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Chapter 1

Introductory Comments

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Introductory Comments

Volume II Reports Our Financial Audit Work

1.1 This volume of our Report deals with matters arising from our financial audits of the Province and its Crown agencies for the year ended 31 March 2011.

Interim Professional Restriction on Auditor General

1.2 I was appointed Auditor General on December 1, 2010. Prior to my appointment I was the Comptroller of the Province. Since I was responsible for the overall accounting of the Province for nine months of the fiscal year under audit, professional audit standards prevented me from participating or influencing this year's provincial financial statement audit.

New Deputy Auditor General Appointed

1.3 However, I am pleased to report, with the appointment of our new Deputy Auditor General, Janice Leahy, CA, combined with other professional auditors in the Office of the Auditor General, the audit was completed in accordance with generally accepted auditing standards and the *Auditor General Act*.

1.4 I acknowledge that, as the Auditor General, I am responsible to present this Report to the Legislative Assembly and, as Auditor General, I stand behind and fully support its contents.

August Release of PNB Audited Financial Statements

1.5 We are pleased with respect to the timing of release of the audited financial statements. For the second year in a row, the statements were released in mid August. We look forward to working with the government in its intention to move to earlier release dates in the future. The more timely the release of audited financial statements, the more useful it is to the public.

**AG Concern with
Province's Fiscal
Status**

1.6 The Province's audited financial statements for 31 March 2011 show a deficit of \$633 million and a \$1 billion increase in Net Debt. The Province now has a Net Debt of \$9.5 billion. Chapter 2 of this volume illustrates a number of disturbing trends:

Disturbing Trends

- a. Three consecutive years of deficits with a fourth one projected for 2011-12. This trend is very concerning. Significant changes are required to improve the financial health of the Province.
- b. When comparing the rapid growth in New Brunswick's Net Debt to that of similarly populated provinces, our province had the highest percentage increase in Net Debt, Net Debt per capita and Net Debt per GDP from fiscal 2010 to fiscal 2011. Therefore, with respect to Net Debt, this would imply New Brunswick's declining fiscal situation is outpacing that of comparable provinces.
- c. Our historical trend analysis of the Province's financial condition using CICA measures of sustainability, flexibility and vulnerability show the financial condition of the Province has worsened.
- d. If the Province continues in this manner, the financial health of the Province will continue to deteriorate. This will have an impact on the Province's ability to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others. This illustrates the immediate need for the Province to develop a viable plan to improve the financial health of the Province. Interim 2011-12 projections indicate a worsening trend. To date, there are limited signs of the significant change required to deliver improved fiscal health for the Province.

Need for Action

1.7 The results highlight once again the need for a clear explanation to New Brunswickers as to how

government plans to improve financial operating results, curtail or eliminate growth in deficits and Net Debt, and in turn, reduce Net Debt.

**Financial Audit
Recommendations**

1.8 Chapters 3 and 4 of this Volume contain information, including management letter recommendations, we made as a result of our financial audits, the results of our information systems work, and detailed analysis of certain financial information.

**Office Accountability
Report**

1.9 Chapter 5 contains our Office's accountability report. This chapter assesses our performance against the indicators we established as part of our strategic planning process. It also points out our need for additional resources in order to continue to provide objective information to the Legislative Assembly. I intend to continue my efforts in obtaining additional funding at every opportunity such as presentations to legislative committees as well as government.

Acknowledgements

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

1.11 I want to thank all the staff of my Office for their professionalism and dedication. This year in particular has been one of many changes. In my first year as Auditor General I have been very impressed with their level of commitment in promoting accountability in government and willingness to adapt to new management. I would also like to acknowledge to the Legislative Assembly, I now have a much greater appreciation for the work they accomplish in a year, as demonstrated by the three Volumes of our 2011 report, particularly given the small size of our Office.



Kim MacPherson, CA
Auditor General

Chapter 2

Comments on the Province's Financial Position

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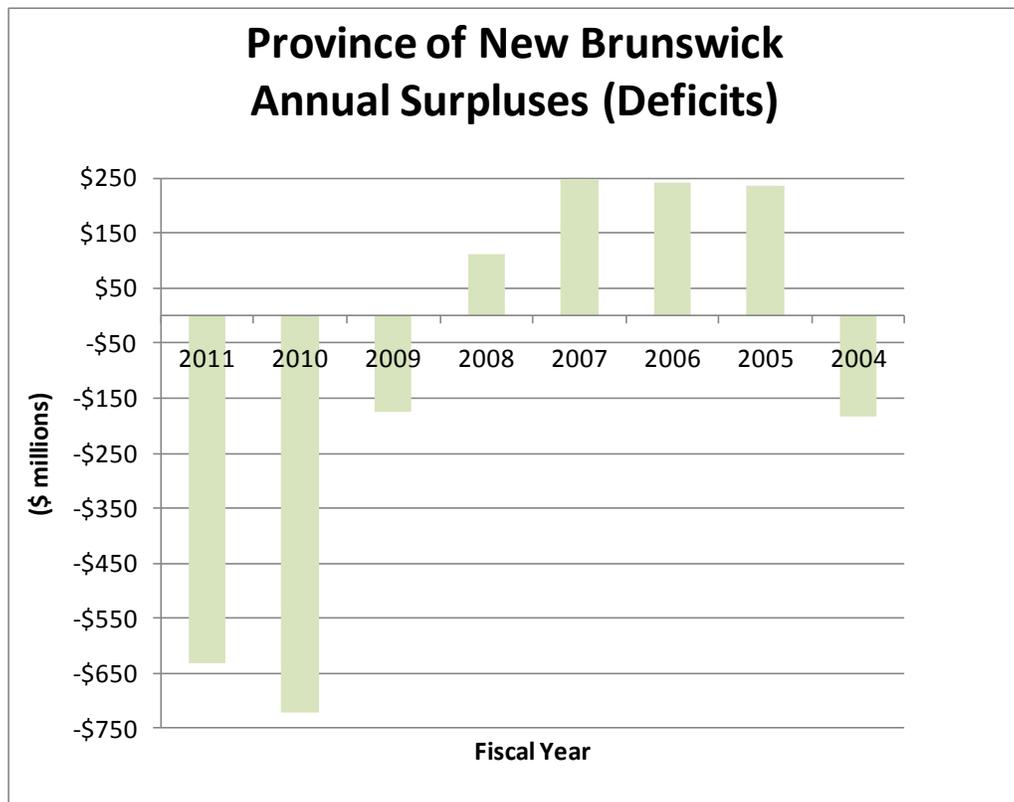
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Comments on the Province's Financial Position

Three Consecutive Years of Deficits

2.1 The Province's 31 March 2011 audited financial statements reported a deficit of \$633.0 million and an increase in Net Debt for the fiscal year of \$1.0 billion. The Province now has a Net Debt of \$9.5 billion.

2.2 After four years of surpluses, the Province has incurred three consecutive years of deficits. 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.



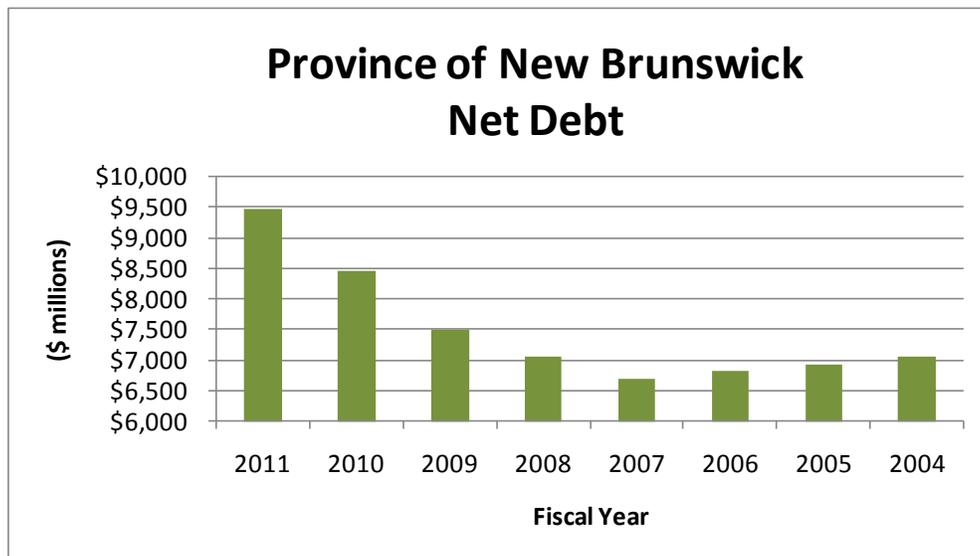
As restated

Annual Surpluses (deficits)								
(\$ millions)								
	2011	2010	2009	2008	2007	2006	2005	2004
As restated	(633.0)	(722.3)	(175.9)	112.1	246.5	241.1	235.3	(182.0)
As originally recorded	(633.0)	(737.9)	(192.3)	86.7	236.8	243.6	242.2	(103.2)

2.3 The above table shows the surplus or deficit for the past eight years. The preceding year's amounts have been restated as per Note 18 of the Province's 31 March 2011 financial statements.

Rapid Growth in Net Debt

2.4 Net Debt is one of the most important measures of the financial position of the Province. The table below shows Net Debt for the past eight years.



As restated

Net Debt								
(\$ millions)								
	2011	2010	2009	2008	2007	2006	2005	2004
As restated	9,480.4	8,471.4	7,501.4	7,058.2	6,680.4	6,809.2	6,918.6	7,052.4
As originally recorded	9,480.4	8,353.0	7,387.8	6,942.9	6,577.9	6,655.7	6,836.0	6,816.1

2.5 We would like to draw attention to the

following facts:

- For the year ended 31 March 2011, Net Debt increased by \$1.0 billion to \$9.5 billion.
- Net Debt has increased \$2.8 billion since 2007.
- The 2011-2012 Main Estimates budgets for an increase in Net Debt of \$630.3 million for the year ended 31 March 2012.
- Based on 2011-2012 Main Estimates, Net Debt of the Province could be in excess of \$10.0 billion for the year ended 31 March 2012.

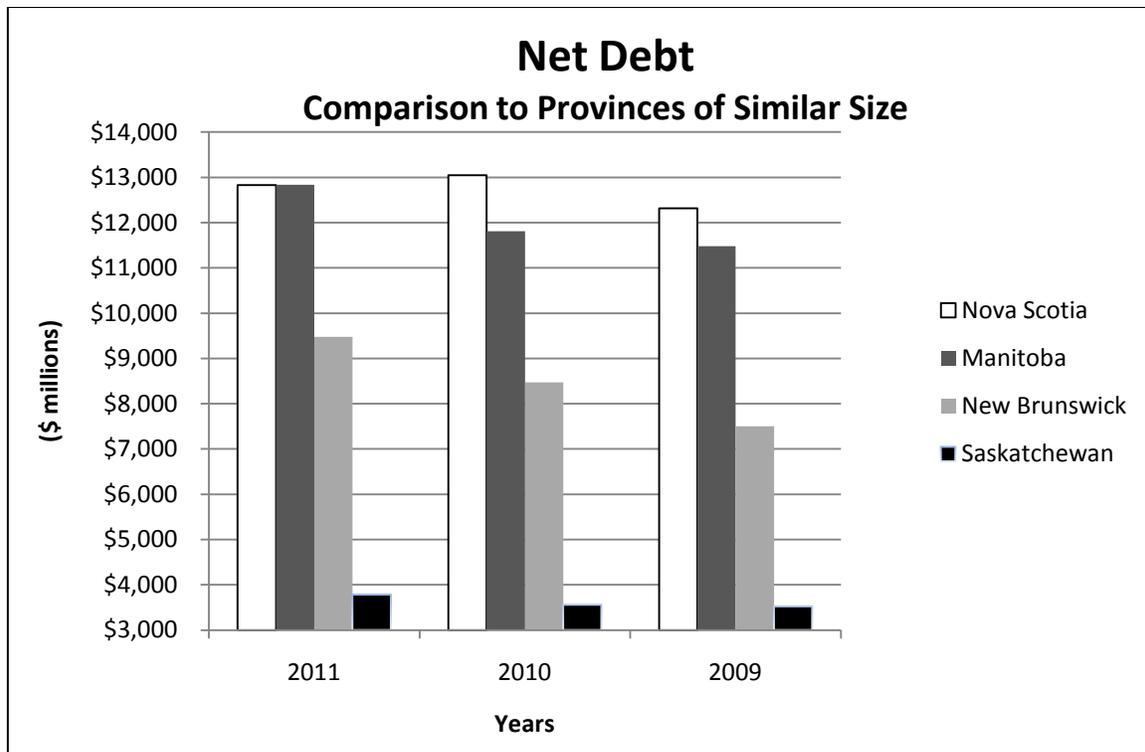
2.6 This significant increase in Net Debt represents a very disturbing trend. An even higher demand will exist on future revenue to pay past expenses. Such rapid negative trends are likely to impact the Province's bond rating which will ultimately result in more expensive borrowing cost. As well, current increased borrowing may constrain future borrowing capacity and affect future provincial operations and delivery of services.

Comparison to Other Similar Sized Provinces

2.7 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 population sizes as New Brunswick in absolute amount, per capita and as a percentage of GDP. Comparable provinces include Nova Scotia, Manitoba and Saskatchewan.

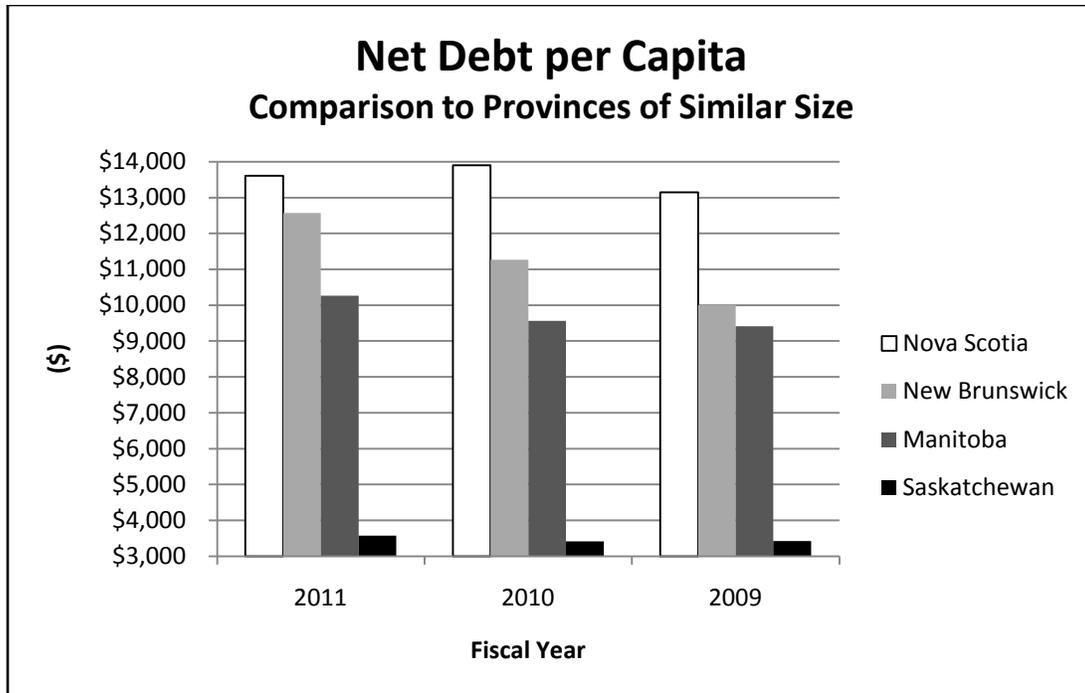
2.8 In the next three tables, Net Debt is taken from:

- the audited summary financial statements of the individual provinces,
- information about population is taken from the Statistics Canada website, and
- GDP figures are from the financial statement discussion and analysis attached to the individual provinces' audited summary financial statements.



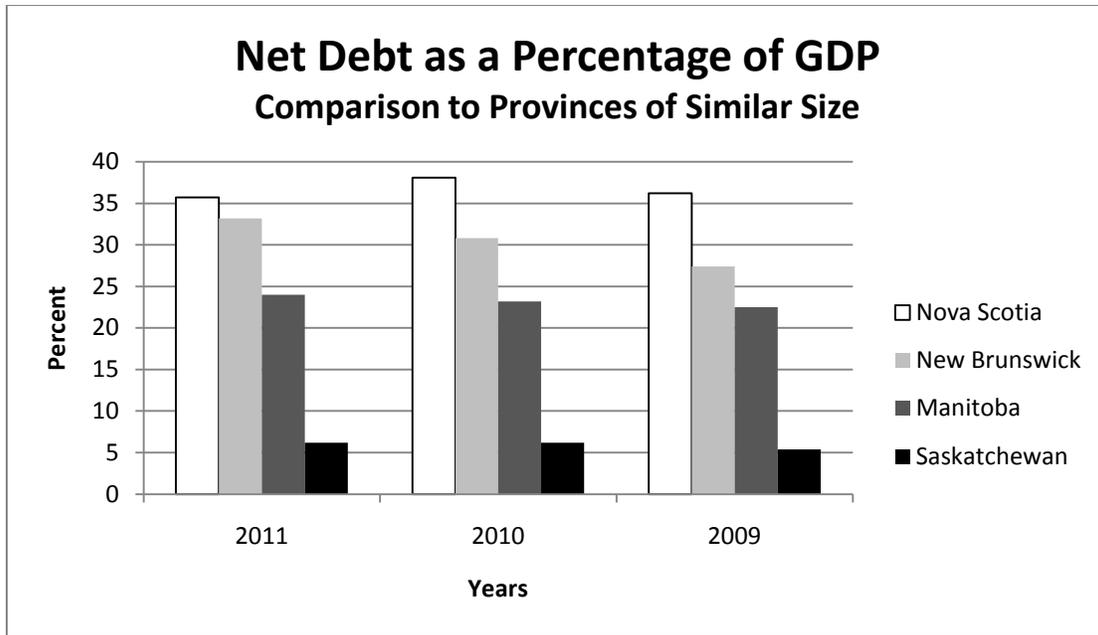
Net Debt (\$ millions)			
Province	2011	2010	2009
Saskatchewan	3,783	3,560	3,524
New Brunswick	9,480	8,471	7,501
Manitoba	12,837	11,810	11,480
Nova Scotia	12,827	13,045	12,318

2.9 For the year ended 31 March 2009, New Brunswick's Net Debt was 60.0% of Nova Scotia's Net Debt. By 31 March 2011 the percentage reached 73.9%. For 31 March 2011, New Brunswick had the highest percentage increase in Net Debt over the previous year of the comparable provinces.



Net Debt per Capita			
(\$)			
Province	2011	2010	2009
Saskatchewan	3,576	3,410	3,424
Manitoba	10,265	9,567	9,416
New Brunswick	12,574	11,269	10,011
Nova Scotia	13,610	13,907	13,146

2.10 For the year ended 31 March 2009, New Brunswick's Net Debt per capita was 76.2% of Nova Scotia's Net Debt per capita. By 31 March 2011 the percentage reached 92.4%. For 31 March 2011, New Brunswick had the highest percentage increase in Net Debt per capita over the previous year.



Net Debt as a Percentage of GDP (percent)			
Province	2011	2010	2009
Saskatchewan	6.2	6.2	5.4
Manitoba	24.0	23.2	22.5
New Brunswick	33.2	30.8	27.4
Nova Scotia	35.7	38.1	36.2

2.11 For the year ended 31 March 2009, New Brunswick's Net Debt as a percentage of GDP was 75.7% of Nova Scotia's; for the year ended 31 March 2011 it was 93.0%. For 31 March 2011, New Brunswick had the highest percentage increase in Net Debt to GDP over the previous year.

Net Debt Comparison Summary

2.12 In summary, Net Debt comparisons of similarly populated provinces show New Brunswick had the highest percentage increase in Net Debt, Net Debt per capita and Net Debt per GDP from fiscal 2010 to fiscal 2011. Therefore, with respect to Net Debt, New Brunswick's declining fiscal situation is outpacing that of comparable provinces.

Comments on the Province's Financial Health

2.13 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.

2.14 Starting in 2009, the Province began reporting some of these measures as part of the section called *Indicators of Financial Health* which is attached to the audited financial statements. As we commented last year, we are pleased to see the Province report this information, and we are also pleased to see that in Volume 1 of the 31 March 2011 Public Accounts the Province expanded the historical timeframe of information provided from seven years to eight years.

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

Assumptions Used

2.16 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 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 2009. For the 2010 and 2011 numbers, we audited the numbers as part of our 2011 work.

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

**Summary of the
Province's Financial
Condition**

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

	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	4 year	Unfavourable	18
	Financial asset-to-liabilities	Measures whether future revenues will be needed to pay for past transactions	Unfavourable	4 year	Unfavourable	18
	Net Debt-to-total annual revenue	Shows whether more time is needed to pay for past transactions	Unfavourable	8 year	Mixed	19
	Expense by function-to-total expenses	Shows the trend of government spending over time	Neutral	4 year	Neutral	20
	Net Debt-to-GDP	Shows the relationship between Net Debt and the activity in the economy	Unfavourable	8 year	Unfavourable	22
	Accumulated deficit-to-GDP	Measures the sum of the current and all prior year operating results relative to the growth in the economy	Unfavourable	4 year	Unfavourable	23
	Total expenses-to-GDP	Shows the trend of government spending over time in relation to the growth in the economy	Unfavourable	8 year	Unfavourable	23
Flexibility	Public debt charges-to-revenues	Measures extent that past borrowing decisions limits ability to meet current financial and service commitments	Neutral	8 year	Favourable	25
	Net book value of capital assets-to-cost of capital assets	Measures the estimated useful lives of tangible capital assets available to provide products /services	Neutral	4 year	Neutral	26
	Own-source revenues-to-GDP	Measures extent income is taken out of the economy	Neutral	8 year	Neutral	27
Vulnerability	Government transfers-to-total revenues	Measures the dependence on another level of government	Unfavourable	8 year	Unfavourable	30
	Foreign currency debt-to-Net Debt	Measures the government's potential vulnerability to currency fluctuations	Favourable	8 year	Favourable	31

Conclusion

2.19 The short and long-term trends show the financial condition of the Province has worsened. Only two of

the twelve financial indicators show favourable results. If the Province continues in this manner, the financial health of the Province will continue to deteriorate. This will have an impact on the Province's ability to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others. This illustrates the immediate need for the Province to develop a viable plan to improve the financial health of the Province. The current path being followed by the Province is not achieving greater financial success. Interim 2011-12 projections indicate a worsening trend. There are limited signs of the significant change required to deliver improved fiscal health for the Province.

Sustainability Indicators

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

Assets-to-Liabilities

2.21 The sustainability indicator assets-to-liabilities is presented in the following table.

Comparison of Assets-to-Liabilities				
Year ended	Total assets (\$ millions)	Total liabilities (\$ millions)	Total assets/total liabilities (percent)	
2008	7,476.7	8,895.4	84.1	
2009	7,705.9	9,428.2	81.7	
2010	7,852.9	10,292.6	76.3	
2011	8,595.5	11,557.7	74.4	

2.22 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 four years, the Province's rate was less than 100%. It has declined in both the years ended 31 March 2010 and 31 March 2011. This trend is unfavourable.

Financial Assets-to-Liabilities

2.23 Another sustainability indicator, financial assets-to-

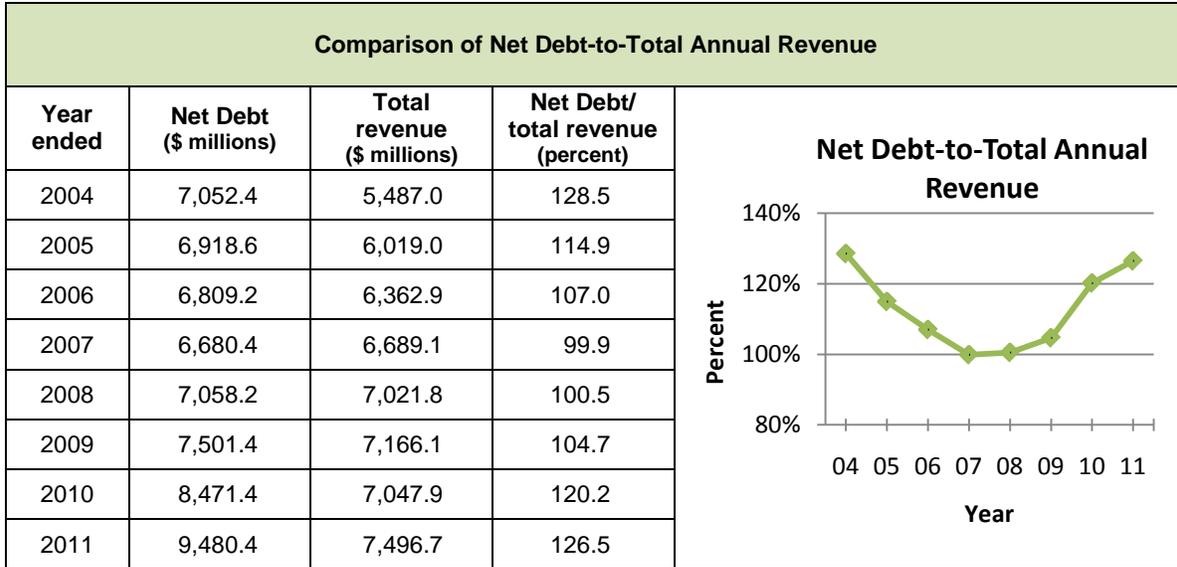
liabilities, is presented in the following table.

