

# Chapter 9

## Office of the Auditor General

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# Office of the Auditor General

## **Accountability statement**

This chapter of my Report reflects the performance of my Office for the year ended March 31, 2008. It was prepared under my direction. I am accountable for the results achieved, for the selection of performance indicators and for how performance has been reported.

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

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

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



Michael Ferguson, CA  
Auditor General

## Change in reporting

**9.1** In recent years, this chapter of our Report has been prepared in compliance with the annual report policy of government. It has included a self-assessment of the extent to which we have addressed the requirements of the policy. We believe this approach is no longer sufficient.

**9.2** The government annual report policy has existed, in its present form, since 1991. When introduced, it was innovative and a major step forward in the Province's performance reporting framework. However, successive governments have failed to ensure departments and agencies comply with the policy, and have not kept up with changes in performance reporting in the last seventeen years. As a result, the policy has fallen into disuse and disrepair. We provide further commentary on the policy and its application in volume 2 of this Report.

**9.3** Assessing our compliance with an outdated policy is not useful. Instead, we have used as our guide in preparing this chapter the Statement of Recommended Practice 2 (SORP-2) contained in the CICA Public Sector Accounting Handbook. This SORP represents the current thinking on public performance reporting. We intend to expand our performance reporting, and experiment with its form and content, in the years ahead.

**9.4** At the present time, our strategic plan is under review. In this chapter we are reporting against the 2003-2008 strategic plan. A new plan will be in place by January 1, 2009, covering the years 2009-2013. We do not expect our mission and our goals to change substantially. However, there will inevitably be some subtle changes in direction, and in the way we measure our performance, in the coming year.

## Mission and values

**9.5** Our mission is:

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

**9.6** 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 and an honest work ethic;
- skilled, efficient and effective staff; and
- a commitment to independence that merits the trust of the public and our colleagues.

**9.7** Our mandate is set out in the *Auditor General Act*. The Act provides the Auditor General with the independence needed to carry out his work in a fair and objective manner. The Act requires the Auditor General to audit the Province's financial statements, and the financial statements of certain Crown agencies. It also requires the Auditor General to report annually on the results of his work, including whether money has been expended without due regard to economy or efficiency, and whether procedures have been established to measure and report on the effectiveness of programs. Exhibit 9.1 sets out the specific auditing and reporting requirements of our legislation, and indicates how we address each one.

*Exhibit 9.1 - Requirements of the legislation and how they are addressed*

Requirements of the legislation	How they are addressed
Audit the accounts of the Province as the Auditor General considers necessary	Financial and VFM audit work done in departments each year; evidenced by the comments in our Reports
Audit the accounts of certain Crown agencies	Annual audits of financial statements; evidenced by our auditor's reports attached to the financial statements
Examine the financial statements included in the Public Accounts and express an opinion on them	Evidenced by our auditor's report attached to the Province's financial statements
Report annually to the Legislative Assembly on the work of the Office	Evidenced by the production of our annual Report
Report annually on whether, in carrying on the work of his Office, the Auditor General received all the information and explanations he required	In 2007 we reported in paragraph 1.41 of volume 2 of our Report on instances where we did not receive information. In chapter 8 of volume 1 of our 2008 report we refer to delays in providing information in the Department of Social Development
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

Requirements of the legislation	How they are addressed
<p>Report any cases observed where:</p> <p>(a) any person willfully 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>	<p>We report those matters that come to our attention. We address section (e) each year. In 2008 this information is included at the end of chapter 3 of volume 1. Our value-for-money chapters included in volume 2 address sections (f) and (g).</p>

## Factors influencing our performance and results

**9.8** 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.

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

### *Independence of the Office*

**9.10** As stated above, our independence is enhanced by the *Auditor General Act*. This Act clearly establishes the Auditor General's Office as an organization separate from government. It establishes the Auditor General as an Officer of the Legislative Assembly, and gives him authority to determine the structure of the Office and conditions of employment for the staff. However, the Act was introduced in 1981, and the sections dealing with independence have not been substantially changed since then. We believe there are some changes that could and should be made in order to further enhance the independence of the Office. Chief among them is in the way that the budget for the Office is currently established. Under the current Act, it is the Board of

Management that determines the funding level for the Office. We believe it is inappropriate for government to be setting the financial limitations for an Officer of the Legislative Assembly; this should be done by the Legislative Assembly itself. And there are other areas of our Act that need to be brought up to date. We are currently in discussions with representatives of the Executive Council Office regarding legislative changes.

