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Chapter 5 – Performance Report of the Office of the Auditor General

Chapter 1
Introductory Comments

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Introductory Comments

Volume I Reports Our Financial Audit Work

1.1 This volume of our Report deals with matters arising from our financial audits of the Province and its Crown agencies for the year ended 31 March 2012.

Auditor General's comments on Province's Fiscal Status

1.2 The Province's audited financial statements for 31 March 2012 show a deficit of $260.6 million and a $430.1 million increase in Net Debt. The Province now has a Net Debt of over $10 billion.

1.3 Also, for the year ended 31 March 2012 we noted short term positive changes, including:

- The year over year deficit was reduced from $657.0 million to $260.6 million;
- The year over year Net Debt increase went from $1 billion to $430.1 million;
- Total revenue grew 3.6% while total spending contracted 1.6%; and
- A few of the short term financial indicators show favorable trends.

Continued diligence is needed to improve the financial health of the Province

1.4 However, progress to date has not been enough to impact the Province's long term sustainability. Continued diligence is required to improve the financial health of the Province.

1.5 Although the deficit was smaller, it was the fourth consecutive year of deficits. Net Debt continues to increase and is projected to increase a further $738.9 million in the 2012-13 Budget. This means an even higher demand on future revenue to pay past expenses.

Need to return to balanced budgets and reduce Net Debt

1.6 Government's announced plan of returning to balanced budgets by 2014-15 is welcome news. However, we would also encourage a similar long term commitment with respect to decreasing Net Debt.

1.7 Chapter 2 of this volume provides further detail, analysis and commentary of the Province's fiscal status as at 31 March 2012. The chapter includes historical trends, financial indicators and a comparison of New Brunswick's Net Debt to that of comparable provinces.

Financial Audit Recommendations

1.8 Chapter 3 reports on matters arising from our audit of the financial statements of the Province.

1.9 Chapter 4 reports on matters arising from our audits of Crown agencies and Federal Claims.

Office Performance Report

1.10 Chapter 5 includes our performance report of the Office of the Auditor General and is intended to present a comprehensive picture of the Office's actual performance.

1.11 I am pleased to report progress on the Office of the Auditor General's budget request for increased funding. During the annual budget process, the office received additional funding of $240,000 (over the last two years excluding wage adjustments). I would like to assure the Committee we are making effective use of this additional funding. In the upcoming 2013-14 budget process, I intend to request the remaining $360,000 of our original $600,000 request. If approved, the funding will allow us to augment our value for money resources.

1.12 The legislation, under which we operate, the *Auditor General Act*, is over thirty years old. In the coming months I will propose to government an amendment that is overdue and necessary as it will update and clarify many aspects of the Office of the Auditor General's mandate.

Acknowledgements

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

1.14 I want to thank all staff of my Office for their hard work and dedication. It is a small group of professionals committed to fulfilling the mandate of the office and producing a quality report to the Legislative Assembly. The report we are presenting today is a reflection of a team effort where each member of the staff has greatly contributed.

Kim MacPherson

Kim MacPherson, CA
Auditor General

Chapter 2
Comments on the Province's Financial Position

Contents

Comments on the Province's Financial Position

Signs of Change…

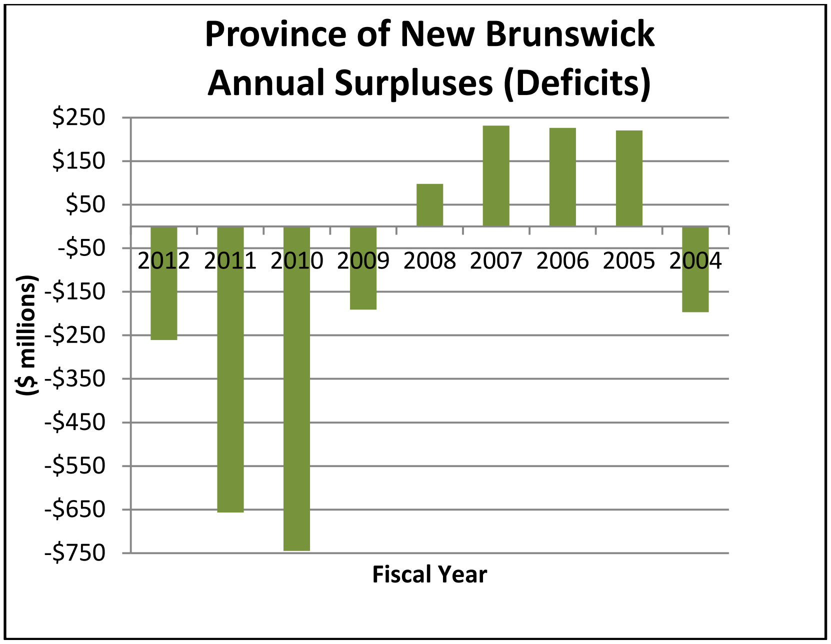
2.1 The Province's 31 March 2012 audited financial statements reported a deficit of $260.6 million and an increase in Net Debt for the fiscal year of $430.1 million. The Province now has a Net Debt of over $10 billion.

2.2 We are encouraged by the fact that the $260.6 million annual deficit was less than the budgeted deficit of $448.8 million and was less than the prior year deficit of $657.0 million. Also, the growth of Net Debt has slowed this year.

…but Continued Deficits

2.3 However, it is still the fourth consecutive annual deficit. To assist in financing these deficits, the Province has incurred additional debt. This trend is very concerning. Continued changes are required to improve the financial health of the Province.

Table 2.1 - Annual Surpluses (Deficits)



As restated

Table 2.2 - Annual Surpluses (Deficits) data

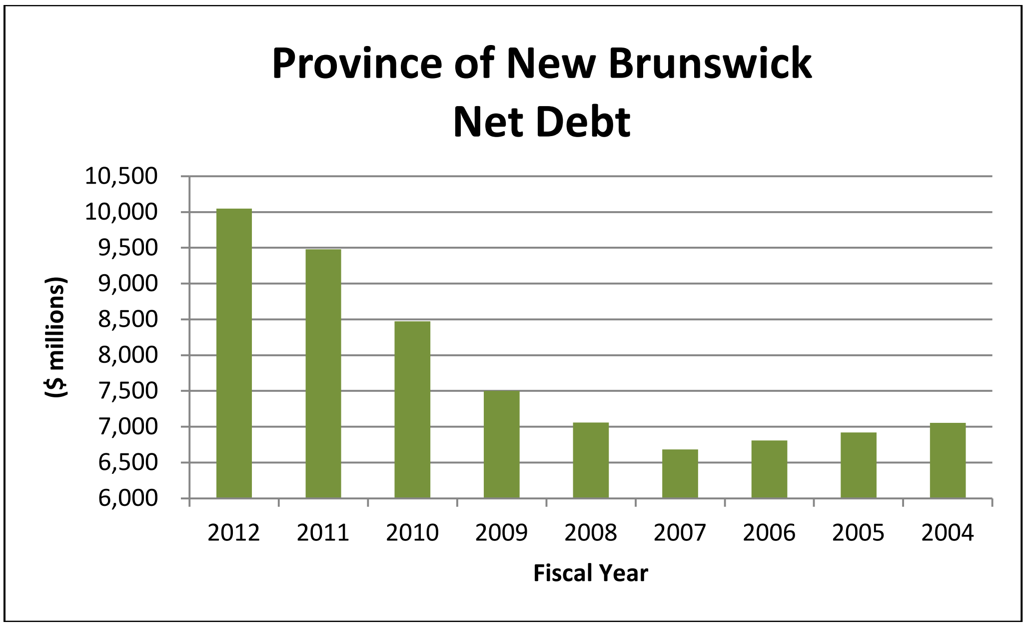
Annual Surpluses (deficits) ($ millions)									
	2012	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
As restated		(657.0)	(744.8)	(190.8)	97.4	231.7	226.3	220.5	(196.7)
As originally recorded	(260.6)	(633.0)	(737.9)	(192.3)	86.7	236.8	243.6	242.2	(103.2)

2.4 Tables 2.1 and 2.2 show the surplus or deficit for the past nine years. The preceding years' amounts have been restated as per Note 19 of the Province's 31 March 2012 financial statements.

Continued Growth in Net Debt

2.5 Net Debt is one of the most important measures of the financial position of the Province. Tables 2.3 and 2.4 show Net Debt for the past nine years.

Table 2.3 - Net Debt



As restated

Table 2.4 - Net Debt Data

Net Debt ($ millions)									
	2012	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
As restated		9,615.7	8,582.7	7,590.2	7,132.2	6,739.6	6,853.6	6,948.2	7,067.2
As originally recorded	10,045.8	9,480.4	8,353.0	7,387.8	6,942.9	6,577.9	6,655.7	6,836.0	6,816.1

2.6 We would like to draw attention to the following facts:

- For the year ended 31 March 2012, Net Debt increased by $430.1 million to $10 billion.
- Net Debt has increased $3.3 billion since 2007.
- The 2012-2013 Main Estimates budgets for an increase in Net Debt of $738.9 million for the year ended 31 March 2013. We understand approximately half of this amount includes a onetime payment for Route 1 Gateway Project.
- Based on 2012-2013 Main Estimates, Net Debt of the Province could be in excess of $10.5 billion for the year ended 31 March 2013.

2.7 This continued increase in Net Debt represents a very disturbing trend. An even higher demand will exist on future revenue to pay past expenses. Such continued negative trends impacted the Standard & Poor's decision to downgrade the Province's bond rating from AA- to A+ in 2012. This will ultimately result in more expensive borrowing cost. As well, New Brunswick's increased borrowing may constrain future borrowing capacity and affect future provincial operations and delivery of services.

Comparison to Other Similar Sized Provinces

2.8 Another 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 populations as New Brunswick in absolute amount, per capita and as a percentage of GDP. Comparable provinces include Nova Scotia, Manitoba and Saskatchewan.

2.9 In the next three tables data 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.

Table 2.5 - Net Debt Comparison to Provinces of Similar Size

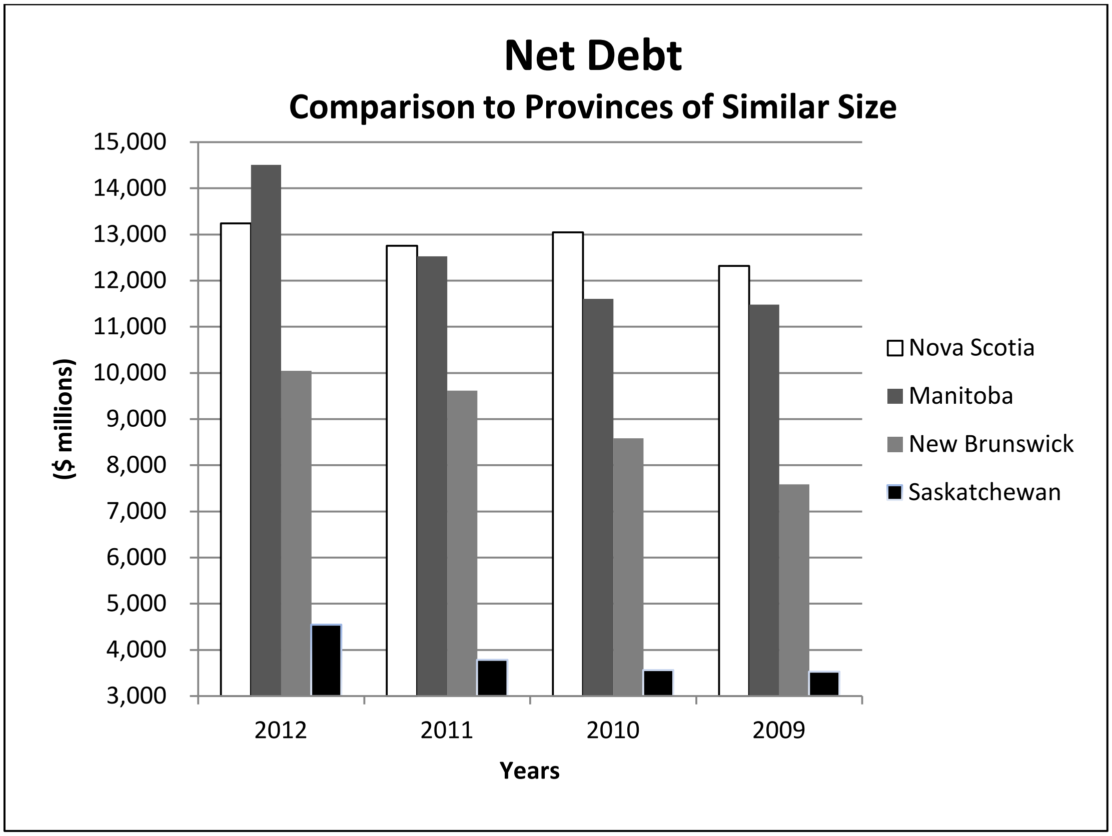


Table 2.6 - Net Debt Comparison to Provinces of Similar Size (data)

Net Debt ($ millions)						
Province	**Increase 2009 to 2012**	**Increase 2011 to 2012**	**2012**	**2011**	**2010**	**2009**
New Brunswick	32%	4%	10,046	9,615	8,583	7,590
Saskatchewan	29%	20%	4,543	3,783	3,560	3,524
Manitoba	26%	16%	14,511	12,525	11,607	11,480
Nova Scotia	7.5%	4%	13,243	12,758	13,045	12,318

2.10 Table 2.6 shows that over the last four years within this comparable group, New Brunswick has had the highest increase in Net Debt. New Brunswick's Net Debt has increased by 32% over the last four years. The magnitude of this increase is concerning. We are, however, very pleased to note that the rate of Net Debt growth has slowed in the past year. New Brunswick Net Debt grew only 4.3% in fiscal 2012. Still, the overall debt burden for the Province remains at an elevated level with no signs of a reduction in the coming year given the 2012-2013 Main Estimates, which budgets an increase in Net Debt of approximately $740 million. We are concerned at the long term implications and borrowing cost of the current debt load.

Table 2.7 - Net Debt Per Capita

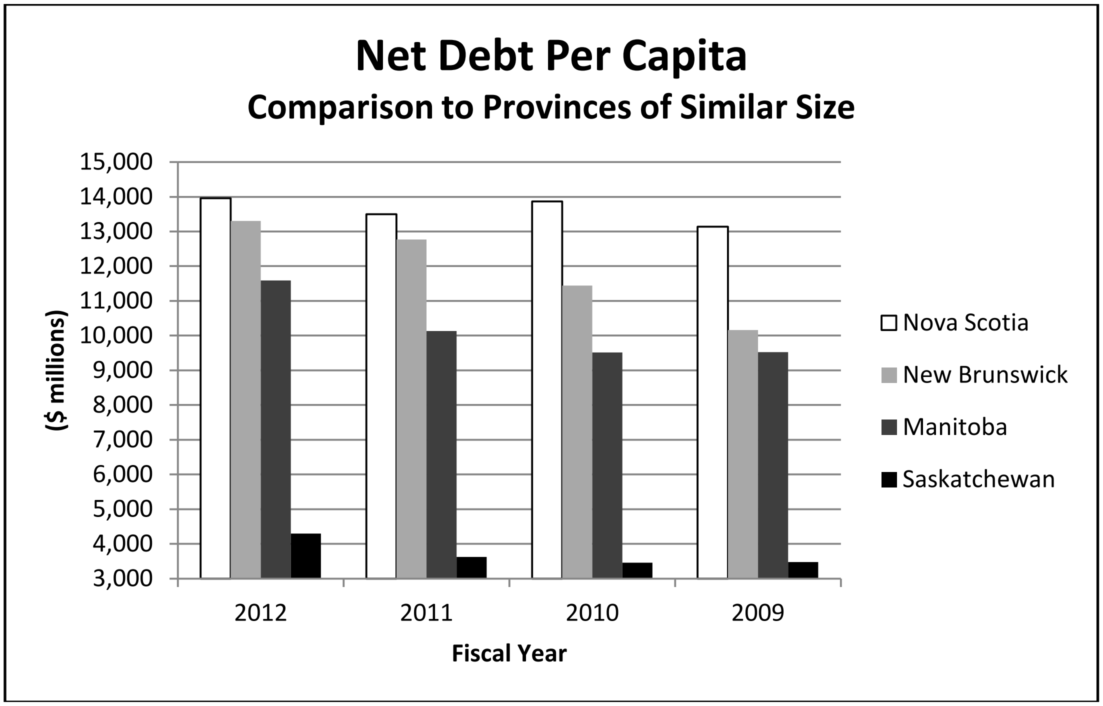


Table 2.8 - Net Debt Per Capita (data)

Net Debt Per Capita* ($)				
Province	**2012**	**2011**	**2010**	**2009**
Nova Scotia	13,962	13,498	13,869	13,139
New Brunswick	13,301	12,771	11,446	10,162
Manitoba	11,593	10,136	9,515	9,521
Saskatchewan	4,295	3,622	3,458	3,476

* *Using populations from Statistics Canada as of July 1 within the fiscal year (i.e. 2012 uses July1,2011 population), numbers have been rounded for presentation purposes.*

2.11 Information in Table 2.8 shows that New Brunswick has the second highest Net Debt per capita in the comparable group. If the debt were to be eliminated by way of contributions from New Brunswickers, each would contribute approximately $13,000. Again, this is an indicator that has increased significantly from 2009 at $10,162 to 2012 at $13,301.

2.12 For the year ended 31 March 2009, New Brunswick's Net Debt per capita was 77.3% of Nova Scotia's Net Debt per capita. By 31 March 2012 the percentage reached 95.3%.

Table 2.9 - Net Debt as a Percentage of GDP

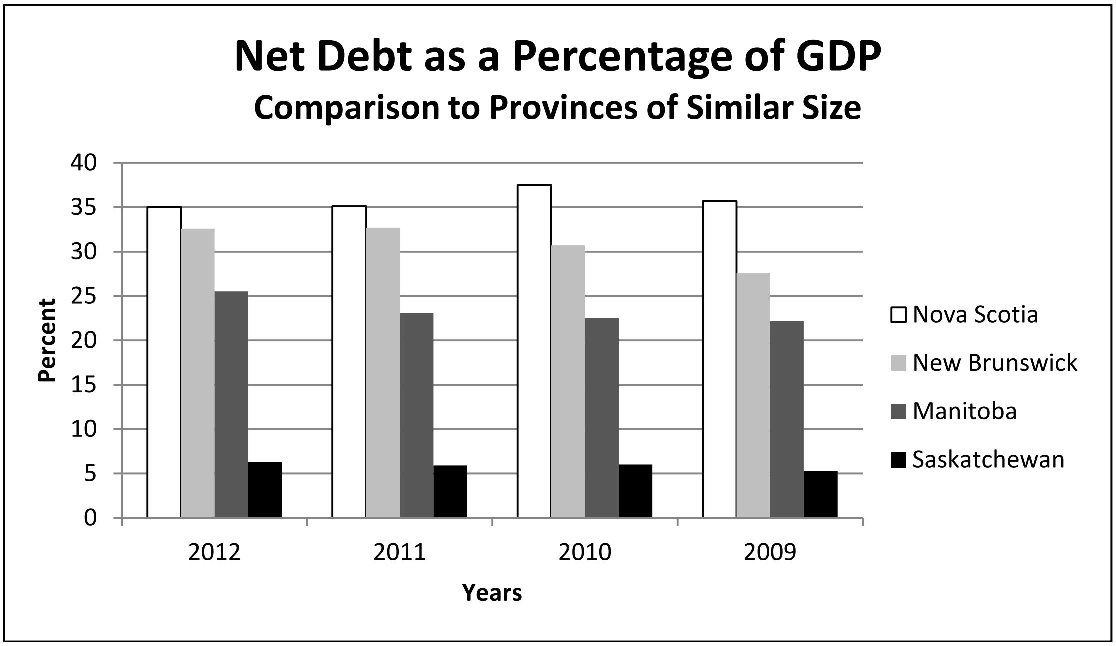


Table 2.10 - Net Debt as a Percentage of GDP (data)

Net Debt as a percentage of GDP (percent)					
Province	**2012**	**2011**	**2010**	**2009**	**% Increase from 2009 to 2012**
Nova Scotia	35.0	35.1	37.5	35.7	(2%)
New Brunswick	32.6	32.7	30.7	27.6	18%
Manitoba	25.5	23.1	22.5	22.2	15%
Saskatchewan	6.3	5.9	6.0	5.3	19%

2.13 As shown in Table 2.10, New Brunswick had the second highest increase of Net Debt as a percentage of GDP from 2009 to 2012, and the second highest

Net Debt as a percentage of GDP among comparable provinces for 2012. For the year ended 31 March 2009, New Brunswick's Net Debt as a percentage of GDP was 77.3% of Nova Scotia's; for the year ended 31 March 2012 it was 93.1%.

Net Debt Comparison Summary

2.14 New Brunswick's Net Debt performance compared to other provinces remains a significant concern. New Brunswick's increase in Net Debt of $3.3 billion from 2007 indicates the need for continued efforts to address the level of Net Debt.

Comments on the Province's Financial Health

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

2.16 Starting in 2009, the Province began reporting some of these measures as part of the section called *Indicators of Financial Health* which is reported in Volume 1 of Public Accounts. As we commented last year, we are pleased to see the Province report this information, and we are also pleased to see that for 31 March 2012 the Province expanded the historical timeframe of information provided from eight years to nine years.

2.17 In this section, we report on twelve indicators of financial condition identified by the Canadian Institution of Chartered Accountants (CICA) in a Statement of Recommended Practice (SORP). This analysis is intended to give a broader view of the financial health of the Province as the analysis shows trends. The analysis expands on the information reported in the audited financial statements which only reflect the Province's fiscal status at a point in time.

Assumptions Used

2.18 We have not audited some of the numbers used in our indicator analysis; instead, we are using numbers the Province restated as per Note 19 of the Province's financial statements. The Province used these restated figures in its Management Discussion and Analysis in Volume 1 of Public Accounts. We have not audited the annualized numbers we obtained from the Province for the years 2004 to 2010. For the 2011 and 2012 numbers, we audited the numbers as part of our

2012 work.

2.19 In some of the tables that follow, we show five years of comparative figures instead of nine. For these cases, restated numbers for prior years are not available because of changes in accounting policies.

Summary of the Province's Financial Condition

2.20 In the following table, 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 (five or nine year) trend, as well as a reference within this chapter of where we discuss the indicator in more detail.

Table 2.11 - Summary of Financial Indicators

	Indicator	Purpose	Short-term Trend	Term	Long-term Trend	Page
Sustainability	Assets-to-liabilities	Measures extent that government finances its operations by issuing debt	Neutral*	5 year	Unfavourable	18
	Financial asset-to-liabilities	Measures whether future revenues will be needed to pay for past transactions	Neutral*	5 year	Unfavourable	19
	Net Debt-to-total annual revenue	Shows whether more time is needed to pay for past transactions	Unfavourable	9 year	Unfavourable	20
	Expense by function-to-total expenses	Shows the trend of government spending over time	Neutral	5 year	Neutral	21
	Net Debt-to-GDP	Shows the relationship between Net Debt and the activity in the economy	Unfavourable	9 year	Unfavourable	22
	Accumulated deficit–to-GDP	Measures the sum of the current and all prior year operating results relative to the growth in the economy	Unfavourable	5 year	Unfavourable	22
	Total expenses-to-GDP	Shows the trend of government spending over time in relation to the growth in the economy	**Favourable***	9 year	Unfavourable	23
Flexibility	Public debt charges-to-revenues	Measures extent that past borrowing decisions limits ability to meet current financial and service commitments	Neutral	9 year	**Favourable**	25
	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	Neutral	5 year	Neutral	26
	Own-source revenues-to-GDP	Measures extent income is taken out of the economy	Neutral	9 year	Neutral	27
Vulnerability	Government transfers-to-total revenues	Measures the dependence on another level of government	**Favourable***	9 year	Mixed	30
	Foreign currency debt-to-Net Debt	Measures the government's potential vulnerability to currency fluctuations	**Favourable**	9 year	**Favourable**	31

**Notes a change from prior year*

Conclusion

2.21 The long-term trends show the financial condition of the Province has remained relatively unchanged since the prior year, however, there have been signs of short term improvement in certain areas. In particular, we note our assessment of four short-term indicators has improved over the prior year due to the progress evidenced through the reduction in the annual deficit and slowing of the growth of Net Debt. We are encouraged to see these signs of improvement.

2.22 However, there has not been enough progress to date to cause a shift in long-term indicator assessments. We remain concerned about the level of Net Debt, now over $10 billion. With the anticipated increase in Net Debt as per 2012-13 Main Estimates of approximately $740 million, New Brunswick Net Debt growth since 2007 will have increased by 60%. This pace of Net Debt growth is not sustainable in the long term, and significant changes will be required to address this problem. It may eventually impact 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.

2.23 Government's announced plan of returning to balanced budgets by 2014-15 is welcome news, however, we would also encourage a similar long term commitment from government with respect to decreasing Net Debt.

Sustainability Indicators

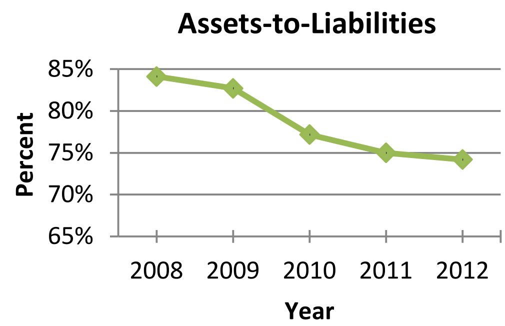
2.24 Sustainability indicates whether the Province can maintain programs and meet existing creditor requirements without increasing the debt burden on the economy.

Assets-to-Liabilities

2.25 The sustainability indicator assets-to-liabilities is presented in Table 2.12.

Table 2.12 - Comparison of Assets-to-Liabilities

Comparison of Assets-to-Liabilities			
Year ended	Total assets ($ millions)	Total liabilities ($ millions)	Total assets/ total liabilities (percent)
2008	7,906.3	9,399.0	84.1%
2009	8,659.8	10,470.9	82.7%
2010	8,630.0	11,181.0	77.2%
2011	9,305.1	12,402.6	75.0%
2012	9,706.3	13,074.3	74.2%



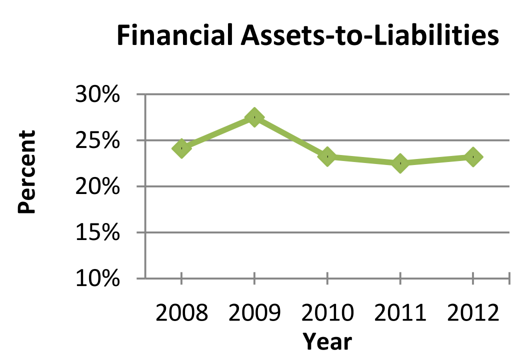
2.26 An assets-to-liability indicator below 100% indicates a government has accumulated deficits and has been financing its operations by issuing debt. For the past five years, the Province's rate was less than 100%. It has dropped slightly in the short term and has decreased over the long term. This trend is unfavourable.

Financial Assets-to-Liabilities

2.27 Another sustainability indicator, financial assets-to-liabilities, is presented in Table 2.13.

Table 2.13 - Comparison of Financial Assets-to-Liabilities

Comparison of Financial Assets-to-Liabilities			
Year ended	Total financial assets ($ millions)	Total liabilities ($ millions)	Total financial assets/ total liabilities (percent)
2008	2,266.8	9,399.0	24.1%
2009	2,880.7	10,470.9	27.5%
2010	2,598.3	11,181.0	23.2%
2011	2,786.9	12,402.6	22.5%
2012	3,028.5	13,074.3	23.2%



2.28 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 in the year ended 31 March 2011 because of the large increase in liabilities. The percentage did show improvements in 2012. We have assessed the short-term trend as neutral and the long-term trend as unfavourable.

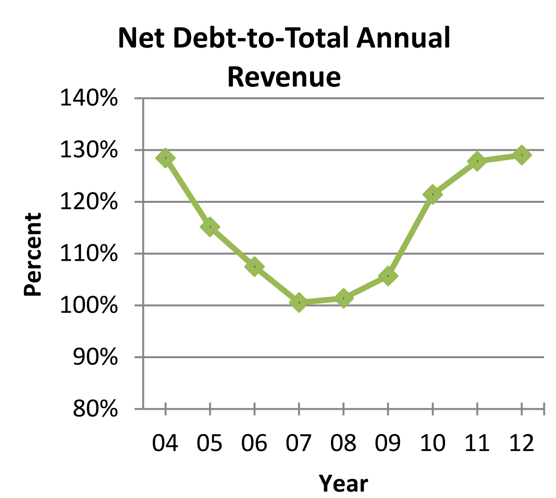
Net Debt-to-Total Annual Revenue

2.29 Net Debt-to-total annual revenue is another indicator of sustainability and is presented in Table 2.14.

Table 2.14 - Comparison of Net Debt-to-Total Annual Revenue

Comparison of Net Debt-to-Total Annual Revenue

Year ended	Net Debt ($ millions)	Total revenue ($ millions)	Net Debt/ total revenue (percent)
2004	7,067.2	5,503.3	128.4%
2005	6,948.2	6,034.8	115.1%
2006	6,853.6	6,378.0	107.5%
2007	6,739.6	6,703.5	100.5%
2008	7,132.2	7,037.8	101.3%
2009	7,590.2	7,184.0	105.7%
2010	8,582.7	7,070.4	121.4%
2011	9,615.7	7,521.4	127.8%
2012	10,045.8	7,789.0	129.0%



2.30 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. The Province's percentage has been increasing over the past five years, most significantly in 2010. The improvements made from 2004-2007 have now been lost as the 2012 amount exceeds that of 2004. We have assessed this trend as unfavourable.

