

Chapter 4

Matters Arising from our Audit of the Financial Statements of the Province

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Matters Arising from our Audit of the Financial Statements of the Province

Introduction

- 4.1 On July 17, 2014 the Auditor General signed an unqualified audit opinion on the consolidated financial statements of the Province of New Brunswick.
- 4.2 This was a significant milestone for our Office and the Province as it was the earliest known completion date in recent years for New Brunswick's public accounts audit. We are grateful for the dedication and commitment of our staff, the Office of the Comptroller and other government employees in their collaboration and support to achieve this goal. We hope to continue to achieve similar early completion dates in future years.
- 4.3 The opinion signed July 17, 2014 indicates the Province's consolidated financial statements are fairly presented in accordance with Canadian public sector accounting standards.
- 4.4 To reach an opinion on the consolidated 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 examine internal controls of significant computerized systems.

Audit Findings

- 4.5 In almost every audit, there are audit findings to be discussed with management. While significant, the findings from our March 31, 2014 audit are not sufficiently large in dollar or qualitative terms to affect our opinion on the consolidated financial statements. It is our practice to report these matters to senior officials of the departments concerned, and to ask for a response. Our significant findings and recommendations from the audit of the Province's consolidated financial statements with departmental

responses are presented in this chapter.

4.6 It should be noted though that not all findings are included in the Report, because in some instances we do not consider them to be of sufficient importance to bring to the attention of the Legislative Assembly, or because public attention to internal control weaknesses, before they are corrected, could possibly result in loss of government assets. For further background on our audit objectives refer to Appendix I.

4.7 We had several findings from the March 31, 2014 audit of the Province's consolidated financial statements. We review the findings identified to determine which findings from our work are significant. When considering which findings are significant we assess:

- dollar magnitude of the item;
- the risk the finding could result in a large loss or error in future;
- the number of instances the finding has occurred;
- if the finding has occurred in multiple departments;
- if the finding was reported in a prior year; and
- if we believe the finding is overall significant in nature.

Highlights and Recurring Themes

4.8 Highlights and recurring themes of our significant findings are presented in Exhibit 4.1.

4.9 We are concerned at the trend of findings not being corrected in advance of the next year's audit cycle. Exhibit 4.1 presents the recurring findings in shaded boxes. We have adopted a new reporting format for this chapter to assist in highlighting repeat findings for further review and action.

Exhibit 4.1 -Highlights and Recurring Themes

Theme	Finding	Finding addressed to	Concern in this area also noted in 2013 AG Report	Concern in this area also noted in 2012 AG Report	Paragraph Number
<i>Accounting Concerns</i>	Liability for contaminated sites – new PSAB standard for 2015	OOC ¹	Yes	No	4.68
	Proper and complete accounting for school raised funds	OOC ¹ /EECD ³	No	No	4.69
	Pension accounting – shared risk pension plans	OOC ¹	Partial	No	4.73
	Classification of accounts in the consolidated financial statements	OOC ¹	No	No	4.77
	Grants/government transfers – need for accounting analysis	OOC ¹	Yes	No	4.79
	Tangible capital assets (TCA) – communication of tangible capital asset policy and asset impairment assessment	OOC ¹ / DTI ²	No	Partial	4.78
	Property tax revenue - municipal suspense account reconciliations	Finance	Yes	Yes	4.81
	Netting of property tax revenue	Finance	No	No	4.82
	Support for and review of changes to property tax assessment values	Service New Brunswick	Partial	No	4.83
<i>Governance/ Oversight Concerns</i>	Need for an audit committee	Finance	Yes	Yes	4.70
	Need for an internal audit plan	OOC ¹	No	No	4.71
	Need to align Administration Manual Policy AD6402 – Approval of Payments	OOC ¹ / NBISA ⁷	Yes	No	4.74
	Need to complete purchase card policy	OOC ¹	Yes	No	4.72

Continued on following page

Exhibit 4.1 -Highlights and Recurring Themes (continued)

Theme	Finding	Finding addressed to	Concern in this area also noted in 2013 AG Report	Concern in this area also noted in 2012 AG Report	Paragraph Number
<i>Accounting/ Documentation Concerns With Estimates</i>	Need to review allowance for doubtful accounts – loans and accounts receivable	OOC ¹ / SD ⁴ / PETL ⁵ / AAF ⁶ / Justice/	Yes	Partial	4.75
	Need to update estimate of federal tax revenues	Finance	No	No	4.76
	Write off of accounts and loans receivable policy	OOC ¹	No	No	4.80

Shaded findings indicate a concern in this area was also noted in the 2013 or 2012 AG Reports

¹*Office of the Comptroller, Department of Finance*

²*Department of Transportation & Infrastructure*

³*Department of Education and Early Childhood Development*

⁴*Department of Social Developments*

⁵*Department of Post-Secondary Education, Training and Labor*

⁶*Department of Agriculture, Aquaculture and Fisheries*

⁷*New Brunswick Internal Service Agency*

4.10 In general, departments' responses indicated they agreed with our recommendations and they intend to address our concerns in the coming year.