Comparison of Financial Assets-to-Liabilities				
Year ended	Total financial assets (\$ millions)	Total liabilities (\$ millions)	Total financial assets/ total liabilities (percent)	
2008	1,837.2	8,895.4	20.7	
2009	1,926.8	9,428.2	20.4	
2010	1,821.2	10,292.6	17.7	
2011	2,077.3	11,557.7	18.0	

2.24 When liabilities exceed financial assets the government is in a Net Debt position, and the implication is that future surpluses will be required to pay for past transactions and events. The Province's percentage declined significantly in the year ended 31 March 2010 because of the large increase in Net Debt incurred in that year. The percentage did show a slight improvement in 2011. The overall trend, however, is unfavourable.

Net Debt-to-Total Annual Revenue

2.25 Net Debt-to-total annual revenue is another indicator of sustainability and is presented in the following table.

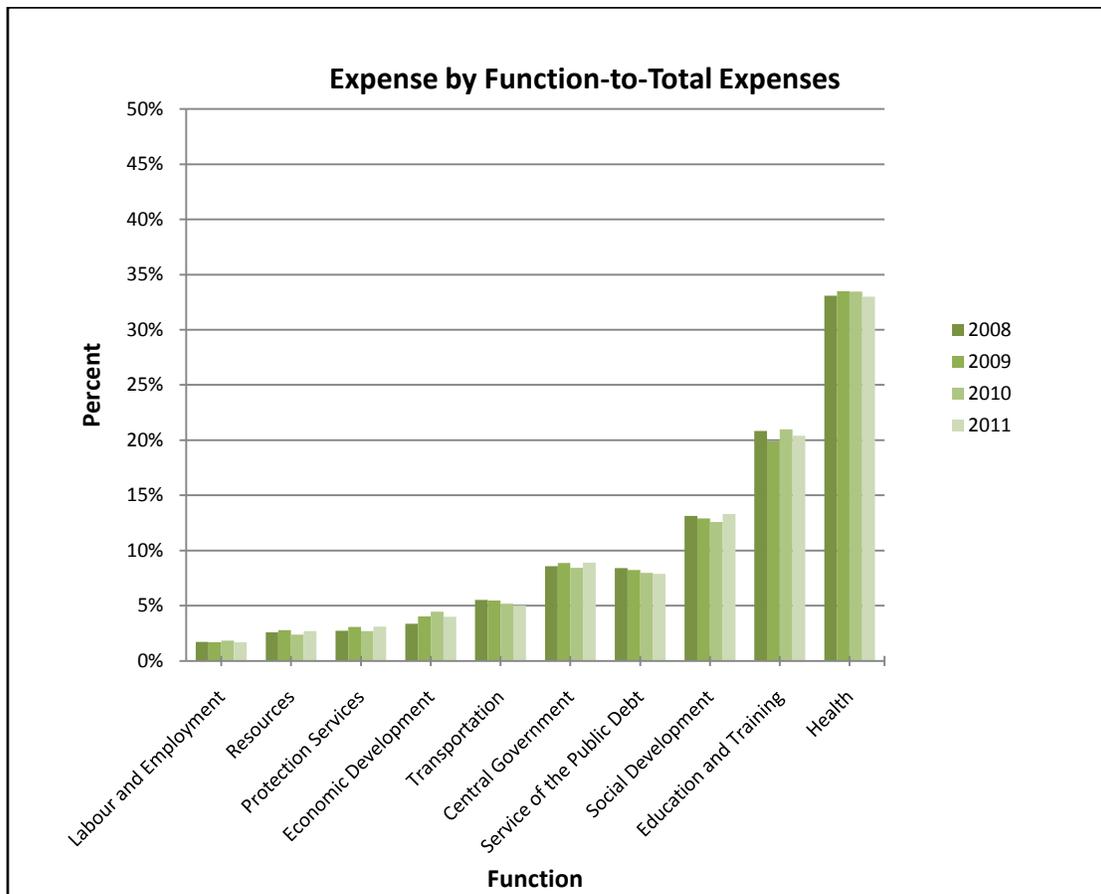


2.26 Net Debt provides a measure of the future revenue required to pay for past transactions and events. A Net Debt-to-total revenue percentage that is increasing indicates that the Province will need more time to eliminate the Net Debt. During the past two years the Province's percentage has increased significantly; however, it is still less than the 128.5% in 2004. If the Province continues in the same manner, the improvements made over the last eight years will be lost. The short-term trend of this indicator is unfavourable, however, we have assessed the long-term trend as mixed.

Expense by Function-to-Total Expenses

2.27 The following table presents expense by function-to-total expenses.

Comparison of Expense by Function-to-Total Expenses								
	2011		2010		2009		2008	
	(\$ millions)	(percent)						
Labour and Employment	141.7	1.7	141.5	1.8	124.4	1.7	119.1	1.7
Resources	215.1	2.7	205.8	2.7	204.2	2.8	203.3	2.9
Protection Services	250.6	3.1	209.5	2.7	223.8	3.1	187.5	2.7
Economic Development	328.4	4.0	343.7	4.4	286.3	3.9	226.8	3.3
Transportation	402.7	5.0	381.4	4.9	380.7	5.2	364.0	5.3
Central Government	725.5	8.9	677.7	8.7	671.7	9.1	609.4	8.8
Service of the Public Debt	642.6	7.9	616.6	7.9	602.5	8.2	576.9	8.4
Social Development	1,080.8	13.3	984.4	12.7	947.7	12.9	916.5	13.3
Education and Training	1,655.1	20.4	1,621.7	20.9	1,452.0	19.8	1,430.9	20.7
Health	2,687.2	33.0	2,587.9	33.3	2,448.7	33.3	2,275.3	32.9
Total	8,129.7	100.0	7,770.2	100.0	7,342.0	100.0	6,909.7	100.0



2.28 It is not easy to identify any significant trends from

four years of data when comparing expenses by function-to-total expenses. It is important to remember, however, that the years ended 31 March 2009, 31 March 2010 and 31 March 2011 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. We have assessed this indicator as neutral.

Net Debt-to-GDP

2.29 The sustainability indicator, Net Debt-to-GDP is presented in the following table. The Province also reports this indicator in Volume 1 of the Public Accounts.

Comparison of Net Debt-to-GDP			
Year ended	Net Debt (\$ millions)	GDP (\$ millions)	Net Debt/ GDP (percent)
2004	7,052.4	22,366	31.5
2005	6,918.6	23,672	29.2
2006	6,809.2	24,716	27.5
2007	6,680.4	25,847	25.8
2008	7,058.2	27,044	26.1
2009	7,501.4	27,376	27.4
2010	8,471.4	27,497	30.8
2011	9,480.4	28,597	33.2

2.30 This indicator compares the Province's Net Debt, the difference between its liabilities and its financial assets, to its GDP. This ratio declined from 31 March 2004 to 31 March 2007 indicating that over that time period the level of the Province's debt became less onerous on the economy. The ratio has increased each of the past four years because the rate of growth of Net Debt has exceeded the rate of growth in GDP over that time period. This ratio's current growth trajectory is concerning as the ratio of Net Debt-to-GDP is greater than the level of the ratio for the year ended 31 March 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 long-

term trend for the Net Debt to GDP indicator as unfavourable as the percentage has been steadily increasing over the last five years and now exceeds the percentage reported in 2004.

***Accumulated
Deficit-to-GDP***

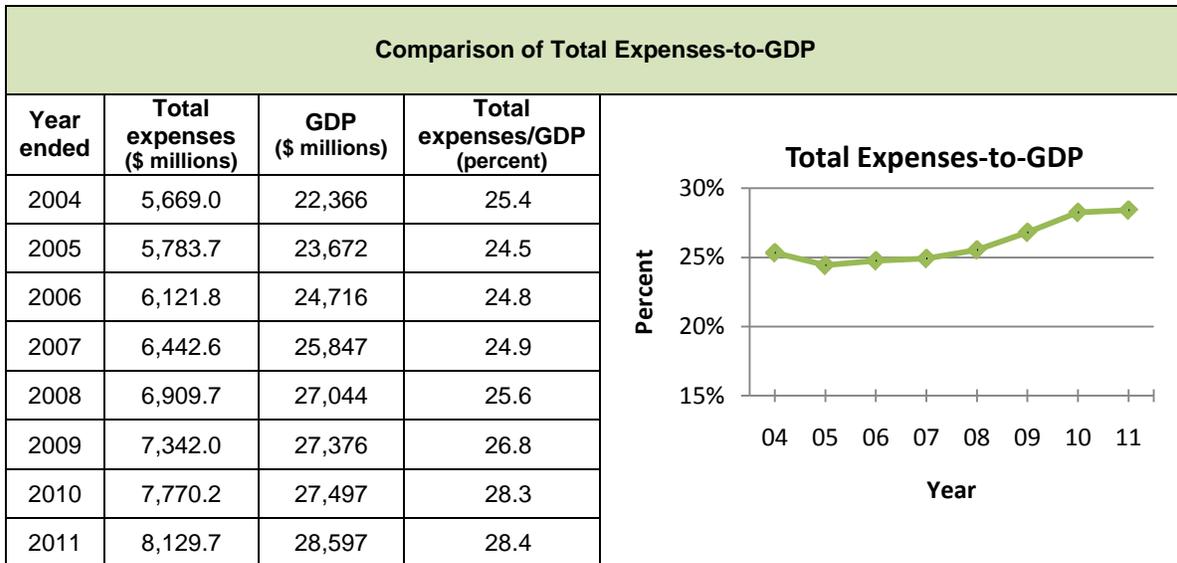
2.31 In the next table, we present the sustainability indicator accumulated deficit-to-GDP.

Comparison of Accumulated Deficit-to-GDP				
Year ended	Accumulated deficit (\$ millions)	GDP (\$ millions)	Accumulated deficit/GDP (percent)	
2008	1,418.7	27,044	5.2	
2009	1,722.3	27,376	6.3	
2010	2,439.7	27,497	8.9	
2011	2,962.2	28,597	10.4	

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

Total Expenses-to-GDP

2.33 The following table presents the total expenses-to-GDP indicator.



2.34 This indicates that after five years of holding government expenses to about 25% of GDP, the past three years have seen the ratio increase. This represents an unfavourable trend as expenses are growing faster than the economy is expanding.

Summary of Sustainability Indicators

2.35 This year, we have reported on the two-year trend for seven sustainability indicators.

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

2.36 We can also assess long-term trends for the sustainability indicators. We have reported the long-term trend over eight years, and four years where prior year comparative numbers are not available.

Long-term Trend for Sustainability Indicators	
Sustainability indicator	Long-term trend
Assets-to-liabilities	Unfavourable
Financial assets-to-liabilities	Unfavourable
Net Debt-to-total annual revenue	Mixed
Expense by function-to-total expenses	Neutral
Net Debt-to-GDP	Unfavourable
Accumulated deficit-to-GDP	Unfavourable
Total expenses-to-GDP	Unfavourable

2.37 In summary, our overall assessment of the sustainability indicators is unfavourable. This negative trend should be of concern to New Brunswickers.

Flexibility Indicators

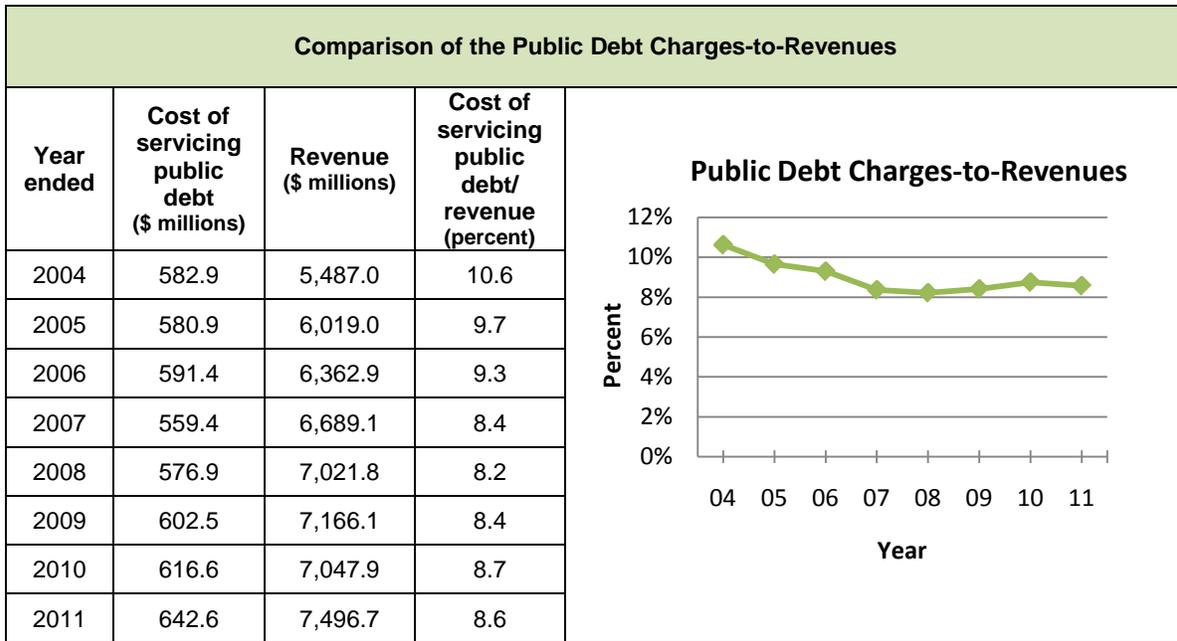
2.38 Flexibility is the degree to which the government can change its debt or tax burden on the economy to maintain programs and meet existing creditor requirements.

Public Debt Charges-to- Revenues

2.39 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.

2.40 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.

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



2.42 This table shows that the cost of servicing the public debt as a percentage of the Province’s total revenues is significantly lower in the year ended 31 March 2011 than it was in the year ended 31 March 2004. This means that the Province is spending less of its current year revenue to cover debt charges resulting in more current year revenue available to cover services to the public. For the past two years, the ratio has remained relatively stable thus 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

2.43 We present the net book value of capital assets-to-cost of capital assets in the following table.

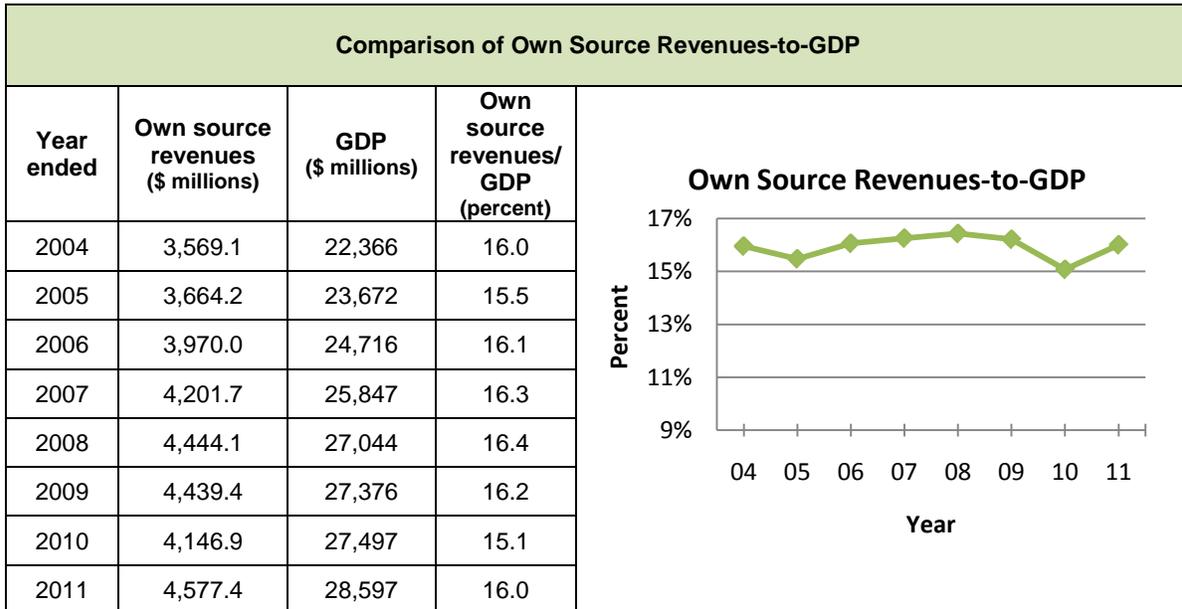
Comparison of Net Book Value of Capital Assets-to-Cost of Capital Assets			
Year ended	Net book value (\$ millions)	Capital cost (\$ millions)	Net book value/ capital cost (percent)
2008	6,261.9	9,947.8	62.9
2009	6,429.5	10,387.7	61.9
2010	6,706.0	10,959.3	61.2
2011	7,241.7	11,733.2	61.7

Net Book Value-to-Cost of Capital Assets

2.44 This data indicates that the Province's inventory of capital assets as at 31 March 2011 has 61.7% 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 2011, 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 four years, we are assessing the short-term trend as neutral.

***Own Source
Revenues-to-GDP***

2.45 We present own source revenues-to-GDP in the following table. The Province also reports this indicator in Volume 1 of the Public Accounts.



2.46 The own source revenues-to-GDP indicator measures the extent to which the Province is raising its revenue through extracting it from the provincial economy. If the ratio increases, more of the Province's revenue is generated from the provincial economy. For example, an increase in this ratio could result if the Province increased taxes. If the ratio decreases, less of the Province's revenue is generated from the provincial economy. A decreasing ratio increases the Province's ability to raise taxes. Thus, making the Province more flexible in how it can generate revenue.

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

2.48 In 2011, own source revenue increased as a result of the EFC having a surplus of \$10.8 million resulting in an increase in own source revenue of approximately \$223 million. The prior year loss was largely due to the write down of the Dalhousie Generating Station. Also, taxes increased by \$141 million, the majority of which results from an increase in HST revenue of \$120.8 million. We have assessed both the long-term

and short-term trend as neutral.

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

Summary of Flexibility Indicators

2.50 This year, we have reported on the two-year trend for three flexibility indicators from the SORP.

Two-year Trend for Flexibility Indicators	
Flexibility indicator	Two-year trend
Public debt charges-to-revenues	Neutral
Net book value of capital assets-to-cost of capital assets	Neutral
Own source revenues-to-GDP	Neutral

2.51 We can also assess long-term trends for three of the indicators.

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

2.52 The cost of servicing the public debt as a percentage of revenues is lower than it was in the year ended 31 March 2004, resulting in a favourable long-term trend, while own source revenue as a percentage of GDP was higher in the year ended 31 March 2011 than in the year ended 31 March 2010. The increase in the percentage was because of the return to an annual surplus position for the New Brunswick Electric Finance Corporation (EFC) from a deficit in 2010 and the increase in taxation revenue in 2011. Therefore, we have judged the long-term trend to be neutral.

Vulnerability Indicators

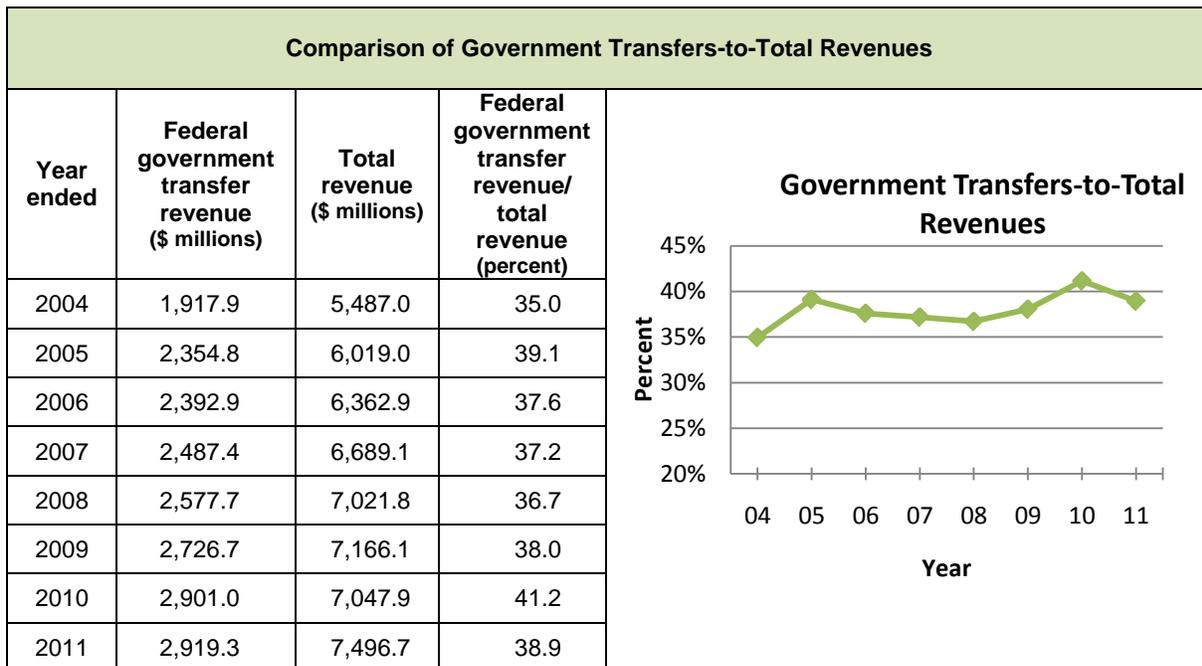
2.53 Vulnerability is the degree to which a government is dependent on sources of funding outside its control

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



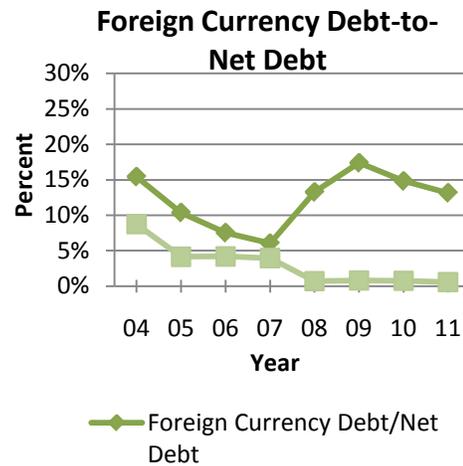
2.56 The above table shows that the Province's reliance on government transfers has been steadily increasing over the years. The decrease in 2011 from the prior year was mostly the result of the decrease in total revenue in 2010 from the EFC loss and should not be factored into the analysis of this indicator. For the

2011 year, revenues increased because of the surplus of \$10.8 million in EFC, compared to a loss of \$212.2 million in the prior year, as well as an increase of \$120.8 million in HST revenue. Thus we are assessing both the long-term and short-term trend as unfavourable.

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 below.

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	7,052.4	15.4	8.7
2005	717.5	6,918.6	10.4	4.1
2006	512.9	6,809.2	7.5	4.2
2007	403.5	6,680.4	6.0	4.0
2008	937.0	7,058.2	13.3	0.7
2009	1,304.8	7,501.4	17.4	0.8
2010	1,255.8	8,471.4	14.8	0.8
2011	1,247.3	9,480.4	13.2	0.6



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

- purchasing assets denominated in foreign currencies for the Province's sinking fund;
- entering into debt swap agreements which allows repayment of the debt in Canadian dollars; and
- entering into forward contracts (which allows the Province to purchase foreign currency at a stipulated price on a specified future date).

2.59 From the table above, we can see the risk of exposure to foreign currency fluctuations is very low at

less than 1% for the last three years. Because of the effectiveness of the Province's hedging strategy, we assess this indicator as favourable.

