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Chapter 1
Introductory Comments

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Introductory Comments

New Auditor General appointed

1.1 I was appointed Auditor General on December 1, 2010. My predecessor, Mike Ferguson, CA, resigned effective November 30, 2010 to accept the position of Deputy Minister of Finance. I look forward to continuing to work with Mr. Ferguson as we take up our new roles, and wish to thank him sincerely for his contribution to the Province as Auditor General.

1.2 This volume of our Report deals with matters arising from our financial audits of the Province and its Crown agencies for the year ended March 31, 2010. During the conduct of these audits, I served as Comptroller of the Province and, in that role, I was responsible for, or to some extent involved with, much of the material that was being audited by the Office of the Auditor General. Hence, a number of the observations and recommendations in this Report were directed to me in my former position as the Comptroller.

1.3 The chapters in this volume of my Report were drafted prior to my arrival in the Office of the Auditor General. Except for this introductory chapter, I have not edited the chapters, or made any comments on the material since I became Auditor General. The chapters were managed to completion by the Deputy Auditor General, Ken Robinson, CA, whose work during this transitional phase has been much appreciated. However, I acknowledge that, as Auditor General, I am responsible to present this Report to the Legislative Assembly and, as Auditor General, I stand behind and fully support its contents.

Issues raised in prior years

Release of financial information

1.4 I was pleased to see the government release the financial statements of the Province on August 13, 2010. This was a significant improvement on recent years, and well in advance of the September 27, 2010 election. I am hoping that the early release will set the pattern for future years. Financial information is most useful if it is timely.

Year end grant payments

1.5 There were no advanced payments of grants in either the 2009 or the 2010 fiscal years. This is a good thing, since the advanced payment of grants distorts the financial results for any given year, and makes year-to-year comparisons difficult.

Future oriented information

1.6 The government is still providing only limited information on its financial expectations. As we enter a period of significant restraint, with the prospect of large deficits, it is increasingly important that government explains clearly to its citizens what the situation looks like now, how it is expected to look in the future, and what plans it has to bring its revenues and expenses closer into balance. Government also needs to focus on managing and explaining its net debt, which is expected to increase significantly in the coming years, placing an increasing financial burden on taxpayers.

Public-private partnerships

1.7 My Office has begun a project to review a number of public-private partnerships entered into by government in recent years. Our objective is to assess whether such arrangements provide good value for money for the Province. I anticipate that my 2011 Report will contain the results of this work.

Information in this volume

1.8 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.

1.9 It also contains, in chapter 5, our own accountability report. This chapter assesses our own performance against the indicators we established as part of our strategic planning process. It also points out our need for additional resources in order to continue to provide objective information useful to the Legislative Assembly.

Acknowledgements

1.10 My Office is grateful for the continuing cooperation we receive from government departments and agencies during the course of our financial audit work.

1.11 I want to thank all the staff of the Office for their professionalism and their dedication to the work they do. They are truly committed to our mission of promoting accountability in government.

Kim MacPherson

Kim MacPherson, CA
Auditor General

Chapter 2
Comments on the Province's Financial Position

Contents

Comments on the Province's Financial Position

Background

2.1 For the past number of years, we included in our annual Report a ten-year historical trend analysis of the Province's financial condition by looking at measures of sustainability, flexibility and vulnerability.

2.2 Starting last year, the Province began reporting these measures as part of the section called *Indicators of Financial Health* which is attached to the audited financial statements. As we commented last year, we are pleased to see the Province report this information, and we are also pleased to see that in Volume 1 of the 31 March 2010 Public Accounts the Province expanded the historical timeframe of information provided from six years to seven years.

2.3 This year we are changing our approach to reporting these financial condition measures for two reasons. The first is because the Province is now reporting the same information and the second is that the Public Sector Accounting Board recently issued a new statement of recommended practice (SORP) on indicators of financial condition. Our analysis in this section is based on this new SORP. We are reporting on all the indicators identified in the SORP. We understand that the Province has carried out an assessment of all the indicators as part of its process of determining which indicators to report in the Public Accounts.

About the SORP

2.4 The SORP provides guidance to governments that choose to report supplementary information on their financial condition. It says, "*the main objective of reporting on financial condition is to expand on and explain information contained in financial statements by assessing a government's financial condition not only on the basis of its financial position and changes in financial position, but also in the context of its overall economic and fiscal environment.*"

2.5 The SORP says that the objectives of reporting on financial condition are to:

- help users identify current foreseeable risks and trends;
- enlighten users about a government's fiscal stewardship;
- offer insights into the short-term and long-term implications of policy decisions;
- illustrate a government's financial ability to maintain the level and quality of its services and to finance new programs;
- illustrate a government's ability to meet its financial obligations, both short-term and long-term;
- enhance an understanding of government policy and operating decisions; and
- provide a basis of comparison, where appropriate, with other similar jurisdictions.

2.6 The SORP indicates that "*an assessment of a government's financial condition needs to consider, at a minimum, the elements of sustainability, flexibility and vulnerability.*" It defines these elements as follows:

- "***Sustainability*** *is the degree to which a government can maintain its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others without increasing the debt or tax burden relative to the economy within which it operates."*
- *"**Flexibility** is the degree to which a government can change its debt or tax burden on the economy within which it operates to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others."*
- *"**Vulnerability** is the degree to which a government is dependent on sources of funding outside its control or influence or is exposed to risks that could impair its ability to meet its existing financial obligations both in respect of its service commitments to*

the public and financial commitments to creditors, employees and others."

Summary of the Province's financial condition

2.7 The SORP lists a number of indicators that could be used to assess the elements of sustainability, flexibility and vulnerability. In our analysis that follows, we used information from the Province's financial statements to calculate these indicators and to assess the Province's financial condition.

2.8 In the table below, we summarize our analysis of financial indicators. We show the indicators for each element, the purpose of the indicator, the short-term (two year) and long-term (ten year) trend, as well as a reference within this chapter of where we discuss the indicator in more detail.

	Indicator	Purpose	Short-term Trend	Long-term Trend	Page
Sustainability	Assets-to-liabilities	Measures extent that government finances its operations by issuing debt	Unfavourable	Data not available	13
	Financial assets-to-liabilities	Measures whether future revenues will be needed to pay for past transactions	Unfavourable	Data not available	14
	Net debt-to-total annual revenue	Shows whether more time is needed to pay for past transactions	Unfavourable	**Favourable**	14
	Expense by function-to-total expenses	Shows the trend of government spending over time	Neutral	Data not available	15
	Net debt-to-GDP	Shows the relationship between net debt and the activity in the economy	Unfavourable	Mixed	16
	Accumulated deficit–to-GDP	Measures the sum of the current and all prior year operating results relative to the growth in the economy	Unfavourable	Data not available	17
	Total expenses-to-GDP	Shows the trend of government spending over time in relation to the growth in the economy	Unfavourable	Unfavourable	18
Flexibility	Public debt charges-to-revenues	Measures extent that past borrowing decisions limits ability to meet current financial and service commitments	Unfavourable	**Favourable**	19
	Net book value of capital assets-to-cost of capital assets	Measures the estimated useful lives of tangible capital assets available to provide products /services	Unfavourable	Data not available	20
	Own-source revenues-to-GDP	Measures extent income is taken out of the economy	Favourable with caution	Mixed	21
Vulnerability	Government transfers-to-total revenues	Measures the dependence on another level of government	Unfavourable	Unfavourable	23
	Foreign currency debt-to-net debt	Measures the government's potential vulnerability to currency fluctuations	**Favourable**	**Favourable**	24

Conclusion

2.9 In general over the last ten years, the financial indicators showed some favourable results. The short-term trend, however, shows that the financial condition of the Province has worsened. If the Province continues in this manner, the financial health of the

Province will continue to weaken. This will have an impact on the Province's ability to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others. This illustrates the immediate need for the Province to develop a plan to improve the financial health of the Province.

Sustainability

2.10 The SORP identifies seven possible indicators for sustainability. Four of them are described as government-specific indicators which are indicators about government finances derived from the government's own financial statements; and three of them are described as government-related indicators which are indicators about government finances derived from a combination of information from its financial statements and from the economy within which the government operates. We only tracked one of these seven indicators in the past. In addition, we tracked another indicator– comparing the change in net debt and the change in Gross Domestic Product (GDP). This indicator, comparing the change in net debt and the change in GDP, is not included in the SORP's list of sustainability indicators and so we have not included it in this analysis.

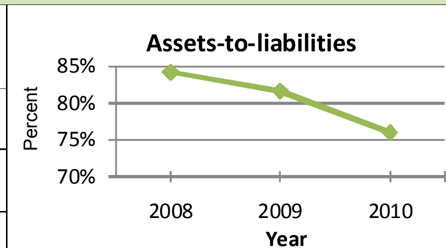
Government-specific sustainability indicators

Assets-to-liabilities

2.11 This is not one of the indicators we have tracked in the past. The following table only reports three years worth of comparative figures because of the impact of changes in accounting policies in previous years.

Comparison of assets-to-liabilities

Year ended	Total assets ($ millions)	Total liabilities ($ millions)	Total assets/ total liabilities (percent)
2008	7,397.9	8,786.4	84.2
2009	7,605.7	9,314.6	81.6
2010	7,732.3	10,174.2	76.0

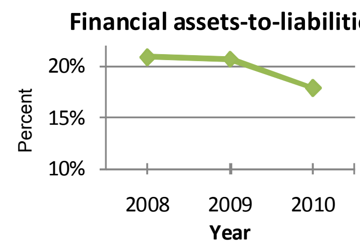


2.12 The SORP indicates that for this indicator anything below 100% indicates that a government has accumulated deficits and has been financing its operations by issuing debt. For the past three years, the Province's rate was less than 100% and it has declined in both the year ended 31 March 2009 and the year ended 31 March 2010. This trend is unfavourable and has a negative impact on the sustainability indicator of the Province.

Financial assets-to-liabilities

2.13 This is another indicator that we have not tracked in the past. The following table only reports three years worth of comparative figures because of the impact of changes in accounting policies in previous years.

Comparison of financial assets-to-liabilities			
Year ended	Total financial assets ($ millions)	Total liabilities ($ millions)	Total financial assets/ total liabilities (percent)
2008	1,837.2	8,786.4	20.9
2009	1,926.8	9,314.6	20.7
2010	1,821.2	10,174.2	17.9

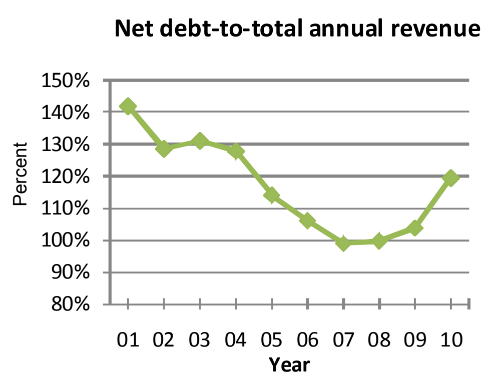


2.14 When liabilities exceed financial assets the government is in a net debt position, and the implication is that future surpluses will be required to pay for past transactions and events. The Province's percentage declined significantly in the year ended 31 March 2010 because of the large increase in net debt incurred in that year. Once again, this trend is unfavourable and has a negative impact on the sustainability indicator of the Province.

Net debt-to-total annual revenue

2.15 Net debt-to-total annual revenue is another indicator that we have not tracked in the past, however, restated numbers exist for both net debt and total revenue. Thus, we can present ten years worth of comparative figures in the following table.

Comparison of net debt-to-total annual revenue			
Year ended	Net debt ($ millions)	Total revenue ($ millions)	Net debt/ total revenue (percent)
2001	6,913.4	4,872.6	141.9
2002	6,757.2	5,253.1	128.6
2003	6,864.2	5,241.6	131.0
2004	6,963.0	5,445.8	127.9
2005	6,824.3	5,978.7	114.1
2006	6,709.8	6,318.0	106.2
2007	6,575.9	6,643.7	99.0
2008	6,949.2	6,964.9	99.8
2009	7,387.8	7,112.8	103.9
2010	8,353.0	6,989.9	119.5

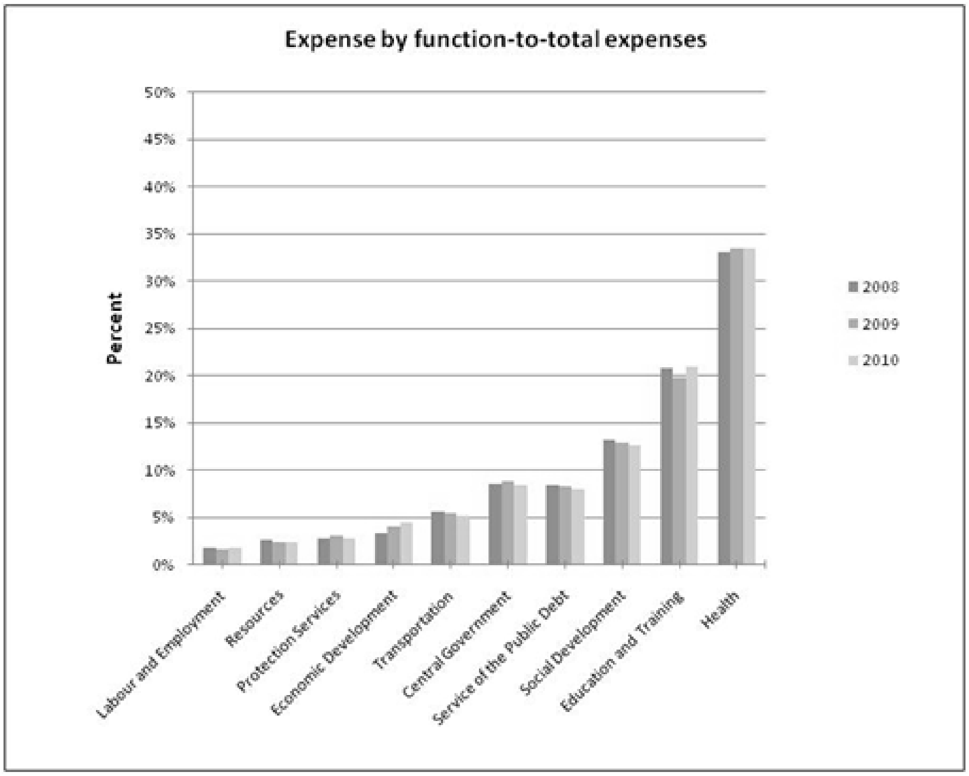


2.16 Net debt provides a measure of the future revenue required to pay for past transactions and events. A net debt-to-total revenue percentage that is increasing indicates that the Province will need more time to eliminate the net debt. During the past two years the Province's percentage has increased significantly, however, it is still less than the 141.9% in 2001. If the Province continues in same manner, the improvements made over the last 10 years will be lost. The short-term trend of this indicator is unfavourable, however, we have assessed the long-term trend as favourable.

Expense by function-to-total expenses

2.17 Expense by function-to-total expenses is another indicator that we have not tracked in the past. The following table only reports three years worth of comparative figures because of the impact of changes in accounting policies in previous years.

Comparison of expense by function-to-total expenses						
	2010		2009		2008	
	($ millions)	(percent)	($ millions)	(percent)	($ millions)	(percent)
Labour and Employment	141.5	1.7	123.5	1.7	119.1	1.7
Resources	183.6	2.4	173.2	2.3	178.4	2.6
Protection Services	209.4	2.7	223.8	3.1	187.5	2.7
Economic Development	344.6	4.5	293.7	4.0	230.4	3.4
Transportation	400.5	5.2	399.8	5.5	380.3	5.5
Central Government	651.5	8.4	648.4	8.9	589.3	8.6
Service of the Public Debt	616.6	8.0	602.5	8.2	576.9	8.4
Social Development	973.4	12.6	941.8	12.9	903.1	13.2
Education and Training	1,621.7	21.0	1,452.7	19.9	1,430.9	20.8
Health	2,585.0	33.5	2,445.7	33.5	2,272.3	33.1
Total	**7,727.8**	**100.0**	**7,305.1**	**100.0**	**6,868.2**	**100.0**



2.18 It is not easy to identify any significant trends from three years of data when comparing expenses by function to total expenses. It is important to remember, however, that both the years ended 31 March 2009 and 31 March 2010 reported deficits. This means that while individual expense trends may have remained steady, it was achieved by incurring a total level of expenses that was in excess of revenue generated in those years. We have assessed this indicator as neutral.

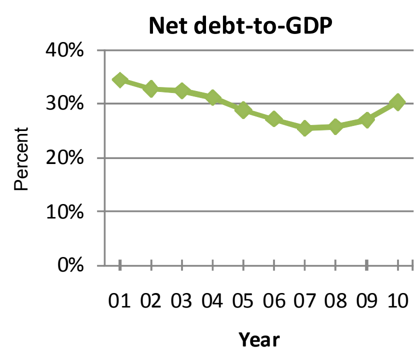
Government-related sustainabilityindicators

Net debt-to-GDP

2.19 Net debt-to-GDP is an indicator that we have been tracking and for which we have ten years of data. This indicator is also reported by the Province in Volume 1 of its Public Accounts.

Comparison of net debt-to-GDP

Year ended	Net debt ($ millions)	GDP ($ millions)	Net debt/ GDP (percent)
2001	6,913.4	20,085	34.4
2002	6,757.2	20,684	32.7
2003	6,864.2	21,169	32.4
2004	6,963.0	22,366	31.1
2005	6,824.3	23,672	28.8
2006	6,709.8	24,716	27.2
2007	6,575.9	25,884	25.4
2008	6,949.2	26,993	25.7
2009	7,387.8	27,372	27.0
2010	8,353.0	27,646	30.2



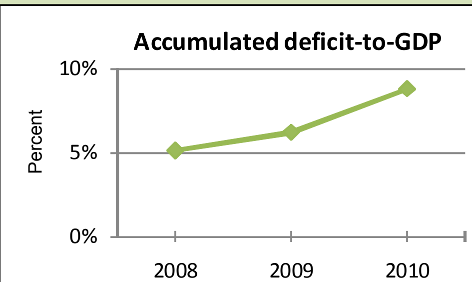
2.20 This indicator compares the Province's net debt, the difference between its liabilities and its financial assets, to its GDP. This ratio declined from 31 March 2001 to 31 March 2007 indicating that over that time period the level of the Province's debt became less onerous on the economy. The ratio has increased each of the past three years because the rate of growth of net debt has exceeded the rate of growth in GDP over that time period. While the current ratio of net debt-to-GDP is still below the level of the ratio for the years ended 31 March 2001 until 31 March 2004, the current growth trajectory is concerning. The short-term trend for this indicator is unfavourable, but we have assessed the long-term trend as mixed.

Accumulated deficit-to-GDP

2.21 Accumulated deficit-to-GDP is another new indicator. The following table only reports three years worth of comparative figures because of the impact of changes in accounting policies in previous years.

Comparison of accumulated deficit-to-GDP

Year ended	Accumulated deficit ($ millions)	GDP ($ millions)	Accumulated deficit/GDP (percent)
2008	1,388.5	26,993	5.14
2009	1,708.9	27,372	6.24
2010	2,441.9	27,646	8.83



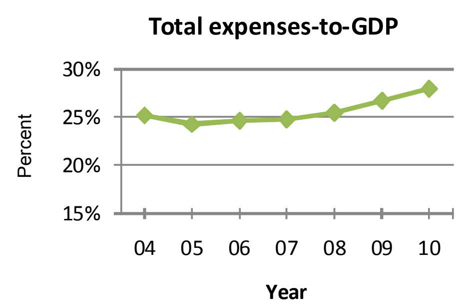
2.22 The accumulated deficit is the extent to which annual revenues have been insufficient to cover the annual costs of providing services. The information above shows that the accumulated deficit is increasing faster than the growth of the economy. This represents an unfavourable trend.

Total expenses-to-GDP

2.23 While the total expenses-to-GDP is a new indicator, seven years worth of restated expense figures are available.

Comparison of total expenses-to-GDP

Year ended	Total expenses ($ millions)	GDP ($ millions)	Total expenses/GDP (percent)
2004	5,627.7	22,366	25.2
2005	5,742.8	23,672	24.3
2006	6,082.9	24,716	24.6
2007	6,407.3	25,884	24.7
2008	6,868.2	26,993	25.4
2009	7,305.1	27,372	26.7
2010	7,727.8	27,646	27.9



2.24 This indicates that after five years of holding government expenses to about 25% of GDP, the past two years have seen the ratio increase. This represents an unfavourable trend.