4.11 While we have not noted any significant fraud, theft or error as discussed later in Appendix II, the existence of the findings noted in Exhibit 4.1 increases the risk of loss or mistake in the Province's consolidated financial statements. These items should be addressed prior to the next audit cycle.

Details of Significant Findings

Additional Discussion

Accounting concerns

4.12 Our detailed observations, recommendations and departmental responses to our full list of significant findings are presented in Appendix III. Summarized comments pertaining to the key themes of our audit findings are presented in the following paragraphs.

4.13 During our audit of the Province's financial statements we noted nine concerns pertaining to accounting, six of which were previously reported in either our 2013 or 2012 Annual Reports. In general, the findings regarding accounting related mostly to appropriate application of accounting standards,

accounting errors or other concerns.

4.14 Accounting standards continue to evolve as new standards are introduced (e.g. environmental liabilities) and as existing standards are applied to new situations (e.g. shared risk pension plans - refer to Chapter 3 for further comments). Proper application of accounting standards is important to ensure financial results are fairly presented.

4.15 In recent years accounting standards issues have involved complex questions and judgments, as well as significant dollar transactions and balances. We expect this trend to persist as accounting standards continue to change. We continue to encourage the Office of the Comptroller and Department of Finance to be proactive in addressing accounting standards changes to allow for timely resolution of accounting questions and sufficient time for appropriate analysis. Also, appropriate expert advice to address complex technical matters should continue to be obtained as needed.

4.16 Other accounting weaknesses noted relate to accounting errors or other accounting concerns. Repeat findings of this nature such as reconciliation of municipal property tax revenue and other accounting issues are particularly concerning. These items involve significant transaction streams and could, if not addressed, cause large adjustments in the Province's consolidated financial statements during the audit process.

4.17 During the Province's financial statement audit, we also noted four findings related to governance or oversight weaknesses. Three of these findings were previously reported in either our 2013 or 2012 Annual Reports. One of these findings regarding a lack of an audit committee has been present all of the last three years (2014, 2013, and 2012). An audit committee would bring increased scrutiny to provincial financial and risk management practices, as well as provide increased discipline and structure to management reporting, which would in turn reinforce accountabilities.

4.18 Our oversight/governance findings represent foundational weaknesses in the Province's internal control and risk management practices. Appropriate

Governance/ oversight concerns

committee oversight, internal audit plans and completing and approving policies which govern millions of dollars in spending are all important parts to strengthening the Province's internal control and risk management environment. We will revisit these audit areas again next year.

***Accounting/
documentation concerns
with estimates***

- 4.19** In addition, we noted three findings related to accounting/documentation concerns with estimates. One of these findings (estimating loans and accounts receivable allowances for doubtful accounts), was a repeat finding from our prior year reports. Estimates involve the application of judgment on matters where the outcome is unknown. In the cases of our findings, the amounts involved in the estimate process are significant.
- 4.20** Auditing standards have introduced increasing rigor for auditors to challenge significant management estimates and underlying assumptions including a review of prior year's estimates to assist in determining estimate accuracy.
- 4.21** As the outcomes of estimates are unknown, and significant judgment is being applied, documentation, support and approval for these amounts are important parts of our audit process.

Information Technology Findings

Auditing the Province's systems and information technology

4.22 In order to express an opinion on the Province's financial statements, we document controls and test transactions processed by significant financial IT systems. Some of this work is performed on a cyclical basis. We also document the controls associated with the Province's overall IT infrastructure. Exhibit 4.2 lists IT systems we examined in the past year:

Exhibit 4.2 - IT systems examined in the past year

Department	Audit
Education and Early Childhood Development (EECD)	Teachers' Payroll
Finance	Property Tax System (Ptax)
New Brunswick Internal Services Agency (NBISA)	HRIS Payroll System
	Oracle Input System (IPM)
	IT Infrastructure
Office of the Comptroller (OOC)	Oracle Financials
Service New Brunswick (SNB)	Property Tax Assessment System
Social Development (SD)	Long-term Care System- NBFamilies
	Social Assistance Payment System - NBCase

Key Themes

4.23 We are not publishing the details of all of our IT system work given the technical nature of many of our findings, and as noted previously in this chapter, the risk of possible loss of government assets if the details of such findings are reported. Instead, we are summarizing our findings into key themes by the responsible department. We are reporting this information in Exhibit 4.3.

