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Chapter 6 – 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 March 31, 2013.

Release of financial information

1.2 Financial information is most useful if it is timely. The government released the Province's March 31, 2013 audited consolidated financial statements on October 16, 2013. The Province's financial statement audit opinion was signed on October 4, 2013. This timing was later than in recent years.

1.3 The delay was largely due to complex accounting matters pertaining to shared risk pension plans. Given the unique nature of these plans in New Brunswick as well as Canada, we had numerous and lengthy exchanges with government on this issue. In the end our audit questions were resolved and I was able to express an unqualified opinion on the Province's financial statements.

Auditor General prefers earlier release of audited financial statements every year

1.4 In anticipation of government's intent to release the Province's audited financial statements 60 days prior to the September 2014 provincial election, I would like to assure the Legislative Assembly every effort will be made by my Office to deliver on the proposed timelines. However, this will require a collective effort of many participants throughout government departments, Crown corporations and agencies.

1.5 I am hopeful earlier financial statement release dates will become routine each and every year, not just when there is a provincial election.

Auditor General's Comments on the Province's Fiscal Status

1.6 The Province's fiscal situation remains a concern. The Province's March 31, 2013 audited consolidated financial statements show a fifth consecutive deficit. In fiscal 2013 the Province's deficit exceeded half a billion dollars and nearly $1 billion was added to Net Debt. Net Debt is now over $11 billion.

1.7 As I have stated in prior years this is not sustainable.

1.8 However, I would like to highlight recent government efforts to control spending. Our analysis shows New Brunswick's expenses increased from 2011 to 2013 by only 1.6%. This compares favorably to expense increases in Nova Scotia, Manitoba and Saskatchewan of 7.1% or higher.

1.9 Although recent government efforts to control spending are noteworthy, it is not enough. The Province still has a structural deficit. A structural deficit is a sustained situation where expenses exceed revenues. It is also concerning that this fiscal imbalance persists in a time when our infrastructure such as buildings, roads and bridges are not being maintained and renewed at optimal levels. In general, to correct a structural deficit, expenses or services/programs need to be reduced, revenues need to be increased, or some combination of the two need to occur. The solution chosen is dependent on government policy and decision making.

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

1.10 Continued fiscal diligence is required in government policy and decision making to improve the financial health of the Province.

Need to return to balanced budgets and control growth in Net Debt

1.11 Our Province must return to balanced budgets in the foreseeable future. As well, our Province must control Net Debt growth. Both measures, the annual deficit and change in Net Debt, are important in assessing the financial health of the Province.

1.12 Chapter 2 of this volume provides further detail, analysis and commentary of the Province’s fiscal status as at March 31, 2013. The chapter includes historical trends, financial indicators and an analysis of New Brunswick’s Net Debt to that of comparable provinces.

Accounting for Pension Plans and NB Power

Pension Plans

1.13 This year we have highlighted in Chapter 3 two significant and complex accounting areas involved in auditing the Province's financial statements: Pensions and NB Power. Each of these elements has a large impact on the Province's financial situation and results.

1.14 Chapter 3 explains the accounting for pension plans, some history of the significant impact on the Province's finances relating to pension plans, as well as our assessment of the accounting for the Province's two pension plans which converted to shared risk pension plans during fiscal 2013.

1.15 Given the Province's announced intention to convert more pension plans to shared risk plans, we believe the question of appropriate accounting treatment will be an even more important issue in future audits.

NB Power

1.16 During fiscal 2013, the newly refurbished Point Lepreau Generating Station returned to operation after an outage of over four years. Lepreau refurbishment costs of $2.4 billion have begun to be recognized in NB Power's expenses and are expected to continue for the next 27 years.

1.17 One significant area we evaluate is NB Power's model of forecasted operating results. In Chapter 3 we explain our assessment of the model and evaluate the sensitivity of major assumptions supporting the model. The forecast model is important given the accounting decisions impacted by the need for NB Power to operate as a viable business, maintain its operations and meet its liabilities primarily from ratepayers.

Other Chapters in this Volume

1.18 Chapter 4 reports on matters arising from our audit of the financial statements of the Province.

1.19 Chapter 5 reports on matters arising from our audits of Crown agencies and Federal Claims.

Office Performance Report

1.20 Chapter 6 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.

Acknowledgements

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

1.22 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

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Comments on the Province's Financial Position

Fifth Consecutive Deficit

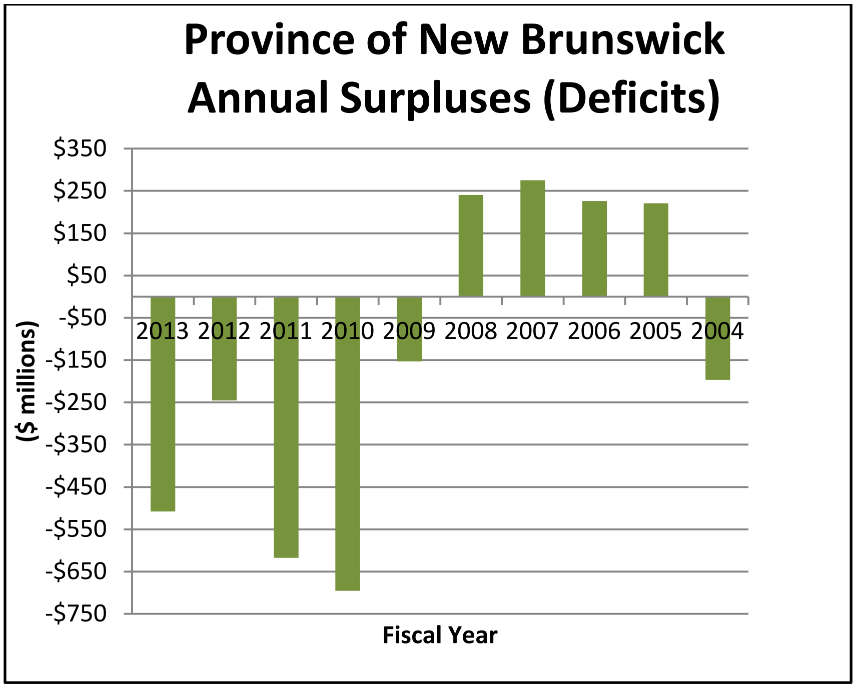
2.1 The Province's 31 March 2013 audited consolidated financial statements reported a deficit of $507.7 million and an increase in Net Debt for the fiscal year of $931.8 million. The Province now has a Net Debt of over $11 billion.

2.2 The $507.7 million annual deficit was higher than the budgeted deficit of $182.9 million and was more than double that of the prior year deficit of $245.3 million.

Significant Changes Required

2.3 This represents the fifth consecutive annual deficit. To assist in financing these deficits, the Province has incurred additional debt. This trend is very concerning. Significant changes are required to improve the financial health of the Province.

Exhibit 2.1 - Annual Surpluses (Deficits)



As restated

Exhibit 2.2 - Annual Surpluses (Deficits) Data

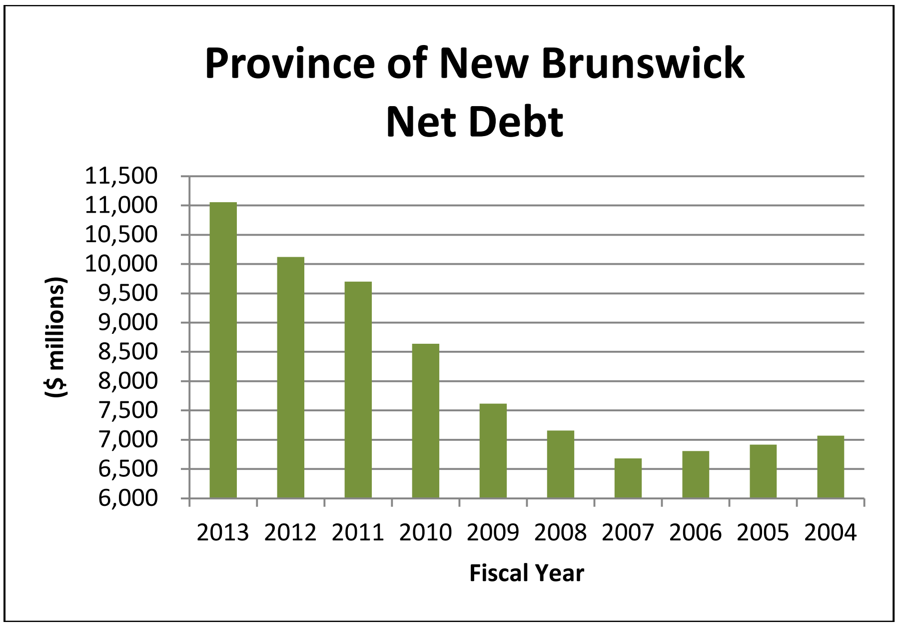
Annual Surpluses (Deficits) ($ millions)										
	2013	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
As restated		(245.3)	(617.7)	(695.8)	(152.7)	240.3	275.2	226.3	220.5	(196.7)
As originally recorded	(507.7)	(260.6)	(633.0)	(737.9)	(192.3)	86.7	236.8	243.6	242.2	(103.2)

2.4 Exhibits 2.1 and 2.2 show the surplus or deficit for the past ten years. The preceding years' amounts have been restated as per Note 18 of the Province's 31 March 2013 consolidated 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. Exhibits 2.3 and 2.4 show Net Debt for the past ten years.

Exhibit 2.3 - Net Debt



As restated

Exhibit 2.4 - Net Debt Data

Net Debt ($ millions)										
	2013	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
As restated		10,122.2	9,697.5	8,636.7	7,615.9	7,158.8	6,767.7	6,904.9	6,948.2	7,067.2
As originally recorded	11,054.0	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 2013, Net Debt increased by $931.8 million to $11.1 billion.
- Net Debt has increased $4.3 billion since 2007.
- The 2013-2014 Main Estimates budgets for an increase in Net Debt of $594.4 million for the year ended 31 March 2014.
- Based on 2013-2014 Main Estimates, Net Debt of the Province could be in excess of $11.6 billion for the year ended 31 March 2014.

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 rating change will ultimately result in more expensive borrowing costs. As well, New Brunswick's increased borrowing may constrain future borrowing capacity and affect future provincial operations and delivery of services. The A+ rating remained unchanged in 2013.

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 six exhibits 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.

Exhibit 2.5 - Net Debt Comparison to Provinces of Similar Size

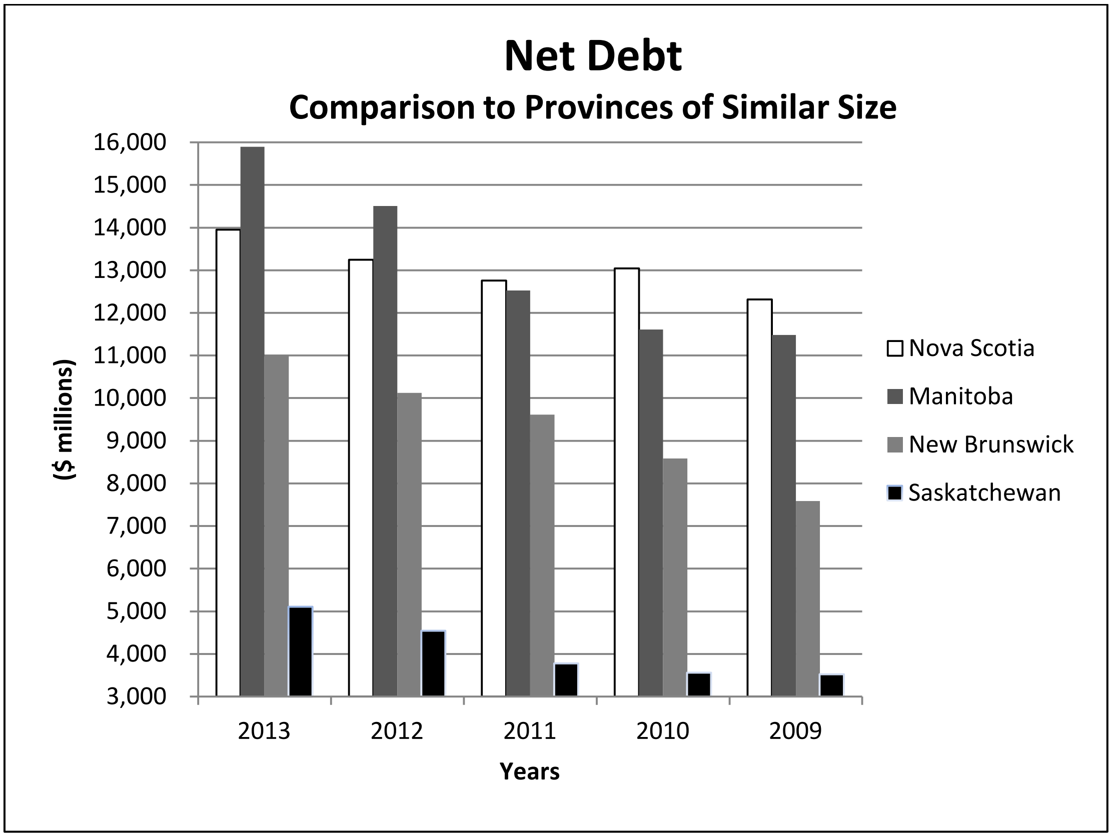


Exhibit 2.6 - Net Debt Comparison to Provinces of Similar Size (data)

Net Debt ($ millions)							
Province	**Increase 2009 to 2013**	**Increase 2012 to 2013**	**2013**	**2012**	**2011**	**2010**	**2009**
New Brunswick	45%	9%	11,054	10,122	9,698	8,637	7,616
Saskatchewan	45%	12%	5,109	4,543	3,783	3,560	3,524
Manitoba	39%	9%	15,893	14,550	12,562	11,643	11,413
Nova Scotia	13%	4%	13,953	13,383	12,887	13,045	12,318

2.10 Exhibit 2.6 shows that over the last five years within this comparable group, New Brunswick has had one of the highest increases in Net Debt. New Brunswick's Net Debt has increased by 45% over the last five years. The magnitude of this increase is concerning. The rate of Net Debt growth has also increased in the past year. New Brunswick Net Debt grew 9% in fiscal 2013. The overall debt burden for the Province remains at an elevated level. The 2013-2014 Main Estimates budgets an increase in Net Debt of approximately $594 million. We are concerned at the long term implications and borrowing cost of the current debt load.

Exhibit 2.7 - Net Debt Per Capita

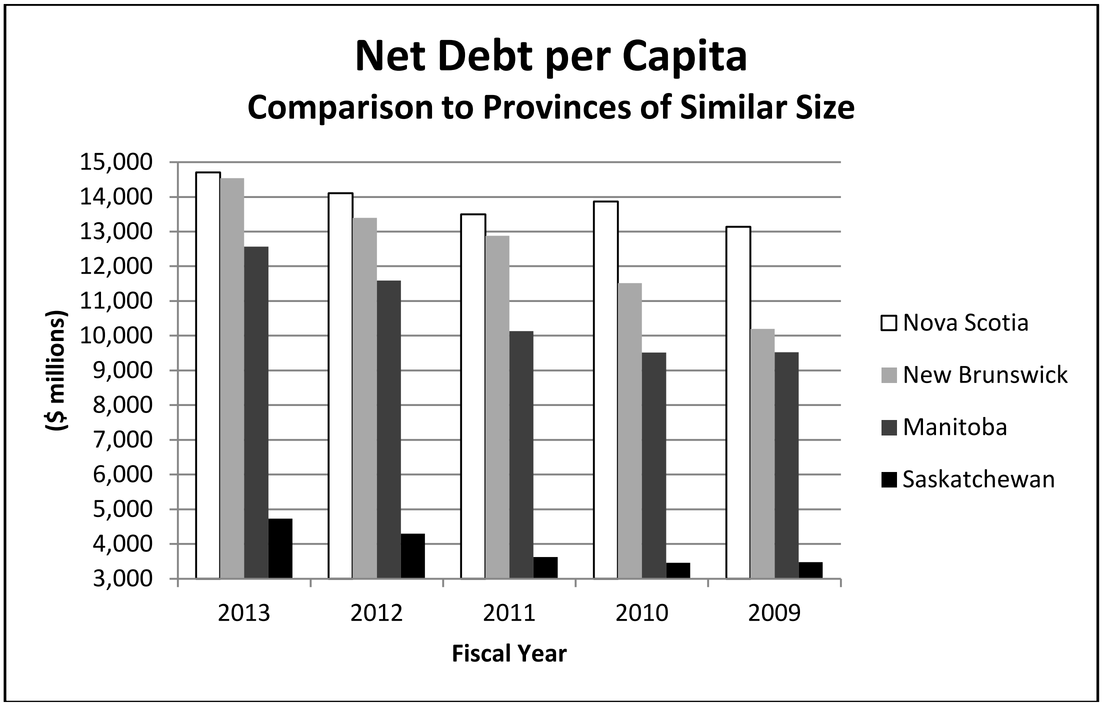


Exhibit 2.8 - Net Debt Per Capita (data)

Net Debt Per Capita* ($)					
Province	**2013**	**2012**	**2011**	**2010**	**2009**
Nova Scotia	14,708	14,110	13,634	13,869	13,139
New Brunswick	14,623	13,400	12,880	11,516	10,197
Manitoba	12,544	11,624	10,166	9,544	9,466
Saskatchewan	4,731	4,295	3,622	3,458	3,476

* *Using populations from Statistics Canada as of July 1 within the fiscal year (i.e. 2013 uses July 1, 2012 population), Numbers have been rounded for presentation purposes.*

2.11 Information in Exhibit 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 $14,623. Again, this is an indicator that has increased significantly from 2009 at $10,197 to 2013 at $14,623.

2.12 For the year ended 31 March 2009, New Brunswick's Net Debt per capita was 77.6% of Nova Scotia's Net Debt per capita. By 31 March 2013 the percentage reached 99.4%.

Exhibit 2.9 - Net Debt as a Percentage of GDP

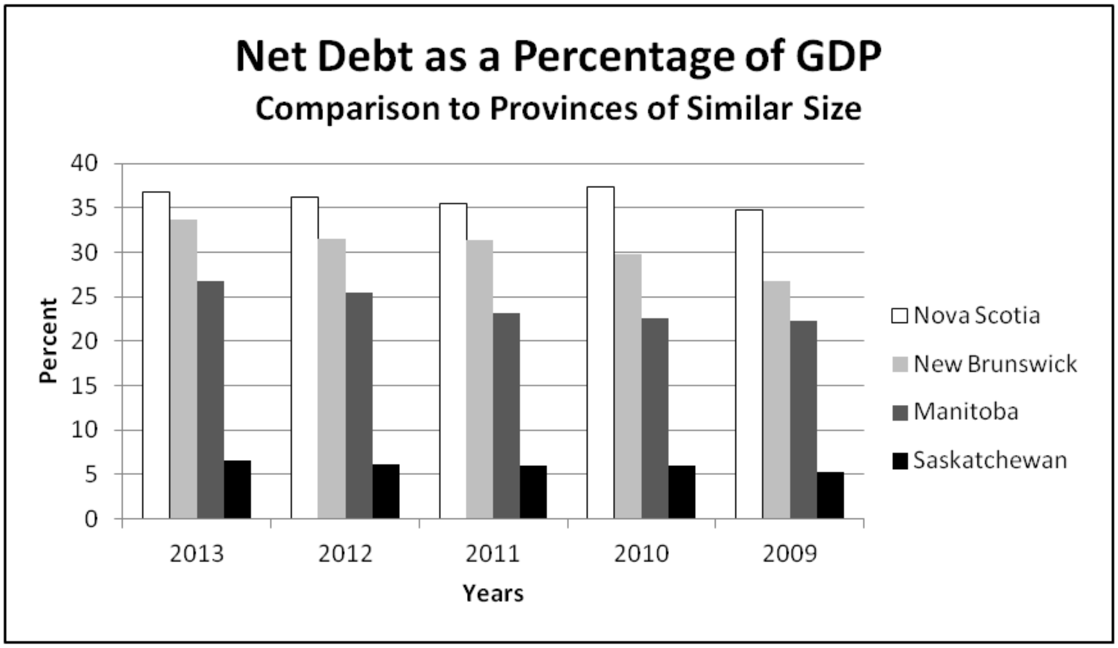


Exhibit 2.10 - Net Debt as a Percentage of GDP (data)

Net Debt as a Percentage of GDP (percent)						
Province	**2013**	**2012**	**2011**	**2010**	**2009**	**% Increase from 2009 to 2013**
Nova Scotia	36.7	36.2	35.5	37.4	34.8	5.5%
New Brunswick	33.9	31.5	31.3	29.8	26.7	26.9%
Manitoba	26.8	25.6	23.1	22.6	22.1	21.3%
Saskatchewan	6.6	6.1	5.9	6.0	5.3	24.5%

2.13 As shown in Exhibit 2.10, New Brunswick had the highest increase of Net Debt as a percentage of GDP from 2009 to 2013, and the second highest Net Debt as a percentage of GDP among comparable provinces for 2013. For the year ended 31 March 2009, New Brunswick's Net Debt as a percentage of GDP was 76.7% of Nova Scotia's; for the year ended 31 March

2013 it was 92.4%.

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 $4.3 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 2013 the Province expanded the historical timeframe of information provided from nine years to ten years.

2.17 In this section, we report on twelve indicators of financial condition identified by the Public Sector Accounting Board (PSAB) 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 consolidated 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 18 of the Province's consolidated 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- 2013 numbers, we audited the numbers in conjunction with our 2012-2013 audit work.

2.19 In some of the Exhibits that follow, we show five years of comparative figures instead of ten. 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 Exhibit 2.11, 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 ten year) trend, as well as a reference within this chapter of where we discuss the indicator in more detail.

Exhibit 2.11 - Summary of Indicators of Financial Condition

	Indicator	Purpose	Short-term Trend	Term	Long-term Trend	Page
Sustainability	Assets-to-liabilities	Measures extent that government finances its operations by issuing debt	Unfavourable[1]	5 year	Unfavourable	19
Sustainability	Financial asset-to-liabilities	Measures whether future revenues will be needed to pay for past transactions	Unfavourable[1]	5 year	Unfavourable	20
Sustainability	Net Debt-to-total annual revenue	Shows whether more time is needed to pay for past transactions	Unfavourable	10 year	Unfavourable	21
Sustainability	Expense by function-to-total expenses	Shows the trend of government spending over time	Neutral	5 year	Neutral	22
Sustainability	Net Debt-to-GDP	Shows the relationship between Net Debt and the activity in the economy	Unfavourable	10 year	Unfavourable	23
Sustainability	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	24
Sustainability	Total expenses-to-GDP	Shows the trend of government spending over time in relation to the growth in the economy	**Favourable**	10 year	Unfavourable	25
Flexibility	Public debt charges-to-revenues	Measures extent that past borrowing decisions limits ability to meet current financial and service commitments	Neutral	10 year	**Favourable**	27
Flexibility	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	28
Flexibility	Own-source revenues-to-GDP	Measures extent income is taken out of the economy	Neutral	10 year	Neutral	29
Vulnerability	Government transfers-to-total revenues	Measures the dependence on another level of government	Unfavourable[2]	10 year	Mixed	31
Vulnerability	Foreign currency debt-to-Net Debt	Measures the government's potential vulnerability to currency fluctuations	**Favourable**	10 year	**Favourable**	32

[1] last year was "Neutral"
[2] last year was "Favourable"

Conclusion

2.21 The long-term trends continue to show a number of unfavorable financial indicators. The long-term financial condition of the Province has remained relatively unchanged since the prior year. In addition, there have been signs of short term declines in certain areas. In particular, we note our assessment of three short-term indicators has weakened over the prior year. We are concerned with these signs of weakening short term indicators.