Summary of Vulnerability Indicators

2.60 We are able to assess the short-term two-year trend for both indicators:

Two-year Trend for Vulnerability Indicators	
Vulnerability indicator	Two-year trend
Government transfers-to-total revenues	Unfavourable
Foreign currency debt-to-Net Debt	Favourable

2.61 We can also assess long-term trends for the two indicators.

Long-term Trend for Vulnerability Indicators	
Vulnerability indicator	Long-term trend
Government transfers-to-total revenues	Unfavourable
Foreign currency debt-to-Net Debt	Favourable

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

Comments on Components of the Province's Financial Statements

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

Deficit

2.64 For the year ended 31 March 2011, the Province reported a deficit of \$633.0 million. This is a decrease of \$89.3 million from the \$722.3 million deficit reported for the year ended 31 March 2010.

2.65 The following table shows, at a high level, the reasons for the change in the deficit from 31 March 2010 to 31 March 2011.

Analysis of Deficit Decrease	
	(millions)
2010 Deficit	\$722.3
Increase in provincial source revenue	(430.5)
Increase in federal source revenue	(18.3)
Increase in expense	359.5
2011 Deficit	\$633.0

2.66 Increases in provincial source revenue are mainly attributable to an increase in Harmonized Sales Tax of \$120.8 million and an increase in earnings of New Brunswick Electric Finance Corporation (EFC) of \$223.0 million.

2.67 The largest increases in expenses are in Health of \$99.3 million and in Social Development of \$96.4 million.

2.68 The results for the year and major variance analysis contained in Volume 1 of the Public Accounts explain the reasons for the variances:

- Harmonized Sales Tax revenue is higher mainly due to the strengthened economy.
- Investment income is higher because the EFC reported a positive net income of \$10.8 million in 2011, after recording a loss of \$212.2 million in 2010, due primarily to NB Power's write-down of the Dalhousie Generating Station.
- Health expenses were higher due to increased expenses under the Medicare and Prescription Drug programs, as well as increased expenses in the Regional Health Authorities associated with wages, energy costs, medical supplies and drugs.
- Social Development expenses were higher due to increases in Nursing Home Services, Long Term Care, Social Assistance, and Housing Services.

Expenses

2.69 The following table shows the one year growth rate for the past three years.

Growth of Expenses by Function (percent)				
Average annual growth rate	Function	2011 growth rate	2010 growth rate	2009 growth rate
5.0	Education and training	2.1	11.7	1.5
5.7	Health	3.8	5.7	7.6
5.7	Social development	9.8	3.9	3.4
10.2	Protection services	19.6	(6.4)	19.4
13.1	Economic development	(4.5)	20.0	26.2
6.0	Labour and employment	0.1	13.7	4.5
1.9	Resources	4.5	0.8	0.4
3.4	Transportation	5.6	0.2	4.6
6.0	Central government	7.1	0.9	10.2
3.7	Service of the public debt	4.2	2.3	4.4
5.6	Total	4.6	5.8	6.3

2.70 This table shows that the Province's expenses have been growing at a significant rate over the past three years. The annualized growth rate for 2011 was 5.6%. This increase in expense growth is concerning given the Province's budget reduction initiative that was in place for the 2010-2011 fiscal year. From the table above, we can see expenses increased from prior year in nine of ten function areas.

2.71 We noted the growth rate has slowed down over the past two years in health, the largest expense function area. This trend is encouraging as health accounts for 33% of total expenses. We also noted a large decrease in the growth rate in education and training. This decrease is deceiving as the 31 March 2010 expenses were higher than usual due to grant payments to the Maritime Provinces' Higher Education Commission.

2.72 We noted a number of expense function areas had growth increases from prior years. The large growth rate of 19.6% in protection services was a result of increased expenses associated with the December 2010 flood and storm surges, as well as an increase in the provision for losses expense. We noted that the growth rate of 9.8% in social development was caused by

increased expenses in the areas of long term care, social assistance, nursing home services and housing services. This trend could continue given the aging population of New Brunswickers.

2.73 Another concerning growth rate increase is for the service of the public debt. This growth rate for 2011 was 4.2% with an annual average growth rate of 3.7%. These costs will continue to increase if the Province's Net Debt continues to increase.

Receivables, Advances, Loans and Allowances

2.74 Our focus on receivables, advances, loans, and allowances go hand in hand. There are significant amounts of money owed to the Province by taxpayers, businesses, and the federal government. As shown in the table below at 31 March 2011, over \$1.5 billion was owed to the Province, gross of allowances that had been set up for receivables, advances, and loans. There was an additional \$1.1 billion in taxes receivable.

Amounts Owed to the Province										
(\$ millions)										
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Accounts receivable and advances	690.0	733.0	622.7	607.7	522.8	590.5	543.0	476.3	439.3	382.8
Loans	858.5	822.4	736.8	626.0	560.6	512.9	262.7	255.6	292.3	291.2
Total A/R, advances, loans	1,548.5	1,555.4	1,359.5	1,233.7	1,083.4	1,103.4	805.7	731.9	731.6	674.0
Taxes Receivable	1,144.6	1,112.0	1,122.9	954.2	1,046.6	554.9	488.9	553.2	507.0	471.9

2.75 We continue to believe the management of the amounts owed to the Province is critical to reducing interest costs. Assuming an interest rate of 5%, we calculate interest cost associated with the balances of receivables, advances and loans to be approximately \$77.0 million annually.

Receivables and Advances

2.76 Through the following analysis, we note there have been decreases in both the amounts owed to the Province and the related allowances. This was mostly due to the authorization by the Board of Management to delete the assets of the Province that were no

longer considered collectible.

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

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

2.78 The total amount of accounts receivables and advances at 31 March 2011 was \$690.0 million, a decrease of 5.9% over the amount owing at the end of the previous year.

2.79 The amount receivable from the federal government increased by \$12.2 million during the year ended 31 March 2011. Details of the amounts due from the federal government are found in the following table.

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

2.80 One of the larger components of the receivable from the federal government is for Economic Development. The amount owing for Economic Development increased by \$24.7 million to \$69.8 million at 31 March 2011. This receivable relates to federal-provincial cost shared agreements. Most of these agreements require the Province to submit a claim to the federal government for reimbursement of expenses. The collectability of the amounts due from the federal government should not be in question; however, this receivable still needs to be managed to ensure timely collection. It is imperative that the Province prepare and submit claims on a timely basis so that the Province is not bearing the interest costs with the outstanding amounts.

Loans

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

Loans Receivable										
(\$ millions)										
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Loans to students	415.1	391.0	369.2	336.4	296.0	258.3	0.2	0.2	0.2	0.2
<i>Economic Development Act</i>	314.3	303.6	246.3	169.8	146.0	135.5	135.8	124.1	155.7	144.0
<i>New Brunswick Housing Act</i>	33.8	35.9	35.5	34.0	34.8	34.5	33.6	32.7	31.8	30.9
Energy efficiency upgrade loans	14.3	11.1	7.3	3.6	2.3	0.2	-	-	-	-
<i>Fisheries Development Act</i>	29.4	35.2	36.4	40.1	39.2	40.1	42.6	48.8	54.4	56.9
<i>Agricultural Development Act</i>	9.8	11.2	5.4	4.4	4.2	18.1	21.3	21.7	20.3	18.1
Beaverbrook Art Gallery	7.6	6.6	6.6	4.5	4.5	1.0	1.0	-	-	-
Loans to municipalities	1.6	3.4	5.4	7.3	9.2	1.0	1.6	1.6	1.9	1.7
Fundy Trail Endowment Fund	3.5	3.3	3.1	2.9	2.8	2.6	4.0	3.8	3.6	3.2
Unsatisfied judgements	9.4	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5
L'Office de Stabilisation	4.0	4.1	4.1	4.0	-	-	-	-	-	-
La Fondation du quotidien francophone	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Provincial Holdings Ltd.	7.6	2.6	2.9	4.1	6.2	6.0	6.5	6.7	8.1	8.5
Other loans	4.1	0.9	1.1	1.4	1.9	2.1	2.6	2.5	2.8	3.1
Subtotal	858.5	822.4	736.8	626.0	560.6	512.9	262.7	255.6	292.3	280.1
Allowance for doubtful loans receivable	(269.1)	(313.3)	(297.9)	(229.3)	(207.2)	(192.9)	(142.6)	(129.3)	(143.9)	(133.7)
Total	589.4	509.1	438.9	396.7	353.4	320.0	120.1	126.3	148.4	146.4
(percent)										
Percentage of doubtful loans receivable	31.3	38.0	40.4	36.6	37.0	37.6	54.1	50.6	49.2	47.7

2.82 The increase in loan balances is concerning. Since 31 March 2006, the year the Province added student loans to its loan portfolio, total loans have increased over 67%, an average increase of over 13%

per year.

Allowances

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

Allowances										
(\$ millions)										
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Allowance for losses	165.3	95.5	101.8	103.1	95.8	84.0	67.1	75.8	50.2	44.7
Allowance for doubtful loans receivable	269.1	313.3	297.9	229.3	207.2	192.9	142.6	129.3	143.9	133.7
Allowance for doubtful taxes receivable	43.8	61.8	56.5	55.1	77.0	85.4	96.9	86.6	89.5	89.5
Allowance for doubtful receivables and advances	250.2	306.0	244.0	201.3	155.7	140.7	132.9	118.5	113.3	97.7
Total	728.4	776.6	700.2	588.8	535.7	503.0	439.5	410.2	396.9	365.6

2.84 The total of all of the Province's allowances continues to be concerning. The balance decreased at 31 March 2011, after the Board of Management's authorization to write-off uncollectible accounts of \$155.1 million.

2.85 The following table analyzes the total allowance for the past four years.

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

2.86 We are pleased collectability of provincial receivables is being reviewed with required allowances and write offs assessed. We hope this process continues annually. However, it is troubling to see \$155.1 million written off as unrecoverable. We understand this amount is generated from several years of not writing off old amounts previously allowed for.

Overall, it is concerning that this magnitude of write off is required, especially when the Province is experiencing financial difficulty.

NB Electric Finance Corporation

2.87 The Province's financial statements include the results of many Crown Agencies. One of the largest and most complex is the NB Power group of companies (NB Power). These companies are included in the Province's financial statements through the New Brunswick Electric Finance Corporation (EFC). This company was set up to hold the debt of NB Power and to some degree controls the strategic long-term operations of NB Power. The accounting for these companies in the Province's financial statements is based on the principle that EFC will be able to receive sufficient income from the NB Power group to repay the debt taken on by the EFC. We have decided to provide an analysis of the operating results of the EFC and NB Power group due to the complexity of the underlying accounting issues and because these entities' financial results can have a significant impact on the Province.

2.88 The New Brunswick Electric Finance Corporation (EFC) began operations in the fiscal 2005 year. Since it began, the EFC has shown a total income of \$95.6 million. The only year where a loss was recorded was 2010, which was the result primarily of the write down of the Dalhousie Generating Station. The EFC's results for the past seven years are provided in the following table:

NB Electric Finance Corporation Net Earnings (loss)							
(\$ millions)							
	2011	2010	2009	2008	2007	2006	2005
EFC	10.8	(212.2)	34.4	104.5	18.7	131.5	7.8

2.89 The EFC's only source of income and cash generation is from the NB Power group of companies. The EFC is also responsible for the debt of NB Power and is dependent on income and cash flows from NB Power to pay down this debt. It is difficult to analyse the results of NB Power's operations because of:

- continued recognition of regulatory assets for certain normal period costs and replacement power costs

associated with the refurbishment of the Point Lepreau Generating Station, and for the benefits from the lawsuit settlement with Petróleos de Venezuela S.A. (PDVSA); and

- mark-to-market accounting for the PDVSA long-term receivable which the notes to the combined financial statements of NB Power describe as temporary and which will reverse when all the related fuel shipments have been received.

2.90 The following table provides information about NB Power's earnings for the past five years. The effects of rate regulated accounting, mark-to-market adjustments for the long-term receivable and payments to the EFC (payments in lieu of tax) are factored out to try to give as clear a year-to-year comparison of net earnings as possible.

	NB Power				
	(\$ millions)				
	2011	2010	2009	2008	2007
Net earnings (loss) per financial statements	67	(117)	70	89	21
Net earnings (loss) before special payments in lieu of income taxes	99	(170)	104	138	29
Net earnings (loss) before special payments in lieu of income taxes adjusted to remove the effects of regulatory accounting	(117)	(317)	(282)	211	29
Net earnings (loss) before special payments in lieu of income taxes adjusted to remove the effects of regulatory accounting and the effects of temporary mark-to-market adjustments on long term receivable	(95)	(366)	(137)	118	29
Net earnings (loss) before special payments in lieu of income taxes adjusted to remove the effects of regulatory accounting, the effects of temporary mark-to-market adjustments on long term receivable, and the write down on the Dalhousie Generating Station	(95)	(205)	(137)	118	29

2.91 NB Power's net earnings per financial statements show surpluses in the years ended 31 March 2007 through 2009 and again in 2011. If one removes the write down of the Dalhousie Generating Station of \$161 million, the net earnings for the year ended 31 March 2010 would also be positive. The adjusted earnings figure at the bottom of the preceding table reflects less favourable results from 2009 to present, which is what would be expected with the extra costs incurred during the refurbishment shut down of the

Point Lepreau Generating Station. The year ended 31 March 2007 provides a good base year comparison because the Point Lepreau Generating Station was operational, there was no long term receivable to mark-to-market, and NB Power was not recording regulatory assets.

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

NB Power				
Year over Year Increase (Decrease) in Earnings				
(\$ millions)				
	2011	2010	2009	2008
Net earnings (loss) before special payments in lieu of income taxes adjusted to remove the effects of regulatory accounting, the effects of temporary mark-to-market adjustments on long term receivable, and the write down on the Dalhousie Generating Station – in 2010	(205)	(137)	118	29
More (less) revenue from sales of power	60	-	3	72
More (less) transmission revenue	-	2	2	3
More (less) miscellaneous revenue	(8)	(14)	(26)	32
(More) less expense for fuel and purchased power	13	(18)	(284)	(25)
(More) less expense for transmission	(4)	(4)	3	-
(More) less expense for operations, maintenance and administration	31	(32)	(18)	(8)
(More) less expense for amortization and decommissioning	-	(13)	30	4
(More) less taxes	-	3	-	6
(More) less finance charges	18	8	35	5
Net earnings (loss) before special payments in lieu of income taxes adjusted to remove the effects of regulatory accounting, the effects of temporary mark-to-market adjustments on long term receivable, and the write down on the Dalhousie Generating Station – in 2010	(95)	(205)	(137)	118

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

- The year 2009 had worse results than the year 2008 because the Point Lepreau Generating Station was taken off line, resulting in higher costs for replacement fuel.
- The year 2010 had worse results than the year 2009 for a number of smaller reasons: fuel costs increased but sales of power did not change, miscellaneous

revenue declined for the second year in a row, and the cost of operations, maintenance and administration increased by 7.8%.

- The year 2011 showed a more favourable picture, although there was still a loss for the year. For that year, the sales of power increased, while the cost of fuel and purchased power fell.

2.94 While the accounting that NB Power uses for rate regulated assets is consistent with Generally Accepted Accounting Principles, the reader needs to understand what the assets represent. Most of the regulatory assets represent the right of NB Power to collect revenue from ratepayers in the future to cover the normal period costs and replacement power costs associated with the refurbishment of the Point Lepreau Generating Station. Therefore, the asset represents a right to collect the costs of the Point Lepreau refurbishment from future ratepayers. Normally such a situation would be considered to be a deficit. The accounting in the NB Power audited financial statements does not reflect this view.

2.95 As part of our audit work, we confirmed that NB Power and their auditors assessed the ability of NB Power to be able to charge rates in the future at a sufficient level to fully collect the amount of the regulatory asset. As part of our work, we had the opportunity to review NB Power's model of its future financial results; this model covers multiple years into the future. The model forecasts better results than we expected it to, but we found that the forecast held up even when various assumptions were changed. Of course, the forecast is dependent on the Point Lepreau Generating Station successfully being returned to service.

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

2.97 While the accounting adopted by NB Power is supported by accounting standards, we believe significant uncertainty exists for the Province regarding the accounting for this rate regulated asset.

Provincial Pension Plans

2.98 The Province's pension plans are another significant component of the Province's financial statements. Recent market fluctuations have exposed the Province to greater volatility in its financial reporting through required accounting adjustments for pension plans. The following paragraphs illustrate these trends, as well as discuss other issues associated with the plans.

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

Components of Pension Expense										
(\$ millions)										
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Employer's share of pension benefits earned	137.4	131.6	146.1	133.8	126.1	117.0	124.1	96.1	90.6	82.9
Net interest expense (revenue)	52.9	118.2	20.6	(9.1)	0.4	30.9	17.6	85.4	27.9	3.5
Plan amendments	-	-	-	-	5.9	-	-	-	-	-
Amortization of adjustments	99.7	87.1	159.7	30.3	(31.2)	(40.3)	(31.8)	(55.3)	(26.1)	(80.6)
Change in valuation adjustment	-	(15.5)	(3.3)	(0.5)	(0.1)	2.3	(1.5)	(2.0)	(2.0)	(6.5)
Total	290.0	321.4	323.1	154.5	101.1	109.9	108.4	124.2	90.4	(0.7)

2.100 This table 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 2002, the pension expense was a credit of \$.7 million; this had the same effect on the Province's Statement of Operations in that year as a revenue item of \$.7 million. By way of contrast, in the year ended 31 March 2011, the pension expense was \$290.0 million, a decrease of \$31.4 million from the 31 March 2010 total of \$321.4 million.

2.101 The employer's share of pension benefits earned has increased at an annualized rate of 5.8% per year. This is the core expense the Province incurs to provide pension benefits earned by employees during the year.

This rate of increase is contrasted against the provincial GDP 2010 growth rate of 2% (as estimated by the Department of Finance in their June 2011 publication "*The New Brunswick Economy: 2010 in Review*").

2.102 The net interest component of the pension expense depends primarily on the rate of return earned on pension fund assets. These returns are volatile, as illustrated in the following table which reports the rates of return for the New Brunswick Investment Management Corporation (NBIMC) since it diversified the pension funds on 31 March 1997. NBIMC manages the trust funds for the *Public Service Superannuation Act* (PSSA) plan, the *Teachers' Pension Act* (Teachers') plan and the *Provincial Court Act* and *Provincial Court Judges' Pension Act* (Judges') plan.

NBIMC Rates of Return (percentage)	
2011	10.42
2010	19.94
2009	(18.34)
2008	0.79
2007	8.68
2006	15.87
2005	8.51
2004	25.27
2003	(6.95)
2002	3.45
2001	(5.23)
2000	20.57
1999	(0.62)
1998	18.68
14 year average annualized return	7.22

2.103 The returns earned by NBIMC have ranged from a high of 25.27% in the year ended 31 March 2004 to a low of (18.34)% in the year ended 31 March 2009.

Over the fourteen fiscal years the average annual rate of return of NBIMC has been 7.22% which is slightly above the 7.12% rate of return the Province assumes will be earned on the plan assets over the long term. However, a 6.22% average annual rate of return was reported for the prior year (which was below the Province's assumed rate). The volatility in pension asset rates of return is highlighted upon review of the annualized returns in the previous table.

2.104 We note the Province's assumed rate of return has remained unchanged since the 31 March 2010 rate at 7.12%. Further, we note that the last difference in rate was at 31 March 2009 when the rate was previously set at 6.86%. The accuracy of these rates are particularly important given that a small variance in rate can cause a significant effect in the accounting for pension investment returns and expenses and the reporting of pension liabilities for accounting purposes.

2.105 As noted in our provincial audit findings, the assumed rate of return used by the Province should be subject to thorough review, and supporting analysis for the approach taken should be well documented.

2.106 The following table provides the history of the Province's pension liability balance for accounting purposes over the past ten years.

Pension Liability (Surplus) for Accounting Purposes										
(\$ millions)										
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Pension liability (surplus)	(219.9)	(196.6)	(210.2)	(244.7)	(126.4)	30.2	156.7	271.5	362.1	372.6

2.107 The value of the pension liability or surplus 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 that reduces the volatility in plan experience. The following table provides the details of these three components of the pension liability or surplus.

Components of the Pension Liability (Surplus) for Accounting Purposes										
(\$ millions)										
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Estimated accrued benefit obligations	8,895.7	8,570.2	8,642.5	8,289.3	7,865.5	7,324.5	6,719.6	6,380.9	5,983.7	5,603.1
Value of plan assets	8,387.0	7,703.1	6,512.4	8,024.1	8,030.5	7,449.3	6,521.7	6,086.5	4,926.3	5,445.1
Subtotal	508.7	867.1	2,130.1	265.2	(165.0)	(124.8)	197.9	294.4	1,057.4	158.0
Accounting adjustments	(728.6)	(1,063.7)	(2,340.3)	(509.9)	38.6	155.0	(41.2)	(22.9)	(695.3)	214.6
Pension liability (surplus)	(219.9)	(196.6)	(210.2)	(244.7)	(126.4)	30.2	156.7	271.5	362.1	372.6

2.108 The previous table shows that while the Province's pension position for accounting purposes has been a surplus for the past five years, the value of the total estimated accrued benefit obligations has actually exceeded the total value of plan assets for the past four years. The Province's pension position before accounting adjustments improved in the year ended 31 March 2011 primarily due to pension plan asset performance and market recovery.

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

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

Pension Expense and Contributions										
(\$ millions)										
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Pension expense	290.0	321.4	323.1	154.5	101.1	109.9	108.4	124.2	90.4	(0.7)
Employer contributions	313.3	307.8	288.6	272.8	257.7	236.4	223.2	214.8	100.9	69.1
Reduction (increase) in pension liability	23.3	(13.6)	(34.5)	118.3	156.6	126.5	114.8	90.6	10.5	69.8

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

2.112 In addition, it should be noted that the liability data presented in this section pertains to liabilities calculated for accounting purposes and should not be used to assess funding or solvency status.

2.113 We further note that while the pension funds held through NBIMC are subject to audit, the Province has ceased to have financial statement audits performed on the larger pension plans. Our Office performed extra work this year in an effort to compensate for the absence of the plans' audits.

2.114 As a result of the additional work our office performed on pension plans this year, we will be reviewing in the future certain matters pertaining to pension plans. A list of a few of the items we expect to examine regarding pension plans follows:

- an assessment of the adequacy of disclosure to provincial pension plan members of the liability calculated for funding purposes, funding shortfalls and solvency shortfalls, and trends over time regarding the funded position and financial position of the pension plan;
- an assessment of the adequacy of disclosure to pension plan governance committees and plan members of funding statistics including an indication of the status of funding normal cost of the plan (whether the current contributions are fully funding current service costs);
- an assessment of the adequacy of disclosure to pension committees, plan members and provincial administrators of the sensitivity of rates selected in calculating the liability and other key calculation variables;
- an assessment of the adequacy of support maintained and reviewed by pension committees and provincial administrators for differences in key calculation variables selected

between plans;

- an assessment of the adequacy of the overall governance and communication to stakeholders pertaining to plan administration and membership matters for provincial pension plans; and
- an assessment of the adequacy of the process to determine the Province's financial responsibilities regarding joint governance or other pension plans.

2.115 Resources and timing did not permit satisfactory review of the above items as part of the regular financial statement audit of the Province. Our intent is to comment on these items in a future report.

Chapter 3

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

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

Introduction

3.1 In this chapter we discuss our significant findings and recommendations relating to our audit of the Province's financial statements.

Scope

3.2 To reach an opinion on the financial statements of the Province, we carry out audit work on the major programs and activities in departments. In addition, we audit major revenue items and a sample of expenditures chosen from departments. We also test internal controls of significant computerized systems.

3.3 Because of the limited objectives of this type of audit work, it may not identify matters which might come to light during a more extensive or special examination. However, it often reveals deficiencies or lines of enquiry which we might choose to pursue in future audit work.

3.4 In almost every audit, there are matters arising that need to be discussed with management. These matters, although significant, are not sufficiently large in dollar terms to affect our opinion on the financial statements. It is our practice to report these matters to senior officials of the departments concerned, and to ask for a response. Some of these findings may not be included in this Report, because we do not consider them to be of sufficient importance to bring to the attention of the Legislative Assembly, or because public attention to weaknesses in accounting controls, before they are corrected, could possibly result in loss of government assets.