Summary of sustainability indicators

2.25 In previous years we only reported two sustainability indicators. This year, in accordance with the SORP, we have increased the number of indicators to seven. We are able to assess the short-term two-year trend for all seven indicators:

Two-year trend for sustainability indicators

Sustainability indicator	Two-year trend
Assets-to-liabilities	Unfavourable
Financial assets-to-liabilities	Unfavourable
Net debt-to-total annual revenue	Unfavourable
Expense by function-to-total expenses	Neutral
Net debt-to-GDP	Unfavourable
Accumulated deficit-to-GDP	Unfavourable
Total expenses-to-GDP	Unfavourable

2.26 We can also assess long-term trends for three of the indicators. For two of these indicators (net debt-to-total annual revenue and net debt-to-GDP) the long-term trend is over ten years, while for one indicator (total expenses-to-GDP) the long-term trend is over seven years.

Long-term trend for sustainability indicators	
Sustainability indicator	**Long-term trend**
Net debt-to-total annual revenue	Favourable
Net debt-to-GDP	Mixed
Total expenses-to-GDP	Unfavourable

2.27 While one of these indicators is still favourable when looking at the ten year change, it has turned unfavourable in the short term. This puts the long-term favourable trend at risk for the next couple of years. We have assessed the long-term trend for the net debt to GDP indicator as mixed. Even though the 31 March 2001 percentage is higher than the 31 March 2010 percentage, the percentage has been steadily increasing over the last three years.

Flexibility

2.28 The SORP identifies three possible indicators for flexibility. Two of them are government specific indicators, and one is a government related indicator. We have tracked two of these three indicators in the past – public debt charges-to-revenues and own-source revenues-to-GDP.

Government-specific flexibility indicators

Public debt charges-to-revenues

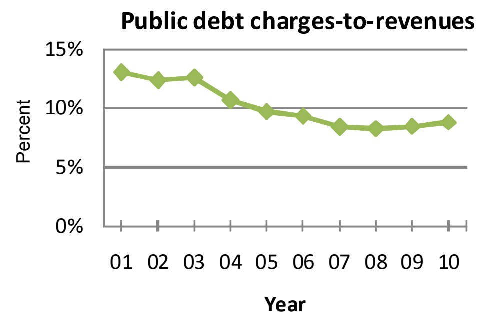
2.29 One of the most publicized factors which affects the flexibility of governments is the cost of servicing the public debt. This is considered to be an indicator of flexibility, since the Province's first payment commitment is to the cost of servicing its debt, leaving no flexibility in the timing of these payments.

2.30 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.

2.31 We have reported on this indicator in our past Reports and are able to show 10 years of data. This indicator is also reported by the Province in Volume 1 of the Public Accounts.

Comparison of the public debt charges-to-revenues

Year ended	Cost of servicing public debt ($ millions)	Revenue ($ millions)	Cost of servicing public debt/ revenue (percent)
2001	637.3	4,872.6	13.1
2002	651.8	5,253.1	12.4
2003	660.9	5,241.6	12.6
2004	582.9	5,445.8	10.7
2005	580.9	5,978.7	9.7
2006	591.4	6,318.0	9.4
2007	559.4	6,643.7	8.4
2008	576.9	6,964.9	8.3
2009	602.5	7,112.8	8.5
2010	616.6	6,989.9	8.8



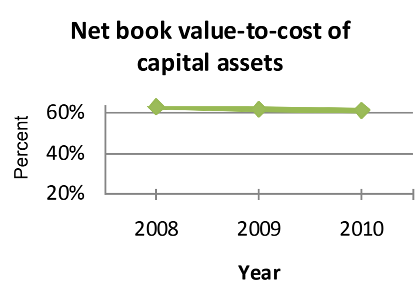
2.32 This table shows that the cost of servicing the public debt as a percentage of the Province's total revenues is significantly lower in the year ended 31 March 2010 than it was in the year ended 31 March 2001. After seven years of a generally downward trend, however, this indicator has increased two years in a row.

Net book value of capital assets-to-cost of capital assets

2.33 Comparing the net book value of capital assets to the cost of capital assets is a new indicator. The following table only reports three years worth of comparative figures because of the impact of changes in accounting policies in previous years.

Comparison of net book value of capital assets-to-cost of capital assets

Year ended	Net book value ($ millions)	Capital cost ($ millions)	Net book value/ capital cost (percent)
2008	6,234.1	9,911.3	62.9
2009	6,394.0	10,341.5	61.8
2010	6,661.8	10,884.2	61.2



2.34 This indicates that the Province's inventory of capital assets as at 31 March 2010 has 61.2% of its average useful life remaining. This roughly means that on average any Provincial assets that were originally expected to be useable for ten years still had just over six years of remaining useful life at 31 March 2010, and assets with original useful lives of twenty years were still considered useable for just over twelve years on average, and so forth for longer lived assets. While the percentage indicates that on average the Province's capital assets are in good shape, the percentage has decreased in each of the past two years indicating that the pool of capital assets is aging slightly. This represents an unfavourable trend.

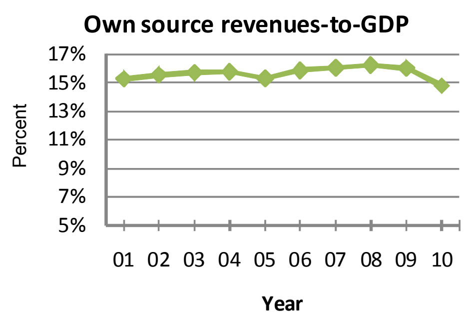
Government-related flexibility indicator

Own source revenues-to-GDP

2.35 The own source revenues-to-GDP indicator measures the extent to which the Province is raising its revenue through extracting it from the provincial economy. We have tracked this indicator in the past and it is reported by the Province in Volume 1 of the Public Accounts.

Comparison of own source revenues-to-GDP

Year ended	Own source revenues ($ millions)	GDP ($ millions)	Own source revenues/ GDP (percent)
2001	3,067.8	20,085	15.3
2002	3,214.5	20,684	15.6
2003	3,329.7	21,169	15.7
2004	3,527.9	22,366	15.8
2005	3,623.9	23,672	15.3
2006	3,925.1	24,716	15.9
2007	4,156.3	25,884	16.0
2008	4,387.3	26,993	16.3
2009	4,386.3	27,372	16.0
2010	4,089.3	27,646	14.8



2.36 This indicator has improved two years in a row, indicating that the Province is extracting less of provincial GDP for the purposes of financing government programs. While this indicates more flexibility, the decrease needs to be considered with caution for two reasons.

2.37 First, one significant reason that own source revenues have decreased recently is because the net results of the Electric Finance Corporation (EFC) have been worse over the past two years.

- For the year ended 31 March 2008, EFC made a profit of $104.5 million.

- For the year ended 31 March 2009, EFC's profit was $34.4 million.
- For the year ended 31 March 2010, EFC reported a **loss** of $212.2 million.

2.38 Therefore a significant portion of the reduction in own source revenues was not as a result of lower fees or taxes.

2.39 The second reason to be cautious about the improvement in this flexibility indicator is that for both the year ended 31 March 2009 and the year ended 31 March 2010, the Province incurred deficits which means it did not generate enough revenue in either of those years to finance its expenses.

Summary of flexibility indicators

2.40 In previous years we only reported two flexibility indicators. This year, in accordance with the SORP, we have increased the number of indicators to three. We are able to assess the short-term two-year trend for all three indicators:

Two-year trend for flexibility indicators	
Flexibility indicator	**Two-year trend**
Public debt charges-to-revenues	Unfavourable
Net book value of capital assets-to-cost of capital assets	Unfavourable
Own source revenues-to-GDP	Favourable but with the noted caution

2.41 We have judged the two-year trend for the flexibility indicator own source revenue-to-GDP to be favourable, but with the cautions we discussed in the previous section.

2.42 We can also assess longer term trends for two of the indicators.

Long-term trend for flexibility indicators	
Flexibility indicator	**Long-term trend**
Public debt charges-to-revenues	Favourable
Own source revenues-to-GDP	Mixed

2.43 The cost of servicing the public debt as a percentage of revenues is significantly lower than it was in the year ended 31 March 2001, resulting in a favourable long-term trend. While own source revenue as a percentage of GDP was lower in the year ended 31 March 2010 than it was in the year ended 31 March 2001, the decrease may have been because of the reduction in EFC's revenue and the extent of the deficit incurred in the year ended 31 March 2010. Therefore, we have judged the long-term trend to be mixed.

Vulnerability

2.44 The SORP identifies two possible indicators for vulnerability, and they are both government specific indicators. We have tracked one of these indicators in the past.

Government-specific vulnerability indicators

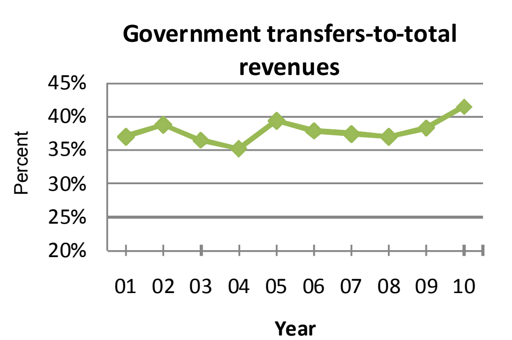
Government transfers-to-total revenues

2.45 By comparing the proportion of total revenue that comes from the federal government to the total revenue of the Province, we get a measure of the degree to which the Province is dependent on the federal government. If that dependence increases, the Province is more vulnerable to funding decisions made by the federal government. This indicator highlights the degree to which one indicator can be impacted by another indicator. For example, if the Province were in a position to reduce its dependence on the federal government by generating more own source revenue, the Province's vulnerability position might improve, but its sustainability position might become worse.

2.46 We have tracked this indicator in the past and are able to present 10 years of data. This indicator is also reported by the Province in Volume 1 of the Public Accounts.

Comparison of government transfers-to-total revenues

Year ended	Federal government transfer revenue ($ millions)	Total revenue ($ millions)	Federal government transfer revenue/ total revenue (percent)
2001	1,804.8	4,872.6	37.0
2002	2,038.6	5,253.1	38.8
2003	1,911.9	5,241.6	36.5
2004	1,917.9	5,445.8	35.2
2005	2,354.8	5,978.7	39.4
2006	2,392.9	6,318.0	37.9
2007	2,487.4	6,643.7	37.4
2008	2,577.6	6,964.9	37.0
2009	2,726.5	7,112.8	38.3
2010	2,900.6	6,989.9	41.5



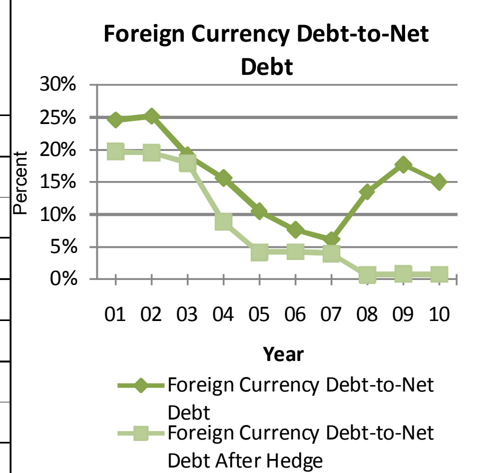
2.47 The table above shows that the Province's reliance on federal government transfers has been steadily increasing. The increase in the year ended 31 March 2010 may have been compounded by the fact that total revenue decreased because of the loss incurred by EFC, however, it is likely that the percentage would have increased regardless of that loss. This represents an unfavourable trend.

Foreign currency debt-to-net debt

2.48 Comparing the foreign currency debt to net debt is another new indicator. In the past, we compared the foreign currency debt to TOTAL debt rather than net debt. We stopped reporting this indicator after 2007 because the Province was managing its foreign exchange risk to a low level. The table below shows the results for the indicator.

Comparison of foreign currency debt-to-net debt

Year ended	Foreign currency debt ($ millions)	Net debt ($ millions)	Foreign currency debt/ net debt (percent)	Foreign currency debt/ net debt after hedge (percent)
2001	1,699.9	6,913.4	24.6	19.7
2002	1,699.3	6,757.2	25.1	19.5
2003	1,314.0	6,864.2	19.1	18.0
2004	1,088.9	6,963.0	15.6	8.8
2005	717.5	6,824.3	10.5	4.2
2006	512.9	6,709.8	7.6	4.2
2007	403.5	6,575.9	6.1	4.0
2008	937.0	6,949.2	13.5	0.7
2009	1,304.8	7,387.8	17.7	0.8
2010	1,255.8	8,353.0	15.0	0.8



2.49 The above information shows that the Province's foreign currency debt has increased over the last four years. The risk of exposure to foreign currency fluctuations, however, is offset by the Province's hedging strategy. The Province uses several alternatives to reduce (hedge) risk associated with debt repayable in foreign currencies:

- purchasing assets denominated in foreign currencies for the Province's sinking fund;
- entering into debt swap agreements which allows repayment of the debt in Canadian dollars; and

- entering into forward contracts (which allows the Province to purchase foreign currency at a stipulated price on a specified future date).

2.50 From the table above, we can see the risk of exposure to foreign currency fluctuations is very low at less than 1% for the last three years. Because of the effectiveness of the Province's hedging strategy, we assess this indicator as favourable.

Summary of vulnerability indicators

2.51 In previous years we only reported one vulnerability indicator. This year, in accordance with the SORP, we have increased the number of indicators to two. We are able to assess the short-term two-year trend for both indicators:

Two-year trend for vulnerability indicators	
Vulnerability indicator	**Two-year trend**
Government transfers-to-total revenues	Unfavourable
Foreign currency debt-to-net debt	Favourable

2.52 We can also assess longer term trends for the two indicators.

Long-term trend for vulnerability indicators	
Vulnerability indicator	**Long-term trend**
Government transfers-to-total revenues	Unfavourable
Foreign currency debt-to-net debt	Favourable

2.53 In summary, the Province's vulnerability exposure is mixed. Over the last few years the Province's reliance on federal revenue has increased. The Province is doing a good job, however, at limiting its exposure to fluctuations in foreign currency.

Comments on components of the Province's financial statements

Statement of Operations

Deficit

2.54 For the year ended 31 March 2010, the Province reported a deficit of $737.9 million. This is an increase of $545.6 million from the $192.3 million deficit reported for the year ended 31 March 2009.

2.55 The following three tables list, at different levels of detail, the main reasons for the change in the deficit from 31 March 2009 to 31 March 2010.

Analysis of deficit increase	
	(millions)
2009 deficit	$192.3
Decrease in revenue	122.9
Increase in expense	422.7
2010 deficit	**$737.9**

Analysis of deficit increase	
	(millions)
2009 deficit	$192.3
Decrease in provincial source revenue	297.0
Increase in federal source revenue	(174.1)
Increase in expense	422.7
2010 deficit	**$737.9**

Analysis of deficit increase	
	(millions)
2009 deficit	$192.3
Decrease in earnings of New Brunswick Electric Finance Corporation	246.6
Increase in the MPHEC grant expense	166.4
Increase in health expense	139.3
Increase in economic development expense	56.7
Decrease in royalty revenue	39.9
Increase in social development expense	31.8
Increase in labour and employment expense	17.1
Decrease in sinking fund earnings	17.0
Increase in service of the public debt expense	14.1
Increase in other central government expense	15.9
Decrease in tax revenues	8.9
Increase in resources expense	6.2
Increase in pension expense for the public service plan and the teachers' plan	4.7
Decrease in other investment income	4.1
Increase in transportation expense	0.7
Increase in other provincial revenue	(7.1)
Increase in revenue from licenses and permits	(12.4)
Decrease in protection services expense	(14.4)
Decrease in other education expense	(15.8)
Increase in conditional grants revenue	(31.4)
Increase in unconditional grants revenue	(37.1)
Increase in fiscal equalization revenue	(105.6)
2010 deficit	**$737.9**

2.56 The Results for the year and Major variance analysis contained in volume 1 of the Public Accounts explains the reasons for the variances. Some specific items to notice are:

- The government's past manipulation of the timing of the regular operating grant paid to the Maritime Provinces' Higher Education Commission (MPHEC) continues to make it difficult to interpret results. According to the Statement of Operations, the expense for Education and Training increased by $169.7 million, however $166.4 of that increase was for the grant paid to MPHEC. This increase in the MPHEC grant was artificial because the 31 March 2009 grant to the MPHEC was artificially low due to manipulation in the past.

- The pension expense for the two large plans, the Public Service Superannuation Plan and the Teachers' Pension Plan increased only slightly over the previous year. The Province's $740.9 million budgeted deficit for the year ended 31 March 2010 included an estimated expense for those two pension plans of approximately $425 million. The actual expense for the plans was $257 million, $168 million below budget. Despite this significant decrease in the pension expense the actual deficit for the year was only $3 million below budget.

- The main negative impact on the 31 March 2010 results that was not included in the fiscal update section of the 2010-2011 budget was the large increase in the loss of the New Brunswick Electric Finance Corporation which was substantially caused by writing down the value of the Dalhousie Generating Station by $161 million.

- Revenue from Provincial Sources decreased $297 million while revenue from Federal Sources increased by $174.1 million. This resulted in federal source revenue being more than 40% of total revenue for the first time since 1999. Even after removing the effect of the write down of the Dalhousie Generating Station, federal revenue was over 40% of total revenue.

2.57 The following table shows the surplus or deficit for the past seven years as originally recorded and as restated. Most of the restated amounts are due to the consolidation of additional Crown corporations. Only seven years data is available for this comparison because prior to the year ended 31 March 2005 the Province fully expensed tangible capital assets in the year of their acquisition. Starting in the year ended 31 March 2005 the Province records its tangible capital assets on its Statement of Financial Position and records an annual amortization expense on the Statement of Operations. The 31 March 2005 financial statements included restated numbers for the year ended 31 March 2004.

Annual surpluses (deficits) ($ millions)							
	2010	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
As originally recorded	(737.9)	(192.3)	86.7	236.8	243.6	242.2	(103.2)
As restated	(737.9)	(192.3)	96.7	236.4	235.1	235.8	(181.9)

2.58 After four years of surpluses, the Province has incurred two straight years of deficits.

2.59 The $737.9 million deficit was $3 million lower than the originally budgeted deficit for the year. The following table provides a comparison of budgeted results to actual results for the past ten years. For the purposes of this comparison we have omitted transfers to and from the Fiscal Stabilization Fund that were made in the years ended 31 March 2001, 2002 and 2003 since those transfers did not represent real transactions. As the table shows, it is not the norm for the Province's actual results to be as close to budget as was achieved in the year ended 31 March 2010. The table also shows that in seven of the past ten years the actual results have been better than the budget results.

Budget to actual comparison ($ millions)										
	2010	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Budgeted surplus (deficit)	(740.9)	19.0	37.1	22.2	98.9	54.3	(101.0)	(58.6)	34.8	21.3
Actual surplus (deficit)	(737.9)	(192.3)	86.7	236.8	243.6	242.2	(103.2)	(109.4)	143.8	181.8
Actual results better (worse) than budget	3.0	(211.3)	49.6	214.6	144.7	187.9	(2.2)	(50.8)	109.0	160.5
(percentage)										
% variance from budget	0.4	1,112.1	133.7	966.7	146.3	346	2.2	86.7	313.2	753.5

Change in net debt

2.60 For the year ended 31 March 2010, the Province reported an increase in net debt of $965.2 million, $526.6 million higher than the increase in net debt recorded in the year ended 31 March 2009.

2.61 The following table lists the main reasons for the higher increase in net debt for 31 March 2010 as compared to 31 March 2009.

Analysis of net debt increase	
	(millions)
2009 Increase in net debt	$438.6
Increase in annual deficit	545.6
Increase in other comprehensive income of government enterprises	(133.0)
Increase in acquisition of tangible capital assets	118.5
Increase in amortization of tangible capital assets	(11.2)
Increase in amortization of deferred contributions	3.6
Decrease in loss on disposal of tangible capital assets	0.6
Increase in revenue received to acquire tangible capital assets	(34.2)
Decrease in net change in supplies inventories	4.7
Decrease in net change in prepaid expenses	32.0
2010 Increase in net debt	**$965.2**

Revenue

2.62 The revenue areas we have analyzed are:

- total revenue;
- revenue from provincial sources;
- taxes on consumption;
- taxes on property;
- taxes on income;
- other provincial source revenue; and
- New Brunswick Electric Finance Corporation.