2.22 Although there are a few favourable financial indicators, we remain concerned about the level of Net Debt, now over $11 billion and the fact Net Debt has increased by 63.3% since 2007. This pace of Net Debt growth is not sustainable in the long term, and significant changes are 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. We again this year encourage the Province to set targets for long term net debt control and reduction.

Sustainability Indicators

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

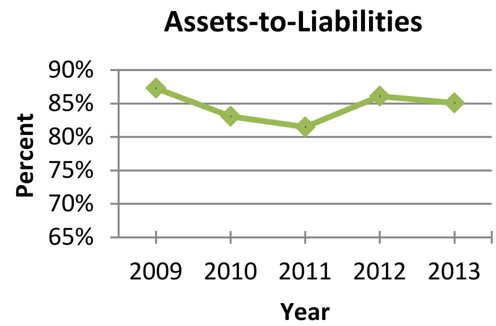
Assets-to-Liabilities

2.24 The sustainability indicator assets-to-liabilities is presented in Exhibit 2.12.

Exhibit 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)
2009	11,765.6	13,474.5	87.3%
2010	12,045.8	14,485.5	83.1%
2011	13,646.5	16,744.0	81.5%
2012	14,973.9	17,386.9	86.1%
2013	15,948.8	18,744.7	85.1%



As restated
** The 2009-2011 amounts are not restated for accounting changes relating to deferred capital contributions and capitalization of computer hardware and software systems.*

2.25 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%. The increases in 2012 and 2013 compared to previous years relates to increases in liabilities. The 2009-2011 trend was unfavourable due to continuous decline. Overall we have assessed the short-term and long-term trend as unfavourable.

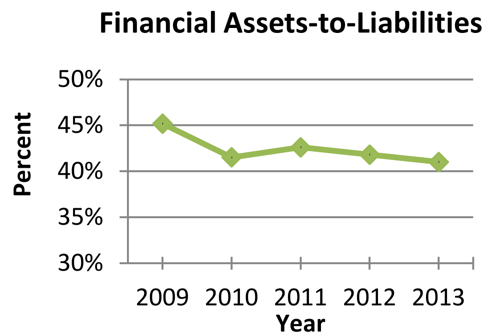
Financial Assets-to-Liabilities

2.26 Another sustainability indicator, financial assets-to-liabilities, is presented in Exhibit 2.13.

Exhibit 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)
2009	6,086.7	13,474.5	45.2%
2010	6,014.1	14,485.5	41.5%
2011	7,128.3	16,744.0	42.6%
2012	7,264.7	17,386.9	41.8%
2013	7,690.7	18,744.7	41.0%



As restated
** The 2009-2011 amounts are not restated for accounting changes relating to deferred capital contributions and capitalization of computer hardware and software systems.*

2.27 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 has decreased slightly since 2011. We have assessed the short term and long term trend as unfavourable.

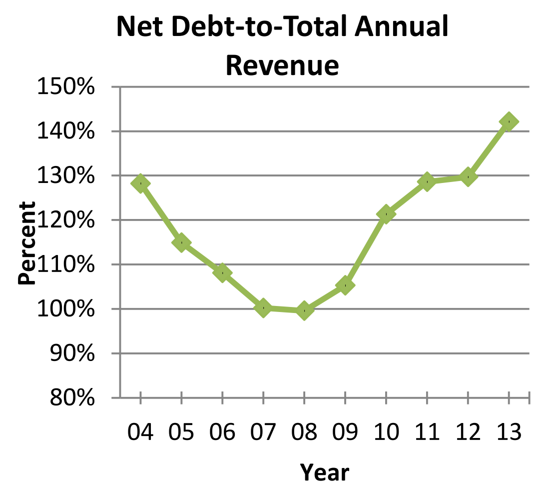
Net Debt-to-Total Annual Revenue

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

Exhibit 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	5,512.0	128.2%
2005	6,948.2	6,043.4	114.9%
2006	6,904.9	6,387.1	108.1%
2007	6,767.7	6,756.3	100.2%
2008	7,158.8	7,190.3	99.6%
2009	7,615.9	7,230.9	105.3%
2010	8,636.7	7,120.5	121.3%
2011	9,697.5	7,542.8	128.6%
2012	10,122.2	7,805.9	129.7%
2013	11,054.0	7,781.7	142.1%



2.29 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 six years, most significantly in 2013 due to a continued increase in Net Debt and declining revenue. The improvements made from 2004-2008 have now been lost. We have assessed this trend as unfavourable.

Expense by Function-to-Total Expenses

2.30 Exhibit 2.15 presents expense by function-to-total expenses.

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

Comparison of Expense by Function-to-Total Expenses										
	2013		2012		2011		2010		2009	
	($ millions)	(%)	($ millions)	(%)	($ millions)	(%)	($ millions)	(%)	($ millions)	(%)
Labour and Employment	100.5	1.2	108.4	1.3	141.7	1.7	141.5	1.8	124.4	1.7
Resources	210.1	2.5	214.6	2.7	215.1	2.7	205.8	2.6	204.2	2.8
Protection Services	237.3	2.9	229.9	2.9	260.9	3.2	219.7	2.8	233.9	3.1
Economic Development	270.6	3.3	257.3	3.2	328.4	4.0	343.7	4.4	286.3	3.9
Transportation and Infrastructure	547.7	6.7	527.7	6.6	402.7	4.9	381.4	4.9	380.7	5.2
Central Government	633.8	7.6	542.3	6.7	722.0	8.8	682.9	8.7	684.9	9.2
Service of the Public Debt	660.3	7.9	661.8	8.2	641.5	7.9	616.6	7.9	602.5	8.2
Social Development	1,055.6	12.7	1,029.9	12.8	1,037.5	12.8	997.1	12.8	961.0	13.0
Education and Training	1,787.6	21.6	1,749.3	21.7	1,723.7	21.1	1,632.0	20.9	1,457.0	19.7
Health	2,785.9	33.6	2,730.0	33.9	2,687.0	32.9	2,595.6	33.2	2,448.7	33.2
Total	**8,289.4**	**100.0**	**8,051.2**	**100.0**	**8,160.5**	**100.0**	**7,816.3**	**100.0**	**7,383.6**	**100.0**

2.31 The years ended 31 March 2009 to 31 March 2013 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.

2.32 The allocation of expenses upon comparing 2012 was relatively stable, however, the impact of New Brunswick's growing Net Debt will need to be closely monitored in the future as the interest burden on it consumes resources that would otherwise be used to deliver services. We have assessed this indicator as neutral.

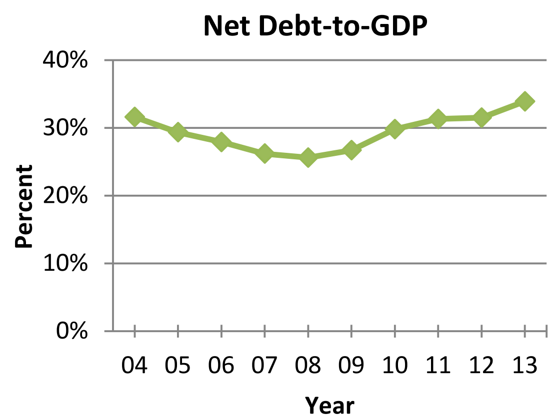
Net Debt-to-GDP

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

Exhibit 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	6,904.9	24,716	27.9%
2007	6,767.7	25,847	26.2%
2008	7,158.8	27,966	25.6%
2009	7,615.9	28,533	26.7%
2010	8,636.7	29,026	29.8%
2011	9,697.5	30,941	31.3%
2012	10,122.2	32,180	31.5%
2013	11,054.0	32,631	33.9%



2.34 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 2008 indicating that over that time period the level of the Province's debt became less onerous on the economy. The ratio increased from 2009 to 2013 because the rate of growth of Net Debt exceeded the rate of growth in GDP over that time period. In 2013, the change in the ratio resulted in this indicator being at 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.

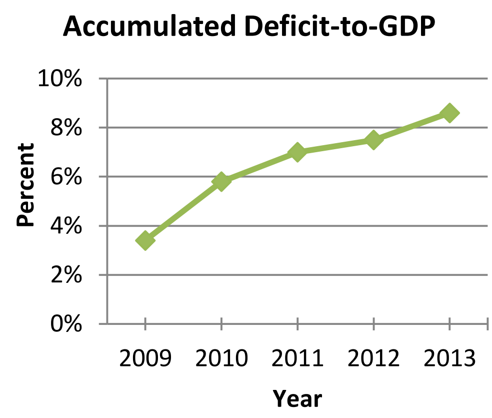
Accumulated Deficit-to-GDP

2.35 In the Exhibit 2.17, we present the sustainability indicator accumulated deficit-to-GDP.

Exhibit 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)
2009	978.1	28,533	3.4%
2010	1,669.0	29,026	5.8%
2011	2,157.7	30,941	7.0%
2012	2,413.0	32,180	7.5%
2013	2,795.9	32,631	8.6%



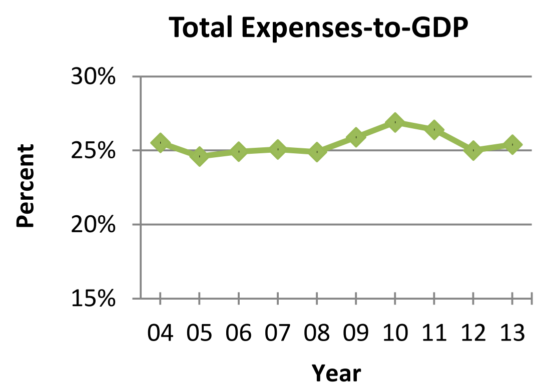
2.36 The accumulated deficit is the extent to which annual revenues have been insufficient to cover the annual costs of providing services. The information above shows that from 2009 to 2013, the accumulated deficit has increased faster than the growth of the economy. This represents an unfavourable trend as the deficit increased faster than the economy was expanding.

Total Expenses-to-GDP

2.37 Exhibit 2.18 presents the total expenses-to-GDP indicator.

Exhibit 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	5,708.7	22,366	25.5%
2005	5,822.9	23,672	24.6%
2006	6,160.8	24,716	24.9%
2007	6,481.1	25,847	25.1%
2008	6,950.0	27,966	24.9%
2009	7,383.6	28,533	25.9%
2010	7,816.3	29,026	26.9%
2011	8,160.5	30,941	26.4%
2012	8,051.2	32,180	25.0%
2013	8,289.4	32,631	25.4%



2.38 Exhibit 2.18 indicates that for five of the last ten years government expenses were held to about 25% of GDP, however, from 2009 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 2013, therefore we assess the short-term trend as favourable.

Exhibit 2.19 - Trends for Sustainability Indicators

Sustainability Indicator Trends		
Sustainability indicator	**Short-term trend**	**Long-term trend**
Assets-to-liabilities	Unfavourable	Unfavourable
Financial assets-to-liabilities	Unfavourable	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

2.39 Exhibit 2.19 presents a summary of the Province's sustainability indicators. While we are aware significant effort has been exercised in achieving the one favourable short term sustainability indicator, five of seven sustainability indicators are unfavourable in the short term, and therefore our overall assessment of the long-term trends remains unfavourable. This negative sustainability trend should be of concern to New Brunswickers.

Flexibility Indicators

2.40 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

2.41 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.

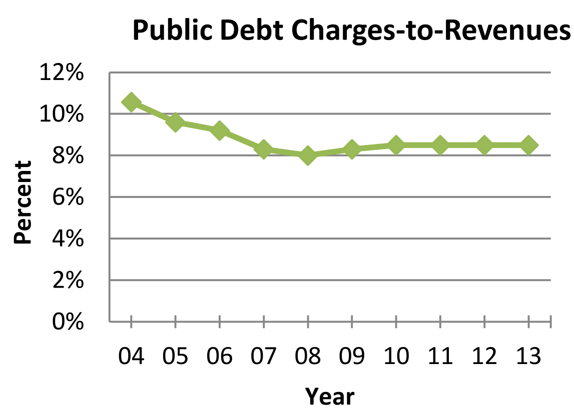
2.42 The cost of servicing the public debt is comprised mainly of interest on the funded debt of the Province. It also includes foreign exchange paid on interest and maturities during the year, the amortization of foreign exchange gains and losses, and the amortization of discounts and premiums which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

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

Exhibit 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	5,512.0	10.6%
2005	579.6	6,043.4	9.6%
2006	590.3	6,387.1	9.2%
2007	558.0	6,756.3	8.3%
2008	575.7	7,190.3	8.0%
2009	601.4	7,230.9	8.3%
2010	607.2	7,120.5	8.5%
2011	641.5	7,542.8	8.5%
2012	661.8	7,805.9	8.5%
2013	660.3	7,781.7	8.5%



2.44 Exhibit 2.20 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 2013 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 four 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.

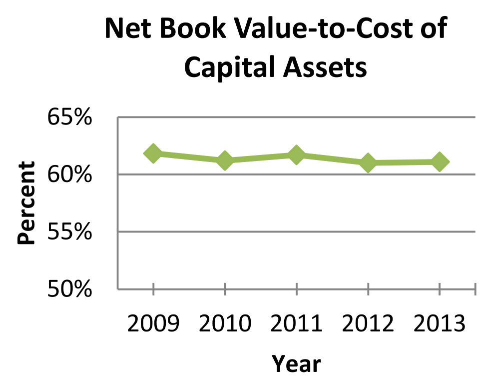
Net Book Value of Capital Assets-to-Cost of Capital Assets

2.45 We present the net book value of capital assets-to-cost of capital assets in the Exhibit 2.21.

Exhibit 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)
2009	6,394.0	10,341.5	61.8%
2010	6,706.0	10,959.3	61.2%
2011	7,241.7	11,733.2	61.7%
2012	7,452.5	12,221.3	61.0%
2013	7,977.6	13,065.3	61.1%



2.46 This data indicates that the Province's inventory of capital assets as at 31 March 2013 has 61.1% 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 2013, 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.

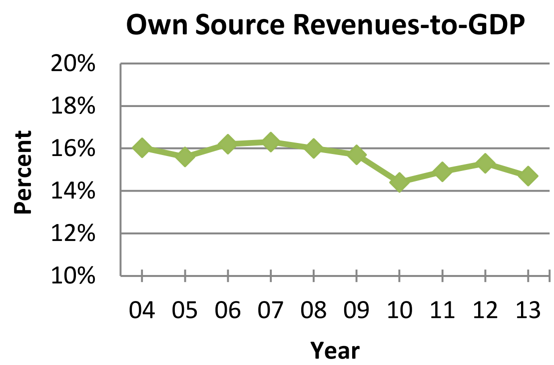
Own Source Revenues-to-GDP

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

Exhibit 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	3,594.1	22,366	16.1%
2005	3,688.6	23,672	15.6%
2006	3,994.2	24,716	16.2%
2007	4,225.4	25,847	16.3%
2008	4,469.7	27,966	16.0%
2009	4,467.4	28,533	15.7%
2010	4,179.7	29,026	14.4%
2011	4,612.5	30,941	14.9%
2012	4,931.7	32,180	15.3%
2013	4,781.2	32,631	14.7%



2.48 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. Generally, this ratio has stayed the same over the long-term and we have assessed this indicator as neutral.

2.49 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.

2.50 In 2013, own source revenue decreased by $150.5 million. The most significant source of this decrease was EFC having a surplus of $17.8 million as reported in the Province's 2013 audited consolidated financial statements, compared to the surplus of $145.0 million in 2012.

2.51 A note of caution should be taken when looking at this indicator for the last five 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

Exhibit 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

2.52 As summarized in Exhibit 2.23, our overall assessment on flexibility in the short term and long term is largely neutral. However caution should be used in interpreting these results as this was achieved in a period where the Province incurred its fifth consecutive deficit and 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.

Vulnerability Indicators

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

Government Transfers-to-Total Revenues

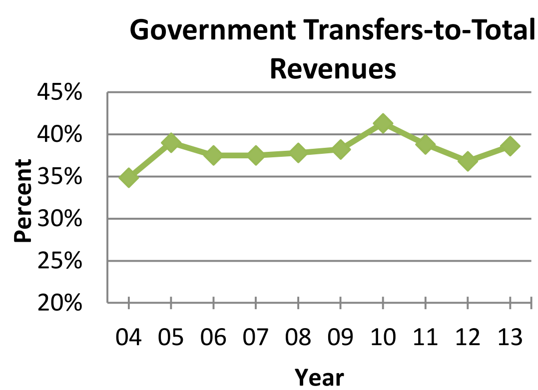
2.54 By comparing the proportion of total revenue that comes from the federal government to the total revenue of the Province, we get a measure of the degree to which the Province is dependent on the federal government. If that dependence increases, the Province is more vulnerable to funding decisions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

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

Exhibit 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	5,512.0	34.8%
2005	2,354.8	6,043.4	39.0%
2006	2,392.9	6,387.1	37.5%
2007	2,530.9	6,756.3	37.5%
2008	2,720.6	7,190.3	37.8%
2009	2,763.6	7,230.9	38.2%
2010	2,940.8	7,120.5	41.3%
2011	2,930.3	7,542.8	38.8%
2012	2,874.2	7,805.9	36.8%
2013	3,000.5	7,781.7	38.6%



2.56 Exhibit 2.24 shows that the Province's reliance on federal government transfers decreased from 2010 to 2012. For the 2013 year, revenues decreased in part due to a lower surplus of $17.8 million in EFC as reported in the Province's 2013 audited consolidated financial statements, compared to $145.0 million in the prior year. This increased reliance on federal transfers in 2013. Thus we are assessing the short-term trend as unfavourable and the long-term trend as mixed.

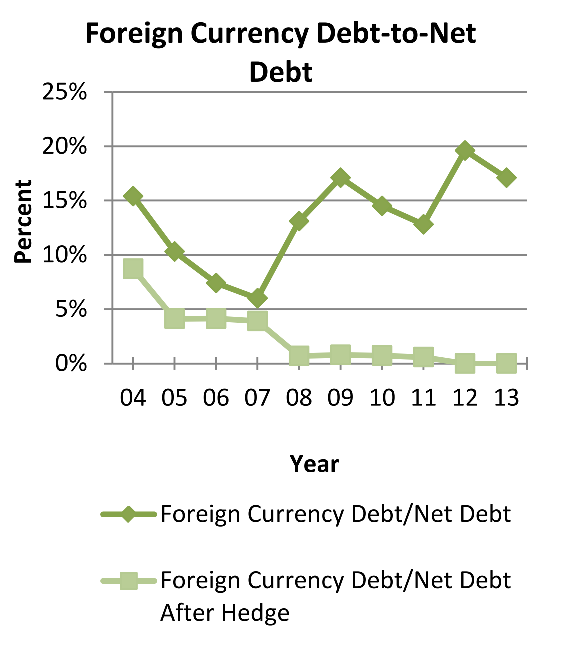
Foreign Currency Debt-to-Net Debt

2.57 The foreign currency debt-to-net debt indicator measures the Province's potential vulnerability to currency fluctuations and is presented in Exhibit 2.25.

Exhibit 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	6,904.9	7.4%	4.2%
2007	403.5	6,767.7	6.0%	3.9%
2008	937.0	7,158.8	13.1%	0.7%
2009	1,304.8	7,615.9	17.1%	0.8%
2010	1,255.8	8,636.7	14.5%	0.7%
2011	1,247.3	9,697.5	12.8%	0.6%
2012	1,986.8	10,122.2	19.6%	0.0%
2013	1,888.5	11,054.0	17.1%	0.0%



2.58 The above information shows that the Province's foreign currency debt has increased over the years, however decreased in 2013. The risk of exposure to foreign currency fluctuations 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).

2.59 From Exhibit 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

Exhibit 2.26 - Trends for Vulnerability Indicators

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

2.60 As summarized in Exhibit 2.26, 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. Overall, the Province is doing a good job at managing and controlling its exposure to fluctuations in foreign currency.

Comments on Significant Trends Observed in the Province's Consolidated Financial Statements

2.61 In this section, we discuss significant trends we have observed in the Province's consolidated 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

2.62 For the year ended 31 March 2013, the Province reported a deficit of $507.7 million. This is an increase of $262.4 million from the $245.3 million deficit reported for the year ended 31 March 2012.

2.63 Exhibit 2.27 shows, at a high level, the reasons for the change in the deficit from 31 March 2012 to 31 March 2013.

Exhibit 2.27 - Analysis of Deficit Increase

Analysis of Deficit Increase	
	(millions)
2012 Deficit	$ 245.3
Decrease in provincial source revenue	150.5
Increase in federal source revenue	(126.3)
Increase in expense	238.2
2013 Deficit	**$ 507.7**

2.64 Decreases in provincial source revenue are mainly attributable to a decrease in earnings of New Brunswick Electric Finance Corporation (EFC) of $127.2 million as reported in the Province's 2013 audited consolidated financial statements.

2.65 There was a reduction of $34.9 million in fiscal equalization payments, due to a narrowing of fiscal disparities between New Brunswick and the national average. There was also an increase of $28.5 million in unconditional grant revenue primarily due to the legislated growth in the federal cash funding for the Canada Health Transfer and the Canada Social Transfer.

2.66 A change in the accounting policy for deferred capital contributions occurred during the 2013 year, where the recognition of transfer revenues is only deferred when and to the extent that the transfer gives rise to an obligation that meets the definition of a liability. As such, there was an overall increase in federal source revenue of $126.3 million attributable to a one-time capital revenue related to Route One Gateway Project. Also, a decrease in the accumulated deficit of $881.2 million has been reported as of March 31, 2013 regarding this change in accounting policy.

2.67 Total expenses have increased by $238.2 million. This is attributable to an increase in expenses by most departments, the most significant being an increase of $91.5 million by Central Government primarily due to increased pension expense as a result of updated actuarial information. The next significant is an increase of $55.9 million by the Department of Health. The overall increase in expenses was offset by a decrease in expenses for Labour and Employment of $7.9 million, Resources of $4.5 million and Service of the Public Debt of $1.5 million.

Expenses

2.68 Exhibit 2.28 shows the one year growth rate and the average growth rate for the past three years.

Exhibit 2.28 - Expense Trends by Function (percentage)

Expense Trends by Function				
Average growth rate	**Function**	**2013 growth rate**	**2012 growth rate**	**2011 growth rate**
3.1	Education and training	2.2	1.5	5.6
2.4	Health	2.0	1.6	3.5
2.3	Service of the public debt	(0.2)	3.2	4.0
2.0	Social development	2.5	(0.7)	4.1
13.5	Transportation and Infrastructure	3.8	(31.0)	5.6
3.4	Protection services	3.2	(11.9)	18.8
0.7	Resources	(2.1)	(0.2)	4.5
(0.8)	Central government	16.9	(24.9)	5.7
(10.2)	Labour and employment	(7.3)	(23.5)	0.1
(7.0)	Economic development	5.2	(21.7)	(4.5)
0.9	**Total**	**2.6**	**(4.5)**	**4.7**

2.69 Exhibit 2.28 shows the Province's expense growth rate has increased compared to 2012 by 2.6%. In fiscal 2013, seven out of ten functions showed an increase in growth rate. Three of ten function areas show a negative growth which implies cost reductions were realized. The average three year expense growth rate for 2013 was 0.9%. This is an improved result over the prior year three year expense growth rate which was 3.0%.

2.70 We noted the 2013 expense growth rate has slowed in Health and Education and training, the largest expense function areas, compared to the 2011 growth rate.

2.71 However, Exhibit 2.28 shows Central Government experienced the largest one year growth rate in 2013, primarily due to an increase in pension expense, with Protection Services experiencing the second largest growth. In comparing the three year average growth rate, Transportation and Infrastructure experienced the largest growth rate with Protection Services experiencing the second largest growth. These growth rates are concerning as they illustrate the inflexibility of these particular expenses in a period where, as Exhibit 2.28 shows, government was attempting to reduce or restrain 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.