Exhibit 4.3 -Information Technology Findings – Key Themes

Theme	Finding	Finding addressed to
Segregation of Duties	Developers' access to production	OOC (Oracle)
	Approval of Purchase Cards	EECD
System Replacement	Teachers' payroll system	EECD
	Property tax system	Finance (PTax)
IT Security	Excessive permissions	NBISA (HRIS), OOC (Oracle), NBISA (IT Infrastructure)
	Disabling access	OOC, NBISA (IT Infrastructure), SNB
	Encryption of data	NBISA (IT Infrastructure)
	Monitoring – Administrators, Third-party service	OOC (Oracle), SNB, NBISA (IT Infrastructure)
	Patch management	OOC (Oracle), NBISA (IT Infrastructure)
	Firewall rules	NBISA (IT Infrastructure)
	Access controls	NBISA (IT Infrastructure), SNB
	Management of network access	NBISA (IT Infrastructure)
	Electronic Transfer of Data	NBISA (HRIS)
	Departmental payroll reconciliations	NBISA (HRIS)
Data Integrity/Accuracy/Completeness	Monitoring Exception reports	OOC (Oracle)
	Quality of assessment data	SNB
	Reconciliation of assessment system to property tax system	SNB
	Disaster recovery plan	OOC
	Backup of payroll personnel	EECD
Non-compliance with policies/standards/guidelines	Password standards	SNB, NBISA (IT Infrastructure)
	Assessment re-inspection cycle	SNB
	Annual client reviews	SD (NBFamilies)
	Adult residential facility inspection and licensing	SD (NBFamilies)
	Financial assessments/client contributions	SD (NBFamilies)
Documentation Deficiencies	Payroll documentation	NBISA (HRIS)
	Expired funding application for intervention services	SD (NBFamilies)
	Contracts with service providers not available	SD (NBFamilies)
Approvals	Pre-inspection road reviews for property assessments	SNB
	Completing delegation forms	EECD, SD
	Documenting approval	Finance (Ptax), SD (NBCase), NBISA (IPM)

4.24 We are not aware of any loss of government assets or errors which resulted from the findings noted in Exhibit 4.3, however, we are concerned for the potential for future loss of assets or error. Given the findings pertaining to IT security as noted in Exhibit 4.3 we are also concerned for the potential of loss of confidentiality and privacy inherent in the above noted findings if they remain uncorrected.

4.25 It should be noted this work was performed with a focus on the financial statement audit impact. Risks arising as a result of operational or confidentiality/privacy concerns are noted where observed but were not the main focus of our work.

Additional Discussion

4.26 Given the significance of some of the findings and the fact we have similar findings across multiple departments, we will discuss some of the findings outlined in Exhibit 4.3 in more detail.

Segregation of Duties

4.27 We noted two findings relating to a lack of segregation of duties. One finding relates to the Oracle application which we reported in the prior year. This recommendation was partially implemented by the OOC with the expectation for full implementation in 2015. The second finding relates to the approval of purchase card transactions in the department of EECD. We found five cases in our 22 item sample of EECD purchase card transactions where the cardholders provided spending authority on their own transactions. Proper segregation of duties is necessary to reduce the risk of fraud and error in the accounting records.

System Replacement

4.28 Similar to prior year, we have findings relating to outdated IT systems. We found two systems need to be replaced or modernized.

4.29 When we audited the teachers' payroll system, we found limited progress on system replacement in the past year. We did note approval was obtained to proceed with a Business Study with the intention of going forward with a new Human Resource Management solution for Part II employees (e.g. teachers). Replacing the teachers' payroll system is critical as access security is extremely weak, support is provided by a single contractor with no backup and the system runs on old, out-dated hardware. The system is

over 20 years old and is at a risk of failure. The EECB did obtain a risk assessment to identify the risks associated with this system. We noted, however, the risks identified, although significant, were unable to be mitigated without developing a new system. We recommended a replacement solution be implemented as soon as possible.

4.30 In the case of the Department of Finance Property Tax system, the Department informed us implementation of phase I of this system is on target for the 2015 fiscal year.

IT Security - Excessive Permissions

4.31 We noted findings in three of our audits relating to excessive system access. We found cases where:

- an informal process exists for tracking, documenting and approving the use of the administrator account;
- an excessive number of user accounts exist with certain administrator privileges; and
- IT support had functional access to the system and appropriate monitoring controls were not in place to reduce this risk.

4.32 Allowing users excessive access to systems and data increases the risk of individuals gaining unauthorized access to financial information or system functionality which could result in fraud or error in the accounting records.

IT Security - Disabling Access

4.33 We noted findings in three of our audits relating to the process of disabling users' system access. We found cases where:

- resigned/terminated employees' access was not removed/disabled in a timely manner;
- users' access was not disabled within 90 days of inactivity as required by policy; and
- users' access was not confirmed on an annual basis to ensure the access was still appropriate.

4.34 Timely disabling of user accounts, along with an annual review of user access assignments reduces the risk of unauthorized transactions being executed by terminated or existing employees, loss or corruption of data and exposure of confidential corporate information.