Expense by Function-to-Total Expenses

2.31 Table 2.15 presents expense by function-to-total expenses.

Table 2.15 - Comparison of Expense by Function-to-Total Expenses

Comparison of Expense by Function-to-Total Expenses										
	2012		2011		2010		2009		2008	
	($ millions)	(%)	($ millions)	(%)	($ millions)	(%)	($ millions)	(%)	($ millions)	(%)
Labour and Employment	108.8	1.3	141.7	1.7	141.5	1.7	124.4	1.6	119.1	1.7
Resources	209.5	2.6	215.1	2.6	205.8	2.6	204.2	2.8	203.3	2.9
Protection Services	225.2	2.8	250.6	3.1	209.5	2.7	223.8	3.0	187.5	2.7
Economic Development	246.1	3.1	328.4	4.0	343.7	4.4	286.3	3.9	226.8	3.3
Transportation	395.6	4.9	402.7	4.9	381.4	4.9	380.7	5.2	364.0	5.2
Central Government	690.0	8.6	750.2	9.2	692.0	8.9	686.1	9.3	623.7	9.0
Service of the Public Debt	661.8	8.2	641.5	7.8	616.6	7.9	602.5	8.2	576.9	8.3
Social Development	1,031.8	12.8	1,037.5	12.7	997.1	12.8	961.0	13.0	930.5	13.4
Education and Training	1,747.4	21.7	1,723.7	21.1	1,632.0	20.9	1,457.0	19.8	1,433.3	20.7
Health	2,733.4	34.0	2,687.0	32.9	2,595.6	33.2	2,448.7	33.2	2,275.3	32.8
Total	**8,049.6**	**100.0**	**8,178.4**	**100.0**	**7,815.2**	**100.0**	**7,374.8**	**100.0**	**6,940.4**	**100.0**

2.32 The years ended 31 March 2009 to 31 March 2012 reported deficits. This means that while individual expense trends may have remained steady, this was achieved by incurring a total level of expenses that was in excess of revenue generated in those years. Education and Training and Health's allocation of expenses consume over 50% of the total expenses, consistent with prior years.

2.33 The most significant trend in Table 2.15 is that in 2012, there was no overall year-over-year growth in expenses, in fact, there was a decrease from $8.18 billion to $8.05 billion.

2.34 Another significant trend in Table 2.15 is that the growth in expenses pertaining to the Service of the Public Debt out-paced the allocation of expenditures for certain other expense function areas including Transportation and Social Development. The impact of New Brunswick's growing Net Debt will need to be closely monitored in the future as it consumes resources that would otherwise be used to deliver services. We have assessed this indicator as neutral.

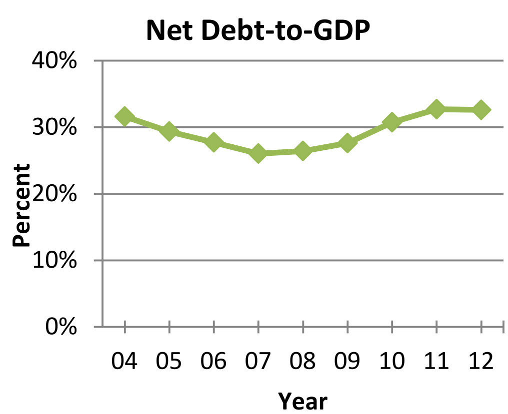
Net Debt-to-GDP

2.35 The sustainability indicator, Net Debt-to-GDP is presented in the Table 2.16. The Province also reports this indicator in Volume 1 of the Public Accounts.

Table 2.16 - Comparison of Net Debt-to-GDP

Comparison of Net Debt-to-GDP

Year ended	Net Debt ($ millions)	GDP ($ millions)	Net Debt/ GDP (percent)
2004	7,067.2	22,366	31.6%
2005	6,948.2	23,672	29.4%
2006	6,853.6	24,716	27.7%
2007	6,739.6	25,847	26.1%
2008	7,132.2	27,044	26.4%
2009	7,590.2	27,499	27.6%
2010	8,582.7	27,920	30.7%
2011	9,615.7	29,448	32.7%
2012	10,045.8	30,773	32.6%



2.36 This indicator compares the Province's Net Debt, the difference between its liabilities and its financial assets, to its GDP. This ratio declined from 2004 to 2007 indicating that over that time period the level of the Province's debt became less onerous on the economy. The ratio increased from 2008 to 2011 because the rate of growth of Net Debt exceeded the rate of growth in GDP over that time period. In 2012, the change in the ratio was minimal, and remains near its highest point since 2004. This means the Net Debt of the Province is increasing faster than the growth in the economy thus becoming more of a burden on the economy. We have assessed the trend as unfavourable.

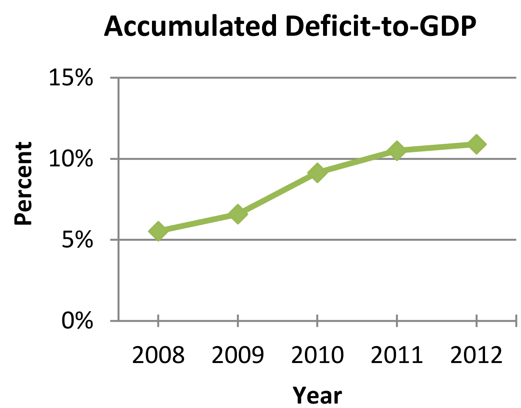
Accumulated Deficit-to-GDP

2.37 In the Table 2.17, we present the sustainability indicator accumulated deficit-to-GDP.

Table 2.17 - Comparison of Accumulated Deficit-to-GDP

Comparison of Accumulated Deficit-to-GDP

Year ended	Accumulated deficit ($ millions)	GDP ($ millions)	Accumulated deficit/GDP (percent)
2008	1,492.7	27,044	5.5%
2009	1,811.1	27,499	6.6%
2010	2,551.0	27,920	9.1%
2011	3,097.5	29,448	10.5%
2012	3,368.0	30,773	10.9%



2.38 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 from 2008 to 2012, the accumulated deficit has increased faster than the growth of the economy. This represents an unfavourable trend as spending rates increased faster than the economy was expanding.

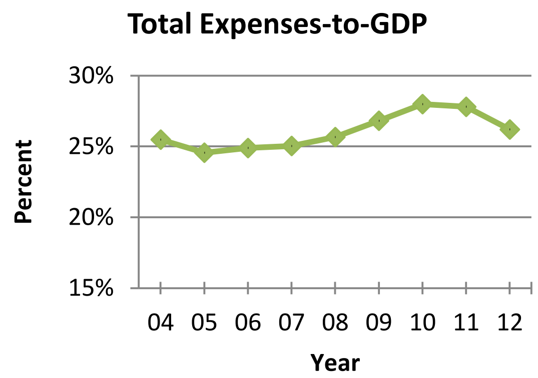
Total Expenses-to-GDP

2.39 Table 2.18 presents the total expenses-to-GDP indicator.

Table 2.18 - Comparison of Total Expenses-to-GDP

Comparison of Total Expenses-to-GDP

Year ended	Total expenses ($ millions)	GDP ($ millions)	Total expenses/GDP (percent)
2004	5,700.0	22,366	25.5%
2005	5,814.3	23,672	24.6%
2006	6,151.7	24,716	24.9%
2007	6,471.8	25,847	25.0%
2008	6,940.4	27,044	25.7%
2009	7,374.8	27,499	26.8%
2010	7,815.2	27,920	28.0%
2011	8,178.4	29,448	27.8%
2012	8,049.6	30,773	26.2%



2.40 This indicates that for five years government expenses were held to about 25% of GDP, however, from 2008 to 2011 the percentage was higher. This represents an unfavourable long-term trend as expenses are growing faster than the economy is expanding. The ratio has decreased in 2012 and we assess the short-term trend as favourable.

Table 2.19 - Trends for Sustainability Indicators

Sustainability Indicator Trends

Sustainability indicator	Short-term trend	Long-term trend
Assets-to-liabilities	Neutral	Unfavourable
Financial assets-to-liabilities	Neutral	Unfavourable
Net Debt-to-total annual revenue	Unfavourable	Unfavourable
Expense by function-to-total expenses	Neutral	Neutral
Net Debt-to-GDP	Unfavourable	Unfavourable
Accumulated deficit-to-GDP	Unfavourable	Unfavourable
Total expenses-to-GDP	**Favourable**	Unfavourable

Summary of Sustainability Indicators

2.41 In summary, while some sustainability indicators have changed slightly in the short term, our overall assessment of the long-term trends in sustainability indicators remains unfavourable. This long-term negative trend should be of concern to New Brunswickers.

Flexibility Indicators

2.42 Flexibility is the degree to which the government can change its debt or tax burden on the economy to maintain programs and meet existing creditor requirements.

Public Debt Charges-to-Revenues

2.43 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 service its debt, leaving no flexibility in the timing of these payments.

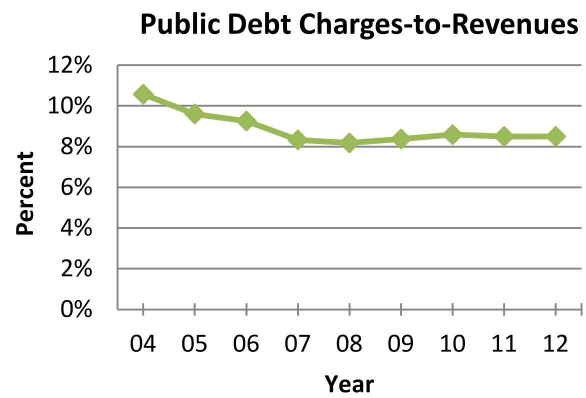
2.44 The cost of servicing the public debt is comprised mainly of interest on the funded debt of the Province. It also includes foreign exchange paid on interest and maturities during the year, the amortization of foreign exchange gains and losses, and the amortization of discounts and premiums which were incurred on the issuance of provincial debt. It does not include principal repayments on the funded debt of the Province.

2.45 In Table 2.20, we present the public debt charges-to-revenues. The Province also reports this indicator in Volume 1 of Public Accounts.

Table 2.20 - Comparison of the Public Debt Charges-to-Revenues

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)
2004	581.8	5,503.3	10.6%
2005	579.6	6,034.8	9.6%
2006	590.3	6,378.0	9.3%
2007	558.0	6,703.5	8.3%
2008	575.7	7,037.8	8.2%
2009	601.4	7,184.0	8.4%
2010	607.2	7,070.4	8.6%
2011	641.5	7,521.4	8.5%
2012	661.8	7,789.0	8.5%



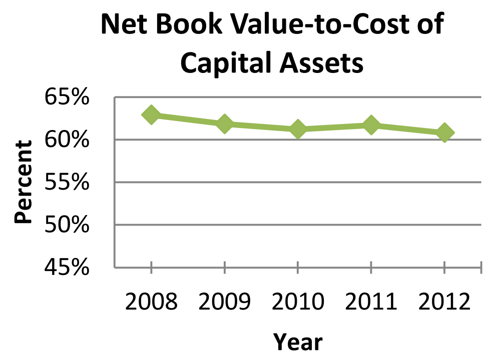
2.46 This table shows that the cost of servicing the public debt as a percentage of the Province's total revenues is significantly lower in the year ended 31 March 2012 than it was in the year ended 31 March 2004. This means that the Province is spending proportionately less of its current year revenue to cover debt charges resulting in more current year revenue available to cover services to the public. For the past two years, the ratio has remained the same and we are assessing the short-term trend as neutral. We are assessing the long-term trend as favourable as the current year's ratio is less than the ratio in 2004. Although we are assessing this indicator as favourable, caution is needed when looking at this indicator. The cost of servicing the Province's debt is increasing in a time when interest rates have declined and the Province's debt is increasing significantly.

Net Book Value of Capital Assets-to-Cost of Capital Assets

2.47 We present the net book value of capital assets-to-cost of capital assets in the Table 2.21.

Table 2.21 - Comparison of Net Book Value of Capital Assets-to-Cost of Capital Assets

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	6,261.9	9,947.8	62.9%
2009	6,429.5	10,387.7	61.9%
2010	6,706.0	10,959.3	61.2%
2011	7,241.7	11,733.2	61.7%
2012	7,395.9	12,160.0	60.8%



2.48 This data indicates that the Province's inventory of capital assets as at 31 March 2012 has 60.8% 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 2012, and assets with original useful lives of twenty years were still considered useable for just over twelve years on average. As the ratios have remained relatively the same over the past five years, we are assessing the short-term and long-term trends as neutral.

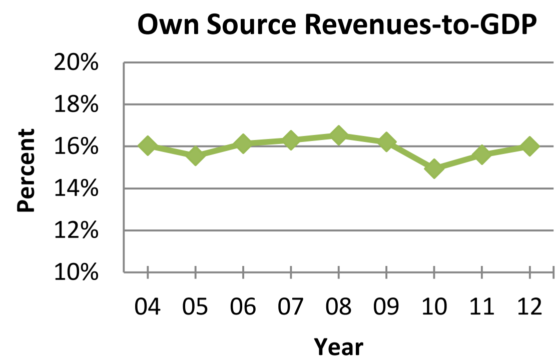
Own Source Revenues-to-GDP

2.49 We present own source revenues-to-GDP in Table 2.22. The Province also reports this indicator in Volume 1 of Public Accounts.

Table 2.22 - Comparison of Own Source Revenues-to-GDP

Comparison of Own Source Revenues-to-GDP

Year ended	Own source revenues ($ millions)	GDP ($ millions)	Own source revenues/ GDP (percent)
2004	3,585.4	22,366	16.0%
2005	3,680.0	23,672	15.5%
2006	3,985.1	24,716	16.1%
2007	4,216.1	25,847	16.3%
2008	4,460.1	27,044	16.5%
2009	4,457.8	27,499	16.2%
2010	4,169.4	27,920	14.9%
2011	4,602.1	29,448	15.6%
2012	4,915.2	30,773	16.0%



2.50 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. If the ratio increases, more of the Province's revenue is generated from the provincial economy. For example, an increase in this ratio could result if the Province increased taxes. If the ratio decreases, less of the Province's revenue is generated from the provincial economy. A decreasing ratio increases the Province's ability to raise taxes, thus, making the Province more flexible in how it can generate revenue.

2.51 Generally, this ratio has stayed the same over the long-term. There was a decrease in the year 2010 mostly as a result of a large loss by the New Brunswick Electric Finance Corporation (EFC). In that year, the reduction in own source revenue was not as a result of lower fees or taxes.

2.52 In 2012, own source revenue increased by $313.1 million. The most significant sources of this increase were EFC having a surplus of $145.0 million, resulting in an increase in investment income of approximately $141.4 million. Taxes also increased by $144.4 million, the majority of which results from an increase in HST revenue of $72.8 million. We have assessed both the long-term and short-term trend as neutral.

2.53 A note of caution should be taken when looking at this indicator for the last four years. The Province incurred deficits which means it did not generate enough revenue in any of those years to cover expenses.

Summary of Flexibility Indicators

2.54 This year, we have reported on three flexibility indicators.

Table 2.23 - Trends for Flexibility Indicators

Trends for Flexibility Indicators		
Flexibility indicator	**Short-term trend**	**Long-term trend**
Public debt charges-to-revenues	Neutral	Favourable
Net book value of capital assets-to-cost of capital assets	Neutral	Neutral
Own source revenues-to-GDP	Neutral	Neutral

2.55 The cost of servicing the public debt as a percentage of revenues indictor is stable in the short term and is lower than it was in the year ended 31 March 2004, resulting in a favourable long-term assessment, however, caution is needed in interpreting this result as the cost of servicing the Province's debt is increasing in a time when rates are decreasing and the Province's debt load is increasing.

2.56 Own source revenue as a percentage of GDP was higher in the year ended 31 March 2012 because of a higher annual surplus for the New Brunswick Electric Finance Corporation (EFC) and an increase in taxation revenue in 2012. However, the Province incurred a deficit of $260 million in the 2011-12 fiscal year. Therefore, we have judged the long-term trend to be neutral.

Vulnerability Indicators

2.57 Vulnerability is the degree to which a government is dependent on sources of funding outside its control or influence.

Government Transfers-to-Total Revenues

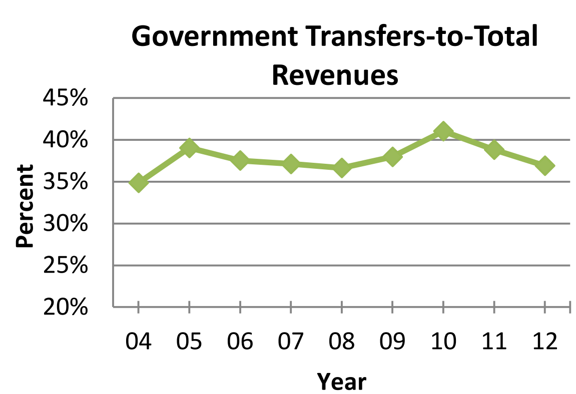
2.58 By comparing the proportion of total revenue that comes from the federal government to the total revenue of the Province, we get a measure of the degree to which the Province is dependent on the federal government. If that dependence increases, the Province is more vulnerable to funding decisions 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.

2.59 Table 2.24 presents the comparison of government transfers-to-total revenues. The Province also reports this indicator in Volume 1 of Public Accounts.

Table 2.24 - Comparison of Government Transfers-to-Total Revenues

Comparison of Government Transfers-to-Total Revenues

Year ended	Federal government transfer revenue ($ millions)	Total revenue ($ millions)	Federal government transfer revenue/ total revenue (percent)
2004	1,917.9	5,503.3	34.8%
2005	2,354.8	6,034.8	39.0%
2006	2,392.9	6,378.0	37.5%
2007	2,487.4	6,703.5	37.1%
2008	2,577.6	7,037.8	36.6%
2009	2,726.5	7,184.0	38.0%
2010	2,901.0	7,070.4	41.0%
2011	2,919.3	7,521.4	38.8%
2012	2,873.8	7,789.0	36.9%



2.60 Table 2.24 shows that the Province's reliance on government transfers has been steadily decreasing since 2010. For the 2012 year, revenues increased because of the surplus of $145.0 million in EFC, compared to $10.8 million in the prior year, as well as an increase of $72.8 million of the provincial portion of HST revenue. Thus we are assessing the short-term trend as favourable and the long-term trend as mixed.

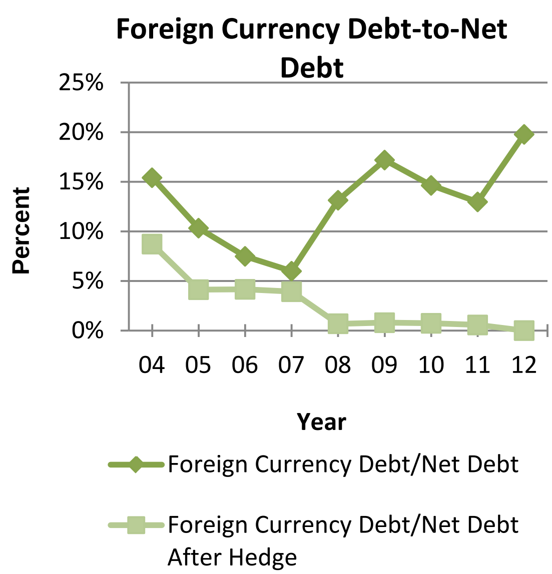
Foreign Currency Debt-to-Net Debt

2.61 The foreign currency debt-to-Net Debt indicator measures the Province's potential vulnerability to currency fluctuations and is presented in Table 2.25.

Table 2.25 - Comparison of Foreign Currency Debt-to-Net Debt

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)
2004	1,088.9	7,067.2	15.4%	8.7%
2005	717.5	6,948.2	10.3%	4.1%
2006	512.9	6,853.6	7.5%	4.2%
2007	403.5	6,739.6	6.0%	3.9%
2008	937.0	7,132.2	13.1%	0.7%
2009	1,304.8	7,590.2	17.2%	0.8%
2010	1,255.8	8,582.7	14.6%	0.7%
2011	1,247.3	9,615.7	13.0%	0.6%
2012	1,986.8	10,045.8	19.8%	0.0%



2.62 The above information shows that the Province's foreign currency debt has increased over the 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).

2.63 From Table 2.25, we see the risk of exposure to foreign currency fluctuations has decreased significantly over time. Because of the effectiveness of the Province's hedging strategy, we assess this indicator as favourable.

Summary of Vulnerability Indicators

2.64 We have assessed the short-term and the long-term trend for both indicators:

Table 2.26 - Trends for Vulnerability Indicators

Trends for Vulnerability Indicators		
Vulnerability indicator	**Short-term trend**	**Long-term trend**
Government transfers-to-total revenues	Favourable	Mixed
Foreign currency debt-to-Net Debt	Favourable	Favourable

2.65 In summary, the Province's vulnerability exposure is mixed. In years when EFC generates income through its investment in NB Power, the Province's reliance on federal revenue decreased and this indicator improves. In general, the Province is doing a good job at limiting its exposure to fluctuations in foreign currency.

Comments on Components of the Province's Financial Statements

2.66 In this section, we discuss significant trends we have observed in the Province's financial statements. We have highlighted these trends to raise public awareness and to provide legislators with an independent assessment of the areas we believe should be a focus for the government.

Deficit

2.67 For the year ended 31 March 2012, the Province reported a deficit of $260.6 million. This is a decrease of $396.4 million from the $657.0 million deficit reported for the year ended 31 March 2011.

2.68 Table 2.27 shows, at a high level, the reasons for the change in the deficit from 31 March 2011 to 31 March 2012.

Table 2.27 - Analysis of Deficit Decrease

Analysis of Deficit Decrease	
	(millions)
2011 Deficit	$657.0
Increase in provincial source revenue	(313.1)
Decrease in federal source revenue	45.5
Decrease in expense	(128.8)
2012 Deficit	**$260.6**

2.69 Increases in provincial source revenue are mainly attributable to increases in tax revenues primarily in the provincial portion of Harmonized Sales Tax of $72.8 million and an increase in earnings of New Brunswick Electric Finance Corporation (EFC) of $134.2 million.

2.70 The overall decrease in federal source revenue of $45.5 million is attributable to changes in three federal revenue sources. There was a reduction of $29.2 million in fiscal equalization payments, due to a narrowing of fiscal disparities between New Brunswick and the national average. There was also a reduction of $48.5 million in conditional grant revenue primarily due to the expiry of various federal training and stimulus funding agreements and disaster assistance funding in 2011. These revenue reductions were offset by an increase of $32.2 million in the amount of unconditional grant revenue, which was mainly due to the Canada Health Transfer and the Canada Social Transfer.

2.71 Total expenditures have decreased by $128.8 million. This is attributable to a reduction in expenditures by most departments, the most significant being a reduction of $82.3 million by Economic Development and $60.2 million by Central Government. The overall decrease in expenditures was offset by an increase in expenditures for Health of $46.4 million, Education and Training of $23.7 million and Service of the Public Debt of $20.3 million.

Expenses

2.72 Table 2.28 shows the one year growth rate and the average growth rate for the past three years.

Table 2.28 - Expense Trends by Function

Expense Trends by Function (percent)				
Average annual growth rate	**Function**	**2012 growth rate**	**2011 growth rate**	**2010 growth rate**
6.3	Education and training	1.4	5.6	12.0
3.7	Health	1.7	3.5	6.0
3.2	Service of the public debt	3.2	4.0	2.3
2.4	Social development	(0.6)	4.1	3.7
1.3	Transportation	(1.8)	5.6	0.2
1.0	Protection services	(10.1)	19.6	(6.4)
0.9	Resources	(2.6)	4.5	0.8
0.4	Central government	(8.0)	8.4	0.9
(3.1)	Labour and employment	(23.2)	0.1	13.7
(3.2)	Economic development	(25.1)	(4.5)	20.0
3.0	**Total**	**(1.6)**	**4.6**	**6.0**

2.73 Table 2.28 shows the Province's rate of spending and expenses slowed considerably especially in 2012. In fiscal 2012, all functions showed a decrease in growth rate with seven of ten function areas showing negative growth which implies cost reductions were realized. The annualized three year expense growth rate for 2012 was 3%. This is an improved result over the rate for the prior year which was 5.6%.

2.74 We noted the expense growth rate has slowed in Health and Education and training, the largest expense function areas. Health's 1.7% growth rate in 2012 is particularly noteworthy because in prior years Health's expense growth rate was 6% in 2010 and 3.5% in 2011.

2.75 However, Table 2.28 shows Service of the Public Debt experienced the largest growth rate in 2012 amongst all expense functions. Service of the Public Debt represents interest costs on the Province's debt.

In comparing the three year average growth rate, Service of the Public Debt experienced the third largest growth behind Education and training and Health. These growth rates are concerning as they illustrate the inflexibility of this particular expense in a period where, as Table 2.28 shows, government was reducing or restraining spending in other expense functions. It also illustrates that regardless of the current restraint efforts of government, past deficit financing continues to have a fiscal impact. Interest costs may grow if debt continues to increase or, upon refinancing, interest rates rise.

Receivables, Advances, Loans and Allowances

2.76 There are significant amounts of money owed to the Province by taxpayers, businesses, and the federal government. As shown in Table 2.29 at 31 March 2012, over $1.4 billion was owed to the Province, gross of allowances that had been set up for receivables, advances, and loans. There was an additional $1.1 billion in taxes receivable.

Table 2.29 - Amounts Owed to the Province

Amounts Owed to the Province ($ millions)										
	2012	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
Accounts receivable and advances	606.8	690.0	733.0	622.7	607.7	522.8	590.5	543.0	476.3	439.3
Loans	870.2	858.5	822.4	736.8	626.0	560.6	512.9	262.7	255.6	292.3
Total A/R, advances, loans	**1,477.0**	**1,548.5**	**1,555.4**	**1,359.5**	**1,233.7**	**1,083.4**	**1,103.4**	**805.7**	**731.9**	**731.6**
Total taxes receivable	**1,126.3**	**1,144.6**	**1,112.0**	**1,122.9**	**954.2**	**1,046.6**	**554.9**	**488.9**	**553.2**	**507.0**

2.77 We continue to believe the management of the amounts owed to the Province is critical to reducing interest costs. Assuming an interest rate of 5%, we calculate interest cost associated with the balances of receivables, advances and loans to be approximately $74.0 million annually.

Receivables and Advances

2.78 Table 2.30 shows the total amount of accounts receivable and advances decreased from the previous year. At 31 March 2012 the total was $606.8 million, a decrease of 12.1%. We note there have been decreases in both the amounts owed to the Province and the related allowances. This was mostly due to the authorization by the Board of Management to delete the assets of the Province that were no longer considered collectible.

2.79 Table 2.30 provides details of the Province's receivables and advances:

Table 2.30 - Allowances for Receivables and Advances

Allowances for Receivables and Advances ($ millions)									
	2012	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
Total accounts receivable and advances before allowance for doubtful accounts	606.8	690.0	733.0	622.7	607.7	522.8	526.4	543.0	476.3
Less receivables from the federal government	(160.7)	(216.7)	(204.5)	(182.0)	(205.0)	(169.7)	(164.0)	(141.6)	(132.3)
Less advances of grants	(26.6)	(10.7)	(37.6)	(13.0)	(12.7)	(21.9)	(51.5)	(55.2)	-
Subtotal	419.5	462.6	490.9	427.7	390.0	331.2	375.0	346.2	344.0
Allowance for doubtful accounts	**(231.8)**	**(250.2)**	**(306.0)**	**(244.0)**	**(201.3)**	**(155.7)**	**(140.7)**	**(132.9)**	**(118.5)**
Allowance percentage	**55.3%**	**54.0%**	**62.3%**	**57.0%**	**51.6%**	**47.0%**	**37.5%**	**38.4%**	**34.4%**

Federal Government Receivables

2.80 The amount receivable from the Federal government decreased by $56.0 million during the year ended 31 March 2012, a decrease of 25.8%. Details of the amounts due from the federal government are found in Table 2.31.

Table 2.31 - Receivables from the Federal Government

Receivables from the Federal Government ($ millions)							
	2012	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
Central Government Services	71.7	76.4	50.4	69.1	45.2	46.4	39.9
Economic Development	33.9	69.8	45.1	32.8	21.9	26.1	19.8
Education	22.1	24.6	28.7	49.5	63.8	47.2	49.9
HST Rebate	17.7	22.7	24.4	12.6	14.2	16.1	17.3
Transportation	3.8	13.5	46.0	6.6	16.6	22.8	25.7
Health	0.1	0.5	0.7	1.3	31.5	1.2	4.5
Other	11.4	9.2	9.2	10.1	11.8	9.9	6.9
Total	**160.7**	**216.7**	**204.5**	**182.0**	**205.0**	**169.7**	**164.0**

2.81 The largest component of the receivable from the Federal government is Central Government Services. Of the $71.7 million receivable, $41 million relates to Disaster Financial Assistance relating to floods in 2008 and 2010. The amount has not been collected from the Federal government yet because the necessary claims have not been filed.