Revenue

2.72 Exhibit 2.29 shows the one year growth rate and the average growth rate of revenue for the past three years.

2.73 Total revenues have decreased by $24.2 million. This is attributable to decreased revenue from provincial sources of $150.5 million and an offsetting increase in revenue from federal sources of $126.3 million.

Exhibit 2.29 - Revenue Trends by Source (percentage)

Revenue Trends by Source[1]				
Average growth rate	**Source**	**2013 Growth Rate**	**2012 Growth Rate**	**2011 Growth Rate**
2.8	Taxes	(0.9)	4.2	5.1
3.9	Licenses and Permits	4.2	3.3	4.2
13.0	Royalties	(3.6)	2.1	40.4
7.4	Other Provincial Revenue	2.0	15.3	4.9
0.7	Sinking Fund Earnings	(2.2)	0.9	3.3
(1.8)	Fiscal Equalization Payments	(2.1)	(1.8)	(1.6)
3.6	Unconditional Grants	3.3	3.9	3.7
9.3	Conditional Grants	35.3	(11.3)	3.9
4.9	**Total[1]**	**4.5**	**2.1**	**8.0**

[1] *Excludes income from government business enterprise. Figures used in calculation from: Province of New Brunswick, Public Accounts for the fiscal year ended 31 March 2013 (2013 and 2012 comparative revenue figures), page 8, Public Accounts for the fiscal year ended 31 March 2012 (2011 comparative revenue figure), page 8, and Public Accounts for the fiscal year ended 31 March 2011 (2010 comparative revenue figure), page 8.*

2.74 Exhibit 2.29 shows the Province's 2013 revenue growth rate was 4.5% with an average growth rate of 4.9% (excluding income from Government Business Enterprises). The 2013 growth rate shows a notable increase in conditional grants relating to a one-time capital revenue for Route One Gateway Project.

Other Provinces – *Revenue and Expense Comparison*

2.75 Exhibit 2.30 shows the trend of gross revenues and gross expenses within comparable provinces. Data from other provinces is taken from the audited summary financial statements of the individual provinces.

Exhibit 2.30 - Revenue and Expense (Comparison to other provinces)

Revenue & Expense (Comparison to other provinces) ($ millions)								
	Gross Revenues				Gross Expenses			
	2013	2012	2011	% Increase from 2011 to 2013	2013	2012	2011	% Increase from 2011 to 2013
New Brunswick	7,781.7	7,805.9	7,542.8	3.2%	8,289.4	8,051.2	8,160.5	1.6%
Nova Scotia	10,101.9	9,760.3	9,919.2	1.8%	10,404.4	10,019.3	9,333.8	11.5%
Saskatchewan	13,203.0	12,817.0	12,327.0	7.1%	14,285.0	13,711.0	13,310.9	7.3%
Manitoba	13,786.0	13,688.0	13,240.0	4.1%	14,366.0	14,689.0	13,419.0	7.1%

2.76 We note that over the last three years within this comparable group, New Brunswick shows the lowest increase in gross expenses of 1.6% compared to 7.1%-11.5% elsewhere. This would appear to be a reflection of government restraint measures intended to limit expense growth in various departments.

Chapter 3
Province of New Brunswick Audit: Accounting for Pensions and NB Power

Contents

Province of New Brunswick Audit: Accounting for Pensions and NB Power

Introduction

3.1 As the accounting for pensions and NB Power is material to the Province's consolidated financial statements and involves complex accounting issues, we have presented our observations on these topics in a separate chapter of our Report.

Provincial Pension Plans

3.2 In prior years market fluctuations and other pension related issues have exposed the Province to volatility in its financial reporting. In 2013 pension expense of $435 million was recorded. In addition, complex accounting issues for Shared Risk Pension Plans have been encountered in the past year. The following paragraphs illustrate these trends, as well as discuss other issues associated with the plans.

Pension Expense Growth and Volatility

3.3 Exhibit 3.1 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 provided.

Exhibit 3.1 - Components of Pension Expense

Components of Pension Expense ($ millions)										
	2013	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
Employer's share of pension benefits earned	177.4	148.9	137.4	131.6	146.1	133.8	126.1	117.0	124.1	96.1
Net interest expense (revenue)	62.7	32.0	52.9	118.2	20.6	(9.1)	0.4	30.9	17.6	85.4
Plan amendments		-	-	-	-	-	5.9	-	-	-
Amortization of adjustments	194.9	106.5	99.7	87.1	159.7	30.3	(31.2)	(40.3)	(31.8)	(55.3)
Change in valuation adjustment	-	-	-	(15.5)	(3.3)	(0.5)	(0.1)	2.3	(1.5)	(2.0)
Total pension expense	**435.0**	**287.4**	**290.0**	**321.4**	**323.1**	**154.5**	**101.1**	**109.9**	**108.4**	**124.2**

3.4 Exhibit 3.1 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 2004, the pension expense was $124.2 million. By way of contrast, in the year ended 31 March 2013, the pension expense was $435.0 million, an increase of $310.8 million when compared to 2004. The pension expense increased in 2013 primarily due to a change in actuarial assumptions for mortality rates.

3.5 Exhibit 3.2 compares the annual pension expense to the amount of contributions made by the Province to the various pension plans.

Exhibit 3.2 - Pension Expense and Contributions

Pension Expense and Contributions ($ millions)										
	2013	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
Pension expense	435.0	287.4	290.0	321.4	323.1	154.5	101.1	109.9	108.4	124.2
Employer contributions	350.8	327.0	313.3	307.8	288.6	272.8	257.7	236.4	223.2	214.8
Excess (deficiency) of employer contributions over pension expense	(84.2)	39.6	23.3	(13.6)	(34.5)	118.3	156.6	126.5	114.8	90.6

3.6 Exhibit 3.2 shows that for three of the past five years, the Province's contributions to its various pension plans have been less than the annual pension expense, whereas for seven of the past ten years the amount of employer contributions exceeded the amount of the pension expense.

3.7 The year to year differences are largely due to the legislated and actuarial funding requirements of the plans being different than the measurement of pension expense as required by the Public Sector Accounting Standards. Funding requirements are intended to ensure there will be sufficient funds in the plans to payout pensioners while the pension expense is intended to measure the net cost of pension benefits earned by employees during the year.

3.8 We also review the change in the employer's share of pension benefits earned (as noted in Exhibit 3.1). The employer's share of pension benefits earned has increased at an average rate of 7.6% per year. This is the core component of pension expense the Province incurs to provide pension benefits earned by employees during the year.

Pension Contributions for the Province's Two Largest Plans

3.9 Further details on pension contributions from 2008 to 2013 for the Province's two largest plans, the Public Service Superannuation Plan (PSSA) and the Teachers' Pension Plan (TPA) are found in Exhibit 3.3.

Exhibit 3.3 - Pension Contributions for PSSA and TPA Plans

Pension Contributions for PSSA and TPA Plans (millions)								
		Employee Contributions	Employer Contributions[1]			Total Employee and Employer Contributions	Ratio of Employer to Employee Contributions
			Normal	Special Payments	Total Employer Contributions		
2013	PSSA	70,910	92,128	67,852	159,980	230,890	2.26
	TPA	47,877	46,139	98,627	144,766	192,643	3.02
2012	PSSA	71,463	89,385	64,931	154,316	225,779	2.16
	TPA	47,847	46,367	94,380	140,747	188,594	2.94
2011	PSSA	71,235	84,272	63,223	147,495	218,730	2.07
	TPA	47,302	45,105	91,898	137,003	184,305	2.90
2010	PSSA	69,596	92,762	60,968	153,730	223,326	2.21
	TPA	45,871	41,907	88,619	130,526	176,397	2.85
2009	PSSA	68,569	83,632	58,510	142,142	210,711	2.07
	TPA	42,686	39,897	85,047	124,944	167,630	2.93
2008	PSSA	64,550	80,036	56,367	136,403	200,953	2.11
	TPA	40,606	36,702	81,934	118,636	159,242	2.92
Total 2008-2013	**PSSA**	**$416,323**	**$522,215**	**$371,851**	**$894,066**	**$1,310,389**	**2.15**
	TPA	**$272,189**	**$256,117**	**$540,505**	**$796,622**	**$1,068,811**	**2.93**

[1] PSSA Employer contributions include contributions from the Province, Crown Corporations and other participants.

3.10 We note since 2008 the employer share of pension contributions for the PSSA plan increased approximately $23 million or 17%. We further noted on average the employer contributes 2.15 times what the employees contribute. Also, since 2008 the employer share of pension contributions for the TPA plan increased approximately $26 million or 22%. We noted on average for the TPA plan, the employer contributes 2.93 times the employee contribution amounts.

Special Payments

3.11 Due to large unfunded pension liabilities of the PSSA and TPA pension plans, in the early 1990's the Province made legislative changes to require special payments be made to these plans. Special payments the Province made to the PSSA pension plan and the TPA pension plan since 2008 are also detailed in Exhibit 3.3. Pension plan special payments are made each fiscal year as required by legislation until the benefits under the act are fully funded as determined by an actuarial valuation. Special payments are paid in addition to the normal employer contribution for current service cost. In each subsequent fiscal year the additional amount paid will be the amount paid in the previous fiscal year increased (or decreased) by the aggregate of 2% plus the average percentage change in the Consumer Price Index.

Exhibit 3.4 - Employer Contributions – Special Payments for PSSA and TPA Plans Since 1992

Employer Contributions - Special Payments for PSSA and TPA Plans Since 1992 ($ millions)			
	PSSA Plan	TPA Plan	Total
2013	67,852	98,627	**166,479**
2012	64,931	94,380	**159,311**
2011	63,223	91,898	**155,121**
2010	60,968	88,619	**149,587**
2009	58,510	85,047	**143,557**
2008	56,367	81,934	**138,301**
2007	53,941	78,406	**132,347**
2006	51,816	75,318	**127,134**
2005	49,968	72,630	**122,598**
2004	47,453	68,975	**116,428**
2003*	0	0	**0**
2002*	0	0	**0**
2001*	0	0	**0**
2000	40,489	58,852	**99,341**
1999	39,233	57,027	**96,260**
1998	37,797	54,940	**92,737**
1997	36,413	52,928	**89,341**
1996	35,318	51,336	**86,654**
1995	34,290	49,841	**84,131**
1994	33,066	48,063	**81,129**
1993	31,432	45,688	**77,120**
1992	23,000	42,500	**65,500**
Total			**$2,183,076**

**Plans were fully funded from 2001 to 2003 therefore no special payments were made.*

3.12 As shown in Exhibit 3.4 annual special payments of over $2.1 billion have been made by the employer since 1992. The annual amounts have increased $100 million since 1992 or approximately 154%. Even with these special payments included in employer contributions a funding deficiency still exists in 2013.

3.13 Specific to the PSSA plan, the April 1, 2012 actuarial valuation for funding purposes shows an unfunded liability of approximately $1 billion (2011 = $507 million). The April 1, 2012 TPA plan actuarial valuation for funding purposes shows an unfunded liability of approximately $595 million (2011 = $458 million). As at April 1, 2012, the PSSA plan actuarial valuation for funding purposes indicates the plan is 83.6% funded (2011 = 90.9%). As at April 1, 2012 the TPA plan actuarial valuation for funding purposes indicates the plan is 87.5% funded (2011 = 89.8%).

Pension Assets Rates of Return

3.14 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 Exhibit 3.5 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 PSSA plan, the TPA plan and the Judges' Superannuation Fund (Judges') plan.

Exhibit 3.5 - NBIMC Rates of Return

NBIMC Rates of Return			
Year	**Percentage**	**Year**	**Percentage**
2013	9.08	2005	8.51
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
		1997	10.17
17 year annualized return			**6.79**

3.15 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 seventeen fiscal years the annualized rate of return of the NBIMC has been 6.79%, which is slightly above the 6.60% rate of return currently required by the Province's independent actuary. The rate of return for accounting purposes assumed by the Province on the significant plans in the 2012-13 consolidated financial statements was 6.96%. The accounting required for the Province's pension plans remains subject to estimates and the consolidated financial statements continue to remain exposed to volatility, although as seen in Exhibit 3.5 less volatility in NBIMC rates of return has been experienced in the last three years.

3.16 We note for the 2011-12 consolidated 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.

Pension Accounting Adjustments

3.17 Exhibit 3.6 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.

Exhibit 3.6 - Components of the Pension Balance for Accounting Purposes

Components of the Pension Balance for Accounting Purposes ($ millions)										
	2013	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
Estimated accrued benefit obligations	10,146.6	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
Value of plan assets	9,293.9	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
Pension position before accounting adjustments	852.7	643.6	508.7	867.1	2,130.1	265.2	(165.0)	(124.8)	197.9	294.4
Accounting adjustments	(1,002.2)	(903.1)	(728.6)	(1,063.7)	(2,340.3)	(509.9)	38.6	155.0	(41.2)	(22.9)
Pension balance for accounting purposes	(149.5)	(259.5)	(219.9)	(196.6)	(210.2)	(244.7)	(126.4)	30.2	156.7	271.5

3.18 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 year to year pension expense volatility by allowing actual results achieved on plan assumptions to be reported over time and not all in one year. Exhibit 3.6 provides the details of these components of the pension balance.

3.19 Exhibit 3.6 shows that the Province's pension position before accounting adjustments declined in the year ended 31 March 2013 from $643.6 million to $852.7 million. The value of the estimated pension obligations before accounting adjustments exceeded the value of plan assets for the past six years.

Accounting Deferrals and Adjustments are Permitted under Public Sector Accounting Standards

3.20 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 consolidated financial statements as a net pension liability) of $149.5 million at 31 March 2013.

3.21 As at 31 March 2013 the balance of accumulated experience adjustments (losses) for accounting purposes that were deferred and required to be amortized in future years totalled $1,002.2 million. Such deferral balances from experience adjustments are common in public sector pension accounting. While the cause of the experience adjustments results primarily from changes in mortality assumptions and changes to the assumed rate of return, 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.

Shared Risk Pension Plan Model

3.22 During fiscal 2012-2013 two pension plans converted to the new Shared Risk Pension Plan model: the pension plan for CUPE Employees of New Brunswick Hospitals (H-CUPE) and the pension plan for Certain Bargaining Employees of New Brunswick Hospitals (H-CBE).

3.23 Changes were made to the previous H-CUPE and H-CBE plans including increasing retirement age, introducing conditional indexing and establishing contributions at a level to create a high probability that plan goals will be met.

Accounting for the Province's Shared Risk Pension Plans

3.24 The conversion to the Shared Risk Pension Plan model was a complex process for accounting purposes as the Public Sector Accounting Standard on pensions (*PS 3250 - Retirement Benefits*) was last updated in August 2007 and does not contemplate unique arrangements such as shared risk pension plans. PS 3250 does indicate that in some circumstances a benefit plan may include both defined benefit and defined contribution elements and PS 3250 also states that "because benefit plans are often complex, careful analysis and professional judgment are needed to determine whether the substance of particular plan makes it a defined benefit or a defined contribution plan."

Persuasive Arguments for Multiple Accounting Options

3.25 After reviewing the details of the shared risk pension plan arrangements and reviewing the accounting standards, we determined persuasive arguments could be made for both defined benefit and defined contribution accounting treatment based on the present accounting standards. It is important to note that this accounting decision is significant, as a defined contribution accounting treatment generally involves recording no employer obligation on the financial statements, whereas a defined benefit plan generally involves recording an obligation on the statement of financial position for the pension liability which accumulates as services are rendered by employees. Both the H-CUPE and the H-CBE pension plans had been reported in the Province's consolidated financial statements as defined contribution pension plans prior to their conversion to Shared Risk Pension Plans.

3.26 Our assessment involved a complex evaluation of the plans' legislation and plan provisions. We caution that pension plan legislation and specific pension plan provisions may differ between pension plans (and different jurisdictions), and an assessment on a plan by plan basis is required to determine the appropriate accounting treatment of any pension plan conversion. Each pension plan must be assessed on its own merits. A high degree of professional judgment was exercised in the accounting model determination for 2013.

Province Advocates Defined Contribution Pension Plan Accounting

3.27 A significant question in the accounting analysis pertained to which party bears the risk in the pension arrangement: the employer or employee. The Province's position was that the shared risk plans should be accounted for as defined contribution plans given the risks inherent in the plans are largely borne by the employees. This is due to plan provisions where the employer has a defined level of contribution with limited variability, there is a legal separation of the Province from the assets and liabilities of the plans and the fact that benefits, including base benefits, indexing and other ancillary benefits, are not guaranteed under the terms of the plans.

H-CUPE and H-CBE Provincial Pension Expense

3.28 Exhibit 3.7 shows the provincial expense for pensions for the H-CUPE and H-CBE plans in the past five years.

Exhibit 3.7 - Pension Expense ($ millions)

Pension Expense ($ millions)					
	2013	**2012**	**2011**	**2010**	**2009**
H-CUPE	27.5	14.1	13.2	12.3	15.5
H-CBE	32.7	26.5	25.4	24.2	19.5
Total	60.2	40.6	38.6	36.5	35.0

3.29 We also note changes occurred in fiscal 2012-2013 to pension contribution rates at the time of conversion to the shared risk pension plan model as noted in Exhibit 3.8.

Exhibit 3.8 - Pension Contribution Rates as a Percentage of Payroll

Pension Contribution Rates as a Percentage of Payroll (percentage)				
	Shared Risk Model (Employee)	Prior to Shared Risk Model (Employee)	Shared Risk Model (Employer)	Prior to Shared Risk Model (Employer)
H-CUPE	9.0 %	6.17 %	10.1 %[1]	Employee[1] Matched
H-CBE	7.8 %	6.04 % - 7.46 %	7.8%[2]	Employee[2] Matched

[1] Employer portion paid by General Government
[2] Employer portion paid by the related employer entity

3.30 In addition, certain part time employees, many of which participated previously in the Province's Part Time and Seasonal Pension Plan (a defined contribution plan), are now included in the new shared risk pension plan. In some instances this had lead to part time employee pension contribution rates increasing from at least 4.50% to 7.8%. These contributions are matched by the employer.

3.31 The changes in increased pension contribution rates as seen in Exhibit 3.8 and increased members (with the inclusion of part time employees) have lead in part to the increased provincial pension expense noted in Exhibit 3.7 in 2013 of $19.6 million for the H-CUPE and H-CBE plans. This represents an increase in provincial expenses for these two plans of approximately 48% in 2013.

Funding Policy Details for H-CUPE and H-CBE

3.32 A key clause in the funding policy indicates in the event the open group funded ratio, as defined by the *Pension Benefits Act*, falls below 100% for two successive year ends, the employer contribution increase is limited to ½ of 1% of the payroll of the active members of the plans. In 2013 this would have amounted to $1.63 million for H-CUPE and $2.8 million for H-CBE.

3.33 The pension plans include a funding deficit recovery plan designed to ensure the sustainability of the plans as well as funding excess utilization plans which outline actions that may be taken when the open group funded level exceeds 105%.

3.34 These plans, under the Shared Risk Pension Plan models are governed by the Board of Trustees and therefore the Province has no claim to any assets or surpluses of the plan, nor does it have any legal obligation beyond the contributions required under the plan's funding policy.

3.35 An increase in contributions is the first mechanism of a funding deficit recovery plan, which is designed to ensure the sustainability of the plans. Other mechanisms include changes to early retirement rules, reductions in benefit accruals for future service, and as a last step, the reduction of base benefits for all members for both past and future service. The funding deficit recovery plan specifies the order of priority that these mechanisms be applied.

3.36 The H-CUPE and H-CBE plans also have funding excess utilization plans that outline actions that may be taken when the open group funded level exceeds 105%. Mechanisms include the reversal of any previous ancillary and base benefit reductions, the provision of indexing, the establishment of reserve funds, benefit improvements, and contribution decreases limited to 1% of the payroll of the active members for both the employer and employees. The funding excess utilization plan specifies how much of the excess funds can be utilized and the order of priority.

Defined Contribution Accounting Accepted for H-CUPE and H-CBE

3.37 The additional contributions on the part of the Province are defined and limited with minimal variability expected from one year to the next. In substance then, we concluded employees bear key risks in the shared risk pension plans for H-CUPE and H-CBE, and therefore defined contribution accounting treatment for these plans is appropriate at this time.

Future Accounting Standards Changes May Impact Accounting Decision

3.38 It is important to note accounting standards are in the process of evolving and there have been changes in pension accounting standards internationally. In addition, pension accounting standards in Canada may also change to better reflect the emerging structures of new pension plan models. We will continue to monitor accounting standards as they evolve, and our conclusion on the appropriate accounting treatment for the H-CUPE and H-CBE plans may change in future depending on the changes in accounting standards.

3.39 Given the Province's announced intention to convert more pension plans to shared risk pension plans we believe the question of appropriate accounting treatment will be an even more important issue in future audits.

Accounting for NB Power and NB Electric Finance Corporation

3.40 The Province's consolidated 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 consolidated financial statements through the New Brunswick Electric Finance Corporation (NBEFC). This company was established in 2004 under the authority of the *Electricity Act*, Chapter E-4.6. The NBEFC holds and manages the debt and debt related assets and liabilities of NB Power.

3.41 Some key principles used in accounting for these companies in the Province's consolidated 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.

3.42 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.

3.43 Net earnings of the NBEFC and NB Power for the past five years are provided in Exhibit 3.9.

Exhibit 3.9 - NB Electric Finance Corporation and NB Power Net Earnings (loss)

NB Electric Finance Corporation and NB Power Net Earnings (loss) ($ millions)					
	2013	**2012**	**2011**	**2010**	**2009**
NBEFC	21.4	145	11	(212)	35
NB Power	69	173	67	(117)	70

Source: NB Power audited financial statements

3.44 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 consolidated financial statements.

3.45 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.

3.46 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

3.47 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.

3.48 As at 31 March 2013, NB Power had regulatory assets of $1,072 million ($1,020 million for the refurbishment of the Point Lepreau Generating Station (PLGS) and $52 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.

3.49 Our analysis in this section focuses on the regulatory deferral asset associated with the refurbishment of PLGS, since it represents 95% of total regulatory assets of NB Power.

3.50 The regulatory deferral asset associated with the refurbishment of PLGS accumulated during the construction period includes:

- 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.

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

3.52 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.

3.53 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 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.

