested one report on February 27th but we did not receive it until June. Delays of this nature are unnecessary and greatly increase the time needed to complete assignments.

Departmental staff should be available during the audit

5.64 During the year-end audit, two key staff members were often unavailable for various reasons such as meetings, vacation and illness. Even though we tried to mitigate the risk of staff being on vacation by setting the audit date in advance and verifying that staff members would be available, we still experienced delays because of staff vacations. The audit time would be reduced if one key staff member was available for a short period of time each day for questions.

Reconciliations should be completed by departmental staff prior to our audit

5.65 A step in our audit process is to complete specific reconciliations for both revenue and receivables. Completing these reconciliations during the audit is time consuming for both departmental staff and our auditors. We would all save time if departmental staff completed these reconciliations prior to the start of the year-end audit.

5.66 As our audit work becomes more complex due to changes in accounting and auditing standards and as our staff resources are reduced due to budget cuts, it is essential that our auditors and departmental staff work together to find ways to reduce the time needed to complete the audit.

Recommendation

5.67 We recommended the Department provide all requested information in a timely manner.

Departmental response

5.68 *The department agrees that existing reports should be provided in a timely manner during the audit. Although the example identified was accurate, we feel this particular report delay was the exception to our normal practice. This was not a Department of Finance report and, therefore, had to be requested. However, we concur that the non-receipt of the report should have been escalated sooner than it was. To the extent possible in future, should your auditors identify any necessary reports in advance of the audit, this will also assist in minimizing delays.*

Recommendation

5.69 We recommended the Department have key staff available to us during the audit to help ensure the timely completion of the audit.

Departmental response

5.70 *The department accepts that the availability of key staff is necessary to achieve a timely completion of audits. The Account Management Unit has a very heavy workload demand; nevertheless, best efforts will be made to have required staff more readily available in future. Both the Office of the Auditor General and the Department of Finance should strive to ensure that the annual audit is completed prior to the onset of the traditional vacation season.*

Recommendation

5.71 We recommended the Department complete revenue and receivable reconciliations prior to the start of the year-end audit.

Departmental response

5.72 *The department prepares its annual financial statements within the deadlines set by the Office of the Comptroller. This process requires that reconciliations of revenue and receivable accounts be completed. We believe this recommendation relates to the completion of reconciliation spreadsheets that have been specifically designed by the auditors as a form of verification tool to ensure the accuracy of the financial statements. These spreadsheets were utilized in the most recent audit and can be completed, upon request, in addition to the department's reconciliations prior to the commencement of next year's audit.*

Accounts receivable listing

5.73 Finance does not have a detailed listing of its accounts receivable as of 31 March. Departmental staff indicated that this is because the receivable listings are pre-programmed to download from the property tax system on specific dates, i.e. the first Friday of the month after a full week. This year the download was run on April 10th in relation to the 31 March balance.

5.74 Many adjustments go through the property tax system each day, including receipt of payments and changes in assessments. Therefore in order to ensure the balance reported in the 31 March financial statements is complete and accurate, we must reconcile the April 10th download to the figure reported in the financial statements. Completing this reconciliation is very time consuming because many changes take place within this ten-day time span.

5.75 We believe Finance should provide us with an accounts receivable listing as at 31 March. If this is not possible, then Finance should reconcile the downloaded receivables listing to the receivable balance reported in the financial statements. Finance should provide us with this reconciliation as part of the year-end audit package.

Recommendation

5.76 We recommended the Department provide our Office with an accounts receivable listing as at 31 March. If this is not possible, then the Department should reconcile the accounts receivable balance in the financial statements to the latest download of accounts receivable from the Property Tax System before our year-end audit begins.

