

Chapter 3

Matters Arising from our Financial Statement Audits

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Matters Arising from our Financial Statement Audits

Introduction

3.1 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 2008 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 statement audit work.

Background

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

3.3 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 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
- Regional Development Corporation
- Regional Development Corporation - Special Operating Agency

Other Agencies:

- Le Centre communautaire Sainte-Anne

Scope

3.4 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.

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

3.6 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.

3.7 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.

3.8 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.

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

Responsibilities of the government

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

3.10 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

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

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

Our opinion on the financial statements

3.13 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 the stated

accounting policies of the Province, which are in accordance with Canadian generally accepted accounting principles.

Matters arising from our audit

3.14 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 2008 audit.

Provincial Reporting Entity

3.15 Note 1 of the Province's financial statements lists various agencies, commissions and corporations that are controlled by the government, and the methods by which those entities are included in the financial statements.

3.16 In 1995 the Board of Management established a policy outlining the criteria to be followed for how an entity would be recorded in the Province's summary financial statements. At that time, the Board of Management listed those entities that were identified as Government Enterprises, and as such were to be recorded in the Province's financial statements using the modified equity method of accounting. Some of the entities listed (Algonquin Properties Limited, Worker's Compensation and New Brunswick Research and Productivity Council) are currently not recorded using the modified equity method of accounting. NB Municipal Finance Corporation was listed as an entity that was to be consolidated, but currently that entity is recorded using the modified equity method. The policy also listed those entities that were to be consolidated, however, some are no longer in existence, and more have been created since 1995.

3.17 Several of the entities that should be consolidated are currently listed in note 1 as using the transaction method "because the appropriate methods would not produce a materially different result". We believe the aggregate difference between the current method of accounting for these entities and the effect of consolidating them is significant to the Province's summary financial statements.

3.18 **We recommended the Board of Management rescind the 1995 decision on the accounting treatment for government enterprises and agencies.**

3.19 We recommended all entities that meet the criteria for consolidation be consolidated in the Province's summary financial statements.

3.20 The Comptroller responded:

I agree that the Public Sector Accounting Standard (PS 1300) is the appropriate authority when determining which government enterprises and agencies to include in the Province's summary statements as well as how to account for them. The Office of the Comptroller has been working, in cooperation with the various Crowns and agencies to appropriately implement PS 1300, since it came into effect. PS 1300 came into effect after the 1995 Board of Management decision. This would explain why the accounting treatment for some organizations differs from that of the Board decision. We intend to have the 1995 decision rescinded.

International Financial Reporting Standards (IFRS)

3.21 New accounting standards that must be in place for public companies in 2011 also apply to some public sector organizations. Government business enterprises must follow IFRS at that date. The Public Sector Accounting Board (PSAB) is currently working to determine what the appropriate standards will be for government business-type organizations and government not-for-profit agencies.

3.22 It is imperative that the Comptroller's office determine (in consultation with those in each organization charged with oversight responsibilities for financial reporting) which category the Crown agencies and other government organizations fit into, so that these agencies can plan accordingly for the necessary changes in accounting standards.

3.23 We recommended the Office of the Comptroller, in consultation with each organization, determine what type of entity each of the Crown agencies, commissions, and corporations are.

3.24 The Comptroller responded:

The Office of the Comptroller is aware of the pending changes for public companies and awaiting the outcome of PSAB's decision on the appropriate standards to be applied to government business enterprises, government business-

type organizations and government not-for-profit agencies. Consultations with some of the organizations have commenced. More will occur as PSAB and the Accounting Standards Board of the CICA make decisions.

Currently, there are in excess of forty five organizations (i.e. Crowns and agencies) included in the PNB financial statements. Every effort is being made to appropriately account for each organization as the accounting standards evolve. Due to the complexity and cost involved, combined with the fact that the authoritative accounting bodies have not finalized their decisions, it may take some time to work through any required changes.

Accounting Principles for Regional Health Authorities

3.25 Section 51 of the *Regional Health Authority Act* states that “A regional health authority shall apply generally accepted accounting principles as determined by the Auditor General”. We are not currently exercising this authority, nor do we feel that it is the position of our Office to determine the accounting principles of any government organization. If our Office becomes part of the choosing of accounting policies for a government organization, there would be a perceived conflict with us being the auditor of the provincial government. Accounting principles should be applied based on generally accepted accounting principles set by the appropriate accounting body. We feel that it is essential for the government to determine what type of entity the Regional Health Authorities are. This will dictate the appropriate accounting principles to be followed.

3.26 We recommended Section 51 of the *Regional Health Authority Act* be modified.

3.27 We recommended the Office of the Comptroller consult with the Department of Health to determine what type of entity the Regional Health Authorities are.

3.28 The Comptroller responded:

The Regional Health Authority Act falls under the mandate of the Department of Health. Your recommendation has been communicated to the Department. The perceived conflict for your Office is understood and it is agreed that the accounting principles should be applied based on GAAP set by the appropriate accounting body. We

anticipate the modification to the act will be included the next time other amendments are made.

In the meantime, the Office of the Comptroller is consulting with the Department of Health to determine what type of entity the Regional Health Authorities are. Every effort is being made by the Office of the Comptroller, Department of Health and the Regional Health Authorities to follow the appropriate accounting standards.

Provincial Rebate Programs

3.29 There are four provincial rebate programs netted on Schedule 14 of the Public Accounts against personal income tax revenue. The tax revenue is collected from individuals in New Brunswick who file personal income tax returns. This tax revenue is collected annually by the federal government and remitted to the Province on a monthly basis. The cost of the four programs is outlined below (in millions of dollars).

Program	2004	2005	2006	2007	2008
Low Income Senior Benefit	3.3	3.0	6.2	3.3	6.7
First-time University Students	-	-	-	5.2	5.1
NB Tuition Rebate	-	-	-	-	2.4
Home Energy Assistance	-	-	-	2.5	6.9
Totals	3.3	3.0	6.2	11.0	21.1

3.30 These four provincial rebates are paid separately by the provincial government.

3.31 Public Sector accounting standards say that revenue and expense should be recognized at the gross amount. This is not intended to apply to tax expenditures. Tax expenditures, as defined in the PSAB Exposure Draft on Tax Revenues are “preferential provisions of the tax law that provide taxpayers with concessions. They are available only to taxpayers...”

3.32 Of the four programs, the tuition rebate program is the only program that could be considered a “tax expenditure” program as it is a “refund” of personal income tax paid. Having paid personal income tax is not a requirement of the other three programs. The *New Brunswick Income Tax Act* “deems” a tax liability for the individuals who meet the eligibility criteria of these programs.

