

# Chapter 2

## Matters Arising from our Financial Audits

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# Matters Arising from our Financial Audits

## Introduction

2.1 This chapter covers three separate, but related, topics:

- Matters arising from our audit of the financial statements of the Province

This section provides information on matters arising from our 2006 audit of the Province's financial statements.

- Compliance with PSAB recommendations

This section discusses the recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. It focuses on those recommendations with which the Province is not in compliance in its summary financial statements.

- Other audit work in departments and Crown agencies

This section summarizes issues related to departments and Crown agencies arising from our financial audit work.

## Background

2.2 Our audit work encompasses financial transactions in all government departments. As well, we audit pension plans and other trust funds.

2.3 We also audit the Crown Corporations, Boards, Commissions and other Agencies which are listed below.

Agencies included in the Public Accounts:

- Advisory Council on the Status of Women
- Kings Landing Corporation
- Lotteries Commission of New Brunswick
- New Brunswick Advisory Council on Seniors
- New Brunswick Advisory Council on Youth
- New Brunswick Credit Union Deposit Insurance Corporation
- New Brunswick Crop Insurance Commission

- New Brunswick Electric Finance Corporation
- New Brunswick Highway Corporation
- New Brunswick Legal Aid Services Commission
- New Brunswick Municipal Finance Corporation
- New Brunswick Research and Productivity Council
- New Brunswick Securities Commission
- Premier's Council on the Status of Disabled Persons
- Provincial Holdings Ltd.
- Regional Development Corporation
- Regional Development Corporation - Special Operating Agency

Other Agencies:

- Le Centre communautaire Sainte-Anne

## Scope

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

**2.5** We take a similar approach to our testing of the Province's pension plans. Our objective in doing this work is to reach an opinion on the financial statements of each plan.

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

**2.7** It is our practice to report our findings to senior officials of the departments concerned, and to ask for a response. Some of these findings may not be included in this Report, because we do not consider them to be of sufficient importance to bring to the attention of the Legislative Assembly, or because public attention to weaknesses in accounting controls before they are corrected could possibly result in loss of government assets.

**2.8** Our work in Crown agencies is usually aimed at enabling us to give an opinion on their financial statements. During the course of this work, we may note errors in accounting records or weaknesses in accounting controls. We bring these matters to the attention of the agency, together with any recommendations for improvement.

**2.9** This chapter of our Report summarizes issues related to departments and Crown agencies which we consider to be significant to the Members of the Legislative Assembly.

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

## **Matters arising from our audit of the financial statements of the Province**

### ***Responsibilities of the government***

**2.11** The government is responsible for the preparation and the content of the Province's financial statements. The Statement of Responsibility at the front of Volume 1 of the Public Accounts is signed by the Minister of Finance on behalf of the government. The Comptroller is responsible for preparing the financial statements in accordance with the government's stated accounting policies. When preparing the financial statements, the government must make significant estimates, as not all information is available or determinable at the time of finalizing the statements. Examples of where estimates are used include: the set up of tangible capital assets as only limited records were kept for prior years; the pension liability and pension expense for the public service and other groups; and allowances for loss on loans felt to be uncollectible.

### ***Responsibilities of the Office of the Auditor General***

**2.12** 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.

**2.13** 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***

**2.14** In our opinion, the financial statements present fairly, in all material respects, the financial position and results of operations of the Province of New Brunswick in accordance with Canadian generally accepted accounting principles and in accordance with Note 1 to the financial statements.

***Matters arising from our audit***

**2.15** In almost every audit, there are matters arising that need to be discussed with management. These matters, although significant, are not sufficiently large in dollar terms to affect our opinion on the financial statements. The following is a summary of significant issues raised with the Office of the Comptroller related to our 2006 audit.

## Accounting for grants

**2.16** During our audit we noted some inconsistency in the way that grants were accounted for. There were some payments made to universities in March of 2006 that were accounted for as advances, while other payments in the same month were treated as expenses of the period. The government paid the regular April grant in March and set this up as an advance. However, a one-time payment of \$60.0 million was recorded as an expense of the 2005-2006 year. It could be argued that unconditional grants, once paid, are expenses at that time and both of the payments noted were 2006 expenses. Since the practice of paying the regular April grant in March has been in place for a number of years, the effect on the results for 2005-2006 would have been minimal.

**2.17** There is a PSAB Exposure Draft dealing with government transfers that was released in August 2006. The proposed standard will apply to governments for fiscal years beginning on or after January 1, 2009, giving sufficient time for governments to consider the impact of the new standards. This Exposure Draft recommends that a grant be recognized as an expense when the events giving rise to the transfer occur, as long as the transfer is authorized and the eligibility criteria, if any, have been met by the recipient.

**2.18** **We recommended the Office of the Comptroller review the accounting for grants to ensure consistent application of accounting policy. Further, the new accounting policies for government transfers should be considered when developing any new accounting policy for recording grants.**

**2.19** The Comptroller responded:

*I would like to note this issue was discussed with the Deputy Auditor General and staff early in the course of the year end audit. My opinion was, and still is, that the University grants in question by their nature are discretionary items, therefore the accounting for such grants is determined based on when government chooses to issue such discretionary funding. There was a clear government decision to authorize (by way of a Special Warrant) the one-time payment of \$60.0 million in March 2006 thus in the 2005-06 fiscal year. The advance payment was specifically authorized in the 2006-07 budget as an expense of the 2006-07 fiscal year.*

*The advance payment of these items is a long time practice done solely to ensure the money is in the hands of the institution on the first day of the month as per our agreement with them. The timing of the actual cash flow should not be the determining factor for accounting purposes since we use accrual accounting, not the cash basis.*

Classification of prepaids and advances

**2.20** We noted inconsistencies in what was classified as prepaid expenses and as advances for other payments that were made, and inconsistencies in what was reclassified for the previous year. Advances are shown as financial assets and prepaid expenses as non-financial assets. According to the CICA Public Sector Accounting handbook, a prepaid expense such as prepaid rent should be classified as a non-financial asset. However, prepaid rent was moved from prepaid and deferred charges and recorded as advances as part of the financial assets. We feel that the accounting policy was not applied consistently and, as a result, the net debt is not properly stated.