IT Security - Encryption of Data

4.35 We noted findings relating to encryption of hardware and data. Having appropriate encryption controls in place helps safeguard information and reduces the risk of a breach of confidentiality in the event of unauthorized access of data/hardware or theft.

IT Security – Monitoring of Service Providers and Administrators

4.36 In two audits, we had findings related to the monitoring of outsourced third-party services. The lack of appropriate monitoring controls increases the risk that processes performed by third parties are not performed in accordance with expectations.

4.37 We also noted in two audits a lack of monitoring of IT support/database administrator's activity. These administrators/individuals have powerful system access. Proper monitoring controls are required to reduce the risk of unauthorized changes/updates to significant database tables.

IT Security –Patch Management

4.38 In two audits, we noted weaknesses in the patch management strategy used to ensure software and operating systems are running current versions. Failure to have an appropriate patching strategy increases the risk software vulnerabilities could be exploited by outside parties, which could result in loss of information and impact the stability of applications.

IT Security - Firewall Rules

4.39 During our audit, we noted two observations relating to firewall rules (the firewall is designed to filter system traffic to ensure system access is appropriate and authorized). One observation related to the approval of changes to the firewall rules and the other related to enabling firewall rules and logging activity. Failure to have proper firewall controls in place could negatively impact the confidentiality, integrity and availability of network resources and financial information.

IT Security - Access Controls

4.40 We had findings in two audits related to access controls. One finding related to the system owner not approving user access. The other related to changing the default passwords for database accounts. Proper system access controls are required so only authorized employees obtain access to the system.

Data Integrity/Accuracy / Completeness

4.41 We had two findings relating to the transfer of information between systems. In both cases, we recommended controls be implemented to ensure the transfer of information between the systems is complete and accurate.

4.42 We had findings relating to accuracy of assessment information recorded in SNB's property tax assessment system. We noted the work of assessors is not reviewed. This lack of review related to both calculating the property assessment values and the input of information into the assessment system. We were told a sample of this information is reviewed by regional managers. As the review was not documented, we found no evidence of this review. Verifying the accuracy of assessment information is required to reduce the risk of inaccurate property assessment values which could result in the over/understatement of provincial revenue.

4.43 We also had findings relating to the timeliness of payroll reconciliations and the monitoring of exception reports. Control procedures relating to verifying the accuracy of data such as preparing reconciliations and reviewing reports help reduce the risk of inaccurate and incomplete financial information.

Disaster Recovery and Backup Support

4.44 In our audit of the Oracle Financials system, we noted the disaster recovery and business continuity plans were out-of-date. The OOC is in the process of updating these plans, but this work is not yet complete.

4.45 We also noted a lack of backup payroll personnel for the EECD teachers' payroll system. The Department indicated this weakness is a direct result of having an out-dated payroll system which prohibits sharing of district staff. Having trained backup of payroll personnel is necessary to reduce the risk of payroll not being processed in a timely manner or errors occurring in processing due to inexperienced individuals preparing payroll during unplanned absences.

Non-compliance with policies /standards /guidelines

4.46 In our work, we noted six cases where departments failed to comply with departmental policies/standards or guidelines.

4.47 In our audit of SNB assessments, we noted the Agency had not visually inspected 193 of 842 neighborhoods in more than ten years. SNB aims to perform a visual inspection on every property in the Province within a ten-year timeframe. Completing re-inspections within the ten-year timeframe helps reduce the risk of inaccurate property assessments which would result in provincial tax revenue being over or understated.

4.48 We found three areas of non-compliance in our audit of the NBFamilies system. We found seven of ten cases examined where clients' annual case reviews were not up-to-date. We found one of six cases examined where the license for an adult residential facility had expired and was not renewed in the time frame required by policy. Finally, we found three of 11 cases examined where client financial assessments were not updated as required by departmental policy. Of these three cases, one resulted in an incorrect client contribution. Not complying with departmental policy increases the risk of SD making ineligible or inaccurate payments.

4.49 During our testing of NBCase payments in SD, we found no evidence of spending authority being exercised on payments from the system. This documentation is required to comply with the Province's approval of payments policy.

Documentation Deficiencies

4.50 In two audits, we noted documentation deficiencies. In the NBISA (HRIS) audit, we noted documentation weaknesses relating to obtaining evidence to support employees' date of birth, completing standardized checklists, and documenting errors noted in discrepancy reports. Having proper documentation on file provides evidence internal controls are operating effectively and helps to reduce errors in financial data.

4.51 In the NBFamilies audit, we found one item in two cases where the funding application for a payment had expired at the time of the payment. We also found one item in six cases examined where a contract with a service provider and/or an agreement showing the service provider was authorized to receive the payment was not available. Not having up-to-date funding agreements or signed contracts on file increases the risk

of ineligible and/or incorrect payments.