3.33 Government should properly report those programs that are offered. Section 36(2) of the *Financial Administration Act* states that “the estimates are to contain the statutory appropriations not required to be voted by the Legislature”. Therefore, these programs should be included in Main Estimates.

3.34 We recommended the amounts for the three rebate programs that do not meet the definition of “tax expenditures” should be shown at their gross amount, and not be netted.

3.35 We recommended all the four programs noted above be included in Main Estimates.

3.36 The Comptroller responded:

Your recommendations on this issue have been discussed with the Department of Finance. The department has agreed to review the options available and work towards a solution which will achieve the goal of improved transparency and accountability.

Federal Trusts

3.37 Federal Trusts are agreements made between the Government of Canada (the settler) and a trust company, with the beneficiaries being the Provinces and Territories of Canada. Generally, there are trusts set up each year in the federal budget with most of them spanning a period of 1-3 years, some longer. There are currently ten trust funds that list the Province of New Brunswick as a beneficiary.

3.38 When the Government of Canada sets up a trust fund, it is expensed in its entirety and the money placed in a trust where it earns interest. The Province of New Brunswick usually recognizes revenue from the trusts when the money is received; the balances of the trusts are not recorded on the financial statements. With all trusts, there is a designated time period and a notional yearly allocation for withdrawals. However, individual provinces have the flexibility to depart from the federal notional allocation according to their needs and priorities. Generally, the Province of New Brunswick follows the federal time frames and notional allocations; most differences are due to the timing of when the trusts were announced (i.e. close to 31 March) and not because of alterations in the proposed schedules.

3.39 Total revenue recorded from the Trust Funds for the year ended March 31, 2008, net of interest was \$90.1 million. Interest is

earned by the trustee and paid out when the withdrawals are made. The total interest earned for the year ended March 31, 2008 was \$3.7 million. Below is a chart showing the expected future revenue, not including interest (in millions of dollars).

Name of Trust	2008-09	2009-10	2010-11	Totals
Wait Times Reduction Transfer Fund	13.7			13.7
Public Transit Capital Trust	10.4			10.4
Public Transit Capital Trust 2008	5.7	5.6		11.3
Affordable Housing Trust	13.6			13.6
Off-Reserve Aboriginal Housing Trust	3.3			3.3
Patient Wait Times Guarantee Trust	19.2	2.1		21.3
Immunization Trust Human Papillomavirus Vaccine	4.2	2.6		6.8
Canada ecoTrust for Clean Air and Climate Change	14.0	14.0		28.0
Community Development Trust	10.0	10.0	10.0	30.0
Police Officers' Recruitment Fund				8.8*
Totals	94.1	34.3	10.0	147.2
* \$8.8 million over 5 years, distribution has not yet been determined				

3.40 We feel that the availability of such funding is information that the taxpayers should be aware of as the Province has the discretion to take this money into revenue as it sees fit.

3.41 We recommended the amount of Federal Trust funding available but not yet drawn down be disclosed in the notes to the financial statements.

3.42 The Comptroller responded:

Your recommendations on this issue have been discussed with the Department of Finance. The Department has agreed in principle with the recommendation that the Federal Trust funding available but not yet drawn down, be disclosed in the notes of the financial statements.

Liability for Injured Workers

3.43 The liability for provincial government employees injured on the job is a significant part of the Province's financial statements and has increased considerably over the past six years, as shown in the following table (in millions of dollars).

	2008	2007	2006	2005	2004	2003	2002
Regional Health Authorities	62.5	58.4	57.0	49.8	45.5	42.0	35.8
NB Government	42.4	27.0	26.8	26.0	25.4	23.7	20.8
Dept of Education	21.1	19.5	18.5	18.9	17.7	16.7	13.5
NB Liquor	0.7	0.9	0.9	1.0	1.1	1.2	1.2
Total	126.7	105.8	103.2	95.7	89.7	83.6	71.3
% changed	19.8%	2.5%	7.8%	6.7%	7.3%	17.3%	

3.44 Overall, this liability has increased by 78% in the last six years. We are particularly concerned about the 75% increase in liability for the Regional Health Authorities.

3.45 The *Report of the Independent Review Panel on New Brunswick's Workplace Health, Safety and Compensation System* released in March 2008 suggests that the government examine the potential benefits of becoming a rate assessed employer. The report states "Government might be better served by participating as it may not currently be providing all the rigor that the private sector is using, i.e., return to work programs and prevention initiatives".

3.46 We recommended the government investigate the large increase in its liability for the Regional Health Authorities.

3.47 We recommended the government act upon the recommendation of the *Independent Review Panel* to examine the potential benefits of becoming a rate assessed employer.

3.48 We also recommended the Public Accounts note 1c) on specific accounting policies include information on the injured worker liability.

3.49 The Comptroller responded:

With respect to the liability for injured workers, a review is underway by the Audit and Consulting Services section of our Office. This work will include an investigation of the underlying reasons for the increase and will make recommendations to the appropriate parties. Changes to note 1c) on the specific accounting policies will be considered for 2008-09.

Payment Policy Needs to be Modified

3.50 This year we conducted a special audit to determine if departments pay invoices in accordance with government policy. The results of this audit are reported later in this chapter. One observation we noted from our work is that the government's payment policy is not documented completely.

3.51 We recommended the Office of the Comptroller develop and document a payment policy for the Province. This policy should become part of the administration manual.

3.52 The Comptroller responded:

Updating the government's policy with respect to the payments will be considered as work plans permit. We will schedule this work in relation to other priorities. . . . We are not aware of any difficulties in departments with respect to processing payments.

Metallic Mineral Tax Audits

3.53 Last year we commented that Metallic Mineral Tax audits are not up to date. Returns for the past nine years have not been verified for accuracy, therefore adjustments may be required. Following up on this issue this year, we were informed that audits on the tax returns would not be completed until December 2010. We have concerns around these audits not yet being complete. Significant amounts of revenue have been recognized in the financial statements for the past two years. These figures might not be accurate and could result in either more tax being owed to the Province or the Province having a liability.

3.54 We again recommended Metallic Mineral Tax audits be performed on a timely basis.

3.55 The Comptroller responded:

Your recommendations on this issue have been discussed with the Department of Finance. At this point in time the Department is on track to make significant progress on the Metallic Mineral Tax Audits. The goal will continue to be the performance of timely audits.

Public Sector Accounting Standards

3.56 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.

3.57 Last year the Comptroller commented that she needed to review the wording of the *Financial Administration Act* to ensure both the Act and the potential change to the financial statement note coincide.

3.58 We again recommended the Province include, in note 1 to its financial statements, a clear statement that the financial statements are prepared in accordance with the recommendations of the CICA Public Sector Accounting Board. We recommended changes be made to the *Financial Administration Act*, if necessary, to comply with Public Sector Accounting Standards.