**2.21** **We recommended accounting policies for financial assets be examined to ensure that they are applied consistently and in accordance with the CICA Public Sector Accounting handbook.**

**2.22** The Comptroller responded:

*The Province has a long standing practice of advancing certain payments at the end of a month for the sole reason of ensuring the payee has the money by the first day of the month. For this reason we do not feel this constitutes a prepaid expense in that we are not paying a month in advance, merely a few days for the convenience of the landlord. In view of this, we believe the rent “prepayments” are more in line with a rolling advance and are properly*

*accounted for as financial assets. However, my Office is making efforts to reduce these situations by increasing the use of electronic funds transfer for the payment of suppliers.*

New Brunswick Power Holding Corporation

**2.23** In future years we will be assessing whether New Brunswick Power Holding Corporation (Holdco) continues to meet the definition of a government enterprise. Currently, ratepayers are financing the operations of Holdco, and it is accounted for in the Province's financial statements as a self-sufficient government organization. If Holdco begins to realize losses as a result of a cap on energy rates, then it will be the taxpayers who will be called upon to subsidize the operations. Should that occur, full consolidation of Holdco may be required. Because there are substantial differences in these methods of accounting, the effects on the Province's financial statements will be significant.

Litigation against the Province

**2.24** Potential contingent liabilities exist for legal actions taken against the Province that are not reflected in the Public Accounts. For individual claims greater than materiality where an amount has not been accrued, information about the claim should be disclosed in a note. A general reference to potential contingencies should also be included in the Public Accounts for those claims that are known but for which likelihood of payment is uncertain.

**2.25 We recommended the financial statements of the Province disclose information about contingent liabilities for legal actions taken against the Province.**

**2.26** The Comptroller responded:

*My Office will look at this disclosure for the coming fiscal year and make any necessary adjustments.*

Missing loan guarantee

**2.27** During our audit of Provincial Holdings Ltd., subsequent to completion of our audit of the Province, we found a loan guarantee for \$15 million that was in place at 31 March 2006 that was not on the list of guarantees prepared by the Department of Business New Brunswick. As a result, the amount of loan guarantees in Note 14 to the Province's financial statements is understated.

Accounting for consolidated entities

**2.28** There is inconsistency in the way that amortization for the consolidated entities is presented. For the Regional Health Authorities, the amortization is shown as a separate amount, but for all other consolidated entities the amortization is not shown separately.

**2.29 We recommended the accounting presentation for consolidated entities be consistent.**

**2.30** The Comptroller responded:

*I understand this item relates to the disclosure of amortization for consolidated entities on the expense schedules only. The full amortization expense is included in both the Statement of Cash Flow and Note 16 - Expense by Primary Classification. My staff will undertake to correct this inconsistency in the 2007 financial statements.*

Establishment of Trust Funds

**2.31** The Early Learning and Child Care Trust Fund (ELCC) was established on 27 March 2006. However, we do not feel that the ELCC fund was sufficiently well defined and structured to demonstrate it was a separate entity from the Province at that time. There were no board members, by-laws, or operating principles in place at year end. The three applicants named on the application of incorporation were all staff of the Department of Family and Community Services. As a result, we feel that this fund was being controlled by the Province at year end, as there was no information provided to us to indicate otherwise. Consequently, it could be argued that the \$8 million paid into the ELCC trust fund was not a valid expense of the 2006 fiscal year.

**2.32 We recommended the governance structure of all trust funds set up by the Province be in place before any payments are made to those funds.**

**2.33** The Comptroller responded:

*I will take this recommendation under advisement.*

Public Sector Accounting Standards

**2.34** If reference could be made in note 1 to the financial statements that the Province is following the CICA Public Sector Accounting Standards, this would allow for a less complicated auditor's report to the Legislature.

**2.35 We recommended the Province include, in note 1 to the financial statements, a clear statement that the financial statements are prepared in accordance with the recommendations of the CICA Public Sector Accounting Board.**

**2.36** The Comptroller responded:



*The requested sentence will be added to Note 1 of the Financial Statements for the 2006-07 fiscal year.*

## Business continuity plan

**2.37** A business continuity plan outlines the procedures to follow, and the resources needed, to ensure systems continue to operate if an interruption or disaster occurs. Business continuity planning includes such things as a business impact analysis, emergency response procedures and an information technology recovery plan. There is no such plan in place for the Oracle Financials system. Without such a plan, there is an increased risk of a disruption of government programs or services in the event of a disaster.

**2.38** **We recommended the Comptroller's Office develop and document a complete business continuity plan to help ensure that government programs are not seriously affected if an interruption or disaster affects Oracle Financials. The plan should be reviewed and tested regularly.**

**2.39** The Comptroller responded:

*My Office is committed to commence work on the development of a business continuity plan.*

## Compliance with PSAB recommendations

**2.40** The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants, the national body that establishes accounting standards, issues accounting standards for provincial governments.

**2.41** The 2005 annual report of the Office of the Comptroller includes the following self assessment of the Province's compliance with PSAB's accounting standards:

*In a review of accounting recommendations issued by PSAB we have determined that the Province of New Brunswick complies with 217 out of 250 recommendations for a compliance rate of 86.8%.*

**2.42** We issued an unqualified opinion on the Province's financial statements for the year ended 31 March 2006, which stated in part:

*..... these financial statements present fairly, in all material respects, the financial position of the Province as at 31 March 2006 and the results of its operations, the changes in its net debt and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.*

**2.43** Therefore, the Province's non-compliance with some PSAB recommendations did not result in a material misstatement of the Province's financial statements. However, we wanted to review the areas of non-compliance to determine if better financial statement information could be provided to the users of the Province's financial statements.