### ***Budget limitations***

**9.11** 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-two, as we have maintained a policy of staying within our assigned budget. We have reacted to the challenge by seeking efficiencies in our work practices, and by eliminating some audits and contracting out others. Despite the reduction in staffing, we have been able to maintain a core of individuals who are able to devote most of their time to what we call value-for-money, or performance, audits. These audits provide the bulk of the comments in our annual Reports.

**9.12** In recent years, however, we have been faced with unprecedented changes in accounting and auditing standards. Reacting to these changes has severely stretched our resources. We are now seeing an increase in time spent on our financial audits, together with an increase in training needs. This is having the effect of reducing our ability to carry out value-for-money audits. We believe our value to the Legislative Assembly is enhanced by our ability to provide an independent, objective commentary on government programs. We are now at the stage where this ability is being compromised by our lack of resources. We have raised this issue in our recent budget submissions, and will continue to do so. Ultimately, the Legislative Assembly must decide what it expects the Office of the Auditor General to do, and provide sufficient funds with which to do it.

### **Linking goals and performance**

**9.13** 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 9.2 sets out the logic model we use, and Exhibit 9.3 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 9.2 Logic Model

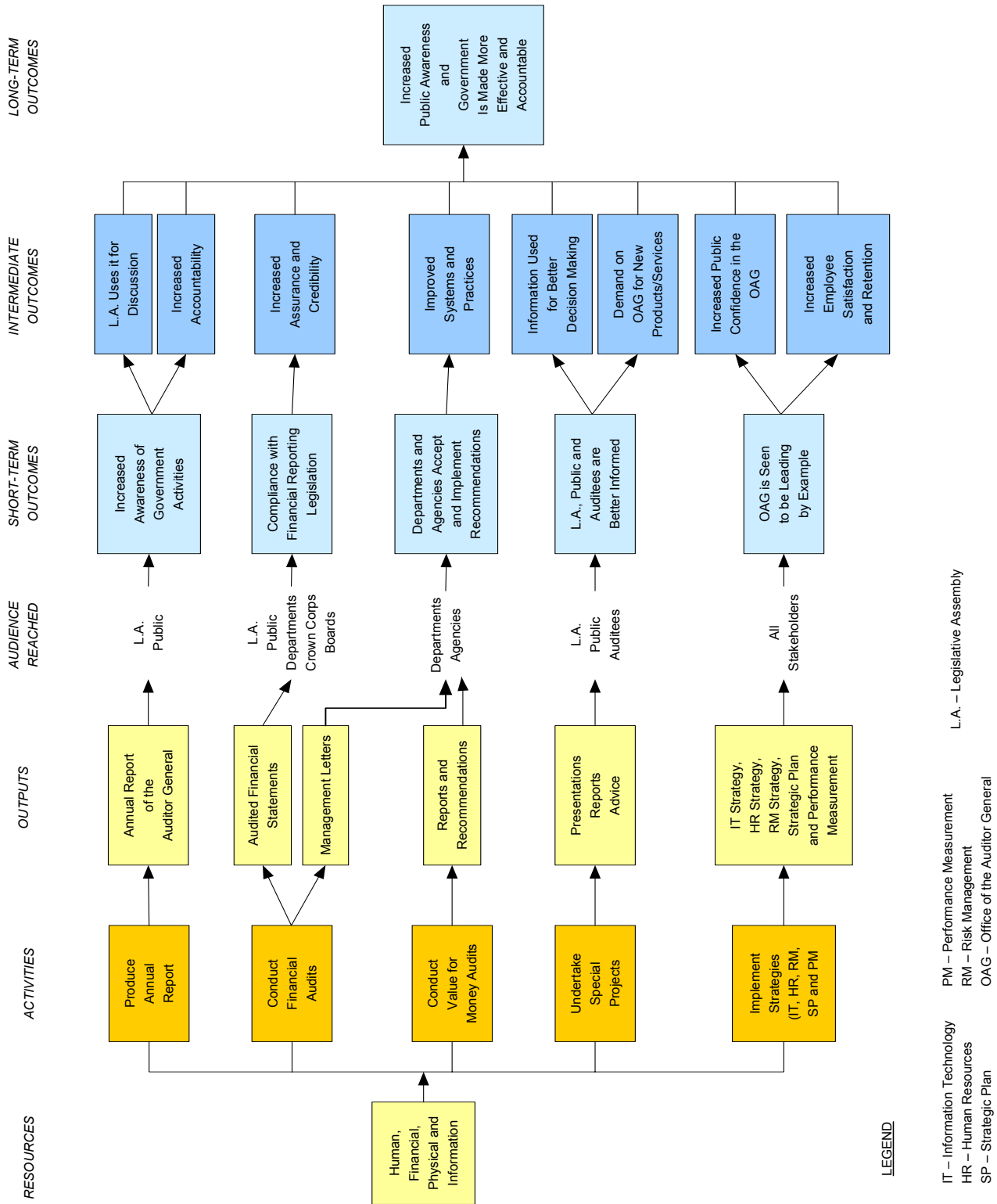


Exhibit 9.3 Measurement Framework

Goals	Activities	Outcomes		Measuring Performance (Indicators)
		Short Term	Intermediate	
The Legislative Assembly and the public are aware of and value all the work that we do, and have confidence in our ability to provide timely, objective and credible information	Produce annual report	Increased Public Awareness of Government Activities	Legislative Assembly uses it for discussion Increased accountability	MLA perception, as determined by survey # of web hits
	Conduct financial audits	Compliance with Financial Reporting Legislation	Increased assurance and credibility	Auditee perception, as determined by survey MLA perception, as determined by survey All audits are carried out within budget and auditee time deadlines are met
	Undertake special projects	Legislative Assembly, Public and Auditees are better informed	Information used for better decision making Demand on our office for new products/services	MLA perception, as determined by survey Auditee perception, as determined by survey
Departments and agencies accept and implement our recommendations	Conduct financial and VFM audits	Departments and agencies accept and implement our recommendations	Improved Systems and Practices	# of recommendations accepted # of recommendations implemented
Our stakeholders - the Legislative Assembly, the public, auditees and our employees - view us as leading by example	Implement Strategies (Information Technology, Human Resource, Risk Management, and Performance Measurement)	OAG is seen to be Leading by Example	Increased public confidence in the OAG Increased employee satisfaction and retention	MLA, auditee and employee perception, as determined by survey Accountability reporting - Cost of Audits (economy) - Percentage of time spent on audit work (efficiency)



## Measuring our progress

### *MLA survey*

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