3.54 Exhibits 3.10 and 3.11 provide the details of the PLGS deferral.

[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

Exhibit 3.10 - Breakdown of PLGS regulatory deferral asset ($ millions)

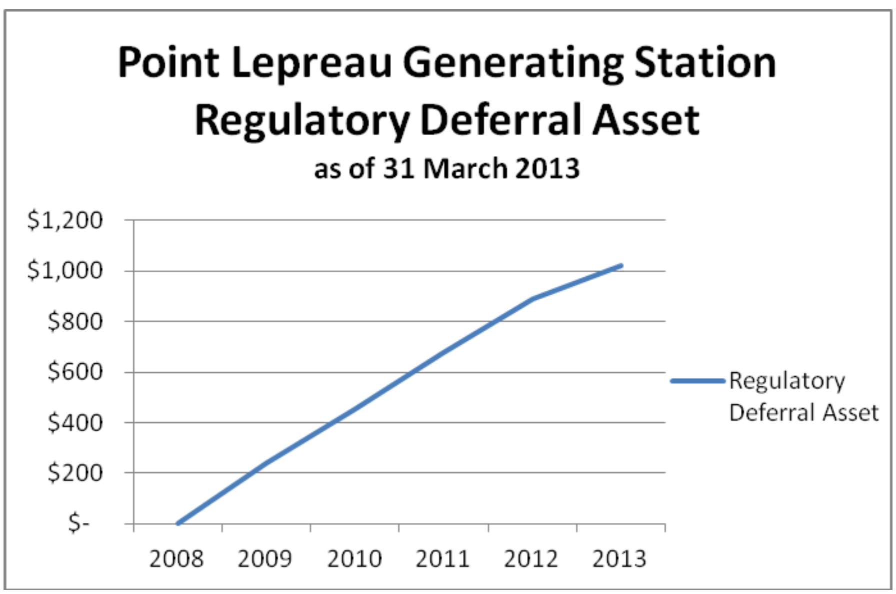
Breakdown of PLGS regulatory deferral asset ($ millions)							
	2008	2009	2010	2011	2012	2013	Total
Costs of replacement power	$ -	$ 267	$ 223	$ 239	$ 200	$ 100	$ 1,029
Period costs	2	176	176	164	189	132	839
Interest on deferral	-	4	16	27	37	44	128
Offset for costs included in current rates	-	(209)	(206)	(206)	(209)	(123)	(953)
Amortization of deferral	-	-	-	-	-	(23)	(23)
Total	$ 2	$ 238	$ 209	$ 224	$ 217	$ 130	$ 1,020

Source: NB Power audited financial statements

3.55 The regulatory deferral asset started to accumulate in 2008. The balance has grown rapidly from $2 million in 2008 to $1 billion as of 31 March 2013.

3.56 Note that amortization of the deferral asset of $23 million commenced in 2013 given the return to service of Point Lepreau in November of 2012. The deferral account is intended to be recognized as an expense to NB Power over the 27 year operating life span of the nuclear generating station.

Exhibit 3.11 - Point Lepreau Generating Station Regulatory Deferral Asset



Source: NB Power audited financial statements

NB Power's Recent Earnings or Loss?

3.57 Exhibits 3.12 and 3.13 provide information about NB Power's earnings for the past four years. The effects of rate regulatory accounting are factored out to reflect financial performance from operations.

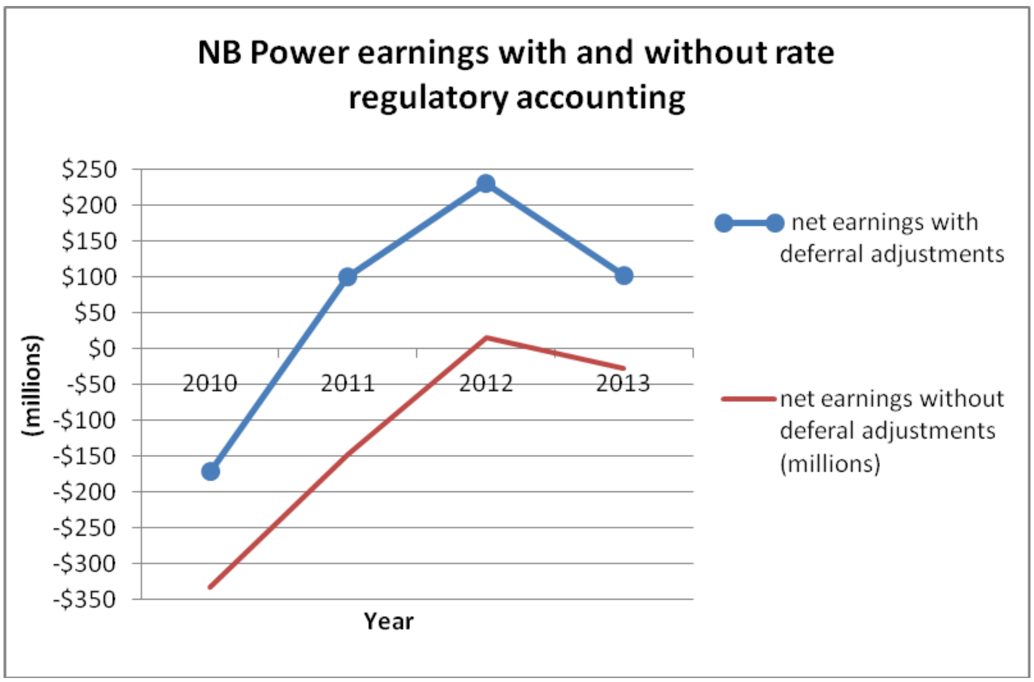
Exhibit 3.12 - NB Power earnings (loss) adjusted to remove the effects of rate regulatory accounting

NB Power earnings (loss) adjusted to remove the effects of rate regulatory accounting (millions)				
	2013	**2012**	**2011**	**2010**
Net earnings (loss)[1] - rate regulatory accounting	$ 102	$ 231	$ 99	$ (170)
Less regulatory deferral adjustment to earnings	(82)	(175)	(216)	(147)
Less interest on deferral	(47)	(40)	(30)	(16)
Net earnings (loss)[1] adjusted to remove the effects of regulatory deferrals	$ (27)	$ 16	$ (147)	$ (333)

Source: NB Power audited financial statements

[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.*

Exhibit 3.13 - 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

3.58 Expenses that would ordinarily be deducted in calculating net earnings have been deferred to future years under rate regulatory accounting. Rate regulatory accounting is an accounting framework commonly used by utilities and other regulated entities across North America. 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 Exhibits 3.12 and 3.13. The impact of the deferral adjustments on the reported financial performance of NB Power is significant.

3.59 In addition to the $1 billion regulatory deferral asset, NB Power has invested $1.4 billion as of 31 March 2013 in capital costs toward the refurbishment project. In total, NB Power invested $2.4 billion as of 31 March 2012 on the Point Lepreau refurbishment project before returning to service during the year.

We reviewed NB Power's model of future financial results

3.60 As part of our 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.

3.61 This modeling, as supplied by NB Power, projected positive net earnings in the range of $66 to $159 million over the next 30 years. Our work did not focus on the validity of the model to accurately reflect NB Power's operations. Rather we examined the NB Power model and manipulated critical inputs to evaluate the impact on projected net income. Our objective was to evaluate both the plausibility of existing inputs used, as well as the impact on the model if more conservative inputs were substituted.

3.62 As shown in Exhibit 3.14, inputs, when changed, would not independently turn the model into a deficit position:

Exhibit 3.14 - Impact of Input Changes on NB Power's Financial Model

Model Input Manipulated	NB Power Model Input	OAG change Input	Model Impact
Point Lepreau load factor	Load factors ranging from a high of 93% to a low of 82%	Load factors reduced by 1%	A $2.2 million unfavourable impact to net earnings annually for each percentage load factor not achieved
Interest rates	Long term rate of 5.95% Short term rate of 4%	Increased long term and short term rates to 10%	Unfavourable impact to net earnings between $39 million and $51 million annually over the next 10 year period.
Consumption growth	Increasing year over year in-province consumption load	Constant in-province load at 2013 amount	Unfavourable impact to net earnings between $2 million and $7 million annually.
Projected inflation rates for expenses independent of revenue rate changes.	Constant inflation rate of 2%	Constant inflation rate changed to 5%	Initial unfavourable impact of $10 million in year one, and if sustained greater than 7 years profitability would be fully deteriorated.
Rate increases	Rate increases annually of 2% starting in 2014	Rate increase changed to 0%	First year net income reduced by $24 million. In three years projected net income surpluses turn into a deficit.

Model input that would shift NB Power into a deficit

3.63 The one critical model input that, by itself, could put projected net income into a deficit position was rate increases. NB Power projected rate increases of 2% in each year starting in 2014. Should these rate increases not be realized, the initial year's net income would be reduced by $24 million. If no rate increases were to be compounded year over year and assuming all other factors stay constant, it would take three years for all projected net income surpluses to turn into a deficit.

Modeling Conclusion

3.64 We did not find any model input as forecasted by NB Power to be implausible. With the exception of rate increases, we did not find any single input to be significant enough to jeopardize the modeled profitability.

3.65 We would like to highlight the following points:

- Modeling is a projection of future events: Should

NB Power's modeling not accurately reflect actual operations then projected surpluses may not be realized as modeled. Additionally, should some of the less than optimistic assumptions highlighted above happen in combination or other unforeseen events come to pass then projected surpluses may not be realized as modeled.

- Realized rate increase: as highlighted above, the rate increase assumption is the one input that would by itself put the model into a deficit. Given the historic government involvement in NB Power's rate setting process, these rate increase requirements for future profitability should be of particular relevance to stakeholders.

Regardless of the accounting, the PLGS refurbishment cost ($2.4 billion as at 31 March 2013) must be recovered through rates

3.66 It is important to note, regardless of the accounting for the PLGS regulatory deferral asset, the fact remains, the PLGS refurbishment cost ($2.4 billion as of 31 March 2013 including $1.4 billion construction cost and $1 billion deferral) will have to be collected from ratepayers over time.

3.67 In addition, if the Province wishes to continue to account for NB Power as a viable business on the Province's consolidated financial statements, NB Power's 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).

3.68 Currently, NB Power's $4.7 billion debt is not included in the Province's Net Debt. The NB Power amounts reported in the Province's consolidated 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 consolidated financial statements.

History of government involvement in the NB Power rate setting process

3.69 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 the EUB to remain independent.

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

- In 2006, under the authority of the *Electricity Act*, Chapter E-4.6[3] 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 October 2010.
- The new *Electricity Act*, 2013 Chapter 7, which came into force on October 1, 2013 includes the option for NB Power to change rates without application to the EUB on October 1, 2013 and October 1, 2014, to a maximum of 2% annually. Future rate changes will require an application to the EUB for approval.

3.71 Guidance under GAAP is not broad enough to be applied outside of very specific events and circumstances, therefore other sources of GAAP needed to be considered, such as guidance from the US Financial Accounting Standards Board (FASB). Using Accounting Standards Codification 980-Regulated

[3] Electricity Act *105(1), Chapter E-4.6, 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.*

Operations (formerly referred to as FASB's Financial Accounting Standards 71– *Accounting for the Effects of Certain Types of Regulation*) NB Power supports its use of rate regulatory accounting.

3.72 When rate regulatory accounting was first used for the PLGS refurbishment in fiscal 2007-2008 a conclusion on NB Power's appropriate use of rate regulatory accounting was performed by the OAG. As the PLGS has now returned to service on November 23, 2012, and other events have evolved since this initial conclusion, the OAG revisited the issue during the year.

3.73 One of the criteria an enterprise that has regulated operations has to meet to be able to use rate regulated accounting, under this guidance, 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."*[4]

3.74 We have determined that NB Power continues to meet this criterion, based on the determination that the Province and the EUB are considered to be empowered by statue or contract to establish the rates that bind customers.

3.75 Other criteria relate to if the rates charged to customers are designed to recover the enterprise's costs of providing the regulated services and if the rates are set at a reasonable level. We have determined that NB Power continues to meet these criteria, given their projected recovery model as reviewed in paragraph 3.64.

[4] *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).

NB Power's adoption of IFRS may be delayed to 2015/16

3.76 NB Power was expected to convert to International Financial Reporting Standards (IFRS) as required by changes in accounting standards. However, due to a decision of the Accounting Standards Board (February 2013) NB Power can elect to defer IFRS implementation until the fiscal year ended 31 March 2016.

3.77 Currently, IFRS does not recognize regulatory 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.

Conclusion

3.78 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.

NB Power uncertainties

3.79 In conclusion, uncertainty regarding the Province's accounting for NB Power, includes:

- accuracy of assumptions in the long term projections;
- accuracy of the forecasted model for the recovery of the PLGS deferral asset; and
- the ability to demonstrate it is a viable business that can maintain operations, repay debt and liabilities from non-government sources.

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

Chapter 4
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

4.1 On October 4, 2013 our Office signed an unqualified audit opinion on the consolidated financial statements of the Province of New Brunswick. The opinion indicates the Province's consolidated financial statements are fairly presented in accordance with Canadian public sector accounting standards.

4.2 To reach an opinion on the consolidated 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.

4.3 In almost every audit, there are audit findings to be discussed with management. While significant, the findings from our March 31, 2013 audit are not sufficiently large in dollar terms to affect our opinion on the consolidated 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 consolidated financial statements with departmental responses are presented in this chapter. In Chapter 3 we also presented our significant findings on pension plans and NB Power.

4.4 It should be noted though that not all findings are included in our 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 I.

4.5 We had several findings from the March 31, 2013 audit of the Province's consolidated 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

4.6 Highlights of our significant findings and recurring themes are presented in Exhibit 4.1.

Exhibit 4.1 - Highlights of our significant findings and recurring themes

Theme	Finding	Finding addressed to	Prior Year Finding	Page Number
Accounting Standards	Pension accounting	OOC[1]	No	70
	Government transfers			77
	Environmental liabilities			73
	Consolidation of the Government Reporting Entity			76
	Tax revenue	Finance	No	83
Future Considerations	Audit timelines	OOC[1]	No	71
Documentation Deficiencies	Pension plan calculations	OOC[1]	No	75
	Provision for loans		No	72
	Injured workers' liability		No	76
	Allowance for doubtful accounts – loans, accounts receivable, property tax	OOC[1], Finance	Partial	77, 85
	Property assessment road reviews	SNB[2]	Yes	87
Information Technology	Segregation of duties	OOC[1], Economic Development, NBISA[3], SNB[2], Finance	Partial	81, 91, 95, 95, 95
	Security and other findings	Various	Partial	82
Monitoring/Review	Review of service organization reports	OOC[1], NBISA[3]	Yes	74, 95
	Economic Development loans	OOC[1]	No	72
	Fraud Risk Assessment	OOC[1]	No	78
	Property Tax Account Reconciliations	Finance	Yes	83
	Audit Committee	OOC[1]	Yes	79
Policy Update/Compliance	Information technology security policy	OCIO[4]	Yes	95
	Approval of payments	OOC[1]	Yes	79
	Purchase card policy			80
	Long-term care financial assessments	Social Development	Partial	88
	Social assistance and long-term care reviews			89

[1] Office of the Comptroller, Department of Finance
[2] Service New Brunswick
[3] New Brunswick Internal Services Agency
[4] Office of the Chief Information Officer

4.7 We are concerned that a number of these findings were observed 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. Exhibit 4.1 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.

4.8 We are concerned at the trend of findings not being corrected by departments in advance of the next year's audit cycle. Exhibit 4.1 shows which recurring themes represent repeat findings.

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

4.10 While we have not noted any significant fraud, theft or error as discussed in Appendix II, the existence of the findings noted in Exhibit 4.1 increases the risk of loss or mistake in the Province's consolidated financial statements. These items should be addressed prior to the next audit cycle.

Details of Significant Findings

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

Office of the Comptroller Accounting and Reporting

Pension Accounting

Observation

4.12 During the audit we noted management did not have a formal plan in place to account for the implementation of the new shared risk pension plans (SRPPs). Actuarial and accounting expertise was obtained directly by management. However, the accounting expertise was engaged late in the process and did not appear to fully assess the accounting treatment for the plans giving consideration to all applicable accounting standards.

4.13 As changes to the structure of the Province's plans are ongoing, and changes to accounting standards may occur, the Office of the Comptroller should engage appropriate expert pension accounting resources to evaluate and select accounting options. Ideally, this work should be completed no later than February 2014 and options assessed should include a documented examination of Public Sector Accounting Standards (PSAS), International Financial Reporting Standards (IFRS) and other accounting frameworks as may be appropriate to deal with the uniqueness of accounting for SRPPs.

Recommendation

4.14 **We recommend the Department of Finance / Office of the Comptroller acquire expert pension accounting resources to document an updated assessment of appropriate accounting treatment for SRPPs given continued changes to the Province's pension plans and to allow for consideration of different accounting frameworks and new developments in pension accounting. A formal plan should be in place including goals and timelines to permit completion of this work ideally no later than February 2014.**

Comments from Management

4.15 *The Department of Finance/Office of the Comptroller performed an analysis of the pension plans converted to the Shared Risk Pension Model during the fiscal year covered by this audit. During this analysis, the characteristics of the converted plans were evaluated against existing accounting standards. This exercise resulted in management arriving at a proposed accounting treatment for the converted plans. External expert advice was then sought to validate the accounting decision made by management. We acknowledge the uniqueness of plans under the shared risk model and, as more plans are converted, the characteristics of each plan will be analyzed in relation to the applicable accounting frameworks.*

Audit Timelines

Observation

4.16 There were delays in issuing the Province's financial statements and our audit opinion due to complex accounting matters that required significant time and analysis. It is our understanding that the planned release date of the Province's March 31, 2014 audited consolidated financial statements is in late July. In order to achieve this, year end financial statement preparation processes will need to be revised. Complex accounting issues, if any, must be dealt with prior to year end. Our Office would be willing to participate in order to add audit considerations to the streamlining exercise.

Recommendation

4.17 We recommend the Office of the Comptroller / Department of Finance revise the year end financial statement preparation processes accordingly to accommodate the 2014 planned financial statement release date.

Comments from Management

4.18 *The Department of Finance and the Office of the Comptroller is currently undertaking a process improvement project with the goal of improving the year-end financial statement preparation process. We welcome the participation of the Office of the Auditor General in streamlining the process as the participation of the Office of the Auditor General is viewed as essential to the success of this effort.*

Provision for loans administered under the *Economic Development Act*

Observation

4.19 Doubtful loans administered under the *Economic Development Act* are provided for on an individual basis. In addition to these judgmental provisions, a 3% general provision is applied to each loan, other than those deemed to have very little associated risk and loans for which there is already a full provision. The rationale for setting this general provision was determined in 2000 and has not been re-evaluated since. The rationale for the general provision should be updated annually, and applicable rates used should be supported.

Recommendation

4.20 We recommend the Department of Economic Development and the Office of the Comptroller document the rationale for using a general provision for doubtful loans, update this documentation annually and document support for rates used.

Comments from Management

4.21 *The Office of the Comptroller will work with the Department of Economic Development to ensure the rationale and other factors considered in the determination of the provision requirement for loans administered under the* Economic Development Act *are documented annually.*

Liability for Contaminated Sites

Observation

4.22 We requested from the Office of the Comptroller and the Department of Environment and Local Government a list of contaminated sites. We received a list however an amount had not been determined for each site, therefore no liability could be audited or evaluated.

4.23 In addition, there is a new accounting standard, *PS 3260 – Liability for Contaminated Sites*, effective for the period ending March 31, 2015, which will require a significant amount of time and effort to implement. The Office of the Comptroller should ensure this standard is addressed in the coming year to allow sufficient time to analyze the Province's exposure, hire experts if necessary, and estimate the liability to be reported in the consolidated financial statements. This analysis should include a detailed list of all contaminated sites under the authority of the Province.

Recommendations

4.24 We recommend the Office of the Comptroller prepare an analysis of the new standard, including a list of contaminated sites, and its impact on the financial statements of the Province.

4.25 We recommend the Office of the Comptroller ensure a list of contaminated sites is prepared including possible liability amounts to allow for evaluation and audit on the consolidated financial statements.

Comments from Management

4.26 *The Office of the Comptroller will continue to prepare for the implementation of this standard effective for the fiscal period ending March 31, 2015.*

Loan Monitoring

Observation

4.27 During the course of our audit we noted not all borrowers of loans administered under the *Economic Development Act* were meeting their compliance requirements as noted in their respective loan agreements. Certain borrowers did not provide audited financial statements within the timeframe prescribed by the agreement.

Recommendation

4.28 We recommend the Department of Economic Development monitor the requirements in each loan agreement to ensure compliance with criteria and required documentation for loan monitoring

is received in the specified time frame.

Comments from Management

4.29 *The Office of the Comptroller will discuss with the Department of Economic Development the importance of continued monitoring of compliance with loan agreements.*

Service Organization Reports

Observation

4.30 In prior year findings we reported there were several external service organizations used by the Province. It is important for management to be assured that the service organizations have proper controls in place to safeguard transactions that are processed on behalf of government. This assurance is provided through a service organization internal control report. Management should review the report, follow up on exceptions and document their findings as to whether the proper controls are present to ensure management can rely on the service organization. If weaknesses are noted in service organization reports, compensating controls at the Province may need to be implemented. There was no evidence of documented review of such reports available during our audit.

4.31 In addition, the Province entered into a third party service level agreement for payment processing services where there were no third party assurance reports made available to the Province to provide comfort over the adequacy of effective internal controls outsourced to the third party service provider. In response, the Province contracted services externally to perform this at an additional cost.

Recommendation

4.32 **We recommend the Office of the Comptroller annually review the service organization reports, follow up on exceptions and document their findings as to whether the proper controls, and any necessary compensating controls at the Province, are present.**

Comments from Management

4.33 *The Office of the Comptroller receives and reviews service organization internal control reports. This process resulted in the contracting of an external party to review the internal controls of one service provider to ensure controls were adequate. The Office of the Comptroller will document this* *review process as well as the results of the reviews.*

Recommendation

4.34 We recommend the Office of the Comptroller advise departments that when entering into service provision agreements with third parties for significant transaction streams, a clause be included in the agreement to ensure third party assurance reports are provided to the Province to provide comfort over the design and operating effectiveness of internal controls implemented by the provider.

Comments from Management

4.35 *The Office of the Comptroller will communicate to departments the importance of including a clause in their service provision agreements requiring a third party assurance report be provided to the department annually.*

Support for Key Pension Plan Calculations

Observation

4.36 We noted documentation used in the calculation to determine and isolate NB Power's portion of the Public Service Superannuation Plan net pension liability has not been updated since 2001 and is still referred to in the actuarial valuation. This documentation should be reviewed and updated to determine the information provided in it is still correct and relevant.

Recommendation

4.37 We recommend the Office of the Comptroller / Department of Finance ensure documentation used in pension calculations, such as the basis for separating NB Power's share of the pension liability, be reviewed and updated to ensure the assumptions and information contained therein are still correct and relevant.

Comments from management

4.38 *The Office of the Comptroller believes that the method used for separating NB Power's portion of the Public Service Superannuation Plan is correct and relevant. A starting point was determined in 2001 and that starting point is adjusted annually for contributions made by NB Power as well as benefit payments for which NB Power is responsible. In addition, balances are adjusted for NB Power's proportional share of administrative expenses and investment income. The Office of the Comptroller has discussed this matter with our external actuarial consultants to confirm that the methodology being* *applied and the assumptions contained therein are still correct and relevant for accounting purposes*.

New Brunswick Agricultural Insurance Commission

Observation

4.39 During our audit it was noted New Brunswick Agricultural Insurance Commission was included in the consolidated financial statements through the transaction method. This entity is required to be consolidated as per *PS 2500 - Basic Principles of Consolidation*.

4.40 In addition, the Province has reported a loan receivable from the New Brunswick Agricultural Insurance Commission in the amount of $7.1M. Due to the entity not being consolidated and the history of losses, we believe there is a high risk of non-collection for the resulting asset, therefore the asset should be written down.

Recommendation

4.41 We recommend the Office of the Comptroller consolidate New Brunswick Agricultural Insurance Commission as required per *PS 2500 – Basic Principles of Consolidation*. If such consolidation does not occur, the loan balance should be fully provided for.

Comments from Management

4.42 *The Office of the Comptroller commits to reviewing PS2500 – Basic Principles of Consolidation and its applicability to the New Brunswick Agricultural Insurance Commission.*

4.43 *As part of year end processes, the Office of the Comptroller reviewed an actuarial assessment prepared in 2011 which indicated that NBAIC is still self-sustaining. Discussions with NBAIC management confirmed that no significant events have occurred since the date assessment which would not be reflected in the assessment or would significantly impact the assessment. The Office of the Comptroller will continue to monitor the allowance requirement in relation to this loan as part of its year end processes.*

Injured Worker's Liability

Observation

4.44 Management's estimate of the injured worker's liability reported on the consolidated financial statements is derived from documentation provided by WorksafeNB. The liability calculated by WorksafeNB is prepared based on International Financial Reporting Standards, not the same basis of accounting as used by the Province.