3.5 Our 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.

Responsibilities of Government

3.6 The government is responsible for the preparation and the content of the Province's financial statements. The Statement of Responsibility at the front of Volume 1 of the Public Accounts is signed by the Minister of Finance on behalf of the government. The Comptroller is responsible for preparing the financial statements in accordance with 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: allowances on investments, employee future benefits and tangible capital assets.

Responsibilities of the Office of the Auditor General

3.7 Our Office is responsible for auditing the financial statements. An audit provides reasonable, but not absolute, assurance that the Province's financial statements are free of material misstatement. Material misstatement refers to an item or group of items that, if omitted or misstated, would alter the decisions of reasonably knowledgeable financial statement users. The tolerable level of error or misstatement is a matter of judgment.

3.8 We obtain reasonable assurance on the financial statement figures because it would not be cost effective to obtain absolute assurance - our auditors cannot test every transaction. By applying audit procedures to test the accuracy or reasonableness of the figures appearing in the financial statements, we achieve our desired level of assurance. We use audit procedures such as tracing samples of transactions to supporting documents, testing the effectiveness of certain internal controls, confirming year-end balances with third parties and reviewing the reasonableness of estimates.

Our Opinion on the Financial Statements

3.9 In our opinion, the financial statements present fairly, in all material respects, the financial position and results of operations of the Province of New Brunswick in accordance with Canadian public sector accounting standards.

Matters Arising from our Audit

3.10 The following table shows audit areas where we had significant findings, the department or agency responsible and the page number where our findings are located.

Audit Findings	Department/Agency	Page
Accounting and Reporting	Office of the Comptroller	55
Provincial Accounts Payable and General Ledger System (Oracle)	Office of the Comptroller	63
Accounts Payable Input and Approval (IPM) Process	New Brunswick Internal Services Agency (NBISA)	68
Payroll System (HRIS)	New Brunswick Internal Services Agency (NBISA)	72
Property Tax System	Department of Finance	79
Social Assistance System (NBCase)	Department of Social Development	81
Long-term Care System (NBFamilies)	Department of Social Development	84

Office of the Comptroller Accounting and Reporting

Public Sector Accounting Board Standards (PSAB)

Tangible Capital Asset (TCA) Policy

3.11 The province currently does not capitalize computer hardware and software as part of its TCA policy. This policy is not in compliance with PSAB. A draft TCA policy for capitalizing computer hardware and software had been developed by the Office of the Comptroller, but the policy has not been implemented.

Recommendation

3.12 **We recommended the Office of the Comptroller determine the value of significant computer hardware and software (e.g. Medicare system) and account for those items in compliance with PSAB. A computer hardware and software policy should be implemented that meets PSAB requirements.**

Comments from Management

3.13 *My Office will review the tangible capital asset policy related to the capitalization of computer hardware and software and make a recommendation to Board of Management regarding a specific change to the policy.*

Capital Asset Policy – P3 and DOT arrangements 3.14 There was a significant adjustment in the current year financial statements relating to the Public-Private Partnership (P3) entered into by the NB Highway Corporation. Currently there is no provincial policy in place with respect to accounting for P3 arrangements. With the increase in the number of such P3 arrangements, the province should develop a policy on accounting for P3's.

Recommendation 3.15 **We recommended a comprehensive policy be developed for P3 accounting which at minimum considers recognition criteria, measurement considerations, vetting of significant estimates and betterment identification considerations.**

Comments from Management 3.16 *The substance of P3 arrangements needs to be evaluated on a case by case basis with reference to existing standards and policies. In some cases the result is the acquisition of an asset (or the deemed acquisition through the transfer of risks and benefits of ownership) and should be treated as assets or asset betterments. As my Office reviews the tangible capital asset policy, we will look for areas where clarification around P3 arrangements can be added.*

Lease Analysis 3.17 During the audit we requested a sample of detailed calculations from the Department of Supply and Services related to new lease contracts. The information provided to us in one instance indicated that the lease met the criteria to be capitalized. The lease had been incorrectly accounted for as an operating lease.

Recommendation 3.18 **We recommended significant lease contracts and arrangements be reviewed to determine the proper accounting treatment has been adopted. We further recommended such analysis be performed early in the financial reporting year to ensure timely reporting, communication and proper financial statement presentation.**

Comments from Management 3.19 *The Department of Supply and Services currently reviews all significant building leases. It is my understanding that the lease you refer to was relatively insignificant from a financial statement perspective and therefore may not have been analyzed to the same level of detail by departmental staff. I believe that the material leases were properly classified and accounted for. My Office will work closely with Supply and Services and other*

departments to ensure proper consultation and communication with respect to proper accounting treatment for leases.

Sick Leave Accrual 3.20 PSAB 3255 requires that governments recognize a liability and an expense for sick leave benefits, if they are significant in nature. In order to validate the significance of the obligation, a documented estimate should be prepared. Management should prepare a documented estimate of the sick leave obligation and expense and, if significant, an accrual should be made in the financial statements.

Recommendation 3.21 **We recommended the Office of the Comptroller document an estimate for sick leave obligation and record it in the financial statements if it is significant. The documentation pertaining to the estimate should include how management identifies transactions, events and conditions which give rise to the need for an accounting estimate or a change in estimate, how management made the accounting estimate including details on the estimate model, the use of any experts, a list of, and support for, any assumptions, and how management has addressed estimation uncertainty.**

Comments from Management 3.22 *My Office will undertake to expand on the documentation we currently have related to the sick leave liability.*

Netting of Expenditures 3.23 In the past, we commented that certain provincial tax expenditure programs have been netted against tax revenue. This treatment understates provincial revenue and expenditures. A new PSAB standard coming into effect for fiscal years beginning on or after April 1, 2012 provides guidance on the proper treatment of tax expenditure programs. We were pleased that the Office of the Comptroller had early-adopted this standard for several programs in the Public Accounts this year, and encourage them to continue reviewing other such programs to ensure they are consistently accounted for.

Recommendation 3.24 **We recommended the Office of the Comptroller continue to review tax expenditure programs to ensure they are accounted for consistently.**

Comments from Management 3.25 *My Office and the Tax Revenue Branch of the Department of Finance have an ongoing project (since winter 2011) to review and analyze the various tax*

expenditure and other programs to determine proper accounting for each. It is our intention to be fully compliant with the accounting standard by the time it is effective in the fiscal year ending March 31, 2013. We are pleased with the amount of work completed in this area for the year ended 31 March 2011 and early adoption for those programs we could identify, analyze and quantify in a short period of time.

Moncton Land Purchase

3.26 During the fiscal year, the province began negotiating an agreement to purchase land for a new school in the Moncton area. Funds were put in trust with external legal counsel for the land purchase, and the land was recorded by the province as a tangible capital asset at 31 March 2011. As the risks and rewards of the land had not yet transferred to the Province, it was not in compliance with PSAB to record the land purchase.

Management's Use of Estimates

3.27 Under the new Canadian Auditing Standards, we are required to perform new audit procedures on estimates and management's process to develop and select accounting estimates. In connection with this we note there are several financial statement items where management estimates are used to calculate the amount reported. Examples of where management estimates are used include future employee benefits, allowances, provisions, reserves, and contingencies. Uncertainty exists around accounting estimates due to the availability and reliability of information used to calculate estimates, which increases the risk of misstatement in the financial statements.

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

3.29 Throughout the audit we discovered several areas where accounting estimates were used and management did not have adequate documentation maintained for these estimates. Below are some of the issues arising from management's use of estimates.

Provisions and Allowances

3.30 Management estimates are used when calculating provisions and allowances. There are numerous provisions and allowances in the provincial financial statements, some examples include: allowances on accounts and interest receivable, allowances on loans, provisions and reserves on property tax, and general provision on outstanding lawsuits. We recommended enhanced documentation be developed in advance of next year's audit to demonstrate the process followed to calculate, evaluate and review significant management estimates. When documenting support for estimates the documentation should include how management identifies transactions, events and conditions which give rise to the need for an accounting estimate or a change in estimate, how management made the accounting estimate including details on the estimate model, the use of any experts, a list of, and support for, any assumptions, the effectiveness/precision of the estimate by review of past estimates and the actual results achieved, and how management has addressed estimation uncertainty.

Discount Rates

3.31 There are a number of account balances which require the use of discount rates to calculate the estimated future liabilities. These include, but are not limited to, retirement allowances, pensions, sick leave accruals and workplace health and safety accruals. The rates used in the calculation are determined by management in conjunction at times with external experts. Due to the nature and size of these liabilities, a small change in the rate could cause a material impact to the financial statements. We recommended these rates be subject to annual review and formal documentation of the process and their calculation should be maintained. Further, for unfunded obligations (such as Worksafe NB liability, hospital self insurance liability and retirement allowance liability) the Province should establish one discount rate for these unfunded liabilities and apply the rate consistently in all calculations, or document with support why the discount rate chosen is appropriate relative to discount rates used on other unfunded provincial liabilities.

P3 Accounting – Vetting Process

3.32 Estimates were made in determining the amount of rehabilitation payments to capitalize for P3 highway projects. The estimates were derived from an original reference case for each project. These calculations are subject to significant judgment respecting timing of expenditures and related amounts. Due to the significant judgment involved in these calculations, the vetting process of these estimates should be well documented and reviewed.

In addition we recommended the original reference cases should be periodically reviewed to determine whether past estimates are accurate and a reflection of what is actually occurring under these contracts.

Recommendation

3.33 We recommended the Office of the Comptroller ensure supporting documentation for significant estimates is maintained and reviewed.

Comments from Management

3.34 My Office will continue to document significant estimates used and enhance the documentation where possible and feasible. In addition, we will request that departmental staff enhance their documentation of estimates used for accounting entries such as the capitalization of rehabilitation costs incurred by third parties who are contracted to maintain New Brunswick highways.

Government Reporting Entity (GRE)

3.35 PSAB standards state that the GRE should comprise the organizations that are controlled by the government. Periodic review of the GRE and what is contained within is needed to ensure the current reporting of provincial organizations is appropriate and to reconfirm the completeness of the entity. We noted the New Brunswick Systems Operator was not included in the GRE.

3.36 We also believe that the relationship between New Brunswick nursing homes and the Province should be reviewed to determine whether nursing homes belong in the GRE.

Recommendation

3.37 We recommended the Office of the Comptroller review and document the boundaries of the GRE to reconfirm all appropriate entities are captured. We further recommended the relationship with nursing homes be reviewed to determine whether they should be included in the GRE. The relationship with the New Brunswick System Operator should also be examined with analysis documented to support conclusions reached.

Comments from Management

3.38 My Office will endeavor to establish a cyclical review of all entities currently included in the GRE to ensure they still meet the criteria for inclusion, as well as a review of others who may have been excluded in the past. A more specific review of the control relationship with Nursing Homes will be carried out by Staff from OoC and Social Development. If the New Brunswick System Operator is going to once

again be part of the NB Power Group of Companies, no review will be required. Otherwise, a review will be conducted to determine if they should be part of the GRE.

Other Matters for Consideration

3.39 During the audit several matters arose that we believe management needs to consider. We have documented these matters and have listed them below.

Consolidation adjustments

3.40 The timing of the Office of the Comptroller consolidation work and analysis of entries is occurring very late in the audit process. This is resulting in an undesirable delay in the review of the consolidation analysis and reconciliation of consolidation variances.

Recommendations

3.41 We recommended the consolidation work be performed earlier in the audit process, at minimum two weeks prior to signing of the audit opinion.

3.42 We recommended any consolidation variances identified during the audit as significant, but not material, should be resolved prior to the next audit cycle.

3.43 We also recommended the steps followed in the consolidation process used by the Province be documented with the related work with evidence of review noted.

Service Organization Reports

3.44 There are several external service organizations used by the province (e.g. Student Loan Program and RBC Dexia). 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 behalf of the Province. If management does not have such reports on file, management should request reports from service providers on the effective operation of controls. Management should review the report, follow up on exceptions and document their findings as to whether the proper controls are present to ensure that management can rely on the service organization.

3.45 Similarly, management did not have on file for review documentation supporting the effective operations of controls at organizations (e.g. Service New Brunswick) where a significant volume of transactions are processed on behalf of central government. Management receipt and review of this information is necessary to determine if

controls are operating effectively and to permit adequate review/analysis of exceptions prior to system reliance.

Recommendation

3.46 We recommended management document the information obtained regarding the effective operation of controls and their review of this information, where the processing of significant volumes of transactions is outsourced from central government.

**Chancery Place
Accounting and
Contract
Management**

3.47 Significant professional judgment was required in the determination of the appropriate accounting for Chancery Place. The audit team performed numerous interviews with employees involved in the purchase and reviewed various documentation to ensure that the accounting treatment properly reflected the substance of the transaction. We were ultimately satisfied that the accounting treatment for the purchase of Chancery Place reflected the substance of the transaction.

3.48 However, due to the imprecise wording in the contract, significant professional judgment was required as noted above to determine if the agreement to purchase did in fact constitute a purchase for accounting purposes at 31 March 2011. In addition we had a concern regarding the timing or speed of such a large transaction so close to the Province's fiscal year end. We believe such concerns could be avoided by entering into agreements earlier and, to the extent possible, ensuring that agreements indicate clearly that the property, as well as the risks and rewards of ownership, have passed to the Province.

3.49 Moreover, the Province has not yet been able to move its employees into the building and has paid a significant amount of money to the City of Fredericton for the building. We understand that completion of the building is considerably behind schedule. We are not aware of any penalties or other remedies in force to effectively reduce delays and to speed up the Province's possession of the building.

Recommendation

3.50 We recommended that the Province review the Chancery Place purchase process to ensure future purchases can, to the extent possible, clearly be seen to have taken place in the fiscal year recorded and that future agreements protect the Province as much as possible against performance gaps / delivery delays.

Office of the Comptroller Provincial Accounts Payable and General Ledger System (Oracle)

Background

3.51 The Provincial Accounts Payable and General Ledger System (Oracle) is one of the most significant systems operated by the Province. The accounts payable module is responsible for making the majority of the government's payments. The General Ledger (GL) module is used for recording all of the Province's transactions and the information stored in the GL is used to generate the Province's financial statements. The Office of the Comptroller operates the system, but all government departments use it for making payments. Because of the significance of this system, every year we test its internal controls and we select and test a sample of transactions that it processed.

3.52 In our 2009 report, we reported findings and recommendations resulting from our contract with an external vendor who specialized in Oracle control reviews. This year we followed up on these recommendations to determine if they were implemented. In the following paragraphs, we discuss the recommendations that were not implemented and make additional recommendations for improvements.

Lack of Segregation of Duties

Excessive Access by IT Support to Oracle

3.53 We noted excessive access by IT support to the Oracle database using APPS account. In response to this 2009 finding, the Office of the Comptroller (OOC) attempted to perform an update of the database, which would allow IT support users to login as 'APPSRO' and give them read-only user access. This would have eliminated the issue regarding IT support user accountability when accessing the database. However, the upgrade could not be completed due to hardware failure during testing. The database administrator indicated that read-only access through the use of the 'APPSRO' account will be available once Oracle is upgraded next year.

Recommendation

3.54 **We recommended this continue to remain a priority for OOC to address as the Oracle system upgrade is**

completed.

Comments from Management

3.55 *This will remain a priority. Due to continued constraints on our ability to make modifications to our current platform, the production implementation of this change will be deferred until the Oracle R12 upgrade is completed in January 2013.*

IT Support access to production modules

3.56 IT Support users have access to all production modules. In response to this 2009 finding, the OOC created a weekly report that detailed changes made to IT support staff's user access during the period. This report is being reviewed periodically by the Director of Accounting Services, however, currently the review is not being completed frequently enough to be effective. In order for this control to be effective, the report should be reviewed on a weekly basis.

Recommendation

3.57 We recommended the OOC review the changes to IT support access on a weekly basis to ensure the access is appropriate.

Comments from Management

3.58 *Changes have been made recently to make the report more readable. The Director of Accounting Services is now reviewing the report weekly.*

User 'SYSADMIN' Oracle functions

3.59 User 'SYSADMIN' permits business user functions in Oracle. Currently, the Oracle user SYSADMIN is permitted business user functions through responsibilities assigned to this user account. This is inconsistent with proper segregation of duties in an electronic environment as system administrators should not have business user responsibilities.

Recommendation

3.60 We recommended the OOC review the SYSADMIN user account to determine appropriate responsibilities are assigned and that there are no segregation of duties conflicts between system administrators and business users.

Comments from Management

3.61 *The "business user functions" available to the <sysadmin> account have been disabled. The password to this account has been changed and only known to Database Administrators.*

**Configuration
Change Access
(Accounts Payable
Module Super
Users)**

3.62 All six OOC IT Support staff members have been assigned Accounts Payable super user accounts in production. This provides the users with the ability to process configuration changes to the module directly within production.

Recommendation

3.63 We again recommended users only be assigned access to process configuration changes in production on a temporary basis. The granting of this access should be approved, logged and formally monitored as part of the change management process. This is an important control to address electronic segregation of duties within the system.

**Comments from
Management**

3.64 Access to these accounts are sometimes required as part of the support process. The small size of the team means each member fills multiple roles. OoC is investigating whether read-only versions of the super user responsibilities can be created and assigned to users who currently have the full version.

Other Matters

**Review of Oracle
Application Access**

3.65 Periodic review of access within the Oracle application is not conducted. In response to this 2009 finding, the OOC implemented an annual process whereby confirmation of the appropriateness of Oracle user access is conducted for each department. For 2011, confirmation requests were sent in January of 2011. As at 15 June 2011, responses were still outstanding for four of the twenty-one departments contacted. This issue is exacerbated by the fact that two of the outstanding departments (New Brunswick Internal Services Agency (NBISA) and New Brunswick Community College) were created in 2010 and therefore could potentially be at an increased risk for inappropriate user access assignments.

Recommendation

3.66 We recommended a further step be added to the access review process whereby departments that do not respond to the request are contacted for follow up until the required confirmation has been received. We recommended any remaining outstanding responses be obtained and reviewed.

- Comments from Management** 3.67 *There will be a major review of responsibilities during the Oracle R12 project. Departments that have not completed the annual review will be contacted and the process will continue to be performed on an annual basis.*
- Review of Changes to Supplier Information in Oracle** 3.68 Monitoring of changes to supplier information is currently not being reviewed. The OOC developed a biweekly report that allowed them to monitor changes to supplier information. However, the report has not been reviewed since April 2011 due to time constraints from the year end process. Accounting staff also indicated that the details of any unusual activity, identified during the performance of this function, were forwarded to NBISA with a request for follow up. As at 5 June 2011, there has been no response from NBISA regarding any of the requests.
- Recommendation** 3.69 **We recommended the monitoring of changes to supplier information resume as soon as possible. This control is an important step in ensuring the validity and appropriateness of supplier payments. We also recommended the OOC, in conjunction with NBISA, designate a key contact at NBISA that will be responsible for follow up on activity flagged by the OOC and to report the results to the OOC in a timely manner.**
- Comments from Management** 3.70 *The GNB approach to supplier set up and changes to supplier databases have been considered problematic for some time, from a control point of view. This area is in need of a thorough study and overhaul that goes beyond reviewing reports of changes. In conjunction with NBISA and horizontal teams working on government renewal projects, my Office will work towards a better (more efficient and improved internal controls) procure-to-pay process that is closer to best practice than existing GNB processes.*
- Review of Database Access in Oracle** 3.71 The use of SYS and SYSTEM database accounts is not being monitored. The OOC enabled Oracle's database logging function and the accounting staff attempted to review the account activity for the period October 2009 to July 2010. However, this attempt was unsuccessful due to issues regarding the output obtained from Oracle. A request was made to refine this data to make the report more functional, however, the request is still outstanding and no effort at follow up has been made to date.

- Recommendation**
- 3.72 We recommended further action be taken prior to the end of the 2011-12 fiscal year to refine the database logging data and render it functional in order for the OOC to perform an effective review of the SYS and SYSTEM activity. Such a review will assist in identifying inappropriate system access or activity.**
- Comments from Management**
- 3.73** *In order for monitoring of database access to be effective, the reviewer needs to understand both the report and the impact of the access. My Office is currently involved in discussions with the Department of Finance IT Branch with respect to having the DISO in Finance oversee this function.*
- Administration Manual Policy AD-6402**
- 3.74** We noted the new payment process implemented by the NBISA does not comply with administration manual policy AD-6402 – Approval of Payments. AD-6402 requires the person who is exercising payment authority to:
- add the invoice (this is no longer completed for all invoices), and
 - ensure that spending authority has been properly exercised (with the new process, payment authority is now exercised prior to spending authority).
- Recommendation**
- 3.75 We recommended the OOC consult with the NBISA with regard to policy AD-6402 and revise the policy to reflect current payment approval requirements for processing government transactions. In addition, we recommended certain acts (e.g. *Financial Administration Act & Public Purchasing Act*) be reviewed to ensure they are consistent with the electronic processing environment and NBISA involvement.**
- Comments from Management**
- 3.76** *Over the past two years my Office, in consultation with NBISA and others, has expended a significant amount of time and effort with a view to revising administration manual policy AD6402. During the process it became evident that the existing policy is not only out of date for processes introduced by a shared services environment, but also due to processes with case management applications feeding Oracle Accounts Payable that are not in keeping with the outdated policy. My Office anticipates working on this project in conjunction with the Oracle R12 upgrade and a move to a more integrated procurement process. Most likely changes will not be finalized until spring 2013. In terms of reviewing the Financial Administration Act and the*

Public Purchasing Act – both are included in the mandate of NBISA. My Office will work closely with NBISA on these projects.

NBISA - Accounts Payable Input and Approval (IPM) Process

- | | |
|---------------------------------|---|
| Background | 3.77 As a result of NBISA assuming responsibility during fiscal 2010-11 for processing a significant volume of transactions for central government, we are commenting on our findings from testing of NBISA systems in this section of the report. |
| Change Management | <p>3.78 We noted NBISA only started tracking system changes to the IPM system in February 2011. A change management process was not in place for the entire year. By not having an effective change management process, the risk of unauthorized and inaccurate changes increases. This could lead to invalid payments being made by the system.</p> <p>3.79 The NBISA provided us standard operating procedures for IT Operations which it now follows for change management on the IPM system. The NBISA indicated that it was following the spirit of these procedures as opposed to the exact detail.</p> |
| Recommendation | 3.80 We recommended the NBISA review the change management process, and tailor it so that it can be used for the IPM system. The NBISA should follow the revised changed management process. |
| Comments from Management | <p>3.81 <i>An IPM change management process is in place and is being used. Formal documentation outlining the details of the process was not available at the time of the audit therefore the reference material from the IT Operations process that covered the same basic approaches and principles was provided along with the qualification.</i></p> <p>3.82 <i>A Standard Operating Procedure (SOP) which will detail the IPM change management procedures that are in place is being prepared and will be completed by November 1, 2011.</i></p> |
| Segregation of Duties | 3.83 We noted in testing of segregation of duties one employee who had the ability to apply payment authority to invoices, as well as add vendors to the supplier maintenance file. Typically the functions relating to creating vendors and applying payment authority are segregated to prevent |

inappropriate activity in the system. The NBISA indicated that this access was an exception and subsequently, it removed the access. The individual who had this access did not have the ability to apply spending authority for payments. Both payment and spending authority is required before a payment will be made.

Recommendation

3.84 We recommended the NBISA identify potential segregation of duties with respect to user access. When assigning access to users, the NBISA should ensure that users do not receive access which results in segregation of duties weaknesses.

Comments from Management

3.85 *The agency is conscious of duty segregation requirements and the design of the IPM workflow and support functions take duty segregation requirements into account. Individuals are not provided with access that would permit them to independently complete transactions from end to end or cause a payment to be made. While the noted case did not permit such end to end processing, it was contrary to the standard process flow design and stemmed from the rolling wave of deployments and the movement of staff between functions as the agency was being set up. As part of the access administration process, the agency will ensure that users do not receive access which results in segregation of duties weaknesses.*

Partnership Agreements

3.86 We noted the NBISA did not have service partnership agreements with departments in place during the fiscal year. These agreements set out roles and responsibilities for the NBISA and departments. This is important in order to set up an appropriate structure for the operations of the NBISA. This is especially important in the case of the Office of the Comptroller who is responsible for ensuring there are proper controls over the disbursements made by the Province. We understand the NBISA was waiting for services to be deployed to all departments before obtaining signed service partnership agreements with departments and that it had a memorandum of understanding with each department and for each service.

Recommendation

3.87 We recommended the NBISA have signed service partnership agreements with each department for which the NBISA provides services.