Total revenue

2.63 Total revenue for the past ten years, and the change in total revenue has been:

Total revenue ($ millions)	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Total revenue	6,989.9	7,112.8	6,964.9	6,643.7	6,318.0	5,978.7	5,445.8	5,241.6	5,253.1	4,872.6
Increase (decrease)	(122.9)	147.9	321.2	325.7	339.3	532.9	204.2	(11.5)	380.5	
% Change	(1.7%)	2.1%	4.8%	5.2%	5.7%	9.8%	3.9%	(0.2%)	7.8%	

2.64 The breakdown of total revenue between provincial sources and federal sources has been:

Total revenue by major source ($ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Provincial sources	4,089.3	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
Federal sources	2,900.6	2,726.5	2,577.6	2,487.4	2,392.9	2,354.8	1,917.9	1,911.9	2,038.6	1,804.8
Total	6,989.9	7,112.8	6,964.9	6,643.7	6,318.0	5,978.7	5,445.8	5,241.6	5,253.1	4,872.6
(percentage)										
Provincial sources	58.5%	61.7%	63.0%	62.6%	62.1%	60.6%	64.8%	63.5%	61.2%	63.0%
Federal sources	41.5%	38.3%	37.0%	37.4%	37.9%	39.4%	35.2%	36.5%	38.8%	37.0%

2.65 Federal source revenue was more than 40% of the Province's total revenue for the first time since 1999. In the year ended 31 March 2004, federal source revenue was 35.2% of total revenue, in the year ended 31 March 2010 it was 6.3 percentage points higher at 41.5%, a 17.9% increase.

Revenue from provincial sources

2.66 The following table compares provincial source revenue to GDP for the past ten years. The GDP numbers are for the previous calendar year.

Provincial source revenue compared to GDP ($ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Provincial sources	4,089.3	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	27,646	27,372	26,993	25,884	24,716	23,672	22,366	21,169	20,684	20,085
(percentage)										
Provincial source revenue as a % of GDP	14.8%	16.0%	16.3%	16.1%	15.9%	15.3%	15.8%	15.7%	15.5%	15.3%
Percentage growth in provincial source revenue	(6.8%)	0.0%	5.6%	5.9%	8.3%	2.7%	6.0%	3.6%	4.8%	3.1%
Percentage growth in GDP	1.0%	1.4%	4.3%	4.7%	4.4%	5.8%	5.7%	2.3%	3.0%	5.5%

2.67 In six of the past ten years, provincial source revenue has increased at a rate that exceeds the rate of growth of the GDP, however for each of the past two years the rate of growth of GDP exceeded the rate of growth of provincial source revenue. For the year ended 31 March 2010 provincial source revenue was 14.8% of GDP, a decrease of 1.2 percentage points from the year ended 31 March 2009.

2.68 The following table provides the history of the main categories of provincial revenue for the past ten years. Shading indicates that the revenue in that category was higher than in the previous year. An increase in tax revenue in a given category may be caused by more than one factor, for example even if tax rates are unchanged or decreased it is possible that more taxable activity resulted in higher tax revenue.

Provincial source revenue by main category ($ millions)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Taxes on consumption	1,233.3	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
Taxes on property	411.9	385.3	352.3	345.6	335.2	328.3	298.2	295.0	288.6	274.7
Taxes on income	1,528.3	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
Other taxes	70.4	68.7	85.5	86.6	90.8	94.7	103.4	85.0	81.9	69.2
Licenses and permits	129.0	116.6	114.5	109.7	106.7	96.9	99.8	98.2	96.5	102.0
Royalties	39.6	79.5	63.8	68.7	67.8	70.7	70.4	60.0	61.1	66.5
Investment income	106.6	357.3	417.3	308.6	409.6	283.7	252.7	175.0	244.7	156.4
Other provincial revenue	353.8	346.7	361.4	323.2	302.8	292.6	275.8	271.9	205.0	197.5
Sinking fund earnings	216.4	233.4	230.7	231.8	226.4	221.6	222.5	243.0	230.9	220.0
Total	4,089.3	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

2.69 The following table provides the history of the main categories of provincial revenue for the past ten years as a percentage of total revenue. Shading indicates that the percentage of total revenue for that category was higher than in the previous year.

Provincial source revenue by main category (percentage)										
	2010	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Taxes on consumption	17.6%	19.1%	16.1%	17.6%	18.4%	17.7%	20.9%	20.0%	17.4%	18.3%
Taxes on property	5.9%	5.4%	5.1%	5.2%	5.3%	5.5%	5.5%	5.6%	5.5%	5.6%
Taxes on income	21.9%	20.2%	23.6%	22.8%	19.4%	19.7%	19.6%	20.1%	20.8%	22.4%
Other taxes	1.0%	1.0%	1.2%	1.3%	1.4%	1.6%	1.9%	1.6%	1.6%	1.4%
Licenses and permits	1.8%	1.6%	1.6%	1.7%	1.7%	1.6%	1.8%	1.9%	1.8%	2.1%
Royalties	0.6%	1.1%	0.9%	1.0%	1.1%	1.2%	1.3%	1.1%	1.2%	1.4%
Investment income	1.5%	5.0%	6.0%	4.6%	6.5%	4.7%	4.6%	3.3%	4.7%	3.2%
Other provincial revenue	5.1%	5.0%	5.2%	4.9%	4.7%	4.9%	5.1%	5.3%	3.8%	4.1%
Sinking fund earnings	3.1%	3.3%	3.3%	3.5%	3.6%	3.7%	4.1%	4.6%	4.4%	4.5%
Total	58.5%	61.7%	63.0%	62.6%	62.1%	60.6%	64.8%	63.5%	61.2%	63.0%

Taxes on consumption

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

Taxes on consumption ($ millions)										
	2010	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Harmonized sales tax	932.5	1,060.8	841.0	872.1	838.7	723.0	803.1	736.0	659.6	653.2
Gasoline and motive fuels tax	198.1	195.1	198.1	215.2	232.1	239.7	234.9	222.1	184.3	186.5
Tobacco tax	102.6	103.7	79.9	81.9	90.5	96.5	101.4	91.9	69.7	49.8
Other	0.1	0.1	0.1	-	0.1	0.1	0.1	0.1	0.1	0.1
Total	1,233.3	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

2.71 Tobacco tax increased substantially in the year ended 31 March 2009 and remained high in the year ended 31 March 2010 due to settlements with manufacturers.

2.72 Harmonized sales tax (HST) substantially increased in the year ended 31 March 2009 because of a large prior period adjustment which also resulted in the tax revenue being lower in the year ended 31 March 2010. Over the ten year period, HST revenue has increased at an annualized rate of 4.0% per year. The ratio of harmonized sales tax revenue to GDP over the past ten years, where the GDP numbers are for the previous calendar year is as follows:

Harmonized sales tax ($ millions)										
	2010	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Harmonized sales tax	932.5	1,060.8	841.0	872.1	838.7	723.0	803.1	736.0	659.6	653.2
GDP	27,646	27,372	26,993	25,884	24,716	23,672	22,366	21,169	20,684	20,085
(percentage)										
Ratio	3.4%	3.9%	3.1%	3.4%	3.4%	3.1%	3.6%	3.5%	3.2%	3.3%

2.73 The ratio of HST to GDP for the year ended 31 March 2010 was 3.4% which is equal to the average of the ratio for the past ten years.

Taxes on property

2.74 The following table provides a history of provincial real property tax revenue for the past ten years, including the annual percentage increases. Provincial real property tax revenue has increased at an annualized rate of 4.6% over this time period. The table also provides the ratio of provincial real property tax revenue to GDP over the past ten years, where the GDP numbers are for the previous calendar year.

Provincial real property tax ($ millions, or percentage)										
	2010	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Real property tax revenue	411.9	385.3	352.3	345.6	335.2	328.3	298.2	295.0	288.6	274.7
% increase	6.9%	9.4%	1.9%	3.1%	2.1%	10.1%	1.1%	2.2%	5.1%	
GDP	27,646	27,372	26,993	25,884	24,716	23,672	22,366	21,169	20,684	20,085
Ratio	1.5%	1.4%	1.3%	1.3%	1.4%	1.4%	1.3%	1.4%	1.4%	1.4%

Taxes on income

2.75 The following table provides the history of revenue from taxes on income over the past ten years. The table also provides the ratio of taxes on income to GDP over the past ten years, where the GDP numbers are for the previous calendar year. Revenue from taxes on income has increased at an annualized rate of 3.8% over this time period.

Taxes on income ($ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Personal income tax	1,295.5	1,323.0	1,256.4	1,175.1	1,063.6	1,000.2	952.3	910.9	909.9	910.0
Corporate income tax	200.3	111.4	266.6	217.6	150.3	173.1	111.1	134.9	179.9	178.6
Metallic minerals tax	32.5	4.7	119.7	120.2	10.5	2.8	2.2	5.7	2.3	3.3
Total of taxes on income	1,528.3	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
GDP	27,646	27,372	26,993	25,884	24,716	23,672	22,366	21,169	20,684	20,085
(percentage)										
Ratio	5.53%	5.26%	6.09%	5.84%	4.95%	4.97%	4.76%	4.97%	5.28%	5.44%

2.76 The following table compares the growth in personal income tax revenue to the growth in total personal income and per capita income. The 2010 income growth rates were not available at the time of writing this Report and are not included in the table.

Personal income tax revenue (percentage)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Personal income tax growth	(2.1%)	5.3%	6.9%	10.5%	6.3%	5.0%	4.5%	0.1%	0.0%	1.1%
Per capita income growth	-	4.0%	5.1%	4.3%	3.6%	4.8%	3.5%	2.5%	2.5%	4.8%
Growth in personal income	-	4.2%	5.1%	3.9%	3.5%	4.8%	3.5%	2.5%	2.4%	4.8%
Personal income tax revenue as % of total personal income	-	5.7%	5.6%	5.5%	5.2%	5.0%	5.0%	5.0%	5.1%	5.4%

2.77 In our 2009 Report, we noted that personal income tax revenue growth surpassed the growth percentages for personal income up to 2008. This same trend continued for 2009. Given the negative growth in personal income tax in 2010, it would be interesting to compare this change in revenue to the personal income growth rates when available.

2.78 Further analysis of the personal income tax revenue shows that prior years' adjustments can have an impact on the amount of revenue recorded in any given year.

2.79 The components of personal income tax over the past ten years are:

Components of personal income tax revenue ($ millions)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Current year estimate	1,241.3	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	54.2	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	1,295.5	1,323.0	1,256.4	1,175.1	1,063.6	1,000.2	952.3	910.9	909.9	910.0

2.80 The 2010 prior year adjustment was the second largest in the ten year period. The extra funds transferred in 2010 partially offset the reduction in current year payments.

Other provincial source revenue

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

Other types of provincial revenue ($ millions)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Insurance premium tax	42.4	41.2	40.7	40.1	39.4	39.7	42.2	34.3	30.3	28.2
Financial corporation capital tax	12.7	7.4	7.3	5.8	9.5	10.6	9.8	8.3	9.2	7.0
Large corporation capital tax	9.2	13.5	31.2	34.7	36.3	39.5	47.3	38.7	39.0	30.6
Motor vehicle licenses	104.2	95.0	91.5	89.3	86.3	76.2	73.7	74.0	74.0	76.0
Forest royalties	28.8	40.4	45.8	58.8	56.9	60.2	62.9	53.1	54.6	58.3
Mining royalties	10.8	39.1	18.0	9.9	10.9	10.5	7.5	6.9	6.5	8.2
Lottery revenue	115.9	120.6	117.0	113.0	111.2	118.1	116.7	109.1	89.2	89.7
NB Liquor Corporation	157.9	152.7	144.9	131.5	126.1	122.6	118.6	110.1	106.8	103.0
Sinking fund earnings	216.4	233.4	230.7	231.8	226.4	221.6	222.5	243.0	230.9	220.0

2.82 Some specific notable items about the revenue numbers provided in the previous table include:

- The large corporation capital tax reduced for the sixth year in a row.

- Motor vehicle license revenue increased by about 9.7% in the year ended 31 March 2010.

- Revenue from forestry royalties again declined significantly and is now less than half of what it was at its peak in the year ended 31 March 2004.

- Mining royalties also declined significantly, however the revenue earned in the year ended 31 March 2009 was unusually high.

- Profits from NB Liquor increased in the year ended 31 March 2010, as they have done in every year in the above table.

- Sinking fund earnings declined by $17.0 million, which when coupled with the increase in service of the public debt expense of $14.1 million resulted in the Province's net cost of servicing the public debt increasing by $31.1 million or 8.4%.

2.83 The ten year average annual growth rate of each of the other provincial sources of revenue listed above is provided in the following table. The table also compares the ten year annual growth rate to the ten year annual growth rate for the period ending 31 March 2009.

Ten-year annualized growth rate for other provincial revenues (percentage)

Revenue source	Annualized growth rate for the ten years ended 31 March 2010	Annualized growth rate for the ten years ended 31 March 2009
Financial corporation capital tax	6.8%	(1.6%)
NB Liquor Corporation	4.9%	4.7%
Insurance premium tax	4.6%	5.3%
Motor vehicle licenses	3.6%	2.9%
Mining royalties	3.1%	19.3%
Lottery revenue	2.9%	3.8%
Sinking fund earnings	(0.2%)	1.5%
Forest royalties	(7.5%)	(3.3%)
Large corporation capital tax	(12.5%)	(7.8%)

NB Electric Finance Corporation

2.84 NB Electric Finance Corporation's results for the past ten years are provided in the following table:

NB Electric Finance Corporation net earnings (loss) ($ millions)										
	2010	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
NB Electric Finance Corporation	(212.2)	34.4	104.5	18.7	131.6	7.8	(18.0)	(77.4)	19.0	(78.0)

2.85 The NB Electric Finance Corporation, which includes the results of NB Power Holding Corporation (NB Power), reported a large loss in the year ended 31 March 2010. Of this loss, $161.0 million was caused by NB Power's write down of the Dalhousie Generating Station. NB Power's results are difficult to interpret because of:

- their continued recognition of regulatory assets for certain normal period costs and replacement power costs associated with the refurbishment of the Point Lepreau Generating Station, and for the benefits from the lawsuit settlement with PDVSA; and
- their mark-to-market accounting for the PDVSA long term receivable which the Notes to the Combined Financial Statements of NBPower describe as temporary and which will reverse when all the related fuel shipments have been received.

2.86 The following table provides information about NBPower's earnings for the past four years:

NB Power ($ millions)				
	2010	**2009**	**2008**	**2007**
Net earnings (loss) per financial statements	(117)	70	89	21
Net earnings (loss) before special payments in lieu of income taxes	(170)	104	138	29
Net earnings (loss) before special payments in lieu of income taxes adjusted to remove the effects of regulatory accounting	(317)	(282)	211	29
Net earnings (loss) before special payments in lieu of income taxes adjusted to remove the effects of regulatory accounting and the effects of temporary mark-to-market adjustments on long term receivable	(366)	(137)	118	29
Net earnings (loss) before special payments in lieu of income taxes adjusted to remove the effects of regulatory accounting , the effects of temporary mark-to-market adjustments on long term receivable, and the write down on the Dalhousie Generating Station	(205)	(137)	118	29

2.87 NB Power's net earnings show surpluses in the years ended 31 March 2007 through 2009, and if one removes the write down of the Dalhousie Generating Station the net earnings for the year ended 31 March 2010 would also be positive. The adjusted earnings figure at the bottom of the preceding table reflects steadily worsening results since the year ended 31 March 2008, which is what would be expected with the extra costs incurred during the refurbishment shut down of the Point Lepreau Generating Station. The year ended 31 March 2007 provides a good base year comparison because the Point Lepreau Generating Station was operational; there was no long term receivable to mark to market; and NB Power was not recording regulatory assets.

2.88 The above adjustments may be simplistic; however the analysis helps to minimize the noise created by the more complex accounting adjustments recorded by NB Power, thereby allowing the reader to understand the operational changes that occur from year to year.

2.89 The next table shows the reasons why NB Power's adjusted earnings have changed over the past three years.

NB Power ($ millions)			
	2010	**2009**	**2008**
Net earnings (loss) before special payments in lieu of income taxes adjusted to remove the effects of regulatory accounting, the effects of temporary mark-to-market adjustments on long term receivable, and the write down on the Dalhousie Generating Station – previous year	(137)	118	29
More (less) revenue from sales of power	-	3	72
More (less) transmission revenue	2	2	3
More (less) miscellaneous revenue	(14)	(26)	32
(More) less expense for fuel and purchased power	(18)	(284)	(25)
(More) less expense for transmission	(4)	3	-
(More) less expense for operations, maintenance and administration	(32)	(18)	(8)
(More) less expense for amortization and decommissioning	(13)	30	4
(More) less taxes	3	-	6
(More) less finance charges	8	35	5
Net earnings (loss) before special payments in lieu of income taxes adjusted to remove the effects of regulatory accounting , the effects of temporary mark-to-market adjustments on long term receivable, and the write down on the Dalhousie Generating Station – current year	(205)	(137)	118

2.90 This table provides information about the year to year changes in NB Power's core results:

- The year ended 31 March 2008 was a significant improvement over the year ended 31 March 2007 primarily because increases in revenue from sales of power and miscellaneous sources were significantly higher than the increased cost of fuel.
- The year ended 31 March 2009 resulted in worse results than the year ended 31 March 2008 because the Point Lepreau Generating Station was taken off line, resulting in higher costs for replacement fuel.
- The year ended 31 March 2010 resulted in worse results than the year ended 31 March 2009 for a number of smaller reasons; fuel costs increased but sales of power did not change, miscellaneous revenue declined for the second year in a row, and the cost of operations maintenance and administration increased by 7.8%.

2.91 While the accounting that NB Power uses for rate regulated assets is consistent with Generally Accepted Accounting Principles, the reader needs to understand what the assets represent. Most of the regulatory asset represents the right of NB Power to collect revenue from rate payers in the future to cover the normal period costs and replacement power costs associated with the refurbishment of the Point Lepreau Generating Station. This right was given to NB Power when the government enacted section 143.1 of the Electricity Act; the right was not conferred on NB Power by the Energy and Utilities Board as part of the rate setting process. The asset is the right to collect from future ratepayers the amount needed to recover costs that have been spent and that do not represent future service capacity. Ratepayers will receive no future service benefit from this regulatory asset. Normally such a situation would be considered to be a deficit.

2.92 As part of our audit work we confirmed that NB Power and their auditors assessed the ability of NB Power to be able to charge rates in the future at a sufficient level to fully collect the amount of the regulatory asset. We were especially concerned about this because much of the public perception that arose from the transaction that was proposed in October 2009 between the Province and Hydro-Quebec was that power rate increases needed to be minimized, and in the case of industrial customers, rates needed to be reduced. As part of our work we had the opportunity to review NB Power's model of its future financial results; this model covers multiple years into the future. The model forecasts better results than we expected it to, but we found that the forecast held up even when various assumptions were changed. Of course, the forecast is dependent on the Point Lepreau Generating Station successfully being returned to service. Our review of NB Power's model was completed before the most recent announcement that the station will not be brought back on-line before 2012.

2.93 Essentially NB Power's model forecasts that the corporation can recover its regulatory asset and generate healthy surpluses thereby allowing it to reduce its debt, while at the same time requiring minimal rate increases for the foreseeable future.

Expenses

2.94 The main items of expenses we have analyzed are:

- total expenses;
- interest expense;
- amortization expense;
- pension expense; and

- total expenditure.

Total expenses

2.95 The following two tables report the Province's expenses for the past seven years by function as listed in the Province's Statement of Operations. The first table shows the amount of expense by function and the second table shows the percentage of total expenses represented by each function.

Total expenses by function ($ millions)	2010	2009	2008	2007	2006	2005	2004
Education and training	1,621.7	1,452.0	1,430.9	1,305.5	1,309.7	1,189.0	1,168.1
Health	2,585.0	2,445.7	2,272.3	2,110.7	1,958.2	1,837.4	1,788.9
Social development	973.4	941.6	903.1	818.0	769.6	724.7	710.9
Protection services	209.4	223.8	187.5	235.1	162.3	152.0	145.3
Economic development	344.6	287.9	230.4	207.0	182.4	184.8	168.3
Labour and employment	141.5	124.4	119.1	120.4	117.4	117.5	121.5
Resources	183.6	177.4	178.4	193.0	160.1	166.8	159.0
Transportation	400.5	399.8	380.3	347.5	336.3	310.5	307.5
Central government	651.5	650.0	589.3	510.7	495.5	479.1	475.0
Service of the public debt	616.6	602.5	576.9	559.4	591.4	580.9	582.9
Total	7,727.8	7,305.1	6,868.2	6,407.3	6,082.9	5,742.7	5,627.4

Total expenses by function (percent)	2010	2009	2008	2007	2006	2005	2004
Education and training	21.0	19.9	20.8	20.4	21.5	20.7	20.8
Health	33.4	33.5	33.1	32.9	32.2	32.0	31.8
Social development	12.6	12.9	13.2	12.8	12.7	12.6	12.6
Protection services	2.7	3.1	2.7	3.7	2.7	2.7	2.6
Economic development	4.5	3.9	3.4	3.2	3.0	3.2	3.0
Labour and employment	1.8	1.7	1.7	1.9	1.9	2.1	2.1
Resources	2.4	2.4	2.6	3.0	2.6	2.9	2.8
Transportation	5.2	5.5	5.5	5.4	5.5	5.4	5.5
Central government	8.4	8.9	8.6	8.0	8.2	8.3	8.4
Service of the public debt	8.0	8.2	8.4	8.7	9.7	10.1	10.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

2.96 While the preceding table provides a picture of the proportion of total expenses that goes to each functional area, it can mask trends because the percentages can stay the same even if total expenses significantly increased. Another way to analyze the expenses is to compare them as a percentage of total revenue, as is done in the following table.