2.82 The amount owing for Economic Development decreased from $69.8 million to $33.9 million at 31 March 2012. This receivable relates to federal-provincial cost shared agreements.

Loans

2.83 Table 2.32 provides details of the Province's loans receivable.

Table 2.32 - Loans Receivable

Loans Receivable ($ millions)										
	2012	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
Loans to students	431.6	415.1	391.0	369.2	336.4	296.0	258.3	0.2	0.2	0.2
Economic Development Act	305.7	314.3	303.6	246.3	169.8	146.0	135.5	135.8	124.1	155.7
New Brunswick Housing Act	33.4	33.8	35.9	35.5	34.0	34.8	34.5	33.6	32.7	31.8
Energy efficiency upgrade loans	13.7	14.3	11.1	7.3	3.6	2.3	0.2	-	-	-
Fisheries Development Act	37.6	29.4	35.2	36.4	40.1	39.2	40.1	42.6	48.8	54.4
Agricultural Development Act	12.5	9.8	11.2	5.4	4.4	4.2	18.1	21.3	21.7	20.3
Beaverbrook Art Gallery	2.0	7.6	6.6	6.6	4.5	4.5	1.0	1.0	-	-
Loans to municipalities	-	1.6	3.4	5.4	7.3	9.2	1.0	1.6	1.6	1.9
Fundy Trail Endowment Fund	3.6	3.5	3.3	3.1	2.9	2.8	2.6	4.0	3.8	3.6
Unsatisfied judgements	9.4	9.4	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5
L'Office de Stabilisation	4.0	4.0	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.	7.5	7.6	2.6	2.9	4.1	6.2	6.0	6.5	6.7	8.1
Other loans	5.2	4.1	0.9	1.1	1.4	1.9	2.1	2.6	2.5	2.8
Subtotal	**870.2**	**858.5**	**822.4**	**736.8**	**626.0**	**560.6**	**512.9**	**262.7**	**255.6**	**292.3**
Allowance for doubtful loans receivable	(276.8)	(269.1)	(313.3)	(297.9)	(229.3)	(207.2)	(192.9)	(142.6)	(129.3)	(143.9)
Total	**593.4**	**589.4**	**509.1**	**438.9**	**396.7**	**353.4**	**320.0**	**120.1**	**126.3**	**148.4**
(percent)										
Percentage of doubtful loans receivable	31.8	31.3	38.0	40.4	36.6	37.0	37.6	54.1	50.6	49.2

2.84 Table 2.32 presents the long term increase in loan balances. Since 31 March 2006, the year the

Province added student loans to its loan portfolio, total loans have increased over 85%, an average increase of over 14% per year.

Allowances

2.85 Table 2.33 accumulates all allowances for losses to provide a comprehensive picture.

Table 2.33 - Allowances

Allowances ($ millions)	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Allowance for losses	163.9	165.3	95.5	101.8	103.1	95.8	84.0	67.1	75.8	50.2
Allowance for doubtful loans receivable	276.8	269.1	313.3	297.9	229.3	207.2	192.9	142.6	129.3	143.9
Allowance for doubtful taxes receivable	37.0	43.8	61.8	56.5	55.1	77.0	85.4	96.9	86.6	89.5
Allowance for doubtful receivables and advances	231.8	250.2	306.0	244.0	201.3	155.7	140.7	132.9	118.5	113.3
Total	**709.5**	**728.4**	**776.6**	**700.2**	**588.8**	**535.7**	**503.0**	**439.5**	**410.2**	**396.9**

2.86 The total of all of the Province's allowances continues to be concerning. The balance decreased slightly at 31 March 2012, after the Board of Management's authorization to write-off uncollectible accounts of $52.7 million.

2.87 The following table analyzes the total allowance for the past five years.

Table 2.34 - Allowance Summary

Allowance Summary ($ millions)	2012	2011	2010	2009	2008
Opening balance	728.4	776.6	700.2	588.7	535.7
New allowance	33.8	109.6	103.8	108.3	59.0
Write offs	(52.7)	(155.1)	(16.3)	(7.5)	(5.6)
Adjustment		2.7	(11.1)	10.7	(0.4)
Closing balance	**709.5**	**728.4**	**776.6**	**700.2**	**588.7**

2.88 We are pleased collectability of provincial receivables is being reviewed with required allowances and write offs assessed. We hope this process continues annually. Active management and collection of receivables is an important part of good fiscal management. However, it is troubling for two consecutive years there have been write offs for unrecoverable amounts totalling over $200 million. We understand this amount is generated from several years of not writing off old amounts previously allowed for. Overall, it is concerning that this magnitude of write off is required, especially when the Province is experiencing financial difficulty.

Asset Acquisition and Management-Chancery Place

2.89 In March of 2011, the Province purchased the Chancery Place building on King Street, Fredericton for $39 million. As part of our 31 March 2011 audit, the acquisition was examined from an accounting perspective. However, the building remains unoccupied.

2.90 During the 2012 year, the Province made further expenditures of approximately $4.8 million. We understand the delay was due to uncertainty around departmental reorganization and the decision to retender a portion of interior fit up work. Both factors affected the planned occupancy date.

2.91 The costs the Province is incurring on a vacant building raises economy and efficiency concerns. We understand the planned occupancy date is now May 2013.

Sick Leave Obligation

2.92 Under Canadian public section accounting standards, a government should recognize a liability and an expense for certain employee benefits, such as sick leave. Historically, the Province had assessed the impact of sick leave on the financial statements as not significant and therefore the Province had not recorded a liability regarding sick leave obligations in its financial statements. In response to our 2011 recommendation, the Province undertook the process of determining the magnitude of the sick leave obligation. The estimate of a liability for employee benefits such as sick leave can be a complex process. For this reason the Province engaged professional actuaries to assist with the calculations. The results showed the sick leave obligation figure was significant.

Table 2.35 - Sick Leave Obligation

Sick Leave Obligation ($ millions)				
	2012	**2011**	**2010**	**2009**
Government Departments	50.2	48.8	42.7	36.6
School Districts	59.4	58.6	51.3	44.0
Other agencies	97.0	94.1	90.7	87.0
Total	**206.6**	**201.6**	**184.7**	**167.6**

2.93 As can be seen in Table 2.35, the amount recorded as a liability in the Province's 31 March 2012 financial statements was $206.6 million. This change was recorded retroactively as disclosed in Note 19 to the Province's financial statements. Regional Health Authorities, which are consolidated with the Province, recognized their sick leave liability for the first time in 2011. This resulted in a total of $86.8 million being included in the financial statements last year.

2.94 It is important to note this estimated value is based on a number of factors and assumptions. The valuation of the liability could change significantly in response to changes in assumptions or a change in policies.

2.95 In the 2012-13 budget, the Province announced its intent to review its sick leave policies and possibly make changes. Depending on the nature of the changes contemplated, due to the sensitivity of the estimates used, these changes may impact significantly the liability recorded in the financial statements.

2.96 Due to the magnitude of the liability, departments need to continue to prudently manage this obligation, monitor/manage absenteeism and prevent abuse of policies. In addition, departments need to ensure appropriate supporting documentation is maintained for approved absences.

Upcoming Changes to Public Sector Accounting Standards

2.97 Accounting standards are constantly evolving. Governments are subject to Public Sector Accounting Standards (PSAS) which is governed by the Public Sector Accounting Board of Canada. While no new standards were required to be adopted for the 2012 fiscal year, Table 2.36 shows when the new standards are required to be adopted by the Province of New Brunswick.

Table 2.36 - *Public Sector Accounting Standards Changes*

Section	Fiscal year end requiring adoption
PS 3410: Government Transfers, Revised	31 March 2013
PS 3510: Tax Revenue	31 March 2013
PS 3260: Liability for Contaminated Sites	31 March 2015
PS 1201: Financial Statement Presentation	31 March 2016
PS: 2601: Foreign Currency Translation	31 March 2016
PS 3450: Financial Instruments	31 March 2016

2.98 For fiscal 2012-13, significant accounting standards changes for the Province are expected to be limited to PS 3410 Government Transfers. This standard provides new guidance on when it is appropriate to recognize revenue resulting from government transfers. The standard outlines the recognition criteria for both the transferring government and the recipient government.

2.99 The Province anticipated some of the Government Transfer standard change in its 2012-13 Main Estimates. While we have not yet audited this fiscal year, we note the budget was prepared on a different basis than prior years pertaining to government transfers.

2.100 The most notable impact of the new standard is the upfront recognition of federal funding received for highway projects. Revenue of $232 million is budgeted to be recognized in 2012-13. In prior years, this amount would have been deferred and amortized into revenue over a number of years.

2.101 This accounting change adopted for budgeting purposes had a significant impact on the planned 2012-13 fiscal result. Without the effect of adopting this new accounting standard in the budget, using estimates from prior years, the deficit would then have been increased by approximately $185 million.

2.102 In addition to the treatment of transfers as revenue by the Province, there is the matter of how to account for deferred capital contributions of $974.5 million in accordance with the new standards. Depending on the options chosen upon implementation, adjustments to this balance may cause a significant change in the 2012-13 financial results.

2.103 We will be reviewing and analyzing the impact of the treatment of this accounting standard change in our 2013 Report.

Accounting for NB Power and NB Electric Finance Corporation

2.104 The Province's financial statements include the results of many Crown corporations and agencies. One of the largest and most complex is the NB Power group of companies (NB Power). NB Power is included in the Province's financial statements through the New Brunswick Electric Finance Corporation (NBEFC). This company was established in 2004 under the authority of the *Electricity Act.* The NBEFC holds and manages the debt and debt related assets and liabilities of NB Power.

2.105 Some key principles used in accounting for these companies in the Province's financial statements are noted below:

- NB Power is a viable business which can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government;
- the NBEFC will be able to receive sufficient payments from NB Power to repay the debt taken on by the NBEFC; and
- the operation of an independent rate setting process.

2.106 We have decided to provide an analysis of the operating results of the NBEFC and NB Power due to the complexity and uncertainty of the underlying accounting issues, particularly rate regulatory accounting, and because these entities' financial results have a significant impact on the Province.

2.107 Net earnings of the NBEFC and NB Power for the past five years are provided in Table 2.37.

Table 2.37 - NB Electric Finance Corporation and NB Power Net Earnings (loss)

NB Electric Finance Corporation and NB Power Net Earnings (loss) ($ millions)					
	2012	**2011**	**2010**	**2009**	**2008**
NBEFC	145	11	(212)	35	105
NB Power	173	67	(117)	70	89

2.108 Each year NB Power's earnings or loss is included in the NBEFC year end results. Then the NBEFC earnings, in turn, are included in the Province's financial statements.

2.109 The NBEFC's primary source of revenue and cash generation is from NB Power. Since the NBEFC manages the debt of NB Power it is dependent on payments from NB Power to service its debt.

2.110 To interpret the results of NB Power's operations, it is necessary to understand how rate regulatory accounting impacts their results.

NB Power and Rate Regulatory Accounting

2.111 Rate regulatory accounting allows NB Power to recognize regulatory assets which represent the right to collect future revenues associated with certain costs incurred in current or prior periods. The costs are expected to be recovered from customers in future periods through the rate-setting process.

2.112 As at 31 March 2012, NB Power had regulatory assets of $943 million ($890 million for the refurbishment of the Point Lepreau Generating Station (PLGS) and $53 million related to the lawsuit settlement with Petróleos de Venezuela S.A.). With respect to the PLGS regulatory deferral asset, these costs are already incurred in current and prior periods. In other words, these costs would have been recorded as expenses in the statements of earnings of corresponding years, if NB Power did not apply rate regulatory accounting.

2.113 Our analysis in this section focuses on the regulatory deferral asset associated with the refurbishment of PLGS, since it represents 94% of total regulatory assets of NB Power.

2.114 The regulatory deferral asset associated with the refurbishment of PLGS accumulates:

- the normal period costs (net of any revenues) incurred by NB Power Nuclear Corporation (Nuclearco);
- the costs of replacement power incurred by NB Power Generation Corporation (Genco), during the refurbishment period;
- less costs included in current rates; and
- interest on the regulatory deferral asset.

2.115 These amounts are to be recovered from ratepayers over the refurbished station's operating life estimated to be 27 years.

2.116 Period costs are costs and expenses incurred by Nuclearco during the out of service period, other than those costs and expenses recorded as capital costs of the project.[1] Typical period costs are:[2]

- transmission services;
- operations, maintenance and administration to maintain reliable operating systems, licensing requirements, and ensure safer reliable operation post refurbishment;
- amortization and decommissioning;
- taxes on the buildings and property; and
- interest charges on long term and short term debt (excluding debt for the capital project and the regulatory deferral asset) and debt portfolio management fees.

2.117 The cost of replacement power represents Genco's fuel and purchased power cost it incurred to provide the energy that would have been produced by PLGS

[1] *Electricity Act* Section 143.1(2)

[2] New Brunswick Energy and Utilities Board. Matter 171: PLGS Deferral Account. "Attachment A – Detailed Explanation of Nuclear Non-Capital Costs" pages 14-17

to serve in-province load. Part of this cost is offset by the current existing electricity rates which reflect the cost of purchased power that would normally have been produced by PLGS.

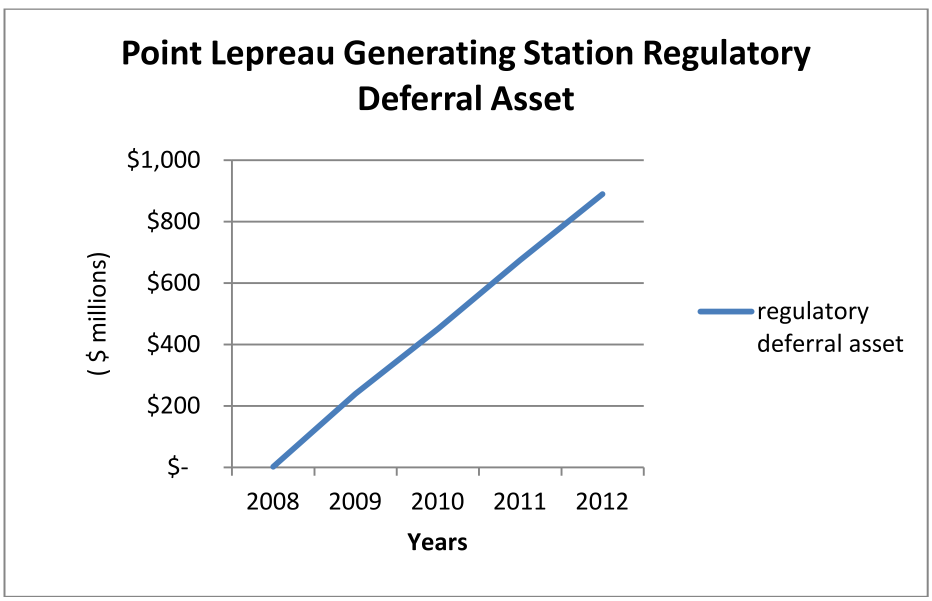
2.118 Tables 2.38 and 2.39 provide the details of the PLGS deferral.

Table 2.38 - Breakdown of PLGS regulatory deferral asset (millions)

Breakdown of PLGS regulatory deferral asset	2008	2009	2010	2011	2012	Total
Costs of replacement power	$ -	$ 267	$ 223	$ 239	$ 200	$ 929
Period costs	2	176	176	164	189	707
Interest on deferral	-	4	16	27	37	84
Offset for costs included in current rates	-	(209)	(206)	(206)	(209)	(830)
Total	$ 2	$ 238	$ 209	$ 224	$ 217	$ 890

2.119 The regulatory deferral asset started to accumulate in 2008. The balance has grown rapidly from $ 2 million in 2008 to $890 million as of 31 March 2012.

Table 2.39 - Point Lepreau Generating Station Regulatory Deferral Asset



NB Power's Recent Earnings or Loss?

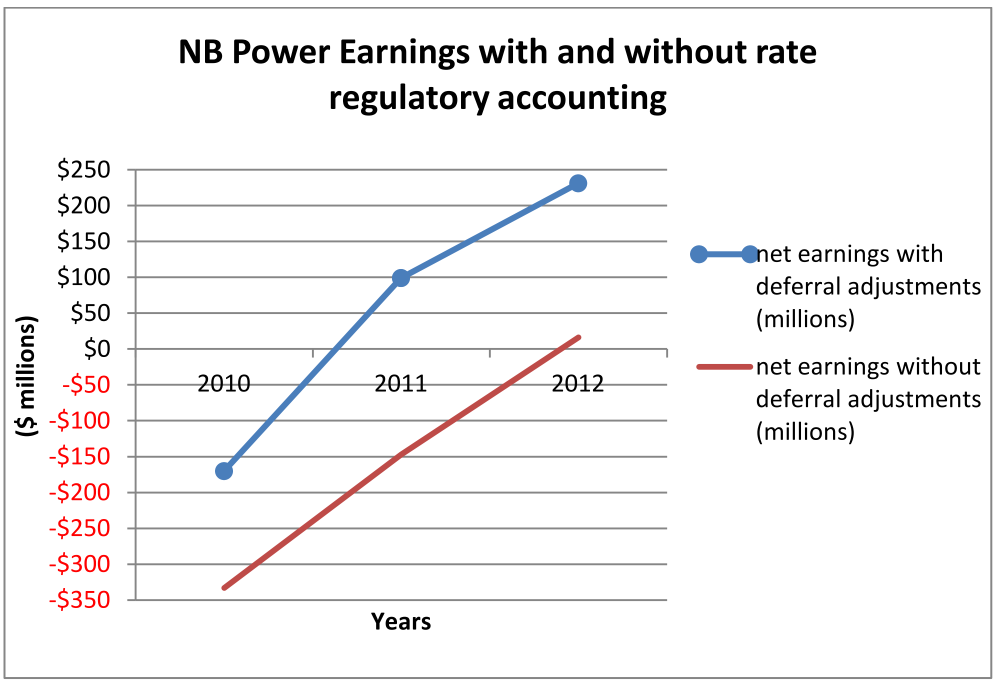
2.120 Tables 2.40 and 2.41 provide information about NB Power's earnings for the past three years. The effects of rate regulatory accounting are factored out to reflect financial performance from operations.

Table 2.40 - NB Power earnings (loss) adjusted to remove the effects of rate regulatory accounting

NB Power earnings (loss) adjusted to remove the effects of rate regulatory accounting (millions)			
	2012	**2011**	**2010**
Net earnings (loss)[1] - rate regulatory accounting	$231	$99	$(170)
Less regulatory deferral adjustment to earnings	(175)	(216)	(147)
Less interest on deferral	(40)	(30)	(16)
Net earnings (loss)[1] adjusted to remove the effects of regulatory deferrals	$16	$(147)	$(333)

[1]*Before special payments in lieu of taxes calculated based on net earnings to the NBEFC in accordance with Regulation 2008-9 of the Electricity Act.*

Table 2.41 - NB Power earnings with and without rate regulatory accounting



Source: NB Power audited financial statements

NB Power's current use of rate regulatory accounting is accepted under Canadian GAAP

2.121 Expenses that would ordinarily be deducted in calculating net earnings have been deferred to future years under rate regulatory accounting. While this practice is currently acceptable under Canadian generally accepted accounting principles (GAAP), it creates the appearance of profitability, however if rate regulatory accounting had not been applied, this would not have been the result, and NB Power would have recorded reduced profitability as shown in Table 2.40. The impact of the deferral adjustments on the reported financial performance of NB Power is significant.

2.122 It should be noted results achieved for 31 March 2012 occurred during a year where NB Power has recorded the highest hydro power generation in the past ten years. NB Power experienced favourable weather conditions including higher than average rainfall, which has decreased power generation costs by approximately $25 million.[3] If favourable weather conditions had not occurred, the 31 March 2012 earnings as per Table 2.40 would have also been presented as a loss.

2.123 In addition to the $890 million regulatory deferral asset, NB Power has invested $1.2 billion as of 31 March 2012 in capital costs toward the refurbishment project. In total, NB Power has invested almost $2.1 billion as of 31 March 2012 on the Point Lepreau refurbishment project which at the time of writing this report has not returned to service.

We reviewed NB Power's model of future financial results

2.124 As part of our audit work, we examined the model which supported NB Power's ability to charge rates in the future at a sufficient level to fully collect the amount of the regulatory asset. At the time of our review, the model's result remained positive when various assumptions were changed within a reasonable range. In the future, the model may or may not produce positive results if there are significant changes in the assumptions.

NB Power's adoption of IFRS may be delayed to 2014/15

2.125 NB Power was expected to convert to International Financial Reporting Standards (IFRS) as required by changes in accounting standards. However, due to a recent decision of the Accounting Standards Board (September 2012) NB Power can elect to defer IFRS implementation until the fiscal year ended 31 March 2015.

2.126 Currently, IFRS does not recognize regulatory

[3] *NB Power Annual Report 2011/12* p. 23

deferred assets or liabilities. Therefore, once adopted NB Power may have to decide how to account for the PLGS regulatory deferral asset in a different manner. To date we have had preliminary discussions with NB Power regarding possible accounting treatments of the regulatory deferral asset.

2.127 Given this impacts a future audit year, we will follow relevant decisions of the Accounting Standards Board and assess NB Power's transition plan to IFRS as events unfold.

Regardless of the accounting, the PLGS refurbishment cost ($2.1 billion as at 31 March 2012) must be recovered through rates

2.128 It is important to note, regardless of the accounting for the PLGS regulatory deferral asset, the fact remains, the PLGS refurbishment cost ($2.1 billion as of 31 March 2012 including $1.2 billion construction cost and $.9 billion deferral) will have to be collected from ratepayers over time.

2.129 In addition, if the Province wishes to continue to account for NB Power as a viable business on the Province's financial statements, NB Power financial results must demonstrate viability. That is, NB Power must maintain its operations and meet its liabilities (including debt repayments) from sources outside of government (ratepayers).

2.130 Currently, NB Power's $4.6 billion debt is not included in the Province's Net Debt. The NB Power amounts reported in the Province's financial statements are limited to net income and net assets included in the NBEFC. If NB Power was to have significant recurring losses and become an investment loss for the Province, it would be an indication NB Power is not viable on its own. At that time, all debts, assets, liabilities, revenue and expenses of NB Power would be included in the Province's statements.

History of government involvement in the NB Power rate setting process

2.131 The Energy and Utilities Board (EUB) is an independent, quasi-judicial board charged with regulating public utilities. The EUB regulates aspects of electricity and natural gas utilities to ensure that customers receive safe and reliable service at reasonable rates. To fulfil its mandates and responsibilities, it is important for EUB to remain independent.

2.132 However with respect to NB Power, successive governments have played a role in the rate setting process by imposing rate increase caps or freezes. Three recent occasions include:

- In 2006, under the authority of the *Electricity Act*,[4] cabinet overturned a decision by the EUB to allow an increase of rates by an average of 9.64%. Government reduced the increase to an average of 6.57 %.
- In 2008, the government issued a policy directive to NB Power *"barring unforeseen circumstances, the maximum average power rate increase for each of the next three years through 2010 will not surpass three per cent."*
- In 2010, the government committed to implement a three-year electricity rate freeze for NB Power ratepayers. NB Power implemented the freeze in September 2010.

2.133 One of the criteria an enterprise that has regulated operations has to meet to be able to use rate regulated accounting is:

> *"The enterprise's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers."*[5]

2.134 Given the above considerations, if such independence factors persist in the future or become significant, the lack of independence may impact NB Power's support for using rate regulatory accounting

[4] Electricity Act *105(1) The Lieutenant-Governor in Council may, within 30 days after the filing of the order or decision of the Board with the Clerk of the Executive Council under section 104, on the Lieutenant-Governor in Council's own motion, modify or reverse an order or decision made by the Board respecting the charges, rates and tolls to be charged by the Distribution Corporation, and such modification or reversal is binding on the Board and on all parties, and the decision of the Lieutenant-Governor in Council.*

[5] *Financial Accounting Standards Board*, Statement of Financial Accounting Standards No.71, paragraph 5 (a). Canadian generally accepted accounting principles do not include an explicit rate regulatory accounting framework and therefore, additional guidance may be consulted such as the United States of America Financial Accounting Standards Board (FASB).

in its financial statements.

2.135 In conclusion, there is much uncertainty regarding NB Power, including:

- PLGS – return to service;
- IFRS – decisions on transition;
- Accuracy of assumptions in the long term projections;
- Independence of the rate setting process; and
- The ability to demonstrate it is a viable business that can maintain operations, repay debt and liabilities from non-government sources, given:
  - Debt of $4.6 billon;
  - Minimal equity;
  - Annual interest burden now in excess of $250 million; and
  - Reduced profitability without the use of rate regulatory accounting.

2.136 We will continue to monitor relevant events and hold discussions with NB Power and government to review these issues.

Provincial Pension Plans

2.137 The Province's pension plans are another significant component of the Province's financial statements. In prior years market fluctuations have exposed the Province to volatility in its financial reporting. The following paragraphs illustrate these trends, as well as discuss other issues associated with the plans.

Pension Expense Growth and Volatility

2.138 Table 2.42 provides details of the Province's total pension expense for the past ten years. For purposes of illustrating the potential volatility of this figure, a longer term approach of ten years has been used in our data analysis.

Table 2.42 - Components of Pension Expense

Components of Pension Expense ($ millions)										
	2012	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
Employer's share of pension benefits earned	148.9	137.4	131.6	146.1	133.8	126.1	117.0	124.1	96.1	90.6
Net interest expense (revenue)	32.0	52.9	118.2	20.6	(9.1)	0.4	30.9	17.6	85.4	27.9
Plan amendments	-	-	-	-	-	5.9	-	-	-	-
Amortization of adjustments	106.5	99.7	87.1	159.7	30.3	(31.2)	(40.3)	(31.8)	(55.3)	(26.1)
Change in valuation adjustment	-	-	(15.5)	(3.3)	(0.5)	(0.1)	2.3	(1.5)	(2.0)	(2.0)
Total pension expense	**287.4**	**290.0**	**321.4**	**323.1**	**154.5**	**101.1**	**109.9**	**108.4**	**124.2**	**90.4**

2.139 Table 2.42 highlights the significant increase in the annual pension expense over the ten year period as well as the volatility of the expense. In the year ended 31 March 2003, the pension expense was $90.4 million. By way of contrast, in the year ended 31 March 2012, the pension expense was $287.4 million, an increase of $197 million since 2003.

2.140 Table 2.43 compares the annual pension expense to the amount of contributions made by the Province to the various pension plans.

Table 2.43 - Pension Expense and Contributions

Pension Expense and Contributions ($ millions)										
	2012	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
Pension expense	287.4	290.0	321.4	323.1	154.5	101.1	109.9	108.4	124.2	90.4
Employer contributions	327.0	313.3	307.8	288.6	272.8	257.7	236.4	223.2	214.8	100.9
Excess (deficiency) of employer contributions over pension expense	39.6	23.3	(13.6)	(34.5)	118.3	156.6	126.5	114.8	90.6	10.5

2.141 Table 2.43 shows that for two of the past five years, the Province has not made enough contributions to its various pension plans to cover the annual pension expense, whereas for eight of the past ten years the amount of employer contributions exceeded the amount of the pension expense.

2.142 We also review the change in the employer's share of pension benefits earned (as noted in Table 2.42). The employer's share of pension benefits earned has increased at an annualized rate of 6.2% per year. This is the core component of pension expense the Province incurs to provide pension benefits earned by employees during the year.

Pension Assets Rates of Return

2.143 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 Table 2.44 which reports the rates of return for the New Brunswick Investment Management Corporation (NBIMC) since it diversified the pension funds on 31 March 1997. The NBIMC manages the trust funds for the Province's larger pension plans including 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.

Table 2.44 - NBIMC Rates of Return

NBIMC Rates of Return			
Year	**Percentage**	**Year**	**Percentage**
2012	5.00	2004	25.27
2011	10.42	2003	(6.95)
2010	19.94	2002	3.45
2009	(18.34)	2001	(5.23)
2008	0.79	2000	20.57
2007	8.68	1999	(0.62)
2006	15.87	1998	18.68
2005	8.51		
15 year average annualized return			**7.07**

2.144 The returns earned by the 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 fifteen fiscal years the average annual rate of return of the NBIMC has been 7.07%, which is slightly above the 6.96% rate of return assumed by the Province on the significant portion of plans in the 2011-12 financial statements. The accounting required for the Province's pension plans remains subject to estimates and the financial statements continue to remain exposed to volatility, although as seen in Table 2.44 less volatility has been experienced in the last two years.

Importance of Thorough Review of Assumptions

2.145 We note for the 2011-12 financial statements the Province changed the assumed rate of return used for accounting purposes on the significant portion of plans to 6.96%. For a significant portion of the pension plans, this is the first change in this rate since the 31 March 2010 financial statements when a rate of 7.12% was used.

2.146 We continue to emphasize the importance of a thorough review of the assumptions used in the accounting for pension plans, as assumptions used should reflect management's best estimates of future events, and changes in assumptions may cause significant changes in results reported. Supporting rationale for the assumptions selected should be well documented.