Departmental response

5.77 *Although the department receives summary receivable reports as at March 31 and detailed receivable reports shortly thereafter, the department is able to produce a March 31 detailed receivable report and this report will be provided to the Office of the Auditor General as at 31 March 2010.*

Property tax system – follow up

Background

5.78 In this section, we discuss the status of the recommendations we made in our 2007 Report, Volume 1, Chapter 4. In the 2007 chapter, we presented findings and made 17 recommendations on the property tax system (PATS) and the Account Management section in the Department of Finance (the Department).

Summary of results

5.79 The following exhibit shows the status of our 2007 recommendations.

Number of Recommendations	Implemented	Partially Implemented	Not Implemented
17	5	9	3

Detailed results

Implemented recommendations

5.80 We are pleased to see that the Department has implemented the following five recommendations.

- Two individuals (who are independent from the person inputting tax rates) are verifying the accuracy of the tax rates.
- The Department is reconciling the cash suspense accounts monthly and someone is reviewing the reconciliations to ensure they are completed properly and in a timely manner.
- The Province is showing the balance of the municipal property tax receivable in the year end receivable balance.
- The Department has removed accounts receivable owed by other departments from its year-end receivable balance.

Partially implemented recommendations

5.81 The Department has partially implemented nine of our 2007 recommendations. Exhibit 5.1 lists the recommendations and the Department's progress in implementing the recommendations.

Exhibit 5.1 Partially implemented recommendations

Recommendation	Department's Progress in Implementing the Recommendations
We recommended the Department continue to develop and document a succession plan to address human resource needs for the Account Management section.	The Department identified succession planning as a key priority and is using a phased-in approach to implement the plan. It plans to complete the first phase in 2009-2010 fiscal. In this phase, the Department will develop position profiles which will include key positions within the Account Management section.
We recommended the Department disable user accounts immediately if employees change job functions and after 90 days of inactivity.	From our testing in the current year, we found cases where employees changed job functions but their PATS user accounts were not disabled. We determined that the system locks user accounts after 90 days of inactivity.
We recommended the Department update and complete its business continuity plans which will help ensure the needs of the government are met in the event of a disaster or disruption of service. This would include completing the IT section of the plan. We recommended the business continuity plan incorporate, if feasible, a tested information technology recovery plan for the PAT system. We recommended the business continuity plan be reviewed and updated periodically to ensure it reflects changes in infrastructure and the organization.	Work is proceeding on the documentation of all business processes and updating of business continuity plans, including the property tax system. This work will continue throughout the 2009-2010 fiscal year and the Department anticipates that the property tax system documentation will be among the first completed. Active discussions are ongoing between departmental representatives and the Department of Supply and Services relative to developing business continuity plans for PATS. Once the business continuity plans for PATS are finalized, it will be periodically reviewed.
We recommended the Department complete its documentation of year-end accounting procedures. The Department should ensure that the rationale for the adjustments is included in the documentation.	We received a draft document titled "Accounting Procedures" which outlines the accounting procedures for the section. The document version was "Draft –Version 1 June 27, 2008". We did not receive a final version.
We recommended the Department update its collection policy to help ensure consistency in the collection process and that corporate memory is appropriately documented before key staff retire.	The Department has updated its collection policy but it is still in draft form.
We recommended the Department document the procedures that staff should follow to reconcile the cash suspense accounts.	The Department has documented draft procedures for reconciling the cash suspense accounts.
We recommended the Department promptly write off old receivables when it is deemed that they will not be collected.	The Department has made progress in ensuring that all uncollectible property tax accounts are written off in a timely manner. The Department will continue to improve the timeliness of this process.

Recommendations not implemented

5.82 The Department has not implemented the following three recommendations.

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

Departmental response

5.84 The Department believes that the current system is *"extremely stable and reliable and continues to meet the needs of the Department ... While the Department will continue to assess business opportunities to replace PATS, there are no immediate plans to do so ..."*

5.85 We recommended the Department staff authorize the release of program changes to production by instructing the Data Centre staff to only make changes that are approved by the Department.