Approvals –Delegating Authority

4.52 In two departments, we found issues in the delegation of authority for the approval of payments. In SD, we found one case where a spending delegation form was not present to authorize the person approving the payment. In the annual confirmation of spending authority access, we found one case where SD incorrectly confirmed approval spending limits. Properly delegating spending authority reduces the risk of unauthorized or inappropriate payments.

4.53 In EECD, we found one school district used the same form to delegate two different types of approval without identifying the types of approval being delegated. The functions associated with each type of approval are different and by not distinguishing between them, the risk of inappropriate approval of payments increases.

Approvals – Documenting Approval

4.54 In SNB we noted regional managers are not always documenting their review and approval of the pre-inspection road reviews which support property assessment values. Documenting approval of the road reviews help ensure the accuracy of assessment data.

4.55 In the property tax system audit, we noted the approval of refunds was not always noted on the supporting documentation. This evidence is necessary to ensure all refunds are authorized and valid.

4.56 In the NBISA (IPM) audit, we noted formal documented approval was not required to move a system/application change into production (to make a change to the system currently in use). This approval is necessary to reduce the risk of unauthorized or untested changes being put into production.

Appendix I - Audit Objectives

4.57 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.

4.58 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.

4.59 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.

4.60 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 future audit work.

Responsibilities Pertaining to the Audit Process

4.61 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 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 Canadian public sector accounting standards. 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 areas where management has made estimates in the financial statements are: provision for loss on loans and accounts receivable, contingencies, employee future benefits, environmental liabilities, tax

revenue reassessments from prior years, tangible capital assets amortization rates and timing of rehabilitation work completed under public private partnership road contracts (which may not reflect when work is actually completed by the contractors and may impact classification of payments as prepaid expenses, accrued expenditures or tangible capital assets).

4.62 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.

Appendix II - Loss through Fraud, Default or Mistake

4.63 Section 17(2) of the *Auditor General Act* indicates that the Auditor General may report to the Legislative Assembly cases where fraud or illegal activity has been discovered.

4.64 During the course of our work we became aware of the following 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 and Early Childhood Development	\$ 2,276
Missing netbook and re-keying of a school	
Department Energy and Mines	\$ 600
Missing Phone	
Department of Justice and Attorney General	\$ 341
Missing cash	
Department of Natural Resources	\$ 5,595
Missing equipment from various regions	
Department of Post-Secondary Education, Training & Labour	\$6,664
Alleged Fraudulent Claim	
Department of Transportation and Infrastructure	\$ 7,541
Missing equipment and diesel fuel	

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

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

4.67 In 2014, the Province reported lost tangible public assets in the amount of \$23,017 compared to a loss of \$27,954 reported in 2013.

Appendix III - Significant Findings

4.68	Liability for contaminated sites – new PSAB standard for 2015				
<p>Public Sector Accounting Standard PS3260 – Liability for Contaminated Sites effective for the period ending March 31, 2015 requires the Province to account for and report the expected costs to remediate contaminated sites. During our audit, we noted departments provided lists of known contaminated sites to the Office of the Comptroller. However, we were concerned to note that a process had not yet been developed for estimating liabilities. PS3260 indicates a liability for remediation of contaminated sites should be recognized when, as at the financial reporting date: an environmental standard exists; contamination exceeds the environmental standard; the government is directly responsible or accepts responsibility; it is expected that future economic benefits will be given up; and a reasonable estimate of the amount can be made.</p> <p>As the adoption of the new accounting standard will require additional audit work to be performed, we request this work be completed no later than December 2014.</p>					
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; background-color: #e0e0e0;">Recommendations</th><th style="text-align: left; background-color: #e0e0e0;">Comments from Management</th></tr> </thead> <tbody> <tr> <td style="vertical-align: top;"> <p>We recommend the Office of the Comptroller prepare an analysis of the new standard and its impact on the financial statements of the Province.</p> <p>We recommend the Office of the Comptroller ensure a list of contaminated sites is prepared including estimated liability amounts to allow for evaluation and audit on the consolidated financial statements. A formal plan should be in place including goals and timelines to permit completion of this work ideally no later than December 2014.</p> </td><td style="vertical-align: top;"> <p><i>The Officer of the Comptroller will continue to prepare for the implementation of this standard effective for the fiscal period ending March 31, 2015.</i></p> </td></tr> </tbody> </table>		Recommendations	Comments from Management	<p>We recommend the Office of the Comptroller prepare an analysis of the new standard and its impact on the financial statements of the Province.</p> <p>We recommend the Office of the Comptroller ensure a list of contaminated sites is prepared including estimated liability amounts to allow for evaluation and audit on the consolidated financial statements. A formal plan should be in place including goals and timelines to permit completion of this work ideally no later than December 2014.</p>	<p><i>The Officer of the Comptroller will continue to prepare for the implementation of this standard effective for the fiscal period ending March 31, 2015.</i></p>
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4.69	Proper and complete accounting for school raised funds
<p>Each year millions of dollars are collected for school raised funds. During our audit work we noted the Province is accountable for school raised funds, however, from our work in three school districts we were told school raised funds are not recorded in the Province's consolidated financial statements.</p>	
Recommendation	Comments from Management
<p>We recommend the Office of the Comptroller and Department of Education and Early Childhood Development ensure proper and complete accounting for all revenue related to school raised funds and ensure consistent policies and procedures for school raised funds are in place for all school districts.</p>	<p><i>The Office of the Comptroller will work with the Department of Education and Early Childhood Development to ensure the proper and complete accounting for school raised funds. Where possible, we will recommend consistent policies and procedures be used.</i></p>
4.70	Need for an audit committee
<p>Canadian auditing standards require auditors to communicate to those charged with governance of an entity (e.g. audit committees or boards of directors) certain matters that may assist them in their governance roles and in overseeing management's financial reporting and disclosure processes. Matters that require communication if present include but are not limited to:</p> <ul style="list-style-type: none"> • Significant audit adjustments and/or deficiencies in financial statement disclosures; • Significant weaknesses in internal control; • Disagreements with management; • Significant issues discussed, or subject to correspondence, with management; • Significant difficulties encountered during the audit; and • Fraud and illegal acts. <p>As noted in prior years, the Province of New Brunswick has no formal audit committee.</p>	
Recommendation	Comments from Management
<p>We again recommend the Department of Finance establish an audit committee for the Province of New Brunswick.</p>	<p><i>The Office of the Comptroller recognizes the important role an audit committee serves. We will continue to work with other divisions within the department to establish an audit committee.</i></p>