Pension Accounting Adjustments

2.147 Table 2.45 provides the history of the Province's pension balance for accounting purposes and the important components involved in the calculation over the past ten years.

Table 2.45 - Components of the Pension Balance for Accounting Purposes

Components of the Pension Balance for Accounting Purposes ($ millions)										
	2012	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
Estimated accrued benefit obligations	9,318.3	8,895.7	8,570.2	8,642.5	8,289.3	7,865.5	7,324.5	6,719.6	6,380.9	5,983.7
Value of plan assets	8,674.7	8,387.0	7,703.1	6,512.4	8,024.1	8,030.5	7,449.3	6,521.7	6,086.5	4,926.3
Pension position before accounting adjustments	643.6	508.7	867.1	2,130.1	265.2	(165.0)	(124.8)	197.9	294.4	1,057.4
Accounting adjustments	(903.1)	(728.6)	(1,063.7)	(2,340.3)	(509.9)	38.6	155.0	(41.2)	(22.9)	(695.3)
Pension balance for accounting purposes	(259.5)	(219.9)	(196.6)	(210.2)	(244.7)	(126.4)	30.2	156.7	271.5	362.1

2.148 The pension balance for accounting purposes 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. The purpose of the accounting adjustment is to reduce the volatility by allowing actual results achieved on plan assumptions to be reported over time and not all reported in one year. Table 2.45 provides the details of these three components of the pension balance.

2.149 Table 2.45 shows that the Province's pension position before accounting adjustments declined in the year ended 31 March 2012. This decrease was primarily due to decreased pension plan asset returns. The value of the estimated pension obligations before accounting adjustments exceeded the value of plan assets for the past five years. Table 2.45 shows pension obligations before accounting adjustments exceed pension assets by $643.6 million at 31 March 2012.

2.150 The accounting adjustment row is a critical part of pension accounting because it assumes a long term view, that the pension plan will be in existence over the long term and there will be volatility from year to year. Therefore, accounting standards permit for the smoothing of this volatility. Such adjustments for accounting purposes are allowed to be deferred and amortized into operating results in future years. Because the accounting adjustments are due to experience deferrals, the pension balance is in a negative liability position (presented in the Province's financial statements as a surplus) of $259.5 million at 31 March 2012.

2.151 As at 31 March 2012 the balance of accumulated experience adjustments (losses) for accounting purposes that were deferred and required to be amortized in future years totalled $903.1 million. Such deferral balances from experience adjustments are common in pension accounting. While the cause of the experience adjustments may result from many factors, it is a general indication that assumptions used in pension calculations did not match actual events. This accounting adjustment balance is also an indicator of the magnitude of the amount that must be recognized as an expense over time in future years. This again highlights the need for a thorough review of pension assumptions used for accounting purposes to ensure they are as realistic or as reasonable as possible.

Pension Plan Audits for Significant Plans

2.152 For the year ended 31 March 2012 the Province contracted an audit to be performed on certain financial statement elements of the larger pension plans, but not the entire plan. The audit was not completed in time to be of use for the audit of the Province, and our Office again performed extra work to compensate. This lack of timely information also raises concerns about plan transparency and sufficiency of reporting to stakeholders, including plan members.

Transparency and Stakeholder Reporting

2.153 Further to our concern noted above regarding transparency and stakeholder reporting, we note the performance reporting to plan members and other stakeholders for the largest provincial pension plans could be improved. The NBIMC reports to stakeholders on asset performance of the larger provincial pension plans, but there is little reporting on the overall plan performance including funding and sustainability challenges and other member concerns. A robust oversight, public reporting and stakeholder communication strategy is lacking for some provincial pension plans, particularly for the Province's largest pension plans.

Pension Reform

2.154 We note accounting changes may be required as part of the announced pension reforms for the Province's 2012-13 financial statements. Depending on the details of these changes, there may be financial reporting adjustments required in the Province's financial statements. We encourage early consideration of any accounting and reporting changes required. At the time of writing, we have not yet begun our audit work in this area.

Chapter 3
Matters Arising from our Audit of the Financial Statements of the Province

Contents

Matters Arising from our Audit of the Financial Statements of the Province

Introduction

3.1 On August 9, 2012 our Office delivered to the Department of Finance an unqualified audit opinion on the financial statements of the Province of New Brunswick. The opinion indicates the Province's financial statements are fairly presented in accordance with Canadian public sector accounting standards.

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 examine internal controls of significant computerized systems.

3.3 In almost every audit, there are audit findings to be discussed with management. While significant, the findings from our March 31, 2012 audit are not sufficiently large in dollar terms to affect our opinion on the financial statements. It is our practice to report these matters to senior officials of the departments concerned, and to ask for a response. Our significant findings and recommendations from the audit of the Province's financial statements with departmental responses are presented in the chapter.

3.4 It should be noted though that not all findings are included in the Report, because in some instances we do not consider them to be of sufficient importance to bring to the attention of the Legislative Assembly, or because public attention to internal control weaknesses, before they are corrected, could possibly result in loss of government assets. For further background on our audit objectives refer to Appendix 1.

3.5 We had several findings from the March 31, 2012 audit of the Province's financial statements. We review the findings identified to determine which findings from our work are significant. When considering which findings are significant we assess:

- dollar magnitude of the item;
- the risk the finding could result in a large loss or error in future;
- the number of instances the finding has occurred;
- if the finding has occurred in multiple departments;
- if the finding was reported in a prior year; and
- if we believe the finding is overall significant in nature.

Highlights and Recurring Themes

3.6 Highlights and recurring themes of our significant findings are presented in Table 3.1.

Table 3.1 Highlights and Recurring Themes

Finding	Finding addressed to	Prior Year Finding	Page Number
Lack of documentation for management estimates	Office of the Comptroller	Yes	62
	Finance	Yes	71
	Economic Development	Yes	72
Lack of asset policy for recording of computer hardware and software	Office of the Comptroller	Yes	64
Lack of approval of journal entries	Office of the Comptroller	Yes	64
	Finance	No	79
Unreconciled consolidation variances	Office of the Comptroller	Yes	66
	Health		
All entities captured for consolidation - Government Reporting Entity (GRE) is complete	Office of the Comptroller	Yes	63
IT - Segregation of Duties	Office of the Comptroller	Yes	73
	NB Internal Services Agency	Yes	73 & 95
	Education and Early Childhood Development	No	91
	Finance	Yes	80
IT - Security	Office of the Chief Information Officer	No	73
	NB Internal Services Agency	No	
IT - Policy	NB Internal Services Agency	No	73
	Office of the Chief Information Officer		
Lack of an Audit Committee	Office of the Comptroller	No	68

3.7 We are concerned that a number of these findings were seen across different departments. As a result of the same issue arising in different departments we saw recurring themes emerge over the course of our work. Table 3.1 shows the departments where we noted these recurring themes. Due to the significance of the issues and/or the number of instances observed, we have chosen to highlight these recurring themes in this chapter.

3.8 We are also concerned at the trend of significant findings not being corrected by departments in advance of the next year's audit cycle. Table 3.1 shows which recurring themes represent repeat findings. We have adopted a new reporting format for this chapter to assist in highlighting repeat findings for further review and action.

3.9 In general, the responses from the departments were in agreement and they intend to address the concerns in the coming year.

3.10 While we have not noted any significant fraud, theft or error as discussed later in this chapter, the existence of the findings noted in Table 3.1 increases the risk of loss or mistake in the Province's financial statements. These items should be addressed prior to the next audit cycle.

Details of Significant Findings

3.11 Our observations, recommendations and departmental responses to our full list of significant findings are presented in this section of our Report.

Office of the Comptroller
Accounting and Reporting

Management's Use of Estimates

Observation

3.12 Canadian auditing standards require auditors to perform audit procedures on estimates and management's process to develop and select accounting estimates. In prior year findings we reported several areas where accounting estimates were used and management did not have adequate documentation maintained for these estimates. While some improvements were made to support various estimates used, there continues to be several areas lacking supporting documentation, including allowances on accounts receivables and provisions on Economic Development loans.

Recommendations

3.13 **As in the prior year, we recommend enhanced documentation be developed by departments to demonstrate the process followed to calculate, evaluate and approve significant estimates.**

3.14 **We recommend the Office of the Comptroller standardize a process to be followed by departments when preparing estimates for allowances.**

Comments from Management

3.15 *The Accounting Services group of the Office of the Comptroller (OoC) will continue to work with departmental financial resources to ensure the process followed to calculate, evaluate and approve significant estimates is documented. As this practice* *matures, we will work towards a more standardized practice.*

Government Reporting Entity (GRE)

Observation

3.16 In prior year findings we reported the need to periodically review which entities are included in the GRE to ensure the current reporting of provincial organizations is appropriate, and to reconfirm the completeness of the entity. We are pleased to report some assessments were performed by the Office of the Comptroller. We encourage continued periodic review of these assessments and monitoring of developments or changes in relationships with significant entities, such as nursing homes, to determine the accounting treatment remains appropriate.

Recommendation

3.17 **We recommend the Office of the Comptroller continue to review and document the boundaries of the GRE to reconfirm all appropriate entities are captured.**

Comments from Management

3.18 *As agreed last year, my Office will continue to include entity review and documentation as part of a cyclical work plan for Accounting Services. We performed such reviews during 2011-12 and will continue to evaluate others during 2012-13 and beyond.*

Service Organization Reports

Observation

3.19 In prior year findings we reported there are several external service organizations used by the Province. It is important for management to determine that controls exist in organizations that process a significant volume of transactions on behalf of Central government. We noted management should request reports from service providers on the effective operation of controls (5970 reports or CSAE [Canadian Standard on Assurance Engagement] 3416 reports). We are pleased to report that following our comments several reports were received and reviewed by the Office of the Comptroller or departmental management. However, additional reports should still be received and reviewed including reports for Service New Brunswick, CIBC and Caisse Populaire.

Recommendation

3.20 **We recommend the Office of the Comptroller continue to request and review control reports**

(5970 or CSAE 3416 reports) for external service organizations.

Comments from Management

3.21 *My Office will continue to request and review control reports for external service organizations.*

Approval of Journal Entries

Observation

3.22 During the course of our audit, we noted the Province does not have a policy in place regarding the preparation and authorization of journal entries, and journal entries made to accounts with a higher risk of misstatement, such as entries to record provisions, allowances and accruals.

3.23 With the upcoming Oracle upgrade to R12, it may be possible to incorporate automatic journal entry controls. Regardless of whether the controls are automated or manual, a documented policy should be put in place to advise departments of the Province's required process surrounding the creation and approval of high dollar and high risk journal entries.

Recommendation

3.24 **We recommend the Office of the Comptroller document a policy on preparation and approval of journal entries.**

Comments from Management

3.25 *While GNB has never had a policy regarding journal entry preparation and approval, the Office of the Comptroller agrees that such a policy would help reduce the risk of errors in the financial records of the province.*

Tangible Capital Asset (TCA) Policy

Observation

3.26 As was noted in the prior year, the Province currently does not capitalize computer hardware and software as part of its TCA policy. This policy is not in compliance with Canadian public sector accounting standards (PSAS). A draft TCA policy for capitalizing computer hardware and software had been developed by the Office of the Comptroller, but the policy has not been implemented. In response to last year's recommendation, the Office of the Comptroller indicated a recommendation would be made to the Board of Management regarding a specific change to the policy. This was not completed by year end.

Recommendation

3.27 **We recommend the Office of the Comptroller implement the necessary changes to the TCA**

policy to comply with PSAS before the next year end.

Comments from Management

3.28 *The Office of the Comptroller is in agreement with this recommendation.*

Non-Compliance with *Metallic Minerals Tax Act*

Observation

3.29 During the course of our audit, we requested the audited unconsolidated financial statements of Xstrata Canada Corporation for the Brunswick Mine Site from the Department of Finance. The *Metallic Minerals Tax Act* states, in section 8(2.1)(a), that audited unconsolidated financial statements of the operator should be submitted with their annual tax return. The Department of Finance responded by confirming that Xstrata Canada Corporation is a component of Xstrata PLC (an international company) and audited financial statements are available only at that level. This indicates that the Department of Finance has not enforced the terms of the Act and has been accepting tax returns without the required accompanying audited financial statements.

Recommendation

3.30 **We recommend the Department of Finance review the terms of the *Metallic Minerals Tax Act* in conjunction with the processes in place for processing these tax returns and assess whether changes are required to the Act or the process, or both.**

Comments from Management

3.31 *Office of the Comptroller has asked appropriate officials in the Department of Finance to follow up on your recommendation. We will continue to follow up and work with Finance.*

Documentation of Consolidation Process

Observation

3.32 Consolidating the results of several Crown agencies into the Province's financial statements is a complex process. In our prior year audit findings letter to the Office of the Comptroller, we noted the absence of documentation for the consolidation process and recommended the steps followed in the consolidation process be documented. Having a documented process would give consistency to the process and minimize errors. The process has not yet been documented.

Recommendation

3.33 **We recommend the Office of the Comptroller**

and the Department of Health document the consolidation process and forward a copy to our Office.

Comments from Management

3.34 *The Office of the Comptroller is in agreement with this recommendation and will work to prepare this documentation.*

Unrecorded Variance – Department of Health

Observation

3.35 In our prior year audit findings letter to the Office of the Comptroller, we recommended consolidation variances resulting from Department of Health accounts be resolved before the next audit cycle. The Department of Health provided our Office with a reconciliation of the Department's accounts for consolidation purposes, however, the reconciliation contained a significant unexplained variance.

Recommendation

3.36 We recommend the Department of Health and the Office of the Comptroller resolve the unexplained variance in the consolidation accounts.

Comments from the Department of Health

3.37 *Staff at the Department of Health, in collaboration with the Office of the Comptroller, have been examining the unexplained variance in accrued liabilities reconciliation since it was noted to us last fall. We have explained a part of it and will continue our work until it is resolved. The consolidation process has evolved over time and has become a very complex exercise that must be completed in a relatively short timeframe. The changes in process, changes in staff preparing the consolidation, and the complexity of the exercise has made this reconciliation process very difficult. We will continue to examine the history of the transactions and hopefully be able to resolve this issue in a timely fashion.*

Comments from the Office of the Comptroller

3.38 *The Office of the Comptroller will continue to work with the Department of Health to resolve the remaining long time variance in the consolidation accounts.*

Facilicorp Qualification

Observation

3.39 During the fiscal year ending March 31, 2012, Facilicorp acquired Contract Management Services Limited (CMSL). We noted Facilicorp received a qualified opinion on their financial statements as they did not consolidate the financial results of CMSL into their financial statements. We also noted the Department of Health did not take into consideration CMSL's financial results during the Provincial consolidation process.

3.40 Overall, this circumstance resulted in Facilicorp's and the Province's financial statement information being understated by the amounts of CMSL's assets, liabilities, revenue and expenses.

Recommendation

3.41 We recommend the Department of Health and the Office of the Comptroller ensure all organizations within the government reporting entity are consolidated into the Province's financial statements. We further recommend external auditor opinions be reviewed by the Department of Health and the Office of the Comptroller to determine the accounting impact of any external auditor qualifications.

Comments from the Department of Health

3.42 *The Department of Health has always, and will continue to review the audit opinions of its consolidated entities. FacilicorpNB consulted with us on the matter of not consolidating the financial statements of CMSL. As the financial statements of CMSL are not usually completed until September, we agreed with FacilicorpNB that the additional expenses to obtain audited financial statements of CMSL in June to allow for inclusion in the financial statements of FacilicorpNB was not good value for money and not material for the Province of NB. This was a one time decision based on the mid year changes to the governance structure of CMSL. Beginning in the 2012-13 fiscal year, the financial transactions of CSML will be fully consolidated with the operations of FacilicorpNB.*

Comments from the Office of the Comptroller

3.43 *The specific situation referenced occurred as a result of using draft financial statements for consolidation purposes. The Office of the Comptroller agrees with the recommendation and will continue to monitor the environment to identify* *organizations that form part of the government reporting entity. These organizations will be consolidated when appropriate and external auditor opinions will be reviewed for any qualifications.*

Audit Committee

Observation

3.44 Canadian auditing standards require auditors to communicate to those charged with governance of an entity (e.g. audit committees or boards of directors) certain matters that may assist them in their governance roles and in overseeing management's financial reporting and disclosure processes. Matters that require communication include but are not limited to:

- significant audit adjustments and/or deficiencies in financial statement disclosures;
- significant findings in internal control;
- disagreements with management;
- significant issues discussed, or subject to correspondence, with management;
- significant difficulties encountered during the audit; and
- fraud and illegal acts.

3.45 The Province of New Brunswick has no formal audit committee.

Recommendation

3.46 **We recommend an audit committee be established for the Province of New Brunswick.**

Comments from Management

3.47 *The Office of the Comptroller believes that an Audit Committee is an essential part of any organization's governance structure. We agree with this recommendation and will continue to work towards creating such a committee.*

Department of Finance
Property Tax System

Account Reconciliations

Observations

3.48 During our work on the property tax system, which processes provincial revenues of $445 million, we noted a reconciliation variance which identified a net $2 million overstatement of property tax revenue. Upon further examination this item consisted of two errors: one error pertained to a $14 million reversal entry, which was not performed in the municipal payable account, and the second offsetting error pertained to a $12 million correction required to adjust a receivable balance which had been accumulating in error.

3.49 From our work, we noted the above errors occurred for a number of reasons:

- Detailed review of account reconciliations was not performed. We were told property tax account reconciliations were reviewed by the supervisor and/or senior management. Given the errors encountered in our testing, however, the level of review for these accounts should be increased. Also, evidence of this review should be documented.

- Detailed year-end procedures are not sufficiently documented. We recommended this in our 2007 report. Some draft year-end procedures were provided to us as part of our 2009 follow up but we have not seen finalized year-end procedures explaining the purpose of the accounts and how year-end reconciliations should be performed.

- Detailed analysis of a revenue suspense account is not performed. Given the balance remaining in this account is posted to provincial revenue at year end, the Department of Finance should analyze all entries to this account. Had this analysis been performed, the necessary corrections may have been detected prior to the audit.

- Property tax accounting staff at the Department of Finance appear to lack appropriate training. The accounting staff has recently changed and while some training was provided to new staff, more training on the background and history of the property tax accounts is required.

- Documented procedures are lacking between key departments involved in the property tax accounting process. This factor contributed to recording the erroneous account receivable.

Recommendation

3.50 We recommend the Department of Finance supervisors perform a detailed review of property tax account reconciliations in order to identify errors in the reconciliations and year end account balances. Evidence of this review should be documented.

Comments from Management

3.51 *The Department of Finance agrees with the recommendation and will review the current process and make necessary improvements to the reconciliation review currently in place.*

Recommendation

3.52 We recommend the Department of Finance perform a detailed analysis of the entries made to the municipal revenue suspense account. This will help eliminate the entries posted to the account and ultimately to provincial revenue in error.

Comments from Management

3.53 *The Department of Finance agrees with the recommendation and will implement a procedure for the review of the municipal revenue suspense account.*

Recommendation

3.54 We recommend property tax accounting staff continue to increase their understanding of the property tax accounting process and receive additional training on the preparation of year end account reconciliations to reduce the risk of errors in the year end account balances.

Comments from Management

3.55 *The Department of Finance agrees with the recommendation and will continue to build on the training and knowledge transfer to the property tax accounting staff.*

Recommendation

3.56 We recommend the Department of Finance document the reconciliation processes and share it with the Department of Environment and Local

Government to help prevent misunderstandings in joint account procedures.

Comments from Management

3.57 *The Department of Finance agrees with the recommendation and will improve the documentation on the joint accounting procedures with the Department of Environment and Local Government.*

Accounting for Estimates

Observations

3.58 During our year-end audit, we noted a number of observations relating to accounting estimates:

- For the accounts receivable provision, we were not provided with a rationale for the percentages used regarding the estimate of uncollectable aged receivables.
- We noted errors in the percentages used in the calculation of the allowance for loss account. Also the process used for calculating the allowance was not clearly documented.
- We found an error in the calculation of the property tax reserve of $3.3 million. This error occurred because Finance included a group of properties in both the accounts receivable provision and the reserve provision.

Recommendation

3.59 We recommend the Department clearly document the steps required and the rationale used to calculate the provision, allowance for loss, and reserve. Accounting staff should use this documentation when preparing year end estimates. We further recommend the Department document the rationale for all significant assumptions used in the calculation of estimates.

Comments from Management

3.60 *The Department of Finance agrees with the recommendation and will improve the documentation related to the calculations for the provision, allowance for loss and reserve accounts.*

3.61 *However, the Revenue and Taxation Division currently doesn't have the resources and data to perform an exhaustive review of its current assumptions and will approach the Office of the Comptroller to jointly review these assumptions and the rationale used.*

Department of Economic Development
Loans and Allowances

Loan Provision Processes – Lack of Documentation

Observation

3.62 The Department of Economic Development recognizes loans and their respective provisions as well as guaranteed loans and allowances of contingent liabilities throughout the year. The provisions recorded are based on management's judgments and therefore include a number of estimates to determine the amount.

3.63 In order to audit provision amounts, Canadian Auditing Standards require that we evaluate how management:

- identifies transactions, events and conditions which give rise to the need for an accounting estimate or a change in estimate;
- made the accounting estimate, the use of any experts, a list of, and support for, any assumptions, the effectiveness/precision of the estimate by review of past estimates and the actual results achieved; and
- has addressed estimation uncertainty.

3.64 In our prior year audit findings letter to the Office of the Comptroller, we had recommended this information be prepared to support estimates, however, it was not prepared for this year end audit.

3.65 In numerous instances no documentation was available to support the rationale for provision amounts. As well, no consistent documented process exists for assessing criteria to determine provisions on loans; each loan is evaluated separately using different methods. We also noted an additional general provision is recorded at an annual consistent percentage rate for loss, however, there is no documented evidence to support that the percentage chosen is reflective of recent collection and loss trends/history.

Recommendation

3.66 We recommend enhanced documentation be developed by the Department of Economic Development in advance of next year's audit to demonstrate the process followed to calculate, evaluate and review provisions on loan balances.

Comments from Management

3.67 *The Department will enhance documentation of loans provisions with the assistance of internal and external sources.*

Information Technology Findings

Key Themes

3.68 The Government of New Brunswick has taken a significant step in the direction of aligning system infrastructure security under a single entity (NBISA), thereby enhancing the ability to effectively manage security. A centralized management process allows for a single set of policies, procedures and controls to be consistently implemented, as well as centralization of responsibility for management and monitoring of the infrastructure.

3.69 As noted previously in this chapter, at times we do not publicly report the details of our significant findings if we feel public reporting of such findings would increase the risk of possible loss of government assets. This is the case with a number of our significant information technology findings. Instead, the key themes of these findings and the responsible department are reported in Table 3.2 in summary format.

Table 3.2 Information Technology Findings – Key Themes

<table>
<tr><th>Theme</th><th>Finding</th><th>Finding addressed to</th></tr>
<tr><td rowspan="3">IT - Segregation of Duties</td><td>Application rights assignment</td><td>Office of the Comptroller</td></tr>
<tr><td>Network management</td><td rowspan="2">NB Internal Services Agency</td></tr>
<tr><td>Network firewall</td></tr>
<tr><td rowspan="4">IT - Security</td><td>Management of network access</td><td>Office of the Chief Information Officer</td></tr>
<tr><td>Powerful (administrator) access</td><td rowspan="3">NB Internal Services Agency</td></tr>
<tr><td>Password findings</td></tr>
<tr><td>Encryption findings</td></tr>
<tr><td rowspan="3">IT - Policy</td><td>Password findings</td><td rowspan="2">Office of the Chief Information Officer</td></tr>
<tr><td>Network intrusion detection</td></tr>
<tr><td>Outsourced third party service</td><td>NB Internal Services Agency</td></tr>
</table>

3.70 We are not aware of any loss of government assets or errors which resulted from the findings noted in

Table 3.2, however, we are concerned about the potential for future loss of assets or error as well as potential for loss of confidentiality and privacy inherent in the above noted findings if they remain uncorrected.

3.71 It should be noted this work was performed with a focus on the financial statement audit impact. Risks arising as a result of operational or confidentiality/privacy concerns are noted where observed but were not the main focus of our work.

Department of Education and Early Childhood Development Payroll System (Gestion and EPAY)

Gestion System

Observation

3.72 Gestion is the system used for data input into the Education payroll system. It produces school district payroll data/information for teachers and other school district staff. The Gestion system is over 20 years old and is at great risk of failure. If a replacement solution is not implemented in a timely manner, the system may fail resulting in extensive delays in the payment of school district employees' payroll.

3.73 From our work we noted the following:

- Access security for the system is very weak. There is only one user account and one password for all users to access the system and the password has never been changed. This increases the risk of unauthorized system access, segregation of duties issues and inaccurate or incomplete data.
- Some applications in Gestion are technically supported by a single contractor with little to no backup support personnel. This increases the risk of system failure.
- Gestion operates on old hardware, some running a Windows 98 operating system. Also, up-to-date antivirus software is not supported on this old technology. This increases the risk of system failure. The Department has taken steps to protect the rest of the network from the risks introduced by the older software; however, this is a temporary solution.

Recommendation

3.74 **We recommend a replacement solution for the**

Gestion system be implemented as soon as possible.

Comments from Management

3.75 *EECD [Education and Early Childhood Development] is currently working with NBISA on the selection of a new payroll approach. This is part of a government wide initiative.*

Loss through Fraud, Default or Mistake

3.76 Section 15(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.

3.77 During the course of our work we became aware of the following 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 Agriculture, Aquaculture and Fisheries Missing cash	$ 30,000
Department of Natural Resources Missing equipment from various regions	$ 3,855
Department of Social Development Lost equipment	$ 3,606
Department of Education and Early Childhood Development Missing equipment and cash in various school districts and head office	$ 3,595
Department of Justice and Attorney General Missing cash	$ 2,619
Department of Health Lost equipment	$ 2,000
Department of Tourism, Heritage and Culture Missing equipment from various districts	$ 1,873
Department of Government Services Missing cash	$ 350
Department of Transportation and Infrastructure Missing equipment from various districts	$ 125

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

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

3.80 In 2012, the Province reported lost tangible public assets in the amount of $49,172 compared to a loss of $29,290 reported in 2011.

Summary Information for Other Findings

3.81 In addition to the significant findings noted earlier in this chapter of our audit work, there were several other findings that we brought to the attention of the responsible departments as a result of our March 31, 2012 financial statement audit of the Province of New Brunswick.

3.82 Not all findings brought to the attention of the department were, in our opinion, of significant importance to bring to the attention of the Legislative Assembly. However, we have prepared summary information of our other findings which we believe merit public reporting.

3.83 Recommendations pertaining to these other findings as well as departmental responses are presented in appendices to this chapter as indicated below.

Department/Agency	Audit Area	Appendix
Department of Finance	Property Tax System	2
Service New Brunswick	Property Tax System	3
Department of Economic Development	Loans and Allowances	4
New Brunswick Internal Services Agency (NBISA)	Payroll	5
Department of Education and Early Childhood Development	Payroll System (Gestion & EPAY)	6
New Brunswick Internal Services Agency (NBISA)	Accounts Payable Input and Approval (IPM) Process	7
Department of Social Development	Long-term Care System (NBFamilies) and NB Housing Expenditures	8

Appendix 1 - Audit Objectives

3.84 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.

3.85 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.

3.86 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.

3.87 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 future audit work.

Responsibilities Pertaining to the Audit Process

3.88 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 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 Canadian public sector accounting standards. 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 areas where management has made estimates in the financial statements are: provision for loss on loans and accounts receivable, contingencies, employee future benefits and tangible capital assets.

3.89 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.

Appendix 2
Department of Finance
Property Tax System

3.90	Approval of Journal Entries to the Property Tax System

In conducting our audit work, we found journal entries were made to accounts within the property tax system. These journal entries were for significant amounts and although initial approval was received and documented, we saw no evidence the journal entries were reviewed before they were posted.

Recommendation	Comments from Management
We recommend the Department of Finance implement a documented review process for all significant journal entries to the property tax system.	*The Department of Finance agrees with the recommendation and will implement a documented review/sign-off process for manual journal entries in excess of $100,000. Also, the new Property Tax System targeted for implementation in the Fall of 2014 will have functionality to set limits on financial transactions that will require supervisor or co-worker system approval before it can be posted.*

Appendix 2 (continued)
Department of Finance
Property Tax System

3.91	**Change Management**

We noted due to a lack of segregation of duties, there is potential for unauthorized changes to be made to the property tax system. Presently, the programmer submits the change requests to a third party to put program changes into production. Best practices suggest programmers should not be authorized to put changes into production as this increases risk of unauthorized changes.

Recommendation	Comments from Management
We recommend the Department of Finance implement control procedures so that only tested changes can be put into production. We further recommend duties be adequately segregated such that the approval to put changes into production should not be the responsibility of the programmer.	*The Department of Finance agrees with the recommendation and the Property Tax Renewal project is currently in place to update the current Property Tax system to a more modern platform which will provide an opportunity for a more adequate change management process. The implementation of Phase I of the new system is scheduled for September 2014.* *In the interim, the Business Owner will review the existing change management process and determine if temporary adjustments can be implemented to improve controls on the existing procedures.*

Appendix 3
Service New Brunswick
Property Tax System

3.92	Verifying Assessment Data

During our review of the property tax assessment process, we noted assessments are entered into the costing system by either the assessor who performs the property assessment or by administrative support personnel. We found there is no review of the property assessment values entered into the system. A review would confirm the accuracy of the data.