Departmental response

5.86 *... The Department believes that providing the Data Centre with a copy of the signed-off approval provides no additional control over the approval process. In this situation, reliance must be placed on the programmer to submit the same changes to be released to production that were previously confirmed and accepted by the Department in "test" mode.*

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

Departmental response

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

Chapter 6
Department of Local Government Gas Tax Expenditures

Contents

Department of Local Government Gas Tax Expenditures

Introduction

6.1 At the request of the Regional Development Corporation and the Department of Local Government, we conducted an audit of the New Brunswick Annual Expenditure Report for the *Agreement on the Transfer of Federal Gas Tax Revenues under the New Deal for Cities and Communities 2005-2015.* The audit was conducted for the purpose of issuing an audit opinion on whether all of the information contained in the Annual Expenditure Report is fairly presented and on whether New Brunswick has met its obligations to enforce the terms and conditions of municipal funding agreements pursuant to section 3.2 (d) in the Agreement.

6.2 We are pleased to report that we were able to satisfy ourselves in regard to the fair presentation of the Annual Expenditure Report and compliance with section 3.2 (d) of the Agreement.

6.3 The following matters were noted during the course of our work. These matters do not detract from our overall opinion on fair presentation of the statement and compliance with section 3.2 (d).

Funding allocation formula

6.4 According to sub-section 6.1 – Allocation to New Brunswick Communities of the Agreement, the portion for incorporated areas shall be determined on the basis of the ratio of their total population to the sum of the population of incorporated areas and unincorporated areas.

6.5 The incorporated population portion calculated by the Department of Local Government is 63.19%. We were unable to find documentation for this calculation. By using the populations from the 2001 Census of Statistics Canada, we calculated a ratio of 62.65%. Therefore, we have a variance of 0.54% with the Province's calculation.

6.6 Canada's total contribution to New Brunswick under this agreement is $116,060,000. This variance means that $626,724 (0.54% x $116,060,000) is allocated improperly between incorporated and unincorporated areas.

Recommendations

6.7 We recommended the Department review its allocation formula used to provide funds to municipalities to ensure it complies with section 6 of the Agreement.

6.8 We recommended the Department ensure that a significant decision like the allocation ratio be formally documented in its records.

Departmental response

6.9 *The variance between the incorporated and unincorporated areas will be presented to the Federal/Provincial Oversight Committee for consideration. The results will be formally documented and filed.*

Changes to municipal allocations

6.10 The funding allocations to municipalities are subject to change when two or more incorporated/unincorporated areas choose to amalgamate. This decision causes a variation in the population of the area and consequently changes the funding calculation. We identified three changes in funding calculation during the year.

6.11 Of these changes, we found two small errors in the funding allocation calculation. These findings indicate a weakness in the internal controls for the changes to municipal funding allocations. To reduce the chance of errors in calculation being undetected, calculations should be reviewed and approved by another person.

6.12 Since the money was not yet transferred to the municipality, the cash flow amounts were corrected in time.

Recommendation

6.13 We recommended the calculation supporting the changes to municipal allocations be reviewed by another departmental employee not directly involved in the calculation in order to reduce the chance of not detecting a calculation error.

Departmental response

6.14 *Appropriate action has been taken to ensure that the calculation supporting the changes to municipal allocations is reviewed by staff in order to reduce the chance of calculation errors.*

Municipal audit specification

6.15 The Province of New Brunswick is responsible for preparing and delivering to Canada no later than December 31 of each fiscal year, in respect of the prior fiscal year, an Annual Expenditure Report based on the annual audited municipal financial statements and provincial financial records for unincorporated areas. The audit report accompanying the provincial Annual Expenditure Report, per the Agreement with Canada, requires that expenditures on eligible projects are fairly presented and are in accordance with the Agreement. Furthermore, the report must state whether the Province has met its obligation to enforce the terms of the Agreement with municipalities.

