

# Chapter 4

## Audits of Crown Agencies

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# Audits of Crown Agencies

## Background

**4.1** We audit the Crown Corporations, Boards, Commissions and other Agencies which are listed below. We expect that by the date this Report is released we will have issued audited financial statements of all of these agencies for the year under review.

**4.2** Agencies included in the Public Accounts:

- Advisory Council on the Status of Women
- Algonquin Properties Limited
- Kings Landing Corporation
- Lotteries Commission of New Brunswick
- NB Agriexport Inc.
- New Brunswick Credit Union Deposit Insurance Corporation
- New Brunswick Crop Insurance Commission
- New Brunswick Highway Corporation
- New Brunswick Municipal Finance Corporation
- New Brunswick Research and Productivity Council
- Premier's Council on the Status of Disabled Persons
- Provincial Holdings Ltd.
- Regional Development Corporation
- Youth Council of New Brunswick

**4.3** Other Agencies:

- Le Centre communautaire Sainte-Anne
- Legal Aid Fund
- New Brunswick Women's Institute

## Scope

**4.4** 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. This chapter of our Report summarizes those issues which we consider to be significant to the members of the Legislative Assembly.

**Results in brief**

**4.5** The Advisory Council on the Status of Women will address accountability issues surrounding the role and authority of the executive.

**4.6** Algonquin Properties Limited needs to obtain more information on assets purchased directly by the Algonquin Hotel.

**4.7** The New Brunswick Credit Union Deposit Insurance Corporation is not in compliance with the Credit Unions Act regarding the creation of a deposit insurance fund.

**4.8** The New Brunswick Municipal Finance Corporation continues to hold significant amounts of cash and short-term investments.

**4.9** We noted internal control weaknesses in a number of Crown agencies.

**Advisory Council on the Status of Women****Accountability**

**4.10** We noted during our 1998 audit instances where we felt financial policies defining the authority of the Chairperson as chief executive officer and her relationship to the Council would have been appropriate. These areas included grants and travel costs.

**4.11** We recommended that the Council review the relationship between the executive and the Council. This would ensure that appropriate policy decisions are made that clearly establish the role and authority of the executive.

**4.12** The Council agreed to do this.

**Internal control weaknesses**

**4.13** We also reported to the Council a number of weaknesses in internal controls. These dealt with areas such as the proper approval of invoices prior to payment, the authorization for grants made by the Council and travel policies. The Council indicated it has taken action to address all our recommendations.

**Algonquin Properties Limited****Purchase of furniture and equipment**

**4.14** Management of the Algonquin Hotel is permitted to spend up to 1.5% of gross revenue each year to replace furniture and equipment. In 1997 the Hotel spent almost \$90,000 on such assets. Management of Algonquin Properties Limited does not need to authorize these expenditures, and may not be aware of the specific items acquired, or any consequential disposal of old assets.

**4.15** In order to maintain an appropriate level of control over capital assets, we made the following recommendations:

- **Algonquin Properties Limited should obtain, and maintain, documentation on all capital assets which it owns regardless of**

whether they are acquired by headquarters in Fredericton or directly by the Hotel.

- **Algonquin Properties Limited should also perform a periodic and regular review of assets to ensure that all assets recorded in the sub-ledger of Algonquin Properties Limited exist.**

### ***Internal control weaknesses***

**4.16** We also reported to staff of the Algonquin Hotel a number of weaknesses in internal controls. These dealt with areas such as payroll documentation, the recording of cash receipts, inventory counts and the documentation of receipt of goods. In addition we recommended the Hotel obtain a formal agreement to document the relationship between the New Brunswick Community College and the Algonquin Hotel.

**4.17** Hotel staff responded positively to our observations and recommendations.

### ***Accounting records***

**4.18** We are pleased to report that the accounting records created and maintained by staff of Algonquin Properties Limited in Fredericton have improved considerably in the last year. The quantity and quality of records provided to us has increased dramatically and helped us to significantly reduce the accounting work we must perform. This has also reduced the time we spend auditing the Fredericton operations.