Recommendation	Comments from Management
We recommend Service New Brunswick require the property assessment values be verified by a second party to ensure accuracy of the data entered into the system.	*The inputting of assessment data will be reviewed and documented during the road review process.*

3.93	Documenting the Road Review

We noted in the property assessment process there is no formal documentation of road reviews. A road review is conducted by the assessor and the office manager as a quality check on the methodology used and on the equitable level of assessments. This process occurs only after a re-inspection program has been completed. It involves a drive-by of the assessed properties and comparison of the new assessed value to prior year assessments, comparable properties and properties recently sold in the area. Anomalies identified during this process are adjusted accordingly. However, the results of this process are not documented.

Recommendation	Comments from Management
We recommend Service New Brunswick document and file the results of its property road reviews.	*Service New Brunswick currently completes a road review of all property valuations completed during a re-inspection program.* *The data entered into the system and the assessment values of each property are reviewed by the office manager and the responsible assessor for the applicable neighbourhood.* *A road review report will be produced and filed to fully document the process.*

Appendix 4
Department of Economic Development
Loans and Allowances

3.94	**Current Year Loan and Guarantee Provisions - Lack of Documentation**

Under certain agreements, recipients of loans or loan guarantees are required to submit audited financial statements or other financial information to the Department. Current year audited financial statements, for those loans which require them, were not available for all loans tested. Of the 15 items selected for testing we were unable to review audited financial statements for three companies with loans totalling $163 million. Provisions are based primarily on undocumented discussions with both the Departmental loans officers and the respective company and therefore sufficient appropriate audit evidence was difficult to obtain to corroborate such discussions.

Recommendation	**Comments from Management**
We recommend the Department of Economic Development maintain documentation regarding which financial statements or other financial information have been received for each loan receivable. Follow up should occur for items required in the loan agreement but not received by the requested date. Documentation should also be kept on file for all discussions, both internal and external, that are held to establish or support provisions.	*The Department will review its compliance report and will make any necessary adjustment. At the same time, the Department will also review its information requirement on financial assistance for the process of establishing provisions of loans.*

Appendix 4 (continued)
Department of Economic Development
Loans and Allowances

3.95	PHL Financial Statements

Provincial Holdings Ltd. (PHL) is wholly owned by the Province and transactions related to PHL are recorded in the Province's Oracle system by the Department of Economic Development. The Department produces stand alone financial statements for PHL that are audited by an external auditor.

During our audit of loans, we selected one loan that was issued by PHL. We noted the financial statements of PHL were not yet finalized. Per discussions with Department staff, there was a delay issuing these financial statements due to their external auditor waiting to obtain sufficient appropriate audit evidence to support the fair value of assets held for sale and an environmental remediation liability.

Recommendation	Comments from Management
We recommend the Department of Economic Development ensure all areas requiring management judgments and estimates are fully supported and documented.	*The Department will ensure that all areas requiring management judgments and estimates are fully supported and documented.*

Appendix 5
New Brunswick Internal Services Agency (NBISA)
Payroll

3.96	**Payroll Initiation of Bi-weekly Payroll Process**

During our audit, we examined the payroll initiation process. Payroll initiation is a mandatory, time sensitive step and must be completed accurately in order for the payroll to run and for employees to receive their pay.

We reviewed system access and found 18 users have access to initiate the payroll including some people who are not employees of the NBISA. We found this number to be excessive and not reasonable given the significance of the payroll initiation process. While other controls mitigate this weakness, allowing too many users access to the payroll initiation screens increases the risk of fraud or error in the payroll.

Recommendations	Comments from Management
We recommend the NBISA determine who should have access to initiate the payroll process and restrict system access to these authorized individuals. **We recommend the NBISA monitor future access assignments so that only a limited number of users can perform sensitive payroll functions.**	*Access by non-NBISA employees has been removed.* *As explained, initiating the payroll is done by requesting a report through the report menu. Other controls mitigate the risk of fraud or error. These controls include:* • *Specified and defined report criteria must be entered into HRIS [Human Resources Information System] to request this report. If improper information is entered, the system aborts and shuts down.* • *The report request must be faxed to production control in order to run. A process to ensure this fax gets sent over on payroll cut-off days has been implemented.* • *Production control has a copy of the payroll schedules and monitors to ensure that the payroll is initiated on the proper days.*

Appendix 5 (continued)
New Brunswick Internal Services Agency (NBISA)
Payroll

3.97	Hard Coding System Access – Rights and Privileges

From discussions with Information System managers at the NBISA, we found the payroll system is hardcoded to provide some users with extra security rights. Hard coding is when users' access to various system screens is granted by program coding as opposed to granted through regular group security processes. The hard coding provides an extra layer of security when combined with the system security groups. When we first inquired about this, we found the NBISA had not documented, nor was it aware of the extent of the hard coding in the system. The NBISA since has determined and documented all system hard coding. The hard coding is required because standard group security is not possible in some cases due to the age of the system. Hard coding system security increases the risk of users having access to unauthorized areas of the system, especially when employees' job functions change. All future system hard coding should be documented and monitored.

Recommendation	Comments from Management
We recommend if the NBISA hard codes system security in the future, the NBISA should document and monitor the hard coding so that: • **it is aware of the security assigned to system users, and** • **it can determine the appropriateness of this security.**	*The hard coding was done when the system was first implemented. No new hard coding was done this past year and no new hard coding is expected on a go forward basis.*

Appendix 5 (continued)
New Brunswick Internal Services Agency (NBISA)
Payroll

3.98 Supervisor Review and Approval of Bi-weekly Payroll

The supervisor review and approval process is a key control in the payroll process. In addition to reviewing employee terminations, it also includes reviewing and approving batch logs, commencements, and bi-weekly reconciliations.

During our work, we performed four payroll system walkthroughs. A walkthrough involves selecting a transaction and following the transaction through the entire control process from beginning to end.

In our four payroll system walkthroughs, we examined four supervisor reviews of bi-weekly payrolls. One of the four examined was reviewed properly. However, we noted the following exceptions:

- Two of the four payrolls examined did not have a review performed. These payrolls were for pay periods ending November 5, 2011 (casual civil service totalling approximately $423,000) and November 26, 2011 (regular civil service totalling approximately $3.1 million).
- One bi-weekly payroll was approved; however, not all steps in the review process were completed by the supervisor. The supervisor did not approve the batch logs for the pay period and did not verify all required checklists were present (regular civil service totalling approximately $1.9 million).

In order for the supervisor review process to be effective, the review needs to be done on a timely basis and all required steps must be completed so any payroll errors are detected and corrected promptly.

Recommendation	Comments from Management
We recommend the NBISA supervisor reviews of all biweekly pay runs be completed on a timely basis so errors in the payroll are detected and promptly corrected.	*We have been working with supervisors to ensure that they are done in a timely manner.* *Steps have been taken to increase the number of supervisors as well as a payroll compliance officer who will be responsible for this.* *We are also undertaking a process review that includes examining CICA standards to identify those appropriate for adoption by NBISA.* *This work is being completed in conjunction with the Office of the Comptroller.*

Appendix 5 (continued)
New Brunswick Internal Services Agency (NBISA)
Payroll

3.99	Bi-Weekly Reconciliation Process

Bi-weekly reconciliations are another key control in the payroll process. The payroll and benefits officer prepares the reconciliations which compare the prior period payroll to the current payroll and considers all changes to the current payroll. The bi-weekly reconciliations should be completed on a timely basis in order to detect and correct payroll errors quickly and efficiently.

In our four payroll system walkthroughs, we found two of four bi-weekly reconciliations were not performed on a timely basis. Both of these reconciliations were for regular civil service payroll:

- One reconciliation was prepared five months after the pay period end date. The pay period end date was June 25, 2011 and the reconciliation was completed October 19, 2011. The payroll amounted to approximately $1.9 million.
- The other reconciliation was prepared three months after the pay period end date. The pay period end date was November 26, 2011 and the reconciliation was completed February 16, 2012. The payroll was approximately $3.1 million.

Because of the unexpected results in our four walkthroughs, we tested thirty bi-weekly reconciliations, twenty regular payrolls and ten casual payrolls. We found eight of the twenty regular reconciliations were not reviewed by the supervisor until two months after the pay period end date. The total amount of the payrolls was approximately $2.6 million.

We also found four control weaknesses in the casual reconciliations sampled. Three casual reconciliations were only reviewed by the supervisor three to five months after the pay period end date. The payrolls were approximately $132,000. One casual reconciliation still has not been reviewed and the pay period end date was January 24, 2012. This payroll was approximately $1,300.

Recommendation	Comments from Management
We recommend the NBISA perform all bi-weekly payroll reconciliations on a timely basis so errors, if any, are detected and promptly corrected.	*See above response [3.97] to “Supervisor Review and Approval of Bi-weekly Payroll”.*

Appendix 5 (continued)
New Brunswick Internal Services Agency (NBISA)
Payroll

3.100	Review of Non-Routine Manual Calculations

As part of the payroll process, the payroll and benefits officer (PBO) is often required to prepare manual calculations. These calculations are prepared and submitted to the payroll supervisor with the bi-weekly reconciliation. We found these manual calculations are not reviewed by supervisors, however, we understand changes in gross pay over $1,000 are verified by the Compliance and Reporting team. We believe the risk of error is high for manual calculations as often these calculations are non-routine in nature. Having a review of non-routine manual calculations would help to mitigate the risk of calculation errors.

Recommendation	Comments from Management
We recommend the NBISA document criteria to identify non-routine manual calculations that require review. These manual calculations should be reviewed by a second person for accuracy.	*We agree. This is currently the responsibility of the Compliance & Reporting team. This review provides an independent recalculation of transactions for retro pay that report on the Payroll 'discrepancy report'.* *Discrepancies are then followed up with the individual Payroll and Benefits Officer.* *Limited Criteria (dollar value of transaction) has been documented and programmed in HRI automated procedures. Any manual calculation exceeding the dollar value is identified by the system and amounts are re-calculated by the Compliance & Reporting team. NBISA will document additional criteria.*

Appendix 5 (continued)
New Brunswick Internal Services Agency (NBISA)
Payroll

3.101	**Blue Cross Reconciliations**

Reconciliations are performed between payroll information and Blue Cross billings to verify correct amounts are paid to Blue Cross. At the time this function was transferred to the NBISA, departments were behind in completing the reconciliations. We are not certain of the number of outstanding reconciliations prior to deployment, but we were told it is significant. A decision is needed on how to proceed with these outstanding reconciliations.

We noted the NBISA has worked over the past year to complete reconciliations from the time of the departments' deployments and has made some progress in completing these reconciliations. More work is required, however, to bring the reconciliations up-to-date.

Based on information provided to us by management, for the fiscal year 2012, 183 of 348 Blue Cross reconciliations were not complete. The amount associated with the outstanding reconciliations is approximately $8 million for fiscal 2012.

In total since departments deployed to the NBISA (including fiscal 2012), 290 of 492 Blue Cross reconciliations are not complete. The total amount of outstanding reconciliations is approximately $13 million.

Recommendations	Comments from Management
We recommend the NBISA reconcile Blue Cross billings with payroll information on a timely basis so correct amounts are paid to Blue Cross. **We recommend the NBISA, in consultation with the Office of the Comptroller, determine how to proceed with the outstanding Blue Cross reconciliations that existed prior to departments' deployments to the NBISA.**	*Management accepts responsibility for those Blue Cross reconciliations which should have been done from the date of deployment onward.* *We recognize the importance of these reconciliations and have assigned resources to ensure this activity occurs in a timely manner.* *The residual issue of previous backlog has been discussed with the Office of the Comptroller and a working team comprised of NBISA, Office of the Comptroller and the Office of Human Resources has been established.*

Appendix 5 (continued)
New Brunswick Internal Services Agency (NBISA)
Payroll

3.102	**Termination Process**

During our audit, we examined the process for terminating employees from the payroll. The payroll and benefits officer (PBO) follows a termination checklist that outlines the proper steps to follow. The checklist is signed off by the PBO, attached to supporting documents and is then forwarded to the supervisor for review. The supervisor verifies the payroll system agrees to the supporting documentation.

In our four payroll system walkthroughs, we examined one regular civil service termination with a termination date in November 2011. At the time our work was performed, four months after the termination date, the supervisor had not yet reviewed the termination documents.

Supervisor review of terminations is a key control in the payroll process as it helps ensure employees are terminated properly from the payroll system. It also helps ensure employees are receiving the proper pay upon termination. While we found no monetary errors in our examination of terminations, the supervisor review of terminations should be performed promptly so that any errors are detected and corrected in a timely manner.

Recommendation	Comments from Management
We recommend the NBISA review promptly employee terminations so that errors, if any, can be corrected in a timely manner.	*Steps have been taken to increase the number of supervisors as well as a payroll compliance officer who will be responsible for this function.* *We are also reviewing the supervisor review process to ensure it is efficient to aid supervisors in completing in a timely manner.*

Appendix 6
Department of Education and Early Childhood Development
Payroll System (Gestion and EPAY)

3.103	Program Change Management – Segregation of Duties

The program change management process in place for Gestion is informal and inadequate. We noted the Department was unable to provide us with the following information:

- a listing of all change requests made during the year;
- detailed support for specific change requests;
- approval of change requests;
- testing results for change requests; and
- authorization to promote changes to production.

Without having documentation to support system changes the risk of unauthorized system changes and system operation errors increases.

Recommendation	Comments from Management
Given the Gestion system will not be replaced immediately, we recommend the program change management process for Gestion be formalized and documented by the Department of Education and Early Childhood Development. Documentation should be on file to show all changes are documented, approved, tested and approved to production.	*EECD [Education and Early Childhood Development] will ensure documentation for system change management processes is in place for the Gestion system.*

Appendix 6 (continued)
Department of Education and Early Childhood Development
Payroll System (Gestion and EPAY)

3.104	**Data Entry Verification Process**

School district payroll staff enter data into the Gestion system. Add or Change (AC) forms are printed from the system and sent to the data entry group (in Marysville) to enter the data into the EPAY system.

During our walkthrough of the new employee commencement process, we noted a good control check where payroll staff compare the returned AC forms from Marysville with the data input into the EPAY system to ensure accuracy. However, evidence of this data entry validation process is not documented on the AC form.

Recommendation	Comments from Management
We recommend the Department of Education and Early Childhood Development payroll staff initial the Add or Change (AC) forms to provide evidence they confirmed the accuracy of the data entered into the EPAY system.	*EECD will advise School Districts to confirm the accuracy of the data by initializing the AC forms.*

Appendix 6 (continued)
Department of Education and Early Childhood Development
Payroll System (Gestion and EPAY)

3.105	**Leave Tracking**

During the year, the Province recorded a liability for sick leave. As a result, audit work was performed over the accuracy of leave tracking and sick leave data.

Leave tracking for Part II employees is done through Gestion. Leave reports are sent from the schools and the data is entered into Gestion by the districts. Annually, leave history reports are printed from Gestion and placed in employee files. In some instances, the leave reported on the printouts did not agree to the data in the system, meaning data may have been entered subsequent to printing the reports.

Recommendations	Comments from Management
We recommend the Department of Education and Early Childhood Development review the process for leave tracking, including setting a deadline for data input to provide up to date records on usage and remaining balances of leave available for use. **We recommend the Department of Education and Early Childhood Development document required district processes with respect to sick leave data entry and record retention to achieve greater consistency across all districts.**	*This is currently a manual process. School Districts will update leave tracking on a monthly basis as soon as possible using the current system. This process will form part of the new payroll system to be put in place.*

Appendix 7
New Brunswick Internal Services Agency (NBISA)
Accounts Payable Input and Approval (IPM) Process

3.106	**Partnership Agreements / Delegation of Payment Authority**

As at March 31, 2012 we noted the NBISA did not have signed service partnership agreements with all departments. These agreements set out roles and responsibilities for the NBISA and departments, as well as provide delegation of departmental payment authority to the NBISA. Bridging documents had been signed by some departments, assigning interim payment authority to NBISA on behalf of the signing department. It is our understanding that as at August 1, 2012 signed service partnership agreements or bridging documents are still outstanding from several departments.

Recommendation	Comments from Management
As in the prior year, we recommend the NBISA obtain signed service partnership agreements with each department to which the NBISA provides service.	*Service Partnership Agreements (SPA's) are a critical element of a shared services agency. Final SPA's have been provided to all 15 departments and review meetings have been conducted.*

3.107	**Table of Spending Authority (TOSA) Confirmations**

As at March 31, 2012 the table of spending authority (TOSA) confirmations had not been sent to departments by the NBISA. It is our understanding, subsequent to year end, confirmations were sent to departments impacted by government restructuring and the intent was to send confirmations to the remaining departments shortly thereafter.

Recommendation	Comments from Management
We recommend the process of confirming the TOSA with each department become part of the NBISA's annual year end procedures.	*TOSA reports are prepared and sent to departments for confirmation as part of year end procedures. The 2011-2012 TOSA confirmation process took more time than usual and extended into early June due to the significant impact of Government restructuring.*

Appendix 7 (continued)
New Brunswick Internal Services Agency (NBISA)
Accounts Payable Input and Approval (IPM) Process

3.108	Segregation of Duties

During our segregation of duties testing, we found one employee who had the ability to input invoices and apply payment authority, as well as add vendors to the supplier maintenance file. However, the individual who had this access did not have the ability to apply spending authority for payments and both payment and spending authority are required before a payment can be made. As this is the second year that such a finding was noted, it indicates the current segregation of duties controls continue to contain weaknesses.

Recommendation	Comments from Management
We recommend the NBISA employees not be granted access to incompatible duties.	*We have determined that the instance observed stemmed from staff having roles within two separate systems (Oracle EBS and Oracle IPM) and the systems being owned by separate entities, each with their own security administration. In the instance identified, the individual did not have the ability to independently complete transactions from end to end or to cause a payment to be made.*

Appendix 8
Department of Social Development
Long-term Care System (NBFamilies) and NB Housing Expenditures

3.109	**NBFamilies – Annual case review**

Departmental guidelines suggest that an annual case review be conducted on clients receiving services from an adult residential facility. Regular case reviews and client contact help ensure clients continue to receive an appropriate level of care to meet their needs and to ensure the services currently being provided continue to remain necessary.

In eleven items tested, we found two cases where the case reviews were not performed within the yearly timeframe. In the first case, a long term care assessment had been prepared for the client in 2003 and there was no case review documented in the system since. In the second case, the assessment had been prepared in 2008 with no case reviews since.

Recommendation	Comments from Management
We recommend the Department of Social Development conduct client reviews on an annual basis as required by policy. The client reviews should be documented in the NBFamilies system as evidence that the reviews were completed. Such reviews will help ensure clients continue to receive an appropriate level of care to meet their needs and to ensure the services currently being provided continue to remain necessary.	*We concur with this recommendation. Both the Long-Term Care Services Manual (dated June 2004) and the Disability Support Program Manual (dated January 2010) specify that case reviews are to occur at minimum annually.*

Appendix 8 (continued)
Department of Social Development
Long-term Care System (NBFamilies) and NB Housing Expenditures

3.110	**NBFamilies – Financial assessments**

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 of Social Development completes a financial contribution form which uses a pre-determined formula to calculate the amount of the client contribution.

During our testing, we found one case in ten items tested where the financial documents were not current. This may result in an incorrect client contribution amount.

Recommendation	Comments from Management
We recommend the Department of Social Development complete financial reassessments for clients within a two year timeframe as required by policy. This procedure is important to minimize the risk of inaccurate payments.	*We agree with this recommendation. Again the Standard Family Contribution Procedures Manual in Section 6.1(2) outlines the conditions when a reassessment for subsidized clients should be undertaken, one of which is at least every two years for each client.*

Appendix 8 (continued)
Department of Social Development
Long-term Care System (NBFamilies) and NB Housing Expenditures

3.111	**NBFamilies – Contracts with service providers**

The Department of Social Development signs contracts on an annual basis with service providers authorizing them to provide services to departmental clients at specified rates. The contract also sets out terms and conditions that the service providers must meet. As part of our testing, we agree service provider invoices to the rates in the approved contracts.

During our testing, we found one case in four items tested where the rate paid to the service provider did not agree to the contract. We were informed there is an informal agreement with the service provider to pay this higher rate as the care needed for the client is more complex. The appropriate person approved the payment as spending authority; however, this informal agreement was not properly documented.

Recommendation	Comments from Management
We recommend the Department of Social Development document all fee agreements with service providers.	*SD [The Department of Social Development] in general agrees with this recommendation. There may be exceptions where the standard specified contract/agreement fee is adjusted to adapt to a more complex situation and is not reflective of the contract rate. We would hope the individual NBFamilies service requisition rate would reflect the modified rate.*

Appendix 8 (continued)
Department of Social Development
Long-term Care System (NBFamilies) and NB Housing Expenditures

3.112	NBFamilies – Documentation

As part of our testing, we determine whether the amount contributed by clients for provision of services is correct. The amount of the client contributions affects the amount the Department pays to service providers for clients' care.

During our testing, we found one case in ten items tested where there was not sufficient documentation on file to assess the appropriateness of the client contribution. Thus, we were unable to determine if the Department portion of the expense was correct.

Recommendation	Comments from Management
We recommend the Department of Social Development financial assessors properly document financial assessments and client contribution calculations. This procedure is important to minimize the risk of inaccurate payments.	*We agree with this recommendation. Section 3.2 of the Standard Family Contribution Procedures Manual (dated January 2007) clearly outlines the information requirements and documents that the financial assessor must ensure are on file. In addition, Section 8.4 of the manual outlines the forms that are to be used in the client contribution calculations.*

3.113	NB Housing – Documentation

The Department of Social Development was unable to provide us with documentation to support the payment for one of the items tested. We were therefore unable to examine the invoice for purposes of our audit or determine the validity of the payment.

Recommendation	Comments from Management
We recommend the Department of Social Development's regional offices retain all invoice documentation. Documents should be filed to permit easy retrieval if required for later examination.	*We concur with your recommendation. Again this appears to be an isolated event as the finding pertains to one item.*

Appendix 8 (continued)
Department of Social Development
Long-term Care System (NBFamilies) and NB Housing Expenditures

3.114	**NB Housing – Spending Authority**

In our testing, we found one case where the person who signed as spending authority approved an amount over his/her spending limit of $1,000. The payment was for $27,518 and related to subsidized housing rent.

Recommendation	**Comments from Management**
We recommend the Department of Social Development require employees to follow the spending authority limits delegated by the Deputy Minister when approving payments.	*We agree with your recommendation.*

Chapter 4
Matters Arising from our Audits of Crown Agencies and Federal Claims

Contents

Matters Arising from our Audits of Crown Agencies and Federal Claims

Introduction

4.1 In this chapter we discuss our significant findings and recommendations relating to our audits of Crown agencies' financial statements and Federal claims.

4.2 We audit the following Crown corporations, Boards, Commissions and other agencies:

- Collège communautaire du Nouveau-Brunswick
- Energy Efficiency and Conservation Agency of New Brunswick
- Invest New Brunswick
- Kings Landing Corporation
- Le Centre communautaire Sainte-Anne
- New Brunswick Agricultural Insurance Commission
- New Brunswick Community College
- New Brunswick Electric Finance Corporation
- New Brunswick Highway Corporation
- New Brunswick Immigrant Investor Fund (2009) Ltd.
- New Brunswick Internal Services Agency
- New Brunswick Legal Aid Services Commission
- New Brunswick Lotteries and Gaming Corporation
- New Brunswick Municipal Finance Corporation
- New Brunswick Research and Productivity Council
- New Brunswick Securities Commission
- Premier's Council on the Status of Disabled Persons
- Public Trustee - Trusts administered
- Regional Development Corporation

4.3 We also audit the following Federal claims:

- Labour Market Development Agreement
- Labour Market Agreement
- Agreement on Targeted Initiative for Older Workers
- Building Canada Fund– Communities Component Agreement
- Transfer of Federal Gas Tax Revenues Agreement
- Building Canada Fund Agreement
- Legal Aid Services Commission Agreement

- Agreement for Improvements to the National Highway System
- Municipal Rural Infrastructure Fund
- Agreement for Saint John Harbour Bridge Rehabilitation
- Agreement for Twinning of Route 1 – Between Murray Road and Pennfield
- Knowledge Infrastructure Program

4.4 To reach an opinion on the Crown agencies' financial statements and Federal claims, we carry out audit work on the major programs and activities in Crown agencies or departments. In addition, we audit major revenue items, sample expenditures and examine internal controls of significant computerized systems.

4.5 In almost every audit, matters arise that need to be discussed with management. Except in cases where an audit opinion is qualified, these matters, although significant, are not sufficiently large in dollar terms to affect our opinion on the financial statements. It is our practice to report these matters to senior officials of the agencies/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 internal control weaknesses, before they are corrected, could possibly result in loss of government assets. For further background on our audit objectives refer to Appendix 1.

4.6 We are reporting significant audit findings from the fiscal years ended 2012, 2011 or 2010. The findings reported depend on the timing of the completion of our audit work relative to the printing of our annual report.

4.7 We had several findings from the March 31, 2012 audits of Crown agencies' financial statements and federal claims. We review the findings identified to determine which findings from our work are significant. When considering which findings are significant we assess:

- dollar magnitude of the item;
- the risk the finding could result in a large loss or error in future;
- the number of instances the finding has occurred;
- if the finding has occurred in multiple entities;
- if the finding was reported in a prior year; and
- if we believe the finding is overall significant in

nature.

Highlights and Recurring Themes

4.8 Highlights and recurring themes of our significant findings are presented in Table 4.1.

Table 4.1 Highlights and Recurring Themes

Finding	Finding addressed to	Page Number
Qualified audit opinions	New Brunswick Community College	132
	Collège communautaire du Nouveau-Brunswick	108
	Office of the Comptroller and Health - Facilicorp NB Ltd.	67
	Economic Development - Provincial Holdings Ltd.	83
Claims Management	Post-Secondary Education, Training and Labour - Labour Market Development Agreement	152
	New Brunswick Agricultural Insurance Commission	131
	Regional Development Corporation	148
Lack of Documentation for Management Estimates	Energy Efficiency and Conservation Agency of New Brunswick	114
	Invest New Brunswick	115
	New Brunswick Community College	135
	New Brunswick Highway Corporation	137
	Regional Development Corporation	150
	Research and Productivity Council	144
	Post-Secondary Education, Training and Labour - Labour Market Development Agreement	153
Lack of Approval for Journal Entries	Centre communautaire Sainte-Anne	123
	Invest New Brunswick	116
	Kings Landing Corporation	122
	New Brunswick Community College	135
	New Brunswick Highway Corporation	137
	New Brunswick Immigrant Investor Fund	138
	New Brunswick Internal Services Agency	140
	New Brunswick Legal Aid Services Commission	141
	New Brunswick Municipal Finance Corporation	142
Asset Management	Centre communautaire Sainte-Anne	124
	Kings Landing Corporation	120
	New Brunswick Community College	133
	New Brunswick Municipal Finance Corporation	142
	Public Trustee and Justice and the Attorney General	145
	Regional Development Corporation	150
Board Governance	New Brunswick Agricultural Insurance Commission	131
	New Brunswick Municipal Finance Corporation	143
	Regional Development Corporation	151

4.9 We are concerned that a number of these findings were seen across different agencies/departments. As a result of the same issue arising in different entities we saw recurring themes emerge over the course of our work. Table 4.1 shows the agencies/departments where we noted these recurring themes. Due to the significance of the issues and/or the number of instances observed, we have chosen to highlight these recurring themes in this chapter.

4.10 We have significant concerns regarding the recent trend in audit opinion qualifications. The qualified audit opinions we observed resulted from non-compliance with accounting policies. While qualified audit opinions are necessary in exceptional circumstances, it concerns us when an audit opinion is qualified because application of the accounting standards has not been followed. Users of the financial statements may not have complete or comparable information to make informed decisions. In the past it was rare to have a qualified audit opinion on the Province's Crown agencies, however, this year we are aware of four qualified audit opinions. Agency / departmental management and boards of Crown agencies should make every attempt to comply with accounting standards prior to accepting a qualification in their financial statements. Government entities report their financial results according to the appropriate accounting framework to permit consistency and comparability across entities as well as to comply with accounting standards.

4.11 We are also concerned about trends in claims or cost shared agreement management. Funding accessible through federal programs is an important source of revenue for the Province. Proper claims management is important to ensure available funding is maximized and swiftly received. As discussed later in this chapter, claims should be properly prepared and filed on a timely basis.

4.12 While we have not noted any significant fraud, theft or error as discussed later in this chapter, the existence of the findings noted in Table 4.1 increases the risk of loss or mistake in the agency's/department's financial reporting. These items should be addressed prior to the next audit cycle.

Details of Significant Findings

4.13 Our observations, recommendations and agency/departmental responses to our significant reportable findings are presented in this section of our Report. Refer to Table 4.2 for further information.

Table 4.2 - Agencies and Departmental findings reported in this Chapter

<table>
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</table>

Collège communautaire du Nouveau-Brunswick (2012)

4.14 Qualified Audit Opinion

As a result of CCNB not recording a material sick leave obligation in their financial statements, CCNB received a qualified audit opinion. It should be noted that CCNB did try to resolve this circumstance working cooperatively with the Province to address accounting and funding matters pertaining to this issue, however, a resolution of this matter was not possible prior to September 30 when CCNB is required to publish their annual report.