**2.44** This section of this chapter has not been discussed with the Office of the Comptroller, and, as a result, the Comptroller has not had an opportunity to review our recommendations and respond to them. We plan to meet with the Comptroller to discuss our assessment of compliance and our recommendations prior to completion of our 2007 audit.

### **Summary of compliance**

**2.45** We analyzed compliance in a slightly different way than the Comptroller's Office did. In our analysis we treated any recommendation paragraph with multiple subsections as one recommendation. In order to be in compliance with such a recommendation the Province had to comply with all of the subsections. Using this approach we concluded that the Province complied with 165 out of 187 applicable recommendations for a compliance rate of 88.2%. There were also 70 recommendation paragraphs that were not applicable.

**2.46** A PSAB recommendation would not be applicable if it deals with a specific set of circumstances that the Province has never encountered.

**2.47** We have made recommendations, described below, that would result in the Province complying with 15 of the 22 PSAB recommendations that they currently do not comply with. This would bring the overall compliance rate to 96.3%, and would improve the information provided to the users of the financial statements.

**2.48** The following is an analysis of each PSAB recommendation paragraph that the Province did not comply with for the year ended 31 March 2006, followed by our recommendations to the Province to improve their compliance. We also refer to examples of other provinces that are complying with recommendations that New Brunswick did not comply with during the year ended 31 March 2006.

### **Financial statement presentation - federal, provincial and territorial governments**

**2.49** In the section on financial statement presentation, the Province did not comply with paragraphs .046, .061 and .129.

**2.50** Paragraph .046 recommends in subsection b):

*The statement of financial position should report financial assets segregated by main classifications, such as:*

*(b) temporary investments;*

**2.51** The Province aggregates its cash and short term investments and nets them from its short term borrowings. The net result is reported on the statement of financial position. For the year ended 31 March 2006, short term investments were \$601.8 million. The Province does disclose the details of its short term investments in schedule 1 to the financial statements. We feel this treatment is acceptable and do not recommend any changes.

**2.52** Paragraph .061 recommends in subsections b), c), d), and e):

*The financial statements should disclose, for each major category of tangible capital assets and in total:*

*(b) additions in the period;*

*(c) disposals in the period;*

*(d) the amount of any write-downs in the period;*

*(e) the amount of amortization of the costs of tangible capital assets for the period;*

**2.53** The year ended 31 March 2005 was the first year that the Province accounted for its tangible capital assets. Note 9 to the financial statements discloses the cost, accumulated amortization and net book value for each category of tangible capital asset. It does not, however, disclose the additions, deletions and write-downs for the year and it does not disclose the amortization for the year for each class of tangible capital asset. We recommend the Province include this information in its note.

**2.54** **The Province should include in its note to the financial statements on tangible capital assets the additions in the year, the disposals in the year, the amount of any write downs in the year and the amount of amortization for the year for each class of tangible capital asset.**

**2.55** Saskatchewan's 2005 financial statements are an example of statements that include this disclosure.

**2.56** Paragraph .129 recommends:

*The statement of change in net debt should present a comparison of the items that comprise the change in net debt for the accounting period, as well as the change in net debt*

*for the period, with the figures originally planned. Planned amounts should be presented for the same scope of activities and on a basis consistent with that used for actual amounts.*

**2.57** The Province reports a statement of change in net debt in its financial statements, however it does not include budgeted figures so there is no comparison of actual results to planned results. We recommend the Province include budget figures in this statement.

**2.58** **We recommend the Province report the budgeted change in net debt figures with a comparison to the actual change in net debt for the year.**

**2.59** Note 4 to Alberta's 2005 financial statements is an example of budget to actual comparison for the components of the changes in net financial position.

## Foreign currency translation

**2.60** Paragraph .48 of the section on foreign currency translation recommends in subsections a) and e):

*The government should disclose the following:*

*(a) the government's policy for managing foreign currency risk, including a general description of the nature of the hedges undertaken to mitigate the government's currency exposure, the government's method for assessing hedge effectiveness, and information about the magnitude of hedging activities;*

*(e) a sensitivity analysis illustrating the impact on the unhedged foreign currency denominated monetary item of foreign exchange rate changes.*

**2.61** The Province does not disclose this information. PSAB has recommended this disclosure...

*...to provide information that will enhance understanding of the significance of the government's currency exposure as well as the extent to which financial instruments are used to manage the currency risk.*

**2.62** The sensitivity analysis information is recommended because it

*...provides useful information about [government's] exposure to foreign currency fluctuations by indicating the*

*effect of a hypothetical change in the foreign exchange rate on the balance of long-term foreign currency denominated monetary items. Such currency rate sensitivity information may, for example, be based on an assumed one-cent change in the foreign exchange rate occurring at the reporting date. When disclosing currency rate sensitivity information, the government indicates the basis on which it has prepared the information, including any significant assumptions.*

**2.63 We recommend the Province include note disclosure of its policy for managing foreign currency risk, and a brief sensitivity analysis of the impact of fluctuations in exchange rates.**

**2.64** Note 20 to British Columbia's 2005 financial statements on risk management and derivative financial instruments is an example of note disclosure that includes interest rate risk, foreign exchange risk and credit risk and also includes a sensitivity analysis.

## Temporary investments

**2.65** Paragraph .04 of the section on temporary investments recommends:

*Where there are holdings of marketable securities, their quoted market value as well as their carrying value should be disclosed.*

**2.66** The Province reports that as at 31 March 2006 it had short term investments with a book value of \$ 601.8 million, however they do not report the market value of these investments. The market value would not be significantly different from the book value, however disclosure of market value would still be useful information.

**2.67 We recommend that the Province report the market value of its short term investments.**

**2.68** Note 7 to Ontario's 2005 financial statements, on temporary investments, is an example of disclosure of the market value of short term investments.