6.16 Expenditures included in the Annual Expenditure Report are those reported by municipalities. To ensure that the municipal expenditures are accurate and in compliance with the Gas Tax agreement, the Province of New Brunswick requires an audited Annual Expenditure Report on the Gas Tax program from each municipality. These are audited by auditors engaged by each municipality.

6.17 From discussions with the Department and with municipal auditors, we concluded that more guidance to the municipal auditors for the Gas Tax agreement is needed. We believe that a document providing guidance for the Gas Tax agreement should be prepared and distributed to all municipal auditors that will be auditing the Annual Expenditure Report for the 2008 calendar year.

6.18 It is very important that all parties understand their role and what is expected from the audit opinions to ensure the Province of New Brunswick can fulfill its responsibilities under the Gas Tax agreement.

6.19 As noted above, the audit report covers the Province's responsibility to ensure the municipalities are in compliance with the terms and conditions of the agreement. We found some components of the agreement relating to compliance that were not monitored by the Department or covered in the municipal audit. Here are some terms and conditions from the Agreement that should be monitored by the Department or covered in the municipal audit.

- The municipality is complying with the federally and provincially legislated environmental assessment requirements.
- The municipality is calling public tenders and awarding the contract to the successful bidder.

Recommendations

6.20 We recommended the Department prepare a guidance document for municipal auditors to clarify the auditor's role

concerning the audit of the municipal annual expenditure report. If needed, this document should include the auditor's role on the municipality's compliance with the agreement.

6.21 We recommended the Department develop a plan to ensure the terms and conditions of municipal funding agreements are satisfied.

Departmental response

6.22 *Appropriate action will be taken to monitor projects that would require EIA's or calling for tenders. Also, we will update our information package to reflect the auditor's role for municipalities.*

Chapter 7
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, 2009. 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

Mission and values

7.1 Our mission is:

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

7.2 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, continuing professional development and an honest work ethic;
- skilled, efficient and effective staff working in an environment that encourages personal responsibility for their work and for their careers; and
- a commitment to independence that merits the trust of the public and our colleagues.

7.3 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 7.1 sets out the specific auditing and reporting requirements of our legislation, and indicates how we address each one.

Exhibit 7.1 - 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	We do this in our annual reports, referring to instances where we did not receive information.
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
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. Our value-for-money chapters address sections (f) and (g) and, where appropriate, section (h).

Factors influencing our performance and results

7.4 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.

7.5 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

7.6 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. Last year, we had some preliminary discussions with representatives of the Executive Council Office regarding legislative changes, but no action has resulted.

Budget limitations

7.7 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-one, 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.

7.8 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

7.9 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 7.2 sets out the logic model we use, and Exhibit 7.3 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 7.2 Logic Model