3.59 The Comptroller responded:

Note 1 to the financial statements contains a lengthy description of the accounting policies followed. The note, now six pages long, continues to evolve as we make improvements each year. As you are aware, every effort is made to ensure we are following generally accepted accounting policies of the Public Sector.

We intend to consider the appropriate amendments to the Financial Administration Act the next time the Act undergoes a review.

Other Comprehensive Income

3.60 For the year ended 31 March 2008, the Province's financial statements include for the first time an item called Other Comprehensive Income (OCI). According to the Statement of Change in Accumulated Deficit, Other Comprehensive Income for the year was \$54.1 million.

3.61 The Statement of Financial Position reports that the Accumulated Deficit decreased from \$1,499.2 million at 31 March 2007 to \$1,404.6 million at 31 March 2008, a reduction of \$94.6 million. The Statement of Change in Accumulated Deficit indicates that the reasons for this decrease were:

- the annual surplus for the year of \$86.7 million, plus
- Other Comprehensive Income for the year of \$54.1 million, minus

- the initial recognition of accounting changes for financial instruments by the New Brunswick Electric Finance Corporation of \$46.2 million.

3.62 The Other Comprehensive Income comes from the results for the year of the New Brunswick Electric Finance Corporation (NBEFC). NBEFC recorded OCI as a result of applying new accounting standards for financial instruments. Financial instruments can be very simple instruments such as cash, accounts receivable, portfolio investments and debt. They can also be very complex instruments such as certain types of contracts called derivatives.

3.63 The new accounting standards mean that many of NBEFC's financial instruments must be reported in their year end Statement of Financial Position at their market value on the year end date. However, the amount that the market value of those financial instruments changes during the year is not necessarily recorded as part of the Annual Surplus. The change in market value of these financial instruments is either recorded as part of the Annual Surplus or as Other Comprehensive Income. How the annual change in market value is recorded depends on the nature of the financial instruments, and on NBEFC's intention about how they will use the instruments in the future.

3.64 As a result of this new accounting treatment, the increase in market value of certain financial instruments of \$54.1 million during the year ended 31 March 2008 was recorded as Other Comprehensive Income, not as part of the Annual Surplus. Of the \$54.1 million, \$50 million was initially recorded in NBEFC's subsidiary company New Brunswick Power Holding Corporation, and \$4.1 million was related specifically to NBEFC's operations.

3.65 If a financial asset was acquired for resale before maturity it is designated as "held-for-trading" and any changes in market value during the year are recorded as part of the Annual Surplus. If the financial asset was not intended for trading, but could be sold, it is designated as "available-for-sale" and any changes in market value during the year are recorded as Other Comprehensive Income. Some financial assets that are intended to be "held-to-maturity" are not required to be adjusted to market value at the end of each year.

3.66 The end result is that some changes in market value of financial instruments affect the Annual Surplus, and some changes in

Canada to adopt International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISAs)

market value are recorded as an in-year adjustment to the accumulated deficit through Other Comprehensive Income.

3.67 The Canadian Institute of Chartered Accountants is committed to the adoption of International Financial Reporting Standards (IFRS) for publicly accountable enterprises. Other recognized accounting bodies outside Canada either have adopted or plan to adopt these standards.

3.68 Effective for fiscal periods beginning on or after 1 January 2011, financial statements of publicly accountable enterprises in Canada will have to follow International Financial Reporting Standards (IFRS). The Public Sector Accounting Board confirmed that government business enterprises and government business type organizations are publicly accountable enterprises. Therefore, the conversion from Canadian GAAP to IFRS will be required for these types of government entities.

3.69 Some of the government Crown agencies which are self-sustaining and following private sector accounting standards (for example NB Power Group and NB Liquor Corporation) will have to converge to IFRS. These entities should be carrying out or planning to carry out a review of the effects of this change on their current financial reporting system and other business areas. And then a conversion plan should be established to ensure the smooth convergence. Crown entities which carry out some commercial operations but are not self-sustaining may or may not need to convert to IFRS.

3.70 Government financial reporting, as in Volume I of the Public Accounts, will be exempt. The Public Sector Accounting Board standards are still applicable for the public accounts.

3.71 IFRS is a set of concept-based standards which is similar to Canadian GAAP. However, significant accounting differences often reside in the details, which could cause recognition, measurement, and presentation differences. One of the most significant challenges an entity is facing is to determine which variations from Canadian GAAP will impact the entity.

3.72 As well, Canada's Auditing and Assurance Standards Board (AASB) decided to adopt International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board

(IAASB). These new standards will become effective in Canada for audits of financial statements with periods beginning on or after December 15, 2009.

3.73 The ISAs have many similarities to current Canadian Generally Accepted Auditing Standards (GAAS), although the current proposed and approved standards are significantly different in some areas. Potentially, the most significant impact on our Office would be the new standards regarding the audit of group financial statements. These new standards require us, as the auditor of the Province, to be much more involved in the audit of such significant components of the Province as RHAs, NB Power Group, and NB Liquor.

3.74 Our Office is assessing the impacts of the changing standards. We will need to determine how the changes in auditing standards affect our current audit methodologies and the impact of the changes in financial reporting standards on the financial statements of the government organizations we audit.

Compliance with PSAB recommendations

Summary of compliance

3.75 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.

3.76 In volume 1 of our 2006 Report, we reported on the Province's compliance with the accounting standards for provincial governments issued by the Public Sector Accounting Board. We concluded that the Province had complied with 165 of 187 applicable recommendations for a compliance rate of 88.2%. We also made recommendations that would result in the Province complying with 15 of the 22 recommendations that they were not complying with. Last year we reported that the Province implemented nine more recommendations leaving six recommendations outstanding. The following table shows the progress made in the six areas for the year ended 31 March 2008:

Partially complied with in the year ended 31 March 2008	3
Situation did not occur during the year ended 31 March 2008	1
Not complied with in the year ended 31 March 2008	2

3.77 The specific PSAB accounting recommendations under consideration were:

PSAB Reference	2006 Report of the Auditor General Vol. 1 Reference	31 March 2008 Compliance	31 March 2008 Financial Statement Reference
3050.38	2.79 2.80	No	
3050.54	2.85	Partially	Note 1 (c) Accrual Accounting
3070.56	2.91	N/A	
3070.60	2.99	No	
3100.24	2.103	Partially	Note 5
3310.31	2.125	Partially	Note 15 (c) New Brunswick Credit Union Deposit Insurance Corporation

3.78 The following table outlines the three recommendations that the Province agreed with and partially implemented:

2006 Report of the Auditor General Volume 1 Reference	Recommendation	2008
2.85	We recommend the Province's note on significant accounting policies should include the policy for the recognition of interest revenue.	Partially
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, for example \$20 million.	Partially
2.125	We recommend the Province provide a brief description of the general terms and conditions of loans guaranteed under its significant loan guarantee programs.	Partially

3.79 The reasons we concluded that these recommendations still remain partially implemented follow.

3.80 The note disclosure on interest revenue contained in note 1 (c) Accrual accounting does not indicate under what circumstance interest would cease to be recorded on doubtful interest bearing receivables.