## Portfolio investments

**2.69** Paragraph .25 of the section on portfolio investments recommends:

*Portfolio investments should be reported separately on the statement of financial position.*

**2.70** The Province's statement of financial position reports total investments at 31 March 2006 of a negative \$34.6 million. Details are

provided in schedule 6 to the financial statements. Schedule 6 indicates that the total investments number is made up of investments in government business enterprises with a value of a negative \$38.6 million and other long term investments or portfolio investments of \$4.0 million. PSAB would require separate reporting of these two figures on the statement of financial position if they are material. Since the value of the portfolio investments is small in relation to the other items on the statement of financial position the amount would not be material and so separate reporting is not required. We do not recommend any change.

**2.71** Paragraph .27 recommends:

*Income from portfolio investments should be reported separately on the statement that reports the surplus or deficit in the accounting period.*

**2.72** Income from the Province's portfolio investments is included in the investment income number reported on the statement of operations. Because the value of the portfolio investments is only \$4.0 million, the income from these investments is not material and so separate reporting is not required. We do not recommend any change.

**2.73** Paragraph .28 recommends:

*When portfolio investments include marketable securities, the quoted market value of such securities as well as their carrying value should be disclosed.*

**2.74** The Province's portfolio investments are disclosed in schedule 6 to the financial statements. Because the value of the portfolio investments is not material, disclosure of market value is not necessary. We do not recommend any change.

## **Loans receivable**

**2.75** Paragraph .38 of the section on loans receivable recommends:

*When the amount of a loss is known with sufficient precision, and there is no realistic prospect of recovery, the loan receivable should be reduced by the amount of that loss.*

**2.76** The *Financial Administration Act* requires:

*29(1) Subject to subsection (2), the Board, in accordance with the regulations, may delete from the assets of the Province in whole or in part any obligation or debt due to the Province or any claim by the Province.*

29(2) *The Secretary of the Board, in accordance with the regulations, may delete from the assets of the Province any obligation or debt due to or claim by the Province that does not exceed one hundred dollars.*

2.77 Many of the Province's uncollectible loans and receivables are not written off when there is no realistic prospect of recovery. Uncollectible loans are provided for, so they are properly valued on the Province's statement of financial position. However, to be written off, they have to go through the process outlined in the *Financial Administration Act*, which means a request to write off any amount in excess of \$100 must go before Board of Management.

2.78 We believe that departments should be able to write off small amounts themselves. There should be a three tiered system, with departments writing off small amounts, for example anything less than \$500, the Secretary to the Board responsible to write off certain amounts, and the Board of Management writing off the large amounts. Also, a review of accounts across all departments for write off should be part of the year end process.

**2.79 We recommend that the process for writing off uncollectible accounts receivable be changed to allow departments to write off certain receivables themselves.**

**2.80 We recommend that annually, all loans and other receivables for which there is no realistic prospect of recovery should be written off.**

2.81 Paragraph .43 recommends:

*Interest revenue should be recognized on a loan receivable when earned. Interest revenue should cease to be accrued on a loan when the collectibility of either principal or interest is not reasonably assured.*

2.82 The Province continues to record interest income and a related expense for uncollectibility until such time as a receivable is written off. This is required by the *Financial Administration Act*. However, it means that interest income that will never be collected is being recorded. If departments could write off receivables themselves, and if an annual write off of receivables was part of the year end process, then the recommendation would be met.

2.83 Paragraph .54 says in subsection c):

*In describing the accounting policies selected by a government and applied to its loans receivable, governments should disclose:*

*(c) the policy for the recognition of interest revenue.*

**2.84** Note 1 to the Province's financial statements discloses the significant accounting policies. It does not make any reference to the accounting policy for the recognition of interest revenue. Such a note should make reference to how interest revenue is accrued at year end, and the policy for recording interest on uncollectible accounts.

**2.85** We recommend that the Province's note on significant accounting policies should include the policy for the recognition of interest revenue.

**2.86** Note 1 to Quebec's 2005 financial statements, on significant accounting policies, is an example of disclosure of an accounting policy for the recognition of interest revenue, including when interest revenue ceases to be recorded.

## Government partnerships

**2.87** The Province has determined that it does not have any material government partnerships and therefore none of the recommendations in this section apply. However, Nova Scotia discloses the Atlantic Provinces Special Education Authority, Canadian Blood Services and the Council of Atlantic Premiers as government partnerships that New Brunswick also participates in.

**2.88** We recommend the Province review whether it is a member of any government partnerships, with specific emphasis on the Atlantic Provinces Special Education Authority, Canadian Blood Services and the Council of Atlantic Premiers.

## Investment in government business enterprises

**2.89** Paragraph .56 of the section on investment in government business enterprises recommends:

*When the circumstances affecting a government organization change such that it no longer meets the definition of a government business enterprise, the resulting change in accounting treatment, the underlying reasons for the change, and the financial effect of the change should be disclosed.*

**2.90** During the year ended 31 March 2005, Algonquin Golf Limited no longer met the definition of a government business enterprise, however in the Province's 31 March 2005 financial



statements, there was no mention of the underlying reasons for the change in the Province's financial statements. This would not be a usual set of circumstances, however, should it reoccur, note disclosure of the reasons should be made.

**2.91 We recommend that when an organization no longer meets the definition of a government business enterprise, there should be note disclosure of the underlying reasons for the change.**

**2.92** Paragraph .57 recommends:

*A government's investment in government business enterprises should be reported separately on the consolidated statement of financial position.*

**2.93** The Province's statement of financial position reports total investments at 31 March 2006 of a negative \$34.6 million. Details are provided in schedule 6 to the financial statements. Schedule 6 indicates that the total investments number is made up of investments in government business enterprises with a value of a negative \$38.6 million and other long term investments or portfolio investments of \$4.0 million. PSAB would require separate reporting of these two figures on the statement of financial position if they are material. Since the value of the portfolio investments is small in relation to the other items on the statement of financial position the amount would not be material and so separate reporting is not required. We do not recommend any change.