4.45 Management should perform an analysis of the valued amounts to ensure the amounts reported by the Province are an accurate estimate of the Province's liability. They should analyze the impact of the valuation being prepared under a different basis of accounting to ensure differences are not material to the consolidated financial statements of the Province.

Recommendation

4.46 We recommend the Office of the Comptroller complete a documented analysis of the injured worker's liability and analyze the impact of the different accounting framework.

Comments from Management

4.47 *The Office of the Comptroller will conduct a documented analysis of the injured workers' liability amount, including any impact on the valuation of the liability due to its preparation based on International Financial Reporting Standards.*

Allowance for Doubtful Accounts – Loans and Accounts Receivable

Observation

4.48 Calculation of allowance for doubtful accounts (AFDA) in certain departments is not based on past collection history and actual results are not compared after year end to ensure the estimate was accurate. In some cases, we noted no review or formal approval of the AFDA estimate. AFDA estimates should be formally reviewed, documented and compared for accuracy subsequent to year end to ensure the estimate process is thorough and robust.

Recommendation

4.49 We recommend the Office of the Comptroller advise departments that AFDA estimates should be formally reviewed, documented and compared to actual results for accuracy subsequent to year end.

Comments from Management

4.50 *The Office of the Comptroller will continue to work with Departments to ensure the methodology for calculating allowance for doubtful accounts is updated, appropriate and approved.*

Government Transfers

Observation

4.51 During the course of our audit we noted there was no documented analysis available prior to year end on the adoption of *PS 3410 – Government Transfers* with respect to transfers made by departments of the Province of New Brunswick to certain other entities. Payments made should be analyzed by departments with the assistance of the Office of the Comptroller as required, to determine whether *PS 3410 - Government Transfers* is applicable.

4.52 We noted instances with grants (government transfers) in the Department of Social Development and Post-Secondary Education, Training and Labour where we believe the new standard applied.

Recommendation

4.53 We recommend Departments, with the assistance of the Office of the Comptroller, prepare a documented analysis of Province of New Brunswick payments to determine if *PS 3410 - Government Transfers* is applicable to payments made.

Comments from Management

4.54 *We see the merit of obtaining a documented analysis of the application of* PS 3410 – Government Transfers *from each department as it relates to transfers it issues and receives. We will endeavour to develop and obtain such documentation for the 2013/2014 audit.*

4.55 *The Office of the Comptroller prepared a documented analysis of the application of* PS 3410 – Government Transfers *for certain grants. This analysis supported the accounting treatment of these payments.*

Fraud Risk Assessment

Observation

4.56 We obtained reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error. Our procedures included reviewing management's internal control risk assessment; however we noted no documented fraud risk assessment was completed. Documenting a fraud risk assessment would assist management and internal auditors to focus control and monitoring efforts on key risk areas. The absence of this risk assessment is an indication of a deficiency in internal control.

Recommendation

4.57 We recommend, on an annual basis, the Office of the Comptroller complete or update a documented fraud risk assessment as part of continuous monitoring.

Comments from Management

4.58 *The Office of the Comptroller recognizes the benefit of a fraud risk assessment and will investigate* *alternatives for establishing a process which provides adequate coverage and can be updated on a regular basis.*

Audit Committee

Observation

4.59 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 weaknesses 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.

4.60 As noted in prior year management letter, the Province of New Brunswick has no formal audit committee.

Recommendation

4.61 We again recommend the Department of Finance establish an audit committee for the Province of New Brunswick.

Comments from Management

4.62 *The Department of Finance agrees with this recommendation.*

Administration Manual Policy AD-6402

Observation

4.63 As noted in prior year, the process used by NBISA for making payments does not comply with administration manual policy *AD-6402 – Approval of payments*. This policy is out of date for processes used by the shared services environment, as well as other payment system interfaces used by various government departments.

Recommendation

4.64 We recommend the Office of the Comptroller consult with the New Brunswick Internal Services Agency with regard to administration manual policy AD-6402 and revise the policy to reflect

current payment approval requirements for processing government transactions.

Comments from Management

4.65 *The Office of the Comptroller agrees with the recommendation and targets bringing forward a revised policy to Board of Management in 2014.*

Purchase Card Policy

Observation

4.66 We noted the Province does not currently have a policy in place regarding the use of purchase cards. Annual purchase card transactions total over $30 million. A draft policy from 2005 does exist, however, it has never been finalized. In our work, we noted some departments have increased the purchase card limit from the default limit of $1,500. While the increase was approved by a departmental manager, without a documented policy we cannot determine if this is the appropriate level of approval for such exceptions.

Recommendation

4.67 We recommend the purchase card policy be finalized as soon as possible.

Comments from Management

4.68 *The Office of the Comptroller agrees with the recommendation and targets bringing forward a revised policy to Board of Management in 2014.*

Office of the Comptroller
Oracle System

Segregation of Duties – Developers' Access to Production Data

Observation

4.69 During our review of Oracle R12 application system administration security, we noted the developers had full access to the production application and were also assigned transaction processing capability. This segregation of duties conflict allows users with powerful access privileges to override/circumvent the designed system controls. We further noted no monitoring process was in place to monitor and control access to the transaction processing responsibilities granted to the developers. Effective monitoring controls are critical given developers have access to the production application.

Recommendation

4.70 We recommend developer access to the production environment be restricted. Where access is required based on valid business reasons, it should be logged and appropriate monitoring controls should be implemented to cap the risk to an acceptable level.

Comments from Management

4.71 *To provide the necessary system support, FIS Support Team members share responsibility for operational and functional support, help desk support and development. The current structure necessitates access to the production environment.*

4.72 *In recognition of the risk of this structure, a weekly security report has been created which outlines the last update date for responsibilities assigned to FIS support team members. This report is sent to the Director of Accounting Services and the Managers of Financial System Support. Review procedures for this report and procedures for assigning responsibilities to FIS support team members are being formalized and documented. These procedures will include documenting the business reason for granting access and end dating access when it is no longer required.*

Recommendation

4.73 We recommend the access of financial information support (FIS) team members to the Oracle R12 application be restricted to System Administration functions and any functional Oracle responsibilities that provide transaction

processing capability be end-dated unless they are required for valid business reasons (in which case the access should be monitored to ensure no unauthorized transactions or changes are done in the production environment).

Comments from Management

4.74 *A monthly process will be implemented to report all responsibilities assigned to FIS team members. This report will be reviewed and responsibilities end-dated as necessary.*

Recommendation

4.75 We recommend, if FIS team members' functional access is required for a valid business reason, appropriate monitoring controls be established as compensating controls to log, track and review changes made by FIS team members.

Comments from Management

4.76 *The Department has implemented auditing at the forms level for FIS team member and SYSADMIN accounts. Procedures for reviewing these audit logs will be developed and documented.*

Recommendation

4.77 We recommend the use of privileged system accounts be adequately controlled and monitored as these provide enhanced levels of access and could be used to circumvent the system security.

Comments from Management

4.78 *SYS and SYSTEM accounts are accessed only by the DBA. The APPS and SYSADMIN accounts are accessed by the FIS Support Team only when necessary. The passwords are secured in a password protected spreadsheet to which only the FIS Support Team has access.*

4.79 *The Department will investigate the possibilities for monitoring and controlling access for these accounts.*

Department of Finance
Property Tax System

Accounting for Tax Revenue

Observations

4.80 Public Sector Accounting Standards section 3510 *Tax Revenue* came into effect during the current fiscal year. The section provides guidance on accounting for and presentation of tax revenue. In our work, we noted the Department performed an analysis of the classification of its tax programs to determine the accounting treatment recommended by the handbook section. We noted, however, some cases where the recommendations in the section were not properly treated and/or applied by the Department prior to our audit. For example, revenue adjustments for some concessions and penalties with an absolute value of $7.3 million were not in accordance with the guidance provided in the section. We also noted interest and penalty revenue of $15.1 million was incorrectly reported on the same financial statement line as the related tax revenue. The Department corrected both of these situations.

Recommendation

4.81 **We recommend the Department review its tax accounting practices and follow all the guidance recommended in Public Sector Accounting Standards section 3510 *Tax Revenue* when accounting for property tax and its related accounts.**

Comments from Management

4.82 *The Revenue and Taxation Division will work with the Office of the Comptroller to ensure all requirements under PS 3510 are met in the future.*

Account Reconciliations

Observations

4.83 During our audit, we noted several cases where incorrect amounts were used by the Department when preparing account reconciliations. One case resulted in staff of the Department and the Office of the Comptroller expending significant effort during our audit process to resolve the matter. This situation related to Local Service District revenue and resulted in an adjustment of approximately $10.1 million. Two other cases resulted in minor adjustments to account balances.

4.84 From our work we note the following:

- Detailed review of account reconciliations is required. The Department indicated property tax account reconciliations were reviewed by the manager and/or the executive director responsible. Given the errors encountered in our testing, however, the level of review for these accounts should be increased.

- Property tax accounting staff at the Department of Finance should continue to receive training to increase their knowledge and understanding of the property tax accounting process.

- The Department should continue to review the various entries posted to the 1121 account (municipal revenue suspense) as these entries have a direct impact on the amount of provincial revenue recorded.

- The Department should also review the entries to the 0666 account (accrued municipal property taxes payable) as this account has had significant errors in its ending balance for the past two years. This year a correcting adjustment of $14.2 million was posted to this account during the audit.

Recommendation

4.85 We recommend the Department managers perform a detailed review of property tax account reconciliations in a timely manner so that any errors or omissions are detected and corrected prior to the start of the audit. Evidence of this review should be documented.

Comments from Management

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

Recommendation

4.87 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

4.88 *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

4.89 We recommend the Department perform a detailed analysis of the entries made to the municipal revenue suspense account and the

accrued municipal property taxes payable account. This will help eliminate posting errors to the accounts.

Comments from Management

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

Supporting Documentation for Property Tax Reserve, Provision and Allowance for Loss Accounts

Observations

4.91 The Department has three main accounts where estimates are used as a basis for determining account balances. In the past, we recommended the Department document the rationale used to calculate the estimates. During our audit, we noted the Department has made some progress in implementing this recommendation, however, more work is needed. In particular, the Department should compare actual results with its estimates to determine the reasonableness of the estimate and it should provide support to illustrate how risk factors and percentages are determined.

4.92 We also found the Department's documentation for the various accounts and accounting practices should be improved. The documentation provided by the Department was out-of-date and incomplete. At a minimum the documentation should include definitions and appropriate use of each account.

Recommendations

4.93 We recommend the Department clearly document the steps required and the rationale used to calculate the provision, reserve and allowance for loss accounts. In particular, the Department should compare actual results with its estimates to determine the reasonableness of the estimates and it should provide support to illustrate how risk factors and percentages are determined.

4.94 We recommend the Department improve its documentation of the reserve, provision and allowance for loss accounts.

Comments from Management

4.95 *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.*

4.96 *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.*

Service New Brunswick
Property Tax Assessment System (EvAN)

Road Review Documentation for Property Assessment Changes

Observations

4.97 We noted in the property assessment process documentation deficiencies in the road review performed for property assessment purposes. A road review is conducted by the assessor and the office manager to verify methodology used and evaluate the equitable level of property tax assessments. We found some evidence of road reviews being kept on file, however, this documentation should be improved. Currently, if a road review results in a change to an assessment value, a new value is written on the road review report. No evidence is recorded on the report to show who proposed the change and whether or not the change was input into the system. If a road review results in no change to an assessment value, the reviewer does not record anything on the report to show the road review was performed. Strengthening the documentation surrounding this process is important as road reviews serve as a key control in verifying the accuracy of assessment data.

Recommendation

4.98 **We recommend a documented sign off of the road review by the assessor and manager who conduct the road review and by the employee who inputs the updated assessment data in the EvAN system. This documentation should be recorded and retained for all road reviews conducted, regardless of whether or not they result in changes to the assessment data**

Comments from Management

4.99 *SNB will ensure road reviews are signed off by the Assessor and Manager upon completion.*

The documentation will be recorded and retained for all road reviews conducted, regardless of whether or not they result in changes to the assessment data.

Department of Social Development
Long-term Care and Social Assistance

NBFamilies – Financial Assessments/Client Contributions

Observations

4.100 As part of our testing, we determine whether the financial assessments are up-to-date in accordance with departmental policy and whether the calculation of client contributions is correct. The amount of the client contributions affects the Department's payments to service providers for clients' care.

4.101 During our testing, we found two out of fifteen cases (13%) where the financial assessments were not up-to-date. The assessments had been completed in 2004 and 2008 for these cases.

4.102 We also found six out of fifteen cases (40%) where client contributions were incorrect. In the first case, the last financial assessment had been completed in 2004. The assessment was incorrectly completed and insufficiently documented. This resulted in the client overpaying at least $3,900 for their services. The Department is in the process of correcting this issue.

4.103 In the second case, the client was assessed properly, however, the contribution was not entered into the system, which resulted in the Department overpaying the vendor by approximately $1,740. This overpayment has since been recovered by the Department.

4.104 In the remaining four cases, the clients were receiving Old Age Security and Guaranteed Income Supplement benefits. The amount of these benefits increases quarterly. Even though the clients' financial assessments were within the two-year timeframe, as required by departmental policy, the client contributions were not adjusted for quarterly benefit increases ranging from two to four quarters.

Recommendation

4.105 We recommend the Department of Social Development:

- **complete financial reassessments for clients within a two-year timeframe as required by policy;**
- **properly document financial assessments and client contribution calculations and enter this information into the system on a timely basis;**

- **implement controls to verify the accuracy of client contribution calculations and client contribution data entry; and**
- **implement a process whereby client files are updated with rate increases for Old Age Security and Guaranteed Income Supplement benefits where applicable.**

Comments from Management

4.106 *Work has been done to incorporate the financial calculation directly into NBFamilies. Thus, no time delay in entering data.*

4.107 *A Lean 6 Sigma project has been completed on the client contribution process. It is expected this will enable assessments on an annual basis. It will allow for immediate rate increases for Old Age Security and Guaranteed Income Supplement in the NBFamilies system as well.*

Client Reviews – NBFamilies and NBCase

Observations

4.108 During our testing of transactions for the NBFamilies and NBCase systems, we noted cases where client reviews were not performed in accordance with departmental policy. In our sample of fifteen NBFamilies items, four case reviews were not up to date. In our sample of twelve NBCase payments, one client review was not up to date. Regular case reviews and client contact help to confirm clients remain eligible to receive the level of care or benefits they are provided.

Recommendation

4.109 We recommend the Department of Social Development perform client reviews in the timeframe required by policy.

Comments from Management

4.110 *We agree with your recommendation. The Provincial Program Consultant will reiterate this requirement during the next meeting with Long Term Care regional supervisors and will reinforce the necessity of documenting this work in NBFamilies. A degree of the non-compliance with policy has to do with workload and case load size of the front-line managers.*

NBCase – Expense Cut-Off

Observations

4.111 We examined twelve payments processed by the NBCase system as part of our testing. One of the items related to the prior fiscal year, however, it was not accrued by the system. From discussions with the Department, we determined the NBCase system is not properly recording daily pay runs which need to be allocated between fiscal years. We understand the time required to diagnose and fix the problem is not known. In the meantime, the Department should review the accounting for the pay runs and appropriately allocate the amounts to the proper fiscal year.

Recommendation

4.112 We recommend the Department of Social Development improve its year end cut-off process for NBCase daily payments so that expenses are recorded in the proper fiscal year.

Comments from Management

4.113 *We agree with your recommendation.*

Department of Economic Development
Nortridge Loans System

Segregation of Duties

Observations

4.114 During our audit, we noted a number of observations relating to segregation of duties. We found one individual is the primary user of the system. This individual is responsible for receiving cheques, entering transactions, preparing system reconciliations to the Oracle general ledger, preparing bank deposits and performing system administration functions. Having one individual responsible for performing all of these functions results in a segregation of duties conflict

4.115 We also make the following observations:

- We noted no one is reviewing the work of the primary user to verify the accuracy of the input or the accuracy and completeness of the Oracle general ledger reconciliations.

- The primary user has been assigned the role of system administrator and is responsible for performing administrator functions, such as creating users and assigning system access. An activity report is available which identifies all transactions and functions performed by a user. Currently, no one is printing and reviewing this report to determine the appropriateness of the transactions and functions being performed by the primary user.

- We noted the lack of a consistent process for the receipt of client loan repayments. All cheques should be received in a consistent manner, logged and stamped at the original point of origin. The log should then be forwarded to the accounting officer for input into the system. The accounting officer should not be receiving the cheques and preparing the bank deposit. Having a consistent process for receiving payments reduces the risk of fraud and/or cheque loss.

Recommendations

4.116 We recommend the Department review the process in place for the Nortridge Loans system and ensure key functions are appropriately segregated so that one individual is not responsible for entering transactions, reconciling the system and preparing the bank deposits.

4.117 We recommend the Department have a separate individual review and verify the accuracy of the data entered into the Nortidge Loans system and the accuracy and completeness of the reconciliation of the system to the Oracle general ledger. These reviews should be performed on a regular basis (i.e. monthly), appropriately documented and maintained for audit purposes.

4.118 We recommend the Department have an independent individual review the transactions completed by all Nortridge users to determine the appropriateness of the transactions. We also recommend the Department assign the administrative role for the Nortridge Loan system to an individual who is not responsible for processing transactions.

4.119 We recommend the Department implement a consistent process for receiving client loan repayments whereby cheques are received and logged by one individual. The cheque log should then be forwarded to the accounting officer for input into the system.

Comments from Management

4.120 *Due to the size of the Financial Services office in the past, segregation of duties was more difficult to assure. With the recent restructuring, we are now able to incorporate segregation of duties where necessary.*

4.121 *While we acknowledge the lack of segregation, we feel that the following compensating controls reduce our risk.*

- *The Accounting Officer ensures deposits are done weekly and on the last day of each month. If a deposit is greater than $500,000, it is done immediately. All deposits and related journals are signed off by the Manager of Accounting Services.*
- *Monthly statements are sent to loan recipients*
- *The Account Assistant distributes every two weeks a Past Due report to the Financial Officers to review.*

4.122 *We have instituted the following recommendations:*

- *The Manager verifies the accuracy of new loans and guarantees entered into the NLS and reviews the reconciliation of the NLS to the Oracle general ledger on a monthly basis as evidenced by signature.*
- *Another individual logs all incoming cheques and forwards the log to the Accounting Officer for input into the system.*

4.123 *The administrative role for the NLS has been reassigned to the Information Technology Section. Once this responsibility has been reassigned, we do not feel it is necessary to review transactions completed by all NLS users as only two employees will have the ability to enter transactions.*

Information Technology (IT) Findings

Background

4.124 In order to express an opinion on the Province's financial statements, we document controls and test transactions processed by significant financial IT systems. Some of this work is performed on a cyclical basis. We also document the controls associated with the Province's overall IT infrastructure. Exhibit 4.2 lists the IT systems we examined.

Exhibit 4.2 – IT Systems Examined

Department	Audit
Education and Early Childhood Development (EECD)	Teachers' Payroll
Economic Development (ED)	Nortridge Loans
Finance	Property Tax System
New Brunswick Internal Services Agency (NBISA)	HRIS Payroll System
	Oracle Input System (IPM)
	IT Infrastructure
Office of Chief Information Officer (OCIO)	Policy Review
Office of the Comptroller (OOC)	Oracle R12 Financials (R12)
Service New Brunswick (SNB)	Property Tax Assessment System
Social Development (SD)	NBFamilies[1]
	NBCase[2]

[1] *Long-Term Care System (NBFamilies)*
[2] *Social Assistance System (NBCase)*

Key Themes

4.125 We are not publishing the details of all of our IT system work given the technical nature of many of our findings, and as noted previously in this chapter, the risk of possible loss of government assets if the details of such findings are reported. Exhibit 4.3 presents key themes of our findings summarized by the responsible department.

Exhibit 4.3 Information Technology Findings – Key Themes

Theme	Finding	Finding addressed to
IT Segregation of Duties	Developers’ access to production	OOC (R12)
	Segregation of duties	ED
	Excessive permissions	SNB, NBISA (HRIS), OOC (R12), NBISA (IT Infrastructure)
	Corporate payroll reconciliation	NBISA (HRIS)
	Change management	Finance (Property Tax)
System Replacement	Property tax system	Finance
	Teachers’ payroll system	EECD
IT Security	Encryption of data	SNB, NBISA (Infrastructure)
	Monitoring – Administrators, Third-party service, Logs	OOC (Oracle R12), SNB, NBISA (IT Infrastructure), SD (NBFamilies)
	Compliance with government’s security policy	NBISA (HRIS), SD (NBFamilies), ED, NBISA (Infrastructure), NBISA (IPM)
	Approval of Access	SNB, NBISA (HRIS)
	Review/Confirmation of Access	SNB, NBISA (HRIS), NBISA (IPM)
	Management of network access	NBISA (IT Infrastructure)
Disaster Recovery / Backup of Key Staff	Disaster recovery plan	SNB, OOC (R12)
	Backup of key personnel	SNB, ED
	Outdated backup policies	NBISA (IT Infrastructure)
IT Policy	Security policy update	OCIO
	Security monitoring policy	OCIO
Reconciliations	Assessment system to property tax system	SNB
	Departmental payroll reconciliations	NBISA (HRIS)
Verification of Data Inputs	Assessment data	SNB
	Review of data inputs	EECD
Approvals	Spending and payment authority not provided	SD
	Approval of firewall changes	NBISA (IT Infrastructure)
	Spending authority in excess of authorized limit	SD
Client review	Compliance with policy	SD (NBFamilies & NBCase)
Application Testing	Change management	EECD

4.126 We are not aware of any loss of government assets or errors which resulted from the findings noted in Exhibit 4.3, 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.

4.127 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.

4.128 Given the significance of certain findings and that similar findings occurred across multiple departments, additional information on the key themes noted in Exhibit 4.3 is provided below.

IT Segregation of Duties

4.129 We noted five segregation of duties findings in our work. We discuss, in detail, two significant findings relating to Oracle R12 and the Nortridge loans system in paragraphs 4.69 and 4.114. Proper segregation of duties is necessary to reduce the risk of fraud and error in the accounting records.

4.130 Allowing users excessive access to systems and data increases the risk of segregation of duties conflicts and of individuals gaining unauthorized access to financial information or system functionality. These circumstances increase the risk of fraud or error in the accounting records.

System Replacement

4.131 In our work, we recommended two out-dated IT systems be replaced or modernized. In the case of the Property Tax system, we found the system is written in an out-dated programming language making it difficult to change and we question the reliability of the system as we noted a number of large system errors occurring during the year. The Department of Finance is in the process of replacing this system and expects the first release to be complete by 2014.

4.132 In the case of the teachers' payroll system, we found access security is extremely weak, support is provided by a single contractor with no backup and the system runs on old, out-dated hardware. The system is over 20 years old and is at a risk of failure. EECD noted NBISA is responsible for determining a new teachers' payroll system and the replacement date is not known. In the interim, we recommended EECD review the teachers' payroll system to determine if any new risks exist and to implement an appropriate risk response to address any identified risk.

IT Security - Encryption of Data

4.133 We noted findings relating to encryption in both SNB and NBISA (IT Infrastructure). Given the confidential nature of the information involved, encryption is recommended to help safeguard information and reduce the risk of a breach of confidentiality.

IT Security – Monitoring of Administrators, Service Providers, Access Logs

4.134 In two systems, we noted a lack of monitoring of system administrators' activity. See paragraph 4.73, for a discussion of the Oracle R12 system. In the case of SNB, the database administrator's activity is logged but the log is not reviewed.