**9.15** We are using nine indicators to assess our performance. Exhibit 9.3 lists each indicator, and links them to a specific goal in our strategic plan.

**9.16** Periodically, we survey the Members of the Public Accounts and Crown Corporations Committees in order to measure our effectiveness in meeting their needs. We did this in 2004, and again in 2008 following the issuance of our 2007 annual Report.

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

### *Auditee survey*

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

**9.19** The responses to our survey following our 2007 audits indicate a high degree of satisfaction with our work. We converted all the responses into a numerical index, which produced an overall satisfaction rate of 80.4%, compared to a rate of 83.6% in 2006 and 84.6% in 2005. Once again, auditees commented favourably on our knowledge, skill and professionalism. However, we received low marks in some of our value-for-money audits for our communication, and for the objectives and criteria we used in the audit.

### *Acceptance and implementation of recommendations*

**9.20** We generally assess these two indicators together. Chapter 6 of Volume 2 of our 2007 Report provides an overview of the recommendations included in our 2003 through 2005 Reports. It summarizes the status of our recommendations, and focuses in particular on those recommendations we made in 2003 that have not been fully implemented.

**9.21** As we stated in our 2007 Report, our review of our 2003 recommendations revealed a disconcerting number of recommendations that departments did not agree with. This addresses the issue of the acceptance of our recommendations. We noted a trend that line departments are diligent in accepting and trying to implement our recommendations, while central agencies have been less inclined to do so.

**9.22** Our work in 2007 showed that departments and agencies had implemented about one third of our recommendations from 2003, 2004 and 2005. Less than half of our recommendations from 2003 had been implemented within the four years. We do not find this an acceptable response rate to recommendations that departments and agencies have agreed with. In our 2007 Report we called on government to be serious about implementing our recommendations, and suggested government consider issuing a short response to each of our annual Reports, listing its intention to pursue implementation of the recommendations.

**9.23** The results of our follow-up work conducted in the current year on recommendations included in our 2004 through 2006 Reports are included in volume 2 of this Report.

### ***Employee survey***

**9.24** In early 2007 we conducted our third employee satisfaction survey. This provides us with feedback on topics such as quality of work life, communication and career development. We converted the responses into a numerical index, which produced an overall satisfaction rate of 69.9%, compared to a rate of 66.3% in 2004, and 62.6% in 2003.

**9.25** We were pleased to see the continued increase in the overall satisfaction rate. We have been addressing specific areas of concern identified in the 2007 survey.

**9.26** We did not conduct an employee satisfaction survey in 2008, as we are in the process of reviewing and revising our strategic plan. We intend to conduct a survey in 2009.

### ***Completion of audits on time and within budget***

**9.27** Our long-term goal is to complete the audit of the Province's financial statements by June 30, and to complete all Crown agency and Trust Fund audits by September 30.