As mentioned earlier in our chapter highlights, we are concerned about the qualification of audit opinions. Government entities should be reporting according to the appropriate accounting framework for consistency and comparability across entities. We urge CCNB to continue its efforts to resolve the accounting and funding considerations regarding its sick leave obligation so that the audit opinion qualification can be removed in future years.

4.15 Obligation arising from sick leave

One of the issues raised by our office in the letter of recommendations resulting from our 2010-2011 audit was the need to prepare an estimate of the value of the obligation stemming from sick leave. However, this process was not started early enough to allow sufficient time for it to be completed before the end of the audit, and the unresolved issue caused a delay in the issuing of the audit report, as well as a qualified audit opinion.

Recommendation	Comments from Management
We recommend that the accounting and audit issues be identified and addressed in a timely manner in order to ensure their resolution before the start of our audit work.	*We have already started reviewing and implementing the recommendations identified in this report. In regard to sick leave, we have the intent to resolve this issue with all stakeholders by year end.*

Collège communautaire du Nouveau-Brunswick (2012) (continued)

4.16	Payroll procedures – Approval of forms
The forms “Earning Adjustments – HRIS (AEARN)” and “Deduction Adjustments – HRIS (ADEDN)” are prepared and approved by the same person on some campuses. There is a risk that these documents contain errors because the same person prepares and approves the forms.	

Recommendation	Comments from Management
We recommend that a second person review and approve these forms, and sign at the bottom to indicate that this has been done.	*A restructuring of the human resources services has taken place during the last year. A FTE [Full Time Equivalent] position has been assigned to an officer responsible for the verification of transactions related to payroll. The main functions of this position include, among others, auditing payroll data, validation of reports and other supporting documents in order to ensure accurate payroll information. This officer ensures the consistent application of CCNB payroll policies and directives, writes procedures and work directives for uniform and consistent payroll processes in collaboration with the Human Resources Manager.*

Collège communautaire du Nouveau-Brunswick (2012) (continued)

4.17	Travel Expenses

As part of our audit work a travel expense claim was examined. A gas receipt showed that lottery tickets were purchased at the same time as the gas. The full amount of the receipt, including the tickets, was indicated on the request for reimbursement and reimbursed to the employee. Without a detailed review of the supporting documents for travel expenses, there is a risk that the reimbursement of ineligible expenses goes through unnoticed.

Recommendation	Comments from Management
We recommend the expense claim summaries and supporting documents be reviewed in detail to ensure that all expenses reimbursed are eligible.	*The centralization of accounts payables services which has already been initiated will be completed by year end. All staff has been reminded to validate the details of all supporting documents annexed to reimbursement claims. Training will also be conducted with all CCNB managers and supervisors on the importance of verifying and approving only the eligible reimbursement expenses. The revised travel expenses directive will be in place by March 2013 and will focus on eligible and non eligible expenditures.*

Collège communautaire du Nouveau-Brunswick (2012) (continued)

4.18	Annual Report
We were not given sufficient time to review last year's CCNB annual report, which included a summary of the audited financial statements. Our audit opinion was not presented in the annual report. The financial statements presented were an amended version of the audited statements as they were condensed.	
Recommendation	**Comments from Management**
We recommend that a copy of the entire annual report be submitted to us in time for sufficient review before publication or electronic posting. Additional work is required if a condensed version of the financial statements is used.	*Indeed, the 2010-2011 annual report did include a condensed version of the audited financial statements and it caused some concerns. To avoid such a situation, the 2011-2012 annual report included audited financial statements in their entirety. We also provided the auditor a copy of the final report before it was presented to the Board of governors for approval, which was done prior to publication. We have taken into account your comments found in the final version published. In the coming weeks, we will discuss with you how to align your professional responsibilities with ours.*

Collège communautaire du Nouveau-Brunswick (2012) (continued)

4.19 Approval of Expenses

At the end of the 2011-2012 year, CCNB paid the Fondation CCNB $100,000. This expense was approved by the President and Chief Executive Officer via e-mail. In our opinion, such expenses should be approved by the Board of Governors given that the Chief Executive Officer sits on the Foundation's board.

Recommendation	Comments from Management
We recommend CCNB's by-laws be amended in order to specify that the Board of Governors must approve all major expenses that are unusual and not accounted for in the budget.	*The Finance and Audit Committee will revise our by-laws and make recommendations to the Board before year end to comply with this recommendation.*

4.20 International Programs - Mali

With respect to CCNB's international programs, we noted that, for the Mali contract, the balances in the foreign bank accounts [$12,606] were not converted to the exchange rate on March 31, 2012. The balances were presented in the original rates at which the funds were deposited. Moreover, when it comes to its financial statements, CCNB identifies its bank accounts as accounts receivable instead of cash accounts.

In addition, the contract with the government of Mali [$8 million] was signed in March 2010 by the Principal of the Dieppe campus. It is difficult to determine if the Board of Governors, formed in May 2010, also supported the terms and conditions of this contract because there is no documentation showing their support for this matter.

Recommendations	Comments from Management
We recommend amounts in foreign bank accounts be presented at the exchange rate values as at March 31 of the current year, and that these amounts be recorded as "Cash" items in the financial statements. **We recommend that the Board of Governors review and approve this contract, as well as other contracts of its kind, because it is an important and unusual agreement.**	*In the future, international bank balances will be converted at the exchange rate of March 31 of the fiscal year. In this case, the receivable recorded was an amount due to the Mali project and not a bank account. We will record cash and receivable accounts in the proper category and have all documents explaining the rationale of our classification. A process will be developed for international projects that will require the proper approval from the chief executive officer.*

Energy Efficiency and Conservation Agency (2011)

4.21 Differences between the financial statements and the provincial Oracle system

The provincial Oracle system operates as the main accounting system for recording the financial transactions of the Agency. The financial statements are prepared by the Agency using a combination of Agency records, Oracle and the records of Service New Brunswick.

The financial statements of the Agency do not easily reconcile with some of the Oracle accounts of the Province. The operating expenses and other accounts are in agreement, but the accounts which bring forward cumulative amounts from the Agency's inception, including the loans account, are not always readily reconcilable. While significant differences have been resolved for purposes of our audit, a considerable reconciling process was involved to achieve this. We note there have been some improvements in this process over the prior year and we would recognize the efforts of staff to date to address this.

Recommendation	Comments from Management
We recommend the financial statements and the Oracle accounts be reviewed to eliminate or isolate differences and to assist in streamlining reporting and production of financial statements. Consideration should also be given to the possibility of maintaining one general ledger for the Agency on an accounting software package and reducing the use of spreadsheets, which, without adequate safeguards, bring risks of integrity and security when used for financial reporting preparation. Streamlining the financial statement production and reconciliation process may then allow the board and others to regularly receive more complete financial statement information for their review.	*Management agrees with the auditor's comments regarding the difficulties of reconciling the financial statements of the Agency with the Oracle accounts of the Province. We will continue to work with the Comptroller's Office and the Department of Finance to set up the proper accounts in Oracle that are necessary for preparation of our financial statements. Adjusting Oracle to meet our needs and discontinuing the use of spreadsheets is our preference at this time. However, if no progress is made or the adjustments are not possible, we will consider maintaining our own accounting software package.*

Energy Efficiency and Conservation Agency (2011) (continued)

4.22	**Allowance for Doubtful Loans Estimate**

In preparing the Agency's financial statements, certain key estimates are required. One such significant estimate is the allowance for doubtful loans.

The amount of allowance required for doubtful loans is ultimately an estimate of future loan collectability. Presently the Agency bases its estimate on the actual default to date percentage. The estimate and the calculation process are not documented by a second party as reviewed. Given that the Agency is relatively new, the default percentage since inception may not portray the most realistic picture of future collection uncertainty, since defaults will likely occur over time and there may be fewer defaults at the start of a new entity. Other factors merit consideration, such as loan provisions and allowances established by comparable programs in other jurisdictions, and a hybrid approach to determining the ultimate loan allowance balance should be considered. As well, the calculation of the balance of doubtful loans as per this method, does not match the amount of loan allowance recorded. We note this difference is not material, however, it is significant.

Recommendation	Comments from Management
We recommend the calculation, documentation and review of the allowance for doubtful loans be enhanced given the significance of this estimate to the Agency. Upon resolution of these items, the actual amount of loan allowance calculated should match the amount recorded.	*Management agrees with the auditors finding and recommendations regarding the allowance for doubtful loans. We will review the calculation and documentation and ensure that the actual amount of the allowance calculated is what gets recorded.*

Invest New Brunswick (2012)

4.23	Allowance for Doubtful Accounts

Management estimates are used when calculating provisions and allowances. At Invest New Brunswick (INB) these include the calculation of provisions on loans receivable. During the course of our audit we were pleased to find management is completing an annual provisional review checklist for loans receivable, however this analysis lacked rigor, supporting documentation, and evidence of review by management. For one loan file examined, the INB review checklist was completed; however, the information on the checklist contradicted the audited financial statements of the client.

Recommendation	Comments from Management
We recommend INB formalize and document a process for analyzing the adequacy of provisions on loans. Supporting documentation should be attached to the annual provisional review checklist in order to demonstrate the process has been followed. Management should sign and date the completed documentation to indicate their review.	*Management agrees with the observation and the recommendation and will develop and document a process for the review, assessment and approval of the loan and loan guarantee provisions.*

4.24	Expense Documentation

During our audit we examined a sample of non-routine expenses. We noted instances where the expense examined lacked clear documentation on how the expense supported the organizational mandate of INB.

Recommendation	Comments from Management
We recommend INB prepare documentation to support any future significant non-routine expenses. To support non-routine expenses, documentation should include; a description of the event and circumstances, the individuals involved, and the potential benefit for the Province of New Brunswick.	*Management agrees with the observation and recommendation. Management will obtain and gather supporting documentation in the form of agendas, communication, reports, to support significant non-routine expenses.*

Invest New Brunswick (2012) (continued)

4.25	Review of Journal Entries

During our audit we noted journal entries were recorded in the INB accounting records by the Department of Economic Development, but there was no evidence of review and approval of the journal entries by INB management.

Recommendation	Comments from Management
We recommend INB management document their review and approval of journal entries.	*Management agrees with the observation and recommendation. We wish to note that although approval may not have been evident on the entries, many of the entries are prepared at the request of Invest NB. Nonetheless, Management has requested a copy of all journal entries for review and to document approval.*

Kings Landing Corporation (2012)

4.26	Asbestos

For several years, the financial statements of Kings Landing have included a note regarding its commitment to developing a remedial action plan for a building that contains asbestos. A liability was not recorded as the cost of remediation was undeterminable. During the current year, action has been taken by management and the board to determine the cost of remediation.

Recommendation	Comments from Management
We recommend management and the board re-examine the appropriate financial presentation of this liability, given the new information obtained.	*The Board of Director's for Kings Landing have received estimates for the removal of asbestos from the lower warehouse building. The Board will be not authorizing the removal in fiscal 2012-2013 given the variation in cost of quotes received to date, large capital project that will take priority, and due to limited financial resources, but will consider remediation for fiscal 2013-2014. Management will re-examine the disclosure of this matter in its 2012/13 financial statements.*

4.27	Audit Requirements

Audit related documentation, requested in our audit planning memo dated February 27, 2012, was not available to us at the commencement of year end audit fieldwork. Although efforts were made to address the items on the audit requirements listing prior to the deadline, Kings Landing staff were unable to provide us with most of the requested documents. Among the most significant of these documents was the draft financial statements and a documented review of inventory obsolescence. Draft financial statements were provided to our office on September 20, 2012.

Recommendation	Comments from Management
We recommend the items included on the audit requirements listing be addressed early enough to allow sufficient time for their completion.	*Systems and reports have been put in place to be able to have financial statements in draft form available at the commencement of the audit. All documentation will be prepared in advance of the audit for fiscal 2012-2013 and will continue to be in the future.*

Kings Landing Corporation (2012) (continued)

4.28	Retroactive Pay Calculation

During the review of a sample of Wave II retroactive pay calculations for casual employees, it was noted that an incorrect rate for overtime pay was used in the calculation. The use of an incorrect rate resulted in an overpayment for employees that had worked overtime during the retroactive pay period.

Recommendation	Comments from Management
We recommend Kings Landing review overpaid employees to determine possible future action and policy implications to avoid future retroactive pay adjustment errors.	*Kings Landing received advice on the retroactive pay calculations for Wave 2 relating to employees who had overtime. Information received later on was contradictory of the initial advice. A minimal number of employees had overtime, thus the overpayment is minimal as well and was covered by the monies received from Tourism and Parks for Wave 2 retro pay. Should this same issue arise in the future, Kings Landing will follow the directive of the Human Resources branch of Tourism and Parks.*

Kings Landing Corporation (2012) (continued)

4.29	Pre-Authorized Bank Account Debits

There was no documented authorization for the set up of a reoccurring pre-authorized bank account debit from Kings Landing's general bank account. We also noted pre-authorized debits are not subject to the same invoice review and dual authorization process that applies to payments made by cheque.

Recommendation	Comments from Management
We recommend documented authorization be prepared and retained for the set up of reoccurring pre-authorized bank account debits. We also recommend the dual authorization process be followed regardless of the payment method.	*The initial setup for NB Power for pre-authorized bank account debits was initiated in 2006 according to an email request from the Executive Director at that time. All invoices received from vendors that are setup with pre-authorized bank account debits will be reviewed and initialled by the Manager responsible and will continue to be monitored by the Acting Controller during review of the bank reconciliation on a monthly basis. All new requests for pre-authorized debit payments will be approved by two authorized signing officers.*

Kings Landing Corporation (2012) (continued)

4.30	**Timeliness of Adjustments**

During our audit, we observed an account that had been identified as uncollectable which was not provided for or written off at year end. We also noted that during the fiscal year, two accounts had been written off, both of which had been outstanding since 2010.

The general ledger account for fabrics inventory was not adjusted to the year end inventory count results at the time the inventory count was conducted. A similar issue was also noted in the prior year management letter. It is important that Kings Landing's accounts accurately reflect the assets and liabilities of the Corporation.

Recommendation	Comments from Management
We recommend adjustments to asset and liability accounts be made in a timely manner.	*Kings Landing has few uncollectable receivables per year, but will ensure that any deemed uncollectible by Management will be written off in a timely manner.* *Following all physical inventory counts, adjustments required will be made in a timely manner.*

4.31	**Inventory**

During our attendance of the year end inventory count of the gift store, we noted that only one employee was responsible for counting the inventory. This employee is also responsible for ordering and maintaining gift store inventory records.

During our review of the year end inventory listing, we noted one instance in which the inventory cost had not been updated to the most recent purchase cost, and in another case, an item noted on the inventory listing could not be traced to a purchase invoice.

Recommendations	Comments from Management
We recommend inventory counts be conducted by at least two people and at least one of those people be independent of the area being counted. **We also recommend care be taken to ensure inventory is valued in accordance with Kings Landing's stated inventory valuation method.**	*All inventory counts will be conducted by at minimum two persons who are independent of the area being counted.* *Inventory will be valued in accordance with our valuation method.*

Kings Landing Corporation (2012) (continued)

4.32	Management Oversight of Food Services

During our review of internal controls surrounding food services revenue, we noted a review/oversight function is lacking. Instances were noted where cash reconciliations were not performed or signed off and there was no documented follow up.

Recommendation	Comments from Management
We recommend management oversight functions be strengthened in the food services area. Discrepancies should be resolved prior to forwarding the cash reconciliations and other documentation to administration for processing.	*In fiscal 2012-2013, all emails from the Accounting Department to the appropriate Managers relating to incomplete cash reconciliations and/or unsigned cash sheets will be attached to the cash sheet; if the issue is dealt with verbally, a note will be written on the cash sheet indicating a discussion took place with the Manager to rectify the situation for this and future cash sheets and reconciliations. The Assistant Manager of Food Services will provide staff appropriate and increased training in relation to completion of cash sheets and reconciliation.*

Kings Landing Corporation (2012) (continued)

4.33 Donation Revenue

A donation to the Dr. Crowell Trust Fund received in October of 2011 was not transferred to the trust fund until August of 2012, only after detected by our auditor.

It was also noted the portion of a season member pass that is a charitable donation was overstated by $5 on all tax receipts issued to members who purchased a pass during the 2011 season. The amount was, however, recorded correctly in Kings Landing's books.

Recommendation	Comments from Management
We recommend Kings Landing undertake a review of the donations process, including receipts, deposits and accounting with the objective of strengthening controls in this area.	*Kings Landing will ensure that the charitable donation amount for the membership passes is in agreement with the donation amount being charged for its sale and in concurrence with the decision of Management.* *Future amounts received for the Dr. Crowell Trust Fund will be placed into the mutual fund at time of its receipt.*

4.34 Secondary Review Function

During our audit, we noted two instances of keying errors made when entering payroll information.

Recommendation	Comments from Management
We recommend the payroll officer adopt the practice of obtaining a secondary review of the accuracy of payroll or other entries, which require the manual input of a large amount of data, prior to the posting of those entries.	*Kings Landing will adopt a practice whereby a secondary review, by the Purchasing/Accounts Payable Officer and/or the Acting Controller, of the accuracy of payroll and other entries, which require the manual input of a large amount of data, prior to the posting of such entries.*

Centre Communautaire Sainte-Anne (2012)

4.35	Lack of Segregation of Duties

We noted during our audit there is no secondary review of the payroll register. This increases the risk of errors in the employees' pay; for instance, an employee may not be removed from the payroll system after terminating employment, or an increase may be entered in the system incorrectly.

We found errors in journal entries, caused by keystroke errors when the entries were made in the accounting system. The secondary review of the journal entries is important in order to prevent errors and ensure the account balance is accurate.

In addition, during our audit we found a retroactive pay calculation had not been approved by the Executive Director because he was on leave when the payroll was prepared.

Finally, we noted the verification of the calculation of travel expense report totals submitted by the Director of Financial Services was not clearly documented. Secondary review of calculations is important in order to reduce the risk of errors.

Recommendations

We recommend the Executive Director or a second person review each payroll register, check the employees' gross salary, and sign the report to document that it has been reviewed.

We recommend the Centre prepare a policy on the review and approval of journal entries. Material or unusual entries should be reviewed and approved by the Executive Director or a second person.

We recommend the Executive Director or a second person review and approve all calculations for retroactive pay and for deductions related to purchase of leave. If the Executive Director and the second person are away from the office when the payroll is prepared, the review should be done upon their return.

We recommend the Executive Director or a second person document their review of the calculations of payments made to the Director of Financial Services. This can be achieved by noting their initials on the "addition verified" line of the invoice payment stamp.

Centre Communautaire Sainte-Anne (2012) (continued)

Comments from Management

[Translation]. *It is very important to keep the Centre's employee files in our system for future reference. The Director of Financial Services contacted the Fédération des caisses populaires acadiennes, which manages the Centre's payroll service. They explained the steps that must be taken to keep the employees in the system while rendering their files inactive.*

The Director of Financial Services currently reviews the payroll registers. Transactions are coded according to the payroll register and in the time sheets submitted to the Fédération des caisses populaires acadiennes. The Director of Financial Services will then hand over the documents to the Executive Director, who will in turn do the review and initial them as proof of review.

At the end of each month, the Director of Financial Services will submit a copy of the current month's general journal to the Executive Director, who will then do a review and approve the entries.

The retroactive pay calculations are currently reviewed by the Executive Director. When the Executive Director is on vacation, he will review and authorize the pay upon his return.

The expense allowance of the Director of Financial Services is currently authorized before payment by the Executive Director. The calculations are also verified at the same time. The Executive Director signs the cheques and a second check is done. The Executive Director, rather than the Director of Financial Services, will initial them on the "addition verified" line of the stamp used for all other invoices.

4.36 Paypal Account – Weaknesses in Asset Management and Segregation of Duties

We noted an amount of over $20,000 was left in the Centre's Paypal account from March 2012 to September 2012. The Centre might need these funds for its operations. In addition, the account requires only one authorization to withdraw funds and is not reconciled regularly.

Recommendation	Comments from Management
We recommend the funds in the Paypal account be transferred to the Centre's general bank account in a timely manner. The account should be reconciled regularly, and all withdrawals should be documented with two authorizations, as is done with the Centre's other bank accounts.	[Translation]. *The Paypal account service is a new service used by the Centre. We agree that transfers to the account should be made on a more regular basis to avoid having a large balance in the account. We propose that only a minimal amount be kept to cover the financial charges taken directly from the account. The transfers will also be reviewed by the Executive Director.*

Centre Communautaire Sainte-Anne (2012) (continued)

4.37 Payment of Invoices

During our audit of the expenditures, we found the Centre had been late in paying invoices several times, which led to additional fees in some cases.

Also, we noted an amount was paid even though no invoice was received. The payment was based on the company's estimate.

Some invoices were paid even though the Centre did not receive the goods. This is because sometimes the Director of Financial Services does not receive the packing slip and so is not informed of the status of the order.

In addition, we noted certain purchases were authorized after the purchase was made. Authorization of a purchase ensures that the Centre has the budget for such expenditure and that the expenditure is allowable.

Finally, it was not clearly indicated on some invoices that they were paid, increasing the risk of invoices being paid more than once.

Recommendations

We recommend invoices from suppliers be paid on time in order to avoid additional fees.

We recommend payments to suppliers be made only after the invoice has been received, as the final amount could differ from the estimate.

We recommend invoices be paid only once the packing slip has been reviewed, and payment be made only for goods received. The packing slip should be signed by the person who receives the order and kept in the supplier's file with the invoice.

We recommend the purchase authorization policy be applied and all purchase requisitions be approved by the appropriate person before the good or service is ordered.

We recommend each invoice be stamped following payment to indicate the amount has been paid and to document the cheque number.

Centre Communautaire Sainte-Anne (2012) (continued)

Comments from Management

[Translation]. *Before paying invoices, the Director of Financial Services puts the invoice with the purchase order. Sometimes the Director of Financial Services did not have the purchase order and that delayed payment. A new system was put in place so that the purchase order would be remitted to the Director of Financial Services in a more timely manner.*

The Director of Financial Services is quite aware that payment is to be made only after the invoices are received. The case mentioned must be an exception. The Executive Director and the Director of Financial Services will henceforth be vigilant so that such a situation does not happen again.

At one time it was common practice not to complete the purchase order if the goods had not been received. As a result, we were able to monitor purchases, the delivery of goods and payments. After discussion with your office, purchase orders will be prepared before purchases. Payments will only be made if the receiving slips and the purchase orders are appended to the invoices.

As things stand now, invoices paid by cheque are stamped so that invoices are not paid twice. Henceforth, invoices paid by Internet will also be stamped.

Centre Communautaire Sainte-Anne (2012) (continued)

4.38	**Blank Cheques**

We noted during our audit that blank cheques are not numbered, and that some cheque numbers were used more than once. Sequential cheque numbering is an important control in order to prevent duplicate payments, as well as the theft and loss of blank cheques.

The blank cheques are kept in a cabinet that is not always locked. This poses a risk of theft or loss of blank cheques, which can lead to a loss of the Centre's assets.

In addition, the Centre was unable to provide us with the voided cheques. For example, these are cheques that were printed with the wrong date or amount. It is important to keep these cheques for audit purposes.

Recommendations	Comments from Management
We recommend blank cheques be pre-numbered. **We recommend blank cheques be kept in the safe.** **We recommend voided cheques be clearly marked as such and be kept for future reference.**	[Translation]. *A new series of pre-numbered cheques will be printed. The system for printing cheques will no longer generate the numbers on the cheques.* *The safe is not large enough to store all the blank cheques.* *We purchased a new filing cabinet. Each drawer in this filing cabinet has its own lock.*

Centre Communautaire Sainte-Anne (2012) (continued)

4.39	Bank Deposits
Cheques and cash received at the Centre are deposited in the bank. The deposits are not always made in a timely manner, often every three weeks or more, and the amount deposited can be very high. For example, the March 12, 2012, deposit included receipts for one month and amounted to nearly $22,300, including a cheque of $16,527 that was kept at the Centre for over three weeks.	

Recommendation	Comments from Management
We recommend bank deposits be made in a timely manner.	[Translation]. *Bank deposits are made on a regular basis. We are going to start making deposits every two weeks or as soon as receipts exceed $30,000.*

Centre Communautaire Sainte-Anne (2012) (continued)

4.40	Reconciliation of Accounts

During our audit, we found that some accounts were not reconciled, including those for fixed assets and deferred contributions relating to fixed assets. Consequently, some adjustments were required to reconcile the accounts during the audit. In addition, a grant related to 2011-12 was only recorded during our audit in September 2012.

We also noted that the bank account is not always reconciled in a timely manner. For example, the reconciliation for May 2012 was only done in September 2012.

Recommendations	Comments from Management
We recommend the Centre's accounts be reconciled in a timely manner. All revenue accounts must be reconciled regularly and especially at the end of the fiscal year so that all revenue is recorded in the proper fiscal year. **We recommend the bank account be reconciled as soon as the bank statement is received.**	[Translation]. *Bank reconciliations are ordinarily prepared before the audit. This year the challenge was to balance the spreadsheet with last year's audit, which was prepared by a private firm. The Director of Financial Services could not come up with the same amount as the auditors, and after several attempts to reach the external auditor, he decided to wait for this year's auditors to resolve the situation. We did not feel qualified to make the adjustments ourselves. We will continue our practice of preparing and balancing the asset spreadsheet before the audit. Following your recommendation, an asset capitalization policy will be drawn up and incorporated into the policies of the Centre.* *Normally, bank reconciliations are done fairly quickly and before submitting the financial statements to the Board. This method is used by the Director of Financial Services to ensure that these figures are accurate. Board meetings are held fairly regularly. However, certain vacation constraints and the preparation of spreadsheets for the audit caused the reconciliation for the month of May to be delayed until August. Bank reconciliations will be prepared in a more timely manner next year.*

Centre Communautaire Sainte-Anne (2012) (continued)

4.41	Preparation of the Financial Statements

The financial statements were again prepared by the audit team this year. We also assisted with preparation of tables supporting the financial statements. This poses a risk as to our independence as auditors. However, we addressed this risk by adding senior staff to the audit review work.

Recommendation	Comments from Management
We recommend from now on, the Centre prepare a draft of its financial statements, notes, and all necessary tables to support them.	[Translation]. *In the past, the financial statements were prepared by the office of the auditor at the same time as the audit, which was done in May. From now on, the Centre itself will prepare the financial statements. We would, however, like to meet with you to establish the required financial reports and the time frames.*

4.42	Cutoff of Expenditures

During our audit, we found errors in the cutoff of expenditures, including significant invoices paid after the end of the fiscal year that were not recorded in the proper year.

Recommendation	Comments from Management
We recommend invoices paid after year end be reviewed in order to determine which year those expenditures related to. The amounts related to the preceding year should be recorded in the accrual account on March 31.	[Translation]. *Significant invoices and revenues received after March 31 of the current year will now be recorded in the proper fiscal year before beginning the audit. This no longer causes any problems, especially with electricity and snow removal invoices, since the audit is now done in August instead of May.*

New Brunswick Agricultural Insurance Commission (2011)

4.43	Federal Receivable for 2009 Reinsurance

During the course of our audit, we noted a receivable [of $5.1 million as of March 31, 2011] from Canada for reinsurance to be paid for the 2009 crop year has yet to be collected by the New Brunswick Agricultural Insurance Commission (NBAIC). The reason behind this delayed collection of the receivable is that the reinsurance claim had not been submitted by the NBAIC for 2009 crop year. Management was awaiting guidance from the federal government on how to proceed given the complexities surrounding the 2010 reporting year.

Recommendation	Comments from Management
We recommend all receivables be collected in a timely fashion to ensure the Province of New Brunswick minimizes interest expense. We recommend NBAIC resolve the issues with the 2009 reinsurance claim as soon as possible.	*Management agrees with the recommendation and will endeavour to collect the receivable from Agriculture and Agri-Food Canada as soon as possible.*

4.44	All Board members terms have expired in May 2011

During the course of our audit, we noted the NBAIC board members appointment terms have all expired as of May 22, 2011. The *Agricultural Insurance Act*, per section 3(1.1), states that the board members who held office prior to the new *Agricultural Insurance Act* effective April 1, 2009 may remain in office until they are reappointed or until their successors are appointed.

It is our interpretation of the *Agricultural Insurance Act* that clause 3(1.1) allows current board members in place prior to April 1, 2009 to continue board operations without disruption when the new *Agricultural Insurance Act* came into effect. However, we feel that this clause should not be used to keep current board members on the board for an indefinite amount of time.

Recommendation	Comments from Management
We recommend the NBAIC seek to have appointments made on a timely basis.	*Management agrees with the recommendation and is working towards updating appointments to the New Brunswick Agricultural Insurance Commission.*

New Brunswick Community College (2012)

4.45 Qualified Audit Opinion

As a result of New Brunswick Community College (NBCC) not recording a material sick leave obligation in their financial statements, NBCC received a qualified audit opinion. It should be noted that NBCC did try to resolve this circumstance working cooperatively with the Province to address accounting and funding matters pertaining to this issue, however, a resolution of this matter was not possible prior to September 30 when NBCC is required to publish their annual report.