IT Security - Compliance with Security Policy

4.135 We found multiple instances where departments did not comply with the guidelines recommended in the Province's IT security policy. Violations were mostly around restricting the limit of failed login attempts and complying with the password requirements, such as password complexity, password change frequency, password length, password expiry, and password reuse settings.

IT Security - Approval of Access

4.136 We had findings in two systems relating to the approval of system access. We noted in the NBISA (HRIS) system, the same person was creating and approving system access. We noted in the SNB system, the access requests were bypassing the IT service desk and thus the requests were not approved by the system owner. Proper controls relating to creating system access are required so only authorized employees obtain access to the system.

IT Security – Review/Confirmation of Access

4.137 We had findings in three systems relating to access: SNB, NBISA (HRIS) and NBISA (IPM). We also noted issues with the annual review/confirmation of user accounts. An annual review of user accounts reduces the risk of unauthorized system access by limiting the number of users to only those who require access in order to fulfill their job responsibilities.

Disaster Recovery and Backup Support

4.138 In our work, we noted two key systems where disaster recovery plans either do not exist or are not up-to-date. The new SNB EvAN assessment system does not have a disaster recovery plan and the OOC Oracle R12 system has a disaster recovery plan but it is out-of-date. An up-to-date, documented and tested disaster recovery plan is necessary so that organizations can recover operations in a timely manner in the event of a disaster.

4.139 We also noted a lack of backup personnel for the SNB EvAN assessment system and the ED Nortridge loans system. Trained backup of personnel is necessary to help ensure transactions continue to process when personnel are absent or terminate employment, and to help reduce the risk of fraud.

IT Policy – Security Policy Update

4.140 In our work, we noted the Province's information technology security policy has not been updated since November 2006. This policy provides guidance, directives and requirements for all employees and other stakeholders within the Province. Without an updated policy, controls may not be consistently applied resulting in deficiencies in processes such as user termination, password setting and data encryption.

Reconciliations

4.141 In our SNB work, we noted the reconciliation between the SNB EvAN assessment system and the Finance property tax system is not being completed on a regular basis. Reconciliations should be completed on a regular basis, such as weekly, to verify the data transfer between the systems is complete and accurate.

Verification of Data Inputs

4.142 In our work, we found three cases where the data input into applications is not being verified or approved. We found this in SNB where there is no review of assessment data entered into the system and in EECD where data input and approval controls should be strengthened for leave tracking, teachers' summer pay accrual and commencement information. Having data input reviewed and verified reduces the risk of inaccurate information being recorded in the financial accounting records.

Appendix 1 - Audit Objectives

4.143 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.

4.144 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.

4.145 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.

4.146 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

4.147 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.

4.148 Our Office is responsible for auditing the Province's 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 II - Loss through Fraud, Default or Mistake

4.149 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.

4.150 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 Education and Early Childhood Development Missing equipment in various school districts	$ 11,032
Department of Justice and Attorney General Missing cash	$ 7,543
Service New Brunswick Missing bank deposit	$ 5,048
Department of Natural Resources Missing equipment from various regions	$ 2,020
Department of Health Missing laptop	$ 1,500
Department of Transportation and Infrastructure Missing diesel fuel	$ 600
Department of Environment and Local Government Missing cash	$ 311

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

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

4.153 In 2013, the Province reported lost tangible public assets in the amount of $27,954 compared to a loss of $49,172 reported in 2012.

Chapter 5
Matters Arising from our Audits of Crown Agencies and Federal Claims

Contents

Matters Arising from our Audits of Crown Agencies and Federal Claims

Introduction

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

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

- Centre communautaire Sainte-Anne
- Collège communautaire du Nouveau-Brunswick
- Energy Efficiency and Conservation Agency of New Brunswick
- Economic and Social Inclusion Corporation
- Financial and Consumer Services Commission (formerly New Brunswick Securities Commission)
- Invest New Brunswick
- Kings Landing Corporation
- 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
- Premier's Council on the Status of Disabled Persons
- Provincial Holdings Ltd.
- Public Trustee - Trusts administered
- Regional Development Corporation

5.3 We also audit the following Federal claims:

- Agreement on Labour Market Development
- Agreement on Targeted Initiative for Older Workers

- Agreement on the Transfer of Federal Gas Tax Revenues
- Agreement Respecting Legal Aid and Court-Ordered Counsel
- Agreement for Saint John Harbour Bridge Rehabilitation
- Agreement on the Transfer of Federal Public Transit Funds
- Building Canada Fund– Communities Agreement
- Building Canada Infrastructure Plan – Base Funding Agreement
- Labour Market Agreement
- Municipal Rural Infrastructure Fund Agreement
- Strategic Infrastructure Agreement for Improvements to the National Highway System

5.4 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.

5.5 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 I.

5.6 We are reporting significant audit findings from the fiscal years ended 2013, 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.

5.7 We had several findings from our 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

5.8 Highlights and recurring themes of our significant findings are presented in Exhibit 5.1.

Exhibit 5.1- Highlights and Recurring Themes

Theme	Finding addressed to	Page Number
Need for Improved Management of Agreements or Third Party Arrangements	New Brunswick Lotteries and Gaming Corporation	133
	Financial and Consumer Services Commission	121
	New Brunswick Internal Services Agency	130
	TIOW[1]	152
	LMA[2]	151
Accounting Weaknesses Noted	Collège communautaire du Nouveau-Brunswick	114
	Centre Communautaire Sainte-Anne	112
	New Brunswick Community College	129
	Energy Efficiency and Conservation Agency of New Brunswick	115, 117-119
	New Brunswick Lotteries and Gaming Corporation	133
	Public Trustee – Trusts administered	139
	BCF[3]	145,146
	LMDA[4]	148
Lack of Documentation Regarding Conflict of Interest and Related Parties	New Brunswick Community College	128
	Invest New Brunswick	123
	New Brunswick Agricultural Insurance Commission	125
	New Brunswick Internal Services Agency	130
	Premier's Council on the Status of Disabled Persons	140
	New Brunswick Research and Productivity Council	137
Lack of Documentation for Management Estimates	Energy Efficiency and Conservation Agency of New Brunswick	117
	New Brunswick Legal Aid Services Commission	132
	New Brunswick Research and Productivity Council	136
	Collège communautaire du Nouveau-Brunswick	114
	New Brunswick Community College	127
	LMA[2]	150
	LMDA[4]	149
Lack of Segregation of Duties	Invest New Brunswick	124
	Energy Efficiency and Conservation Agency of New Brunswick	116
	Financial and Consumer Services Commission	120,122
	New Brunswick Agricultural Insurance Commission	125
	Public Trustee – Trusts administered	139
	Collège communautaire du Nouveau-Brunswick	113
	New Brunswick Community College	128
	Centre Communautaire Sainte-Anne	112
	New Brunswick Legal Aid Services Commission	132
	New Brunswick Lotteries and Gaming Corporation	135
	New Brunswick Research and Productivity Council	136

[1] Department of Post-Secondary Education, Training and Labour - Targeted Initiative for Older Workers
[2] Department of Post-Secondary Education, Training and Labour - Labour Market Agreement
[3] Regional Development Corporation - Canada - New Brunswick Provincial-Territorial Base Funding Agreement
[4] Department of Post-Secondary Education, Training and Labour - Labour Market Development Agreement

5.9 We are concerned that a number of these findings were observed 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. Exhibit 5.1 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.

5.10 We have significant concerns with the need for improved management of agreements or third party arrangements most notably in the New Brunswick Lotteries and Gaming Commission (NBLGC) and its participation in the Roboreus investment. During our audit we noted there was no documented evidence of due diligence procedures performed by NBLGC before NBLGC decided to proceed with participating in the Roboreus investment. Also we noted there was no signed agreement between NBLGC and the Atlantic Lottery Corporation supplied to our office pertaining to this arrangement. These matters are described later in this chapter.

5.11 In addition there were several accounting weaknesses dealt with in our Crown agency audits. Accounting weaknesses should be resolved in advance of our audit and to ensure the Board or oversight body of the Crown agency is receiving accurate and complete financial information during the year. These concerns are presented throughout this chapter.

5.12 We also have concerns regarding the numerous instances where we noted a lack of documentation regarding conflict of interest and related parties. The Province's Administration Manual states that some positions in the public sector are more susceptible than others to conflicts of interest and therefore it is important to have annual documented disclosure of conflicts of interest by staff. This will ensure management is aware of possible related parties and can put measures in place to mitigate any risks noted.

5.13 We are also concerned about trends in claims or cost shared agreement management. In addition to the findings in Exhibit 5.1, we noted in the Labour Market Development Agreement, for the year ended March 31, 2013, $16.3 million of available federal funding was not utilized and cannot be carried forward to future years. We also noted in the case of the Labour Market Agreement, $1.6 million of federal funding was not utilized. This amount, however, can be carried forward to the next fiscal year. Funding accessible through the federal programs is an important source of revenue for the Province and provides opportunities for the Province to increase programs and services delivered to New Brunswickers. Proper claims management is important to ensure available funding is maximized and swiftly received.

5.14 While we have not noted any significant fraud, theft or error, the existence of the findings noted in Exhibit 5.1, such as the lack of segregation of duties 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

5.15 Our observations, recommendations and agency/departmental responses to our significant reportable findings are presented in this section of our Report. Refer to Exhibit 5.2 for further information.

Exhibit 5.2 - Agencies and Departmental findings reported in this Chapter

Centre Communautaire Sainte-Anne (2013)

5.16	**Revenue and expense cut-off**

During our audit, we found errors in the revenue and expense cut-off. The cut-off must be accurate so there are no significant errors between fiscal years. This is very important to ensure the amounts presented in the financial statements are complete and accurate.

Recommendation	Comments from Management
We recommend invoices paid and amounts deposited after the end of the fiscal year be reviewed in order to determine the related fiscal year for revenue and expenses. The amounts related to the previous fiscal year should be recorded in the appropriate year.	[Translation.] *At the end of its fiscal year, the CCSA will conduct a review of invoices paid and amounts deposited so that the amounts related to the fiscal year are recorded in the appropriate year.*

5.17	**Segregation of duties regarding deposits**

We noticed weaknesses with respect to the segregation of duties related to revenue, accounts receivable, and the collection of funds. One individual is responsible for recording, reporting, and safekeeping assets. This could lead to a risk of possible inappropriate activity if effective compensation measures are not put in place.

Recommendations	Comments from Management
We recommend management review the assigned duties to determine if task realignment would allow for better segregation of duties or if compensation measures could be implemented to strengthen the control environment.	[Translation.] *The General Manager will review the assigned duties to determine if a better segregation of duties is possible or if compensation measures could be implemented.*

Collège communautaire du Nouveau-Brunswick (2013)

5.18	Undocumented Review

We noted during our documentation of controls that there is no review or approval of bank reconciliations and journal entries to record campus bank deposits.

Recommendation	Comments from Management
We recommend that a second person review and approve the bank reconciliations and journal entries, and that this approval should be documented with a signature.	[Translation.] *This recommendation was put in place by the manager of financial services supervisors.*

5.19	Management of Accounts Receivable

Details concerning accounts receivable come from many subsidiary accounts on the campuses and certain accounts are very old.

Given the centralization of other processes at the CCNB, we believe the consolidation of accounts receivable would enable better monitoring of these accounts. Moreover, because of their age, we believe the old accounts receivable should be written off CCNB's accounts.

Recommendation	Comments from Management
We recommend the subsidiary accounts receivable be consolidated and that the old accounts receivable be written off.	[Translation.] *With the new version of SIMS, students' accounts receivable will be managed centrally. The other accounts will remain and will be managed by the financial services supervisors on the campuses.* *With respect to writing off the old accounts receivable, in 2013-2014, the CCNB will conduct an evaluation of them and submit recommendations for approval by the Board of Governors.*

Collège communautaire du Nouveau-Brunswick (2013) (continued)

5.20	Management Estimates – Calculation and Approval

Management estimates are used to calculate the allowance for doubtful accounts. The estimates are based on the method used by the Department of Post-Secondary Education, Training and Labour for its general accounts receivable for the 2011-2012 fiscal year. We noted there is no documented review or approval process for the allowance for doubtful accounts or its calculation.

Recommendation	Comments from Management
We recommend the CCNB review and approve the allowance for doubtful accounts as well as all other significant estimates including deferred revenue, and that these steps be documented.	[Translation.] *The allowance for doubtful accounts is calculated in accordance with the standards established by the Province of N.B. It is understood that in the calculations, the CCNB adjusts the allowance in terms of all of its accounts receivable, not by campus.* *The approval measures are already in place and will be better documented to meet the auditors' needs.*

5.21	Deferred revenue

The CCNB has projects for which the deferred revenue is recorded at the end of the fiscal year since the project has not been completed, but the funds have been received. An estimate of the deferred revenue for these projects was prepared, but the estimate was not always documented as being reviewed, e.g., for the international project in Mali. We were provided with a reconciliation of deferred revenue related to this project, but we detected some differences. Although the differences were not significant, we believe an in-depth and detailed reconciliation should be prepared and reviewed for each project.

Recommendation	Comments from Management
We recommend the CCNB complete a detailed reconciliation of the project balances with deferred revenue recorded at the end of the fiscal year and that this reconciliation be reviewed and approved.	[Translation.] *The CCNB already has control mechanisms in place to review the revenue and expenses associated with each project. An evaluation of these mechanisms will be done in 2013-2014, and any necessary changes to meet the needs of the CCNB will be made.*

Energy Efficiency and Conservation Agency of New Brunswick (2012)

5.22	**Reconciliation of the financial statements to the Provincial Oracle system**

As noted in our 2011 audit results report, the financial statements of the Agency do not easily reconcile with some of the Oracle accounts of the Province, specifically the loans receivable balance as well as the Due to and Due From the Province line items. We note management had not prepared a documented reconciliation during the audit year.

Recommendation	Comments from Management
We recommend the financial statement amounts be reconciled by management to the Oracle accounts periodically but at a minimum annually. Differences should be corrected as needed on a go forward basis.	*The loans receivable balance on the financial statements did not balance to the Oracle account as a result of prior year adjustments that were never booked, however the Auditor General's office was provided with a reconciliation both during the audit of Province's financial statements as well as during the Efficiency NB audit reconciling the differences between the two accounts. As for the Due to and Due from the Province line items, these two accounts do not exist in the Oracle system. It has been flagged as an item that should be addressed and that these two accounts should be created in Oracle however due to limited resources and competing priorities both at Efficiency NB and the Office of the Comptroller this has not happened.*

Energy Efficiency and Conservation Agency of New Brunswick (2012) (continued)

5.23 Lack of Segregation of Duties – Journal Entries, Financial Reporting, Key Calculations

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. We also noted there was no documented review of financial reporting information indicating someone other than the preparer had reviewed financial reports, bank reconciliations, payroll reports and key financial calculations such as the allowance for doubtful accounts. Segregation of preparation and approval functions reduces risk of fraud and error in the financial statements.

Recommendations	Comments from Management
We recommend management (a second person other than the preparer) document review and approval of manual journal entries, financial reports, bank reconciliations, payroll reports and key calculations (eg. allowance for doubtful accounts).	*Efficiency NB is a very small Agency with only one staff person dedicated to preparing all of its financial information. During the audit period 2011-2012 Efficiency NB was receiving financial support from the Department of Finance, Financial Services Branch. Although there is no paper trail showing the review and approval of manual journal entries for this period the Director of Finance at Efficiency NB did not have access in Oracle to upload journal entries. As such, all journal entries were prepared by [the director] and sent to the Financial Services Manager to be reviewed and uploaded to Oracle. The majority of these journal entries are directly associated with year end and the backup information and calculations were provided to the Financial Services manager including key financial calculations such as the allowance for doubtful accounts.* *It is true that some financial calculations and reports are not reviewed by anyone other than the Director of Finance at Efficiency NB. When the Agency moved under the Department of Environment and Local Government in June of 2012 we were no longer being provided with any financial support.* *Management agrees that proper segregation of duties reduces the risk of fraud and errors however we do not feel that simply having someone else on the senior management team review all finance related transactions and reports who has no in depth knowledge of finance and accounting will accomplish the goal of reducing risk of fraud and errors. We will explore options with the Department of Environment and Local Government as well as the Office of the Comptroller to identify someone with a financial background who could provide the review function to the Agency going forward to ensure accuracy in calculations and proper segregation of duties.*

Energy Efficiency and Conservation Agency of New Brunswick (2012) (continued)

5.24	Loans Receivable - Allowance and Write Offs

Of the $13 million loans receivable balance, $261,000 was deemed uncollectable and management determined this amount should be written off. Write offs cannot occur unless there is Board of Management approval, which had not occurred by the end of the year. Additionally the allowance recorded was not sufficient and therefore an audit adjustment was required.

Recommendation	Comments from Management
We recommend analyzing loans receivable before year end and obtaining Board of Management approval so that write offs can be adjusted annually. As well we recommend a thorough review of loans receivable so that an appropriate allowance is booked to reflect the future loan collectability prior to the audit.	*Management will ensure that amounts deemed to be uncollectible will be taken to Board of Management prior to year end so that the write off can be adjusted annually. The loans receivable are thoroughly reviewed so that an appropriate allowance is booked annually. For the 2011-2012 fiscal year it was deemed that current allowance was sufficient and that it did not need to be increased. This calculation was reviewed by the Financial Services Manager at the Department of Finance who also agreed that no adjustment needed to be booked in 2011-2012. Based on the assessment of the Auditor General's office we will review our process for determining the proper allowance to ensure that it is correct.*

Energy Efficiency and Conservation Agency of New Brunswick (2012) (continued)

5.25	Bank Reconciliations and Deposits

Bank reconciliations were only performed at year end, increasing the risk that more substantial errors could go unnoticed in the bank account throughout the year. In addition we noted some cheques received to be deposited remained undeposited for a period of three months in some cases.

Recommendation	Comments from Management
We recommend bank reconciliations be performed on a monthly basis to reduce the risk of errors. As well we recommend deposits be made to the bank account on a timely basis (weekly or daily depending on deposit volume).	*Due to limited staff and resources bank reconciliations were only being performed at year end. Since the only transactions that go through this account are related to loan repayments that are all automated through the Oracle AR system is was thought that the risk of substantial errors happening would be minimum. With that being said the Director of Finance is now performing the reconciliations monthly when time permits but quarterly at a minimum.* *Normally the Agency only receives cheques when we offer training using a cost recovery model. It was the practice of the administrative staff to hold on the cheques received for this these courses until all of the payments had been received. Also prior to April 2012 all deposits were sent to Fredericton and the deposits were made by the Financial Services Branch causing another delay in cheques being deposited. Starting in April 2012 [a staff member] has been doing our own deposits locally in Saint John. We have also changed the practice of holding cheques and have asked administrative staff to give them to [that staff member] as soon as they are received. That [member of staff] prepares bank deposits every two weeks depending on the volume and weekly if required.*

Energy Efficiency and Conservation Agency of New Brunswick (2012) (continued)

5.26	Non Sufficient Fund (NSF) Amounts Not Updated to Receivables Subledger

Review of the NSF process and respective follow up was not performed during the year ended March 31, 2012. The Agency was not updating the accounts receivable subledger for payments in default and therefore receivables were overstated. An adjustment was made at the end of the year to reconcile such accounts, however this should be monitored throughout the year to ensure the receivable balance is accurate.

Recommendation	Comments from Management
We recommend the NSF changes be reviewed and reconciled on a monthly basis and appropriate entries made to ensure the receivable balance is accurate and complete.	*During the March 2012 year end process it was discovered that the employee responsible for the accounts receivable and NSF process was not doing her job and was not contacting clients who were not making their monthly loan payments and also not reversing their missed payments in the receivable subledger. This employee resigned shortly after the discovery was made and a plan was put in place to rectify the situation. Since that time all NSF payments have been reversed in the system and all subledger accounts are correct. The clients who were in default have all been contacted and the majority of them have either paid off their arrears or have made arrangements to pay them off over a specific period of time. All NSFs are now reviewed on a monthly basis and at a minimum are reconciled quarterly with the bank and Oracle.*

Financial and Consumer Services Commission (2013)

5.27	**Segregation of Duties – Accounting System**
During our audit, we noted the administrative user rights of the accounting system, which include modifying access controls of users and the ability to post entries into the general ledger, are not regularly reviewed.	
Recommendation	**Comments from Management**
We recommend a log of staff with administrator access be documented. We also recommend a log showing all modifications to system access and entries made into the general ledger by the administrator have documented review by the administrator and executive director on a regular basis.	*The accounting system (Sage 50) is a commercial off-the-shelf book-keeping package and is not subject to programming or modification at the user-level. The Administrative User rights reside with the CFO. A User log will be maintained which identifies the set-up and alteration of users and their rights will be performed. No accounting entries will be performed by "SysAdmin", which is the name of the system administrator.*

Financial and Consumer Services Commission (2013) (continued)

5.28	Service Organization Reports
When using a service organization it is important for management to be assured that the service organization has the proper controls in place to safeguard transactions that are processed on their behalf. Management should review the report, follow up on exceptions and document their findings as to whether the proper controls are present, and complimenting controls at NBSC are implemented, to ensure management can rely on the service organization.	

Recommendation	Comments from Management
We recommend management review the report, follow up on exceptions and document their findings as to whether the proper controls, and complimentary controls at NBSC, are present.	*The Service Organization reports pertain to the two national revenue systems – the System for Electronic Document Analysis and Retrieval (SEDAR) and the National Registration Database (NRD). Both systems are actively managed by the Canadian Securities Administrators (CSA) and are subject to numerous agreements. The Commission participates in the management of the national systems as the representative of non-principal administrators arising from the Non-Principal Administrator Participation Agreement for SEDAR, SEDI [Social and Enterprise Development Innovations] and NRD. The role and nature of the Commission and the CSA with respect to the service organization is fundamentally different than the common arms – length arrangement with 3rd party service providers. The oversight and control exceeds the norm.* *The Commission receives a CSAE 3416 report for both SEDAR and NRD. The report is reviewed. Consistent with other reports, it identifies a series of control objectives and a management assertion. The auditor states an opinion on these factors. The opinion, since we have received these reports, has been unmodified and unqualified, which would seem to preclude exception management processes.* *The process that is undertaken in practice (at the CSA level) exceeds the recommendation.*

Financial and Consumer Services Commission (2013) (continued)

5.29	Segregation of Duties – Revenue

During our audit we noted the staff member performing certain accounting functions, such as bank reconciliations and manual journal entries, also makes manual deposits into NBSC's bank account. These functions should be segregated within the accounting department.

Recommendation	Comments from Management
We recommend accounting and bank deposit functions be segregated.	*With the transition to the Financial and Consumer Services Commission this, and other, segregation of duty issues will be reviewed.*

Invest New Brunswick (2013)

5.30 Strategic Assistance Payroll Rebates

During our audit we noted no formal process is in place for calculating strategic assistance payments to ensure they meet the terms of the respective agreement. We also noted no documented process is in place for confirming the T4 data submitted by funding recipients in order to receive the rebate.

Recommendation	Comments from Management
We recommend INB develop a formal process to prepare and review payroll rebate calculations to ensure the rebate is in accordance with the agreement. We further recommend INB document results of its verification of T4 data submitted by payroll rebate recipients.	*Management agrees with the observation. A documented process will be established to prepare and review payroll rebate disbursements.*

5.31 Conflict of Interest Disclosure

During our audit we noted INB management did not have documentation of potential conflicts of interest for employees. The Province of New Brunswick Administration Manual AD-2915 states that some positions in the public sector are more susceptible than others to conflicts of interest. Annual, documented disclosure of conflicts of interest by staff would help ensure management is aware of conflicts and can put measures in place to mitigate risks.