Management's Comments

3.88 *Service Partnership Agreements (SPA's) are a critical element of a shared services agency. Draft SPA's have*

been provided to all departments and review meetings have been conducted. The final agreements will be sent to each department on November 10th for signature. The anticipated completion date is November 30, 2011.

Delegation of Payment Authority

3.89 We noted the NBISA's payables staff deploying from various departments began exercising payment authority for payments upon arrival at the NBISA and after training. However, the deployed staff were often involved in processing payments from all deployed departments. The appropriate documentation for these staff to approve payments for other departments was not on file (i.e. the NBISA had no documentation on file delegating this authority). By not having documented delegated payment authority for NBISA staff, payments were not in compliance with Administration manual policy AD-6402 – Approval of Payments.

Recommendation

3.90 We recommended the NBISA ensure employees who are exercising payment authority have the appropriate documented delegation from department heads.

Comments from Management

3.91 *Through Service Partnership Agreements with client departments payment authority is delegated to NBISA. The president of NBISA has delegated payment authority to all employees within the Accounts Payable section of NBISA.*

Administration Manual Policy AD-6402

3.92 We noted the new IPM process implemented by the NBISA does not comply with administration manual policy AD-6402 – Approval of Payments. AD-6402 requires the person who is exercising payment authority to:

- add the invoice (this is no longer completed for all invoices), and
- ensure that spending authority has been properly exercised (with the new process, payment authority is now exercised prior to spending authority).

3.93 The NBISA indicated that it has consulted with the Office of the Comptroller (OOC) on this matter and that together, they are working on changes to the administration manual to reflect current requirements.

Recommendation

3.94 We recommended the NBISA continue to consult with the OOC with regards to policy AD-6402 to help ensure this policy is revised to reflect current payment approval requirements for processing government

transactions.**Comments from Management**

3.95 Both NBISA and the Office of the Comptroller recognize and agree that Policy AD 6402 must undergo a fundamental review. Through discussions, both parties recognize a need to address authority delegation inconsistency at the department level, to incorporate the concepts of risk and materiality, to address overlaps between spending and payment authority responsibilities, and to address the variation between spending authority forms and the concept of TOSA. NBISA will continue to work with the Office of the Comptroller to align Policy 6402 with the current shared services delivery model.

Table of Spending Authority (TOSA)

3.96 The TOSA contains the information used by the IPM system to determine who can apply spending authority to payments. Keeping the TOSA up-to-date is critical in ensuring proper spending authority is applied to payments.

3.97 When reviewing updates to the TOSA, we found that some of the change requests from departments were stored off line on NBISA employees' hard drives rather than stored in a central location. Having this information stored on employees' hard drives increases the risk that the information will become lost or inaccessible.

3.98 We also noted the NBISA sent to departments listings of the employees recorded in the TOSA for the departments to confirm the accuracy of the employees listed. Ensuring the accuracy of the entries in the TOSA helps ensure that only authorized departmental employees have the ability to approve payments. Not all departments replied to the request and the NBISA did not follow up with departments who did not reply. When we tried to review this work, we were told that all of the replies were lost (as they were emails from departments stored on an employee's hard drive).

Recommendation

3.99 We recommended the NBISA continue to confirm the employees recorded in the TOSA on a yearly basis.

Comments from Management

3.100 The annual follow up with departments to confirm the content of their TOSA is part of the fiscal year end process which will continue. In the future responses will be tracked and follow up will be performed on outstanding responses.

Recommendation

3.101 We recommended the NBISA follow up with

departments who do not reply to the above request. We recommended the NBISA ensure all requests to add, change or delete information from the TOSA, including the yearly department updates, be stored in a central location to ensure the information can be easily located.

Comments from Management

3.102 *Actions have been taken to ensure records associated with TOSA maintenance are properly stored and backed up.*

Logging of Administrator Duties

3.103 We noted the IPM system has ten system administrators. These individuals have the ability to both enter payments and approve transactions in the system. Three of these administrators also have the ability to change programs and move them to production. The NBISA indicated that the work of these administrators is logged, however, there is no process in place to monitor the logs. Without monitoring the logs, the NBISA and the Province are at risk that unauthorized payments could be made. The NBISA recognizes that this monitoring process is needed and plans to implement this in the future.

Recommendation

3.104 We recommended the NBISA review the activity of the system administrators to ensure all activity is appropriate. This review should be documented as evidence that the monitoring was performed.

Comments from Management

3.105 *Reporting has been created to support an independent assessment of system administrator activities. A review will be completed at least twice annually by the Accounts Payable Compliance unit to ensure the activities carried out by administrators are appropriate and properly supported.*

NBISA –Payroll System (HRIS)

Background

3.106 The Payroll System (HRIS) is another significant system in the Province that we test every year. Starting in the 2011 fiscal year, the New Brunswick Internal Services Agency (NBISA) operated this system and processed the payroll transactions for Civil Service and pension payrolls.

Changes to Salary and Deduction Tables

3.107 In our testing of changes to salary and deduction tables, we found one case in a sample of 20 where the salary rate was changed but no evidence of a secondary verification of the rate was on file. By not having a secondary verification of all salary rate and deduction changes, the risk increases that incorrect amounts could be entered into the payroll system resulting in incorrect payment amounts to

employees.

***Discussion with
Management***

3.108 The NBISA was not certain why this control deviation occurred. The change in question related to a salary rate that was input and activated on the same day. The verification may have been done on-line and the documentation may not have been printed.

Recommendation

3.109 **We recommended all changes to salary and deduction tables be verified by a second individual and evidence of this verification be documented and filed.**

***Comments from
Management***

3.110 *Standard operating procedures are documented and include a verification process. The deviation discovered in audit appears to be an isolated incident. We have since reinforced the importance of following the specified process.*

**Transfer of
Information to
Oracle**

3.111 The NBISA does not agree information transferred to Oracle from the Human Resource Information System (HRIS). By not agreeing information transferred to Oracle to HRIS, the risk increases that incomplete or inaccurate information could be transferred to Oracle.

3.112 On 1 April 2010, the Office of the Comptroller (OOC) and NBISA changed the way HRIS transfers data to Oracle. Under the new method, NBISA receives an email from the OOC indicating the transfer to Oracle was successful. In this case, successful means that the debits equal the credits in Oracle and all lines were accepted by Oracle. It does not mean that the correct dollar value was transferred. We believe NBISA should verify the completeness and accuracy of the information transferred to Oracle, by agreeing the Oracle amounts to HRIS.

Recommendation

3.113 **We recommended the NBISA agree information transferred to Oracle from HRIS to ensure all information has been transferred completely and accurately.**

***Comments from
Management***

3.114 *We have begun to develop a process to ensure compliance.*

**Payroll System
Error**

3.115 Permanent payroll officers, who were previously employed as casual employees, can enter time sheets for their previous casual employee numbers. By having the ability to enter time sheets for your own employee number, the risk of payroll fraud increases.

3.116 We noted this system issue in our work in 2008. The Office of Human Resources, who was responsible for HRIS at the time, indicated that this problem would be fixed in the next system release. Since that time, the next system release occurred, however, the problem mentioned above was not corrected.

Recommendation

3.117 We recommended the NBISA modify HRIS so that permanent employees are no longer able to enter time sheets on their previous casual employee number or develop controls to mitigate this risk.

**Comments from
Management**

3.118 *In order to remedy this issue, a release is required for the system. In the interim we have begun to develop a short term solution to the problem in the form of a weekly post payroll report which will identify any changes or pay adjustments made to any payroll officer. The online system has built in edits to prevent adjustments to their own records and the new report will identify an attempt to input a timesheet using their previous casual records. Other checks and balances are also in place.*

**Retirement
Allowance –
Calculation Errors**

3.119 The number of years of service for two retirement allowances was calculated incorrectly. By miscalculating the number of years of service, retirement allowance payments will be incorrect.

3.120 In the first case, the error related to the determination of the number of years of service which was calculated as 24 years instead of 22. This error was pointed out to a payroll supervisor at the NBISA who was able to put a stop payment on the cheque and a new cheque was issued. The amount of the potential overpayment was \$1,748.

3.121 The second case related to a retirement allowance that was not calculated by the NBISA staff. In this case, the employee was 20 days away from receiving 14 years of service. The department in question decided to pay the employee for 14 years of service rather than the 13 years that the employee was entitled to. Administration policy AD-2407, indicates that retirement allowances should be

calculated on the total of full years of continuous service.

Discussion with Management

3.122 We inquired with the Office of Human Resources whether or not Deputy Ministers have discretion in determining the years of service. We were told that “there is no flexibility under the policy for Deputy Ministers to have discretion when calculating the years of service and we are not aware of any instances where this would have been done in the past.” This money was already paid out to the employee. The amount of the error was \$1,521.50.

Recommendation

3.123 We recommended NBISA implement procedures to ensure retirement allowances are calculated correctly in accordance with government policy.

Comments from Management

3.124 We have begun to redesign the form used to calculate retirement allowances building in calculation formulas to reduce the potential for manual calculation errors. We have also implemented a pre-processing review to validate calculations before they are processed.

Retirement Allowance – Changes needed to form

3.125 The form used by the NBISA for calculating retirement allowances does not align with the Administration Manual policy AD-2407. Increased errors in the calculation of retirement allowances could occur by using a form that promotes calculating retirement allowances differently than specified by policy.

3.126 The retirement allowance form suggests retirement allowances be calculated by multiplying the completed years of service with the weekly salary amount. The policy requires retirement allowances be calculated by using the number of days worked less the number of pre-retirement leave taken. This number is then multiplied by the employee’s regular rate of pay.

3.127 We see two problems with the way the form is designed:

1. Persons completing the form could forget to deduct pre-retirement leave, thus over paying the employee.
2. If employees receive pay increases in between the time they took their pre-retirement leave and the time they retire, the amount of the retirement allowances could be calculated incorrectly and the employees could be over paid.

Recommendation

3.128 We recommended the NBISA revise the retirement allowance form so that it aligns with the calculation

method suggested in the administration manual policy.

- Comments from Management**
- 3.129** *Please see [previous] response. Redesign will adhere to the requirements of policy AD2407.*
- Blue Cross Reconciliations Not Current**
- 3.130** Blue Cross reconciliations are not up-to-date. By not reconciling Blue Cross data on a timely basis, the Province is at risk of overpaying or underpaying Blue Cross for employee insurance amounts.
- 3.131** The responsibility for the reconciliation of the Blue Cross invoices has been passed on to the NBISA from departments. The NBISA is behind in completing the reconciliations mostly because departments were behind when the NBISA took on this responsibility. The NBISA should make completing Blue Cross reconciliations a priority and complete them in a timely manner.
- Recommendation**
- 3.132** **We recommended the NBISA reconcile Blue Cross billings with payroll information on a timely basis to ensure the correct amounts are paid to Blue Cross.**
- Comments from Management**
- 3.133** *Upon deployment of Payroll and Benefits to NBISA, it was discovered that a number of departments had failed to reconcile Blue Cross billings. NBISA accepts responsibility for Blue Cross reconciliations from the date of deployment of each department to NBISA. We have assigned resources to ensure reconciliation on a go forward basis.*
- 3.134** *A strategy needs to be developed for those arrears outstanding at the time of a department's deployment to NBISA. We recognize the importance of these reconciliations and will work with OHR and OoC to develop an approach.*
- Standardized Payroll Procedures Required**
- 3.135** The NBISA should develop standardized payroll procedures and train all payroll staff on how and what procedures should be followed. By not having standardized procedures, the risk increases that internal controls will not be performed consistently by all staff resulting in potential payroll errors.
- 3.136** In our discussions, the payroll manager indicated that payroll supervisors are required to “audit” the payroll. This means the supervisors verify commencements and terminations 100% and spot check other adjustments. From our discussions with payroll supervisors, we learned that not

all payroll supervisors are following these procedures. One payroll supervisor indicated that she does not verify commencements and terminations 100% - she spot checks this information. She mentioned that she does not verify casual commencements data to HRIS which is an important step in ensuring that the payroll entry is correct. Another payroll supervisor indicated that she does verify the information communicated to us by the payroll manager.

3.137 We also conducted work in one department which resulted in us examining payroll controls in district offices. We noted that some districts did not maintain authorized general change forms (GCF) nor authorized HRIS screen shots as evidence that the payroll officers verified the accuracy of their input to HRIS.

Discussion with Management

3.138 Management noted that it is in the process of developing standardized procedures. We believe the NBISA should communicate and train all staff (head office and district offices) on these procedures. The standardized procedures should apply to both payroll officers and payroll supervisors.

Recommendation

3.139 We recommended the NBISA develop standardized payroll procedures for payroll supervisors and payroll managers to follow. Staff, in both head office and district offices, should be trained on how to perform the procedures.

Comments from Management

3.140 *We recognize that standardization is the key to achieving the efficiency that the Agency is aiming for. We have launched a continuous process improvement (CPI) approach to examine various processes and transactions in the Hire to Retire stream. We have also implemented standardized checklists and provided staff with standard reference material. A process to address the specific incident mentioned in your report has been developed and staff have been trained.*

Payroll and Benefits Service Requests not on File

3.141 Payroll and Benefits service request forms were not on file for items in our sample. The Payroll and Benefits service request form is the mechanism used by departments and the NBISA to request changes to payroll information. By not having the form on file for all changes, the NBISA does not have the authority to make the changes to employees' payroll information. This puts the NBISA at risk if an error should occur in the payroll as a documented

audit trail authorizing the change does not exist.

3.142 In our sample of 20 commencements and terminations, we found six cases where the Payroll and Benefits service request form was not on file.

Recommendation

3.143 We recommended for changes where a Payroll and Benefits service request form is required, the NBISA ensure authorized forms are received before payroll data is changed.

Comments from Management

3.144 *Standard operating procedures are documented. We have since reinforced the importance of following the specified process.*

**Documenting
Vacation Leave
Payout**

3.145 The NBISA should improve its documentation relating to the payout of vacation pay for terminated employees. By not properly documenting vacation payout for employees, the risk increases that incorrect payments could be made.

3.146 In two of the five regular employee terminations, we saw nothing on file to indicate the payroll officers ensured the employees' leave records were up-to-date prior to paying out the employees' vacation pay credits. This increases the risk that employees will be paid for vacation they have already taken.

3.147 Also, in three cases the HRIS leave records were not updated to reflect the payout of the vacation pay. Updating the HRIS leave records once the vacation has been paid out will help ensure employees are not paid twice for accumulated vacation.

Recommendation

3.148 We recommended the NBISA ensure payroll officers verify that all employee leave has been recorded in HRIS before paying out vacation pay to terminated employees. We also recommend payroll officers ensure the HRIS leave records are updated once employee vacation is paid out.

Comments from Management

3.149 *Documenting vacation leave payout has been added to the checklist that staff use and a report is run in Forest and Trees to determine any outstanding balances. Staff will be asked to include a screen shot from HRIS with the calculation for audit purposes.*

- GCF Not Signed** **3.150** Payroll staff did not always authorize general change forms (GCFs) for commencements prior to sending them to departments. Authorizing GCFs provides evidence that someone verified the data input into HRIS is correct. It also provides an audit trail on who input the information into the system.
- 3.151** In our testing in one department, we found three cases in our sample of five positioned employees where the GCFs for commencements filed in the department were not signed by the staff at the NBISA.
- Recommendation** **3.152** **The NBISA should ensure payroll officers sign GCFs on commencement as evidence that payroll information was input correctly into the system and that an audit trail exists indicating who performed the transaction.**
- Comments from Management** **3.153** *Standard operating procedures are documented and available to staff. We have since reinforced the importance of the general change form (GCF) to staff and reiterated the importance of ensuring that they are properly signed off.*

Department of Finance - Property Tax System

- Background** **3.154** The Property Tax system is another key government system which we audit. It processes property tax revenue for the Province. The system is operated by both Service New Brunswick and the Department of Finance (Finance). The scope of our work focuses primarily on the system aspects operated by Finance.
- Documenting System Changes** **3.155** We noted documentation of change management procedures needs to be improved. Properly documenting change management procedures helps to ensure that all system changes are properly approved, adequately tested and authorized for production. This reduces the risk of unauthorized or invalid changes being made to the system.
- 3.156** During our audit, we tested eleven property tax system changes made during the year. For five of the changes, we found no documented evidence indicating that the change requests were approved. Although we saw evidence that testing was completed successfully, there was no formal testing sign off. We also found one case where the document authorizing the system change to production could not be located.

Recommendation	3.157 We recommended all system change approvals, testing result sign-offs and authorization to production approvals be documented and filed properly.
Comments from Management	3.158 <i>The Department of Finance agrees with the recommendation and steps have already been taken to incorporate a formal Testing Sign-off in the Change Management process. Emphasis will also be placed on ensuring that all appropriate approvals are received, documented and filed properly.</i>
Reconciliation of Canada Post Data Files	3.159 Service New Brunswick (SNB) and Finance are both responsible for reconciling Canada Post data files to property tax information. This reconciliation is a two step process. SNB is responsible for reconciling the property tax roll to a billing file and Finance is responsible for reconciling the billing file to the Canada Post data files.
	3.160 We noted issues relating to this reconciliation process: <ul style="list-style-type: none">• The process seems to be two distinct pieces prepared by two separate organizations, rather than one reconciliation of property tax information.• Although we were able to successfully reconcile the amounts, we found explanations were not readily available for discrepancies in the SNB reconciliation.
	3.161 We believe Finance should coordinate the reconciliations ensuring that both reconciliations are complete prior to issuing the bills. This will help to ensure the billing process is complete and accurate.
Recommendation	3.162 We recommended the Department of Finance ensure the Canada Post data files are properly reconciled with the property tax system information prior to issuing the property tax bills. All discrepancies should be followed up and adequately explained. Finance should also maintain a copy of the SNB reconciliation for its records.
Comments from Management	3.163 <i>The Department of Finance agrees with the recommendation and discussions have already taken place with SNB to modify the existing reconciliation process to ensure that the two existing verifications, performed by Finance and SNB, are reconciled and documented. Finance agrees to maintain both documents for its records.</i>

Department of Social Development – Social Assistance System (NBCase)

Background

3.164 The Social Assistance System (NBCase) is another significant system in the Province. The Department of Social Development (Social Development) operates the system and it makes payments to social assistance clients in the Province. It processes transactions of approximately \$232 million.

Access Controls – Disabling Inactive Users

3.165 Social Development is not disabling all inactive NBCase user accounts after 90 days of inactivity. We have reported this issue and made recommendations to Social Development for the past three years. Disabling inactive user accounts on a timely basis reduces the risk of unauthorized access to information.

3.166 During our testing, we noted that 46 NBCase user accounts had not been disabled after 90 days of inactivity as required by government policy. We found that of these 46 NBCase users, only 12 of these had valid reasons for not being disabled. We noted 11 users were no longer with the department and no longer had access to the departmental network reducing the risk of unauthorized access. The remaining 23 users, however, had access to both the Social Development network and the NBCase system. These users should have been disabled as per the Government Information Technology Systems Security policy, dated November 2006 which states “Access to GNB information systems, applications and computing resources shall be based on each user’s business requirement.” Social Development is not complying with this policy as Social Development employees have access to confidential information not required for their job functions.

Discussion with Social Development

3.167 Social Development indicated that it should more closely scrutinize the current process it has in place for monitoring NBCase User account activity. It should be able to address this issue by measures already implemented.

Recommendation

3.168 **We recommended Social Development should follow our prior year recommendations and disable NBCase user accounts after 90 days of inactivity to minimize the risk of unauthorized access.**

Comments from Management

3.169 *As previously advised in response to earlier reports, it is not necessary to disable NBCase accounts after 90 days because all Active Directory Accounts are disabled after 30 days of inactivity. If a user does not have an Active Directory account, they will not be able to access NBCase. There is no risk to security.*

Training NBCase Users

3.170 There is no formal training process in place to ensure NBCase users are properly trained. The risk of payment errors increases when users are not properly trained on how to use the system.

3.171 During our audit, we found various situations that indicated that NBCase user training is an issue for Social Development.

- 1) We found four cases where the information in NBCase was not updated properly. Examples of these errors are:
 - One client's date of death was not entered into the system resulting in the client's file not being terminated properly.
 - One client had two client files in the system rather than the Case Manager using an already existing file.
 - Two clients had been terminated in NBCase due to their age but were not notified of the termination.
- 2) Of the client payment errors found in the Caseload Sampling Unit's testing, it was reported that case managers could have detected these errors in 14% to 42% of the cases examined. This indicates a deficiency in Case Manager training. (The Caseload Sampling Unit audits a random sample of client payments to ensure clients are receiving the correct type and amount of assistance.)
- 3) Training issues were also identified in our discussions with NBCase users. We contacted thirteen NBCase users in all eight regions to discuss NBCase training.
 - Nine users identified training as an issue and wanted to receive more system training.
 - Some users had received training initially when they first started using NBCase, however, no additional training has been provided.
 - Eleven users indicated that they find the on-line help tool time consuming and difficult to use.
 - We found no consistency between regional training programs. In one region a user received a half day training session, in another region a user received no formal training and in a different region a user received one week of training.

- From our discussions, it appears that the majority of training is informal. Needs assessors or case managers ask more experienced co-workers to help them with their NBCase issues.

*Discussion with
Social Development*

3.172 Social Development indicated that it is looking into the training issue. In our discussions, departmental representatives conveyed that they also believe training is not solely the cause of the issues discussed above and that case managers do not have adequate time to dedicate to their tasks.

Recommendation

3.173 We recommended Social Development should develop a formalized training program for NBCase users. This will help to minimize risk of improper system use and/or payment errors.

*Comments from
Management*

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

Recommendation

3.175 We recommended Social Development should review the case manager resourcing issue identified in our discussions. If it is determined a lack of resources could cause a risk of improper payments, additional controls may need to be implemented.

*Comments from
Management*

3.176 *The Department agrees with this recommendation.*

**Caseload Sampling
Unit Testing
Schedule**

3.177 The Caseload Sampling Unit is not completing its file review and report of findings in a timely manner. Social Development relies on the Caseload Sampling Unit as a control to ensure that clients are eligible to receive and are receiving the proper amount of social assistance payments. If this reporting is not completed in a timely fashion, the senior departmental officials are not kept up-to-date of current progress which could impact decision making.

3.178 The Caseload Sampling Unit audits a random sample of client payments from all eight regions to ensure clients are receiving the correct type and amount of assistance.

3.179 Over the past two years, this unit has fallen behind in completing the final steps of this process – client file review and report of findings. For fiscal year 2009-10, the Caseload

Sampling Unit only completed reports for two regions relating to that fiscal year. For the year 2010-11, the unit only completed the report for one region relating to that fiscal year. The remaining completed reports related to the previous fiscal year.

3.180 We rely on the work of this unit to ensure clients are eligible to receive social assistance payments. This unit frequently identifies areas where assistance payments are over or under stated. To increase the effectiveness of this control, the reporting should be completed in a timelier manner.

***Discussion with
Social Development***

3.181 Social Development indicated that Caseload Sampling reporting has been delayed due to staffing issues, including a vacant position in one of the regions. Social Development is completing these reports, but not as quickly as it would like.

Recommendation

3.182 We recommended Social Development should complete Caseload Sampling Unit's reporting in a timely manner to ensure this important risk management step is operating as anticipated. Senior departmental officials should be kept up-to-date of current progress or delays.

***Comments from
Management***

3.183 *The department agrees with this recommendation. The department would note that the operation of the Caseload Sampling Unit was impacted by staffing challenges which have since been resolved.*

**Department of Social Development -
Long-term Care System (NBFamilies)**

Background

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

3.185 Various internal controls are built into the system to ensure only authorized payment information is transferred to the Oracle system for payment. The NBFamilies system has an electronic interface which enables service providers

to electronically input information into the system. Various controls are in place to verify the accuracy of this information before a payment is made.

3.186 Our work covered payments made in both the long-term care and child protection programs. We also examined internal controls in place for system access and change management. We tested 20 payments processed in all eight regions during the fiscal year of 2010-2011. In the following paragraphs, we discuss our significant findings from our testing.

Disabling Inactive Users

3.187 The NBFamilies system has approximately 756 users. During our testing, we found 68 users had not been disabled after 90 days of inactivity. Disabling inactive user accounts on a timely basis reduces the risk of unauthorized access to information and is required by government policy.

3.188 Social Development did not provide us with a reason why the user accounts were not disabled. It did indicate that some of the user accounts are required for the reporting structure and cannot be disabled. Social Development did not inform us, however, of how many of the 68 accounts are mandatory and could not be disabled.