**2.94** Paragraph .58 recommends:

*Income from investments in government business enterprises should be reported separately on the consolidated statement of results.*

**2.95** Income earned by the Province's government business enterprises is included in the investment income number reported on the statement of operations. The investment income number also includes income from the Province's portfolio investments. Because the value of the portfolio investments is only \$4.0 million, the income from these investments is not material and so separate reporting is not required. We do not recommend any change.

**2.96** Paragraph .60 recommends in subsection c):

*Government summary financial statements should disclose, in notes or schedules, condensed supplementary financial*

*information relative to government business enterprises. Such financial information should be provided on:*

*(c) transactions and balances with other organizations included in the government reporting entity.*

**2.97** Note 8 to the Province's 2006 financial statements discloses information about the Province's government business enterprises. However, it does not disclose information about the transactions and balances that each government business enterprise has with other organizations included in the government reporting entity. The Province does disclose in Note 11 to the financial statements the details of the balance owing by New Brunswick Electric Finance Corporation to the Province. While it would not be necessary to disclose every transaction or balance, the Province should consider disclosing more information than it does. For example, some information is readily available. A quick review of the 2005 edition of Volume 2 of the Public Accounts finds the following payments by government departments to NB Power:

Department	Amount
Agriculture Fisheries and Aquaculture	\$67 763
Education	18 153 214
Environment and Local Government	65 250
Family and Community Services	4 093 135
General Government	33 440
Natural Resources	362 515
Supply and Services	2 688 482
Tourism and Parks	526 485
Training and Employment Development	1 721 336
Transportation	2 497 152
<b>Total</b>	<b>\$30 208 772</b>

**2.98** This of course does not include payments by hospitals or other organizations that are not part of the Province's consolidated fund. However, it would not be difficult to disclose that \$30 million of NB Power's \$1,403 million in revenue comes from core government departments.

**2.99** **We recommend that the Province consider if there are any significant transactions and balances involving government business enterprises and other organizations that are part of the**

**Province' reporting entity and report them in the note to the financial statements on government business enterprises.**

**2.100** Schedule 3 to Saskatchewan's 2005 financial statements is an example of disclosure about government business enterprises that includes lines for amounts due from government organizations, debt owing to government organizations, revenue from government organizations and expenses paid and owing to government organizations.

**Restricted assets and revenues**

**2.101** Paragraph .24 of the section on restricted assets and revenues recommends in subsection a):

*Government financial statements should disclose, in notes or schedules, condensed supplementary financial information relative to internally restricted entities. The financial information should be provided for internally restricted entities or groups of similar entities, and for all internally restricted entities as a whole. The information provided should report the financial position and results of operations, including:*

*(a) Total assets and liabilities segregated by main classification;*

**2.102** Note 6 to the Province's 2006 financial statements discloses information about its special purpose accounts, many of which are internally restricted entities. The Province discloses the name of each special purpose account, its balance at the beginning of the year, the revenue earned during the year, the expenses incurred during the year and the balance in the account at the end of the year. However it does not disclose any information about the assets or liabilities related to each account. Many of the accounts are small, and information about their assets and liabilities would not be material, however there is one account within the Department of Family and Community Services called CMHC Funding that contains \$ 52.5 million. Some disclosure of the purpose of this account and the assets held on its behalf would be useful.

**2.103** We recommend the Province disclose information about the purpose of the CMHC Funding special purpose account, and information about the assets and liabilities of this account. The Province should establish a policy to make such disclosure for any account that exceeds a certain value in assets, for example \$20 million.

**2.104** We could not find an example of another Canadian jurisdiction that was disclosing the information recommended by PSAB in this subsection.

## Long-term debt

**2.105** Paragraph .03 of the section on long-term debt recommends in subsection a):

*When a government has externally restricted sinking funds set aside to retire its long-term debt, the following information should be provided:*

*(a) the gross amount of the long-term debt to be retired by the sinking funds;*

**2.106** The Province's statement of financial position discloses the book value of its sinking fund investments. Note 11 to the financial statements discloses information about the Province's outstanding funded debt, including some more information about the sinking fund. However, there is not any disclosure about how the sinking fund is used to retire debt. For example, note 11 reports that the amount of funded debt issued for provincial purposes that matures during 2006-2007 is \$764.9 million. However, there is no explanation about whether the retirement of this debt will all come from the sinking fund. Some explanation about how the sinking fund is used to retire maturing debt would be useful to the readers of the financial statements.

**2.107** **We recommend that the Province include in its notes to the financial statements a brief explanation about how the sinking fund is used to retire funded debt.**

**2.108** Note 6 to Manitoba's 2005 financial statements includes an example of disclosure about the management of the sinking fund.

**2.109** Paragraph .10 recommends in subsection a):

*When there is sufficient evidence that debt has been issued by a government specifically on behalf of a government business enterprise:*

*(a) the debt issued on behalf of the government business enterprise and the related receivable from the government business enterprise should be presented on a net basis in the consolidated statement of financial position.*

**2.110** The Province's statement of financial position reports debt issued on behalf of NB Power, through the New Brunswick Electric Finance Corporation, using a contra approach rather than netting. For the year ended 31 March 2006 the statement of financial position reports total funded debt of \$12,203.9 million and then reports a deduction of \$3,261.5 million for borrowing for New Brunswick Electric Finance Corporation. The recommendation contained in this subsection requires that the Province should only report the net amount, \$8,942.4 million on the statement of financial position and report the details in the notes to the financial statements. In this case the Province is reporting more information than is required on the statement of financial position, so the only reason to change the presentation would be to make the statement less cluttered. We do not recommend any change.

## Retirement benefits

**2.111** Paragraph .084 of the section on retirement benefits recommends in subsections r) and s):

*Financial statements should disclose:*

- (r) the amount of benefits paid during the period;*
- (s) the expected return and actual return on plan assets during the period;*

**2.112** Note 13 to the Province's 2006 financial statements discloses information about the Province's pension plans. This note has eight subsections and is about seven pages long. It discloses a large amount of information, but is missing the information that these subsections recommend should be disclosed. Specifically, there is no disclosure of the value of benefits paid out of each pension plan, and while there is disclosure of the expected return on plan assets, there is no disclosure of the actual return on plan assets.