Expenses as a percentage of total revenue, by function (percent)

	2010	2009	2008	2007	2006	2005	2004
Education and training	23.2	20.4	20.5	19.7	20.7	19.9	21.5
Health	37.0	34.3	32.6	31.8	31.0	30.7	32.9
Social development	13.9	13.2	13.0	12.3	12.2	12.1	13.1
Protection services	3.0	3.1	2.7	3.5	2.6	2.5	2.7
Economic development	4.9	4.0	3.3	3.1	2.9	3.1	3.1
Labour and employment	2.0	1.7	1.7	1.8	1.9	2.0	2.2
Resources	2.6	2.5	2.6	2.9	2.5	2.8	2.9
Transportation	5.8	5.7	5.5	5.2	5.3	5.2	5.6
Central government	9.4	9.3	8.4	7.7	7.8	8.0	8.6
Service of the public debt	8.8	8.5	8.3	8.4	9.4	9.7	10.7
Total	110.6	102.7	98.6	96.4	96.3	96.1	103.3

2.97 This shows that the Province has reduced the proportion of revenue earned that is spent on the resource sector function over this time period, and has maintained the level of expenses for the transportation function. The proportion of revenue used for health expenses continues to rise, and after three years of reductions in the service of the public debt the cost of debt service has now increased two years in a row. The rate of growth for education expenses for the year ended 31 March 2010 was artificially high because of the Province's manipulation of the grant payment to the Maritime Provinces' Higher Education Commission.

2.98 The following table shows the average annual growth rate of each of the Province's expense functions since the year ended 31 March 2004. It also shows the one year growth rate for the year ended 31 March 2010 and 31 March 2009.

Growth of expenses by function (percent)			
Average annual growth rate	**Function**	**2010 growth rate**	**2009 growth rate**
5.6	Education and training	11.7	1.5
6.3	Health	5.7	7.6
5.4	Social development	3.4	4.3
6.3	Protection services	(6.4)	19.4
12.7	Economic development	19.7	25.0
2.6	Labour and employment	13.7	4.5
2.4	Resources	3.5	(0.6)
4.5	Transportation	0.2	5.1
5.4	Central government	(0.2)	10.3
0.9	Service of the public debt	2.3	4.4
5.4	Total	5.8	6.4

2.99 This table shows that the Province's expenses have been growing at a significant rate. The 5.7% rate of growth of health expenses for the year ended 31 March 2010 is particularly concerning since health expenses represent the largest part of the Province's expenses at over thirty-three percent. While it was positive that the rate of growth of health expenses decreased in the year ended 31 March 2010, and was in fact below the average annual growth rate for the period since 31 March 2004, a 5.7% rate of growth cannot be sustained.

2.100 The rate of growth for education expenses for the year ended 31 March 2010 was artificially high because of the Province's manipulation of the grant payment to the Maritime Provinces' Higher Education Commission in prior years. The decrease in the rate of growth for protection services in the year ended 31 March 2010 reflects the fact that there was extra spending in the year ended 31 March 2009 in the Disaster Financial Assistance program as a result of flood damages.

2.101 While the average annual rate of growth for service of the public debt expense appears to be manageable at 0.9%, it is concerning that the expense grew by 4.4% in the year ended 31 March 2009 and by 2.3% in the year ended 31 March 2010. The

2.3% increase is compounded by the fact that sinking fund earnings decreased by 7% in the year ended 31 March 2010.

2.102 The growth rates for expenses are compared to the growth rates for GDP and revenue in the following table. The GDP numbers are for the previous calendar year.

Comparison of growth rates (percent)

Average annual rate		2010	2009	2008	2007	2006	2005
5.4	Rate of expense growth	5.8	6.4	7.2	5.3	5.9	2.0
3.6	Rate of GDP growth	1.0	1.4	4.3	4.7	4.4	5.8
4.3	Rate of revenue growth	(1.7)	2.1	4.8	5.2	5.7	9.8

2.103 Over the six year time frame shown in the preceding table, and in each of the past five years, the average annual rate of growth of expenses has exceeded the average annual rate of growth of both GDP and revenue. This has resulted in the deterioration of the Province's net results from operations over that time frame from a surplus for the year ended 31 March 2006 of $243.6 million to a deficit of $737.9 million for the year ended 31 March 2010.

Interest expense

2.104 The Notes to the Province's Financial Statements provide details about debt charges. The following table provides a comparison of the past ten years.

Components of interest expense ($ millions)										
	2010	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Interest	813.3	778.5	744.6	732.4	737.1	749.8	758.8	791.2	809.7	843.2
Interest on Fredericton to Moncton highway capital lease	51.7	53.0	54.3	55.4	56.5	57.5	58.1	55.8	22.5	-
Interest on other capital leases	2.0	2.0	2.1	2.2	2.2	2.3	2.3	2.4	2.4	2.5
Foreign exchange expense	(20.0)	(6.6)	(16.7)	(30.8)	(7.8)	(21.7)	(40.3)	35.4	56.6	44.5
Amortization of discounts and premiums	5.7	8.1	8.1	7.3	7.4	7.1	7.4	7.9	7.5	7.9
Other expenses	9.4	1.8	1.9	2.1	1.7	1.9	2.1	3.3	1.8	1.2
Subtotal	862.1	836.8	794.3	768.6	797.1	796.9	788.4	896.0	900.5	899.3
Interest recovery – Electric Finance Corporation	(245.5)	(234.3)	(217.4)	(209.2)	(205.7)	(216.0)	(205.5)	(235.1)	(248.7)	(262.0)
Service of the public debt	616.6	602.5	576.9	559.4	591.4	580.9	582.9	660.9	651.8	637.3
Less sinking fund earnings	(216.4)	(233.4)	(230.7)	(231.8)	(226.4)	(221.6)	(222.5)	(243.0)	(230.9)	(220.0)
Subtotal	400.2	369.1	346.2	327.6	365.0	359.3	360.4	417.9	420.9	417.3
Net pension interest	118.2	20.6	(9.1)	0.4	30.9	17.6	85.4	27.9	3.5	-53.6
Interest on student loans	2.3	9.1	13.6	11.6	6.8	-	-	-	-	-
Total	520.7	398.8	350.7	339.6	402.7	376.9	445.8	445.8	424.4	363.7

2.105 The highlighted subtotal in the previous table deducts sinking fund earnings from service of the public debt. This is the best indicator of the Province's net interest costs. This net number reached a low of $327.6 million in the year ended 31 March 2007. In the year ended 31 March 2010 it was $400.2 million, an increase of $72.6 million or 22.2%. This highlights the impact that increasing deficits have; the deficit problem is compounded by the fact that Province has to cover higher interest costs as well as higher program costs. By contrast, the table shows that the net interest cost decreased from $417.3 million at 31 March 2001 to $327.6 million at 31 March 2007, providing $79.7 million of spending room.

2.106 The table also shows that the Province has benefited from favourable adjustments to the foreign exchange expense each of the past seven years, with a significant positive adjustment of $20.0 million in the year ended 31 March 2010.

2.107 One other item of note in the previous table is the increase in the Other expenses component from $1.8 million to $9.4 million.

This was the result of legal and consulting services obtained by the Province relating to issues around the option to sell N.B. Power.

Amortization expense

2.108 The Province started reporting its tangible capital assets on its Statement of Financial Position in the year ended 31 March 2005. The assets are expensed over their useful lives through an amortization charge recorded on the Statement of Operations. The amortization expense for the past five years has been:

Amortization expense ($ millions)						
	2010	2009	2008	2007	2006	2005
Amortization expense	291.1	279.9	253.3	238.1	227.4	215.3

2.109 Over this time period the average annualized rate of growth has been 6.2%.

Pension expense

2.110 The following table provides details of the Province's total pension expense for the past ten years:

Components of pension expense ($ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Employer's share of pension benefits earned	131.6	146.1	133.8	126.1	117.0	124.1	96.1	90.6	82.9	89.9
Net Interest expense (revenue)	118.2	20.6	(9.1)	0.4	30.9	17.6	85.4	27.9	3.5	(53.6)
Plan amendments	-	-	-	5.9	-	-	-	-	-	-
Amortization of adjustments	87.1	159.7	30.3	(31.2)	(40.3)	(31.8)	(55.3)	(26.1)	(80.6)	(94.5)
Change in valuation adjustment	(15.5)	(3.3)	(0.5)	(0.1)	2.3	(1.5)	(2.0)	(2.0)	(6.5)	7.1
Total	321.4	323.1	154.5	101.1	109.9	108.4	124.2	90.4	(0.7)	(51.1)

2.111 This table highlights the significant increase in the annual pension expense over the ten year period. In the year ended 31 March 2001, the pension expense was a credit of $51.1 million; this had the same effect on the Province's Statement of Operations in that year as a revenue item of $51.1 million. In the year ended 31 March 2010 the pension expense was $321.4 million, an increase of $372.5 million.

2.112 The employer's share of pension benefits earned has increased at an annualized rate of 4.3% per year. This is the expense the Province incurs to provide pension benefits earned by employees during the year. It is the fundamental number that the pension expense is based on. The net interest component of the pension expense depends primarily on the rate of return earned on pension fund assets. These returns are volatile, as illustrated in the following table which reports the rates of return for the New Brunswick Investment Management Corporation (NBIMC) since it diversified the pension funds on 31 March 1997. NBIMC manages the trust funds for the *Public Service Superannuation Act* (PSSA) plan, the *Teachers' Pension Act* (Teachers') plan and the *Provincial Court Act* and *Provincial Court Judges' Pension Act* (Judges') plan.

NBIMC rates of return (percentage)	
2010	19.94
2009	(18.34)
2008	0.79
2007	8.68
2006	15.87
2005	8.51
2004	25.27
2003	(6.95)
2002	3.45
2001	(5.23)
2000	20.57
1999	(0.62)
1998	18.68
Average annualized	6.22

2.113 The returns earned by NBIMC have ranged from a high of 25.27% in the year ended 31 March 2004 to a low of (18.34)% in the year ended 31 March 2009. Over the thirteen fiscal years the average annual rate of return of NBIMC has been 6.22% which is below the 7.12% rate of return the Province assumes will be earned on the plan assets over the long term. In the year ended 31 March 2009, the Province reduced its assumed long term rate of return to 6.86%, however in the year ended 31 March 2010 the Province increased its assumed long term rate of return to 7.12%.

2.114 A comparison of actual pension expense to budgeted pension expense for the year ended 31 March 2010 is provided in the following table:

Pension expense budget to actual comparison ($ millions)		
Budget category	Budget	Actual
CUPE hospital pension plan	10.3	12.3
Part-time and seasonal plans	8.3	8.5
Non-teaching school board plans	5.9	(0.5)
Ombudsman's plan	0.2	0.2
Judges' superannuation plan	2.8	2.4
Members' plans	6.6	6.2
Public service superannuation plan	222.5	125.8
Teachers' pension plan	201.1	131.2
Subtotal	457.7	286.1
Pension expense not specifically identified in the budget		35.3
Total actual pension expense		321.4

2.115 The previous table shows that the Province's actual expense of $286.1 million for pension plans specifically identified in the 2009-2010 Main Estimates was $171.6 million below the budget of $457.7 million for these plans. The primary reasons for this were the Province changing its assumptions for the two largest plans and the 19.94% rate of return earned on the pension funds by NBIMC. The higher than expected rate of return was responsible for about one half of the pension expense reduction, and the change in assumptions on the two largest pension plans was responsible for the other half. These changes included a move to a more aggressive assumed rate of return of 7.12% and an assumed two year wage freeze on salaries.

2.116 The Province has incurred two straight years of volatile pension fund investment returns on its two largest plans. The rate of return for the year ended 31 March 2009 was negative 18.34%, while the rate of return for the year ended 31 March 2010 was positive 19.94%. For pension expense purposes however, these rates of return need to be compared to the assumed rate of return of 7.12%. On this basis the return for the year ended 31 March 2009 was 25.46% below the assumed rate, while the return for the year ended 31 March 2010 was 12.82% above the assumed rate.

Total expenditure

2.117 Before the Province adopted 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. The following table reports expenditures for the past seven years, as well as the rate of growth for expenditures, GDP and revenue. The GDP numbers are for the previous calendar year.

Expenditure ($ millions)							
	2010	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
Expenditure	8,024.5	7,457.2	7,484.5	6,529.9	6,206.1	5,852.0	5,570.9
(percentage)							
Expenditure	7.6	(0.4)	14.6	5.2	6.1	5.0	
GDP growth	1.0	1.4	4.3	4.7	4.4	5.8	
Revenue	(1.7)	2.1	4.8	5.2	5.7	9.8	

2.118 In the year ended 31 March 2009, expenditure growth was less than both GDP growth and revenue growth; however in the year ended 31 March 2010, expenditure growth was significantly higher. In four of the past six years, expenditure growth exceeded GDP growth, and in three of the past six years expenditure growth exceeded revenue growth.

Statement of Financial Position

2.119 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;
- all allowances;
- pension liability (surplus);
- funded debt for provincial purposes; and
- net debt.

Receivables and advances

2.120 The following table provides details of the Province's receivables and advances:

Receivables and advances ($ millions)										
	2010	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
General receivables	258.7	270.4	258.8	236.6	216.9	196.8	274.0	247.5	197.8	174.8
Receivables from Canada	204.5	182.0	205.0	169.7	164.0	141.6	132.3	121.5	122.8	119.5
Guarantee payouts	149.0	94.7	75.3	45.8	50.1	52.4	32.0	32.7	26.8	21.6
Advances	59.8	23.5	23.1	33.6	62.0	67.5	-	-	-	-
Other receivables	-	-	-	-	-	-	7.2	7.3	9.8	10.6
Interest receivable	61.0	52.1	45.5	37.1	33.4	26.3	30.8	30.3	25.6	24.1
Subtotal	733.0	622.7	607.7	522.8	526.4	484.6	476.3	439.3	382.8	350.6
Allowance for doubtful accounts	(306.0)	(244.0)	(201.3)	(155.7)	(140.7)	(132.9)	(118.5)	(113.3)	(97.7)	(87.4)
Total	427.0	378.7	406.4	367.1	385.7	351.7	357.8	326.0	285.1	263.2

2.121 The categories general receivables, advances and other receivables reflect some fluctuations because of changes in financial statement presentation over the years and because of the addition of details of certain consolidated entities that occurred during this time frame. In the year ended 31 March 2010 the Province stopped disclosing the receivables of consolidated entities separately.

2.122 The total amount of receivables and advances at 31 March 2010 was $733.0 million, an increase of 17.7% over the amount owing at the end of the previous year.

2.123 The amount receivable from Canada increased by $22.5 million during the year ended 31 March 2010. One component of the receivable from Canada is an amount receivable under the Official Languages in Education Program. We provided some details of this receivable in Volume 1 of our 2008 Report. This receivable is included in Schedule 2 to the Province's financial statements in the line called Education. For the year ended 31 March 2008 the Province indicated that $63.8 million was receivable from Canada for Education. For the year ended 31 March 2010, the amount owing from Canada for Education is $28.7 million. This is evidence that the Province is now managing this receivable more actively. A $35.1 million reduction in this receivable would have resulted in interest cost savings to the Province of about $1.75 million assuming a 5% interest rate.

2.124 The amount owing from Canada for Education decreased during the year ended 31 March 2010. However, the amount owing for Transportation increased by $39.4 million, and the amount owing for Economic Development increased by $12.3 million. The transportation receivable increase mainly related to federal government claim processing problems and receivables under the infrastructure stimulus program.

2.125 The Economic Development amount increased because of larger expenditures funded by Canada under the *Gas Tax Agreement* and new cost shared programs.

2.126 The amount owing for guarantees paid out increased to $149.0 million at 31 March 2010 which is about seven times the amount owing at 31 March 2001. It is also $54.3 million higher than the amount owing at 31 March 2009. This increase is mainly due to the $50 million guarantee for Atcon.

2.127 The advances account also increased significantly at 31 March 2010. This was mainly due to a $27.4 million advance to the Maritime Provinces' Higher Education Commission relating to the 2011 fiscal year.

2.128 The collectability of the amounts due from Canada should not be in question, although this receivable still needs to be managed in order to ensure they are collected as soon as possible.

2.129 The following table calculates the value of the accounts receivable and advances that need to be actively managed and compares that value to the value of the accounts that are considered doubtful.

Receivables and advances ($ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Total accounts receivable and advances before allowance for doubtful accounts	733.0	622.7	607.7	522.8	526.4	484.6	476.3	439.3	382.8	350.6
Less: Receivables from Canada	(204.5)	(182.0)	(205.0)	(169.7)	(164.0)	(141.6)	(132.3)	(121.5)	(122.8)	(119.5)
Less advances of grants	(37.6)	(13.0)	(12.7)	(21.9)	(51.5)	(55.2)	-	-	-	-
Subtotal	490.9	427.7	390.0	331.2	310.9	287.8	344.0	317.8	260.0	231.1
Allowance for doubtful accounts	(306.0)	(244.0)	(201.3)	(155.7)	(140.7)	(132.9)	(118.5)	(113.3)	(97.7)	(87.4)
Allowance percentage	62.3%	57.0%	51.6%	47.0%	45.3%	46.2%	34.4%	35.7%	37.6%	37.8%

2.130 62.3% of the Province's receivables and advances (other than receivables from Canada or advances of grants) have been allowed for. This represents an increase of 5.3 percentage points over the previous year and 24.5 percentage points over the percentage considered doubtful in the year ended 31 March 2001.

2.131 We continue to believe that the growth in the amount of receivables and advances owing to the Province and the growth in the allowance percentage indicate that the Province needs to improve the management of these receivables.

Taxes receivable

2.132 The following table provides details of the amount of the Province's taxes receivable.

Taxes receivable ($ millions)										
	2010	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Real property taxes	961.0	911.0	855.1	791.4	411.0	395.3	384.0	374.3	359.9	342.4
Sales tax	97.4	154.5	60.5	87.0	87.9	32.7	107.7	85.4	68.9	68.9
Tobacco tax	23.8	21.7	8.5	8.4	8.5	10.2	11.3	9.0	7.4	5.3
Gasoline and motive fuel tax	17.2	17.7	19.6	22.8	20.7	26.0	21.9	20.0	17.2	21.5
Royalties and stumpage on timber	8.5	10.8	5.1	22.0	24.3	21.8	28.0	18.2	18.4	22.7
Metallic minerals tax	-	-	0.1	112.5	-	-	-	-	-	-
Other	4.1	7.2	5.3	2.5	2.5	2.9	0.3	0.1	0.1	0.1
Subtotal	1,112.0	1,122.9	954.2	1,046.6	554.9	488.9	553.2	507.0	471.9	460.9
Allowance for doubtful accounts	(61.8)	(56.5)	(55.1)	(77.0)	(85.4)	(80.7)	(86.6)	(89.5)	(89.5)	(84.5)
Total	1,050.2	1,066.4	899.1	969.6	469.5	408.2	466.6	417.5	382.4	376.4

2.133 The amount of revenue recorded by the Province in the related tax revenue accounts for some of the taxes receivable listed in the previous table was:

Tax revenue ($ millions)										
	2010	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Real property taxes	411.9	385.3	352.3	345.6	335.2	328.3	298.2	295.0	288.6	274.7
Tobacco tax	102.6	103.7	79.9	81.9	90.5	96.5	101.4	91.9	69.7	49.8
Gasoline and motive fuel tax	198.1	195.1	198.1	215.2	232.1	239.7	234.9	222.1	184.3	186.5
Royalties and stumpage on timber	28.8	40.4	45.8	58.8	56.9	60.2	62.9	53.1	54.6	58.3
Metallic minerals tax	32.5	4.7	119.7	120.2	10.5	2.8	2.2	5.7	2.3	3.3

2.134 The following table provides the ratio of outstanding taxes to the applicable tax revenue for the year:

Tax receivable as a percentage of tax revenue (percent)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Real property taxes	233.3	236.4	242.7	229.0	122.6	120.4	128.8	126.9	124.7	124.6
Tobacco tax	23.2	20.9	10.6	10.3	9.4	10.6	11.1	9.8	10.6	10.6
Gasoline and motive fuel tax	8.7	9.1	9.9	10.6	8.9	10.8	9.3	9.0	9.3	11.5
Royalties and stumpage on timber	29.5	26.7	11.1	37.4	42.7	36.2	44.5	34.3	33.7	38.9
Metallic minerals tax	-	-	0.1	93.6	-	-	-	-	-	-

2.135 Some observations:

- The Province's receivable for real property taxes includes the municipal portion of property taxes that the Province collects on behalf of the municipalities; however the Province's real property tax revenue does not include the municipal portion of real property taxes. For this reason the Province's receivable is greater than its total revenue.