3.189 The above results have improved from the previous year when we found 95 NBFamilies users had not been disabled after 90 days of inactivity compared to the 68 inactive accounts for the current year. Social Development indicated that it is trying to review inactive user accounts on a quarterly basis. This review has not happened, however, because of time constraints and staff transitioning to the New Brunswick Internal Services Agency.

Recommendation

3.190 We recommended Social Development disable NBFamilies user accounts after 90 days of inactivity to reduce the risk of unauthorized access to information.

Comments from Management

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

Proper Spending Authority

- 3.192** Approval of Payments policy AD-6402 defines spending authority as “approval to spend funds out of the approved budget prior to making a purchase or commitment. Approval indicates sufficient funds are available to pay for the purchase.” The Province requires that all payments must have spending authority approval before they are paid.
- 3.193** Deputy Ministers are charged with the responsibility to delegate spending authority to their staff. They do this by signing a spending authority delegation form which specifies who can approve purchases and what the spending limit is for the approver.
- 3.194** For NBFamilies payments, employees exercise spending authority electronically. Social Development inputs into a system table a list of who can approve payments and the spending limits for each approver. Only users listed in this table can approve payments.
- 3.195** As part of our testing, we ensured that each payment in our sample had proper spending authority. We did this by agreeing the electronic spending authority with the Deputy Minister approved spending delegation form.
- 3.196** This year we found 3 cases where the spending authority in NBFamilies did not agree with the Deputy Minister delegation form. This has decreased significantly from last year when we found 11 spending authority errors. We believe the decrease results from supervisors approving more payments that are above the social workers’ spending limits.
- 3.197** In all cases where spending authority errors were found, the amount approved in NBFamilies was greater than the amount designated on the Deputy Minister delegation form. There were two cases where social workers, with a spending authority limit of \$700, approved Adult Residential Facility fixed payment amounts ranging from \$910.54 to \$4,549.22 per month. The remaining case was a similar circumstance where an administrative support worker, with a spending authority limit of \$0, approved an Adult Residential Facility fixed payment of \$2,250.83.
- 3.198** Social Development advised that as long as an individual has spending authority, they have the ability to

approve a fixed rate requisition.

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

Recommendation

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

Comments from Management

3.201 *The Department agrees with this recommendation.*

Payment Agrees to Contract

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

3.203 During our testing, we had six items where contracts were required. We found one case in the Chaleur region where Social Development did not provide us with the contract for the service provider, even though we requested this information from Social Development on several occasions. We concluded, therefore, that Social Development made payments to service providers who did not have signed contracts with Social Development. We did confirm, however, that the rate being paid for the in-home service was the general rate being used by Social Development for that time period.

Recommendation

3.204 We recommended Social Development only make payments to service providers who have signed contracts with Social Development.

Comments from Management

3.205 *The Department agrees with this recommendation.*

**Backup Supports
Payment –
Electronic
Invoicing Errors**

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

3.207 In our sample of 20 items, Social Development made six payments to suppliers who submitted invoices electronically. We found one error in these six payments. The error was in the Moncton region. The error occurred because the service provider submitted an invoice requesting payment for 21.5 days of services provided. When we examined the backup, we determined that the service provider should only have billed for 19.5 days. This resulted in an overpayment of \$66.00 to the service provider.

3.208 As part of our testing, we also examined the client attendance records for the same service provider covering the period of April 2010 to February 2011 to determine if the service provider was billing the actual days it provided services to clients. We found that the service provider billed the same amount each month regardless of the number of days it provided services to clients. For example, the service provider billed for 21.5 days of services each month, but did not provide 21.5 days of service in any of the months. This would result in an overpayment in each of the 11 months examined.

3.209 For the past three years, we have reported problems with electronic payments and made recommendations in this area. From our testing this year, we believe that Social Development's strategy for managing this inherent error in the electronic invoice payment process still needs to be reviewed and modified to reduce the level of error.

Recommendation

3.210 We recommended Social Development should review and modify its process for managing electronic payments so that the inherent error in this process is reduced to an acceptable level.

**Comments from
Management**

3.211 *The Department agrees with this recommendation.*

Financial Documentation and Client Contribution Error

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

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

3.214 In the 20 payments tested, we found three cases where the financial documents were not up-to-date or not on file which resulted in two cases where the client contribution was incorrect. The errors can be broken down as follows:

- 3 – financial documentation were out-of-date leading to 1 client contribution error;
- 1 – financial information was not provided leading to 1 client contribution error.

Recommendation

3.215 We recommended Social Development complete financial reassessments within a two year timeframe for clients as required by policy. Data which needs to be updated should be input into the system in a timely manner. This will assist in ensuring the accuracy of information affecting the calculation of ongoing payments to clients.

Comments from Management

3.216 *The Department agrees with this recommendation. The Department is currently undertaking a project whereby a monitoring system has been set up for regions to verify that all financial information is up-to-date and inputted into the electronic system.*

Out-of-Date Case Plans	<p>3.217 Social Development requires that case plans be completed annually or as required by the system so that clients' services and requirements are documented in the system. The case plan helps to ensure that clients receive the proper level of care.</p> <p>3.218 In the 20 payments we tested, we found three cases in two regions where clients had out-of-date case plans.</p>
Recommendation	<p>3.219 We recommended Social Development update client case plans annually or as required by the system to ensure authorized services for clients are regularly reviewed and documented.</p>
Comments from Management	<p>3.220 The Department agrees with this recommendation.</p>
Long-term Care Assessments	<p>3.221 In the 20 payments we tested, we found three clients had either a long-term care assessment that was out-of-date or not on file.</p> <p>3.222 In the first case, the client was receiving in-home care and the last long-term care assessment was from April 2008. In the second case, the client was in an Adult Residential Facility (ARF) level two and the most recent long-term care assessment was from March 2006. We found no evidence indicating that client reviews had been performed since the date of the long-term care assessments.</p> <p>3.223 In the final case, the client was receiving services under the Alternate Family Living Arrangements (AFLA) program and Social Development was unable to provide a long-term care assessment. We found no evidence that client reviews had ever been performed. When discussed with a social worker in Social Development, the social worker indicated that on average long-term care social workers have between 240 and 260 cases. The social workers do not have time for annual reviews, however, if they have a request for additional services or if there is a crisis, they will visit the client.</p> <p>3.224 Departmental guidelines suggest that an annual case review be conducted on clients receiving services in-home, through the AFLA program or from an adult residential facility. Regular case reviews and client contact helps ensure clients continue to receive an appropriate level of care to meet their needs and to ensure the services currently</p>

being provided continue to remain necessary.

Recommendation

3.225 We recommended Social Development conduct client reviews on a regular basis. The client reviews should be documented in the NBFamilies system as evidence that the reviews were completed by Social Development. Such reviews will help ensure clients continue to receive an appropriate level of care to meet their needs and to ensure the services currently being provided continue to remain necessary.

Comments from Management

3.226 *The Department agrees with this recommendation.*

Documenting Annual Client Reviews

3.227 This year in our testing of long-term care assessments, we found evidence that the social workers had contact with clients in 17 of the 20 items tested. This contact, however, was not well documented. The Long-term Care Policy Manual provides guidance on the areas to review when conducting an annual case review. They are:

- Client's condition – The social worker is to assess whether the client's condition and needs have remained unchanged during the past year.
- Adequacy of services – The social worker is to ensure that the method by which LTC services are provided to the client and/or family caregiver is still adequate.
- Client's satisfaction – The social worker is to determine if the client and/or family caregiver is satisfied with the current supports and services.
- Client's financial situation – The social worker is to ensure that the client has submitted a recent copy of his/her Income Tax Notice of Assessment.

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

Recommendations

3.229 We recommended social workers assess and document the client's condition, the adequacy of services, the client's satisfaction with services and the

client's financial situation when conducting annual case reviews.

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

3.231 We recommended Social Development ensure all social workers are adequately trained on how to conduct and document an annual client case review.

Comments from Management

3.232 *The Department agrees with these recommendations. The Department will develop a form to document the information required when completing an annual review of a client's case.*

Adult Residential Facility Inspection and Licensing Documentation

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

3.234 As part of our audit procedures, we ensure that ARF's are inspected and licensed as required by Departmental policy. We reviewed all licensing and inspection documentation provided for the six payments in our sample that related to ARFs. We found two reportable items which are discussed below.

3.235 We found one instance where Social Development did not provide us with any evidence that departmental inspectors had performed a full inspection of an ARF before issuing a Certificate of Approval. Departmental standards require inspectors to complete a standard inspection form as evidence that an inspection was completed prior to issuing a Certificate of Approval.

3.236 We found one case where Social Development did not provide us with the ARF operator application for certificate covering the period of payment. As per discussion with Social Development, an operator application should have been on file covering that period.

Recommendations

3.237 We recommended Social Development complete and receive all licensing documentation prior to issuing a Certificate of Approval to an ARF.

3.238 We recommended Social Development ensure all documentation be kept on file to support Certificates of Approval.

Comments from Management

3.239 *The Department agrees with these recommendations.*

Other Findings

3.240 During our testing, we found one payment made to an Agency which administers a part of the AFLA program. Social Development entered into a purchase of service agreement with this Agency. The agreement indicates that Social Development pays the Agency a monthly administration fee, as well as amounts that should be paid to third parties based on departmental approved client case plans. The Agency in turn makes these payments to the third parties. We were told that Social Development has no process in place to ensure that the Agency pays the third parties all of the money it received from Social Development. Based on the agreement, however, we noted the Agency is required to provide financial and program reports to Social Development on occupancy and activities. Social Development was unable to provide these reports to us for the payment in our sample.

3.241 These Agencies that act as administrators of the AFLA program should provide some form of documentation to Social Development showing that it paid the third parties the correct amounts.

Recommendations

3.242 We recommended Social Development obtain documentation that provides evidence that Agencies are paying the correct amounts to third parties involved in the AFLA program.

3.243 We recommended Social Development ensure it receives written financial and program reports on occupancy and activities from Agencies involved in

administering the AFLA program as required by contract.

Comments from Management

3.244 *The Department agrees with this recommendation.*

Losses through Fraud, Default or Mistake

3.245 Section 15(2) of the *Auditor General Act* requires us to report to the Legislative Assembly any case where there has been a significant deficiency or loss through fraud, default, or mistake of any person.

3.246 During the course of our work we became aware of the following significant losses. Our work is not intended to identify all instances where losses may have occurred, so it would be inappropriate to conclude that all losses have been identified.

Department of Education

Missing equipment and cash in various school districts and head office	\$11,881
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Department of Environment

Lost equipment	\$ 370
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Department of Justice

Missing cash	\$ 300
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Department of Natural Resources

Missing equipment from various regions	\$ 2,730
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Department of Transportation

Missing equipment from various districts	\$13,500
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3.247 Losses reported by our Office only include incidents where there is no evidence of break and enter, fire, or vandalism.

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

3.249 In 2011, the Province reported lost tangible public assets in the amount of \$29,290 compared to a loss of \$39,826 reported in 2010.

Chapter 4

Matters Arising from our Audits of Crown Agencies and Federal Claims

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Matters Arising from our Audits of Crown Agencies and Federal Claims

Introduction

- 4.1** In this chapter we discuss our significant findings and recommendations relating to our audits of Crown agencies' financial statements and Federal claims.
- 4.2** We audit the following Crown Corporations, Boards, Commissions and other Agencies:
- Collège communautaire du Nouveau-Brunswick
 - Energy Efficiency and Conservation Agency of New Brunswick
 - Kings Landing Corporation
 - Le Centre communautaire Sainte-Anne
 - New Brunswick Agricultural Insurance Commission
 - New Brunswick Community College
 - New Brunswick Electric Finance Corporation
 - New Brunswick Highway Corporation
 - New Brunswick Immigrant Investor Fund (2009) Ltd.
 - New Brunswick Internal Services Agency
 - New Brunswick Legal Aid Services Commission
 - New Brunswick Lotteries and Gaming Corporation
 - New Brunswick Municipal Finance Corporation
 - New Brunswick Research and Productivity Council
 - New Brunswick Securities Commission
 - Office of the Public Trustee
 - Premier's Council on the Status of Disabled Persons
 - Regional Development Corporation
- 4.3** We also audit the following Federal claims:
- Labour Market Development Agreement
 - Labour Market Agreement and the Omnibus Amending Agreement
 - Agreement on Targeted Initiative for Older Workers
 - Knowledge Infrastructure Program Agreement
 - Building Canada Fund– Communities Component

Agreement

- Transfer of Federal Gas Tax Revenues Agreement
- Building Canada Fund Agreement
- Legal Aid Services Commission Agreement
- Agreement for Improvements to the National Highway System – Claim
- Agreement for Improvements to the National Highway System – Compliance
- Infrastructure Stimulus Fund Agreement – Route 108
- Infrastructure Stimulus Fund Agreement – Route 160

Scope

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

4.5 Because of the limited objectives of this type of audit work, it may not identify matters which might come to light during a more extensive or special examination. However, it often reveals deficiencies or lines of enquiry which we might choose to pursue in future audit work.

4.6 In almost every audit, there are matters arising that need to be discussed with management. These matters, although significant, are not sufficiently large in dollar terms to affect our opinion on the financial statements. 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 weaknesses in accounting controls, before they are corrected, could possibly result in loss of government assets.

4.7 Our examination of the matters included in this chapter of our Report was performed in accordance with Canadian generally accepted auditing standards, including such tests and other procedures as we considered necessary in the circumstances. The matters reported should not be used as a basis for drawing conclusions as to compliance or non-compliance with respect to matters not reported.

Responsibilities of Crown Agencies and Government

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

Responsibilities of the Office of the Auditor General

4.9 Our Office is responsible for auditing the financial statements or claims listed above. 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.

4.10 We obtain reasonable assurance because it would not be cost effective to obtain absolute assurance - our auditors cannot test every transaction. By applying audit procedures, 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.

Matters Arising from our Audits in Crown Agencies

Collège communautaire du Nouveau-Brunswick

Introduction

4.11 The Collège communautaire du Nouveau-Brunswick (CCNB) began operating on 29 May 2010 and we were appointed the auditors of the CCNB financial statements. The operations of CCNB were included in the Department of Post-Secondary Education, Training and Labour (PETL) prior to that date. During our audit of the 2011 financial statements, we identified the following issues in the operations of the CCNB. The issues are discussed below.

Accrual of Sick Leave Benefits
Background Information

4.12 Sick leave benefits that accumulate for public service employees represent future benefits to employees that have been earned through their work. The accounting standards for the public sector require that sick leave benefits earned by employees be included in the liabilities of public sector organizations where significant.

Our Comments

4.13 Recently several public sector organizations have recorded accrued sick leave benefits for the first time. These organizations acted on the advice of their auditors to make an estimate of the value of these future employee benefits. They found in some cases that the future value was more than anticipated. Although it is hard to estimate the amount of the liability, it would likely be significant on the statement of financial position.

Recommendation

4.14 **We recommended CCNB prepare a formal estimate of the value of this employee benefit. The work to estimate the liability can be complex and may involve professional advice on the calculation.**

Comments from Management

4.15 [Translation] *As a first step, we plan a detailed review of existing policies on accumulated sick leave to ensure that they are relevant, respected, and followed by all campuses. If recommendations are necessary, we will submit them to the human resources committee to be presented and adopted by the Board of Governors. We expect to finish this within 18 months of the external auditor's report (June 2011).*

Student Information Systems (SIMS)

Background Information

4.16 The CCNB is dependent on the SIMS system for many aspects of its student service and financial needs. The system provides student information record keeping and serves as the front end of the student tuition collection for the CCNB. Student accounts receivable information is also kept in the system. After an initial period at the beginning of each term, unpaid tuition fees are transferred to the Oracle (provincial) system where they are set up as receivables again. These two systems are not electronically linked nor are the amounts outstanding at each year end reconciled to each other. Significant amounts are in the SIMS system that are not in Oracle. We understand this is likely the result of older, possibly inaccurate information in the SIMS system.

4.17 The financial portion of the SIMS system was audited on its set up by the Office of the Comptroller systems audit section. The audit identified a number of issues in regards to

controls which could be strengthened. These issues / recommendations were not further followed up by the Office of the Comptroller to ensure the issues raised were corrected. Work was done subsequently to address some or all of these issues by CCNB Services.

- | | |
|--|--|
| <i>Recommendations</i> | <p>4.18 We recommended a reconciliation of the Oracle / SIMS systems be made and updated annually. This would ensure all receivables outstanding are posted to Oracle and followed up on. As well, since the CCNB inherited the former PETL accounts, it would provide an opportunity to clean up the accounts and to determine the reason for the differences between Oracle and SIMS.</p> <p>4.19 We recommended the Office of the Comptroller be asked to complete the audit process. The SIMS system is crucial to the CCNB's operations and this would ensure all the identified operating risk areas have been adequately addressed.</p> |
| <i>Comments from Management</i> | <p>4.20 [Translation] <i>We have begun evaluating existing systems and parameters to identify and assess the adjustments needed to remedy any shortcomings that may have been determined during the audit. In addition, we will undertake an evaluation of the systems used by other colleges to identify any improvements that could be made to the PeopleSoft system. There are ongoing discussions on the willingness of the provincial government to develop a new financial system.</i></p> |
| Central Monitoring of Campus Revenues | <p>4.21 Funds received at the campus are transferred to PETL in Fredericton through cheques written on the campus bank accounts. Various reports supporting the transfer relating to each day's transactions accompany the cheque. We understand that no central monitoring is now being done to ensure that all campus cheques are received and all transactions are recorded.</p> |
| <i>Background Information</i> | |
| <i>Recommendations</i> | <p>4.22 We recommended the transfer process be reviewed with the aim of putting in place a process that ensures that all funds are received centrally and that each day's campus receipts are accounted for centrally. As well, we recommended that the cash transfer process be reviewed to see if there is a more efficient transfer process.</p> |
| <i>Comments from Management</i> | <p>4.23 [Translation] <i>Current review of our financial and accounting policies in order to standardize our work</i></p> |

instructions for all campuses.

**Process for
Adjustments to
Delinquent
Accounts /
Obsolete Inventory**

***Background
Information***

Our Comments

***Comments from
Management***

4.24 The accounts receivable inherited from PETL included a number of accounts that were determined by management to be uncollectable. Apparently these were left on the books due to the long process for writing off accounts of the Province. The CCNB has, as a result, booked a larger than usual bad debt expense in order to properly reflect the value of these accounts. As well, the CCNB has booked costs related to obsolete inventory at the campus level that was inherited from PETL.

4.25 The CCNB's management has informed us they feel the largest write downs are now booked. Our testing has corroborated this. We did recommend that a process be formalized to identify and delete from the assets (such as receivables and inventory) those assets felt to be of no future value. The Board could approve write downs over an amount felt to be significant by the Board. In the future, the Board may question on an ongoing basis why the amounts have not been collected, thus promoting greater accountability in the collection / ordering process.

4.26 [Translation] *We plan to conduct this analysis in two (2) phases: first, we will review our policy and work instructions on overdue accounts and assign the task of follow-up to a person in charge through restructuring; next, we will proceed with an analysis of unrecoverable overdue accounts and suggest to the audit committee that these be written off and then develop an action plan and follow-up for overdue accounts that are recoverable.*

Kings Landing Corporation

Introduction

4.27 During our financial statement audit for 31 March 2011, we identified the following issues in the operations of the Kings Landing Corporation (Kings Landing). The issues are discussed below.

**Management Oversight
and Review**

4.28 During the performance of our audit procedures, we noted that, although functions appear to be properly segregated within the accounting department, there does not appear to be a strong level of management oversight.

Background Information

Our Comments

4.29 Management oversight, in the form of a documented review and approval, seemed to be lacking

in the areas of capitalization vs. expense decisions, payroll adjustments, and the recording of significant, non-routine journal entries.

Recommendation

4.30 We recommended a documented review and approval process be put in place, to ensure that all significant or non-routine journal entries or transactions, and related supporting documentation, receive proper review and approval prior to posting.

Comments from Management

4.31 *A policy is being developed whereby the Operations Manager will ensure all manual and non-routine journal entries to Kings Landing's general ledger are properly prepared, supported by adequate documentation, reviewed, approved, and recorded and that journal records are maintained in accordance with audit requirements.*

Paid Public Holidays

4.32 During the performance of our audit procedures, we noted a recurring error in the calculation of paid public holidays for casual staff.

Background Information

Our Comments

4.33 It is our understanding that employers are required to pay casual employees, who meet certain employment conditions, their regular pay for public holidays, regardless of whether or not they work on that day, in addition to time and one half for each hour worked on the public holiday. As the number of hours that a casual employee works in a given day would be difficult to calculate, employers can instead elect to pay its employees a public holiday benefit (3% of their wages each pay), as payment for all public holidays throughout the year. Kings Landing elected to adopt this method in 2008.

4.34 During the performance of our audit procedures, it was noted that Kings Landing is currently paying employees that work on paid public holidays their regular pay plus time and one half, in addition to paying the public holiday benefit each pay, resulting in an overpayment of wages.

Recommendation

4.35 We recommended Kings Landing review this circumstance to determine possible future policy implications and to address the possible implication of past transactions.

- Comments from Management** **4.36** *Calculations have been completed and a plan to recover the 2010 and 2011 overpayments is underway. A memo will be issued to the staff and we will be recovering an amount per pay to recoup the overpayment.*
- Retirement Allowance Background Information** **4.37** Retirement allowance benefits for Kings Landing employees that fall under Part I of the *Public Service Labour Relations Act* represent future benefits to employees that have been earned through their work, and are payable to employees upon retirement. Historically, the amount has been paid by Kings Landing and the Department of Tourism and Parks (TAP) has reimbursed the amount.
- Our Comments** **4.38** TAP has funded retirement allowances in the past, but we are uncertain if there is a requirement for them to do so. We have not seen documented evidence to support this.
- Recommendation** **4.39** **We recommended Kings Landing review this matter and if no commitment is provided by TAP, an estimate of the retirement allowance liability should be performed and recorded. Without such a commitment, there is a possible requirement for Kings Landing to estimate and record a liability for future retirement allowance benefits.**
- Comments from Management** **4.40** *TAP is researching to see if it is TAP or Kings Landing that is responsible for funding retirement allowances. If Kings Landing is responsible after the research is conducted, we will estimate and record a liability for future retirement allowance benefits.*

New Brunswick Community College

- Introduction** **4.41** The New Brunswick Community College (NBCC) began operating on 29 May 2010 and we were appointed the auditors of the NBCC financial statements. The operations of NBCC were included in the Department of Post-Secondary Education, Training and Labour (PETL) prior to that date. During our audit of the 2011 financial statements, we identified the following issues in the operations of the NBCC. The issues are discussed below.
- Accrual of Sick Leave** **4.42** Sick leave benefits that accumulate for public

Benefits

service employees represent future benefits to employees that have been earned through their work. The accounting standards for the public sector require that sick leave benefits earned by employees be included in the liabilities of public sector organizations where significant.

Our Comments

4.43 Recently several public sector organizations have recorded accrued sick leave benefits for the first time. These organizations acted on the advice of their auditors to make an estimate of the value of these future employee benefits. They found in some cases that the future value was more than anticipated. Although it is hard to estimate the amount of the liability, it would likely be significant on the statement of financial position.

Recommendation

4.44 **We recommended the NBCC prepare a formal estimate of the value of this employee benefit. The work to estimate the liability can be complex and may involve professional advice on the calculation.**

Comments from Management

4.45 *We will be performing the appropriate work to calculate this possible liability. We have already been in contact with a consulting firm that provides actuarial services. This issue was discussed with the Audit Committee at the meeting on June 14th.*

Student Information Systems (SIMS)***Background Information***

4.46 The NBCC is dependent on the SIMS system for many aspects of its student service and financial needs. The system provides student information record keeping and serves as the front end of the student tuition collection for the NBCC. Student accounts receivable information is also kept in the system. After an initial period at the beginning of each term, unpaid tuition fees are transferred to the Oracle (provincial) system where they are set up as receivables again. These two systems are not electronically linked nor are the amounts outstanding at each year end reconciled to each other. Significant amounts are in the SIMS system that are not in Oracle. We understand this is likely the result of older, possibly inaccurate information in the SIMS system.

4.47 The financial portion of the SIMS system was audited on its set up by the Office of the Comptroller systems audit section. The audit identified a number of

issues in regards to controls which could be strengthened. These issues / recommendations were not further followed up by the Office of the Comptroller to ensure the issues raised were corrected. Work was done subsequently to address some or all of these issues by the NBCC Services.