As mentioned earlier in our chapter highlights, we are concerned about the qualification of audit opinions. Government entities should be reporting according to the appropriate accounting framework for consistency and comparability across entities. We urge NBCC to continue its efforts to resolve the accounting and funding considerations regarding its sick leave obligation so that the audit opinion qualification can be removed in future years.

4.46 Sick Leave Liability

One of the points raised by our office in NBCC's 2010/2011 audit results report was the requirement for NBCC to prepare a formal estimate of the value of the liability for sick leave benefits and to implement a policy surrounding recognition of the liability. However, the process required to finalize the policy was not initiated early enough to allow sufficient time for its resolution prior to the end of the audit, and ultimately the unresolved issue caused a delay in the issuance of the final audit report and a qualification of the audit opinion.

Recommendation	Comments from Management
We recommend audit and accounting issues be identified and addressed proactively to ensure there is sufficient time for their resolution prior to the commencement of audit work.	*NBCC did, in fact, have a formal estimate prepared and completed by April 20, 2012, and is prepared to recognize the liability in accordance with Public Sector Accounting requirements. However, in excess of 97 percent ($1,575,000) of the liability relates to benefits earned by employees prior to the formation of the Crown corporation. We had made an assumption that, as per other liabilities prior to the incorporation, the Province would take responsibility for this portion of the sick leave liability. This issue remains unresolved.*

New Brunswick Community College (2012) (continued)

4.47	Deficit in Operating Fund

We noted the board approved a transfer of $2 million to a restricted fund at year end which has left the unrestricted operating fund in a deficit position of $170,004.

Recommendation	Comments from Management
We recommend the board document a policy with respect to transfers between funds and approval of the release of funds from restriction. The board should consider the presentation of the individual fund balances as well as the overall financial statements before approving transfers.	*Looking at the separate fund balances does not give a true picture of the entire financial position of the College. The unrestricted fund deficiency balance decreased by over $600,000 - from a deficiency of $854,292 in 2011 to a deficiency of $170,004 in 2012. The allocation of $1,000,000 to a restricted contingency fund demonstrates sound fiscal management in setting aside surplus to be used in extraordinary circumstances. This is in alignment with other contemporary post-secondary institutions. In our opinion, these surpluses need to be viewed in their entirety rather than their individual components.*

4.48	Spending and Payment Authority

During our examination of controls surrounding expenditures, we noted one instance in which a spending authority authorized an expenditure that exceeded the approved spending limit by $80,000. In another instance, NBCC was unable to provide us with payment authority documentation to support an employee’s approval of an expenditure.

Recommendation	Comments from Management
We recommend spending and payment delegations be documented and followed.	*The College is updating the spending and payment authority process to move to an imaged system and the centralization of the storage of spending and payment authorities. In addition, the accounts payable function is being centralized and there will be fewer staff verifying payment and spending authorities.*

New Brunswick Community College (2012) (continued)

4.49	Payroll Change Authorization and Casual Employee Terminations

During the review of controls surrounding the payroll process at the campuses, we noted several general change forms were only signed by the payroll officer. Two signatures are required on all general change forms. We also noted a letter of resignation was not included in the personnel file for two casual employee terminations.

Recommendation	Comments from Management
We recommend normal payroll processing procedures be followed at all times such that two signatures are required on all general change forms and a letter of resignation is required for all casual employee terminations.	*It is the colleges practice to define the end date for casual employees in their employment letter and not to obtain resignation letters. We agree with the need for two signatures on change forms. The previous structure at campuses meant that at times there was only one payroll officer at the campus. This process will change with the reorganization of our payroll processing functions.*

New Brunswick Community College (2012) (continued)

4.50 Creation of Policies

We noted NBCC does not have documented policies in place surrounding certain financial reporting areas, including a documented policy on the creation and review of journal entries, a documented capital asset policy, and a documented policy surrounding the transfer of surpluses into specific funds. The creation of documented policies will provide a point of reference for the campuses and encourage consistency throughout the Corporation.

Recommendation	Comments from Management
We recommend management document the following accounting policies: creation and approval of standard and non-routine journal entries, the recognition and amortization of capital assets and the purpose and administration of the restricted fund.	*We agree. The College is in the process of reviewing all Administrative and Academic policies and has formed an Administrative Council, as well as an Academic Council for this purpose. These policies will be part of this review and fully documented and posted to the College intranet site for reference by all staff. In addition, as part of the reorganization of the Finance Division these areas will be the responsibility of Corporate office as opposed to each individual campus. This will ensure consistency of application going forward.*

4.51 Approval of Management Estimates

During our examination of management estimates, we noted there was no documented review and approval of management estimates. Examples of those estimates include deferred revenue, inventory obsolescence and bad debt expense.

Recommendation	Comments from Management
We recommend estimates be reviewed and approved by management and that this process be documented.	*In the past, these responsibilities have rested with the Finance Managers at the campuses. With the reorganization of the Finance Division, these responsibilities will become part of the Financial Accounting Supervisor's and the Senior Accounting Manager's duties.*

New Brunswick Highway Corporation (2011)

4.52	**Accounting for New Projects**

The accounting for various public – private partnership projects can be complex as evidenced by the changes during 2011 to the accounts for the Fredericton – Moncton Highway and the TransCanada Highway projects. Due to the complexity of the accounting, we believe it would be advantageous to discuss the accounting for and the audit of any new projects undertaken by New Brunswick Highway Corporation (NBHC) as soon as possible. This would ensure that accounting for the project is understood and hopefully agreed to by all parties and the information needed for the audit is available.

Recommendation	Comments from Management
Discussions between NBHC and our Office concerning the accounting for each new project should take place as new projects are being finalized. The aim would be that all parties are in agreement with the accounting and that needed documentation for the audit can be obtained and consequently the audit can be completed as soon as possible.	*We agree that the cooperation and coordination between NBHC and your office should occur in a timely manner on all new projects that arise regarding NBHC so that the audit can be completed as soon as possible. An example of our commitment to this was when we met with your staff in 2011 to discuss the appropriate accounting treatment of rehabilitation work prior to implementing any changes.*

New Brunswick Highway Corporation (2012)

4.53	**Segregation of Duties – Journal Entries and Financial Reporting**

During our audit, we noted manual journal entries were recorded in the accounting records, but there was no evidence of consistent review and approval of the entries by NBHC's management. We also noted there was no documented review of financial reporting information (rehabilitation schedule) indicating someone other than the preparer had reviewed financial reports. Segregation of preparation and approval functions reduces risk of fraud and error in the financial statements.

Recommendation	Comments from Management
We recommend management document their review and approval of manual journal entries and financial reports.	*We agree that management should document their review and approval of manual journal entries and financial reports. At this time reviews are done on both journal entries and financial reports although we only have documentation on the reviews of financial reports. Going forward we will document the review of journal entries and will continue to work toward further segregation of duties.*

4.54	**Evaluation of Estimates in Reference Cases**

We noted the rehabilitation amounts are based on estimates in the reference case. Such reference cases typically do not change and therefore the estimates and assumptions used remain the same. However, as we use these estimates in our financial statement audit work respecting allocation of payments between prepaid rehabilitation and capital assets, we are required to examine and test the estimates to ensure the assumptions used remain applicable. In our work we noted management is not comparing estimated rehabilitation as recorded in the financial statements to actual rehabilitation. Such a comparison should be performed to determine if estimates management used in preparing the annual financial statements are reliable.

Recommendation	Comments from Management
We recommend management evaluate the underlying assumptions in the reference case in advance of the next audit cycle to ensure the assumptions continue to remain applicable and estimates are reflective of actual work performed.	*Efforts will be made to evaluate the underlying assumptions in the reference case, in advance of the next audit cycle, to ensure they remain applicable.*

New Brunswick Immigrant Investor Fund Ltd. (2012)

4.55 Fulfillment of Agreement with Citizenship and Immigration Canada (CIC)

Under the CIC agreement, New Brunswick Immigrant Investor Fund (NBIIF) must invest in economic initiatives. During our audit we noted the NBIIF has been in existence for approximately 19 months and no funds have been invested in economic initiatives as of March 31, 2012. NBIIF management indicates investment in economic initiatives will commence in 2013.

Recommendation	Comments from Management
We recommend the board regularly review management's plan for timely investment of the remaining funds.	*The NBIIF has issued its first cheque to the New Brunswick Innovation Foundation (Foundation) in the amount of $782,000 on August 27, 2012 and a second disbursement will be issued for $537,950 on November 2, 2012 for a total of $1,319,950. This is in support of economic development projects approved by the Foundation. The Foundation must report back to the NBIIF Board on the projects and outcomes annually. The NBIIF has signed a contract with the Foundation to provide financial support, over the period between April 1, 2012 and March 31, 2015, in the amount of not more than $10M.*

4.56 Review of Journal Entries

During our audit we noted journal entries were recorded in NBIIF accounting records by staff of the Department of Economic Development, but there was no evidence of review and approval of the journal entries by NBIIF management.

Recommendation	Comments from Management
We recommend NBIIF management document their review and approval of journal entries.	*The department gives its undertaking for officers of the board, to review and approve all journal entries.*

New Brunswick Internal Service Agency (2012)

4.57	Personnel Records
During our examination of the New Brunswick Internal Services Agency's ("the Agency" or NBISA) payroll expense, we found deficiencies in employee personnel records. In our sample of 40 employees, we found two employees had received merit increases, but there was no documentation supporting the increases in the personnel files. Additionally in our sample of 30 employees, we found three employees who had been granted vacation beyond expected entitlement. There was no supporting documentation for the additional vacation leave such as a revised letter of offer or signed approval from management in the employees' personnel files. We understand some of the cases above were inherited from departments on transition of employees to NBISA.	
Recommendation	**Comments from Management**
We recommend employee personnel files be updated so that they fully support the amount of compensation and benefits provided to employees.	*Employee personnel files are updated regularly. A process will be implemented for a periodic review for completeness.*

4.58	Cost Recovery for Service Delivery Revenue
During our audit, we performed audit procedures on service delivery revenue and its related expenses. We found, however, the related expenses were not easily identifiable to specific revenue items within the accounting records. Preparing cost recovery information for direct costs would allow management to determine whether or not they are recovering appropriate amounts for the services provided to departments.	
Recommendation	**Comments from Management**
We recommend management prepare a cost recovery analysis for service delivery revenue.	*NBISA will begin work in the new year on identifying the opportunities and challenges to produce a direct cost recovery analysis for service delivery revenue and expenses.*

New Brunswick Internal Service Agency (2012) (continued)

4.59	Segregation of Duties
During our audit, we noted manual journal entries were recorded in the accounting records, but there was no evidence of consistent review and approval of the entries by the Agency's management. Segregation of preparation and approval functions reduces risk of fraud and error.	

Recommendation	Comments from Management
We recommend management document their review and approval of manual journal entries.	*A process for review and approval of journal entries is being implemented.*

4.60	Service Agreements
The Agency does not have signed agreements with departments authorizing the cost of services provided to the departments. Without signed agreements, departments may disagree with their charges for the services provided by the Agency. This could lead to the Agency not recovering the cost of the services. We were told the Agency communicated chargeback information to ITMAC (an information technology group of departmental directors) informing them of their charges, however, signed agreements with departments would avoid any disputes.	

Recommendation	Comments from Management
We recommend the Agency prepare service agreements with departments listing the services to be charged back. These agreements should be signed by both the Agency and the departments.	*Service Partnership Agreements (SPA's) are a critical element of a shared services agency. Final SPA's have been provided to all 15 departments and review meetings have been conducted. NBISA is working with each of the departments who have not yet signed their SPAs to address any necessary amendments in an effort to achieve sign off.*

New Brunswick Legal Aid Services Commission (2012)

4.61 Segregation of Duties – Journal Entries and Financial Reporting

During our audit, we noted manual journal entries were recorded in the accounting records, but there was no evidence of consistent review and approval of the entries by the Commission's management. We also noted there was no documented review of financial reporting information indicating someone other than the preparer had reviewed financial reports. Segregation of preparation and approval functions reduces risk of fraud and error in the financial statements.

Recommendation	Comments from Management
We recommend management document their review and approval of manual journal entries and financial reports.	*Journal entries will be reviewed and signed off on a monthly basis by the Chief Operating Officer, with the documentation kept for audit and management review.*

4.62 Sick Leave Benefit and Retirement Allowance

During our audit we noted the Commission is not estimating the obligation relating to potential sick leave benefits for employees. Public Sector Accounting Standards (PSAS) require that government entities recognize a liability and an expense for sick leave benefits. An estimate is required to determine if the amount is significant. Additionally, retirement allowance benefits are earned by certain employees of the Commission. Management estimates the liability based on a formula. Due to the size of the amount, and the complexity involved, an actuary should be considered for future to derive an estimate with greater precision, for both sick leave and retirement allowance accruals.

Recommendation	Comments from Management
We recommend the Commission prepare formal estimates of these employee benefits. We recommend an actuary be consulted to perform the calculation for both sick leave and retirement allowance accruals, to ensure more precise calculations are completed.	*The Commission will book an amount for sick leave liability for 2012-13. The Commission will explore with its Board the feasibility of engaging an actuarial service for more precise calculations for sick leave and retirement allowance accruals in 2012-13.*

New Brunswick Municipal Finance Corporation (2012)

4.63 Segregation of Duties

During our audit we noted there was no documented evidence of review and approval by management of the journal entries and financial statements. As the year end financial statements of the Corporation are compiled by the same individual who prepares and records the journal entries, with no documented management review, there is a risk of lack of segregation of duties in the financial reporting functions.

Recommendation	Comments from Management
We recommend management document their review and approval of journal entries and financial statements.	*Management reviews financial statements as a matter of routine. In the past there has been no formal documentation of this review. In future the review process will be documented.*

4.64 Retained Earnings Accumulation

During the audit we noted the Corporation continues to accumulate a significant retained earnings balance [of $1.2 million as of December 31, 2011]. Currently, this balance has been reinvested into low yield bonds and Government of Canada T-Bills; however, there is no updated board investment policy or long-term plan for retained earnings to support this treatment.

Recommendation	Comments from Management
We recommend the Board update and approve a long term plan to support the investment or other use of retained earnings.	*In 1995, the Board approved the investing of funds by the Corporation in accordance with the provisions of section 15(1) of the* Provincial Loans Act. *In 2003, the Board approved an investment strategy to compensate for a 'one time' miss-match between the Corporation's inflow and outflow between 2003 and 2013. This strategy resulted in the purchase of bonds, all of which will have matured by July 2013.* *At the September 20th, 2012 meeting the Board approved an increase in the operating fee the Corporation pays to the Department of Finance and the Department of Environment and Local Government. Over time this fee will reduce the accumulated retained earnings. The provisions approved in 1995 regarding the investment of funds continue to be relevant.*

New Brunswick Municipal Finance Corporation (2012) (continued)

4.65	**Governance – Board Meetings**
While we noted two resolutions were made by the Board this year through an e-mail vote, the most recent board meeting held was on December 16, 2010. Though the board is not required under the Act or by-laws to meet a certain number of times per year, it is considered good governance to meet regularly, and at minimum, annually.	
Recommendation	**Comments from Management**
We recommend the Board hold, at minimum, one meeting per year. More frequent meetings may be advisable depending on the volume of material requiring board attention.	*Management makes every effort to hold at minimum one meeting every year and has done so prior to 2011. In 2011 there was unexpected turnover in board membership which made it impossible to get all parties together. Management will continue to schedule meetings as the need arises.*

New Brunswick Research and Productivity Council (2012)

4.66	Management estimates

Under Canadian auditing standards, we are required to perform audit procedures on estimates and management's process to develop and select accounting estimates. In connection with this we note there are several financial statement items where management estimates are used to calculate the amount reported. Examples of where management estimates are used include future employee benefits, allowances for doubtful accounts, accrued liabilities, and the valuation of deferred revenue and work in progress. Uncertainty exists around accounting estimates due to the availability and reliability of information used to calculate estimates. This increases the risk of misstatement in the financial statements.

In order to address the effect of estimation uncertainty we need to ascertain that management has performed due diligence to evaluate or consider all alternative assumptions or outcomes and determine if the chosen alternatives are reasonable. We also need to evaluate the reasonableness of significant assumptions used by management, their validity compared to actual results and management's intent and ability to carry out specific courses of action.

As a result of our review of estimates, several adjustments were made to the financial statements.

Recommendation	Comments from Management
We recommend management continue to ensure supporting documentation for significant estimates is maintained and reviewed. Management should also consider enhancing documentation of the rationale behind the more judgmental estimates.	*We will continue to do this. We follow a conservative practice of erring on the side of caution, and try to ensure that all provisions and allowances are adequate to cover even lower probability outcomes.*

4.67	Unrestricted Operating Fund Balance - Accumulation

During the audit we noted that the unrestricted operating fund balance totals approximately $3.5 million. There is no documented policy to support the accumulation of funds or the long term plan for investment or disposition of this balance.

Recommendation	Comments from Management
We recommend the Board document and approve a long term plan to support the investment or other use of the accumulated funds in the unrestricted operating fund balance.	*We concur. To that end, we will begin discussion at the next meeting of our audit committee.*

Public Trustee – Trusts administered (2010 and 2011)

4.68	**Approval of Expenditures**

During the performance of our audit we tested 43 expense items to achieve various testing objectives including proper approval. Proper payment and spending authority over transactions is detailed in the Office of the Public Trustee (OPT) policy manual. In our testing there were five instances where the payment and spending authority policy was not appropriately applied. In each case the total expense amount was greater than $5,000. The manual requires the signature of the Public Trustee to approve these expenses for payment. The signature of the Public Trustee was not present and the expenses were processed for payment.

Recommendation	Comments from Management
We recommend the payment and spending authority policy as detailed in the policy manual be followed.	*Agreed. This was an oversight and staff has been advised to take special precaution with invoices over $5000 to ensure the policy is followed.*

4.69	**Implementation of Investment Policies**

During the performance of our audit we observed the investment committee, noted in the OPT Statement of Investment Policies and Objectives, has not been formed. This policy was approved by the Board of Management on May 20, 2010. As a result, there is no general strategic advice from the committee on long term investment policies and performance objectives. Additionally, the committee is not monitoring investment performance and reviewing investment policy objectives as outlined in the Statement.

Recommendation	Comments from Management
We recommend OPT move forward with the formation of an investment committee as specified in the Statement of Investment Policies and Objectives.	*Agreed. The management of the New Brunswick Legal Aid Services Commission, to which OPT was transferred on July 1, 2012, will convene an investment committee.*

Public Trustee - Trusts administered (2010 and 2011) (continued)

4.70 Financial Statement Process

The performance of our engagement resulted in a high volume of audit adjustments due to the manually driven financial statement process. The accounting system developed for the Trust is unable to track all client information, [trust assets total $7.4 million as of March 31, 2011] thus resulting in a separate manual system of accounts. The system also lacks reporting functionality for the purposes of interim reporting or compiling the annual financial statements.

Recommendation	Comments from Management
We recommend OPT develop a list of system modifications and work corroboratively with Information Management and Technology to implement these system improvements.	*Agreed. The Department of Justice and the Attorney General has committed to providing continued support from Information Management and Technology for Office of the Public Trustee and New Brunswick Legal Aid Services Commission. The Office of the Public Trustee case management system and accounting system is currently being assessed and Phase 2 is being scoped out for continuous improvement. An improved, more cohesive IT solution is tentatively being planned for development in 2012-2013, and implementation in 2013-2014.*

4.71 Safeguarding of Electronic Client Data

Manually tracked client assets such as external bank account information and investment account information were stored in manual spreadsheets that were not password protected. This leaves unprotected sensitive client information susceptible to theft, fraud and manipulation.

Recommendation	Comments from Management
We recommend OPT appropriately safeguard electronic information.	*The spreadsheets are saved on a shared network drive with restricted access; only OPT employees can access the files. The proposed case system (Aegis) enhancements are intended to render these sub-systems unnecessary and obsolete.*

Premier's Council on the Status of Disabled Persons (2012)

4.72	HST Rebate on behalf of the project partner

During the course of our audit, we noted the Council claimed Harmonized Sales Tax (HST) on invoices the Council processed on behalf of the project partner in relation to the Employment Action Plan project. The project partner was in turn invoiced for the amount of the expenditure net of HST.

As the Council did not incur the expenditures in question, but paid the invoices on behalf of the project partner, we are uncertain if this practice is allowed by Canada Revenue Agency.

Recommendation	Comments from Management
We recommend the Council seek a professional opinion from a qualified commodity tax expert or the Canada Revenue Agency regarding whether HST for the Employment Action Plan project has been appropriately reported and claimed.	*The Premier's Council on the Status of Disabled Persons [PCSDP] contacted Canada Revenue Agency [CRA] regarding the Employment Action Plan [EAP] project. After discussing the project, CRA advised that a Joint Venture form be completed between PCSDP & the project partner and then placed in the EAP files. As this was a one-time project, PCSDP is considered and acted as the operator where all expenses were to be paid through PCSDP and full HST to be claimed through the Council. The project partner is considered and acted as the co-venturer.* *The Premier's Council has completed the form and contacted the project partner regarding this matter.*

4.73	Management Oversight and Review

During our audit we noted a lack of management oversight surrounding the accounting function. In particular, there is no review of bank reconciliations. A review of bank reconciliations could detect errors and reduce the risk of unauthorized payments. Evidence of management review should be documented. Review should include scanning of bank statements and cancelled cheques.

Recommendation	Comments from Management
We recommend the Executive Director review and initial monthly bank reconciliations.	*The Executive Director agrees and will be reviewing and initialling monthly bank reconciliations as suggested.*

Regional Development Corporation (2011)

4.74	Management of Federal/Provincial Agreements

Regional Development Corporation (RDC) manages several federal/provincial agreements. Within the agreements are stipulations on spending the funds. Funds must be spent on eligible costs and eligible projects. The authority for some projects within these agreements is delegated to departments to manage.

For the past several years we have found ineligible costs during our audit of the claims under federal/provincial agreements. For the most part these ineligible costs stem from projects managed by departments. RDC has not restated their figures but have changed current year figures to reflect these adjustments.

Recommendations	Comments from Management
We recommend RDC communicate conditions of the agreements to departments that are managing projects under these agreements and verify that costs being claimed meet the eligibility criteria.	*For all new agreements, RDC will communicate conditions of the agreements to departments that are managing projects to ensure only eligible costs are claimed.*
We recommend RDC communicate the results from our audits to the relevant department that manages the agreements.	*RDC has communicated the results of the audit to relevant departments.*

Regional Development Corporation (2011) (continued)

4.75 Board Governance

During our audit we found that for the fiscal year 2010-2011, the board met only once. We found the board of RDC is not operating as an oversight board. They do not set budgets, approve payments, or projects. There are no terms of reference or bylaws governing the board.

The *Regional Development Corporation Act* (Act) indicates that "The Lieutenant-Governor in Council may appoint persons, not fewer than five in number, to be directors of the Corporation." The Act does not specify what authority is given to the Board of Directors. Furthermore, the RDC annual report indicates the membership is generally drawn from Deputy Ministers of provincial departments and Presidents of Crown agencies.

The Annual Report also notes the Board of Directors has delegated its general authority to an Executive Committee consisting of the Chairperson, Vice-Chairperson, two Vice Presidents and the Corporate Secretary.

Recommendation	Comments from Management
We recommend the role of the Board of Directors be determined and documented to define their mandate and related benchmarks to determine if it is achieved.	*Although the Board is in compliance with its Act and by-laws, we will encourage the Board to meet more frequently and management will undertake a process to more clearly define the role of the Board of Directors.* *However, we believe that the oversight role in regards to budgets and significant project approvals is adequately provided by Government.*

Regional Development Corporation (2012)

4.76	Provisions on Loans Receivable

Management estimates are used when calculating provisions on loans receivable. During the course of our audit we found that no valuation analysis was prepared and valuation estimates were not documented by the Corporation.

Recommendation	Comments from Management
We recommend the Corporation formalize and document a process for reviewing the adequacy of provisions on loans. Documentation should be attached to the review to demonstrate the factors considered and supporting estimates. Management should sign and date the completed documentation to indicate their review.	*The Corporation will look at establishing a formal process for reviewing the adequacy of provisions of loans.*

4.77	Charlo Dam and Pipeline

During our audit we noted the Corporation continues to hold the Charlo Dam and Pipeline as a tangible capital asset. In the prior year audit, management indicated they did not have the intention of operating and maintaining the assets, and had drafted a set of options for disposition. The operation of these assets do not align with the objectives and purpose of the Corporation, as defined in its Act. Also, other considerations may need to be addressed in future if the asset continues to be held by the Corporation such as asset valuation or impairment of the asset.

Recommendation	Comments from Management
We recommend the Corporation reevaluate its options for the Charlo Dam and Pipeline assets, and act on this analysis prior to the next audit cycle.	*The Corporation continues to work towards finding a viable option for the disposition of the asset and will proceed as expediently as possible.*

Regional Development Corporation (2012) (continued)

4.78 Governance - Board Meetings

In our prior year audit findings, we noted the Board did not meet during the fiscal year. The Board does not review/approve budgets and significant payments or projects before they are submitted for approval to the Board of Management. Though the Board is not required to meet under the Act or by-laws, it is generally expected the Board would provide regular oversight of corporate processes. The Board met only once during 2011-12.

Recommendation	Comments from Management
We again recommend the Board review its role. To assist in providing proper corporate oversight the Board's role and related performance benchmarks should be documented.	*Although the Board is in compliance with its Act and by-laws, we will encourage the Board to meet more frequently and management will undertake a process to more clearly define the role of the Board of Directors.* *However, we believe that the oversight role in regards to budgets and significant project approvals is adequately provided by Government.*

4.79 Segregation of Duties

During our audit we noted one individual has the ability to create an electronic funds transfers batch and upload it to the banking system for payment. The risk of one individual having the ability to perform both functions represents a lack of segregation of duties and poses a risk to the Corporation.

Recommendation	Comments from Management
We recommend proper segregation of duties for electronic funds transfers be implemented.	*Although it is possible for an individual with administrative rights to create an electronic funds transfer file and upload it to the bank, this is not the normal process. The accounts payable officer creates the file and the financial manager or director uploads the file to the bank. We believe the current process provides adequate segregation of duties.*

Matters Arising from our Audits of Federal Claims

Department of Post-Secondary Education, Training and Labour
Labour Market Development Agreement (2012)

4.80	**Training and Skills Development - Full Cost Recovery Calculation**

We noted the calculation for full cost recovery was understated as a result of exclusion of clients from the calculation. These clients were excluded because the reports used in preparing the calculation were generated partway through the month rather than at the end of the month. This resulted in the exclusion of approximately 475 clients totalling approximately $5 million. After discussion of this finding during the audit, the Department adjusted the Federal claim to properly include the 475 clients.

Recommendation	Comments from Management
We recommend the Department institute controls surrounding data checking to ensure all eligible participants and costs are captured and included in the calculation of the claim.	*The Department agrees with this recommendation.* *Controls will be implemented to ensure all eligible participants and costs are captured and included in the claim.*

4.81	**Training and Skills Development - Academic Upgrading**

We noted the Department included in the Federal claim amounts relating to Academic Upgrading courses for non EI eligible clients. Only amounts relating to EI eligible clients can be included in the Labour Market Development Agreement (LMDA) Federal claim. After discussions with the Federal government, the Department adjusted the claim to only include the portion of the courses related to EI eligible clients.

Recommendation	Comments from Management
We recommend the Department implement data verification processes and controls so that only amounts for EI eligible clients are reported on the Federal claim.	*The Department agrees with this recommendation.* *The Department will request details to identify and verify EI eligible clients.*

Department of Post-Secondary Education, Training and Labour
Labour Market Development Agreement (2012) (continued)

4.82	Allocation of Administration Costs

During the audit, we noted numerous allocations used in determining the administration costs claimed. We noted the following issues:

- In-kind contribution – The Department includes a 15% allocation of salaries of various departmental employees. We found no evidence the in-kind contribution was eligible to be claimed.
- Leases - The Department claims a lease amount of $756,418. The allocations are based on historical data from 2001-02 to 2009-10, and very little support could be provided to verify the use of the space for LMDA programs.
- Employee Benefit Rate – Per the amended Agreement dated February 8, 1998, 21.22% of base salary is to be used to calculate the cost of employee benefits. The Department provided a schedule which multiplies this percentage by 91.6% of maximum contribution of salaries which is based on data from 1995 - 96 total HRDC [Human Resources Development Canada] salary break down. It is unclear whether these factors are still appropriate since they have not been updated recently.

Recommendations	Comments from Management
We recommend the Department obtain confirmation from the Federal government that an in-kind contribution is allowable under the Agreement.	*The in-kind contribution is a non-salary administration cost. Section 13.6 of the LMDA Agreement stipulates a contribution for administration costs. It includes a contribution for non-salary costs and employee benefits.*
We recommend the Department obtain updated leasing information and re-evaluate the space used for LMDA programs. This information should be documented and used in the calculation of administration costs.	*Administration costs will be allocated in a cost-effective manner.*
We recommend the Department obtain clarification from the Federal government regarding the rate to be used in the calculation of employee benefits for the LMDA program.	*This rate will be confirmed with the Federal Government.*

Department of Post-Secondary Education, Training and Labour
Labour Market Development Agreement (2012) (continued)

4.82-continued	**Allocation of Administration Costs** (continued)

During the audit, we noted numerous allocations used in determining the administration costs claimed. We noted the following issues:

- Allocation of salaries - We noted several employees with salary coded to LMDA who did not spend a significant portion of their time working with LMDA clients. The Department revised its allocation of salaries during the course of our audit; it is now based on the percentage of LMDA clients served as a portion of total budget. The Department should document and update annually its rationale for the allocation of salary expenses.