- Because real property tax bills are sent out before 31 March each year, but are not due until after 31 March, the financial statements always report a large balance of property taxes receivable. This makes it difficult to assess the collection position of property taxes based on the information contained in the Province's financial statements.

- Because gasoline and tobacco taxes are collected throughout the year, it would be reasonable for approximately 1/12th , or 8.3%, of the revenue for the year for those taxes to be receivable at the end of the year. The amount receivable for tobacco tax was significantly higher than 8.3% for both the year ended 31 March 2009 and the year ended 31 March 2010 because of settlements in those years with manufacturers.

2.136 The following table shows the percentage of taxes receivable for which the Province considers collection doubtful:

Tax receivable ($ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Total taxes receivable	1,112.0	1,122.9	954.2	1,046.6	554.9	488.9	553.2	507.0	471.9	460.9
Allowance for doubtful accounts	61.8	56.5	55.1	77.0	85.4	80.7	86.6	89.5	89.5	84.5
(percentage)										
Percentage	5.6	5.0	5.8	7.4	15.4	16.5	15.7	17.7	19.0	18.3

2.137 Because of the timing of real property tax bills it is difficult to assess if the overall percentage of doubtful taxes receivable to total taxes receivable is reasonable. Also, because the Province started to include the municipal portion of real property taxes receivable in the year ended 31 March 2007, the overall percentage significantly declined. If we were able to adjust for the timing of real property tax bills, the percentages of doubtful accounts would be higher.

2.138 One area that needs to be watched is the change in the percentage of doubtful taxes receivable to total taxes receivable. This percentage increased in the year ended 31 March 2010 by 0.6%. On a total receivable of $1,112.0 million this represents over six million dollars that may not be collected.

Loans

2.139 The following table provides details of the Province's loans receivable.

Loans receivable ($ millions)										
	2010	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Loans to students	391.0	369.2	336.4	296.0	258.3	0.2	0.2	0.2	0.2	0.2
Economic Development Act	303.6	246.3	169.8	146.0	135.5	135.8	124.1	155.7	144.0	138.8
New Brunswick Housing Act	35.9	35.5	34.0	34.8	34.5	33.6	32.7	31.8	30.9	28.4
Energy efficiency upgrade loans	11.1	7.3	3.6	2.3	0.2	-	-	-	-	-
Fisheries Development Act	35.2	36.4	40.1	39.2	40.1	42.6	48.8	54.4	56.9	58.0
Agricultural Development Act	11.2	5.4	4.4	4.2	18.1	21.3	21.7	20.3	18.1	17.3
Beaverbrook Art Gallery	6.6	6.6	4.5	4.5	1.0	1.0	-	-	-	-
Loans to municipalities	3.4	5.4	7.3	9.2	1.0	1.6	1.6	1.9	1.7	1.9
Fundy Trail Endowment Fund	3.3	3.1	2.9	2.8	2.6	4.0	3.8	3.6	3.2	3.2
Unsatisfied judgements	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5
L'Office de Stabilisation	4.1	4.1	4.0	-	-	-	-	-	-	-
La Fondation du quotidien francophone	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Provincial Holdings Ltd.	2.6	2.9	4.1	6.2	6.0	6.5	6.7	8.1	8.5	9.6
Other loans	0.9	1.1	1.4	1.9	2.1	2.6	2.5	2.8	3.1	6.7
Subtotal	822.4	736.8	626.0	560.6	512.9	262.7	255.6	292.3	280.1	277.6
Allowance for doubtful accounts	(313.3)	(297.9)	(229.3)	(207.2)	(192.9)	(142.6)	(129.3)	(143.9)	(133.7)	(124.7)
Total	509.1	438.9	396.7	353.4	320.0	120.1	126.3	148.4	146.4	152.9
(percent)										
Percentage of doubtful accounts	38.1	40.4	36.6	37.0	37.6	54.3	50.6	49.2	47.7	44.9

2.140 The rate of growth of loans to students decreased during the year ended 31 March 2010. Loans receivable under the *Economic Development Act*, the *Agriculture Development Act* and for energy efficiency upgrades all increased significantly.

2.141 Loans receivable for unsatisfied judgements and La Fondation du quotidien francophone that have been fully allowed for are still carried on the Province's Statement of Financial Position. We continue to recommend that these be written off for accounting purposes.

2.142 The reason that the percentage of loans receivable considered to be doubtful decreased substantially in the year ended 31 March

2006 was because that was the year the Province added the student loans to its loan portfolio. Since then the percentage of doubtful accounts has remained stable.

2.143 The following table provides details of the allowance for doubtful accounts for each significant loan type:

Allowance for doubtful loans receivable (percent)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Loans to students	20.6	20.1	19.4	18.6	15.9	0.2	0.2	0.2	0.2	0.2
Economic Development Act	57.7	66.8	62.1	64.9	65.1	56.8	46.0	45.0	41.7	37.2
New Brunswick Housing Act	10.6	13.2	14.1	6.9	7.0	6.3	7.6	7.9	8.1	9.2
Energy efficiency upgrade loans	4.5	6.8	5.6	4.3	0.0	N/A	N/A	N/A	N/A	N/A
Fisheries Development Act	74.1	75.8	71.8	71.9	73.8	71.6	76.8	74.3	74.3	77.9
Agricultural Development Act	29.5	46.3	68.2	69.0	72.4	73.2	71.0	69.0	66.3	48.0

2.144 The allowance for *Economic Development Act* loans as a percentage of those loans outstanding dropped due to several large new loans being made to established companies which were felt to be fully collectable. The *Agricultural Development Act* allowance percentage dropped in 2010, due to a large loan to the New Brunswick Agricultural Insurance Commission which was felt to be collectable.

Accounts payable and accrued expenses

2.145 The following table provides the history of the Province's accounts payable and accrued expenses over the past ten years.

Accounts payable and accrued expenses ($ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Accounts payable	465.2	448.2	452.4	446.8	417.4	388.2	372.4	300.5	375.6	255.0
Due to Canada	163.0	184.6	207.4	228.9	249.9	211.4	186.2	34.8	10.3	9.5
Accrued interest	191.0	205.6	215.2	227.0	236.8	244.2	231.0	229.5	164.2	164.3
Employee benefits	706.4	718.0	641.4	609.2	599.6	575.4	542.2	419.5	404.1	403.9
Municipal property taxes due to municipalities	385.8	364.3	338.7	312.3	-	-	-	-	-	-
Other	188.9	165.6	148.8	127.7	137.6	201.1	148.5	268.1	182.7	210.4
Total	2,100.3	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

2.146 Two components of the accrued employee benefit expense are:

Accrued employee benefits ($ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Liability for injured workers	133.9	135.6	126.8	105.8	103.3	95.7	89.6	83.2	68.9	55.7
Retirement allowances	315.0	311.6	308.3	303.1	289.4	272.3	264.0	247.6	232.4	230.7

2.147 The liability for injured workers reduced during the year ended 31 March 2010, the only in-year reduction in the years analyzed in the preceding table. However, the ten year annualized growth rate for this liability still remains high at 10.2%. We have been concerned with the growth of this liability for some time, so we are pleased to see the pause in its growth.

2.148 The retirement allowance liability has been growing at an annualized rate of 3.5% over the past ten years, although over the past three years its annualized growth has been about one percent.

2.149 The retirement allowance is calculated each year by adding on to the prior year balance the estimated future payments to employees earned during the year and subtracting the payments to employees made during the year. The estimated cost in the last few years was between $37 and $40 million per year. The actual payments to employees ranged from $24 to $36 million per year over the same period.

All allowances

2.150 The following table accumulates all of the different allowances for losses accounts to provide a comprehensive picture of all allowances.

All allowances ($ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Allowance for losses	95.5	101.8	103.1	95.8	84.0	83.3	104.2	74.2	68.7	30.9
Allowance for doubtful loans receivable	313.3	297.9	229.3	207.2	192.9	142.6	129.3	143.9	133.7	124.7
Allowance for doubtful taxes receivable	61.8	56.5	55.1	77.0	85.4	80.7	86.6	89.5	89.5	84.5
Allowance for doubtful receivables and advances	306.0	244.0	201.3	155.7	140.7	132.9	118.5	113.3	97.7	87.4
	776.6	700.2	588.8	535.7	503.0	439.5	438.6	420.9	389.6	327.5

2.151 The value of the total of all of the Province's allowances continues to be concerning. It reached $776.6 million at 31 March 2010, an increase of 10.9% over the balance at 31 March 2009. The average annual rate of growth for the period itemized in the previous table is 10.1%. If the Province could collect one percent of these doubtful accounts, it would represent $7.8 million in extra cash.

Pension liability (surplus)

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

Pension liability (surplus) ($ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Pension liability (surplus)	(196.6)	(210.2)	(244.7)	(126.4)	30.2	156.7	271.5	362.1	372.6	442.6

2.153 The value of the pension liability or surplus is calculated by comparing the market value of plan assets to the actuarial estimate of accrued benefit obligations owing to present and future pensioners. From this difference an adjustment is made for accounting purposes that reduces the volatility in plan experience. The following table provides the details of these three components of the pension liability or surplus:

Components of the pension liability (surplus) ($ millions)										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Estimated accrued benefit obligations	8,570.2	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
Value of plan assets	7,703.1	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
Subtotal	867.1	2,130.1	265.2	(165.0)	(124.8)	197.9	294.4	1,057.4	158.0	(68.4)
Accounting adjustments	(1,063.7)	(2,340.3)	(509.9)	38.6	155.0	(41.2)	(22.9)	(695.3)	214.6	511.0
Pension liability (surplus)	(196.6)	(210.2)	(244.7)	(126.4)	30.2	156.7	271.5	362.1	372.6	442.6

2.154 The previous table shows that while the Province's pension position for accounting purposes has been a surplus for the past four years, the value of the total estimated accrued benefit obligations has actually exceeded the total value of plan assets for the past three years. The Province's pension position before accounting adjustments improved significantly in the year ended 31 March 2010 for two reasons. First, returns of pension plan assets were significantly above the assumed rate of return; and second, the Province made changes to its assumed rate of return and to its assumed future salary increases thereby reducing the present value of the accrued benefit obligation. A reduction in the value of the estimated accrued benefit obligations is something that did not occur in any other year listed in the table.

2.155 The accounting adjustment row in the table provides some information about how actual pension plan experience has compared to assumed plan performance. A negative amount for accounting adjustments (in brackets) represents experience in the past that was worse than assumed experience.

2.156 The following table compares the annual pension expense to the amount of contributions made by the Province to the various pension plans.

Pension expense and contributions
($ millions)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Pension expense	321.4	323.1	154.5	101.1	109.9	108.4	124.2	90.4	(0.7)	(51.1)
Employer contributions	307.8	288.6	272.8	257.7	236.4	223.2	214.8	100.9	69.1	102.3
Reduction (increase) in pension liability	(13.6)	(34.5)	118.3	156.6	126.5	114.8	90.6	10.5	69.8	153.4

2.157 The previous table shows that for each of the past two years, the Province has not made enough contributions to its various pension plans to cover the annual pension expense, whereas in the previous eight years the amount of contributions exceeded the amount of the pension expense.

2.158 Recent changes to the compensation arrangements for Members of the Legislative Assembly have had an impact on the Province's pension expense and pension liability for members. The following table provides information about both the pension expense and pension liability for pension benefits of Members of the Legislative Assembly:

Pension plans for Members of the Legislative Assembly
($ millions)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Pension expense	6.2	5.1	4.2	4.0	4.9	3.7	3.6	3.5	3.3	3.2
Pension liability	50.5	46.6	43.6	41.8	40.2	37.6	36.3	35.3	34.1	33.2

2.159 The annual pension expense for Members of the Legislative Assembly has been growing at an annualized rate of 7.6% over the past ten years, while the pension liability has been growing at an annualized rate of 4.8%.

Funded debt for provincial purposes

2.160 The following table provides the history of the Province's funded debt for provincial purposes; the sinking fund book value; and, the difference between the two for the past ten years.

Funded debt for provincial purposes and sinking fund
($ millions)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Funded debt for provincial purposes	10,470.2	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
Sinking fund book value	4,192.9	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
Funded debt for provincial purposes net of sinking fund	6,277.3	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

2.161 The net amount reported in the table has grown at an annualized rate of 3.7%, however the annualized growth between 31 March 2001 and 31 March 2005 was 0.5% while the annualized growth between 31 March 2005 and 31 March 2010 was 6.3%.

Net debt

2.162 Net debt is one of the most important measures of the financial position of the Province. For the year ended 31 March 2010, net debt increased by $965.2 million.

2.163 One way to assess the significance of the size of the Province's net debt is to compare it to the net debt of provinces with similar population size as New Brunswick, in absolute amount, per capita, and as a percentage of GDP.

2.164 In the next two tables, net debt is taken from the audited summary financial statements of the individual provinces, information about population is taken from the Statistics Canada website, and GDP figures are from the financial statement discussion and analysis attached to the individual provinces' audited summary financial statements.

Net debt ($ millions)			
Province	**2010**	**2009**	**2008**
Saskatchewan	3,560	3,524	5,873
New Brunswick	8,353	7,388	6,949
Manitoba	11,794	11,468	10,550
Nova Scotia	13,106	12,318	12,115

2.165 For the year ended 31 March 2008, New Brunswick's net debt was 57.4% of Nova Scotia's net debt. By 31 March 2010 the percentage reached 63.7%.

Net debt per capita ($ millions)			
Province	**2010**	**2009**	**2008**
Saskatchewan	3,405	3,424	5,793
Manitoba	9,547	9,403	8,752
New Brunswick	11,119	9,857	9,301
Nova Scotia	13,906	13,146	12,934

2.166 For the year ended 31 March 2008, New Brunswick's net debt per capita was 72.0% of Nova Scotia's per capita net debt. By 31 March 2010 the percentage reached 80%.

Net debt as a percentage of GDP (percent)			
Province	**2010**	**2009**	**2008**
Saskatchewan	6.3	5.5	11.4
Manitoba	23.5	22.8	21.7
New Brunswick	30.2	27.0	25.7
Nova Scotia	38.7	36.0	36.8

2.167 For the year ended 31 March 2008, New Brunswick's net debt as a percentage of GDP was 69.8% of Nova Scotia's; for the year ended 31 March 2010 it was 78%.

Items reported in the notes

2.168 There are some economic events that accounting rules do not require to be reported immediately, although they are required to be reported in the notes to the financial statements. The reader of the Province's financial statements should be aware of these items. The main ones are:

- contingent liabilities; and
- market value of sinking fund investments.

Contingent liabilities

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

Contingent liabilities ($ millions)										
	2010	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
New Brunswick Credit Union Deposit Insurance Corporation	3,148.0	3,050.7	2,900.0	2,800.0	2,700.0	2,600.0	2,500.0	2,300.0	2,100.0	1,900.0
New Brunswick Municipal Finance Corporation	687.1	612.9	569.5	560.1	496.1	466.6	421.4	386.7	366.9	350.9
Economic Development Act	102.5	98.2	83.4	113.8	108.6	102.1	122.5	44.8	28.9	29.9
Provincial Holdings Ltd	12.6	12.6	29.0	14.7	14.9	1.7	2.3	2.6	4.9	6.0
Fisheries Development Act	8.8	12.4	14.8	16.6	20.8	5.0	6.5	10.4	5.9	3.3
Nursing Homes Act	7.0	7.6	8.1	8.7	9.4	10.3	10.6	10.6	10.7	10.6
Regional Development Corporation Act	2.8	3.9	4.6	3.6	3.8	3.6	3.7	4.0	3.8	4.3
Employment Development Act	2.0	4.1	4.4	4.5	4.5	3.9	5.3	4.3	3.6	2.0
Agriculture Development Act	6.3	1.8	0.6	0.6	0.4	0.4	0.1	0.2	0.2	0.9
Livestock Incentives Act	0.6	0.8	0.8	0.9	0.9	0.9	1.5	1.6	1.5	1.7
Youth Assistance Act	-	-	-	-	-	209.1	186.8	168.2	136.6	107.9
Subtotal	3,977.7	3,805.0	3,615.2	3,523.5	3,359.4	3,403.6	3,260.7	2,933.4	2,663.0	2,417.5
Allowance for losses	39.9	40.6	49.9	69.0	60.7	67.6	75.8	50.2	44.7	30.9
Contingent liability for guaranteed debt	3,937.8	3,764.4	3,565.3	3,454.5	3,298.7	3,336.0	3,184.9	2,883.2	2,618.3	2,386.6

2.170 The guarantee under the *Youth Assistance Act* ceased after 31 March 2005 because of the change in student loans from guarantees to loans receivable.

2.171 The guarantees of the New Brunswick Municipal Finance Corporation have increased at an average annualized rate of 7.8% over the period reported in the previous table.

2.172 In addition to the contingent liabilities itemized in the previous table, the Province discloses other contingent liabilities. For example the financial statements indicate that the Province is involved in various legal proceedings and an amount totalling $33.1 million has been accrued as the best estimate of the likely losses that will be incurred by the Province. In the year ended 31 March 2009, $19.1 million was accrued.

Market value of sinking fund investments

2.173 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 sinking fund for the past ten years.

Sinking fund investments
($ millions)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Book value – provincial portion	4,192.9	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
Book value – NBEFC portion	364.1	415.4	309.4	300.6	336.4	391.6	363.7	351.3	327.4	297.3
Total book value	4,557.0	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
Market value	4,538.5	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
Excess (deficiency) of market value over book value	(18.5)	270.1	294.4	308.5	316.0	417.9	496.0	361.0	226.8	275.8

2.174 The table indicates that in 2010 the book value of the Province's portion of the sinking fund decreased in amount by $18.3 million from 2009. As well, the market value of the sinking fund investments was less than the book value, by $18.5 million, for the first time in the ten year period.

Chapter 3
Matters Arising from Our Financial Statement Audits

Contents

Matters Arising from Our Financial Statement Audits

Background

3.1 Our audit work encompasses financial transactions in all government departments. 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 Agricultural 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

Other Agencies:

- Le Centre communautaire Sainte-Anne
- New Brunswick Research and Productivity Council
- Office of the Public Trustee

Scope

3.2 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.

3.3 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.

3.4 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.

3.5 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.

3.6 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.

3.7 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

3.8 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 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

3.9 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.

3.10 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

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

Matters arising from our audit

3.12 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 2010 audit.

HST rebate claim

3.13 During the audit we found the HST receivable was almost double the amount from the prior year. The usual practice of the Province is to claim the HST rebate every two weeks. While we have never found problems with the HST claim process in the past, this year there were two claims that had been missed around year end. The proper claims were made in May and the rebate was received in June. Not claiming HST on a timely basis results in interest expense for the Province.

3.14 We recommended the Office of the Comptroller ensure that HST rebate claims are made on a timely basis.

3.15 The Comptroller responded:

I wish to note that the incident referred to in your letter was an isolated case and that such a filing delay has never before been identified in all the years my Office has been *filing HST rebate claims. The issue arose over this year end when staff members were in transition to New Brunswick Shared Services Agency. As a result, the claims were not filed on time. Our office has retained responsibility for filing the HST claims and assigned the function to an individual.*

Regional Development Corporation

3.16 There have been issues with the consolidation of Regional Development Corporation (RDC). In the year we audited, there was some confusion over a grant that was given by RDC to the Fundy Trail Development Authority Inc. to construct a connector road. There was uncertainty as to whether this road was an asset of the Province. If the road belongs to the Province, an asset would have to be set up and the grant expense of $4 million would have been eliminated.

3.17 We recommended the Province determine if this road is an asset of the Province and make the necessary adjustments to the financial statements.

3.18 The Comptroller responded:

My Office is investigating the matter and will make any required adjustments to the provincial accounts when the matter is resolved.

3.19 Under the Building Canada Fund agreement, RDC disburses grants to provincial government departments and Crown agencies. Transactions such as this lead to complex consolidating issues, as the grants are often spent on capital assets. The recipients of grants, as well as what the grant was used for, must be considered when the consolidation entries for RDC are made.

3.20 We recommended the Office of the Comptroller ensure that consolidating entries properly reflect the substance of transactions between Crown agencies and the Province.