4.71	Need for an internal audit plan
<p>We noted the Audit and Consulting Services Branch of the Office of the Comptroller did not have a formal internal audit work plan completed for the 2013-2014 year. Having an effective internal audit plan helps facilitate alignment of internal audit initiatives and assists management and those charged with governance (audit committee) in their role of minimizing exposure to the Province.</p>	
Recommendation	Comments from Management
<p>We recommend, on an annual basis, the Audit and Consulting Services branch of the Office of the Comptroller develop an internal audit plan and communicate the internal audit plan to the audit committee. The internal audit plan should detail the nature and timing of the projects to be completed in the upcoming year.</p>	
4.72	Need to complete purchase card policy
<p>Again this year, we noted the Province does not have a policy in place regarding the use of purchase cards. Annual purchase card transactions are over \$21 million. A draft policy from 2005 does exist; however, it has never been finalized. In our work, we noted certain cardholders had exercised spending authority over their own transactions. This increases the risk of inappropriate purchase card use and misappropriation of funds.</p>	
Recommendation	Comments from Management
<p>We again recommend the Office of the Comptroller finalize the purchase card policy in fiscal 2015.</p>	

4.73	Pension Accounting – Shared risk pension plans
	<p>As changes to the Province's pension plans are ongoing it is important to evaluate the accounting options on a regular basis.</p> <p>Consideration should be made on a go-forward basis as to whether post-conversion benefits of the Public Service Shared Risk Plan (PSSRP), the pension plan for CUPE Employees of New Brunswick Hospitals (H-CUPE) and the pension plan for Certain Bargaining Employees of New Brunswick Hospitals (H-CBE) should be accounted for as Joint Defined Benefit plans. Accounting for the plans as a Joint Defined Benefit plan could have significant impacts going forward as the employer would only recognize the portion of the service cost relating to the portion of costs and risks that the employer is obligated. In future years, this would also result in a materially lower obligation for the employer related to the post-conversion service.</p> <p>The PSSRP Accrued Benefit Obligation ("ABO") was measured on conversion assuming indexing at 100%. While this is a conservative estimate, it is unlikely full indexing will be provided. Also considering the secondary risk management goal, as stated in the Office of the Comptroller's position paper, over a 20 year period, on average the ancillary adjustments will exceed 75% of their potential value (i.e. meet or exceed 75% of the increase in consumer price index in the case of indexation) we would question if actual indexing should be estimated in the calculation in the range of 100% and 75%. In our view, using an indexation estimate based on expected level of indexation to be provided would be a more appropriate measure of the ABO.</p> <p>The UP94 mortality table using partially enhanced projection Scale AA was used in the valuation of the PSSA/PSSRP in the current year. This is an outdated actuary table which is based on US experience prior to 1994. Despite the table was adjusted to reflect the 'enhanced projection scale' which was developed by the NB Pension Task Force and adopted by the Board of Trustees for the PSSRP, consideration should be given to either revising this assumption or using the new Canadian tables on a go-forward basis. Reasoning for selection of a set of tables should be documented.</p> <p>As changes to the structure of the Teachers' Pension Plan are expected, the Office of the Comptroller should engage appropriate expert pension accounting resources to evaluate and select accounting options. Ideally, this work should be completed no later than December 2014.</p>
Recommendations	Comments from Management
<p>We recommend the Office of the Comptroller evaluate on an annual basis the classification of the PSSRP, H-CUPE and H-CBE, which considers changes in accounting standards and has clear documentation indicating support for the current year classification of these plans.</p> <p>We recommend the Office of the Comptroller review and document, on an annual basis, the indexation assumption based on expected level of indexation.</p> <p>We recommend the Office of the Comptroller change the mortality assumption to the new Canadian tables issued by the Canadian Institute of Actuaries and that the rationale for the selection of mortality tables be documented.</p>	<p><i>The Office of the Comptroller recognizes the importance of proper accounting for pension plans. As with other accounting standards, as they evolve or change, the Office of the Comptroller will consider the impact of the changes on the Province's accounting.</i></p> <p><i>The Office of the Comptroller feels that the assumptions used in the valuation for accounting purposes were appropriate under current accounting standards. We will continue to evaluate assumptions on an annual basis.</i></p> <p><i>As a member of the Actuarial Valuation Committee for the Province of New Brunswick, the Office of the Comptroller will ensure the mortality tables recently adopted by the Canadian Institute of Actuaries are considered for future accounting valuations.</i></p>