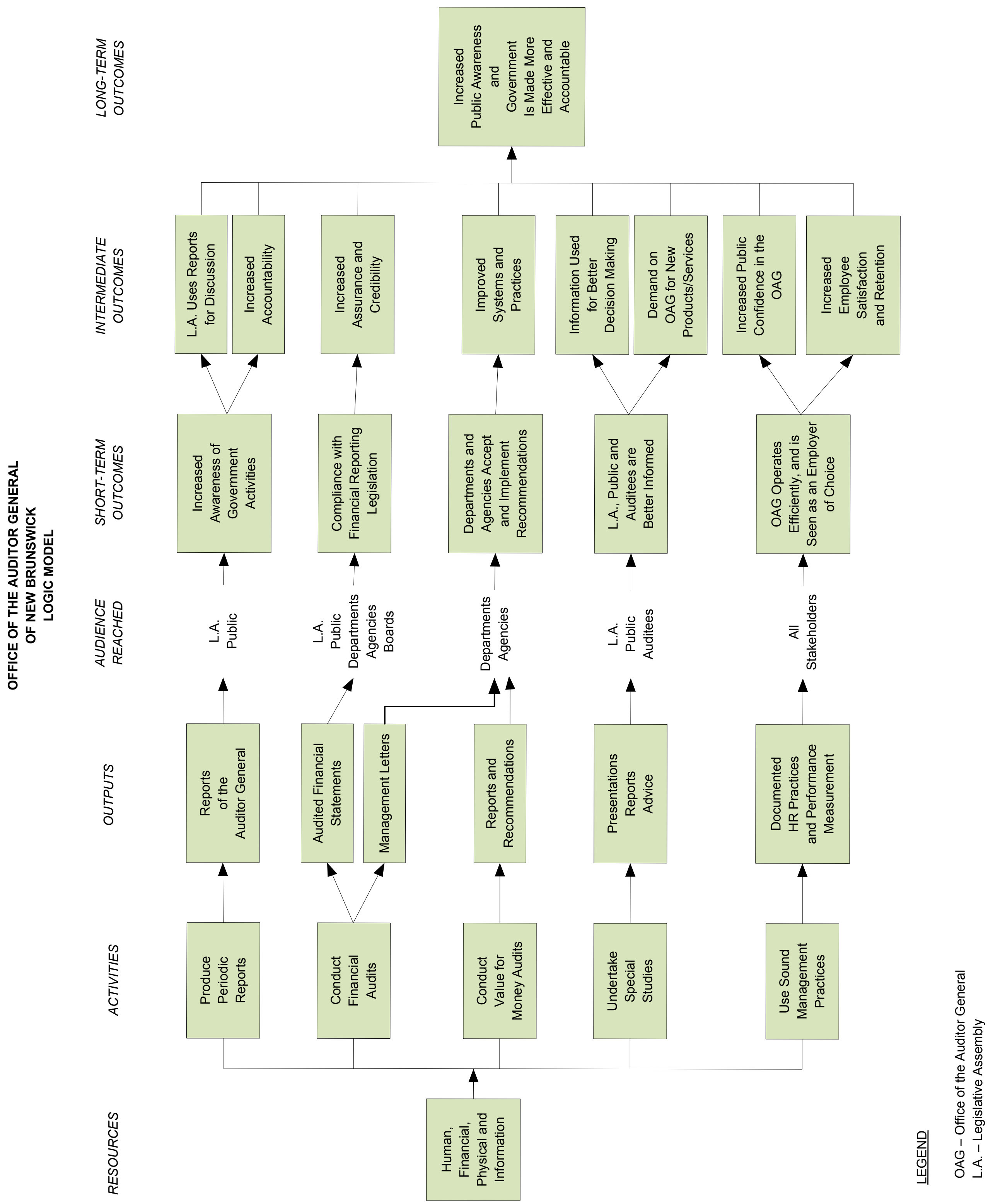


Exhibit 7.3 Measurement Framework

Goals	Activities	Outcomes		Measuring our 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 periodic reports	Increased public awareness of government activities	L.A. uses them for discussion Increased accountability	MLA perception, as determined by survey
	Conduct financial audits	Compliance with financial reporting legislation	Increased assurance and credibility	Audits are carried out within budget and auditee time deadlines are met MLA perception, as determined by survey Auditee perception, as determinded by survey
	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 recommendations	Improved systems and practices	Percentage of recommendations accepted Percentage of recommendations implemented
In carrying out our work we will use sound management practices.	Document and follow good HR practices	The Office operates at a high level of efficiency, and all employees feel they are treated fairly and consistently	Increased public confidence in the OAG	MLA, auditee and employee perception, as determined by survey Accountability reporting - Cost of Audits (economy) - Percentage of time spent on audit work (efficiency)
We will provide an attractive work environment that allows opportunities for professional growth.	Provide staff with a mix of challenging work that allows them to work in their areas of personal interest, and give priority in time and funding to opportunities for professional development	OAG is seen as an employer of choice	Increased employee satisfaction and retention	Employee perception, as determined by survey.