3.81 Note 5 to the 2008 financial statements on Special Purpose Accounts includes descriptions of two significant special purpose accounts, the CMHC Funding account and the School District Self Sustaining Accounts. However, the description of the CMHC Funding account could be improved by more fully explaining the types of programs that fall under the administration of the Social Housing Agreement, and the rate of return that is being earned on the account's \$56.1 million in assets.

3.82 Note 15 (c) to the 2008 financial statements on Contingent Liabilities related to the New Brunswick Credit Union Deposit Insurance Corporation was added in 2007. However, there is still no description of the general terms and conditions of the \$116.7 million of loan guarantees listed in note 15 (a) Guaranteed Loans.

3.83 The following table outlines the three recommendations that the Province has not implemented; these three recommendations relate to two PSAB recommendations.

2006 Report of the Auditor General Volume 1 Reference	Recommendation	2008
2.79	We recommend the process for writing off uncollectible accounts receivable be changed to allow departments to write off certain receivables themselves.	No
2.80	We recommend that annually, all loans and other receivables for which there is no realistic prospect of recovery should be written off.	No
2.99	We recommend the Province consider if there are any significant transactions and balances involving government business enterprises and other organizations that are part of the Province's reporting entity and report them in the note to the financial statements on government business enterprises.	No

**Financial statement
discussion and analysis****3.84 We are again recommending the Province make these changes.**

3.85 The Public Sector Accounting Board (PSAB) has established a statement of recommended practice for financial statement discussion and analysis (SORP-1).

3.86 The recommended practices do not form part of generally accepted accounting standards but do offer guidance for governments to better communicate their financial condition and performance to the public.

3.87 The government of New Brunswick does not specifically state that Volume 1 of the Public Accounts includes financial statement discussion and analysis (FSD&A). However, the government does prepare “results for the year”, “major variance analysis” and “indicators of financial health” which immediately precede the audited financial statements in Volume 1 of the Public Accounts.

3.88 The Province has made progress in the discussion and analysis of its financial statements that it presents in Volume 1 of the Public Accounts. In 1997, there was no discussion or analysis accompanying the financial statements. The “major variance analysis” was added to the Public Accounts in 1998. The “results for the year” section was added in the 2004 Public Accounts, and it was expanded in 2005.

3.89 In 2008, the Province added the section “indicators of financial health” as well as expanded the information under “results for the year” and “major variance analysis.” These three sections contain some components of SORP-1’s recommended practices for FSD&A. As the following analysis shows, we believe that additional improvements could be made which would further explain and highlight information underlying the Province’s financial statements.

Summary

3.90 SORP-1 contains six main recommendations. The following table provides a summary of our assessment of the Province’s current financial statement discussion and analysis.

Paragraph	Area	Assessment
.12	Reference to the financial statements	Needs improvement
.14	Government responsibility	Not done
.30 a)	Summary of significant events	Needs improvement
.30 b) i)	Information on risks and uncertainties	Needs improvement
.30 b) ii)	Variance analysis	Needs improvement
.30 b) iii)	Trend analysis	Needs improvement

3.91 We address each of these areas in the remainder of this section.

Reference to the financial statements

3.92 Paragraph .12 of SORP-1 recommends:

Financial statement discussion and analysis should be clearly referenced to the related summary financial statements.

3.93 The Province prepares summary financial information which was taken directly from the audited financial statements, and its discussion and analysis immediately precedes the financial statements in Volume 1 of the Public Accounts. However, no clear reference is made to the financial statements.

Government responsibility

3.94 Paragraph .14 of SORP-1 recommends:

Financial statement discussion and analysis should include a statement acknowledging the government's responsibility for its preparation.

3.95 The Province prepares a Statement of Responsibility acknowledging the government's responsibility for the preparation of the financial statements. However, a Statement of Responsibility for the preparation of FSD&A is not included in Volume 1 of the Public Accounts.

Summary of significant events

3.96 Paragraph .30 subsection (a) of SORP-1 recommends:

Financial statement discussion and analysis should include:

.30 (a) a highlights section that provides a brief, concise summary of the significant events affecting the financial statements.

3.97 The SORP provides a further explanation of the purpose of the highlights section in paragraph .35 which says that “The purpose of the highlights section is not to simply reiterate the information that is presented in the financial statements, but to add value by providing an executive overview of those statements and the significant in-year activities that have affected them.”

3.98 The Province presents summary financial information for fiscal years 2007 and 2008 which highlights the financial position of the Province, its Statement of Operations and its Statement of Change in Net Debt. Also, historical information back to 2004 is presented for revenue, expense, surplus, net debt, and cost of servicing the public debt, as well as results according to the *Fiscal Responsibility and Balanced Budget Act*. A brief description was provided along with the historical data explaining the results, however, the focus was only on the Statement of Operations.

Information on risks and uncertainties

3.99 Paragraph .30 subsection (b) (i) of SORP-1 recommends:

Financial statement discussion and analysis should include:

(b) an analysis section that:

(i) includes information on known significant risks and uncertainties inherent in the government's financial position and changes in financial position, and briefly outlines the strategies, policies and techniques adopted to manage those risks and uncertainties;

3.100 The Province’s financial statement discussion and analysis section “indicators of financial health” acknowledges that there are variables outside of the government’s direct control which can significantly influence financial results. A limited list of these variables is also provided, however, no explanation of the government’s policies to mitigate those risks and uncertainties is provided.

Variance analysis

3.101 Paragraph .30 subsection (b) (ii) of SORP-1 recommends:

Financial statement discussion and analysis should include:

(b)an analysis section that:

(ii)identifies and explains:

significant variances between current year actual results and budget;

significant variances between current year actual results and prior year actual results; and

changes that have occurred but are not readily apparent from the quantitative analysis;

3.102 The Province has made considerable improvement in its presentation for major budget-to-actual and previous-year-actual-to-current-year-actual variances in 2008. Budget-to-actual and previous-year-actual-to-current-year-actual variance analysis is provided for major revenue and expense lines, as well as a narrative describing the reason for any significant variations. We believe, however, that the information could be improved to provide the reader with more useful explanations. As well, the Province could expand this section to include items from the Statement of Financial Position and the Statement of Change in Net Debt instead of only focusing on the Statement of Operations.