**2.113 We recommend the Province disclose the actual amount of benefits paid out of its pension plans and the actual annual return on plan assets for each plan.**

**2.114** Note 7 to Saskatchewan's 2005 financial statements is an example of disclosure of benefit payments and the return on plan assets.

**2.115** Paragraph .093 recommends in subsection d):

*For joint defined benefit plans, in addition to the disclosures required in paragraphs PS 3250.084 government financial statements should disclose:*

*(d) the total financial status of any joint plans.*

**2.116** A joint defined benefit plan is one in which the Province does not have full control over the retirement benefit plan. Control is shared between the Province and another plan sponsor. Sharing of control does not necessarily mean that all parties have the same level of control; one party may have more control than another. In such an arrangement there is an equitable relationship between the funding by the parties, the extent of control each party is able to exercise over the plan and the risks and benefits that accrue to the parties from the plan. The Province has two plans that it describes as defined benefit plans with fixed employer contributions. These plans are the Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals and the Pension Plan for Canadian Union of Public Employees of New Brunswick Hospitals. These plans probably meet the definition of joint defined benefit plans, and the Province should disclose the financial status of these plans in the notes to the financial statements.

**2.117** **We recommend the Province disclose the financial status of its two defined benefit plans with fixed employer contributions in the notes to the financial statements.**

**2.118** No other Province has joint plans structured in the same way as New Brunswick's defined benefit plans with fixed employer contributions so it is not possible to find parallel note disclosure.

## **Loan guarantees**

**2.119** Paragraph .29 of the section on loan guarantees recommends:

*Government financial statements should disclose information to describe the accounting policies selected and applied to loan guarantees, including:*

*(a) the basis for initial recognition and measurement of the provision for losses on loan guarantees; and*

*(b) the policy with respect to changes in the amount of the provision.*

**2.120** Note 14 to the Province's 2006 financial statements discloses information about loans guaranteed by the Province. Note 1 to the financial statements is a summary of the Province's significant

accounting policies. Neither note includes information about the basis for the initial recognition and measurement for losses on loan guarantees or the policy with respect to changes in the amount of the provision.

**2.121 We recommend that the note to the financial statements that summarizes the Province's accounting policies should include information about the Province's accounting policy for recording and changing the amount of provision for losses on loan guarantees.**

**2.122** Note 1 to Quebec's 2005 financial statements is an example of disclosure of the accounting policy for recording and changing the amount of provision for losses on loan guarantees.

**2.123** Paragraph .31 recommends in subsection d):

*Government financial statements should disclose in notes or schedules the nature and terms of significant classes of loan guarantees. Information that should be disclosed includes:*

*(d) general terms and conditions.*

**2.124** Note 14 to the Province's 2006 financial statements discloses information about loans guaranteed by the Province. It does not disclose any information about the general terms and conditions of the significant classes of loan guarantees. The Province had one significant class of loan guarantees as at 31 March 2006. These were guarantees issued under the *Economic Development Act* with an authorized limit of \$123.6 million and an outstanding balance of \$123.5 million. A brief description of the general terms and conditions of the loans guaranteed under this program would be useful to the readers of the Province's financial statements.

**2.125 We recommend that the Province provide a brief description of the general terms and conditions of loans guaranteed under its significant loan guarantee programs.**

**2.126** Appendix 17 to Quebec's 2005 financial statements is an example of brief disclosure of general terms and conditions of significant loan guarantee programs.

## **Other audit work in departments and Crown agencies**

### **Department of Family and Community Services**

#### *Weak access controls for NBCase system*

**2.127** Our Office tested internal controls in the Department as part of our audit of the provincial financial statements for the year ended 31 March 2006.

**2.128** We noted weaknesses with the Department's automated NBCase system access controls. The weaknesses related to password protection and password change procedures.

**2.129** These weaknesses increase the risk that NBCase users can login under another user's account. If this occurs, the Department cannot rely on the built-in NBCase system controls such as maintaining the separation of incompatible functions or ensuring benefits are properly approved.

**2.130** The risk of fraudulent transactions also increases significantly.

**2.131** In March 2003 the Government of New Brunswick released "Password Standard for User Accounts" which outlines baseline security for all user accounts. Because of a grandfather exemption, the NBCase system does not have to comply with these standards. However, we believe the recommendations in the standards represent good access controls for all systems.

**2.132** **We recommended the Department modify the NBCase password security thus improving the effectiveness of key business process controls. As much as possible, the system should meet the baseline security recommendations of the provincial standards.**

**2.133** **We recommended the Department discontinue the use of the NBCase password look-up utility.**

#### *Regional investigators' work not followed up*

**2.134** In the period April 2005 – February 2006, regional investigators recommended changes to social assistance payments in 32% of their investigations. However, 52% of these changes were not followed up by their supervisors.

**2.135** A client could continue to receive ineligible payments if the regional investigator's supervisor does not verify that the case manager has reviewed and implemented (when justified) the recommendations of the regional investigators.



**2.136** Department policy is that regional investigators' supervisors receive a follow-up task automatically from NBCase six weeks after the regional investigators complete their reviews.

**2.137** We recommended the Department ensure the work of the regional investigators is followed up promptly by supervisors.

**2.138** We recommended the Department monitor the regional investigators' supervisors to ensure that they are completing their follow-up promptly as required

***Case reviews not done for alert clients***

**2.139** We found 62 cases where "alert" clients had overdue case reviews. (If clients are considered violent, they are given an "alert" status.) Fifteen of these "alert" clients had never received a case review. We also found that the Department had very little contact with some of these "alert" clients over the past 2 – 3 years.

**2.140** The following table shows the number of "alert" clients with overdue case reviews and the year that the reviews were supposed to be completed.