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

Measuring our progress

7.11 We are using eight indicators to assess our performance. Exhibit 7.3 links each indicator to a specific goal in our strategic plan. Our eight indicators are:

1. MLA perception, as determined by survey
2. Auditee perception, as determined by survey
3. Percentage of recommendations accepted
4. Percentage of recommendations implemented
5. Employee perception, as determined by survey
6. Completion of audits on time and on budget
7. Use of our time, focusing on the percentage of time spent on audit work
8. Cost of our audits

MLA survey

7.12 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.

7.13 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

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

7.15 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.

7.16 Unfortunately, because of staff turnover and other office priorities, we were unable to complete our survey of auditees in 2008.

Acceptance and implementation of recommendations

7.17 We generally assess these two indicators together. Chapter 8 of Volume 2 of our 2008 Report provides an overview of the recommendations included in our 2004 through 2006 Reports. It summarizes the status of our recommendations, and focuses in particular on those recommendations we made in 2004 that have not been fully implemented.

7.18 Our work in 2008 showed that departments and agencies had fully implemented about 38% of our recommendations from 2004, 2005 and 2006. Less than half of our recommendations from 2004 had been fully 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.

7.19 The results of our follow-up work conducted in the current year on recommendations included in our 2005 through 2007 Reports are included in volume 3 of this Report.

Employee survey

7.20 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.

7.21 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.

7.22 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 2010.

Completion of audits on time and within budget

7.23 Our goal is to complete the audit of the Province's financial statements by July 31, and to complete all Crown agency and Trust Fund audits by June 30.

7.24 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.

7.25 The audit of the Province for the year ended March 31, 2008 was not completed by July 31, 2008. Our auditor's report on the Province's financial statements was dated August 14, 2008. 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 2008 they were issued on September 26.

7.26 We are the auditors of sixteen Crown agencies and six pension plans. We completed only three of the Crown agency audits by June 30, 2008. In 2007, and again in 2008, 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 June 30.

7.27 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.

7.28 The time spent on our 2008 audit of the Province's financial statements was close to our budget, although it exceeded the time spent in 2007 and in previous years. We had anticipated spending extra time on auditing government systems and controls, in order to comply with changes in auditing standards.

7.29 Five of our Crown agency audits were significantly over budget. In some cases, this was a result of unanticipated accounting issues that took extra time to resolve. In other cases it was a consequence of inefficiencies on our part, sometimes caused by delays in the Crown agency in producing financial statements for audit.

7.30 We completed five value-for-money audits during the year, which were included in our 2008 Report. Two took significantly more time than we had anticipated, due in part to extra time needed at the end of the audit as the findings were discussed and the organization presented its response.

Use of time

7.31 An important indicator for us is the percentage of time we spend directly on audit work. As shown in the following table, over the last three years, 65% of our time is spent directly on financial statement audits or value-for-money audits. In the year ended March 31, 2009, 48% of this time was spent on value-for-money audits, compared to 47% in 2008 and 52% in 2007.

Exhibit 7.4 Allocation of paid working hours

	2009	2008	2007
Financial and value-for-money audits	65%	65%	65%
Professional development and training	8%	7%	8%
Support activities	27%	28%	27%
Total	100%	100%	100%

7.32 The time spent on professional development and training includes attendance at external courses and training sessions held in-house. It also includes attendance at conferences and participation on various groups and committees of relevance to legislative auditors. These types of activities are an essential part of maintaining a well-informed, high-performing workforce.

7.33 The time spent on support activities includes the bulk of the time of our two support staff. It also includes management time and staff time that can not be allocated directly to a particular audit project, such as staff meetings, technical reading and general office duties.

Cost of our audits

7.34 We have always budgeted and tracked the number of hours for each of our audits. However, in an effort to be as economical and efficient as we can be in the work that we do, 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.