Trend analysis

3.103 Paragraph .30 subsection (b) (iii) of SORP-1 recommends:

Financial statement discussion and analysis should include:

(b)an analysis section that:

(iii)includes an analysis of significant trends related to financial assets, liabilities, net debt, tangible capital assets, net assets, revenues, expenses / expenditures, net revenues (expenses / expenditures), and cash flows.

3.104 Paragraphs .53 to .81 further explain what the assessment of trends should include.

3.105 Although the Province has improved its presentation of trend analysis, we believe there is further room to improve in this area. For instance, no trend analysis was done for financial assets and liabilities as the Province has mainly chosen to emphasize the Statement of Operations. The Province is also now reporting other ratios and indicators recommended by the CICA in the “indicators of financial health” section. Of the available indicators to report, however, the Province chose to report only the ones which tend to cast a more favourable light. For instance, they did not report the change in net debt and GDP as a measure of sustainability, which for 2008 shows a substantial percentage increase in net debt and a slight percentage decrease in GDP, which is unfavourable.

PSAB projects in progress

Government transfers

3.106 PSAB is currently working on several projects. We have highlighted four below.

3.107 The topic of government transfers was introduced in Volume 1 of our 2007 Report and to date PSAB has received 48 responses to the Re-Exposure Draft on government transfers. They are currently waiting for feedback on the matter from the PSAB/Deputy Ministers of Finance joint working group. The future of this project is still unclear.

Tax Revenue

3.108 PSAB has proposed that a new section in the PS Handbook be issued. The new section, PS 3510, would provide principles on recognition, measurement and disclosure of tax revenue on government financial statements. The standard is based on principles from the International Public Sector Accounting Standards Board, IPSASB. In December 2007, an Exposure Draft on Tax Revenue was approved by PSAB.

3.109 Features and implications of the Exposure Draft:

- Transfers paid through a tax system are recognized as expenses not netted against tax revenue.
- Tax revenue should be reported at its gross amount so that the total of government revenue from that source is shown on the financial statements, specifically the statement of operations. Only tax expenditures can be netted against tax revenue.
- Tax revenue is recognized by the government that imposes the tax. For example, if a government has the choice on whether or not to impose a tax on behalf of an entity and does levy it, the

government must gross up transactions rather than recognizing it on a net basis.

- Taxes are to be recognized as assets and revenue when the taxable event occurs and is authorized except when tax stipulations create a liability for the taxing government. As tax stipulations are met revenue is recognized and the liability is reduced.
- Assets acquired through a tax transaction should be initially measured at their fair value at the date of acquisition.
- Taxes receivable are to be evaluated on a regular basis for collectability. Valuation allowances should be included in taxes receivable and shown on the statement of financial position at their net amount. Changes in taxes receivable valuation allowances must be recognized as expenses.

Assessment of Tangible Capital Assets

3.110 In March 2008, PSAB approved a Draft Statement of Recommended Practice (SORP). PSAB expects to approve the Final Statement of Recommended Practice in November 2008. The SORP would apply to all governments and government organizations that decide to report on the physical condition of their tangible capital assets and it provides guidance on how to report.

3.111 Some of the main aspects of the SORP are that tangible capital assets can be reported on individual, specific categories or group basis. Supplementary information on the physical condition of the tangible capital assets should be reported. This information does not necessarily need to be included with the financial statements. Government may choose to provide this information in a special report or include it with other government documents like budget documents. This information should at least include the average age, useful life and overall average physical condition rating and the nature and extent of each category of asset. Trend information on changes in the physical condition and basis of measurement used to assess would be included in this information, which indicates whether the physical condition of the assets are improving or deteriorating. Government would report on this information over an appropriate period of time, considering the nature and use of the assets.

Environmental Liabilities

3.112 Government environmental obligations can result from many different sources. They can stem from legislation of the reporting government or another government, agreements with third parties, or voluntary obligations, for example health and safety needs. They can

also be the result of requirements to improve existing operations, such as reducing waste or recycling. Moreover, environmental liabilities can be caused by normal operations. For example, disposal of nuclear waste and decommissioning of existing facilities could be considered normal operations.

3.113 In June 2006, PSAB approved a Project Proposal for Environmental Liabilities. The focal point will be providing guidance to government on the recognition, measurement, and disclosure of environmental obligations that result in liabilities. A final Statement of Principles has not been released yet.

**Other audit work in
departments and
Crown agencies
Testing of Payments
Background**

3.114 During the audit year, our financial audit team carries out three main types of audits:

- Financial statement audits
- Audits of systems and controls
- Audits of compliance with government acts, regulations and policies.

3.115 At times, aspects of more than one of these audits can be combined into the same audit assignment, resulting in one combined report containing our findings and recommendations. In this section we are reporting on work we did with respect to all three types of audits covering payments made by a number of government departments. Part of that work was required for our standard expenditure testing as part of our financial statement audit of the Province of New Brunswick for the year ended 31 March 2008. The second part of our work was a specific sampling of expenditures to check for compliance with aspects of Administrative Policy AD-6402: Approval of Payments.

Scope

3.116 Our work covered payments made by 17 government departments during the fiscal year ended 31 March 2008. We have shown those departments in Exhibit 3.1. Exhibit 3.1 also shows the number of test items in each department for each part of our work, the standard expenditure testing and what we have called the AD-6402 work, for want of a more precise term.

Exhibit 3.1 Extent of Testing by Department¹

Department	Standard Expenditure Testing	AD-6402 Work
<i>Business New Brunswick</i>	5	47
<i>Health</i>	41	50
<i>Social Development</i>	3	50
<i>Supply and Services</i>	14	50
Education	3	N/A
Environment	4	N/A
Finance	1	N/A
General Government	2	N/A
Intergovernmental Affairs	2	N/A
Justice and Consumer Affairs	4	N/A
Local Government	3	N/A
Natural Resources	5	N/A
<i>Post-Secondary Education, Training and Labour (PETL)</i>	11	N/A
Public Safety	4	N/A
Tourism and Parks	1	N/A
<i>Transportation</i>	22	N/A
Wellness, Culture and Sport	1	N/A
Total	126	197

3.117 Our testing criteria covered a variety of areas ranging from proper spending and payment authority to ensuring transactions were recorded in the correct period, otherwise known as “proper cut-off.” Our criteria were drawn from our knowledge of financial statement assertions and related controls, as well as from the policy direction of AD-6402. Our criteria are summarized in Exhibit 3.2 in the column titled “Type of Reportable Item/Criteria.”

3.118 We communicated observations and recommendations to each department concerning our findings in that particular department.