Recommendation	Comments from Management
We recommend all INB employees, on an annual basis, disclose a listing of potential or actual conflicts of interest. Conflicts of interest should be assessed by management and appropriate action taken if necessary.	*Management agrees with the observation. An annual conflict of interest reporting mechanism will be developed as part of the annual performance evaluation of employees.*

Invest New Brunswick (2013) (continued)

5.32	Segregation of Duties

During our audit we noted there was no documented evidence of review and approval by management of the financial statements. As the year end financial statements of INB are compiled by one individual, 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 the financial statements. This review should be completed by a person who has not prepared this information.	*Management agrees with the observation. Future year draft financial statements and notes will be reviewed before submission to the auditors.*

New Brunswick Agricultural Insurance Commission (2012)

5.33	Documentation – Conflict of Interest Declarations

During our audit, we noted there was no documentation available for our review respecting declarations of conflicts of interest for Commission members or employees. We are aware from prior audit experience with the Commission conflicts may arise which need to be disclosed, mitigated and documented. Obtaining annual signed declarations of independence from Commission members and staff would reduce the risk of conflicts not being identified.

Recommendation	Comments from Management
We recommend signed declarations of conflicts of interest be obtained from each Commission and staff member annually.	*NBAIC staff, through the annual performance appraisal process, are required to identify any conflict of interest in accordance with the Government of New Brunswick Corporate Policy 2915 of the Administration Manual System.* *Management agrees with the recommendation for Commission members and will endeavor to collect signed declarations of conflicts of interest from each Commission member at the commencement of their term.*

5.34	Segregation of Duties

During the course of our audit, we noted areas where, due to staff turnover and a limited number of employees, segregation of duties for key accounting functions is lacking. These areas include journal entry and financial statement approval, and dual signature approval of indemnity producer reconciliation reports.

Recommendation	Comments from Management
We recommend the Commission implement and maintain proper segregation of duties for key accounting functions.	*Management agrees with the recommendation and, although challenged by human resource constraints and a small administrative staffing complement, will endeavor to ensure proper segregation of duties for key accounting functions when possible.*

New Brunswick Community College (2013)

5.35	Capital Assets

We noted NBCC did not have a finalized version of a capital asset policy to support the accounting treatment of capital activity throughout the year.

We noted NBCC's draft capital asset policy is not in compliance with PSAS 4230 in the following areas: the capitalization of computer hardware and software has not been addressed, the cost of renovations to PNB buildings has not been addressed, as well as the first time equipping of buildings has not been addressed.

We also noted NBCC occupies several buildings that are owned by the Province of New Brunswick. There is no agreement in place that outlines the terms of this arrangement.

Recommendations	Comments from Management
We recommend management review PSAS 4230 to ensure the NBCC's capital asset policy is in compliance. The policy should be finalized prior to the next year's financial statement audit. **We also recommend NBCC clarify, in writing, the terms surrounding the use of Province of New Brunswick buildings.**	*The final capital asset policy will be enhanced to address the computer hardware/software comments. At present, PS 4230 infers ownerships of buildings in order to record an asset as a betterment. NBCC does not own the buildings and, therefore, the value of improvements cannot be added to the cost of the buildings. PSG-2 applies to leased tangible capital assets and paragraph 3 states that an asset must be held under lease in order to be classified as a leased capital asset. NBCC does not have any lease with the Province. Although in principle we agree with the comment on capitalization of costs, the current arrangement between NBCC and the Province does not support either of these cases. NBCC will utilize this observation in an attempt to formalize leasing arrangements with the Province in the coming year. In our opinion, the $10,000 capitalization threshold addresses the first-time equipping of the buildings issue.*

New Brunswick Community College (2013) (continued)

5.36 Management Estimates – Calculations and Approvals

Management estimates are used when calculating the allowance for doubtful accounts. We noted there is no documentation to support NBCC's methodology in determining the allowance. Allowance estimates should be supported by historical collection data. Furthermore, there was no documented evidence of review and approval of the allowance amount or its calculation.

We also noted a lack of documentation surrounding management's process for determining the inventory obsolescence amount as well as a lack of documented approval of the estimate. We further note the inventory obsolescence value is not separately tracked in Oracle.

In addition to the lack of review and approval of management estimates related to allowances and obsolescence noted above, we also noted there was no documented review and approval of management estimates of deferred revenue.

Recommendations	Comments from Management
We recommend NBCC perform an annual documented review of the allowance for doubtful accounts and retain documentation to support the validity of the methodology used in determining the amount. **We recommend inventory obsolescence be tracked separately in Oracle. We further recommend NBCC perform an annual documented review of the inventory obsolescence and retain documentation to support the validity of the methodology used in determining the amount.** **We recommend estimates related to deferred revenue be reviewed and approved by management and that this process be documented.**	*A collections policy is being developed to address the method of calculating allowance for doubtful accounts and will take into account historic collection data.* *Inventory obsolescence is being tracked based on actual amounts written off; therefore, the amount is tracked as an expense as well as a reduction to the inventory values. Our normal procedure is to remove obsolete inventory from the ACOMBA system and dispose of it immediately. Any items that are declared obsolete, but retained for resale, will be recorded in Oracle in the future. Procedural documentation related to the determination and approval of obsolete inventory will be distributed to appropriate staff, and retained in our records.* *All estimates are reviewed by the financial reporting manager and senior accounting manager; however, they have not initialled the documents as evidence of this review. A process will be implemented to document this review and evidence of this review will be placed on the documentation.*

New Brunswick Community College (2013) (continued)

5.37 Conflict of Interest and Related Party Disclosure

Disclosure of related party transactions and balances is required under PS 4260. To assist us in auditing related party activity we requested from management a listing of related party transactions and balances. Management was not able to provide us with this information.

During our audit, we noted NBCC management did not have documentation of potential conflicts of interest for employees. Annual, documented disclosure of conflicts of interest by staff would help ensure management is aware of possible related parties and can put measures in place to mitigate risks.

Recommendations	Comments from Management
We recommend NBCC identify related party transactions and balances. All related party transactions should be disclosed and accounted for in the financial statements in accordance with PS 4260. We recommend all NBCC employees, on an annual basis, disclose a listing of potential or actual conflicts of interest. Conflicts of interest should be assessed by management and appropriate action taken as necessary.	*A process is in place for staff to advise senior management when they are in conflict of interest. However, the onus is on the employee and may not account for all occurrences. A conflict of interest form will be implemented as part of a staff orientation and will also be part of the annual performance review.*

5.38 Review of Journal Entries

During our audit we noted journal entries were recorded in the New Brunswick Community College (NBCC) accounting records by other departments, but there was no evidence of review and approval of the journal entries by NBCC management. We also noted NBCC has implemented a process of requiring review and authorization of standard and non-standard journal entries however, currently this review is not being documented.

Recommendation	Comments from Management
We again recommend NBCC management document their review and approval of journal entries.	*As with item 3, this review is currently being performed, but documentation of the review is missing. We will initiate a process that requires a signature/initial of the reviewing manager.*

New Brunswick Community College (2013) (continued)

5.39	Cut Off Errors

During our audit we noted several errors related to cut off, most notably with regards to accounts receivable, but also regarding accounts payable and prepaids. The larger cut off errors noted have been adjusted by management. Some remain on the schedule of unadjusted misstatements.

Recommendation	Comments from Management
We again recommend NBCC perform enhanced cut off procedures to ensure revenue and expenses are allocated to the proper period.	*NBCC follows the cut-off procedures set by PNB as modified for each campus. Every effort is made to ensure that all cut-off information is correct. We will continue to enhance our procedures around cut-off as we move to an electronic accounting system. This will allow for better tracking of commitments. Any significant errors are booked prior to the final preparation of the audited financial statements.*

New Brunswick Internal Services Agency (2013)

5.40	Lack of Supporting Documentation for Related Entities

During our audit, we noted a number of cases where the documented evidence was lacking for Agency decisions and calculations regarding related entity transactions. In our work we noted lack of support for key decisions, such as: agreements between Service New Brunswick (SNB) and the Agency for the sharing of staff, the transfer of a division from Government Services (DGS) to the Agency, the partial transfer of the amount budgeted in Main Estimates in DGS to the Agency and in certain departmental chargeback calculations. Given the related nature of SNB and DGS to the Agency, documented evidence to support these decisions is essential in validating financial information. In some instances upon request during our audit, the Agency did create evidence to support these decisions for our audit, however, these decisions were not documented at the time they were made.

Recommendation	Comments from Management
We recommend the Agency prepare and maintain evidence to support key transactions with related entities at the time the transactions occur.	*NBISA will ensure management's decisions regarding SNB and DGS are appropriately documented.*

5.41	Service Agreements

The Agency does not have signed agreements with all clients authorizing the cost of services provided to the clients. Without signed agreements, clients 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. During the year, the Agency entered into 13 agreements with clients, however, there are still eight agreements outstanding.

Recommendation	Comments from Management
We recommend the Agency prepare service agreements with all clients to which it provides services listing the services to be charged back. These agreements should be signed by both the Agency and the clients.	*NBISA has ongoing discussions with our clients and is working to address any necessary amendments to the agreements, in an effort to achieve sign off. Of the eight clients noted, two recently signed an agreement, five have draft agreements that are under discussion and the remaining one is under review to ensure that the client is not already covered under an existing signed agreement.*

New Brunswick Internal Services Agency (2013) (continued)

5.42	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 always 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 again recommend management prepare a cost recovery analysis for service delivery revenue.	*Work on an analysis of the cost recovery for NBISA's various service delivery revenues began in 2012-2013. Completion of the analysis is anticipated in 2013-2014.*

New Brunswick Legal Aid Services Commission (2013)

5.43	**Evaluation of Estimates in the Financial Statements**

During our examination of management estimates, we noted there was no documented review and approval of management estimates. Examples of those estimates include sick leave and retirement allowance calculations.

Recommendation	Comments from Management
We recommend estimates be reviewed and approved by management and that this process is documented.	*Agreed; NBLASC will ensure there is specific documentation and executive sign-off of all estimates used in the preparation of the financial statements.*

5.44	**Segregation of Duties – Accounting System**

During our audit, we noted the administrative user rights of the accounting system, which include modifying access controls of users and the ability to post entries into the general ledger, are not regularly reviewed. As well, computers are not encrypted.

Recommendation	Comments from Management
We recommend a log of staff with administrator access be documented and that administrative access be limited to only those who require it to perform their roles. We also recommend a log showing all modifications to system access and entries made into the general ledger by the administrator have documented review by the administrator and executive director on a regular basis. We also recommend laptop computers be encrypted to reduce the risk of potential loss of data.	*Agreed; NBLASC will review and limit access where appropriate to any security aspects of the financial system.* *Simply Accounting, being stored on the network, is already protected by the government firewall and access controls.*

New Brunswick Lotteries and Gaming Corporation (2012)

5.45 Participation in Roboreus Investment

During the year the board of the NBLGC agreed to participate, through Atlantic Lottery Corporation (ALC), in a $4 million investment in Roboreus Limited, a UK-based on-line gaming company. We have several concerns with the participation in the investment:

- During our audit there was no documentation or agreement between ALC and NBLGC supplied to our office that outlines NBLGC's responsibility for its role in the investment; for the interest costs related to the debt incurred by ALC; withholding of payments in the future to pay for the investment; or the implications on future payments if the investment is impaired.
- A condition of the NBLGC board for ALC to proceed with the proposed investment in Roboreus was that the review by ALC's consultants was favourable and validated. Due diligence reports were prepared by ALC's consultants. NBLGC did not conduct its own due diligence procedures separately from ALC. There was no documented evidence of review of the ALC due diligence reports by NBLGC. We were unable to review appropriate documents to determine if the NBLGC board condition was met.
- The maximum known amount at risk is $4 million plus interest costs on investment financing. For this year end, this has been presented in the notes to the financial statements of NBLGC.

Recommendations	Comments from Management
We recommend NBLGC ensure proper documentation or agreements are in place to support transactions that are outside of the normal course of operations. Such documentation should be available for audit purposes.	*We agree that appropriate documentation must be in place to support business decisions and that they be available for audit purposes. The Board of Directors feels that the letter from the Minister of Finance addressed to the President and CEO of ALC, dated April 26, 2012, outlines the NBLGC's responsibility for its role in the investment and the costs associated with the investment.*
We recommend NBLGC perform due diligence when evaluating whether or not to participate in new business activities or investments. Management's decisions should be supported by documented evaluation, analysis and due diligence reports. Documented periodic review of investment performance should also be performed on a timely basis.	*We agree that Management's decisions should be supported by documented evaluation, analysis and due diligence reports. While documented evidence was not available for audit purposes, the results of the due diligence reports prepared by ALC consultants were reviewed and discussed by the NBLGC Board of Directors. It was felt that given the amount of the investment and the risk associated with the investment, that sufficient due diligence was done. We commit to better document this evaluation in the future.*
We recommend NBLGC management continue to assess participation in this investment and to ensure compliance with Canadian public sector accounting standards.	*We agree that we will continue to assess participation in this investment and that the statements are compliant with Canadian public sector accounting standards.*

New Brunswick Lotteries and Gaming Corporation (2012) (continued)

5.46	Risk Management

NBLGC management does not formally assess, document and manage risks. Business activities of the NBLGC are becoming larger and more complex which increases the need for risk management. Formal assessments would help management identify risk for which strategies could be implemented to reduce risk to an acceptable level.

During the year a [Financial Transactions and Report Analysis Centre of Canada] FINTRAC Action Plan was produced and an audit was performed for Casino NB. Both the FINTRAC Action Plan and the audit resulted in observations being made in regards to weaknesses or control deficiencies of Casino NB. Both of these documents were made available to NBLGC management. These documents, as well as other risk analysis and evaluation, should be considered when assessing NBLGC risk and documenting responses to risk.

Recommendation	Comments from Management
We recommend NBLGC management document a risk management plan including a risk analysis with related risk responses. This would allow controls, which mitigate risk, to be identified and their effective operation to be evaluated on a regular basis.	*While we agree with the observation that the NBLGC management does not formally assess and document risk, we feel that informal processes and risk management strategies have been implemented within the organization or by service providers and monitored by the NBLGC. Examples of these are:* • *Receipt of daily, weekly and quarterly financial reports from the casino service provider, which are monitored for trends and forecasting purposes, and used to monitor revenue transfers;* • *Receipt of daily security and surveillance reports from the casino service provider, where incidents are documented, tracked and monitored;* • *Standards, polices and procedures for casino operations approved by the NBLGC;* • *Establishment of a responsible gaming information centre staffed by a third party operator contracted by the NBLGC;* • *Enforcement of requirements under the* Gaming Control Act *which require an annual casino financial audit by a trusted third party and an audit of casino internal controls every two years;* • *Monitoring of the comprehensive risk management plan developed and implemented by the ALC that is managed by the Director, Risk and Assurance, who reports to the Chair of the Audit Committee of the ALC Board of Directors and presents the Principle Risk report quarterly to the Audit Committee.* *To formalize and enhance the risk management strategies, the NBLGC commits to document and implement a formal risk management plan.*

New Brunswick Lotteries and Gaming Corporation (2012) (continued)

5.47	Lack of Segregation of Duties
Due to limited staff resources, NBLGC's financial statements and journal entries are prepared by one person. There is no documented review of this work which creates a lack of segregation of duties.	
Recommendation	**Comments from Management**
We recommend NBLGC management document their review and approval of manual journal entries and financial reports.	*The majority of transactions of the NBLGC are recorded in the Province's financial information system. The entries into the system are reviewed by the Director of Financial Services in the Department of Finance. Results appearing in the financial statements of the NBLGC are reviewed by the analyst on staff for agreement to internal documentation. NBLGC will document its current practices of the review of manual journal entries and financial reports in order to formalize the approval process.*

New Brunswick Research and Productivity Council (2013)

5.48	**Lack of supporting documentation for certain management estimates**

We noted several management estimates carried forward from prior years where we could not locate supporting documented rationale for the estimate value selected by management. These include a general non-client specific allowance for doubtful accounts provision of $70,000 and a deferred revenue value of $70,000 for a specific client arrangement. There were also other management estimates recorded in accruals and allowance for doubtful accounts that had no documented current year support. Management estimates included in financial statements need to be supported by documented rationale regarding current circumstances and events.

Recommendation	Comments from Management
We recommend management review significant estimates including the general allowance for doubtful accounts provision, deferred revenue amounts for specific client arrangements, as well as other significant estimates, and ensure appropriate documented support is available for the audit process.	*Supporting documentation was available for the majority of our significant estimates. These estimates, determined using professional judgement, are impacted by a variety of factors including: facts and circumstances at year end, expected trends, and past experience. Not all of these factors are easily documented, but when preparing for future years, we will consider the need for additional documentation.*

5.49	**Super user system access**

Through our review of journal entry user access, it was observed the CFO has super user access rights in the Navision [accounting] system software. The CFO also has the signing authority for disbursements. This creates a lack of segregation of duties that could potentially facilitate fraudulent activities.

Recommendation	Comments from Management
We recommend all employees in a financial reporting role not have access to the system source code. Only IT programmers should have access to the system's source code. Super user access should be removed from all users other than IT programmers.	*We agree with this recommendation and have removed non-IT personnel access to the programming environment.*

New Brunswick Research and Productivity Council (2013) (continued)

5.50	Annual declaration of independence

During the course of our audit, it was noted that there is no requirement for board members and employees to sign an annual declaration of independence, specifically relating to identifying and declaring any potential conflicts of interest.

Recommendation	Comments from Management
We recommend board members and employees be required to sign a declaration of independence on an annual basis which clearly states the definition of what would constitute a conflict of interest and allows for an opportunity for board members and employees to declare any known conflicts of interest.	*We will consider this recommendation.*

Public Trustee – Trusts administered (2012)

5.51	Implementation of Investment Policies

We noted OPT [Public Trustee – Trusts administered] client assets under management were in excess of $7 million at March 31, 2012 and most of the balance represented funds held in a bank account. As noted in our 2011 audit results report, 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, OPT client investments are not receiving the benefit of general strategic advice 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 again recommend OPT move forward with the formation of an investment committee as specified in the Statement of Investment Policies and Objectives.	*Preservation of capital and protection against erosion of the purchasing power of capital by inflation are the overriding performance objectives of the fund. Investing funds with the Treasury and Debt Management – NB Department of Finance meets this need in a very convenient and cost effective manner. Also note that the Public Trustee (PT) management structure has changed significantly and there is sufficient in-house expertise to provide general strategic advice such as, for example, whether Treasury and Debt Management remains the appropriate investment vehicle.*

5.52	Transition to Canadian Public Sector Accounting Standards (PSAS)

During the audit we noted management did not have a formal plan in place to manage the PSAS transition, nor was PSAS expert knowledge acquired directly by management or through contract resources. Appropriate OPT management review of audit adjustments and suggested note disclosures occurred during the audit, however, OPT should engage PSAS knowledgeable staff to perform financial reporting functions. Given PSAS standards changes are ongoing, and management is responsible for the preparation of the financial statements in accordance with PSAS, this circumstance also creates a risk with respect to future year-end financial reporting.

Recommendation	Comments from Management
We recommend management acquire expert PSAS knowledge to fulfil their responsibilities with respect to its financial reporting functions.	*This issue has been addressed by management. The Commission's [New Brunswick Legal Aid Services Commission] Manager of Corporate Services and Manager of Trust and Guardianship Services are both professional accountants with knowledge of the appropriate accounting standards.*

Public Trustee - Trusts administered (2012) (continued)

5.53 Approval of Expenditures

In our 2011 audit results report we recommended the Payment and Spending Authority Policy as detailed in the policy manual be followed. In our sample of 43 expense items in the 2012 audit year we noted two 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 for payment expenses greater than $5,000. The signature of the Public Trustee was not present and the expenses were processed for payment.

Recommendation	Comments from Management
We again recommend the Payment and Spending Authority policy as detailed in the policy manual be followed to ensure expenses are appropriately approved in accordance with policies.	*Agreed. This was an oversight for fiscal 2011-2012. Staff has been advised of the importance of following policy. Additionally, a new policy in regards to Payment and Spending Authority has been put in place during fiscal 2013-2014. This new policy will help ensure appropriate approvals are provided.*

5.54 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 Trust 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. This review should be completed by a person who has not prepared this information.	*Agreed. Commencing with the preparation of the financial statements for the fiscal year ended March 31, 2013, the Manager of Trust and Guardianship Services will be directly involved, along with Trust Officers, in the preparation of the annual financial statements. This will provide a level of oversight not previously available.*

Premier's Council on the Status of Disabled Persons (2013)

5.55	Management Oversight and Review

During our audit, we noted nine instances, out of 27 items sampled, where there was no documented review of support for Council expenditures by the Council Member who signed the cheque. Review of supporting documentation by both signing authorities is an important control to ensure the proper authorization and accuracy of payments.

Recommendation	Comments from Management
We recommend Council members with cheque signing authority perform a documented review of payment support prior to signing cheques.	*We would suggest that supporting documentation exists for all cheques being signed. When expenses are paid, in some instances, they pertain to two or more accounts. In a previous audit, from years ago, it was recommended to include a cover page for the expense which indicates the specific file where the original documentation is being stored. Several files, after signing, are filed with only the invoice cover page while supporting documentation is filed accordingly. This system was explained during the audit and we would be happy to review it with the auditors, provide any information that could not be located at the time of the audit.*

5.56	Related Party Disclosure

We were pleased to see that during the fiscal year, the Council approved a conflict of interest policy for both its Council members and staff. We did note however, there is currently no documentation requirement associated with this policy. Annual, documented sign off will reduce the risk of undisclosed conflicts of interest and related party transactions.

Recommendation	Comments from Management
We recommend Council members and staff complete an annual, signed declaration of conflict of interest.	*Council members and staff will sign the conflict of interest policy on an annual basis. This practice began on July 6, 2013.*

Matters Arising from our Audits of Federal Claims

Regional Development Corporation

Agreement on the Transfer of Federal Gas Tax Revenues (2011 and 2012)

5.57	**Tender Documentation**
We noted a number of files relating to Phase II of the Gas Tax Agreement did not have any tender documentation available to verify the contract had been properly tendered. Section 5.6 of the Agreement states "New Brunswick agrees that all contracts for the supply of services or materials to Eligible Projects awarded in a way that is transparent, competitive, and consistent with value for money principles."	
Recommendation	**Comments from Management**
We recommend the Department ensure all tender documents are provided by municipalities to comply with the terms of the Gas Tax Agreement on a timely basis.	*The Department is requesting that this documentation be provided in different types of correspondence with municipalities at different intervals each year. The Department will require that municipalities submit their tender documentation for all projects under Phase II of the program.*

Regional Development Corporation

Agreement on the Transfer of Federal Gas Tax Revenues (2011 and 2012) (continued)

5.58	**Average Capital Spending Less Than Calculated Average Base Amount**

In 2011, we noted five [2012 = 18] municipalities' average capital spending on municipal infrastructure in incorporated areas was less than the calculated average base amount. Schedule C, section A.2 of the Gas Tax Agreement, states that incorporated area eligible recipients shall ensure that spending on Municipal Infrastructure will not fall below its base amount.

Recommendation	Comments from Management
We recommend the Department ensure all incorporated area project spending be above the average spending base amount each year to comply with the terms of the Gas Tax Agreement.	*The Department is currently developing a methodology on how the Province will handle this requirement of the Agreement. The concept we are considering, which is used by some other jurisdictions, is that each municipality does not need to reach their base amount individually every year. All municipalities, in aggregate, should reach an aggregate base amount set each year. Therefore, as indicated in our Municipal Base Amount section of the report, the incorporated areas have met the set base amount each year. The methodology documentation will be made available to your staff when completed.*

Regional Development Corporation
Municipal Rural Infrastructure Fund Agreement (2013)

5.59	**Completion Certificates**

During the course of our audit, we noted numerous projects are complete but project files did not contain completion certificates. Completion certificates are intended to provide evidence of project completion and termination of program funding.