7.35 The cost of the audit of the Province's financial statements for the year ended March 31, 2008 was $241,000. The total cost of the Crown agency audits for 2008 was approximately $151,000. We billed the pension plans a total of $89,000 for their 2008 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 five value-for-money audits included in our 2008 Report was $403,000. The cost of preparing our 2008 Report, including the work we do to follow up on recommendations made in previous Reports, was approximately $155,000.

Financial and human resources

Financial Results

7.36 Exhibit 7.5 shows the budget and actual expenditures for the Office for 2007-08 and 2008-09, together with the approved budget for 2009-10. Exhibit 7.6 breaks down the actual expenditures for 2007-08 and 2008-09 by type of activity, allocating overhead costs to each line of business.

Exhibit 7.5 Budget and Actual Expenditures ($ 000s)

	2010	2009		2008	
	Budget	Budget	Actual	Budget	Actual
Personal services	1,637.0	1,647.8	1,639.1	1,679.2	1,510.9
Other services	180.3	239.5	984.3	147.7	619.0
Materials and supplies	8.8	6.8	7.7	7.9	5.8
Property and equipment	15.9	25.9	22.2	33.2	20.5
Total	**1,842.0**	**1,920.0**	**2,653.3**	**1,868.0**	**2,156.2**

7.37 In common with many other organizations in the New Brunswick public service, certain costs are budgeted and paid centrally, and are not included in our annual budget. The most significant of these are the annual lease costs for our office accommodations, and the employer portion of pension contributions (including CPP) for our staff.

Exhibit 7.6 Costs by Activity ($000s)

	2009 Actual	2008 Actual
Financial audit of the Province	502,1	398,2
Financial audits of Crown agencies	307,5	323,3
Value-for-money audits	1,115.0	974,5
Special investigation of the Caisse populaire de Shippagan	728,7	460,2
Total	**2,653.3**	**2,156.2**

7.38 During the 2007-08 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, 2009, but our costs incurred during the 2008-09 year were $728,700. This amount is included in Other services, which explains the excess of actual over budget of $744,800. We obtained a Supplementary Estimate of $400,000 in December, 2008 to authorize a portion of this overexpenditure.

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

7.40 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.

7.41 Our staff complement in 2008-09, based on our available budget, was 22; it will be 21 in 2009-10. Brent White, CA and Paul Jewett, CA are the directors for our two audit teams. At March 31, 2009 there were fifteen professional staff with accounting designations, and five students enrolled in accounting programs. Two other members of our staff provide administrative support services. The following is a list of staff members at March 31, 2009:

Exhibit 7.7 - List of Staff Members

Shoaib Ansari (2)	Peggy Isnor, CA	Ashley Smith (2)
Cathy Connors Kennedy, CA	Chris James, CA	Rebecca Stanley (2)
Caroline Doucet (2)	Paul Jewett, CA	Al Thomas, CA
Kim Embleton, CGA	Cecil Jones, CA	Yanjun Wang, CA
Michael Ferguson, CA	Teena Laagland (1)	Brent White, CA
Eric Frenette, CGA	Bill Phemister, CA	Tania Wood-Sussey, CA
Heather Gonnason (1)	Ken Robinson, CA	
Eric Hopper, CA	Jennifer Sherwood (2)	

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

Looking forward

7.42 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

7.43 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 21. 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, including the current fiscal year, 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%.

7.44 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. The ongoing effect of the 5% budget cut we received for the 2009-10 year will cause a further reduction in our staff complement in 2010-11 to 20 people. This reduction will further restrict our value-for-money audit activities. It means that we will be able to complete between three and five 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.

7.45 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

$700,000 less than the Auditor General's Office in Newfoundland and Labrador, and about $800,000 less than Nova Scotia. It should be noted that our position relative to Newfoundland and Labrador and Nova Scotia has deteriorated significantly in the past year.

Implementing International Financial Reporting Standards

7.46 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

7.47 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.

7.48 One particular new standard that we are now focusing our attention on 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.