3.21 The Comptroller responded:

My Office will continue to work closely with RDC and departmental staff to identify transactions between departments and other entities in the government reporting entity in order to properly eliminate inter-company *amounts and accurately reflect the overall substance of transactions.*

3.22 During our audit of the RDC financial statements we found that accounts receivable under some federal agreements remain uncollected. Some of these accounts receivable date back to 2006-2007. As the administrator of several federal-provincial agreements, we feel that RDC has the responsibility to ensure that receivables are collected in a timely manner.

3.23 Untimely collection of accounts receivable raises questions about the ability to collect the receivable. As well, the Province incurs interest expense.

3.24 We recommended RDC actively pursue collection of the accounts receivable.

Segment note

3.25 Note 16 of the financial statements is intended to provide supplementary information on the Province's revenue and expense by segment. One segment reported is the Regional Health Authorities (RHAs). While the Province uses audited financial statements of the RHAs to consolidate the income statement and balance sheet, the information presented in the segment note does not all come from the audited financial statements. The Department of Health obtains further breakdown of certain amounts for presentation in the segment note from the RHAs.

3.26 We recommended the Office of the Comptroller ensure there is a process is place to obtain an appropriate level of confidence from the RHAs regarding the accuracy of the information disclosed in the segment note.

3.27 The Comptroller responded:

Staff in my Office has spoken to officials in the Department of Health and are satisfied that their process to obtain the required information from the RHAs is sufficient and reliable. The department obtains the information from each RHA that is also used for national healthcare reporting. The categories used are similar to our primaries.

Netting issues

3.28 We have identified areas where we believe the Province is not accurately reflecting revenues and expenses, but is netting, or offsetting some expenses against associated revenues. Netting results in revenues and expenses being understated. Under current Public Sector accounting standards, the items discussed below should be shown at their gross amounts.

3.29 As noted in our 2008 Report, volume 2, timber royalty revenue reported by the Province is net of certain costs incurred by licensees in the management of the Crown forest. A Regulation to the *Crown Lands and Forests Act* allows revenues paid by licensees to be reduced "to offset the costs incurred by the forest industry in their management of Crown Lands." The Province accounts for these costs as a reduction in the royalty revenue recorded. Rather than netting the reduction from the revenue, the Province should record the gross value of its royalty revenue and record an expenditure for the amount owed to the licensees for their management of Crown lands. If this reduction had not been netted, the Province's timber royalty revenue and related forestry management expenditures would both have been higher by approximately $22 million in 2009-2010, $27 million in 2008-2009, and $29 million in 2007-2008. As importantly, this expenditure would have been subject to the annual appropriation process of the Legislative Assembly.

3.30 We recommended the Province record timber royalty revenue on a gross basis and record an expenditure for the amount deducted from royalty payments by licensees to cover the costs incurred in the management of Crown lands.

3.31 The Comptroller responded:

My Office will obtain the necessary information from the Department of Natural Resources to make the required adjustments in the summary financial statements for the year ending 31 March 2011 to properly report the costs incurred by licensees to manage Crown lands as expenses rather than netted against the royalty revenue.

Department of Natural Resources supports the presentation of the gross revenue and expenditure related to timber royalties and has indicated they will be taking the issue forward to the Department of Finance to have the budgeting adjusted as well. They intend to request a net budgeting appropriation which will provide full disclosure of the amounts but allow the department to manage the program on a net basis.

3.32 In our 2008 Report, volume 1, we highlighted that there are provincial rebate programs netted against personal income tax revenue. The tax revenue is collected annually by the federal government from New Brunswick individuals who file personal income tax returns. Two of the four programs noted in 2008 are no longer in existence.

3.33 The Public Sector Accounting Board has finalized the accounting standard on Tax Revenue. Under this standard, there are guidelines establishing when a tax concession may be netted against tax revenue and when an expenditure must be recorded at the gross amount. This standard comes into effect for fiscal years beginning on or after April 1, 2012, but earlier adoption is encouraged.

3.34 We recommended the Office of the Comptroller review any expenditures that are netted against tax revenue to ensure those expenditures are properly accounted for and comply with the new accounting standards.

3.35 The Comptroller responded:

We will work with the Department of Finance to identify expenditure amounts that are netted against tax revenues and make the required adjustments in the summary financial statements for the year ending 31 March 2011 to properly report the gross expenditures and revenues.

3.36 We have also identified netting of expenditure against revenue received from Canada Mortgage and Housing Corporation (CMHC) by the Department of Social Development. The full amount of revenue to be received under the agreement with CMHC is not being recognized in the financial statements.

3.37 We recommended the Office of the Comptroller determine if the accounting treatment of the CMHC revenue is correct.

3.38 The Comptroller responded:

We have spoken to staff at the Department of Social Development and they are in agreement with the proposed presentation. They will work with the Department of Finance to properly reflect the gross amounts in the revenue and expenditure budgets. In addition they will provide our Office with the information to adjust the *revenue and expense amounts in the 2010-2011 summary financial statements.*

Retirement allowance

3.39 The last actuarial evaluation of the retirement allowance programs happened in 2006. Actuarial evaluations are typically done every three years. A current actuarial evaluation is needed to ensure the liability reported by the Province is accurate.

3.40 We recommended the actuarial evaluation be done and the necessary adjustments made to the retirement allowance liability.

3.41 The Comptroller responded:

An actuary has been engaged and the valuation for the retirement allowance liability is in progress.

Pension issues

3.42 We identified errors in the calculation of the current service cost for the Public Service Superannuation Plan and in the calculation of the valuation allowance for the Schools-GLTS Plan. We identified some minor spreadsheet errors in the calculation of expected earnings on assets for both the Teachers' Plan and the Judges' Plan.

3.43 We recommended the Office of the Comptroller ensure a process is put in place by relevant departments to perform a quality review of these calculations before making the pension journal entries.

3.44 The Comptroller responded:

My Office put in place a mechanism of review for all pension calculations that involved other departments where expertise was available in this area. However, they were not able to meet our timelines at year end. We now have separate staff performing the pension expense calculations and the review.

3.45 We strongly believe that it is not appropriate to use a rate-of-return based discount rate for plans that do not have fund assets. Specifically, the discount rate for the Members' Plan and the Early Retirement Plan, as well as the retirement allowance estimate should all be based on the Province's borrowing rate. Because these plans have little or no investible assets, and only obligations, they are fundamentally different than the funded plans. There is no return on plan assets.

3.46 We recommended the Province have these plans re-valued using a borrowing rate based discount rate.

3.47 The Comptroller responded:

My Office has raised this issue with the Actuarial Valuation Committee who advises the Minister of Finance on pension related matters. Ultimately it is the Minister, as Chair of the Board of Management, who makes the final decision related to actuarial assumptions for the pension plan valuations.

3.48 A large portion of the pension adjustments for the current year was due to changes in the assumptions used in valuing the pension asset or liability. The change in assumptions is not disclosed in the pension note. We believe that such disclosure is relevant to the readers of the financial statements.

3.49 We recommended the Notes to the Financial Statements include a brief description of the changes to the assumptions used in valuing the pension asset or liability of the Province.

3.50 The Comptroller responded:

I believe there is sufficient detail contained in the note for most users of the financial statements. The pension plan note to the statements is currently seven pages long. I am concerned that adding more information would be confusing for many readers therefore adding no value. The few more sophisticated users who wish to delve into the actuarial assumptions can easily compare the assumptions listed in one year with the prior year and determine what changed.

3.51 The Hospital CUPE and Hospital CBE plans are defined benefit plans with fixed employer contributions. We feel that disclosing the percentage of assets to liabilities for these two plans is relevant to the readers of the financial statements.

3.52 We recommended the Notes to the Financial Statements include the percentage of assets to liabilities for the two defined

benefit plans that have fixed employer contributions: the Hospital CUPE and Hospital CBE plans.

3.53 The Comptroller responded:

The funding position of both these plans is currently disclosed in the financial statements. My Office will consider whether increased disclosure is necessary for the 2010-2011 financial statements.

3.54 The treatment of some contributions to the Public Service Superannuation Plan should be reviewed. We identified that there were some organizations for which there were employee contributions but no employer contributions. Also, the treatment of employer contributions from the Regional Health Authorities was not consistent with the treatment of the contributions from Facilicorp.

3.55 We recommended the Office of the Comptroller review the list of contributing organizations and look into any unusual contribution arrangements.

3.56 The Comptroller responded:

The information referred to is maintained by the Office of Human Resources (OHR). My Office will work with OHR to determine if there are employer contributions in arrears from any employers. I would point out that employee contributions to the Public Service Superannuation Plan totalled $51.71 million in 2009-10. The employer contribution rate is currently 144% of employee which would total $74.46 million. Regular employer contributions totalled $74.48 million. Therefore there is no apparent shortfall in employer contributions for 2009-10.

The treatment of contributions from Facilicorp and Fundy Linen for pension expense calculation purposes will be the same as that for the regional health authorities in 2010-11.

Other audit work in departments and Crown agencies

Regional Development Corporation (RDC)

Collection of accounts receivable

3.57 As discussed earlier in this chapter, during our audit we found that accounts receivable under some federal agreements remain uncollected. Some of these accounts receivable date back to 2006-2007. As the administrator of several federal-provincial agreements, we feel that RDC has the responsibility to ensure that receivables are collected in a timely manner.

3.58 Untimely collection of accounts receivable raises questions about the ability to collect the receivable. As well, the Province incurs interest expense.

3.59 We recommended RDC actively pursue collection of the accounts receivable.

Building Canada federal-provincial agreement

Observation on provincial funding

3.60 The agreement as negotiated with Canada allowed the Province to include in its eligible costs in the initial year of the agreement (2008) provincial costs to implement projects which were non-incremental in nature (for example salaries of provincial employees working on the project). After that year these costs were no longer eligible to be included under the provincial funding of the agreement. Due to the late finalization of the agreement (May 2008) and the approval date of the initial project list (September 2008) no projects could be initiated in 2008 and the first projects for the 2008 annual capital plan were initiated in 2009.

3.61 At first departments thought that these costs could be included as project costs for 2008 capital plan projects incurred in 2009. However, the Province was told by federal officials that these costs were not to be included as only non-incremental costs incurred in 2008 were eligible under the agreement.

3.62 The effect of this is that the Province would have to include over $3.5 million more in project costs to reach the maximum federal funding under the agreement. This means that approximately $1.75 million more would have to be funded by the Province.

Communication of terms and conditions

3.63 As noted above, the 2009 projects were being implemented before the agreement and the approved project list were finalized. The terms and conditions of the agreement at the time we audited the expenditure reports of the three departments / agencies involved had not been communicated to them. In some cases this may have resulted in apparently ineligible expenditures being included in the expenditure reports. We assume this was a result of the timing of the projects and the agreement.

3.64 We recommended RDC communicate the terms and conditions of the Base Funding agreement to future recipients as projects are approved. Further, RDC should obtain a letter of confirmation from the recipients to ensure that the recipients have a clear understanding of the conditions attached to the funding.

Recipient reporting

3.65 Costs were not always tracked by recipients in accordance with the agreement. In some cases ineligible costs had to be separated from the gross totals. Recipients such as Village Historique Acadien and Kings Landing Corporation found it challenging to report costs precisely as required by the agreement. This may be a result of such entities not dealing with capital projects as extensively as some departments. The lack of precision in reporting resulted in unexpected delays during our audit.

3.66 We recommended RDC communicate the reporting requirements to the recipients and ensure that the recipients commit to tracking costs as required by the agreement.

Losses through fraud, default or mistake

3.67 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.

3.68 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

- Loss of school raised funds (relates to 08-09 and 09-10) $13,163

Department of Environment

- Missing equipment $2,063

Department of Local Government

- Missing equipment $5,850

Department of Natural Resources

- Missing equipment from various regions $2,090

Department of Social Development

- Missing cheques $13,514

Department of Transportation

- Missing equipment $1,300

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

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

3.71 In 2010, the Province reported lost tangible public assets in the amount of $39,826 compared to a loss of $89,365 reported in 2009.

Chapter 4
Testing of System Controls and Payments

Contents

Testing of System Controls and Payments

Background

4.1 The Canadian Institute of Chartered Accountants' auditing standards require us to document and test internal controls in all major systems in an organization. We classify a major system as any system that processes transactions in excess of $100 million. For most of these systems, in addition to internal control testing, we also test specific transactions. Transaction testing involves selecting a statistical sample of individual transactions from payments and performing detailed testing using a predetermined set of criteria. To express our opinion on the financial statements of the Province, we combine the results of both our internal control and our transaction testing.

Scope

4.2 The following table lists the information systems for which we document and test the internal controls, the departments which operate the systems, the type of transactions processed and the type of findings for each system. The table below shows that the majority of the systems we examine are payment systems.

Information System	Operated by	Type of Transactions	Type of Findings
Provincial Payment and General Ledger System (Oracle)	Office of the Comptroller	Expenditures	Transactions
Social Assistance Payment System (NBCase)	Department of Social Development	Expenditures	Internal controls
Long-term Care Payment System (NBFamilies)	Department of Social Development	Expenditures	Internal controls and transactions
Government Payroll System (HRIS)	Office of Human Resources	Expenditures	Internal controls
Medicare System	Department of Health	Expenditures	Internal controls and transactions
Property Tax System	Department of Finance	Revenue	Nothing to report

4.3 We communicated our observations and recommendations to each department for both the internal controls and transaction testing.

In this chapter, we report the results of our work by information system.

Provincial payment and general ledger system (Oracle)

Background

4.4 The provincial payment and general ledger system (Oracle) is one of the most significant systems operated by the Province. The accounts payable module is responsible for processing the majority of the government's payments. The general ledger (GL) module is used for recording all of the Province's transactions and the information stored in the GL is used to generate the Province's financial statements. The Office of the Comptroller operates the system, but all government departments use it to process transactions. Because of the significance of this system, every year we test its internal controls and we select and test a sample of transactions processed by the system.

Findings

4.5 In our tests of controls, we concluded that controls were operating effectively for the period of review. We also followed up on our previous year's recommendations and determined that the Office of the Comptroller is making significant progress in implementing our internal control recommendations.

4.6 Our transaction testing covered payments made by 13 departments during the fiscal year ended 31 March 2010. We selected and tested 101 items which totaled approximately $261 million. 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.

4.7 We found departments had improved significantly in most testing criteria from the prior year. This year, we made recommendations to only one department.

Exhibit 4.1 Number of items tested, the dollar value tested and the number of errors by department.

Statistical sample of payment transactions			
Department	**Number of items**	**$ Tested (millions)**	**Number of errors**
Agriculture	1	3.3	0
Business NB	9	29.3	0
Education	2	1.9	0
Environment	2	1.0	0
Health	38	125.9	0
Local Government	1	0.0	0
Natural Resources	5	6.5	0
Post-Secondary Education, Training and Labour	9	9.3	0
Public Safety	3	48.7	0
Social Development	2	0.4	0
Supply and Services	6	10.3	0
Transportation	22	24.8	0
Vehicle Management Agency	1	0.0	0
Total	**158**	**$261.4**	**0**

Testing criteria and results

4.8 Exhibit 4.2 shows the testing criteria that we used for each item we selected in our statistical sample. In the past, we found many spending and payment authority errors. We are pleased to see departments improved significantly on these testing criteria.

Exhibit 4.2 Number of errors for each testing criteria.

Testing criteria	Number of errors
Improper spending authority	0
Improper payment authority	0
Improper program coding	0
Does not agree to contract/tender price	0
Insufficient and/or inappropriate back-up	0
Mathematically incorrect back-up	0
Invoice does not support payment	0
Incorrect primary/account coding	0
Improper cut-off	0
Incorrect HST calculation and coding	0
Discount not used	0

Department of Transportation

4.9 Even though we found no errors in our standard audit testing criteria, we made the following comments to the Department of Transportation as a result of our testing.

Evaluating tender bids

4.10 During our 2008 and 2009 testing, we found many cases where total payments for a contract exceeded the amount authorized on the original tendered contract. In 2008, in order to determine the extent of this issue, we decided to look at all contracts in our sample. In our sample of twenty-five contracts, we found twelve cases where the total payments for the contracts exceeded the authorized contract amounts. This continued in 2009. Discussion with the Department indicated this is normal as tender submissions are based on estimates and during the course of a project actual materials required could exceed the original estimates.

4.11 In almost all cases, the tendering evaluation process results in the Department accepting the lowest bid. However, where these bids contain major variables, the departmental process should consider the unit costs of these variables, as well as the overall cost of the bid. That is, if two bids are relatively close in overall cost, but one bid has a major variable with a per unit cost that is significantly lower than the other, the bid with the lower unit cost could result in a lower cost for the Department, even though the overall cost of the bid is slightly higher. We believe evaluating the unit cost on items with variable quantities might lead to cost savings given the large number of times actual quantities exceed original estimated quantities.

Recommendation

4.12 We recommended the Department review its tender evaluation process to see if it can reduce costs by considering the unit costs of major variables in the bids, as well as the overall cost of the bids.

Departmental response

4.13 *After considering your recommendation to review the tender evaluation process it is felt that the present process is sufficient. The tender process results in the department accepting the lowest of the compliant bids. DOT staff is accountable for project management and cost control is a function of project management. The districts and head office closely monitor construction contracts, including changes in estimated quantities, and provide approvals via change orders. Senior managers also monitor overall the capital program performance at monthly forecast meetings and are aware of contract overages. During these meetings our Chief Engineer verbally authorizes the continuation of projects. In accordance with my memo to you on July 28, 2009, the Chief Engineer now documents his approval by signing the monthly financial forecast.*

Contracts for asphalt

4.14 One test item was for the purchase of asphalt for road maintenance. This purchase was not tendered and bids were not requested from different suppliers. While this is not a violation of the *Public Purchasing Act*, we believe the Department should determine if requesting bids from suppliers would result in cost saving opportunities for the Province.

Recommendation

4.15 We recommended the Department review its purchase process for asphalt to determine if obtaining bids from asphalt suppliers would save the Province money.

Departmental response

4.16 *We agree with your recommendation that the purchase process for asphalt needed to be reviewed and in fact this process was recently undertaken. Quotations from various asphalt concrete suppliers are now solicited. The quotations are adjusted on a monthly basis, based on the change in the MTO Binder Price Index. When choosing an asphalt supplier, the price, haul distance and productivity of work operations to complete the work are considered in order to obtain the most cost efficient supplier.*

Social assistance payment system (NBCase)

Background

4.17 The social assistance payment system (NBCase) is another significant payment system in the Province. The Department of Social Development operates the system and it makes payments to social assistance clients in the Province. It processes transactions of approximately $232 million. The majority of our audit assurance for this system is obtained through tests of controls; we do not select a statistical sample of transactions. Because of the significance of this system, every year we test the system's internal controls and perform other audit tests to obtain our assurance.

Overall findings

4.18 This year we made recommendations in the following areas:

- access controls – disabling inactive users;
- training NBCase users;
- verifying retroactive payments; and
- recommendations of Overpayment Committee.

Access controls – disabling inactive users

Issue

4.19 During our testing of the NBCase system, we found that 44 NBCase user accounts had not been disabled after 90 days of inactivity. Disabling inactive user accounts on a timely basis reduces the risk of unauthorized access to information.

Findings

4.20 Of the 44 users' accounts that were inactive for at least 90 days, only 14 had valid reasons for not being disabled. The remaining 30 accounts are classified as follows:

- 6 users had terminated with the Department and their active directory account was disabled;
- 1 user had terminated with the Department on September 30, 2009 and the user's active directory account was still active in February 2010; and
- 23 users were employees with the Department but the Department did not have valid reasons why the users' access was still active.

4.21 These 30 accounts should all have been disabled. For two of the 30 accounts, the users indicated that they require the access. These accounts should be properly reclassified as "required" if they are to remain as active users.

Observations

4.22 From our discussions with the Department, we noted that it does have a process in place to disable inactive users, however based on the results of our testing, the Department should improve this process.

4.23 For the 6 users who are no longer employees of the Department and who do NOT have an active directory account, the risk of unauthorized access to information is remote. However, disabling inactive users would help the Department manage software licenses and comply with government standards that require user accounts be disabled if they have been inactive for 90 days.

4.24 For users who are still employed with the Department, the risk of unauthorized access to information increases as these employees have access to confidential information not required for their job functions. This is a violation of the Government Information Technology Systems Security Policy which states "Access to GNB information systems, applications and computing resources shall be based on each user's business requirement."

Recommendations

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

4.26 We recommended the Department disable active directory user accounts as soon as an employee terminates from the Department.

Departmental response

4.27 *It is not necessary to disable NBCase accounts after 90 days because all Active Directory Accounts are disabled after 30 days of inactivity. If a user does not have an Active Directory account they will not be able to access NBCase. There is no risk to security.*

4.28 *In addition, we have in place a process to keep the NBCase accounts up to date as per the recommendation made by the Auditor General in 2009. We advised the Auditor General of our process in our response in April 2009 and we continue to educate and stress to those involved in the account maintenance process, the importance of submitting the proper forms in a timely manner to ensure that changes to user accounts are up-to-date.*

Training NBCase users

Issue

4.29 Not all NBCase users are adequately trained on how to use the NBCase system. The risk of error in payments increases when users are not adequately trained on how to use the system properly.