Recommendation	Comments from Management
We recommend the Department document and update annually its rational for allocating salary expense. The allocation method used should appropriately reflect the costs of administering the LMDA program.	*Administration costs will be allocated in a cost-effective manner.*

4.83	**Fraud**

We are required to report fraud that comes to our attention during the course of our audit. During our audit, the Department informed us that fraud was discovered and investigated by the Department. The amount of the fraud was $3,072.

Department of Post-Secondary Education, Training and Labour
Labour Market Agreement (2012)

4.84	Training and Skills Development – Academic Upgrading

We noted the Department included in the Federal claim amounts relating to Academic Upgrading courses for non Labour Market Development (LMA) clients. Only amounts relating to LMA clients can be included in the LMA Federal claim.

Recommendation	Comments from Management
We recommend the Department implement data verification processes and controls so that only amounts for LMA clients are reported on the Federal claim.	*Agreed. The Department will implement processes to verify that only LMA clients are reported on the Federal claim.*

4.85	Documentation of Client Information

We noted one instance of missing documentation to support the status of a client funded through the SEED Co-op Program. The documentation available in the imaging system made no reference to the student status which is required to be eligible for the LMA program. The program officer at the Department indicated he had determined the student was eligible for the program, but had not properly documented the information in the system.

During the course of our audit, it was noted in two instances a case-manager had not signed off on a TSD [Training and Skills Development] application form, therefore the imaged document had no evidence of spending authority approval.

Recommendation	Comments from Management
We recommend the Department thoroughly review documentation before it is imaged. Any missing information should be investigated and appropriately recorded.	*Agreed. The Department will review its current process and make appropriate changes as required.*

Department of Post-Secondary Education, Training and Labour
Labour Market Agreement (2012) (continued)

4.86	Client Eligibility

During our testing, we found one TSD payment (in our statistical sample of 27 payments) was incorrectly recorded as a LMA expense. The expense should have been coded to the LMDA program. This results in an overstatement of the LMA expenses for the 2011/12 year. We projected the error over the TSD population and the resulting projection was not material to the statement of operations.

Recommendation	Comments from Management
We recommend the Department carefully scrutinize client information so that client payments are recorded in the correct program.	*Agreed. The Department will implement processes to ensure client payments are properly recorded.*

4.87	Audit Adjustments

During our testing, we found two errors requiring the Department to adjust the statement of operations. In one case, revenue was overstated by $321,417. This related to carryover of unused revenue from prior years included on the statement in error. This information was posted in Oracle, but should not have been recorded on the claim.

For the other case, Community Adult Learning expenses were overstated by $167,785. Certain transactions were not included in the allocation calculation because the allocation was determined before Oracle closed.

Recommendation	Comments from Management
We recommend the Department review post-closing Oracle reports when preparing the claim's statement of operations and the claim's allocations to ensure only appropriate transactions are included on the statement and to ensure transactions reported are complete.	*Agreed. Post-closing Oracle reports will be reviewed when preparing the statement of operations.*

Department of Transportation and Infrastructure (DTI)
Agreement for Improvements to the National Highway System (2012)

4.88	Release of Holdback to Contractors
In our testing, we found two cases where holdbacks were released to contractors on regular progress estimates rather than on interim progress estimates as required by the Department. This resulted in: two contractors being paid earlier than necessary and the Department not obtaining all of the required documents from the contractors, such as workers' compensation certificates. From our discussions we were told some District Engineers, who are responsible for issuing progress estimates, were not aware of departmental procedures.	

Recommendation	Comments from Management
We recommend the Department of Transportation and Infrastructure educate District Engineers so the proper process for releasing holdbacks is followed.	*As a result of your findings, the Chief Engineer will immediately issue a directive memo to all Resident Engineers, District Accounting Managers and District Engineers re-iterating the proper process regarding completion of Interim Certificates of Completion (Interim Progress Estimate) to release holdback. As per the existing DTI internal policies and procedures, the Administration & Financial Services Branch will conduct periodic audits to ensure future compliance. This matter will also be added to the agendas for discussion at the upcoming Operations meeting with the District Engineers and Resident Engineer meetings.*

Appendix 1 - Audit Objectives

4.89 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.

4.90 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.

4.91 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.

4.92 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 future audit work.

Responsibilities of Crown Agencies and Government

4.93 The Crown agencies or departments are responsible for the preparation and the content of the financial statements or claims in accordance with the applicable accounting framework. When preparing the financial statements or claims, significant estimates may be made by the auditee, as not all information is available or determinable at the time of finalizing the statements.

Responsibilities of the Office of the Auditor General

4.94 Our Office is responsible for auditing the financial statements or claims listed in paragraphs 4.2 and 4.3. An audit provides reasonable, but not absolute, assurance that the financial statement(s) or claim(s) are free of material misstatement or are in compliance with the relevant agreement. 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.

Chapter 5
Performance Report of the Office of the Auditor General

Contents

Performance Report of the Office of the Auditor General

Accountability Statement

5.1 This chapter of my Report reflects the performance of my Office for the year ended March 31, 2012. It was prepared under my direction. I am accountable for the results achieved, for the selection of performance indicators and for how performance has been reported.

5.2 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. Refer to Appendix 1 for further information on the Office's mission and values.

5.3 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.

5.4 This chapter has been prepared following the guidelines established in the Statement of Recommended Practice 2 (SORP-2) on public performance reporting issued by the Public Sector Accounting Board.

Kim MacPherson

Kim MacPherson, CA
Auditor General

Performance Highlights

5.5 We measure our performance annually according to performance targets linked to our strategic plan and to the requirements of our legislation. The details of our targets with linkages to our strategic plan and to the requirements of our legislation are presented in Appendices 2 and 3. The details of our annual performance results are found in Table 5.1.

Table 5.1 - Office performance

Performance indicator	Current Year Results	Last year results calculated	Prior year results	Details
1. MLA perception, as determined by survey	Overall satisfaction rate of 96%.	2009 2008 2004	88% 87% 87%	We periodically survey Members of the Public Accounts and Crown Corporations Committees. The members who responded to our 2012 survey indicated a high degree of satisfaction with the work we do. We converted the responses to a numerical index which produced an overall satisfaction rate of 96%.
2. Auditee perception, as determined by survey	Overall satisfaction rate of 92%.	2009 2007 2006	81% 80% 84%	We periodically survey our auditees on a rotating basis following significant audits. The auditees who responded to our 2012 survey indicated a high degree of satisfaction with the work we do. We converted the responses to a numerical index which produced an overall satisfaction rate of 92%.
3. Percentage of recommendations accepted and 4. Percentage of recommendations implemented	65% of 2008, 2009 and 2010 recommendations implemented	2011	60% of 2007, 2008 and 2009 recommendations implemented	The follow up work we performed in Chapter 6 of Volume 2 of our 2012 Report provides an overview of the recommendations included in our 2008 through 2010 Reports. It summarizes the status of our recommendations and focuses in particular on those recommendations made in 2008 that have not been fully implemented. Our work in 2012 showed 65% of our recommendations from 2008, 2009 and 2010 had been fully implemented. However for 2008, the only year subject to full review by our Office, we noted that only 57% of our recommendations had been fully implemented. Overall, we are encouraged by the improvement in the three year implementation percentage. We also believe the government's recent focus on the status of our recommendations should further encourage departments and agencies to adopt our recommendations on a timely basis.

Table 5.1 - Office performance (continued)

Performance indicator	Current Year Results	Last year results calculated	Prior year results	Details
5. Employee perception, as determined by survey	Overall satisfaction rate of 65%.	2010 2007 2004	69% 70% 66%	In 2012 we conducted an employee satisfaction survey to gain feedback on the quality of work life, communication and career development. We converted the responses into a numerical index which produced an overall satisfaction rate of 65%. Satisfaction with compensation is the weakest survey area. It may be difficult to see improvements in the short term on this item given public sector wage and spending restraints, however we are committed to making improvements where possible to increase staff satisfaction.
6. Completion of audits on time	Overall 78% success rate.	2011	69%	Overall our Office met audit time targets in 78% of circumstances. Our largest audit, the audit of the financial statements of the Province, was completed on time. While we are satisfied with the result, some factors that caused us difficulty in 2012 included the adoption of new standards, lack of staff resources when auditees were ready for audit, and some delays from Crown entities in receiving their financial statements.

Table 5.1 - Office performance (continued)

Performance indicator	Current Year Results	Last year results calculated	Prior year results	Details
7. Use of our time, focusing on the percentage of time spent on audit work	Allocation of working hours is broken down as follows: • Financial and value for money audits - 66% • Professional development and training - 8% • Audit office admin & support activities - 26%	2011 2010 2009	63%, 7%, 30% 64%, 9%, 27% 65%, 8%, 27%	Overall, we are satisfied with this result.
8. Staff cost of our audits	$1,140,000 represents the approximate annual staff cost of significant audit projects as follows: * Value for Money Projects $290,000 * Financial Audits: • Province of New Brunswick $370,000 • Crown agencies $355,000 • Cost Shared Claims $45,000 * Annual Report Preparation $80,000	2011	$778,000 $240,000 $272,000 $165,000 $25,000 $76,000	Approximate annual costs to perform significant audit projects have increased as expected given the increase in volume of work this year and staff resources. It should be noted that in addition to staff costs there are at times additional external costs incurred to complete audit projects, such as use of specialist and accounting firm resources.

Key Accomplishments

5.6 As shown in the data from Table 5.1, it was an overall successful year for our Office. In addition to the data reported in Table 5.1 our other key accomplishments included the following items.

Increase in funds recovered as a result of an audit

5.7 Although the objective of our work is much broader than identification of monetary recoveries for our clients, at times in the course of carrying out audits we identify such opportunities. In an audit of a federal claim we identified an error which increased the recovery funds available to the Province by approximately $5 million. In addition we identified a number of other indirect potential recoveries/savings and funding sources throughout our work. We have reported on these items in other chapters of our Annual Report. The total of these other potential amounts may depend, in part, on the future action of government which is difficult to estimate.

Timely delivery

5.8 On-time delivery for significant reports and deadlines was a driving force in our work this year. For the first time in many years, we are publishing our Annual Report in December, in advance of our legislated deadline. We also provided key audit opinions by the dates requested, such as the audit opinion on the Province's financial statements which was delivered on August 9, 2012.

Expansion of our work

5.9 We have increased the scope of the work our Office performs compared to prior years. This was most notably evidenced in the expansion of our value for money follow up work, in expanded financial statement audit work on entities consolidated in the Province's financial statements, as well as examining government information systems. We continue to perform a greater number of audits on federal claims and cost shared agreements as well as performing financial statement audits on newly created Crown agencies, such as Invest New Brunswick.

Audit of the Office's Financial Statements

5.10 For the first time our Office financial statements were audited by an auditor external to government. This is a milestone for our Office and a significant step forward in increasing our transparency and independence. Previously annual internal audits had been performed by the Office of the Comptroller. We are pleased to present our first set of audited financial statements in Appendix 5.

Revised Annual Report chapter format

5.11 For certain chapters in our Annual Report we have revised the format in an effort to highlight key findings and significant comments. The use of charts and appendices has also increased. We believe the new format will make using our report easier and allow readers to more quickly grasp the key points in each chapter. Feedback on our new report format is welcome.

Stakeholder surveys

5.12 We routinely survey our key stakeholders including legislators, auditees and office staff for feedback. We believe it is important to seek feedback, and consider ways to continuously improve our processes and delivery of our work. The summarized results of the surveys are presented in Table 5.1.

5.13 Overall, while there is room for improvement, we are satisfied with the results and look forward to the challenge of further refining our processes to achieve even greater results in the future.

Human resource management

5.14 Managing a year of many changes in human resources was challenging given our expanded work efforts and loss of important corporate knowledge due to a number of retirements. In the past two years our staff complement has changed by 54%. This is a reflection of demographics and an indication our professional staff are very marketable within government. However, we recognize staff are our most important resource and strive to keep our professionals challenged and motivated. We believe the achievement of increased output under these circumstances is a significant accomplishment and wish to thank our Office staff for their hard work and dedicated efforts to achieve this result. A list of our Office staff is found in Appendix 4.

5.15 In addition we are very pleased to report two of our office students, Emilie Chiasson and Chris Mitchell, successfully completed the Uniform Final Examination for Chartered Accountants. We are very proud of their accomplishments. As well, we note we are continuing in the coming year to support other students in the Office as they work toward their professional designations. Given recent challenges in recruiting experienced audit personnel, growing our own resources is an important strategy to plan for the future.

5.16 As well, we found it challenging in a time of fiscal restraint to support Office professional development activities required to allow staff to maintain their professional designations. The fact that we did achieve this objective is a significant accomplishment for our Office. Through some innovative means, we provided relevant and high quality training for staff. However, on a sober note, we often did not achieve more than the minimum hours required to maintain the designation.

Enhanced involvement in our professional community

5.17 We have followed trends in other legislative auditor offices to increase participation in networks available to us through the Canadian Council of Legislative Auditors (the Council). The Council is comprised of the provincial Auditors General or Provincial Auditors of the Canadian provinces and the federal Auditor General. The Council also has several committees dealing with a variety of topics common to legislative auditor offices in which we encourage our staff to participate. We believe participation, learning and information sharing amongst this group of auditors on a national scale provides exceptional value and is highly relevant to our work. In addition to our involvement in the legislative auditor community, the current New Brunswick Auditor General is a council member of the New Brunswick Institute of Chartered Accountants and also chairs a committee of the Public Sector Accounting Board of Canada.

Immediate Challenges

5.18 Our Office budget constraints remain a growing concern. Although we are grateful for the recent budget increases received, until the fiscal 2012-2013 budget it was not enough to assist in reversing the prior year’s losses as shown in Table 5.2.

Table 5.2 Budget and actual expenditures ($ 000s)

	2013	2012		2011		2010		2009		2008		2007	
	Budget	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Personnel services	1,692.0	1,569.8	1,573.0	1,564.7	1,498.7	1,637.0	1,565.2	1,647.8	1,639.1	1,679.2	1,510.9	1,637.2	1,480.0
Other services	387.6	227.5	272.1	200.1	263.6	180.3	412.5	239.5	984.3	147.7	619.0	132.8	140.8
Materials and supplies	8.9	7.0	6.1	7.0	5.8	8.8	6.0	6.8	7.7	7.9	5.8	8.8	5.1
Property and equipment	15.5	15.2	33.0	15.2	5.1	15.9	20.6	25.9	22.2	33.2	20.5	33.2	26.7
Total	**2,104.0[3]**	**1,819.6[1]**	**1,884.2[2]**	**1,787.0**	**1,773.2**	**1,842.0**	**2,004.3**	**1,920.0**	**2,653.3[4]**	**1,868.0**	**2,156.2[4]**	**1,812.0**	**1,652.6**

[1] *Original budget was $1,845,000 however, the Office received an in year spending restraint request from government of $25,424.*

[2] *In 2012, unbudgeted recoveries of the Office were presently separated from expenses. Recoveries totalled $222,710.*

[3] *Net of $200,000 of estimated cost recoveries*

[4] *Funding was supplemented by central government due to the Caisse populaire de Shippagan report*

Budget declines over time and rebuilding the Office

5.19 The impact of the funding decrease to the office over time has been to reduce staff and therefore to reduce discretionary audit projects (mostly value for money work). In addition, in our efforts to rebuild our team, we are finding it increasingly difficult to hire experienced, qualified staff given the condition of the labour market. As well, when we do hire new employees, there is a significant amount of training required by existing staff to address the information and orientation needs. These hidden costs reinforce the importance of maintaining consistent funding and staffing of the Office.

5.20 Further, our funding level lags behind other legislative auditor offices in our region. Table 5.3 provides further details on the disparity across the Atlantic region in legislative auditor offices funding.

Table 5.3 Budget and Staff Comparison for the Atlantic Provinces

Province	2013	2012		2011		2010	
	Budget	Number of Staff	Budget	Number of Staff	Budget	Number of Staff	Budget
New Brunswick	$2,104,000	22	$1,819,600[1]	20	$1,787,000	20	$1,842,000
Nova Scotia	$3,634,000	33.9	$3,550,000	34.6	$3,421,000	34	$3,334,000
Prince Edward Island	$1,770,100	18	$1,707,100	18	$1,682,100	18	$1,682,100
Newfoundland and Labrador	$3,722,000	39	$3,825,400	38	$3,735,700	40	$3,654,300

[1] *Original budget was $1,845,000 however, the Office received an in year spending restraint request from government of $25,424.*

Professional Standards Changes

5.21 The impact of ongoing changes to accounting and auditing standards remains at an intense pace. Our ability to address these new demands depends on an adequate budget for training and acquiring skilled staff resources. In particular we find our work has increased regarding auditing the application of new accounting frameworks and auditing of various Crown agencies consolidated in the Province of New Brunswick financial statements. As well, standards are in the process of changing for our value for money projects.

5.22 In general, we expect continued impacts from changes in professional standards both from the perspective of our increased staff time requirements and the requirements of our office budget to ensure adequate training. This again highlights the need for a long term funding approach for the Office, with a commitment to a base level of sustained funding.

5.23 Through discussions, we understand the government is committed to providing adequate funding over time to allow the Office to rebuild and remain a reasonable size relative to our Atlantic counterparts. The budget increase of $190,000 (excluding wage adjustment) for fiscal 2012-13 was appreciated to start our rebuilding initiative. We look forward to continued discussions and support for this initiative in the year ahead.

Looking to the Year Ahead

Update the Auditor General Act

5.24 We are faced with the daunting task of updating the *Auditor General Act* which is over thirty years old and greatly in need of modernization. The Act was drafted in 1981 long before some of the situations we are now faced with were envisioned. Our proposed changes, if approved, will allow the Office to fulfill its mandate within the current day environment.

Highlights of Proposed Act Changes

5.25 Many aspects of the proposed changes coincide and address recommendations made by Bernard Richard in his December 2011 report *Fine-tuning Parliamentary Machinery: a Review of the Mandates and Operations of New Brunswick's Legislative Officers.*

5.26 The majority of the proposed changes also mirror the Nova Scotia *Auditor General Act* which received Royal Assent on December 10, 2010. The Act was rewritten at the Nova Scotia Auditor General's request after researching both Canadian and Australian jurisdictions, selecting best practices and preparing an initial draft for government's consideration. Although there are differences from province to province, many of the proposed changes will bring the New Brunswick *Auditor General Act* in line with existing Auditor General legislation and operating practises in other Canadian jurisdictions.

Strengthen the Independence of the Auditor General

5.27 Many aspects of the Office of the Auditor General independence are proposed to be updated including a more comprehensive appointment process of the Auditor General. It is proposed future Auditor General appointments require the adoption of a legislative resolution by vote in the Legislative Assembly.

5.28 Also, it is proposed that a committee of the legislature approve the annual Office of the Auditor General budget. Current legislation states the Board of Management determines the Office of the Auditor General's budget. This change would eliminate an apparent conflict inherent in the Auditor General negotiating budgetary funding with the organization the Office of the Auditor General audits.

Clearly define who is subject to audit

5.29 In addition, our proposed amendment more broadly defines who is subject to audit and adds new definitions to fully describe the entities including government auditable entities, public contractors and funding recipients.

5.30 It is believed that the 1981 *Auditor General Act* was intended to give the Auditor General authority to audit all aspects of government or the "public purse." Over the last 30 years the delivery of many components of government services has been outsourced to non-government organizations. In addition, many current day government programs include forms of financial assistance such as grants, subsidies, loans and guarantees.

5.31 The fundamental concept is to give authority to the Office of the Auditor General to follow taxpayers' dollars though to the end point in order to determine if the funding achieved intended outcomes.

Clarify Auditor General's access to information

5.32 Another key aspect to the legislation update involves our access to auditee information. The 1981 Act states the Auditor General is entitled to free access to information that relates to the fulfillment of the Auditor General's responsibilities as he/she considers necessary. We believe the original intent was to provide the Auditor General unrestricted access in order to fulfill the mandate. The wording clarification we intend to propose is that the Auditor General will have unrestricted access to all auditee information, including privileged documents. This will avoid unnecessary delays and also clarify the Auditor General's authority when dealing with departments and crown agencies.

5.33 The proposed amendment will align the *Auditor General Act* with legislation in those jurisdictions in Canada in which the statutory mandate of the Auditor General has recently been revised (including Ontario, Nova Scotia and federally).

5.34 These are but a few of the Act changes we will be seeking in the year ahead.

Legislative Officer Review

5.35 Bernard Richard's report, *Fine-tuning Parliamentary Machinery: A review of the Mandates and Operations of New Brunswick's Legislative Officers,* was released earlier this year. We intend to work cooperatively with the Legislative Assembly committees and staff to implement the recommendations pertaining to our Office.

Peer Review

5.36 Our Office will continue to seek regular peer reviews. While we have not had one completed within the last year, we will be arranging to have at least one completed within the next year. The peer review process is a valuable process to receive feedback and critique on our file approach as well as to seek new opportunities for efficiency or audit quality enhancement.

Provincial systems upgrades

5.37 We expect a number of provincial information systems may be upgraded or significantly changed in the coming year. Depending on the extent of change, significant work may be required to audit the impact of these changes and become familiar with the functioning of new systems in order to design appropriate audit testing. Working cooperatively with departments to perform our audit testing as early as possible will assist in alleviating time and staff resource pressures.

Appendix 1: Mission and Values

5.38 Our mission is:

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

5.39 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.***

5.40 Our mandate is set out in the *Auditor General Act*. The Act provides the Auditor General with the independence needed to carry out her 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 her 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.

5.41 Appendix 2 sets out the specific auditing and reporting requirements of our legislation, and indicates how we address each one.

Appendix 2: 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 audit and VFM project 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 the Office, the Auditor General received all the information and explanations 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 wilfully 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).

Appendix 3: Measurement Framework

Goal	Performance indicator	Performance indicator #
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.	• MLA perception, as determined by survey. • Audits are delivered on time. • Auditee perception, as determined by survey.	1 6 2
Departments and agencies accept and implement our recommendations.	• % of recommendations accepted. • % of recommendations implemented.	3 4
In carrying out our work we will use sound management practices.	• MLA perception, as determine by survey. • Employee perception, as determined by survey. • Auditee perception, as determined by survey. • % of staff time spent on audit work. • Office cost of audits.	1 5 2 7 8
We will provide an attractive work environment that allows opportunities for professional growth.	• Employee perception, as determined by survey.	5

Performance indicators are numbered according to data presented in Table 5.1.

Appendix 4: List of Staff Members at 31 March 2012

Émilie Chiasson [2]	Leanne Jeffries [2]	Steve Martin [2]
Cathy Connors Kennedy, CA	Loriann Keough, CA	Chris Mitchell [2]
Kim Embleton, CGA	Teena Laagland [1]	Caroline Paquin, CGA
Kate Gagnon [2]	Janice Leahy, CA	Rebecca Stanley, CGA
Nick Hoben, CA	Kim MacPherson, CA	Yanjun Wang, CA
Eric Hopper, CA	Adele McGee, CA	Heather Webb [1]
Peggy Isnor, CA	Susan McIsaac, CA	Tania Wood-Sussey, CA
Bill Ivey, CGA		

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

Appendix 5: Financial Statements

Office of the Auditor General of New Brunswick

Financial Statements

March 31, 2012

328 King Street
PO Box 1051
Fredericton, NB
E3B 5C2

Nicholson & Beaumont
Chartered Accountants

Phone (506) 458-9815
(506) 458-1599
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INDEPENDENT AUDITOR'S REPORT

To the Speaker of the Legislative Assembly

Report on the financial statements

We have audited the accompanying financial statements of the Office of the Auditor General of New Brunswick, which comprise the statement of financial position as at March 31, 2012 and the statement of operations for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General of New Brunswick as at March 31, 2012, the results of its operations for the year then ended in accordance with Canadian public sector accounting standards.

Fredericton, NB
October 9, 2012

Nicholson & Beaumont
Chartered Accountants

Office of the Auditor General of New Brunswick
Statement of Financial Position
March 31, 2012

		2012
Financial Assets		
Petty cash	$	50
Due from Government of New Brunswick		112,394
Accrued recoveries receivable		53,024
		165,468
Liabilities		
Working capital advance (Note 4)		65,123
Payables and accrued liabilities		60,919
Accrued salary and benefits		48,888
		174,930
Net Debt		9,462
Non-financial Assets		
Prepaid expenses		9,462
Accumulated Surplus	$	-

See accompanying notes to the financial statements

APPROVED ON BEHALF OF THE OFFICE:

Kim MacPherson

Auditor General

Office of the Auditor General of New Brunswick
Statement of Operations
Year ended March 31, 2012

		2012 Budget		2012 Actual
Expenses				
Personnel services	$	1,569,836	$	1,573,044
Other services		227,540		272,081
Materials and supplies		7,000		6,053
Property and equipment		15,200		33,025
	$	1,819,576		1,884,203
Recoveries				(222,710)
Government contributions (Note 3)				(1,661,493)
Surplus/deficit			$	-

See accompanying notes to the financial statements

Office of the Auditor General of New Brunswick
Notes to the Financial Statements
March 31, 2012

1. Nature of Operations

The Office of the Auditor General is an office of the New Brunswick Legislative Assembly. The Office is not subject to income taxes because it is a public sector entity. The mandate and authorities of the Office are provided by the *Auditor General Act.*

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian public sector accounting standards.

(a) *Use of Estimates* – The presentation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those reported.

(b) *Recoveries* – The Office recognizes recoveries of professional costs when they are earned; specifically when all of the following conditions are met:

- Services are provided;
- There is clear evidence that an arrangement exists;
- Amounts are fixed or can be determined; and
- The ability to collect is reasonably assured.

(c) *Harmonized Sales Tax* – The Office does not record Harmonized Sales Tax (HST) in its financial statements because the Federal portion of all HST paid is reimbursed to the Province of New Brunswick, and the provincial portion of HST is not levied by the Province on its own entities.

(d) *Tangible capital assets* – The Office has adopted the policy of expensing assets acquired with an individual value of $10,000 or less. Accordingly, there are no tangible capital assets to record or amortize.

(e) *Statement of Cash Flows and Statement of Changes in Net Debt* – A statement of cash flows and a statement of changes in net debt are not provided in these financial statements as disclosures in the statements of financial position and operations are considered adequate.

(a) *Cash* – Cash consists of the office petty cash float.

3. Government Contributions

The Office is funded through annual budgetary appropriations approved by the Legislative Assembly. The appropriation represents the government contributions which are applied to expenses of the Office. In addition, there are reimbursements from government for certain payroll-related costs. Any unused appropriation cannot be carried forward for use in subsequent years. The budget figures presented in the Statement of Operations have not been audited.

Budget 2011-12 as approved	$1,845,000
In year spending restraint as requested by government	(25,424)
Revised 2011-12 budget	1,819,576
Unused appropriation	(158,083)
Net government contributions 2011-12	$1,661,493

Office of the Auditor General of New Brunswick
Notes to the Financial Statements
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4. Working capital advance

The Office, similar to many Crown entities maintains no separate bank account and uses instead the Province's bank account to receive funds and pay invoices. The working capital figure represents the net balance of the Office's assets less liabilities. As described in note 3 the year end surplus or deficit lapses and is not carried forward to subsequent years.

5. Related Party Transactions

The Office of the Auditor General is related to the Government of New Brunswick and its departments and agencies. The Office's sources of funding are through payment of its expenses by the government and the recovery of certain audit work performed. The Office recovered professional costs and made certain purchases through other government departments and agencies in the normal course of its business.

Translation, printing, and certain information technology services are provided by the government to the Office in the normal course of operations and are accounted for within these financial statements at arm's length amounts. However, government provides office space, funds the OAG external auditor fee and absorbs the Office's employer cost of various retirement benefit plans, the effect of which has not been calculated or recorded in these financial statements.

6. Employee Future Benefit Plans

Pension Plan **-** All permanent employees of the Office of the Auditor General are entitled to receive pension benefits under the New Brunswick Public Service Superannuation Plan, a multi-employer defined benefit pension plan. Defined contribution plan accounting has been applied as the Office has insufficient information to apply defined benefit plan accounting for the Office's employees. The plan is funded by employee and government contributions. The Office is not responsible for any unfunded liability with respect to the superannuation fund. The Office's costs and liability related to this plan are not included as part of the Office budget and are recorded by government in its financial statements.

Retirement Allowance Plan **–** Certain long serving employees receive a retirement allowance upon retirement from public service. The plan is funded by the government. The Office's costs and liability related to this plan are not included as part of the Office budget and are recorded by government in its financial statements.

7. Comparative Figures

2011-12 is the first fiscal year for which a complete set of financial statements have been prepared for the Office. Accordingly, there are no comparative figures for the year ended March 31, 2011.