Findings

3.119 We found a number of reportable items in our work. These reportable items were in the six departments featured in italics in

1. Departments in *italics* are the departments where we had reportable issues resulting in management letters.

Exhibit 3.1. We have summarized these in Exhibit 3.2. Following Exhibit 3.2 we continue with some discussion of particular findings and recommendations.

Exhibit 3.2 Number of Reportable Items by Test Type

Type of Reportable Item/Criteria	Standard Expenditure Testing	AD-6402 Work	Total
Improper Spending Authority	7	13	20
Improper Payment Authority	8	5	13
Improper Vote Coding	0	N/A	0
Does not Agree to Contract/Tender Price	1	N/A	1
Insufficient and/or Inappropriate Back-up	0	0	0
Mathematically Incorrect	2	1	3
Invoice Does not Support Payment	0	0	0
Incorrect Primary Coding	0	0	0
Improper Cut-off	1	3	4
Late Payment	N/A	46	46

No Reportable Items for Four Criteria

3.120 We were pleased that we did not find any issues of:

- Improper Vote Coding
- Incorrect Primary Coding
- Insufficient and/or Inappropriate Back-up
- Invoice amount not equal to the payment amount.

3.121 We are not making additional comments on these criteria.

Reportable Items for Six Criteria

3.122 We found a variety of errors, issues or reportable items with our criteria on:

- Spending Authority
- Payment Authority
- Agreeing Payment Amount to Contract/Tender Price
- Mathematical Correctness of Back-up

- Proper Cut-off
- Timely payment of invoices

3.123 We discuss these findings in the paragraphs that follow.

Spending Authority

3.124 AD-6402 defines spending authority as “approval to spend funds out of the approved budget prior to making a purchase or commitment. Approval indicates sufficient funds are available to pay for the purchase.” This is an important control to ensure spending stays within amounts approved by the Legislative Assembly. Policy AD-6402 goes on to note that government employees who exercise spending authority are responsible and accountable for:

- expenditures charged against the related budget;
- ensuring sufficient funds are available in the budget prior to entering into any contract or purchase order; and
- ensuring that prices quoted for goods and services match the prices in the related contract.

3.125 Based on this important list of responsibilities, one can see how spending authority has a lot to do with ensuring proper control over a department’s expenditures. Exhibit 3.3 shows we found 20 errors on the 323 items tested for spending authority (about a 6% error rate).

Exhibit 3.3 Description of Spending Authority Errors

Department	# of Errors	Spending Authority Limit	Actual Amount Spent	Nature of Error
Supply & Services	1	\$200,000	\$226,987	Limit Exceeded
Social Development	1	\$0	\$64,742	Person who signed was not authorized for that budget line
Social Development	1	\$500	\$2,175	Limit Exceeded
Health	12	\$0	Range from \$4,798 to \$28,267	7 different employees were not authorized for the budget line they signed for
PETL	1	\$0	\$160,994	Person who signed not authorized for that budget line
Transportation	1	\$75,000	\$211,387	Limit Exceeded
Transportation	1	\$75,000	\$230,450	Limit Exceeded
Transportation	2	\$0	\$2.7 million and \$4.3 million	Person not authorized for that budget line.

3.126 In looking at these errors, we can see that in some cases the person who signed for spending authority exceeded their signing limit. The differences by which the amount spent exceeded the authorized amount are significant. For example, in the Department of Transportation cases, in two sample items staff with limits of \$75,000 signed for expenditures well over \$200,000.

3.127 In other cases, the person signing had spending authority for certain items in the budget, but they were not authorized to sign for a particular budget item they actually signed for. In other words, they had no authority to approve the expenditure. The *Auditor General Act* requires the Auditor General to report when “an expenditure was made without authority” per Section 13 (2) (d).

3.128 We recommended to a number of departments in our sample that they ensure their lists for signing authorities are kept up to date and that they ensure employees only sign documents within their spending limits and within their authorized area of responsibility.

Payment Authority

3.129 AD-6402 defines payment authority as

approval to make a payment. This approval ensures the expense was incurred for government business, complies with legislative and government policy and goods have been received or services have been provided. . . . Employees exercising payment authority are responsible and accountable for accuracy, authenticity and legality of payments.

3.130 Ensuring the expense was for government business; ensuring compliance with legislation and policy; ensuring the goods were received. These are all important factors in making sure that taxpayers' money is spent appropriately. Payment authority is an important part of an effective internal control system.

3.131 We found 13 payment authority errors in the 323 items tested. We have summarized them in Exhibit 3.4.

Exhibit 3.4 Description of Payment Authority Errors

Department	Actual Amount Paid	Nature of Error
Business NB	5 amounts ranging from \$1,218 to \$18,684	No payment authority signature
PETL	\$160,994	Person exceeded authority limit of \$100,000
Health	4 amounts ranging from \$32,351 to \$804,901	Person has spending authority; department states it had intended person to have payment authority
Health	3 amounts ranging from \$140,874 to \$867,082	Person signing not on approved payment authority listing

3.132 As we had seen with spending authority, we had a case where the person had payment authority for certain items in the budget but they were not authorized to sign for the particular budget item they actually approved payment on. But in the other cases, the staff were not authorized to sign for payment or the payment signature simply wasn't there. As we did with spending authority, we made

recommendations to departments that they ensure their signing authority listings are properly maintained. Again, we point out that the *Auditor General Act* requires us to report where “an expenditure was made without authority or without being properly vouched or certified.”

Combined Comments on
Maintaining Signing
Authority Lists

3.133 Our findings for spending and payment authorities illustrate the importance of updating and maintaining the forms for spending and payment authorities. We noted at least one case where the listings were not maintained in a very orderly manner and where signing authority sheets dating back to 1992-93 were still present in the documentation we were shown. We found another instance where an individual was no longer in the Department’s employ but was listed on the signing authority form.

3.134 AD-6402 places a high priority on deputy head responsibility for signing authorities for both spending and payment. It says that the deputy head is responsible for all expenditures in the department and that “they may authorize their employees to exercise (spending and payment) authority on their behalf through written delegation of financial signing authorities.” Given this priority on properly documenting and exercising these signing authorities, we encourage the departments to take our recommendations in this area seriously. We intend to revisit aspects of this compliance in our ongoing work with expenditures.

Agreeing Payment Amount to
Contract/Tender Price

3.135 We found one error under this criterion. The Department of Transportation purchased temporary ferry services without tender. Since the service exceeded \$10,000, it should have been tendered according to the *Public Purchasing Act*. The Department told us that there is no other provider for the service. The Department could have applied for an exemption under the *Public Purchasing Act*. Since the Department did not get the exemption, it made an expenditure without complying with the *Public Purchasing Act*.

Mathematical Correctness

3.136 We found three of these “math” errors. In one, the department used an HST rate of 15% versus the 14 % it should have paid. In another, there was a small error on a travel claim when HST was not backed out as it should have been, resulting in the expense being understated by a small amount.