**9.28** 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.

**9.29** The audit of the Province for the year ended March 31, 2007 was not completed by June 30, 2007. Our auditor's report on the Province's financial statements was dated September 6, 2007. This represented a significant step backward from 2006, when our auditor's report was dated July 28, 2006. 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 2007 they were issued on September 28.

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

**9.31** 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.

**9.32** The time spent on our 2007 audit of the Province's financial statements exceeded the budget by a significant amount. This resulted from a combination of factors, including more time than anticipated on audits of government systems, and extra time at the end of the audit resolving various issues that arose. This was also our first year using a new approach to the audit, involving a greater emphasis on identifying and testing areas of greatest risk.

**9.33** Six of our Crown agency audits were significantly over budget. In a number of cases, this was a result of unanticipated accounting issues that took extra time to resolve. In other cases it was a consequence of the new audit approach referred to above, which took more time than had been budgeted.

**9.34** We completed four value-for-money audits during the year, which were included in our 2007 Report. One took significantly more time than we had budgeted, due in part to extra time needed at the end of the audit as the findings were discussed and the organization presented its response.

### ***Interest in our work***

**9.35** We monitor the number of times our web site is visited to access our Report. We realize that this is an imperfect measure, since there could be numerous visits by a small number of individuals, including our own staff, or visits by individuals who did not then take

the time to read the Report. But we see this as one indicator of the relevance of our work.

**9.36** In the period from February to June 2008, covering the release of our 2007 Report and the subsequent four months, there were over 11,000 visits to the complete Report. In addition, there were specific visits to individual chapters. In the week following February 7, 2008, the day we released our 2007 Report, there were almost 14,000 visits, or “hits”, to our web site.

**9.37** We also believe that our relevance is demonstrated by the fact that the Public Accounts and Crown Corporations Committees continue to make use of our Reports in carrying out their work. As stated above, we measure their satisfaction by means of a survey following the release of our Report.

### *Use of time*

**9.38** An important indicator for us is the percentage of time we spend directly on audit work. Our goal is to reach a target of 60% of all professional paid time in our Office being spent directly on financial statement audits or value-for-money audits.

**9.39** A detailed analysis of staff time for the year ended March 31, 2008 indicates that 57.8% of the total paid time of all staff, with the exception of our administrative support staff, was spent directly on audit work (including work on our annual Report). Just under half of this time was spent on value-for-money audits. For the previous year the percentage was 58.7%. Non-audit time includes statutory holidays, vacations, courses for accounting students and professional staff, sick leave and administrative duties not chargeable to a specific audit.

### *Cost of our audits*

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

**9.41** The cost of the audit of the Province’s financial statements for the year ended March 31, 2007 was \$240,000. The total cost of the Crown agency audits for 2007 was approximately \$178,000. We billed the pension plans a total of \$89,000 for their 2007 audits; this was a combination of the time spent by our staff and the amount paid to the

private sector accounting firm who we contracted with to do most of the work. The total cost of the four value-for-money audits included in our 2007 Report was \$176,000. The cost of preparing our 2007 Report, including the work we do to follow up on recommendations made in previous Reports, was approximately \$79,000.

## Financial and human resources

### Financial results

**9.42** Exhibit 9.4 shows the budget and actual expenditures for the Office for 2006-07 and 2007-08, together with the approved budget for 2008-09.

Exhibit 9.4 Budget and Actual Expenditures (\$ 000s)

	2009	2008		2007	
	Budget	Budget	Actual	Budget	Actual
Personal services	1,647.8	1,679.2	1,510.9	1,637.2	1,480.0
Other services	239.5	147.7	619.0	132.8	140.8
Materials and supplies	6.8	7.9	5.8	8.8	5.1
Property and equipment	25.9	33.2	20.5	33.2	26.7
<b>Total</b>	<b>1,920.0</b>	<b>1,868.0</b>	<b>2,156.2</b>	<b>1,812.0</b>	<b>1,652.6</b>

**9.43** The year ended March 31, 2008 was, we believe, the first year in the history of the Office where we overspent our budget. We obtained a Supplementary Estimate of \$300,000 in March, 2008 to authorize the overexpenditure. The reason for this was that, during the year, we received and accepted a request from the Minister of Finance to carry out a special investigation into the sequence of events leading up to the government intervention in the affairs of the Caisse populaire de Shippagan. To do this work, we hired the services of KPMG Forensic Inc. This special investigation was not complete at March 31, 2008, but our costs incurred during the year were \$460,000. This amount is included in Other services, which explains the excess of actual over budget of \$471,300.