Findings

4.30 We tested 20 retroactive payments made to social assistance clients. We found 9 errors in these payments that were caused by case manager error. The causes of the errors were as follows:

- case manager modified records instead of end-dating records and creating new records;

- case manager made errors entering information into the system and then ignored system messages that would have indicated an error occurred;
- case manager set up income as a wrong benefit type;
- case manager did not correctly "undo terminate" special benefits when required;
- case manager entered incorrect termination date for client; and
- case manager did not fix client overpayment correctly.

4.31 As a result:

- 7 clients were overpaid by $7,444.38;
- 1 client was underpaid by $216.30; and
- 1 client's overpayment was reduced by $200.

Discussion with the Department

4.32 Discussions with staff indicated training NBCase users is an issue that the Department has identified. The Overpayment Committee identified training as the number one priority in the Overpayment Committee Action Plan. The Department has begun a "User Support Model" review which has identified training of NBCase users as a key issue.

Recommendation

4.33 **The Department should ensure all users of the NBCase system are adequately trained.**

Departmental response

4.34 *NBCase system training will be addressed through the implementation of the new User Support Model and through the implementation of new initiatives such as Social Assistance Reform and the Canada Revenue Agency Set-Off Program.*

Verifying retroactive payments

Issue

4.35 During our testing, we found nine errors in retroactive payments to clients. By not ensuring retroactive payments to clients are correct, the Department is making invalid payments to clients. This results in:

- higher expenses for the Department;
- increases in accounts receivable when the overpayments are discovered; and

- additional burden on clients as repaying overpayments reduces their monthly cheques by 5%.

Findings

4.36 As part of our testing, we reviewed a sample of clients who received more than the expected number of payments in a year. These extra payments result from retroactive payments to clients. This year, we tested 20 retroactive payments and found 9 invalid payments. The majority of these payments occurred when case managers made changes to client files.

4.37 From our discussions with the Department, we were told that these errors were not detected because of a system change which caused retroactive payments to be directly deposited into clients' bank accounts. We reported this problem in our 2009 letter to the Department. We were told that this system change affected retroactive payments issued between October 2008 and June 2009.

4.38 We believe because of the high error rate we encountered in our retroactive payments testing, the Department should verify the accuracy of all retroactive payments issued between October 2008 and June 2009.

4.39 In addition, we were told that starting in July 2009, the system is forwarding all cheques for retroactive payments directly to the regional offices. Starting in July 2009, the case managers must review the cheques for validity and then authorize their release to clients. We would like the case managers to be trained on how to verify the validity of these retroactive cheques. This will help ensure the case managers do not inadvertently release invalid payments to clients.

Recommendations

4.40 We recommended the Department verify the accuracy of all retroactive payments made to clients in the timeframe affected by the NBCase system change.

4.41 We recommended the Department train case managers how to verify the accuracy and validity of retroactive payments.

Departmental response

4.42 *The issue was specific to daily payments issued on cases set-up for Direct Bank Deposit. The automated process of redirecting the daily payments on these cases was re-implemented in July 2009. Retroactive payments issued between October 2008 and June 2009 on these cases will be reviewed for accuracy. A procedure and* *training will be developed in relation to reviewing retroactive payments.*

Recommendations of Overpayment Committee

Issue

4.43 The Department has not begun implementing the recommendations made by the Overpayment Committee. The Department formed a Social Assistance Overpayment Committee (the Committee) to examine the prevention, detection and administration of overpayments. By not implementing the recommendations of the Committee, the number of overpayments made to social assistance clients will continue to increase. This will lead to an increase in expenditures and accounts receivable for the Province.

Findings

4.44 The Committee was formed in March 2007 and had a two year mandate. The Committee provided us with a draft report of its findings and recommendations.

4.45 In July 2009, the Committee completed an Action Plan which was presented to departmental directors in October 2009. The Action Plan prioritized 10 recommendations and described how implementing the recommendations would impact long-term resources and overpayments.

4.46 We would like to commend the Department for creating the Committee to address the increasing amount of overpayments. We would, however, like to ensure the Department addresses appropriately the Committee's recommendations.

4.47 At the time of our audit, the Department had not progressed in implementing the recommendations of the Committee. We saw very little evidence that the Department has implemented the recommendations in the action plan.

Recommendations

4.48 We recommended the Department review and implement the relevant recommendations of the Overpayment Committee.

4.49 We recommended the Department identify time deadlines for implementing the recommendations noted in the action plan.

Departmental response

4.50 *The recommendations identified by this committee will be addressed through other initiatives that are currently taking place in the Department. As we continue to implement the initiatives from the Poverty Reduction Initiative, including social assistance reform, we will ensure that mechanisms are in place to train staff in relation to* *the prevention and detection of overpayments. Consideration will also be given to the other committee recommendations that relate to the implementation of Social Assistance Reform. The Canada Revenue Agency Set-Off Program has been approved for our department and we are in the process of identifying accounts eligible for this program. This initiative will also address improvements to the administration and monitoring of overpayment accounts.*

Long-term care payment system (NBFamilies)

Background

4.51 The long-term care payment system (NBFamilies) is another significant system in the Province that we test every year. The Department of Social Development operates the system and it processes transactions of approximately $265 million for child protection and long-term care programs in the Department. The system also tracks information on clients, service providers and adult residential facilities. The NBFamilies system provides payment information to the provincial Oracle payment system which, in turn, produces payments to various service providers or clients.

4.52 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.

4.53 The majority of our audit assurance for this system is obtained through tests of controls, as well as a statistical sample of transactions.

Overall findings

4.54 This year we made recommendations in the following areas:

Results of internal control testing

- system program changes; and
- disabling active users.

Results of statistical sample testing

- proper spending authority;
- backup supports payment;
- financial documentation and client contribution;
- out-of-date case plans;
- long-term care assessments;
- documenting annual case reviews; and
- Adult Residential Facility inspection and licensing documentation.

Co-operation of Department

4.55 We would like to thank the staff in the Department's Information Technology Services branch for the help they provided to our auditors in carrying out this year's audit. The staff were very quick to answer our requests and this in turn enabled us to complete our control testing much faster. We also found it easier to obtain information from the regions this year. Regional staff provided information in a much timelier manner thus reducing our audit time.

Improved results over prior year

4.56 This year in our statistical testing, we found the Department improved over the prior year in most testing criteria. The criteria of client financial documentation and client long-term care assessments had the biggest positive change. Only the spending authority criterion had an unfavorable change. Also, the number of errors per item decreased. This year in our sample of 28 items, we found 29 errors. Last year in our sample of 38 items, we found 48 errors.

Results of internal control testing

System program changes

4.57 In our 2008 Report, we made three recommendations in the area of program changes. During our 2008 audit, we also found obtaining backup for system program changes time consuming and difficult. This year, we found the Department improved significantly in documenting and filing information relating to system program changes.

4.58 We tested ten NBFamilies program changes and we made two observations relating to our testing.

- Two maintenance releases were not formally approved in the meeting minutes, although discussion with staff indicated that these maintenance releases would have been verbally approved.

- We found no evidence of testing for three of the ten system program changes. Normally, employees who test changes document their results in a test plan and then notify a departmental coordinator that the testing is complete. For three cases, the test plans were not updated and the departmental coordinator was unable to find copies of the emails which indicated that the changes were tested. The departmental coordinator indicated that sometimes testers forget to put the testing results in the test plans but the coordinator is confident that all the changes were tested.

Recommendation

4.59 **We recommended the Department ensure all maintenance releases are formally approved by the Department in maintenance release meeting minutes.**

Departmental response

4.60 *Social Development will work with CGI to ensure that changes to the current process will be made to formally note where the approval of release content is given in the maintenance release content meeting. In addition, we will look to adopt a similar process that we currently use for the approval of Change Requests so that the content of the release would potentially be approved by both an e-mail approval and also have the content approved and noted in the minutes of the maintenance release content meeting as specified above.*

Recommendation

4.61 We recommended all employees responsible for testing program changes document the results of their testing in the applicable test plans.

Departmental response

4.62 *The Social Development test coordinator will work with the test team on the importance of making sure that all test results are documented in the applicable test plans.*

Disabling inactive users

4.63 During our testing, we found 95 NBFamilies user accounts had not been disabled after 90 days of inactivity. We also found two active directory accounts had not been disabled on a timely basis when employees terminated with the Department. Disabling inactive user accounts on a timely basis reduces the risk of unauthorized access to information.

Findings

4.64 Of the 95 users who had not logged into the system in the last 90 days, we noted the following:

- 20 users had terminated with the Department and their active directory account was disabled;
- 2 users had terminated with the Department but their active directory account was NOT disabled;
- 16 users had never accessed the NBFamilies system;
- 2 users had not accessed the system since 2006;
- 3 users had not accessed the system since 2007;
- 13 users had not accessed the system since 2008; and
- 39 users had not accessed the system since 2009.

4.65 The Department did not provide us with a reason why the user accounts were not disabled after 90 days of inactivity. It did indicate that some of the user accounts are required for the reporting structure and cannot be disabled. The Department did not inform us of how many of the 95 accounts are mandatory and could not be disabled. In March 2003, the government released the "Password Standard for User Accounts". These standards require user accounts be disabled if they have been inactive for 90 days.

Observations

4.66 We believe that the Department does not have a process in place to ensure user accounts are disabled in a timely manner. By not disabling inactive users, the risk that unauthorized users can access the NBFamilies system information increases.

4.67 For users who are no longer employees of the Department and who do not have an active directory account, the risk of unauthorized access is remote. However, disabling inactive users would help the Department manage software licenses and comply with the government's standards.

4.68 For users who are still employed with the Department, the risk of unauthorized access to information increases as these employees have access to confidential information not required for their job functions. This is a violation of the Government Information Technology Systems Security Policy which states "Access to GNB information systems, applications and computing resources shall be based on each user's business requirement."

Recommendation

4.69 The Department should disable NBFamilies user accounts after 90 days of inactivity.

Departmental response

4.70 *Active Directory accounts are disabled automatically after 30 days of inactivity. Users are not able to login to the NBFamilies System without a working Active Directory Account. We feel this procedure effectively meets the security concern requirement for disabling NBFamilies account access after 90 days of inactivity.*

4.71 *To supplement this process, Social Development employs an NBFamilies Quarterly Account review process which actively monitors and prompts regional review of accounts which have not accessed the system in 90 days. These reports are typically split and sent through to the regions via the RUSAs (5 regionally located user analyst staff) for review and response. Through this process, RUSA staff are to identify exceptions (e.g. Regional directors, Program*

Managers, etc. – people who have access to the system for both the reporting structure and the very rare exceptional spending authority request, essentially people who are not liable to normally log into NBFamilies, but need access on a rare occasion). RUSAs are also asked to complete account modification/termination requests as are appropriate based on these reports. This is the document which triggers the disabling of the NBFamilies account.

Recommendation

4.72 The Department should disable active directory user accounts as soon as employees terminate from the Department.

Departmental response

4.73 *We do not feel it is either possible or practical to disable AD accounts as soon as employees are terminated. This is why a 30-day inactivity process is in place.*

4.74 *Currently, we rely on the RUSAs advising IT Services that an employee is terminating, and the RUSAs are relying on the individual managers/supervisors advising them of the termination in a timely fashion.*

4.75 *IT Services disables Active Directory accounts as soon as they are notified of an employee termination through the account modification/termination request. As a further safeguard, the 30 day inactivity process is also in place.*

Results of statistical sample testing

4.76 Our work covered payments made in both the child protection and the long-term care programs. We tested 28 payments processed by various regions throughout the fiscal year 2010. The following chart shows the types of payments tested.

Type of service tested	Number of payments tested
Adult Residential Facility (ARF)	12
In-home services	9
Alternative family living arrangements	2
Guardianship	2
Disability support	2
Child protection	1

Summary of results by region

4.77 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	4	8
Chaleur	3	8
Edmundston	1	0
Fredericton	3	1
Restigouche	2	3
Moncton	7	5
Saint John	8	4
Total	**28**	**29**

4.78 As you can see from the table, we found a number of errors in each region, except for the Edmundston region. Our statistical sample did not produce any test items from the Miramichi region.

Summary of test results by criteria

4.79 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	11
Improper payment authority	0
Improper program and account coding	0
Improper cutoff	0
Payment does not agree to contract	0
Backup does not support payment	1
Payment is not supported by a requisition	0
Service provider is not eligible to receive payment	0
Client financial documentation not on file or not current	3
Client contribution is incorrect	1
Case plan out-of-date	5
Long-term care assessment not on file or not current	4
ARF inspection and licensing documentation is incomplete	4

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

- proper payment authority;
- proper program and account coding;
- proper cutoff;
- payment agrees to contract;
- payment is supported by a requisition; and
- service provider is eligible to receive payment.

Summary of test results by region by criteria

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

Criteria	Saint John	Moncton	Fredericton	Restigouche	Acadian Peninsula	Edmundston	Chaleur
Improper spending authority	2	2	1	1	3	-	2
Backup does not support payment	1	-	-	-	-	-	-
Client financial documentation not on file or not current	-	1	-	-	1	-	1
Client contribution is incorrect	1	-	-	-	-	-	-
Case plan out-of-date	-	-	-	-	3	-	2
Long-term care assessment not on file or not current	-	-	-	1	1	-	2
ARF inspection and licensing documentation is incorrect	-	2	-	1	-	-	1
Total	**4**	**5**	**1**	**3**	**8**	**0**	**8**

Proper spending authority

4.82 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." The Province requires that all payments must have spending authority approval before they are paid.

4.83 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.

4.84 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.

4.85 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.

4.86 We found 11 cases where the spending authority in NBFamilies did not agree with the Deputy Minister delegation form. This is a significant increase over last year when we found only one spending authority error in our testing. In all of these cases, the amount approved in NBFamilies was greater than the amount designated on the Deputy Minister delegation form.

4.87 Of these 11 cases, we found five cases where long-term care social workers, with a spending authority limit of $700, approved ARF fixed payment amounts ranging from $2,250.83 to $3,546.93 per month. We also found five cases where system case administrators, with a spending authority limit of $700, approved ARF fixed payment amounts ranging from $2,250.83 to $3,546.93 per month. The remaining case was a similar circumstance where a long-term care social worker, with a spending authority limit of $700, approved a fixed rate requisition for a client to receive care in an Alternate Family Living home at a cost of $2,717.60.

4.88 We understand that employees need the ability to approve fixed rate requisition amounts, but this authority should be specifically delegated by the Deputy Minister on the delegation form.

Recommendation

4.89 We recommended the Department ensure that all employees who provide spending authority for payments have been delegated this authority by the Deputy Minister on the spending authority delegation form. Employees should not authorize payment amounts that exceed the authorized limits delegated by the Deputy Minister.

Departmental response

4.90 *The Regional User Support Analyst (RUSA) and the NBFamhelp team input spending authority limits in the NBFamilies electronic table based on the employee's role. To ensure that the electronic table matches the Spending Authority Delegation forms signed by our Deputy Minister, Accounting Services will provide*

Regions with a copy of the electronic table for reference and validation purposes when the SAD forms are completed for the fiscal year 2011-2012.

Backup supports payment

4.91 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 payments. We review the supporting documentation to ensure it agrees with the amounts paid to service providers.

4.92 In our sample of 28 items, the Department made seven payments to suppliers who submitted invoices electronically. We found one error in these seven payments in the Saint John region. The error occurred because the service provider submitted an invoice requesting payment for 126 hours of work. When we examined the backup, we determined that the service provider should only have billed for 122 hours of work. This resulted in an overpayment of $57.04 to the service provider.

4.93 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 28 payments, only seven were paid using electronic invoicing. Finding one error in a sample of seven items results in a 14% error rate. In each of the past two years, we also found an error in electronic invoice payments resulting in approximately a 10% error rate. We consistently find errors in these types of payments each year. This leads us to conclude that an inherent error rate of 10% to 14% exists in this population.

4.94 The NBFamilies system processes over 555,000 payments in a year. Not all of these payments are made through electronic invoicing. We estimate that approximately 43% or 238,000 payments are made using electronic invoicing. Using a 10% and 14% error rate and assuming a $50 error in payments, we roughly project the error in electronic invoice payments to be approximately $1.0 to $1.7 million.

4.95 We reported on this issue and made recommendations in this area in the past two years. From our testing this year, we believe that the Department's strategy for managing this inherent error in the electronic invoice payment process should be reviewed and modified to reduce the level of error.

Recommendation

4.96 The Department should review and modify its process for managing electronic payments so that the inherent error in this process is reduced to an acceptable level.

Departmental response

4.97 *On a quarterly basis, Accounting Services generates a 10% audit sample containing electronic invoices submitted by suppliers through the web base application for NBFamilies. To complete the validation process, the regions are required to obtain the supporting documentation from the suppliers within a 30 day period. If these conditions are not met, the regions return the verification report to Accounting Services with instructions to recover deficiencies.*

4.98 *The Electronic Invoice Verification Process, in section 6 of the Electronic Invoice Business Process user support document, will be amended to include a termination clause as specified in the Electronic Invoicing Agreement, increased sample size of audits for non-compliance, and increased frequency of audits.*

Financial documentation and client contribution

4.99 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.

4.100 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.

4.101 In the 28 payments tested, we found three financial documentation errors and one client contribution error. This is a significant improvement from prior years. The errors can be broken down as follows:

- 3 – financial documentation was out-of-date; and
- 1 – financial information was not input into system in a timely manner resulting in one client contribution error.

4.102 In three cases, the clients' financial declarations were out-of-date. This information was dated in the years 2000, 2001 and 2003. In all three cases, the clients were not required to make client contributions.

4.103 In one case, the financial subsidy information for the client was recalculated in October 2009, however, the information was not input into the system until January 2010. This resulted in the client over contributing for her care for the months of October, November and December. The client's contribution should have been reduced by $11.23 per month.

Recommendation

4.104 We recommended the Department complete financial reassessments within a two year timeframe for clients not on social assistance as required by policy. This information should be input into the system in a timely manner.

Departmental response

4.105 *We agree with this recommendation.*

Out-of-date case plans

4.106 The Department requires that case plans be completed annually or as required by the system so that clients' services and requirements are documented in the system. A case plan helps to ensure that clients receive the proper level of care.

4.107 In the 28 payments we tested, we found five cases in two regions where clients had out-of-date case plans. These regions were Chaleur and the Acadian Peninsula.

Chaleur region

4.108 In two of the three items tested in this region the case plans were out-of-date. Both case plans were for individuals in adult residential facilities and were last updated in April 2005 and September 2007.

Acadian Peninsula region

4.109 In this region, we found three of the four items tested had out-of-date case plans. For the first item, the case plan was for a client receiving in-home services and the case plan was last updated in April 2007. For the other two items, the case plans were for clients in ARFs and were last updated in September 2004 and September 2006.

Recommendation

4.110 The Department should ensure that client case plans are updated annually or as required by the system.

Departmental response

4.111 *We agree with this recommendation. Section 2.10 of the Long Term Care Manuel suggests that case reviews be conducted annually. Section 9.1 of the Disability Support Program Manual states that* *case reviews will be conducted annually. Case plans should be updated at that time.*

Long-term care assessments

4.112 In the 28 payments we tested, we found one client's long-term care assessment was not on file. We also found three clients where the LTC assessment was out-of-date and annual client case reviews were not on file.

4.113 For the one client where the LTC assessment was not on file, we saw a partial assessment in the system but the social worker could not find a completed assessment. We were told that an assessment would be completed for this client within the next six months.

4.114 For the three cases where the assessments were out-of-date, we saw no evidence that a social worker was in contact with the clients since the date of their last assessments in 2007. Two of these clients were receiving in-home care and their needs could have changed in the last three years. The Department should have conducted an annual case review on these clients.

Region	Long-term care assessment out-of-date & client review not on file	Long-term care assessment not provided
Acadian Peninsula	1	0
Chaleur	2	0
Restigouche	0	1

Documenting annual case reviews

4.115 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.

4.116 In our testing of prior years, we found situations where departmental social workers had no contact with clients for many years. This led us to question whether or not clients were receiving the appropriate level of care. This year in our testing of long-term care assessments, we found evidence in all but three cases that the social workers either had updated the long-term care assessment or had contact with the client. In ten cases, however, we are uncertain if this contact qualified as an annual case review because it was not well documented in the system.

4.117 The Long-Term Care Policy Manual provides guidance on the areas to review when conducting an annual case review. They are:

- Client's condition – The social worker is to assess whether the client's condition and needs have remained unchanged during the past year.