Number of alert clients whose case review is overdue	Year the case review was supposed to be completed
3	2000
2	2001
18	2002
11	2003
15	2004
13	2005

**2.141** By not completing regular case reviews and by not having regular contact with all social assistance clients:

- the risk of error in clients payments increases;
- the risk that the client is no longer eligible to receive social assistance payments increases; and
- the Department is not complying with its internal policy.

**2.142** Department policy requires case reviews to be completed for all clients on a regular basis (which is determined based on the type of client). No exceptions are noted for "alert" clients. Normally, students are hired to complete the case reviews in the summer

months. However, case managers or supervisors are supposed to complete case reviews for “alert” clients.

**2.143 We recommended the Department complete the overdue case reviews for all “alert” clients.**

**2.144 We recommended the Department also ensure case managers have regular contact with “alert” clients.**

*NBCase system not always updated*

**2.145** We found 780 clients where the NBCase system indicated that case reviews were overdue. When we reviewed documentation for a sample of these clients, we found that the Department **had** completed timely case reviews. However, the NBCase system was not updated to show that the case reviews had been completed.

**2.146** By not updating NBCase when case reviews are completed:

- the Department is not able to monitor the accuracy and effectiveness of the case review process; and
- some clients will receive a case review more often than required by policy, while other clients, if resources are scarce, may not receive a case review when required.

**2.147 We recommended the Department ensure that NBCase is properly updated for completed client case reviews.**

*Departmental response*

**2.148** The Department responded positively to each of our recommendations and indicated action would be taken to address our concerns.

**Department of Justice and Consumer Affairs**

**2.149** In connection with our audit of the financial statements of the Province for the year ended 31 March 2006, we randomly selected and tested a sample of twenty payments made by the Department.

*HST coding error on US payment*

**2.150** We found that HST was paid to one US supplier but coded to the expenditure account instead of the GST/HST account.

**2.151** Accounting personnel indicated they were not aware that HST is coded separately for US payments.

**2.152 We recommended the Department check all US fund payments made in the current fiscal year to ensure that the HST was coded properly.**

2.153 The Department responded:

*Review of HST coding for U.S. payments is now closely scrutinized by accounts payable staff as part of their standard process.*

***Invoice did not add properly***

2.154 For one sample item, the invoice was overstated by \$164.

2.155 Accounting staff indicated they:

- were not checking the detailed extensions or calculations on invoices;
- were only adding invoices and verifying the HST amounts; and
- assumed that the spending authority approver was responsible for verifying invoice extensions and detailed calculations.

2.156 Government policy specifies the roles and responsibilities of both payment and spending authority. This policy indicates that the responsibility of verifying the accuracy of invoices lies with the person acting as payment authority.

**2.157 We recommended the Department ensure that persons applying payment authority be familiar with government policy. Before approving payments, these individuals should perform all of the procedures outlined in the policy.**

2.158 The Department responded:

*Total verification of detailed extensions and calculations on invoices has been incorporated into the standard process followed by accounts payable staff.*

***Cut-off errors***

2.159 The Department paid two of our sample items in the 2005-06 fiscal year. The items related to the prior fiscal year but were not accrued, even though the invoices were received by the Department prior to the accrual cut-off deadline for the fiscal year.

**2.160 We recommended the Department ensure that all outstanding invoices are accrued at year end.**

2.161 The Department responded:

*... .. it is our standard practice to establish an accrual for any outstanding invoice at year end. The two invoices in question had not been received by Financial Services prior to the accrual deadline cut-off.*

*Financial Services will be more diligent in communicating and following up on year end cut-off dates with managers in this fiscal year.*

## **Department of Supply and Services**

### ***Expired lease agreement***

**2.162** In connection with our audit of the financial statements of the Province for the year ended 31 March 2006, we randomly selected and tested a sample of twenty payments made by the Department.

**2.163** One payment related to the lease of a property for which the lease agreement had expired on 31 December 2004. The new lease agreement, which was approved by the Department, was sent to the lessor for approval but had not been returned. As a result, the Department had been making lease payments on this property for over a year based on the draft lease agreement.

**2.164 We recommended the Department ensure all lease payments are supported by a current signed lease agreement.**

**2.165** The Department responded:

*The Department will endeavour to ensure that all future lease payments are supported by the proper lease commitments.*

## **Kings Landing Corporation**

### ***Information technology (IT)***

**2.166** During our audit we noted there is no formal IT plan for Kings Landing. There are no written policies and procedures regarding IT. We noted some areas where we feel IT procedures could be enhanced in order to properly manage business risks associated with the use of information technology.

- Back-ups of computer data are performed daily and stored off-site. However, these back-ups are not stored in a secure location.
- Back-ups are not tested regularly to ensure they are working properly.
- No disaster recovery plan exists to recover data and to ensure the operation of key systems in the event of a disaster such as a fire or a flood.

**2.167** A comprehensive IT plan is important to ensure that financial and other pertinent information is secure, complete, and available for management. Such a plan would look at the potential business risks

and their effect on the Corporation should any risk come to fruition. The cost of risk mitigation strategies as well as the Corporation's responsibilities under various statutes (*Protection of Personal Information Act* for example) would be considered. This plan need not be unduly onerous and could be developed over time.

**2.168 We recommended an IT plan be developed. The plan should include ensuring that information stored and system access is secure. The plan when developed should be updated annually and tested periodically.**

**2.169** The Board responded:

*..... please be assured that the Board has fully discussed this matter with the management of the site and that interim measures have been developed to ensure the safe-keeping of all computer data and that a comprehensive IT plan will be developed for Kings Landing this year.*

***Lower warehouse asbestos issue***

**2.170** During our audit it came to our attention that Kings Landing owns a building that contains asbestos. This building is used for storage of artifacts and equipment. Recommendations from the Department of Supply and Services fifteen years ago indicated that the asbestos should be cleaned up, or the building should stop being used. This had not been done.