**9.44** Staff costs continue to account for approximately 90% of our budget and were underspent by \$168,300 for the year ended March 31, 2008. As was the case in the previous year, we had one senior staff member on secondment with a government department during most of the year; this staff member has now moved permanently to the department. Other savings were realized through delays in filling positions resulting from staff turnover.

**9.45** Our legislation requires an annual audit of our accounts by a qualified auditor, appointed by the Speaker of the Legislative

Assembly on the advice of the Board of Management. This audit is conducted by the Office of the Comptroller and their audit report is tabled before the Legislative Assembly. We are not totally comfortable with this arrangement. Although the Comptroller and her staff are extremely professional in their dealings with our Office, we would prefer to have the audit conducted by an auditor who is independent of government, and of the financial systems that we use.

### **Human resources**

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

**9.47** Staff turnover is an inevitable consequence of being a training office for highly-motivated professionals. During the past year, three staff members left the Office to further their careers, and one of our audit directors, Phil Vessey, retired.

**9.48** Our staff complement, based on our available budget, is 23. Following Phil Vessey's retirement, we reduced our audit teams from three to two; one now deals primarily with value-for-money audits and one with financial audits. Brent White, CA and Paul Jewett, CA are the directors for the two teams. At March 31, 2008 there were fourteen professional staff with accounting designations, and six students enrolled in accounting programs. Two other members of our staff provide administrative support services. At March 31 we had one other administrative support person, providing for an orderly transition for a retiring staff member. The following is a list of staff members at March 31, 2008:

#### *Exhibit 9.5 - List of Staff Members*

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

*(1) Administrative support*

*(2) Student enrolled in a professional accounting program*

**9.49** On March 31, 2008 Darlene Wield retired. Darlene served with the Office for 29 years, and for much of that time has been the person responsible for the production of our annual Report. We have greatly appreciated her dedication to the work of the Office, and will miss her valuable contribution.

## Looking forward

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

- increasing our capacity to do value-for-money audits;
- implementing International Financial Reporting Standards; and
- adapting to more rigorous auditing standards.

### *Increasing our capacity to do value-for-money audits*

**9.51** 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 22. Over that twenty-year period, our Office budget has increased by 32%. Our annual increases, if any, have been limited to cost-of-living adjustments in salaries. In common with many other organizations connected to government, in some years our budget has been reduced. Yet because of promotions, and staff progressing through the steps in each pay band, individual salaries have increased by much more than the cost of living. As a point of comparison, the starting salary for a new student in our Office has increased by 54% over the last twenty years, and for an audit supervisor the increase has been 65%.

**9.52** We have reacted to these budget pressures by looking for efficiencies in our work and, periodically, by reducing our staff complement. But we have reached the stage where our capacity to do the work we are legislated to do is being severely restricted. We have six staff members assigned to value-for-money audits, assisted by other staff when available. This means that we are able to complete between four and six small to medium-sized audits each year. And we do not have the resources to tackle large or complex areas of government. This greatly reduces our effectiveness and influence as an Office, and our usefulness to the Legislative Assembly.

**9.53** In order to have the flexibility to examine the most complex areas of government, we estimate that we need an increase in our budget of \$600,000. An increase of \$300,000 would allow us to look at more areas of moderate complexity. Our current funding level places

us above only Prince Edward Island as we look at the resources available to legislative audit offices across the country. An increase in our budget of \$600,000 would not change that; we would still be about \$250,000 less than the Auditor General's Office in Newfoundland and Labrador, and about \$500,000 less than Nova Scotia.

***Implementing International Financial Reporting Standards***

**9.54** Canada is in the process of adopting International Financial Reporting Standards as the basis for preparing financial statements for publicly-accountable organizations. Although this has no immediate impact on the financial statements of the Province, it does impact a number of the Province's Crown agencies. This is a major change in financial reporting, and Crown agencies and their auditors will need to invest significant resources over the next few years to prepare for and implement it. We are training our financial audit staff, and are also encouraging our Crown agency auditees to examine the implications and the effects on their financial statements. The time we will need to spend on this issue prior to and beyond the changeover date of 2011 will further stretch our capacity.

***Adapting to more rigorous auditing standards***

**9.55** Coupled with the changes in accounting referred to above is a move to adopt international auditing standards, beginning in 2009. This change will not be nearly as dramatic as the accounting changes, since Canada has for a number of years been moving to harmonize its auditing standards with international best practice. However, there is still a need for additional training for staff. One major change is a move to more risk-based auditing. This requires a greater knowledge of the business of the organization being audited, in order to identify the higher-risk areas. In a large, highly-decentralized organization like the Province, significant audit effort is needed to assess the risks inherent in the operations.

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