4.74	Need to Align Administration Manual Policy AD6402 – Approval of Payments
	<p>As noted in the prior year, the process used by the New Brunswick Internal Services Agency (NBISA) for making payments is not in alignment with administration manual policy AD-6402 – approval of payments. This policy and respective processes used by the shared services environment, as well as other payment system interfaces used by various government departments, are not appropriately aligned.</p>
Recommendation	Comments from Management
<p>We again recommend the OOC and NBISA work together with regard to administration manual policy AD-6402 and align the policy and processes to reflect current payment approval requirements for processing government transactions.</p>	<p><i>The Office of the Comptroller will work with the New Brunswick Internal Services Agency to align the policy and processes for the approval of payments.</i></p>

4.75	Need to review allowance for doubtful accounts – loans and accounts receivable
During our audit, we noted the following items relating to calculation of allowance for doubtful accounts (AFDA):	
<ol style="list-style-type: none"> 1. Loans administered under the <i>New Brunswick Housing Act</i>: AFDA for housing loans is calculated by the Department of Social Development using a pre-determined threshold and not based on past collection history. Actual results are not compared after year end to ensure the estimate was accurate. 2. Loans administered under the <i>Post-Secondary Student Financial Assistance Act</i>: A current year analysis was not performed by the Department of Post-Secondary Education, Training and Labour to support the AFDA estimate for student loans. An AFDA analysis prepared in fiscal 2012 was carried forward even though more current information suggests an increase in the AFDA estimate is necessary. 3. Loans administered under the <i>Agriculture Development Act</i> and the <i>Fisheries and Aquaculture Development Act</i>: AFDA estimates provided by the Department of Agriculture, Aquaculture and Fisheries did not contain support for analysis used in calculating the AFDA estimate for each loan outstanding. 4. Department of Justice, court fines receivable: AFDA estimates provided by the Department of Justice did not contain support for the analysis used in calculating the estimate. 	
During our audit, we also noted no review or formal approval of these AFDA estimates for these Departments. AFDA estimates should be formally documented, reviewed and compared for accuracy subsequent to year end to ensure the estimate process is thorough and robust.	
Recommendation	Comments from Management
<p>We recommend the Departments of Social Development, Post-Secondary Education Training and Labour, Agriculture, Aquaculture and Fisheries and Justice provide the Office of the Comptroller with an analysis of the AFDA estimates on an annual basis. This analysis should be formally documented, reviewed and compared to actual results for accuracy subsequent to year end. The Office of the Comptroller should review such analysis provided by the Departments to ensure the estimate is sufficiently supported.</p>	<p><i>The Office of the Comptroller will continue to work with all departments to ensure the methodologies used to estimate allowance for doubtful accounts are supported and appropriate.</i></p>