3.137 The third error occurred when the Department of Social Development paid an invoice late and paid interest to the supplier as

a result. Interest should only be paid if the Deputy Minister specifically approves it or if the contract terms require it. The Department was unable to provide documentation supporting either one. Once again, it appears a department may have made an expenditure without the proper authority.

Cut-off Errors

3.138 When a cut-off error occurs, it means that a department has recorded an invoice in the wrong year. This year's expenditure gets charged against the prior year's budget, or vice-versa. This creates accounting errors. Expenditure totals are incorrect in both years. Further, since our client, the Legislative Assembly, approves a budget for a specific fiscal year, it is important that the expenditures end up getting charged against the budget year they were approved for. It is a serious matter in terms of legislative approval of expenditures.

3.139 We found four cut-off errors in our test.

3.140 Two of the errors were in the Department of Health. In both cases it appeared the invoices were received in plenty of time to be recorded in the proper year. We made a couple of recommendations to the Department to help it ensure it records transactions on a timely basis.

3.141 The other two errors were in the Department of Social Development. They related to the same supplier. The Department informed us that the particular supplier was late in submitting invoices and that the accounts payable section didn't receive them in time to record the amounts in the proper year.

3.142 We decided to do a bit more audit work surrounding the invoicing pattern of this supplier with respect to the Department of Social Development. It appears the Department did not record about \$170,000 in services from this supplier in the correct fiscal year. In our opinion, the late delivery of invoices should not preclude proper accounting. Accordingly, we recommended the Department develop reasonable estimates of amounts in cases such as this.

Timely payment of invoices

3.143 Appendix A of AD-6402 advises those exercising payment authority to ensure that the "pay date is in accordance with government policy." It does not actually state what "government policy" means.

3.144 After some enquiry, we were directed by the internal audit staff at the Office of the Comptroller towards a 1993 internal memo. The memo says government should be paying all supplier invoices within 30 days unless there are extenuating circumstances. If, for instance, the supplier offers a discount for a fast turn around time such as ten or fifteen days, the department is encouraged to take advantage of that. If, on the other hand, there is a dispute regarding such things as the receipt of the goods in question, payment can be delayed until the matter is resolved.

3.145 When we began the audit, we were aware of the “30 day rule.” But we were not aware the rule was essentially unwritten. Therefore, we made a recommendation to the Office of the Comptroller that the Board of Management revise the administration manual to provide guidance around the 30 day payment rule.

3.146 Our interest in the compliance with the “30 day rule” comes from at least a couple of perspectives. On the one hand, we wanted to see if departments were paying invoices well before the 30 days were up. Early payment means the Province loses the interest on its cash for a number of days (or pays additional interest on cash it has to borrow to pay bills early). On the other hand, if departments are paying suppliers after the 30 days have expired, without a valid reason, then the Province is not treating some suppliers fairly. We checked 197 payments to see if they complied with the “30 day rule.” We did not find any significant “early payment” issues. As noted in Exhibit 3.2 though, we found 46 late payments. In short, between 20%-25% of the payments were late. We have attempted to categorize them by explanation in Exhibit 3.5 below. In the last column of Exhibit 3.5, we have placed our opinion as to whether the Province (PNB) was primarily responsible for the delay.

Exhibit 3.5 Explanation for Late Payments

Explanation	Number	PNB Caused Delay?
Invoice Received Late	18	No
Incorrect Address	1	No
Additional information requested from supplier	4	No
Government created Population Growth Secretariat; new entity had some administrative learning curve issues	8	Yes
“Employee Error” as system did not allow pay date to be entered in advance	4	Yes
Internal delays	6	Yes
Email invoice overlooked by staff	1	Yes
Vacation	2	Yes
Lengthy process within department	2	Yes
Totals	46	23

3.147 Our column titled “PNB Caused Delay?” shows that in 23 of the 46 cases the various departments could have taken some action to speed up the payments and ensure more timely payment to the suppliers. When we look at our sample size of 197 items, and project the results, this means that about 11.6 % of the Province’s payments to suppliers were late due to matters within the Province’s control.

3.148 To provide some perspective on how late these payments were, we prepared Exhibit 3.6. This exhibit shows how late these payments were in the cases where the Province caused the delay. Rather than look at all 23 of these cases, though, we determined that it would be more appropriate to exclude those eight payments that were late due to the administrative delays associated with the Province creating the Population Growth Secretariat. It was felt that the eight late payments associated with this situation of creating a new organization might unfairly skew the results, according too much weight to this one-time, start-up situation and causing our readers to make inaccurate assumptions about how wide-spread late payments to suppliers were.

3.149 Nonetheless, it is important to note that when the government sets up a new organization, it is not enough to staff the programs which will carry out the policy objectives directly. The government also has to ensure that an appropriate administrative framework accompanies the program initiatives, one which ensures proper

systems and controls are established, including day-to-day tasks such as paying vendors on time.

Exhibit 3.6 Extent of Delay in Late Payments

Number of Days in which Payment was Made	Number of Late Payments
31- 35 Days	5
36- 40 Days	5
41-50 Days	2
51–60 Days	3

3.150 One recommendation we made to more than one of the departments with late payments was that they “date stamp” all invoices when received. This practice can help instill a discipline on the payment and the cut-off procedures. It can help ensure our suppliers are paid within thirty days. And, it can also assist departments in resolving disputes with suppliers who complain that they have not been paid on time. That is, if a supplier claims that the invoice has not been paid within 30 days, and a date stamp can clearly establish the supplier was late in submitting the invoice, then the department has a strong case for the apparent delay.

3.151 Because of the high percentage of late payments, we are considering additional work on this attribute in our ongoing examination of expenditures.

Conclusions

3.152 Our testing of expenditures for financial statement purposes did not reveal a level of error that would have required a reservation in our report on the financial statements. However, our standard expenditure testing and the additional AD-6402 work demonstrate areas of control weakness, particularly in regard to the spending and payment authority. We encourage improvements in this area and we intend to continue this testing.

Regional Development Corporation (RDC)

3.153 While looking at the Board of Management minutes, we found that RDC contributed an amount that exceeded the approved budget of \$500,000 under the Acadian Peninsula Economic Development Fund for Phase II of the Complexe Industriel du Grand Caraquet. The contribution was \$100,000 over the amount approved.

3.154 We recommended the Regional Development Corporation ensure that the proper authority is obtained before making a contribution to an entity.

**Kings Landing Corporation
Policies**

3.155 During our audit it came to our attention that Kings Landing does not have formal documented policies in place. Having formal documented policies will eliminate inconsistencies within the organization and provide better accountability of staff members.