Recommendations

4.48 We recommended a reconciliation of the Oracle / SIMS systems should be made and updated annually. This would ensure all receivables outstanding are posted to Oracle and followed up on. As well, since the NBCC inherited the former PETL accounts, it would provide an opportunity to clean up the accounts and to determine the reason for the differences between Oracle and SIMS.

4.49 We recommended the Office of the Comptroller be asked to complete the audit process. The SIMS system is crucial to the NBCC's operations and this would ensure all the identified operating risk areas have been adequately addressed.

Comments from Management

4.50 *Annual reconciliation of SIMS to Oracle at the end of each academic year (June 30th) was recommended to the campuses in 2009. We will take the appropriate steps to perform this reconciliation as at March 31st each year. Also with the recommendation and approval of the Audit Committee to write off old accounts receivable, this process will be simplified.*

4.51 *SIMS is currently administered on behalf of NBCC by College Support Services of PETL and we will follow up to ensure that the issues identified by the Office of the Comptroller have been adequately addressed. We also support having the Office of the Comptroller complete the audit process of the system.*

Central Monitoring of Campus Revenues

Background Information

4.52 Funds received at the campus are transferred to PETL in Fredericton through cheques written on the campus bank accounts. Various reports supporting the transfer relating to each day's transactions accompany the cheque. We understand that no central monitoring is now being done to ensure that all campus cheques are received and all transactions are recorded.

Recommendation

4.53 We recommended the transfer process be reviewed with the aim of putting in place a process

that ensures that all funds are received centrally and that each day's campus receipts are accounted for centrally. As well, we recommended the cash transfer process be reviewed to see if there is a more efficient transfer process.

Comments from Management

4.54 *We will implement procedures to ensure this monitoring and reconciliation of bank transfers is performed.*

Process for Adjustments to Delinquent Accounts / Obsolete Inventory

Background Information

4.55 The accounts receivable inherited from PETL included a number of accounts that were determined by management to be uncollectable. Apparently these were left on the books due to the long process for writing off accounts of the Province. The NBCC has, as a result, booked a larger than usual bad debt expense in order to properly reflect the value of these accounts. As well, the NBCC has booked costs related to obsolete inventory at the campus level that was inherited from PETL.

Our Comments

4.56 The NBCC's management has informed us they feel the largest write downs are now booked. Our testing has corroborated this. We did recommend that a process be formalized to identify and delete from the assets (such as receivables and inventory) those assets felt to be of no future value. The Board could approve write downs over an amount felt to be significant by the Board. In the future, the Board may question on an ongoing basis why the amounts have not been collected, thus promoting greater accountability in the collection / ordering process.

Comments from Management

4.57 *We have already brought these two issues to the attention of the Audit Committee and the Audit Committee requested that we bring forth a recommendation for the write off of the receivables noted.*

4.58 *We currently have policies in place for inventory and accounts receivable but are lacking a formal written process. We will work on developing one.*

New Brunswick Internal Services Agency

Introduction

4.59 The New Brunswick Internal Services Agency (NBISA) began operating on 1 April 2010 and we were appointed the auditors of its financial statements. During our audit of the 2011 financial statements, we identified the following issues in the operations of the NBISA. The issues are discussed below.

Approval of Expenses

4.60 The NBISA processed fifteen payments without proper payment and spending authority as required by administration manual policy AD-6402 – Approval of Payments. This policy requires vendor payments to have both payment and spending authority approval before a payment is made. In addition to violating the approval of payments policy, making payments without proper authority increases the risk of errors in the payments.

Findings

4.61 Two different invoice input processes were in place during the time of our audit. The Oracle input process, which was used by government for many years, was in place from 1 April 2010 to 17 January 2011. In this process, spending and payment authority are executed manually by authorized individuals signing invoices as evidence of approval. A new invoice input process was in place for the remainder of the year. This new process, “IPM”, requires spending and payment authority to be executed electronically.

4.62 During our audit we tested forty payments. Twenty-five of the payments were processed using the Oracle input method. We found five instances where invoices only had one payment or spending authority signature. All five instances should have had both signatures noted on the invoice.

4.63 Fifteen payments were processed after the implementation of IPM. All fifteen of these payments had valid spending authority; however, we are unable to conclude on the payment authority. AD-6402 allows department heads to delegate their signing authority to departmental officials. This authority is now being exercised by employees performing the Accounts Payable Input function. We saw no evidence that this authority was delegated by the Deputy Head to these employees.

- 4.64** We also found three cases where travel claims were approved, however, the NBISA could not provide us with documentation confirming approval authority.
- Discussion with Management**
- 4.65** We discussed these issues with the NBISA's management. Management agrees with the importance of having the delegation of payment authority documented and approved. Management believes the new accounts payable process requires a review of the policy AD-6402 as it relates to the assignment of payment authority. It is felt that the process must be documented to reflect the reality of the new shared accounts payable service delivery model.
- Recommendation**
- 4.66** **We recommended the NBISA review assignment of payment authorities and document approval for the payment authorities assigned.**
- Comments from Management**
- 4.67** *Payment Authority has been delegated as per current policy requirements, for the 2011-12 year.*
- 4.68** *NBISA continues to work with the Office of the Comptroller to align Policy 6402 with the current shared services delivery model.*
- Cost of Services Provided to Departments**
- 4.69** The NBISA does not have signed agreements with departments authorizing the cost of services provided to the departments.
- Implication**
- 4.70** Without signed agreements, departments may, in the future, disagree with their charges for the services provided by the NBISA. This could lead to the NBISA not recovering the cost of the services and could result in a deficit for the NBISA. This could also impact the NBISA's ability to provide future services to departments, if the funds associated with these charges are needed to maintain or improve services to departments.
- Findings**
- 4.71** We examined five service delivery processes and found that four of the five processes did not have signed agreements with departments or board of management approval of the process or rates.
- 4.72** We found that, in general, departments were made aware of the charges for the services and may have even informally agreed to the costs. However, we found

no evidence of the approval in our audit.

4.73 In one instance, we were unable to verify the accuracy of the cost model as some of the information was not available.

4.74 We also found that the NBISA was not able to easily identify the charges to departments for the various services provided. Producing this listing was time consuming and resulted in some discrepancies between the cost models and the costs charged to departments.

4.75 We discussed this issue with management and they agreed that it is important to have signed agreements with departments on file. Management indicated that the majority of the agreements have been in effect for many years between government departments. It is the intent of the NBISA to review each of the agreements, determine the appropriate funding model and finalize the process with partner departments.

Recommendation

4.76 We recommended the NBISA prepare service agreements with departments listing the services to be provided and how the costs will be calculated. These agreements should be signed by both the NBISA and the departments.

Comments from Management

4.77 *Draft Service Partnership Agreements have been provided to all departments for services for which budget has been transferred. The final agreements will be sent to each department for signature before year end.*

4.78 *As part of our review of services provided to departments for which we charge back the costs, NBISA has been to Board of Management to request permanent transfer of funds from departments for the Microsoft Enterprise Agreement, and is in the process of finalizing MECs for the transfer of funds for other services, such as WAN, Microsoft Exchange, and others.*

Recommendation

4.79 We recommended the NBISA document its process for calculating the cost of services provided to departments. Appropriate support for the costs of services should be easily accessible and agree to

amounts charged.***Comments from Management***

4.80 *NBISA continues to update the costs for chargebacks and to ensure the appropriate support and approvals have been received.*

Sick Leave Benefits

4.81 The NBISA is not estimating the obligation relating to potential sick leave benefits for employees. Public Sector Accounting Board Standards (PSAB) section 3255 requires that governments recognize a liability and an expense for sick leave benefits, if they are significant in nature. In order to determine the significance of the obligation, an estimate should be prepared. The NBISA should estimate the obligation and expense and, if significant, an accrual should be made in the financial statements.

4.82 Due to timing considerations, an estimate of the sick leave accrual was performed on a simplified basis. Involvement of an actuary should be considered in the future to derive an estimate with greater precision. The simplified estimate indicated the liability was not material but was potentially significant.

Discussion with Management

4.83 We reviewed this issue with management and it is reviewing the issue further to ensure that any material impact on the NBISA's financial position is properly reflected.

Recommendation

4.84 **We recommended the NBISA estimate the amount of sick leave benefits for employees. If the estimate is determined to be significant, it should be accrued and recorded in the financial statements of the NBISA.**

Comments from Management

4.85 *The NBISA will complete appropriate calculations to estimate for the 2011-12 financial statement process.*

Non-Compliance with Legislation

4.86 The NBISA is not complying with some aspects of its legislation.

Implication

4.87 Legislation is in place to direct organizations on how it must conduct certain aspects of its operations. Legislation is approved by the Legislature and its members expect organizations to comply with the directives.

- Findings** 4.88 During the fiscal year the Board of Directors met twice, on 6 October 2010 and 30 March 2011. According to section 15(1) of the Act the board must meet at least four times per year.
- Discussion with Management** 4.89 We discussed this issue with management and they are aware of the issue.
- Recommendation** 4.90 **We recommended the NBISA review its legislation and assess whether or not all sections continue to meet the needs of the organization.**
- Comments from Management** 4.91 *NBISA is reviewing its legislation and assessing the need for the sections of concern.*
- Recommendation** 4.92 **We recommended the NBISA comply with its legislation.**
- Comments from Management** 4.93 *NBISA has already complied with the number of annual Board meetings requirement in the 2011-12 year.*
- Retirement Allowance and Pension** 4.94 The NBISA does not have an agreement with the Province indicating the Province's responsibilities pertaining to benefit plan expense payments and related liabilities.
- Implication** 4.95 Without a documented agreement to outline the terms of this arrangement with the Province, the NBISA may be at risk of having inadequate documentation to support its financial reporting. Also, these terms may be subject to new interpretations or future changes without evidence of an agreed arrangement in place.
- Findings** 4.96 During our audit, we were told that the Province was responsible for the liability and paying the related employer's share of pension expense and retirement allowances for the NBISA's employees. The NBISA was not able to provide us with any documentation to support this claim. We did see evidence that the Province paid pension expense and the retirement allowances for the NBISA in the books of the Province. The amount of these payments is disclosed in Note 2 of the financial statements of the NBISA.
- Discussion with** 4.97 We discussed this issue with management and they

Management	are aware of the issue.
Recommendation	4.98 We recommended the NBISA obtain approved documentation that clearly outlines the intended benefit plan arrangements.
Comments from Management	4.99 NBISA has received written confirmation, dated June 22, 2011, from the Department of Finance indicating that the Province is responsible for Pension, CPP and Retirement Allowance costs.

New Brunswick Legal Aid Services Commission

Introduction	4.100 During our financial statement audit for 31 March 2011, we identified the following issues in the operations of the New Brunswick Legal Aid Services Commission (Legal Aid or NBLASC). The issues are described below.
Board Expenses	4.101 During our audit, we noted board members are receiving payments for general overhead expenses.
Background Information	<p>4.102 In reviewing the authority to pay overhead expenses, we reviewed a resolution of the board dated July 2008. The resolution states that members of the board will receive a semi-annual lump sum payment of \$250 to cover the cost of general office overhead and expenses related to the participation on the board.</p> <p>4.103 In section 33(1) of the <i>Legal Aid Act</i>, members of the Board are entitled to be paid such remuneration as determined by the Lieutenant-Governor in Council. Section 33(2) of the Act states that each member of the Board is entitled to be paid such travelling and living expenses incurred by the member in the performance of the member's duties as are determined by the Lieutenant-Governor in Council.</p> <p>4.104 In November 2005, the Lieutenant-Governor in Council set the amounts to be paid for per diems for the board chair, vice chair, and other members. Reimbursement for travel and living expenses incurred in the performance of board duties are to be reimbursed in accordance with the New Brunswick Government Travel Policy AD-2801.</p>
Recommendation	4.105 We recommended the board of Legal Aid review its practices to determine whether they are in

compliance with the policy and the legislation.

- Comments from Management** 4.106 *NBLASC Board Resolution 17 Respecting the Payment of General Overhead Expenses incurred by Board Members was rescinded November 21, 2011.*
- Budget** 4.107 The approved budget figures are not presented on the Statement of Operations. PSAB standards state that budget figures should be presented on the Statement of Operations.
- Background Information**
- Recommendation** 4.108 **We recommended the Legal Aid Commission present approved budget figures on the Statement of Operations in the future.**
- Comments from Management** 4.109 *Management will include the budget figures in subsequent Statements of Operations.*
- Review of Job Functions (financial)** 4.110 During the performance of our audit procedures, we noted the Commission does not have documented job descriptions which address responsibility for financial processes. We further note, given staff turnover in this fiscal year, job descriptions with proper segregation of duties considerations are important to maintain good internal control.
- Background Information**
- Our Comments** 4.111 Having documented job descriptions is important to ensure continuity of functions when new staff are employed, to ensure staff are aware of their responsibilities and to assist management in assessing risk around the segregation of duties.
- Recommendations** 4.112 **We recommend job descriptions, and in particular responsibility for financial processes, be documented. We further recommend as job descriptions are updated, the Commission review its segregation of duties for financial processes.**
- Comments from Management** 4.113 *Management will develop/augment the existing job descriptions, with particular attention to proper segregation of duties. These are currently being carried out, but not documented in detail.*

Energy Efficiency and Conservation Agency of New Brunswick

- Introduction** 4.114 The Energy Efficiency and Conservation Agency of New Brunswick (NBEEC) began operating on 22 December 2005 upon proclamation of *The Energy*

Efficiency and Conservation Agency of New Brunswick Act. During our audit of the 2008, 2009 and 2010 financial statements, we identified the following issues in the operations of the NBEEC. The issues are discussed below.

Compliance with Act
Background information

4.115 During the course of our audit, we noted several current practices do not appear to be in compliance with the *Energy Efficiency and Conservation Agency of New Brunswick Act*. These areas relate specifically to three sections within the Act.

4.116 Section 11 of the Act states “*The Board shall administer the affairs of the Agency and all decisions and actions of the Board are to be based generally on sound business practice.*” It is our understanding that the Board does not in all cases act in this administrative capacity.

4.117 The Act requires that the statements of the NBEEC be audited annually. This has now been done up to 31 March 2010 from the beginning of the NBEEC.

Recommendations

4.118 **We recommended NBEEC examine their Act for areas that may need to be updated to reflect how the organization is operating.**

4.119 **We also recommended NBEEC re-evaluate the role of the Board to ensure it is in line with the NBEEC’s legislation and to clarify its governing role.**

4.120 **We recommended statements of the NBEEC continue to be audited annually.**

Comments from Management

4.121 *Management acknowledges that the current role played by the Agency’s Board of Directors is not completely in compliance with its Act. When the Agency was first created, a management consulting company was hired to examine the legislation and determine the appropriate role of the Board of Directors. Due to the unique structure of the Agency, as outlined in its legislation, it operates as a hybrid organization with strategic oversight by a representative Board of business leaders in key industry sectors and the decision making and accountability mechanisms of the Provincial government. The Act was*

originally written with the intent to allow maximum operational flexibility as the Agency grows while ensuring that the controls, governance and accountability were in place similar to other departments in government.

- 4.122** *The Act reserves certain key decisions and approvals for elements of government that normally would be the prerogative of the Board or CEO. In addition, the Agency has had no significant outside revenue stream and rather has relied fully on funds provided by the Minister of Finance from the Consolidated Fund. As a result, government determines the annual funds available to invest in energy efficiency and conservation. Government also has final approval on budgets and how the money will be invested in programs and activities. The Agency is required to submit spending estimates annually to the Legislative Assembly of New Brunswick.*
- 4.123** *The report provided by a management consulting company determined that due to the governance structure of the Agency and the source of funding that it was already fully accountable to government. With clear oversight already being provided it was determined that the role of the Board would be to provide strategic leadership and advice rather than administering the day to day operations of the Agency as a typical Board would do and as the Act would indicate. When the current Board members were recruited their roles and responsibilities were communicated as such. For the three years that the Board has been in place it has functioned based on that direction.*
- 4.124** *Further, one of the first exercises that the Board undertook was to review the Act with legal counsel and to develop the by-laws for the Agency that would outline the roles and responsibilities of the Board and the CEO. The General By-Laws Section 28.1 (a) state that the President will be charged with the general direction, supervision and control of the business of the Agency further supporting the role of the Board as an advisory board and not an operational board.*
- 4.125** *As the Agency continues to grow and develop many aspects of the daily operations and the legislation have*

begun to coincide. The areas where there is not full compliance are largely due to more effective, efficient and cost-effective ways of running the Agency, including operating within the Government's Oracle accounting system and benefiting from central support services for accounts payable, IT and human resource services. As a result of this audit and as part of the current government renewal process we will be examining the Energy Efficiency and Conservation Agency of New Brunswick Act to ensure that it reflects how the Agency is operating. We will also be reviewing the role of the Board to ensure that it is more clearly defined and assess whether additional by-laws or legislative changes are required.

4.126 *The Agency will continue to have its financial statements audited annually now that the first five years of operations have been audited. Due to the hybrid structure of the Agency and some discrepancies with the Office of the Comptroller as to whether there was a need for the Agency to publish its own financial statements in the past there was a significant time lag in their completion. Now that the Agency's statements are up to date and the Comptroller's Office, the Auditor General's office and the Agency are all in agreement on the preparation of the annual statements we see no reason why annual audits cannot be completed in a timely manner.*

4.127 *The Agency had a bank account established in its name in April of 2010 to allow us to collect loan repayments from clients when the Agency began issuing loans ourselves.*

Accounting Records
Background information

4.128 *The NBEEC's accounting is processed in Oracle by the Department of Finance's financial services staff. The Oracle application system is the accounting system used by the Province. The NBEEC is assigned a department number to process transactions to their specific accounts. Since the NBEEC uses Oracle and several years of operation have gone by prior to the start of our audit, we found that the numbers in Oracle did not always reflect what was presented in the financial statements of the NBEEC. This is due to the cut-off of adjusting entries in Oracle and some confusion over what some of the Oracle accounts*

represent (for example – other monies held in trust).

4.129 Part of the NBEEC's mandate is to develop and deliver programs and initiatives in relation to energy efficiency. This is achieved by issuing loans and grants to residents and businesses of New Brunswick who make their houses/businesses more energy efficient. While the loans and grants are monies of the NBEEC, they are actually distributed by Service New Brunswick. Complete information was not being obtained from Service New Brunswick to be reconciled against the information that is being maintained by the NBEEC. It becomes increasingly difficult as time goes on to determine the reason for any difference between the NBEEC's records and the records at Service New Brunswick.

4.130 Reconciliations should also be prepared for all year-end account balances to help properly support the information contained in the financial statements. Information supporting the reconciliations should be available to staff to facilitate the audit process.

Recommendations

4.131 We recommended the NBEEC prepare reconciliations for accounts where financial information is handled by the third party. Part of this process would involve working with the Office of the Comptroller to gain a better understanding of the Oracle reporting and accounting system.

4.132 We recommended the NBEEC prepare year-end reconciliations prior to the start of the year-end audit.

4.133 We recommended adjustments be made to Oracle to more accurately reflect the figures provided in the financial statements of the NBEEC.

Comments from Management

4.134 *Management agrees with the auditor's findings with regards to accounting records. It has been a struggle for the Agency to obtain detailed and timely reports from Service New Brunswick that would allow us to reconcile what we have in our records and in Oracle versus what they are reporting in their JD Edwards system. Since the time period of these financial statements the Agency has brought the issuance of loans in-house and now have total control over the*

reporting and accounting for loans. A comprehensive reconciliation of the loans portfolio remaining at Service New Brunswick will be completed in the coming month to ensure that the numbers currently in Oracle accurately reflect the amounts at Service New Brunswick.

4.135 *With the five year audit completed and a better understanding of the Oracle reporting and accounting systems year-end reconciliations will be prepared prior to the start of the year-end audit.*

4.136 *As a result of this audit the Agency has worked closely with the Office of the Comptroller to determine how best to use Oracle to reflect both the needs of the Agency in the preparation of our financial statements and also the needs of the Province to consolidate the Agency's results in the Province's statements. Over the next month we will be working with the Comptroller's office to make the adjustments and create some accounts in Oracle that will reflect the figures that are presented in the Agency's financial statements.*

**Lack of File
Documentation**

Background Information

4.137 *Through our testing we looked at several sample items. We noticed that some of the client loan file documentation in our test items was incomplete. Seven out of 28 sampled had some documentation missing. In the case of grants, all file documentation was later found.*

Recommendation

4.138 **We recommended the NBEEC ensure all client files are complete and contain appropriate documentation.**

***Comments from
Management***

4.139 *Management agrees with auditor's findings. Since the audit spanned a five year period the sample items were from various periods of time. In the beginning the Agency outsourced the adjudication of client files to Service New Brunswick and later brought that function in-house to ensure more accuracy and better control. Many of the files requested in the sample were stored in archives and were difficult to retrieve.*

4.140 *As the Agency has continued to grow and mature so have our processes. The Agency developed an internal database and workflow processes to ensure that files are safely stored and that each file contains all of the*

necessary documentation. When a client file is completed it is reviewed by the adjudication supervisor prior to a cheque being issued. The supervisor goes through a checklist of required documents to ensure that the file is complete. If anything is missing the file is rejected and given back to the adjudicator who must obtain the missing documentation before the client will be issued a grant or loan cheque. We are confident that this process will ensure that all files are complete and contain the appropriate documentation.

Audit Efficiency***Background information***

4.141 To improve audit efficiency, information should be provided in a timely manner and financial staff should be available for questions. During our audit, we encountered delays in getting information. Delays in receiving information greatly increases the time needed to complete assignments.

Recommendations

4.142 We recommended the NBEEC provide all requested information before the audit begins.

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

Comments from Management

4.144 *Management agrees with the auditor's findings. There were times during the course of the audit that the Agency did not provide information in a timely manner. This was mainly due to the fact that a lot of the information being requested was quite old and required trips to storage and archives to retrieve files and information that took longer than anticipated. Also there were issues with getting information from Service New Brunswick which lead to more time delays. Given that there is only one Director at the Agency who could answer the auditor's questions there were delays in responses due to competing priorities. With the next audit only covering one fiscal year we are confident that the information will be provided in a timely manner and that the Director will be readily available to answer questions.*

Research and Productivity Council

- Introduction** 4.145 During our financial statement audit for 31 March 2011, we identified the following issues in the operations of the Research and Productivity Council (RPC). The issues are discussed below.
- Compliance with Legislation and Governance Policy** 4.146 Section 2.3 of the Governance Policy states that “the board of directors may conduct its proceedings as it sees fit, provided that it meets at least four times per year as called by the Chairperson and has a quorum present.” The *Research and Productivity Council Act* states that the “eight members of the Council constitute a quorum”. During our review of board minutes, we noted that there were four board meetings held through the year, but only two of the meetings had a quorum.
- Background information*
- Recommendation** 4.147 **We recommended the RPC ensure it is meeting the requirements of Legislation and the policies with respect to proper governance.**
- Comments from Management** 4.148 *You had noted that two board meetings held during the year lacked a quorum. Our board is comprised mostly of senior executives with significant demands on their time from their own organizations. Despite setting meeting dates well in advance, we have still experienced late cancellations that have left us without a quorum. We will make a greater effort in the future to address these situations by exploring alternate dates, using teleconferencing and other means.*
- Accounting Framework** 4.149 Canadian accounting standards are changing. Entities must choose the accounting framework that best suits them. We have had discussions with management as to the appropriate accounting framework for the RPC. Management and the board need to assess their different options over the next few months. Our office will be available to review their analysis and provide feedback.
- Background information*
- Recommendation** 4.150 **We recommended management and the board thoroughly analyze the accounting frameworks and provide sufficient appropriate evidence to our office to support the chosen framework.**
- Comments from** 4.151 *We understand the restructuring of the CICA handbook means that organizations will need to identify*

Management

the accounting framework that best suits them, for use in fiscal periods beginning after January 1, 2012. We will be assessing the available options between now and then, and will work closely with the Auditor General in this regard.

Matters Arising from our Audits of Federal Claims

Building Canada Fund – Communities Component Agreement

Introduction

4.152 The Building Canada Fund – Communities Component was established to fund projects in small communities that improve water, wastewater, public transit, local roads and other types of community infrastructure. During our 2010 compliance audit, we identified the following compliance issue discussed below.

**Compliance with
Recipient Audits**
Background information

4.153 Two types of audits are required to be carried out under the Canada-New Brunswick Building Canada Fund – Communities Component Agreement:

- Recipient audits; and
- Periodic program audits.

