

The Board has no documented policies relating to capital assets, which at 30 June 2002 amounted to approximately \$42 million. Controls over capital assets were not adequate in that there was no capital asset ledger and assets were not tagged or periodically accounted for.

2.11 Monitoring School Boards

In 1996 the school system in the Province was reorganized with the dissolution of 27 church run school boards and the creation of 10 new English language school boards and one French language school board. As at 31 December 1996, there were approximately 445 schools in the Province with a total enrolment of 110,450 students. There were 317 schools in the Province for the 2002-03 school year with a total enrolment of 84,268 students.

As part of our audit work, we continue to monitor the financial position and annual operating results of the 11 school boards.

The combined financial position of the 11 school boards at 30 June 2003 shows a total accumulated deficit of \$134.899 million, a 7% increase from the \$126.467 million reported at 30 June 2002. All 11 boards reported increases in accumulated deficits for 2003. These accumulated deficits will eventually have to be funded by Government.

Provincial funding has increased from \$528.188 million in 2002 to \$554.381 million in 2003 and during this period, annual operating deficits have increased from \$2.048 million to \$7.247 million. Although 10 boards reported an annual operating deficit during the year, only District 7 had a deficit which was less than that reported in 2002.

At 30 June 2003, 6 of the 11 boards were in contravention of the *Schools Act, 1997* in that they incurred operating deficits, other than related to the accrual of severance and leave, without the approval of the Minister of Education.

2.12 Direct Equity Tax Credit Program

The Direct Equity Tax Credit Program was developed to encourage private investment in new or expanding small businesses as a means

of creating new jobs and diversifying the economy throughout the Province. The Program provides a Provincial income tax credit ranging from 20% to 35% of the eligible investment to individuals who invest as shareholders in eligible small business activities. The maximum investment a business can receive through the Program is \$700,000 and the maximum annual tax credit per investor is \$50,000.

The Program is fully administered by the Department of Finance - Tax Administration division and is governed by the *Direct Equity Tax Credit Regulations* of the *Income Tax Act, 2000*.

Our review of the Program indicated that improvements are required in the approval of applications as well as in monitoring and reporting of Program activities. In particular:

- Documentation required to be provided by applicants under the *Regulations* was not always obtained prior to applications being approved.
- Annual financial statements, compliance statements, and other information required to be provided under the *Regulations* to monitor eligible businesses were not always received or were received late.
- While the Department does maintain statistical information on Program activities, it does not gather any information on the effects of the Program on such factors as employment or economic spin-offs, which could be used to determine whether the Program is meeting its objective of encouraging private investment in new or expanding small businesses as a means of creating new jobs and diversifying the economy throughout the Province.

Although the Program does not involve an expenditure of funds by a Government department, the Program does result in a reduction in Provincial taxation revenue. While tax credits issued under the Program reduce income tax revenue for the Province, the total amount of these tax credits is not reported to the House of Assembly. Therefore, Members of the House of Assembly do not receive adequate information on the costs of the Program, which to May 2003, totalled approximately \$611,000.