## **Kings Landing Corporation**

### ***Internal control weaknesses***

**4.19** In 1997 we reported a weakness in controls surrounding the Emporium's computer sales terminals. The Corporation's proposed solution proved ineffective, so we again raised this issue following our 1998 audit. The Corporation agreed to implement additional procedures.

**4.20** We also again reported weaknesses in the area of site admissions and the use of tickets. We recommended that signage should be in place informing visitors that they are required to wear their tickets at all times, and that security should monitor this control. The Corporation agreed to implement our recommendations.

**4.21** We noted that many personnel files did not contain up-to-date information on pay rates and payroll deductions. The Corporation subsequently reported that the files had been updated.

## **New Brunswick Credit Union Deposit Insurance Corporation**

### ***Non-compliance with legislation***

**4.22** We raised an issue with the Corporation regarding the failure to create a deposit insurance fund.

**4.23** Section 223 of the Credit Unions Act states that:

*The Corporation shall establish and maintain a deposit insurance fund which may be used....to pay out claims of depositors in accordance with section 220 on the liquidation of a credit union....*

**4.24** We understand there is no deposit insurance fund, and that in the event claims were made by depositors, the Corporation would look to the Credit Union Stabilization Boards for funding.

**4.25** Sections 224 to 227 of the Act cover a number of things that “*shall*” happen to properly administer and account for a deposit insurance fund. Since there is no deposit insurance fund, none of these mandatory provisions have been complied with.

**4.26** We have a number of concerns in raising this issue. In the first instance there appears to be a failure to comply with legislation. We are always interested in pursuing accountability issues. In this situation the legislators have clearly requested something be done by the Corporation, but it has not happened.

**4.27** A second concern is with respect to the legal position the Corporation and its Directors would be in if there was a financial failure and depositors were looking for restitution. We questioned whether there was sound legal advice to support the process the Corporation would expect to follow in obtaining necessary funds from the Stabilization Boards.

**4.28** The Corporation has a concept as to how the spirit of the legislation would be fulfilled if depositors looked to the Corporation for assistance. If this is the Corporation’s preferred method then we suggested that the Legislative Assembly be asked to change the legislation.

**4.29** The Board of Directors of the Corporation responded that they have hired independent legal counsel to provide an interpretation of the statutory requirements.

**4.30** The Board of Directors advised that it feels there is adequate deposit protection. It is clearly aware of its statutory and fiduciary responsibilities under the Credit Unions Act. As a follow up to the independent legal counsel’s report in this regard, the Board of Directors approved resolutions that had the effect of:

- receiving the independent legal counsel’s report effective 25 September 1998;
- proceeding in obtaining an actuarial report by 31 December 1998;
- the board at its first meeting in 1999, will receive the actuarial report. It will also take appropriate action after due consideration of the legal counsel’s and the actuary’s reports.

**4.31** The Corporation will be proceeding in the very near future in the selection of an independent, qualified actuary.

**New Brunswick  
Municipal Finance  
Corporation***Surplus funds*

**4.32** In previous Reports we have expressed the opinion that surplus funds held by the Corporation were more than was needed to meet future expenses relating to outstanding debentures. The amount of cash and short term investments continues to rise, and at 31 December 1997 totalled \$761,000.

**4.33** The Corporation continues to assure us that this amount is necessary to fund the Corporation's future expenses.

**New Brunswick  
Women's Institute***Internal control weaknesses*

**4.34** Following our 1997 audit, we brought to the attention of the Institute a number of weaknesses relating to bank reconciliations, documentation supporting expenditures and cheque signing procedures. The Institute subsequently informed us of changes proposed to address our recommendations.

**Youth Council of New  
Brunswick***Internal control weaknesses*

**4.35** Following our 1998 audit, we brought to the attention of the Council a number of weaknesses relating to casual payroll records and time sheets. The Council subsequently informed us that changes have been implemented to address our recommendations.