4.154 Our office was engaged to perform the periodic program audit for 31 March 2010. Recipient audits were not performed as required by the Agreement. We obtained correspondence between the Regional Development Corporation (RDC) and federal officials that show agreement between the parties to not have recipient audits for the first year.

Recommendation

4.155 **We recommended the Department of Environment ensure compliance with the agreement.**

Departmental Response

4.156 *On the item of compliance to the agreement with required recipient audits, the Department of Environment and the Regional Development Agency has begun undertaking steps to have recipient audits completed during the next fiscal year and will be forwarding a proposed audit plan to the federal government for approval.*

Chapter 5

Office of the Auditor General

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Office of the Auditor General

Accountability Statement

5.1 This chapter of my Report reflects the performance of my Office for the year ended March 31, 2011. It was prepared under my direction. I am accountable for the results achieved, for the selection of performance indicators and for how performance has been reported.

5.2 This chapter presents a comprehensive picture of the Office's actual performance. The chapter includes estimates and interpretive statements that represent the best judgment of management. The performance indicators reported are consistent with the Office's mission, goals and objectives, and focus on aspects critical to understanding the performance of the Office.

5.3 I am responsible for ensuring that the Office's performance information is measured accurately and in a timely manner. Any significant limitations in the reliability of the performance data have been identified and explained.

5.4 This chapter has been prepared following the guidelines established in the Statement of Recommended Practice 2 (SORP-2) contained in the CICA Public Sector Accounting Handbook.



Kim MacPherson, CA
Auditor General

Mission and Values

5.5 Our mission is:

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

5.6 Our values are:

- accountability, credibility and objectivity in our work;
- open communication with ourselves and our stakeholders while maintaining confidentiality; respect for our client, our auditees and each other;
- an enjoyable workplace that fosters a learning culture, continuing professional development and an honest work ethic;
- skilled, efficient and effective staff working in an environment that encourages personal responsibility for their work and for their careers; and
- a commitment to independence that merits the trust of the public and our colleagues.

5.7 Our mandate is set out in the *Auditor General Act*. The Act provides the Auditor General with the independence needed to carry out her work in a fair and objective manner. The Act requires the Auditor General to audit the Province's financial statements, and the financial statements of certain Crown agencies. It also requires the Auditor General to report annually on the results of her work, including whether money has been expended without due regard to economy or efficiency, and whether procedures have been established to measure and report on the effectiveness of programs.

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

Exhibit 5.1 - Requirements of the legislation and how they are addressed

Requirements of the legislation	How they are addressed
Audit the accounts of the Province as the Auditor General considers necessary	Financial 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 her Office, the Auditor General received all the information and explanations she 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
<p>Report any cases observed where:</p> <p>(a) any person wilfully or negligently failed to collect or receive money belonging to the Province;</p> <p>(b) public money was not accounted for and paid into the Consolidated Fund;</p> <p>(c) an appropriation was exceeded or applied to a purpose or in a manner not authorized by the Legislature;</p> <p>(d) an expenditure was made without authority or without being properly vouched or certified;</p> <p>(e) there has been a deficiency or loss through fraud, default or mistake of any person;</p> <p>(f) money has been expended without due regard to economy or efficiency;</p> <p>(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</p> <p>(h) procedures established to measure and report on the effectiveness of programs were not, in the opinion of the Auditor General, satisfactory.</p>	We report those matters that come to our attention. We address section (e) each year. Our value-for-money chapters address sections (f) and (g) and, where appropriate, section (h).

**Factors
Influencing our
Performance
and Results**

5.9 Our credibility represents our greatest strength, but it is also our area of greatest risk. Our Office has no power to enforce compliance with our recommendations, but relies on the strength of our arguments, and our reputation with MLAs and the public, to bring about change. Were we to make an incorrect analysis, or reach an inappropriate conclusion, our credibility would be affected.

5.10 Two factors in particular have a bearing on our credibility: our independence, real and perceived, and our capacity to carry out high quality work. We consider them our critical success factors.

***Independence
Could be Enhanced***

5.11 As stated above, the *Auditor General Act* gives us our independence. This Act clearly establishes the Auditor General's Office as an organization separate from government. It establishes the Auditor General as an Officer of the Legislative Assembly, and gives her authority to determine the structure of the Office and conditions of employment for the staff. However, the Act was introduced in 1981, and the sections dealing with independence have not been substantially changed since then. We believe there are some changes that could and should be made in order to further enhance the independence of the Office. Chief among them is in the way that the budget for the Office is currently established. Under the current Act, it is the Board of Management that determines the funding level for the Office. We believe it is inappropriate for government to be setting the financial limitations for an Officer of the Legislative Assembly; this should be done by the Legislative Assembly itself. And there are other areas of our Act that need to be brought up to date. We have commenced a process to update the Act for these and other greatly needed changes.

***Capacity is
Restricted by
Budget Limitations***

5.12 Our capacity to carry out high quality work is connected to the issue of independence. Government can restrict the work we do simply by controlling our budget. This issue is discussed in greater detail later in this chapter. We have noted a gradual reduction in our capacity over the last twenty years. In that time frame, our staffing has reduced from thirty full-time persons to twenty-one, as we have maintained a policy of staying within our assigned budget. We have reacted to the challenge by seeking efficiencies in our work practices, and by contracting some audits. Despite the reduction in staffing, we have a small group of individuals who are able to devote most of their time to what we call value-for-money, or performance, audits. These audits provide the bulk of the comments in our annual reports.

5.13 In recent years, however, we have been faced with unprecedented changes in accounting and auditing standards. Reacting to these changes has severely stretched our resources. We are now seeing an increase in time spent on our financial audits, together with an increase in training need. In addition, we are now auditing more entities including new Crown agencies and federal claims formerly audited by the Office of the Comptroller.

5.14 The combination of these factors is having a long term effect of reducing our ability to carry out value-for-money audits. We believe our value to the Legislative Assembly is enhanced by our ability to provide an independent, objective commentary on government programs. We are now at the stage where this ability is being compromised by our lack of resources. We have raised this issue in our recent budget submissions, and will continue to do so. Ultimately, the Legislative Assembly must decide what it expects the Office of the Auditor General to do, and provide sufficient funds with which to do it. We expect the review of Legislative Officers will assist in highlighting these current challenges.

Linking Goals and Performance

5.15 Our strategic plan links the resources we have, and the activities we undertake, to the results we expect. It also explains how we go about measuring our performance. Exhibit 5.2 sets out the logic model we use, and Exhibit 5.3 shows our measurement framework. Our ultimate goal is that, as a result of our work, government is made more effective and accountable. However, this can be difficult to measure, as well as hard to attribute to the specific work we do. So our measurement focuses on what we call short-term and intermediate outcomes, which are more directly attributable.

Exhibit 5.2 – Logic model

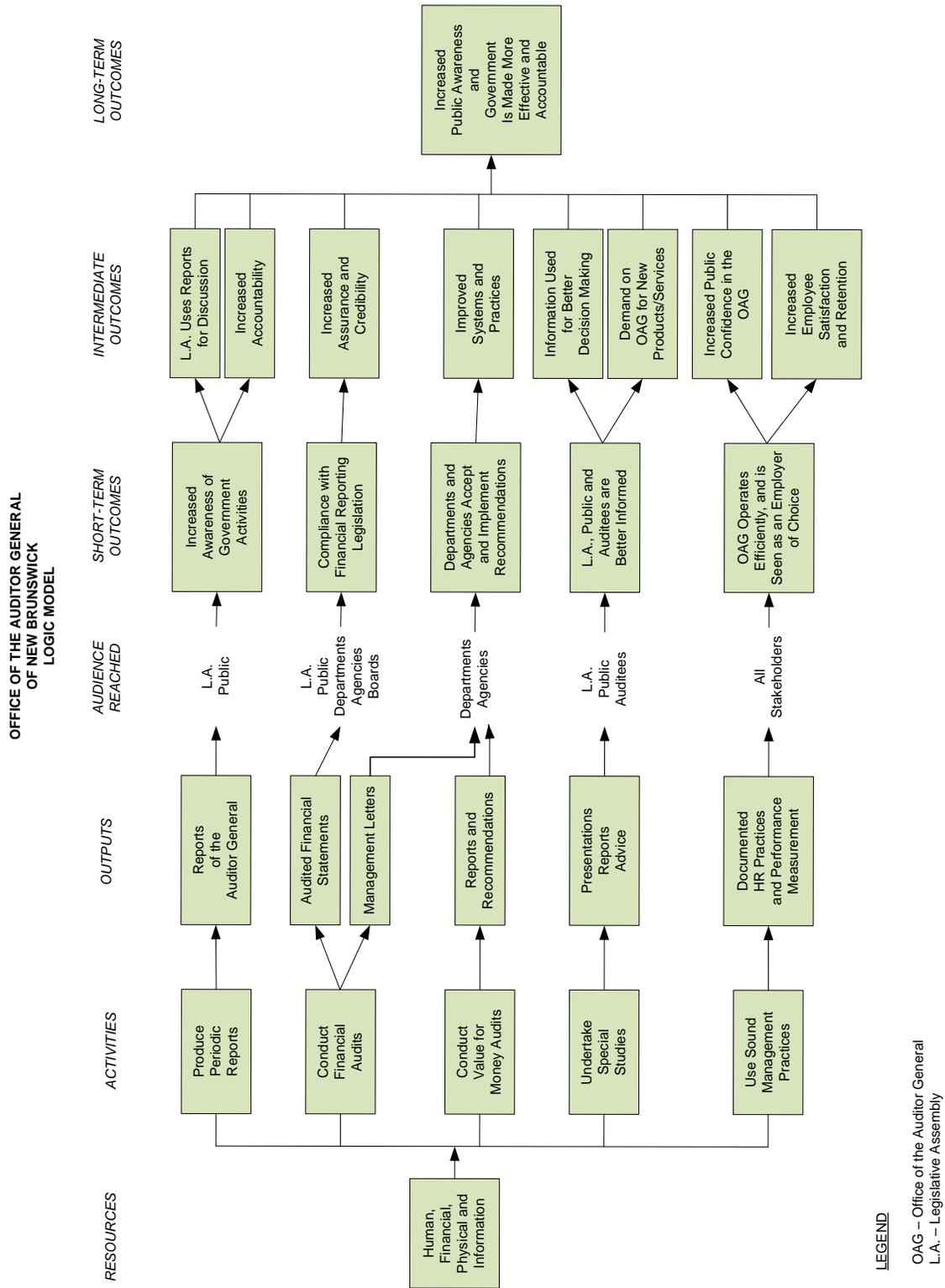


Exhibit 5.3 – Measurement framework

Goals	Activities	Outcomes		Measuring our Performance (Indicators)
		Short Term	Intermediate	
<p>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.</p>	Produce periodic reports	Increased public awareness of government activities	L.A. uses them for discussion Increased accountability	MLA perception, as determined by survey
	Conduct financial audits	Compliance with financial reporting legislation	Increased assurance and credibility	Audits are carried out within budget and auditee time deadlines are met MLA perception, as determined by survey Auditee perception, as determined by survey
	Undertake special projects	Legislative Assembly, public and auditees are better informed	Information used for better decision making Dem and on our office for new products/services	MLA perception, as determined by survey Auditee perception, as determined by survey
	Conduct financial and VFM audits	Departments and agencies accept and implement recommendations	Improved systems and practices	Percentage of recommendations accepted Percentage of recommendations implemented
<p>In carrying out our work we will use sound management practices.</p>	Document and follow good HR practices	The Office operates at a high level of efficiency, and all employees feel they are treated fairly and consistently	Increased public confidence in the OAG	MLA, auditee and employee perception, as determined by survey Accountability reporting - Cost of Audits (economy) - Percentage of time spent on audit work (efficiency)
<p>We will provide an attractive work environment that allows opportunities for professional growth.</p>	Provide staff with a mix of challenging work that allows them to work in their areas of personal interest, and give priority in time and funding to opportunities for professional development	OAG is seen as an employer of choice	Increased employee satisfaction and retention	Employee perception, as determined by survey.

Measuring our Progress

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

5.17 We are using eight indicators to assess our performance. Exhibit 5.3 links each indicator to a specific goal in our strategic plan. Our eight indicators are:

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

MLA Survey

5.18 Periodically, we survey the Members of the Public Accounts and Crown Corporations Committees in order to measure our effectiveness in meeting their needs. We did this in 2004, 2008, and again in 2009 following the issuance of our 2008 annual Report.

5.19 The Members who responded to our survey indicated a high degree of satisfaction with the work that we do. We converted the responses into a numerical index, which produced an overall satisfaction rate of 88.3%. We are pleased with this result, which is similar to the rate of 87.3% achieved in 2008, and 86.8% achieved in 2004. We will perform an MLA survey in 2012.

Auditee Survey

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

5.21 The responses to our survey following our 2009 audits indicate a high degree of satisfaction with our work. We converted all the responses into a numerical index, which produced an overall satisfaction rate of 80.8%, compared to a rate of 80.4% in 2007 and 83.6% in 2006. Once again, auditees commented favourably on our knowledge, skill and professionalism. However, we received low marks in some of our value-for-money audits for our communication, the timeliness of our work and the objectives and criteria we used in the audit. We intend to perform auditee surveys in 2012.

Acceptance and Implementation of Recommendations

5.22 We generally assess these two indicators together. Chapter 5 of Volume 3 of our 2011 Report provides an overview of the recommendations included in our 2007 through 2009 Reports. It summarizes the status of our recommendations, and focuses in particular on those recommendations we made in 2007 that have not been fully implemented.

5.23 We contacted all departments and agencies to obtain their assessment of the status of these recommendations. We met with staff at the Department of Justice to obtain additional information on their work to implement the recommendations from the audits of New Brunswick Credit Union Deposit Insurance Corporation (2007), the Superintendent of Credit Unions (2008) and La Caisse populaire de Shippagan (2009).

5.24 Our work in 2011 showed that departments and agencies had fully implemented about 60% of our recommendations from 2007, 2008 and 2009. However, less than half (45%) of our recommendations from 2007 had been fully implemented within the four years. We do not find these results acceptable.

Employee Survey

5.25 In early 2010 we conducted another employee satisfaction survey. This provides us with feedback on topics such as quality of work life, communication and career development. We converted the responses into a numerical index, which produced an overall satisfaction rate of 68.8%, compared to a rate of 69.9% in 2007, and 66.3% in 2004.

5.26 We were disappointed to see a small decrease in the overall satisfaction rate from our previous survey. Following the 2007 survey, we developed and completed an action plan to address specific areas of concern. We will similarly address the issues arising out of the most recent survey. We intend to conduct an employee satisfaction survey in 2012.

Completion of Audits on Time and Within Budget

5.27 Our goal was to complete the audit of the Province's 31 March 2011 financial statements by August 12, and to complete all Crown agency audits by September 30.

5.28 Our ability to achieve this objective is not totally within our control, because it depends on when our auditees close their books for the year and are ready for us to do our work. Notwithstanding this, we believe the indicator is important because it results in us encouraging our auditees to be timely in their reporting. It also places a discipline on our Office to complete the audit work by a specific date.

5.29 The audit of the Province for the year ended 31 March 2011 was completed by 12 August 2011. Our auditor's report on the Province's financial statements was dated 12 August 2011. It should be noted that the Province's *Financial Administration Act* requires the financial statements of the Province to be laid before the Legislative Assembly no later than September 30; in 2011 they were issued on August 16.

5.30 During fiscal 2011, we were the auditors of eighteen Crown agencies and seven federal claims audits. We completed nine of the Crown agency audits by 30 September 2011. Our work is expected to grow as more Departments are requesting our office to audit recently created Crown agencies and various claims submitted in connection with federal funding programs.

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

5.32 The time spent on our 2011 audit of the Province's financial statements was above the time spent in the prior year, due to the adoption of new Canadian auditing standards, and other accounting and reporting considerations. We are spending a significant part of our time auditing government systems and controls, in order to comply with changes in auditing standards. However, that time can fluctuate from year to year depending on the complexity of the systems we select for audit.

5.33 Eight of our Crown agency audits experienced significant delays in completion. In some cases, this is a result of unanticipated accounting issues that took extra time to resolve. In other cases it is a consequence of inefficiencies on our part, and sometimes caused by delays in the Crown agency producing financial statements for audit. In some cases the delay was due to a shortage of staff in our Office to perform the work required.

5.34 We completed four value-for-money projects, three of which were included in our 2011 annual report, Volume 3. The other project was published in October 2011 in Volume 1 of our 2011 annual report. Three projects took significantly more time than we had anticipated, due in part to extra time needed as the findings were discussed and the report finalized.

Use of Time

5.35 An important indicator for us is the percentage of time we spend directly on audit work. As shown in the following table, over the last three years, an average of 64 % of our time is spent directly on financial statement audits or value-for-money audits. For the fiscal year ended 31 March 2011, 34% of this time was spent on value-for-money projects, compared to 42% in 2010 and 48% in 2009.

Exhibit 5.4 Allocation of paid working hours

	2011	2010	2009
Financial and value-for-money audits	63%	64%	65%
Professional development and training	7%	9%	8%
Support activities	30%	27%	27%
Total	100%	100%	100%

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

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

Cost of our Audits

5.38 We have always budgeted and tracked the number of hours for each of our audits. However, in an effort to be as economical and efficient as we can be in the work that we do, we also track the cost of each audit. In the broadest sense, the cost of our audits can be said to be the cost of operating our Office, represented by our total expenditures set out later in this chapter. But we feel there is value in looking at each individual audit, and asking ourselves whether the results of the work done justify the cost of doing it.

5.39 The cost of the office's financial audit activity in fiscal 2011 regarding the audit of the Province's financial statements was \$272,000. The total cost in fiscal 2011 of the Crown agency audits was approximately \$190,000. The total cost of the value-for-money projects in the fiscal year ended 31 March 2011 was

\$240,000. The cost in fiscal 2011 of preparing our Report, including the work we do to follow up on recommendations made in previous Reports, was approximately \$76,000.

Peer Review

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

5.41 During 2010, we contracted with the Office of the Provincial Auditor of Saskatchewan to conduct a peer review of our audit of the financial statements of the Province of New Brunswick. The review was carried out in April 2010, and covered our audit of the Province of New Brunswick for the year ended 31 March 2009. The review was a comprehensive assessment of the quality and quantity of our audit work, using as a benchmark Canadian generally accepted auditing standards. Overall, we were pleased the reviewer concluded that we were complying with the generally accepted auditing standards of the Canadian Institute of Chartered Accountants. The review produced a number of observations and recommendations that we began incorporating in planning the 31 March 2011 financial audit of the Province.

Financial and Human Resources *Financial Results*

5.42 Exhibit 5.5 shows the budget and actual expenditures for the Office for 2009-10 and 2010-11, together with the approved budget for 2011-12.

Exhibit 5.5 Budget and actual expenditures (\$ 000s)

	2012		2011		2010	
	Budget	Budget	Actual	Budget	Actual	
Personnel services	1,595.3	1,564.7	1,498.7	1,637.0	1,565.2	
Other services	227.5	200.1	263.6	180.3	412.5	
Materials and supplies	7.0	7.0	5.8	8.8	6.0	
Property and equipment	15.2	15.2	5.1	15.9	20.6	
Total	1,845.0	1,787.0	1,773.2	1,842.0	2,004.3	

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

5.44 During the 2010-11 year, we retained the services of a recruitment firm to assist in finding a replacement for the retiring Deputy Auditor General. This one-time cost is reflected in “other services” for fiscal 2011.

5.45 Personnel services were under spent by \$66,000 for the year ended 31 March 2011. These savings were primarily the result of a maternity leave and delays in filling vacancies resulting from staff turnover.

5.46 Our legislation requires an annual audit of our accounts by a qualified auditor, appointed by the Speaker of the Legislative Assembly on the advice of the Board of Management. For the fiscal year ended 31 March 2011, as in prior years, this audit has been conducted by the Office of the Comptroller and their audit report is tabled before the Legislative Assembly. In 2011-12 we believe an agreement will be reached to proceed with a process to contract out the audit of our Office’s accounts. This will enhance independence in our relationship with the Office of the Comptroller.

Human Resources

5.47 Our Office continues to provide experience and training to our employees. New entry-level employees must enrol in a professional accounting program, namely CA (Chartered Accountant), CGA (Certified General Accountant) or CMA (Certified Management Accountant). Before staff begin this professional training they must have, as a minimum, one university degree at the bachelor level.

5.48 Our staff complement in 2010-2011, based on our available budget, was 21. Brent White, CA and Paul Jewett, CA served as directors for our two audit teams. At 31 March 2011 there were fifteen professional staff with accounting designations, and three students enrolled in accounting programs. Two other members of our staff provide administrative support services. One position was vacant, which has subsequently been filled. Exhibit 5.6 lists staff members at 31 March 2011.

Exhibit 5.6 List of staff members at 31 March 2011

Émilie Chiasson ²	Cecil Jones, CA	Rebecca Stanley, CGA
Cathy Connors Kennedy, CA	Teena Laagland ¹	Al Thomas, CA
Ashley Crabbe, CGA	Kim MacPherson, CA	Yanjun Wang, CA
Kim Embleton, CGA	Chris Mitchell ²	Heather Webb ¹
Eric Hopper, CA	Caroline Paquin, CGA	Brent White, CA
Peggy Isnor, CA	Ken Robinson, CA	Tania Wood-Sussey, CA
Paul Jewett, CA	Jennifer Sherwood ²	

(1) Administrative support

(2) Student enrolled in a professional accounting program

Looking Forward

Increasing our Capacity to do Value-for-Money Audits

5.49 As we move forward, there are two major areas that we need to focus our attention on in the immediate future. They are:

- increasing our capacity to do value-for-money audits; and
- adapting to more rigorous auditing standards.

5.50 As noted earlier in this chapter, our resources have become increasingly stretched in recent years. Over the last twenty years, the number of full-time staff that we are able to maintain, given the restrictions in our budget, has reduced from 30 to 21. Over that twenty-year period, annual increases, if any, have been limited to cost-of-living salary adjustments. In common with many other organizations connected to government, in fiscal 2011, our budget was reduced. Yet because of promotions, and staff progressing through the steps in each pay band, individual salaries have increased by much more than the cost of living. As a point of comparison, the starting salary for a new student in our Office has increased by 40% over the last twenty years, and for an audit supervisor the increase has been 50%.

5.51 We have reacted to these budget pressures by looking for efficiencies in our work and, periodically, by reducing our staff complement. But we have reached the stage where our capacity to do the work we are legislated to do is severely restricted. We now have only five staff members assigned to value-for-money audits on a full-time basis, assisted by other staff when available. In recent past, we received a 5% budget cut for the 2009-10 year, and a further 3% cut in 2010-11. This reduction further restricted our value-for-money audit activities. It means that we will be able to complete between three and four small to medium-sized audits each year. We do not currently have the resources to tackle large or complex areas of government. This greatly reduces our effectiveness and influence as an Office, and our usefulness to the Legislative Assembly. We note that while we are gratified to have received a modest \$58,000 budget increase in 2011-12, it is

clearly not enough to reverse the effects of prior year funding cuts and the corresponding operational cuts our office has sustained over time.

5.52 In order to have the flexibility to examine the most complex areas of government, we estimate that we need an increase in our budget of \$600,000. An increase of \$300,000 would allow us to look at more areas of moderate complexity. Our current funding level places us above only Prince Edward Island as we look at the resources available to legislative audit offices across the country. An increase in our budget of \$600,000 would not change that; we would then still be about \$1,400,000 less than the Auditor General's Office in Newfoundland and Labrador, and about \$1,100,000 less than Nova Scotia. It should be noted that our position relative to Newfoundland and Labrador and Nova Scotia has deteriorated significantly in recent years.

***Adapting to More
Rigorous Auditing
Standards***

5.53 Auditing standards have changed significantly in the last year as Canada has adopted international auditing standards. This requires additional ongoing training for staff to stay current on recent updates and changes. One major change is a move to more risk-based auditing. This requires a greater knowledge of the business of the organization being audited, in order to identify the higher-risk areas. In a large, highly-decentralized organization like the Province, significant audit effort is needed to assess the relevant risks.

5.54 One particular standard that we continue to focus our attention on relates to the audit of group financial statements. This standard deals with situations where the group auditor is not also the auditor of each organization in the group. It applies to our audit of the Province, because there are significant Crown agencies, such as the NB Power group and NB Liquor, audited by other auditors. The standard requires that we be much more involved in the audits of those Crown agencies, and accordingly we continue to devote more resources to this aspect of our work.