**2.171** Our concern is that the Supply and Services report was not acted upon for such a long period. Clearly the current Board was willing to tackle the problem once the issue was raised. To minimize the likelihood of this happening again we made the following recommendations:

**2.172 We recommended the Board review its policy regarding the reporting process to the Board. Individuals with knowledge of health and safety issues, environmental issues or other areas important to the Board (Department heads, health and safety committee, etc.) should report to the Board regularly on any issues they feel are of concern.**

**2.173 We also recommended that all major consulting reports be tabled with the Board. Recommendations from the consultant should be documented in the Board minutes as accepted or not. The status of accepted recommendations should be reported to the Board by staff until implementation is complete or the Board feels the recommendations are no longer applicable.**

**2.174** The Board responded:

*... .. please be assured that the Board took this matter very seriously when informed of the issue last winter by the current General Manager, and that direction was given to put in place immediate measures to address this urgent health and safety question. I am happy to report that, this past spring, steps were taken to clean up the warehouse of dormant asbestos fibres and that current air quality in the building meets acceptable standards. As well, an asbestos management plan has been developed for the building, proper clothing and equipment for staff working in the structure has been purchased, and staff have been trained in how to wear and use this equipment. Finally, management is currently working on long-term solutions to eventually transfer the existing collection of artifacts from this building to the site and to see to the removal of all asbestos insulation in the building. This will be done over the next two to three years.*

**New Brunswick Electric  
Finance Corporation**

*Payments in lieu of taxes*

**2.175** The following matter was identified during our audit for the year ended 31 March 2005 and followed up on during our audit for the year ended 31 March 2006.

**2.176** Section 37 of the *Electricity Act* requires the New Brunswick Power Holding Corporation and its subsidiaries (NB Power Group) to make special payments in lieu of income taxes to New Brunswick Electric Finance Corporation (NBEFC) each year. The Act requires the calculation of the payments to be made based on sections of the *Income Tax Act* of Canada and the *New Brunswick Income Tax Act*. For the 2005 and 2006 audit years the actual calculation was based on an agreement reached between NB Power Group and NBEFC. This agreement is not in compliance with the *Electricity Act*.

**2.177** It is our understanding, based on the Corporation's reply to our 2005 recommendation on this matter, that the Corporation is exploring options that will allow it to be in full compliance with the *Electricity Act*.

**New Brunswick Legal  
Aid Services Commission**

*Compliance with Canada  
Revenue Agency (CRA)  
Requirements*

**2.178** In our letter following the 31 March 2004 audit we recommended that staff at the head office of the Commission review and abide by the CRA rules for claiming HST.

**2.179** In our review of a sample of expenditures for the 2006 audit, we once again noted cases where HST was calculated incorrectly on

the travel claims of employees of the Commission. We found instances where HST was not claimed when it was allowable, and instances where HST was claimed when it was not allowable. While there were no material variances found, we feel that it is important for the head office staff to comply with the rules set out by CRA for claiming HST.

**2.180 We recommended the staff at the head office abide by the CRA rules for claiming HST.**

**2.181** The Commission responded:

*A new process has been put in place to have all travel expenses verified by a second employee before processing the final payment of all travel expenses. Also, with the new accounting system to be implemented, this will reduce the chance of error. The new accounting system has an HST calculator incorporated when processing data.*

## **New Brunswick Research and Productivity Council**

### ***Employee retirement allowance***

**2.182** The accrued retirement allowance is a significant liability of the Council. It is a complex estimate involving many variables. Up to this point the Council has used management estimates in calculating the accrued retirement allowance with no consultation with an actuary.

**2.183 We recommended the Council consider consulting with an actuary to determine the most appropriate method of calculating the accrued retirement allowance.**

**2.184** The Council responded:

*... .. it is indeed our intention to consult with an actuary and solicit his opinion as to the reasonableness of our estimation method as well as other options that might be available to a group of our relatively small size.*

## **Premier's Council on the Status of Disabled Persons**

### ***Agreement between the Board and DAW Executive Committee***

**2.185** The Council has significant involvement in the organization of the annual Disability Awareness Week (DAW). The involvement of the Council with the DAW is approved by the board of directors of the Council each year. Another connection between the Council and the DAW is that the responsibility for chairing the DAW Executive Committee is held by the Executive Director of the Council and another staff member.

**2.186** There are a number of terms to the agreement between the Council and the Committee. While these arrangements appear to have been in place for some time, they have never been included in the form of a written agreement. We understand the terms of the relationship to include the following:

- DAW expenses are first paid by the Council then reimbursed by DAW;
- there is an annual payment of \$3,000 made by DAW to the Council in lieu of administrative costs incurred on its behalf (when DAW funding levels permit);
- if DAW has insufficient funds to cover its expenses the Council will cover these costs, following the approval of the Board; and
- the Council is responsible for maintaining the accounting records for the DAW Executive Committee.

**2.187** We recommended there be a written agreement which sets out the details of the relationship between the two organizations and defines the limits of the responsibilities of the Council's board of directors in respect of the operation of the DAW.

### Losses through fraud, default or mistake

**2.188** Section 13(2) of the *Auditor General Act* requires us to report to the Legislative Assembly any case where there has been a significant deficiency or loss through fraud, default or mistake of any person.

**2.189** 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, money and supplies  
in various school districts and head office \$24,082

#### Department of Family and Community Services

- Cheques cashed by persons not eligible to  
receive the funds \$15,300

#### Department of Health and Wellness



- Missing cash, coupons and equipment; and ineligible Medicare service claims \$5,176

**Department of Natural Resources**

- Missing equipment and supplies in various regions \$34,950

**Department of Training and Employment Development**

- Missing equipment in various community colleges \$16,664

**Department of Transportation**

- Missing equipment, supplies and tools in various districts \$4,359

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

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

**2.192** In 2006, the Province reported lost tangible public assets in the amount of \$105,600 compared to a loss of \$140,000 reported in 2005.