- Adequacy of services – The social worker is to ensure that the method by which LTC services are provided to the client and/or family caregiver is still adequate.

- Client's satisfaction – The social worker is to determine if the client and/or family caregiver is satisfied with the current supports and services.

- Client's financial situation – The social worker is to ensure that the client has submitted a recent copy of his/her income tax Notice of Assessment.

4.118 From our review of the notes in NBFamilies, in ten cases we did not see any evidence that the social workers assessed the four areas described above. We did see evidence that the social workers contacted the clients and that the clients' case plans were updated.

Recommendation

4.119 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

4.120 *We agree with this recommendation. Section 2.10 of the Long Term Care Manual suggests that case reviews be conducted annually. Section 9.1 of the Disability Support Program Manual states that case reviews will be conducted annually. The reviews can be documented in NBFamilies through the events log.*

Recommendations

4.121 We recommended social workers assess and document the client's condition, the adequacy of services, the client's support satisfaction and the client's financial situation when conducting annual case reviews.

4.122 We recommended the Department develop a form or template to help social workers document the information required when completing annual client case reviews.

4.123 We recommended the Department ensure that all social workers are adequately trained on how to conduct and document an annual client case review.

Departmental response

4.124 *We agree with these recommendations. The Department needs to standardize this process. We are currently in the process of developing a template to conduct annual client surveys including questions around client satisfaction, client's condition, adequacy of services and client financial information. These surveys could be used to indicate the need for a full review/reassessment. The use of the template will be included in training given to staff involved in the Long-Term Care and Disability Support Program.*

Adult Residential Facility inspection and licensing documentation

4.125 The Department is required to inspect all Adult Residential Facilities (ARFs) 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 for the Department to revisit the ARF to ensure all significant non-compliance issues are fixed before the Department issues a renewal certificate of approval.

4.126 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 12 payments in our sample that related to ARFs. We found four reportable items which are discussed below.

Chaleur region

4.127 We found one case in this region where a home was not licensed for four months. This occurred because an ARF's certificate of approval expired in February 2009 and a new one was not signed until July 2009. The Department indicated that it was without an inspector for a period of time and ARF inspections fell behind.

Restigouche region

4.128 We found one case in this region where the home was not licensed for a period of five months. In this case the ARF's certificate of approval expired in August 2009 and a new one was not issued until February 2010. The Department indicated that there was a backlog for inspections in this region and it is just catching up.

Moncton region

4.129 We found one case in this region where the Department issued a Certificate of Approval even though an ARF had a number of infractions listed on the standard inspection form. We saw no evidence that the ARF operator fixed the infractions.

4.130 We found one case where an ARF operator did not complete the standard application form but the Department issued a Certificate of Approval.

Recommendations

4.131 We recommended the Department complete and receive all licensing documentation prior to issuing a Certificate of Approval to an ARF.

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

4.133 We recommended the Department ensure that Certificates of Approval are issued on a timely basis.

Departmental response

4.134 *Social Development has recently completed an important transition phase with several new Adult Residential Facility Coordinators. It is expected that the situation will improve very soon.*

Government payroll system (HRIS)

Background

4.135 The government payroll system (HRIS) is another significant system in the Province that we test every year. The Office of Human Resources (OHR) operates this system and it processes payroll transactions for the Civil Service and pension payrolls.

4.136 Our testing has two parts:

- We document and test controls at the 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 Health and the Department of Social Development.

4.137 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.

Overall findings

4.138 This year we made recommendations in the following areas:

- authorization of production control paperwork; and
- access to the Genesys server production environment.

Authorization of production control paperwork

Issue

4.139 HRIS staff do not always approve the change request production control documents before sending them to Bell Aliant, the service provider of the data center. These documents authorize Bell Aliant to promote programs to production. Sending unapproved production control documents to Bell Aliant increases the risk that unauthorized program code changes could be promoted to production.

Findings

4.140 During our audit, we tested five change requests at HRIS. We discovered one instance where there was no approval on the change request production control documentation. We discussed the error with the Technical Team Manager and because he was new to the position he was unaware that someone was still required to approve the production control documents.

Discussion with management

4.141 We discussed this issue with the Acting Director at HRIS. He believes this was an isolated error that can be attributed to a time when the Technical Team Manager position was vacant and the re-alignment of duties among remaining staff had not yet been clarified. He believes that the Technical Team Manager should approve the production control documents. The Acting Director has notified Bell Aliant they are not to promote programs to production without (one of) the Technical Team Manager, the Acting Director or the Corporate Payroll Manager's signature on the production control documents.

Recommendation

4.142 We recommended OHR ensure that the appropriate HRIS staff approve the change request production control documents before HRIS sends these documents to Bell Aliant authorizing programs to be promoted to production.

Departmental response

4.143 *Steps have already been taken with respect to your recommendation on the authorization of production control paperwork.*

Access to the Genesys server production environment

Issue

4.144 The Acting Director at HRIS has write access to the Genesys server production environment. Allowing write access to the Genesys server production environment increases the risk that unauthorized and improperly tested program code could be put into production.

Findings

4.145 In March 2009, HRIS implemented a new server and version of the Genesys software which is used to calculate employee payroll. During our audit at HRIS, we determined that the Acting Director of the Branch has full access to the Genesys server production environment. Before this new environment and support procedures were implemented, only authorized employees at Bell Aliant had access to the production environment as this program code was stored on the mainframe. These Bell Aliant employees changed production code only when they received production control documents from HRIS authorizing them to promote specific program code to production.

Discussion with management

4.146 We discussed this issue with the Acting Director at the Branch who believes that having write access to the production environment was an operational necessity in order to efficiently set up and test the pre-production implementation of phase II of the system. Once phase II is implemented, the Acting Director would no longer need access to the production environment. We believe that allowing anyone other than Bell Aliant staff write access to the production environment compromises security control procedures that protect the integrity of the system code.

Recommendation

4.147 **We recommended only authorized Bell Aliant employees have write access to the Genesys server production environment.**

Departmental response

4.148 *We agree this was a short term situation due to the work involved with Phase II of the upgrade on Genesys.*

Medicare system

Background

4.149 The Medicare system is another significant system in the Province that we test every year. The Department of Health operates this system and it processes transactions of approximately $270 million for payments to physicians. The majority of our audit assurance for this system is obtained through a statistical sample of transactions.

Overall findings

4.150 This year we made recommendations in the following areas:

- proper spending authority; and
- arithmetic accuracy of payments.

Proper spending authority

4.151 We noted one case in our Medicare testing where the payment document did not have proper spending authority. The error occurred because the employee signed for an activity not listed on the employee's spending authority delegation form.

4.152 The Department indicated that this was a new activity code created during the fiscal year and that the employee's spending authority delegation form had not been updated. The Department indicated that it will ensure that the sheet is updated to reflect changes since it was last prepared.

Recommendations

4.153 We recommended the Department ensure that the delegation forms are updated during the fiscal year to reflect changes in signing responsibility.

4.154 We also recommended the Department ensure that proper authority is exercised on documents prior to payment.

Departmental response

4.155 *We have updated this year's forms to the current user's authority.*

Arithmetic accuracy of payments

4.156 We also noted during our audit one instance where a payment amount was improperly calculated. This caused a physician to be overpaid by $232. The reason for this error was that the physician was paid an after-hours premium when the time on the claim indicated that the after-hours premium should not have applied.

4.157 Discussion with the staff indicated that there is a field for time in the system but the system is unable to read the time. Therefore, unless the claim is processed manually or flagged by the system for assessment, the system will pay what the physician billed.

4.158 Staff indicated that they would make an adjustment to this claim to recoup the overpayment.

Recommendations

4.159 We recommended the Department investigate whether a system edit on the time field is possible so that the Department only pays after-hours premiums when the physician is eligible.

4.160 We also recommended the Department adjust the claim found in our sample to recover the overpayment.

Departmental response

4.161 *We have taken steps to have this time field validation read and calculated within the new system for accurate payment. The claim* *where our current system did not calculate the step-down payment has been adjusted to the correct lesser fee.*

Chapter 5
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, 2010. 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.

Kim MacPherson, CA
Auditor General

Mission and values

5.1 Our mission is:

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

5.2 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.

5.3 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 5.1 sets out the specific auditing and reporting requirements of our legislation, and indicates how we address each one.

Exhibit 5.1 - 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

5.4 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.

5.5 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 could be enhanced

5.6 As stated above, the *Auditor General Act* gives us our independence. 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.

Capacity is restricted by budget limitations

5.7 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.

5.8 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

5.9 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 5.2 sets out the logic model we use, and Exhibit 5.3 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 5.2 Logic model

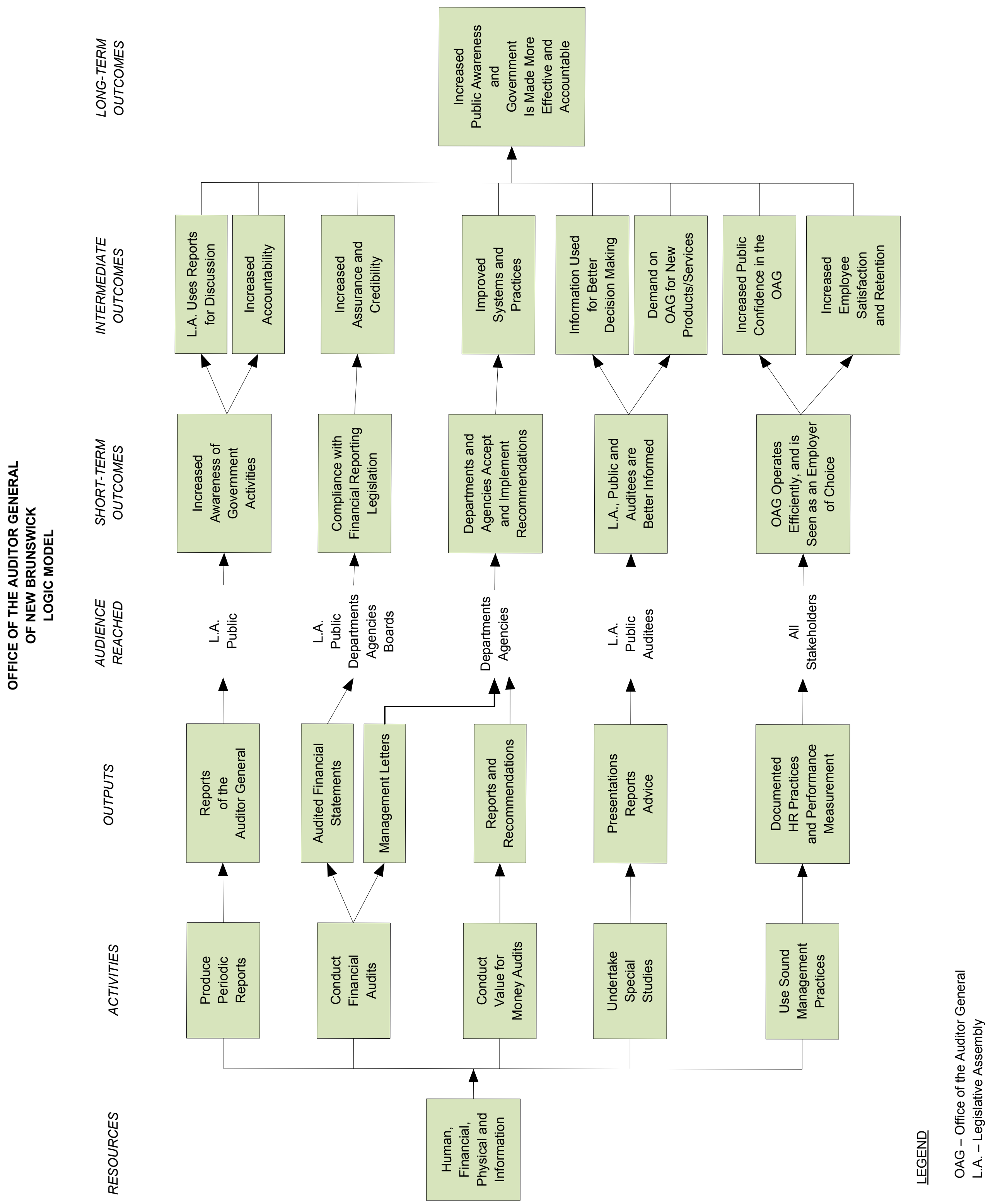


Exhibit 5.3 Measurement framework

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.

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

Measuring our progress

5.11 We are using eight indicators to assess our performance. Exhibit 5.3 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

5.12 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, 2008, and again in 2009 following the issuance of our 2008 annual Report.

5.13 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 88.3%. We are pleased with this result, which is similar to the rate of 87.3% achieved in 2008, and 86.8% achieved in 2004.

Auditee survey

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

5.15 The responses to our survey following our 2009 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 80.8%, compared to a rate of 80.4% in 2007 and 83.6% in 2006. 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, the timeliness of our work and the objectives and criteria we used in the audit.

Acceptance and implementation of recommendations

5.16 We generally assess these two indicators together. Chapter 6 of Volume 3 of our 2009 Report provides an overview of the recommendations included in our 2005 through 2007 Reports. It summarizes the status of our recommendations, and focuses in particular on those recommendations we made in 2005 that have not been fully implemented.

5.17 Our work in 2009 showed that departments and agencies had fully implemented about 39% of our recommendations from 2005, 2006 and 2007. Less than half of our recommendations from 2005 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.

5.18 Because of our limited staff resources, we did not conduct follow-up work in the current year on the recommendations included in our 2006 through 2008 Reports. However, we did contact all departments and agencies to obtain their assessment of the status of these recommendations. We intend to continue to track progress in this manner, and will supplement this with more focussed audit work in areas where progress is slow or non-existent.

Employee survey

5.19 In early 2010 we conducted another 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 68.8%, compared to a rate of 69.9% in 2007, and 66.3% in 2004.

5.20 We were disappointed to see a small decrease in the overall satisfaction rate from our previous survey. Following the 2007 survey, we developed and completed an action plan to address specific areas of concern. We will similarly address the issues arising out of the most recent survey.

Completion of audits on time and within budget

5.21 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 September 30.

5.22 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.

5.23 The audit of the Province for the year ended March 31, 2009 was not completed by July 31, 2009. Our auditor's report on the Province's financial statements was dated August 21, 2009. 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 2009 they were issued on September 28.

5.24 We are the auditors of seventeen Crown agencies and six pension plans. We completed ten of the Crown agency audits by September 30, 2009. Since 2007, we have contracted out the audits of the six pension plans to a private sector accounting firm, although we remain responsible for signing the auditor's reports. We did this primarily because of a shortage of staff in the Office to do the work. None of the pension plan audits were completed by September 30.

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

5.26 The time spent on our 2009 audit of the Province's financial statements was close to our budget, and less than the time spent in 2008. We are spending a significant part of our time auditing government systems and controls, in order to comply with changes in auditing standards. However, that time can fluctuate from year to year depending on the complexity of the systems we select for audit.

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

5.28 We completed four value-for-money audits during the year, which were included in our 2009 Report. One 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 report finalized.

Use of time

5.29 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, approximately 65% of our time is spent directly on financial statement audits or value-for-money audits. In the year ended March 31, 2010, 42% of this time was spent on value-for-money audits, compared to 48% in 2009 and 47% in 2008.

Exhibit 5.4 Allocation of paid working hours

	2010	2009	2008
Financial and value-for-money audits	64%	65%	65%
Professional development and training	9%	8%	7%
Support activities	27%	27%	28%
Total	100%	100%	100%

5.30 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.

5.31 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

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

5.33 The cost of the audit of the Province's financial statements for the year ended March 31, 2009 was $244,000. The total cost of the Crown agency audits for 2009 was approximately $173,000. We billed the pension plans a total of approximately $95,000 for their 2009 audits; this is a combination of the time spent by our staff and the amount paid to the private sector accounting firm who we contracted with to do most of the work. The total cost of the four value-for-money audits included in our 2009 Report was $268,000. The cost of preparing our 2009 Report, including the work we do to follow up on recommendations made in previous Reports, was approximately $108,000.

Peer review

5.34 Although not a formal performance indicator, an examination of our work by an independent, external reviewer is an important part of our commitment to sound management practices. Such an examination also helps to answer the question “who audits the auditor?” For a number of years, legislative audit offices across Canada have cooperated in a process of peer reviews, focusing on all aspects of our work. For example, the Office of the Auditor General of Alberta has examined our value-for-money audit practice, and staff from our Office has conducted a similar review of the Alberta practice.

5.35 During the year, we contracted with the Provincial Auditor of Saskatchewan to have his office conduct a peer review of our audit of the financial statements of the Province. The review was carried out in April 2010, and covered our audit of the Province of New Brunswick for the year ended March 31, 2009. The review was a comprehensive assessment of the quality and quantity of our audit work, using as a benchmark Canadian generally accepted auditing standards. The review produced a number of observations and recommendations that we are in the process of incorporating into our own policies and procedures. But, overall, we were pleased the reviewer concluded that we were complying with the generally accepted auditing standards of the Canadian Institute of Chartered Accountants. The opinion of the reviewer is reproduced below.

5.36 *I have carried out the post-audit issuance quality assurance review of the audit files of the above audit engagement. I carried out my work in accordance with the protocol of engagement for the inter-jurisdictional review signed on February 2, 2010.*

5.37 *The objective of this engagement is to conduct a post-audit issuance review of the above financial statement audit to issue a conclusion on compliance with Canadian generally accepted auditing standards. I used, as review criteria, the review tools approved by the Canadian Council of Legislative Auditors (CCOLA). CCOLA based these tools on CICA standards and on issues it deemed important. These review tools are the “Quality Assurance Guiding Principles”* *and the "Post-Audit Issuance Review Guides for Financial Statement Attest Audits."*

5.38 *In my opinion, the audit engagement examined was carried out, in all significant respects, in accordance with Canadian generally accepted auditing standards.*

Financial and human resources

Financial Results

5.39 Exhibit 5.5 shows the budget and actual expenditures for the Office for 2008-09 and 2009-10, together with the approved budget for 2010-11. Exhibit 5.6 breaks down the actual expenditures for 2008-09 and 2009-10 by type of activity, allocating overhead costs to each line of business.

Exhibit 5.5 Budget and actual expenditures ($ 000s)

	2011	2010		2009	
	Budget	**Budget**	**Actual**	**Budget**	**Actual**
Personal services	1,564.7	1,637.0	1,565.2	1,647.8	1,639.1
Other services	200.1	180.3	412.5	239.5	984.3
Materials and supplies	7.0	8.8	6.0	6.8	7.7
Property and equipment	15.2	15.9	20.6	25.9	22.2
Total	**1,787.0**	**1,842.0**	**2,004.3**	**1,920.0**	**2,653.3**

5.40 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 5.6 Costs by activity ($ 000s)

	2010 Actual	2009 Actual
Financial audit of the Province	485.5	502.1
Financial audits of Crown agencies	368.7	307.5
Value-for-money audits	919.7	1,115.0
Special investigation of the Caisse populaire de Shippagan	230.4	728.7
Total	**2,004.3**	**2,653.3**

5.41 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 completed during the year ended March 31, 2010. Costs incurred during the 2009-10 year were $230,400. This amount is included in Other services, which explains the excess of actual over budget of $232,200. We obtained a Supplementary Estimate of $200,000 in February, 2010 to authorize a portion of this overexpenditure.

5.42 Staff costs were underspent by $71,800 for the year ended March 31, 2010. These savings were primarily the result of a maternity leave and delays in filling vacancies resulting from staff turnover.

5.43 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

5.44 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.

5.45 Our staff complement in 2009-2010, based on our available budget, was 21. Brent White, CA and Paul Jewett, CA are the directors for our two audit teams. At March 31, 2010 there were sixteen professional staff with accounting designations, and two students enrolled in accounting programs. Two other members of our staff provide administrative support services. One position was vacant, and has subsequently been filled. Exhibit 5.7 lists staff members at March 31, 2010.

Exhibit 5.7 - List of staff members

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

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

Looking forward

5.46 As we move forward, there are two 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; and
- adapting to more rigorous auditing standards.

Increasing our capacity to do value-for-money audits

5.47 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 18%. 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 46% over the last twenty years, and for an audit supervisor the increase has been 57%.

5.48 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 now have only four staff members assigned to value-for-money audits on a full-time basis, assisted by other staff when available. The ongoing effect of the 5% budget cut we received for the 2009-10 year, and the further 3% cut in 2010-11 will likely cause a further reduction in our staff complement in 2011-12 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.

5.49 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 $1,300,000 less than the Auditor General's Office in Newfoundland and Labrador, and about $900,000 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 two years.

Adapting to more rigorous auditing standards

5.50 Canada is moving to adopt international auditing standards, beginning in 2010. This will require 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.

5.51 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.