Recommendation	Comments from Management
We again recommend the Department of Environment and Local Government collect completion certificates from municipalities on a timely basis. Completion certificates should be retained on file for each project funded under the agreement. All completion certificates should be obtained by the March 31, 2014 file closure deadline.	*The Department of Environment and Local Government has improved the procedure to obtain the completion certificates in a timely basis. New strategies have been put in place in the new infrastructure agreement, such as a financial hold back, in order to ensure that the client provides the necessary documentation in a timely fashion. Efforts will be made to obtain completion certificates for all projects by the program end date of March 31, 2014.*

Regional Development Corporation

Municipal Rural Infrastructure Fund Agreement (2013) (continued)

5.60	**Site Visits**

During the course of our audit, we noted several projects did not receive regular site visits. For example, the most recent site visit for project #12760 was September 28, 2009, when the project was 80% complete. Management informed us in the prior year that a site visit was planned in the 2012-13 year. We understand the site visit did not occur. Site visits occur at varying stages of project completion. While there is no requirement under the agreement for the Department of Environment and Local Government to conduct site visits, regular site visits assist in monitoring progress and completion in accordance with the terms of the agreement.

Recommendation	Comments from Management
We again recommend the Department of Environment and Local Government place priority on completing site visits for the remaining seven projects that are still ongoing as of June 2013.	*The Department will be completing the site visits for the seven projects mentioned and the files are closed.*

Regional Development Corporation

Building Canada Infrastructure Plan – Base Funding Agreement (2010)

5.61	Advancement of Funds

The Fundy Trail Parkway was advanced $9 million between October 2008 and December 2009. Advancing funds up front rather than reimbursing recipients for eligible expenditures exposes the Province to financial risk. This risk did materialize in the current audit year, as eligible expenses totalled only $6.1 million. The Province bore the cost relating to ineligible expenses and was unable to claim a portion of the cost from the Federal government.

Recommendation	Comments from Management
We recommend payments only be made upon the receipt and verification of progress claims submitted by the eligible recipient with supporting copies of invoices and proof of payment.	*In recent years, the Regional Development Corporation has implemented a process to limit, and monitor, the number of advances being approved. The Regional Development Corporation understands the risk associated with the approval of advances; however, advances are sometimes necessary, particularly for non-profit organizations with limited cash flow, to commence initiatives. This was the case with respect to the Fundy Trail Parkway initiative.* *Also, with respect to the Fundy Trail Parkway initiative, some costs were deemed ineligible not because of the nature of the cost but rather due to the delayed federal approval of the Annual Capital Plan.*

Regional Development Corporation

Building Canada Infrastructure Plan – Base Funding Agreement (2010)

(continued)

5.62	Ineligible Costs

During our audit we noted ineligible costs were included in the claim amount for projects related to Fundy Trail, Kings Landing and Acadian Village. The total amount of ineligible costs was approximately $3 million. Correcting adjustments were subsequently made to the claim to remove ineligible items.

Recommendation	Comments from Management
We recommend Regional Development Corporation review the terms of the building Canada Base Funding agreement with those employees charged with preparing and approving claim submissions to ensure only eligible costs are accepted by staff. Significant interpretations of the agreement should be documented in advance of assessing eligible projects and expenses.	*Staff of the Regional Development Corporation met with line departments at the onset of the Agreement and has communicated with line departments on numerous occasions to explain eligible costs under the Agreement. Departments also were provided with copies of the Agreement. The two line departments receiving funding under the Agreement (the Department of Transportation and Infrastructure and the Department of Tourism, Heritage and Culture) are familiar with federal/provincial agreements and are aware of the importance of adhering to the conditions of these agreements.*

5.63	Tender Documentation

During the course of our audit, we noted several projects did not include tendering documentation. Section 5.5 of the Agreement requires that contracts for supply of services or materials to eligible plan components shall be awarded and managed in accordance with relevant New Brunswick policies and procedures.

Recommendation	Comments from Management
We recommend copies of tender documentation from eligible recipients be included in the files for all approved projects to support that contracts for supply of services and materials have been awarded and managed in accordance with relevant New Brunswick policies and procedures.	*The Regional Development Corporation does not require that copies of tender documentation be included in files for approved projects since tendering is a public process. Infrastructure projects typically have an engineer on staff who is aware of the province's procurement process. Additionally, including tender documentation would be unnecessary duplication for projects where a line department is the applicant.*

Regional Development Corporation

Building Canada Infrastructure Plan – Base Funding Agreement (2011)

5.64	**Tender Documentation**
During the course of our audit, we noted several projects did not include tendering documentation. Section 5.5 of the Agreement requires that contracts for supply of services or materials to eligible plan components shall be awarded and managed in accordance with relevant New Brunswick policies and procedures.	

Recommendation	**Comments from Management**
We recommend copies of tender documentation from eligible recipients be included in the files for all approved projects to support that contracts for supply of services and materials have been awarded and managed in accordance with relevant New Brunswick policies and procedures.	*The Regional Development Corporation does not require that copies of tender documentation be included in files for approved projects since tendering is a public process. Infrastructure projects typically have an engineer on staff who is aware of the province's procurement process. Additionally, including tender documentation would be unnecessary duplication for projects where a line department is the applicant.*

Department of Post-Secondary Education, Training and Labour
Agreement on Labour Market Development (2013)

5.65	**Accounting for Contracted Services and Grants**

In our testing, we noted a number of expenses relating to contracts with organizations for labour market research and adjustment services recorded in the wrong period totalling approximately $529,858. The issue related to the determination of the proper accounting treatment for these items as grants or services, and then evaluating cut off and authorization for these items to assess whether expenses should be recorded at March 31, 2013. The Department reviewed the accounting treatment and adjusted the statement of operations to record these contracts in the proper year.

Recommendation	Comments from Management
We recommend the Department assess each contract relating to Labour Market Development Agreement (LMDA) to determine if the contract represents a grant or a purchase of services. If the contract is determined to be a grant, an expense should only be recognized once documented authorization for the grant has been obtained and any eligibility criteria have been met. If the contract represents a service, the Department should ensure documented authorization for the service contract has been obtained, assess when the service will be received, and then record it in the proper period.	*This recommendation relates to the introduction of a new accounting standard, which was identified as a potential issue in the final stage of the audit. The* Office of the Comptroller (OOC) *and the* Office of the Auditor General (OAG) *have acknowledged that implementation of this new standard has implications that extend beyond the Labour Market Development Agreement (LMDA). As in the past, the Department will obtain operational clarification from the OOC and apply the appropriate accounting treatment.*

Department of Post-Secondary Education, Training and Labour
Agreement on Labour Market Development (2013) (continued)

5.66	Full Cost Recovery and Estimate Basis

Included in the statement of operations is an estimate relating to the full cost recovery of community college tuition amounts for participants of the LMDA program. This estimate is prepared based on total expenditures of the community colleges to obtain a cost per seat. This is applied to all LMDA students enrolled in the colleges. In 2000, the Department obtained approval from the Federal government to include these amounts on the statement of operations. Given the new corporate structure for the community colleges, the Department should reconfirm with the Federal government the calculation method for the full cost recovery is still appropriate.

In addition, the Department uses budget figures to calculate estimates which form the basis of amounts included on the statement of operations. Budget figures were used in determining the amount of full cost recovery, the in-kind percentage calculation and the leasing information. The Department should compare actual results with budget to ensure the accuracy of the estimates and ultimately the accuracy of the amounts recorded on the statement of operations.

Recommendation	Comments from Management
We recommend the Department reconfirm with the Federal government: • **the method used for determining the full cost recovery amount is still appropriate given the new community college corporate structure, and** • **the use of budget figures for calculating various amounts included on the statement of operations is appropriate given the Department does not verify the accuracy of the budget figures with actual amounts.**	*There is a written agreement with the Federal Government that allows New Brunswick to be reimbursed for expenses that are not recovered through tuition fees for LMDA clients attending publicly funded institutions. The colleges continue to be publicly funded institutions under the corporate structure referenced above, which has been in effect since 2010 and has not been raised as an issue by our Federal partners.* *The Department attempted to compare actual results with budget to verify the reasonableness of estimates. The Office of the Auditor General (OAG), who was completing the audit of the Crown corporations concurrently with the Labour Market Development Agreement (LMDA), indicated that subsequent audit adjustments had been made to the figures but staff were not authorized to disclose the nature/extent of those adjustments. Accordingly, the Department was unable to complete the comparison requested by the OAG because the final audited statements were not yet available. Due to the deadline for both audit engagements, this will likely be an ongoing timing issue.*

Department of Post-Secondary Education, Training and Labour
Labour Market Agreement (2013)

5.67	Audit Adjustments – Administration expense estimate

During our work, we noted the Department incorrectly calculated the amount of an administration expense estimate resulting in an overstatement of administration expenses of $429,668. The correcting adjustment was made during our audit. When calculating estimates, the Department should review the assumptions and methodology used to calculate the estimate to determine they are still appropriate for the current year. The Department then should have applied the methodology when calculating the current year estimate.

Recommendation	Comments from Management
We recommend the Department review the assumptions and methodology used for calculating estimates to determine they are still appropriate. The assumptions and methodology should then be used to calculate the amount of the estimate.	*The Department agrees with this recommendation and will review the assumptions and methodology used for calculating administration expense estimates.*

Department of Post-Secondary Education, Training and Labour

Labour Market Agreement (2013) (continued)

5.68	Signing of Letter of Offer

During our audit, we noted one case in our sample of 12 community adult learning contracts where the letter of offer was signed 10 weeks after the start of the program. We also noted funds were disbursed before the letter of offer was signed. We believe the Department should sign letters of offer prior to programs' start dates as the letters of offer outline the conditions associated with the funding. We also note the Department should only disburse funds once the letters of offer are signed so that both parties have agreed to the terms and conditions.

Recommendation	Comments from Management
We recommend the Department sign letters of offer in advance of program start dates and the disbursement of funds so that recipients are aware of the conditions associated with the funding.	*The Department agrees with this recommendation. Although recipients are informed of the conditions and stipulations associated with the funding through earlier correspondence, the process for signing letters of offer will be reviewed.*

Department of Post-Secondary Education, Training and Labour
Agreement on Targeted Initiative for Older Workers (2013)

5.69	Signing of Contracts

During our audit we noted five cases in our sample of eight where contracts were signed after the start date of the contract. While no funds were disbursed until after the contracts were signed, we believe the Department should sign contracts prior to their start dates as the contracts outline the conditions associated with the funding.

Recommendation	Comments from Management
We recommend the Department sign contracts in advance of the contract period so that there is adequate documentation from the start of the contract period to indicate recipients are aware of the conditions associated with the funding.	*The Department agrees with this recommendation and will review the process for signing letters of offer.*

5.70	Project Sponsor Monitoring

During our audit we noted the contract monitoring process and documentation was not consistent between project sponsors' contracts. For example, we noted financial statements were sometimes signed off as reviewed by departmental representatives whereas other times they were not. Consistency in the monitoring and documentation process would help to ensure only eligible expenses are claimed by project sponsors. We believe a formalized process should be developed and implemented so that monitoring is consistent between all contracts. This could be accomplished through the use of a standardized checklist and consistent imaging.

Recommendation	Comments from Management
We recommend the Department develop and implement a formalized monitoring process so that contracts are consistently monitored and documented thereby reducing the risk of ineligible expenses being claimed.	*The Department agrees with this recommendation and will review monitoring and documentation processes.*

Appendix I - Audit Objectives

5.71 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.

5.72 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.

5.73 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, examining the effectiveness of certain internal controls, confirming year-end balances with third parties and reviewing the reasonableness of estimates.

5.74 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

5.75 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

5.76 Our Office is responsible for auditing the financial statements or claims listed in paragraphs 5.2 and 5.3. 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 6
Performance Report of the Office of the Auditor General

Contents

Performance Report of the Office of the Auditor General

Accountability Statement

6.1 This chapter of my Report reflects the performance of my Office for the year ended March 31, 2013. 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.

6.2 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 I for further information on the Office's mission and values.

6.3 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.

6.4 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

6.5 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 II and III. The details of our performance results are found in Exhibit 6.1.

Exhibit 6.1 - Office performance

Performance indicator	Current year results 2013	Prior year	Prior year results	Details
1. MLA perception, as determined by survey	Survey not conducted in 2013.	2012 2009 2008 2004	96% 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 96%.	2012 2009 2007 2006	92% 81% 80% 84%	We periodically survey our auditees on a rotating basis following significant audits. The auditees who responded to our 2013 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%.
3. Percentage of recommendations accepted and 4. Percentage of recommendations implemented	72% of 2009, 2010 and 2011 recommendations implemented	2012	65% of 2008, 2009 and 2010 recommendations implemented	The follow up work we performed in Chapter 8 of Volume II of our 2013 Report provides an overview of the recommendations included in our 2009 through 2011 Reports. It summarizes the status of our recommendations and focuses in particular on those recommendations made in 2009 that have not been fully implemented. Our work in 2013 showed 72% of our recommendations from 2009, 2010 and 2011 had been fully implemented. For 2009, the only year subject to full review by our Office, we noted that 74% 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.

Exhibit 6.1 - Office performance (continued)

Performance indicator	Current year results 2013	Prior year	Prior year results	Details
5. Employee perception, as determined by survey	Survey not conducted in 2013.	2012 2010 2007 2004	65% 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 63% success rate.	2012 2011	69% 78%	Overall our Office met audit time targets in 63% of circumstances. Our largest audit, the audit of the financial statements of the Province, was delayed in its completion due to the resolution of complex accounting issues. This had a corresponding impact on the timing of completion of other audits. As well, some factors that caused us difficulty in 2013 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.

Exhibit 6.1 - Office performance (continued)

Performance indicator	Current year results 2013	Prior year	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 - 68% • Professional development and training - 9% • Audit office admin & support activities - 23%	2012 2011 2010 2009	66%, 8%, 26% 63%, 7%, 30% 64%, 9%, 27% 65%, 8%, 27%	Overall, we are satisfied with these results.
8. Staff cost of our audits	$1,270,000 represents the approximate annual staff cost of significant audit projects as follows: * Value for Money Projects $365,000 * Financial Audits: • Province of New Brunswick $329,000 • Crown agencies $403,000 • Cost Shared Claims $80,000 * Annual Report Preparation $93,000	2012	$1,140,000 $290,000 $370,000 $355,000 $45,000 $80,000	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

6.6 As shown in the data from Exhibit 6.1, it was an overall successful year for our Office. In addition to the data reported in Exhibit 6.1 our other key accomplishments included the following items.

Auditing Complex Accounting Changes

6.7 A number of accounting changes were required in auditing March 31, 2013 financial statements for the Province and Crown entities. The key accounting changes included the transition of certain provincial pension plans to shared risk plans, auditing the Province's Oracle upgrade to R12 and adoption of the new government transfers accounting standard. We resolved all audit issues encountered regarding these changes, however, the time invested in resolving these issues was significant. It should be noted our budget, available staff resources and work plan did not change to accommodate the increased requirements of the Office.

Timely Delivery of our Annual Report

6.8 On-time delivery for our annual report was again a driving force in our work this year. For the second time in many years, we are publishing our Annual Report in December, in advance of our legislated deadline. We also were able to accomplish this objective with our 2012 annual report. We believe this December reporting timeline provides more timely information for legislators and the public, and we will continue to strive to achieve this delivery date for future reports.

Continued Expansion of our Work

6.9 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 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 financial statement audits of Crown agencies.

Audit of the Office's Financial Statements

6.10 For the second consecutive year our Office's financial statements were audited by an auditor external to government. This year the audit was completed three months earlier than in 2012. Previously, annual internal audits had been performed by the Office of the Comptroller. We are pleased to present our audited financial statements in Appendix V.

Quality Assurance, Practice Inspection and Peer Reviews

6.11 Our office maintains a robust quality assurance program. In 2013 this included participating in the Canadian Council of Legislative Auditors (CCOLA) Peer Review Committee and participating in the CCOLA peer review process. This represents a valuable learning experience for our office. In 2013, our Office was also subject to a practice inspection by the New Brunswick Institute of Chartered Accountants with successful results achieved. We welcome all feedback on our Office audit processes and look forward to these opportunities to learn and grow.

Stakeholder Surveys

6.12 We periodically 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 Exhibit 6.1.

6.13 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

6.14 We recognize staff are our most important resource and strive to keep our professionals challenged and motivated. One of our key challenges is long term staff retention. This continues to present a significant challenge in a time when expert resources within government are shrinking as retirements occur and more senior positions become available. We believe the achievement of completing our work plan given resource challenges 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 IV.

6.15 In addition we are very pleased to report one of our office students, Kathleen Gagnon, successfully completed the Uniform Final Evaluation for Chartered Accountants. We are very proud of her accomplishment. 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.

6.16 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, we often did not exceed more than the minimum hours required to maintain the designation.

Enhanced Involvement in our Professional Community

6.17 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 chairs a committee of the Public Sector Accounting Board of Canada and serves on the CCAF (Canadian Comprehensive Auditing Foundation) Board of Governors.

Immediate Challenges

6.18 Our Office budget constraints remain a growing concern. We feel our value to the Legislative Assembly and our ability to adequately fulfill the legislative mandate is impeded given our budget of only $2 million. Our budget and actual expenditures are shown in Exhibit 6.2.

Exhibit 6.2 - Budget and actual expenditures ($ 000s)

	2014	2013		2012		2011		2010		2009		2008		2007	
	Budget	Budget	Acutal	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Net Budget	2,078.0	2,076.6[1]	1,986.1	1,819.6[2]	1,661.5	1,787.0	1,773.2	1,842.0	2,004.3	1,920.0[3]	2,653.3[3]	1,868.0	2,156.2[3]	1,812.0	1,652.6

[1] *Office budget was $2,104,000 however the Office received an in year spending restraint request from government of $27,426.*
[2] *Office budget was $1,845,000 however the Office received an in year spending restraint request from government of $25,424.*
[3] *Funding was supplemented by central government due to the Caisse populaire de Shippagan report*

Budget Declines Over Time and Rebuilding the Office

6.19 The impact of funding decreases to the office over time has been to reduce staff and therefore 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. These hidden costs reinforce the importance of maintaining consistent funding and staffing of the Office.

6.20 Further, our funding level lags behind other legislative auditor offices in our region. Exhibit 6.3 provides further details on the disparity across the Atlantic region in legislative auditor offices funding.

Exhibit 6.3 - Budget and Staff Comparison for Legislative Auditor Offices in the Atlantic Provinces

Province	2014	2013		2012		2011		2010	
	Budget	Number of Staff	Budget	Number of Staff	Budget	Number of Staff	Budget	Number of Staff	Budget
New Brunswick	$2,078,000	25	$2,076,574[1]	22	$1,819,600[2]	20	$1,787,000	20	$1,842,000
Nova Scotia	$3,634,000	33.6	$3,634,000	33.9	$3,550,000	34.6	$3,421,000	34	$3,334,000
Prince Edward Island	$1,799,100	18	$1,770,100	18	$1,707,100	18	$1,682,100	18	$1,682,100
Newfoundland and Labrador	$3,375,100	40	$3,722,000	39	$3,825,400	38	$3,735,700	40	$3,654,300

[1] *Original budget was $2,104,000 however, the Office received an in year spending restraint request from government of $27,426.*
[2] *Original budget was $1,845,000 however, the Office received an in year spending restraint request from government of $25,424.*

Professional Standards Changes

6.21 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 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.

6.22 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.

Office Budget Decrease

6.23 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, however, our Office's 2013-2014 budget was cut by $26,000. We are concerned at this circumstance and hope this will not be a continued trend given the significant cuts already sustained by our Office, and given our lack of government funding compared to other Auditor General offices of a similar size. 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

6.24 We continue to work with government to update 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

6.25 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.*

6.26 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 re-written 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 Office of the Auditor General

6.27 Many aspects of the Office of the Auditor General independence are proposed to be updated.

6.28 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

6.29 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.

6.30 It is believed 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.

6.31 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

6.32 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. Clarification is needed so that the Auditor General will have discretion to access necessary auditee information, including privileged documents in order to express an opinion. This will avoid unnecessary delays and also clarify the Auditor General's authority when dealing with departments and crown agencies.

6.33 An improved process will align the Auditor General access with that of other Auditor Generals' in Canada .

6.34 We are optimistic our new *Auditor General Act* will be tabled in the upcoming session of the legislature.

New Strategic Plan

6.35 In 2013 and early 2014 we will be developing a new seven year strategic plan for the Office. We are involving our key stakeholders and staff in this process. We aim to have a strategic plan to guide the remaining term of office of the current Auditor General that will integrate measures to assess the completion or progress of key strategic goals.

Appendix I: Mission and Values

6.36 Our mission is:

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

6.37 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.***

6.38 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.

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

Appendix II: 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 III: 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 Exhibit 6.1.

Appendix IV: List of Staff Members at 31 March 2013

Émilie Chiasson, CA	Loriann Keough, CA	Susan McIsaac, CA
Cathy Connors Kennedy, CA	Teena Laagland [1]	Audra McKnight, CA
Kim Embleton, CGA	Janice Leahy, CA	Chris Mitchell, CA
Kathleen Gagnon, CA	Adele Levesque, CA	Rebecca Stanley, CGA
Nick Hoben, CA	Peter MacLeod [2]	Yanjun Wang, CA
Eric Hopper, CA	Kim MacPherson, CA	Heather Webb [1]
Peggy Isnor, CA	Steve Martin [2]	Scott Weeks [2]
Bill Ivey, CGA	Jeff Marson, CA	Tania Wood-Sussey, CA
Leanne Jeffries [2]		

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

Appendix V: Financial Statements

Office of the Auditor General of New Brunswick

Financial Statements

March 31, 2013

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

Nicholson & Beaumont
Chartered Accountants

Phone (506) 458-9815
(506) 458-1599
(506) 459-7575

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, 2013 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, 2013 and the results of its operations, for the year then ended in accordance with Canadian public sector accounting standards.

Fredericton, NB
June 28, 2013

Nicholson & Beaumont
Chartered Accountants

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

	2013	2012
Financial Assets		
Petty cash	$ 50	$ 50
Working capital advance (Note 4)	157,782	-
Due from Government of New Brunswick	-	112,394
Accrued recoveries receivable	81,944	53,024
	239,776	165,468
Liabilities		
Working capital advance (Note 4)	-	65,123
Payables and accrued liabilities	200,839	60,919
Accrued salary and benefits	55,719	48,888
	256,558	174,930
Net debt	(16,782)	(9,462)
Non-financial Assets		
Prepaid expenses	16,782	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

	2013 Budget	2013 Actual	2012 Actual
Expenses			
Personnel services	$ 1,864,574	$ 1,690,749	$ 1,573,044
Other services	387,650	446,934	272,081
Materials and supplies	8,850	8,708	6,053
Property and equipment	15,500	32,185	33,025
	$ 2,276,574	$ 2,178,576	$ 1,884,203
Recoveries	(200,000)	(192,485)	(222,710)
	$ 2,076,574	$ 1,986,091	$ 1,661,493
Government contributions (Note 3)		(1,986,091)	(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, 2013

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 exist;
- 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.

(f) *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 2012-13 as approved	$2,104,000
In year spending restraint as requested by government	(27,426)
Revised 2012-13 budget	2,076,574
Unused appropriation	(90,483)
Net government contributions 2012-13	$1,986,091

Office of the Auditor General of New Brunswick
Notes to the Financial Statements
March 31, 2013

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

(a) *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.

(b) *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.