- Currently there is no policy in place regarding the appropriate amortization method for capital assets. Several of the assets are amortized using the declining balance method while some are amortized using the straight-line method.
- The current travel policy in place indicates that *“business related expenses such as meals, ground transportation, appropriate telephone charges and accommodations will be reimbursed with the completion of an official expense report form and with all receipts attached. No reimbursement will be authorized without a receipt. Government guidelines for daily maximum meal allowances should be followed as a general rule of acceptable levels of expense.”* During the course of our audit, we found instances where this policy was not being applied consistently by staff members. We also noted that there is no policy in place for the approval of the General Manager’s travel claim; claims submitted by the General Manager were not approved or verified by any other staff.
- There were expenses in the year relating to the purchase of retirement gifts and staff social functions for which no policies exist.

3.156 We recommended Kings Landing develop a capital asset policy appropriate to the capital assets of Kings Landing and obtain approval from the Board.

3.157 We recommended Kings Landing review their current travel policies and improve on the policies already in place to ensure that policies are consistently applied to all staff and that all claims have proper authorization.

3.158 We recommended Kings Landing develop policies relating to the purchase of retirement gifts and staff social functions and obtain approval for them from the Board.

Control Weaknesses

3.159 During our audit we noted that when employees purchase gasoline using the Kings Landing credit card, the receipt provided to accounting staff is not signed by the employee that made the purchase. Having the employee sign the receipt holds them accountable for the purchases that they make on behalf of Kings Landing.

3.160 We recommended Kings Landing staff sign the credit card slips for any purchases made prior to giving the slip to the accounting staff.

Mirrored Backup System

3.161 During the fiscal year, a mirrored backup computer system was installed at Kings Landing. The purpose of the mirrored backup system is to provide a backup of the main computer system should it crash. During the course of our audit, we learned that the mirrored backup system was being stored in the same room as the main server system. Having the two systems stored together is only beneficial should the main system crash and has no benefit should there be a fire or a break-in since it would be likely that both systems would be lost.

3.162 We recommended Kings Landing store the mirrored backup system in a different secured location on site.

Passwords

3.163 During the year, Kings Landing implemented a new accounting software package. It came to our attention that the system does not require the users to log-in with a username and password. The weakness increases the risk of unauthorized access to the system, which could result in fraudulent entries being made. Having passwords in place also provides a trail to identify who made particular entries.

3.164 We recommended Kings Landing establish usernames and passwords for all users of the new accounting software.

Payroll Approval

3.165 We noted during the course of our audit that the payroll is not always approved before the Electronic Funds Transfer (EFT) run. Having approval before the EFT run would help detect any errors in the payroll before payment and limit the number of adjustments needed in subsequent pays.

3.166 We recommended Kings Landing management approve the payroll before the EFT run.

Confidentiality of Employee Information

3.167 During the course of our audit, we learned that the payroll is currently being sent to an outside source instead of being directly uploaded to the bank. The reason for this provided by staff is that changes to the banks's requirements makes it difficult for Kings Landing to upload their own payroll since they do not have high speed internet. Allowing an outside source to have access to personal information of employees increases risk for Kings Landing.

3.168 We recommended Kings Landing ensure that the proper procedures are in place to protect the personal information of staff.

Collection Purchase

3.169 During the fiscal year, Kings Landing purchased a valuable collection of artifacts. This purchase was approved by the Board, with a condition that funding be sought to cover the costs of the collection. The collection was purchased despite receiving only a minimal amount of outside funding.

Kings Landing response

3.170 The Board of Directors responded positively to our findings and recommendations and indicated that action was planned, or had already been taken, to address our concerns.

NB Securities Commission
Inclusion of additional information in the annual report

3.171 The Commission in prior years did not disclose the compensation of board members and senior management in its annual report. We noted that some Commissions in other jurisdictions did disclose this information (Alberta for example). Also, we noted that the provincial Comptroller's Office is changing the current Public Accounts disclosure for Crown agencies to in effect put more of the responsibility for public reporting in the hands of Crown agencies themselves.

3.172 We recommended the Commission disclose the salaries and benefits of board members and senior management in the Annual Report.

3.173 The Commission responded:

The Commission takes its governance responsibilities very seriously and regularly reviews its policies and practices with an orientation for excellence. The 2007-2008 Annual Report devotes seven pages to corporate governance. Included in those pages are disclosures of Commission Member remuneration and expense reimbursements. The

Human Resources and Governance Committee will assess the adequacy of the current disclosure for applicability to senior management prior to the issuance of the next annual report.

**New Brunswick Credit
Union Deposit Insurance
Corporation**
Length of the audit

3.174 The audit began in the week of February 11th and the financial statements were released at the end of May. There were a number of factors that contributed to this:

1. NBCUDIC did not receive the audited or draft financial statements of its Trust Funds until April. The audited statements of the RMA trust fund were not received until late May.
2. There were a number of complex issues to be dealt with in the preparation of this year's statements that caused many "starts and stops" during the course of our field work. These included:
 - The potential of a contingent liability with regard to the Caisse populaire de Shippagan.
 - Income tax had to be paid for the first time resulting in research into various issues surrounding it
 - The method for collecting money from the trust funds to cover operating expenses changed during the year
 - The net assets of NBCUDIC were no longer based on a calculation; instead they became the existing net assets of the trust funds. There was some initial confusion over this change and whether the trust funds had to pay back any amounts to the stabilization boards.

3.175 We recommended NBCUDIC make the two trust fund administrators aware of the Corporation's mandate to report by April 30th of each year and discuss with them the possibility of receiving the draft statements by March 15 and the audited statements by March 31 next year.

3.176 We recommended NBCUDIC continue to consult with an accounting firm and / or the Department of Finance to resolve any current income tax issues before the next year end. Given the expected increase in investment income this could include ways to reduce taxable income and related taxes payable and the possibility of being exempted from provincial income tax.

Losses through fraud, default or mistake

3.177 It was noted in the 2008 April board minutes that a new formula for the trust fund calculation will be determined. We recommended NBCUDIC formulate its policy well before the next year end in regard to the required balance of the two trust funds. Consideration should also be given at that time as to whether any amounts need to be repaid to either stabilization board as a result of any prior year freezes on transfers to the two stabilization boards from the trust funds.

3.178 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.

3.179 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 in various school districts and head office \$10,468

Department of Natural Resources

- Missing equipment from various regions \$5,714

Department of Post-Secondary Education, Training and Labour

- Missing equipment \$6,531

Department of Transportation

- Missing equipment, supplies, tools and cash \$4,511

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

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

3.182 In 2008, the Province reported lost tangible public assets in the amount of \$104,279 compared to a loss of \$64,500 reported in 2007.