4.76	Need to update estimate of federal tax revenues				
<p>Corporate Income Tax and Personal Income Tax revenue and payments are determined using official estimates and other estimate information exchanged with the Federal Government. Estimate information is provided to the Federal Government to determine tax revenue payments and should be updated for significant new information. If the estimate is inaccurate compared to actual data the Province will owe (or receive) the difference.</p> <p>During this year's audit we asked to examine the updates to the initial estimate provided to the Federal Government. We were not able to view this information and we were informed the Department of Finance does not update their estimates with the Federal Government based on updated data or recent historical information. Economics and recent history should be considered for application to the estimates to ensure amounts are recorded using management's best estimate based on updated information as it becomes available. The information sent to the Federal Government to update previous estimates should be retained for audit purposes.</p>					
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; padding: 5px;">Recommendation</th><th style="text-align: left; padding: 5px;">Comments from Management</th></tr> </thead> <tbody> <tr> <td style="padding: 10px;">We recommend the Department of Finance update their estimates as necessary using current information and retain such supporting documentation for audit purposes.</td><td style="padding: 10px;"><i>The Federal Government is responsible for establishing and updating estimates for Corporate Income Tax and Personal Income Tax revenue. Official estimates received from the federal government are used as the basis for determining federal tax revenue in the Province's financial statements. Federal tax revenue amounts for the current year reflect prior year adjustments based on returns or more recent economic data. Federal estimates are updated three times a year at set times. At these times, the Province provides updated information to the Federal Government for use in updating its estimates. The information provided to the Federal Government and the confirmation of the information received by the Federal Government is retained on file. The Department of Finance will review the methodology used to determine federal tax revenue and ensure it reflects management's best estimates.</i></td></tr> </tbody> </table>		Recommendation	Comments from Management	We recommend the Department of Finance update their estimates as necessary using current information and retain such supporting documentation for audit purposes.	<i>The Federal Government is responsible for establishing and updating estimates for Corporate Income Tax and Personal Income Tax revenue. Official estimates received from the federal government are used as the basis for determining federal tax revenue in the Province's financial statements. Federal tax revenue amounts for the current year reflect prior year adjustments based on returns or more recent economic data. Federal estimates are updated three times a year at set times. At these times, the Province provides updated information to the Federal Government for use in updating its estimates. The information provided to the Federal Government and the confirmation of the information received by the Federal Government is retained on file. The Department of Finance will review the methodology used to determine federal tax revenue and ensure it reflects management's best estimates.</i>
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4.77	Classification of accounts in the consolidated financial statements
Recommendation	Comments from Management
We recommend the classification of the financial statement elements be analyzed by the Office of the Comptroller to ensure satisfactory support exists for financial statement classifications.	<i>The Office of the Comptroller will review the financial statement elements outlined and ensure satisfactory support exists for their classification.</i>

4.78	Tangible capital assets (TCA) – communication of tangible capital asset policy and asset impairment assessment
Recommendations	Comments from Management
<p>We recommend the Office of the Comptroller communicate all provincial accounting policy changes to consolidated entities to ensure accounting policies are applied on a consistent basis upon consolidation. We recommend upon consolidation the Office of the Comptroller quantify the effect of inconsistent application of accounting policies, if the consolidated entities accounting policies are different from the Province.</p> <p>We recommend the Department of Transportation and Infrastructure prepare and submit to the Office of the Comptroller for review an annual assessment of asset impairment. This documentation should be prepared annually and note areas involving significant judgment or estimates.</p>	<p><i>The Office of the Comptroller will formalize the process for quantifying and documenting the effects of different accounting policies for tangible capital assets. We would like to note that consolidated entities are not obligated to follow Provincial accounting policies. Accounting policies for consolidated entities are set individually by the organization based on their operational needs and materiality. When necessary, adjustments for differences in accounting policies are accounted for during the consolidation process.</i></p> <p><i>The Office of the Comptroller will work with all departments to establish guidelines and procedures to document the assessment of asset impairment.</i></p>

4.79	Grants/government transfers – need for accounting analysis
<p>We were pleased to receive the PS 3410 Government Transfers analysis during the current year as per our prior year recommendation. However, we noted throughout our provincial expenditure testing, not all transactions coded to primary 7 (grants) accounts in Oracle were analyzed in accordance with PS 3410. A number of these transactions appear to be services rather than grants and therefore additional analysis is required to determine if they have been accounted for appropriately in accordance with PS 3410 (e.g. Services related to Local Service Districts).</p>	
Recommendation	Comments from Management
We recommend Oracle primary 7 accounts be analyzed to determine whether transaction coding is appropriate. For significant transactions, if the expense coding is appropriate, the transaction should be analyzed to determine if it is in compliance with PS 3410.	<i>The Office of the Comptroller agrees to review the classification of transactions coded in Primary 7 accounts. We will continue to review the accounting for transactions that fall under the PS 3410 standard to ensure it is appropriate regardless of the account code classification.</i>

4.80	Write off of accounts and loans receivable policy
<p>It was noted during our audit, write-offs for accounts and loans receivable are not completed in a timely manner. The policy indicates Board of Management is required to approve receivable write-offs before they can occur. This in turn results in a delay in the process and the gross accounts receivable and Allowance for Doubtful Accounts balances are overstated in the Province's consolidated financial statement schedules. In addition schedule 20 of the financial statements lacks transparency as the allowance for each reported receivable is not identified in the schedule.</p> <p>A further concern is that there is no regular or annual departmental presentation to the Board of Management to review older non-collectable or statute barred receivables. Department presentations to the Board of Management regarding receivables should ideally occur on an annual basis in the fourth quarter of the fiscal year to ensure the Province's financial statements contain the most realistic and accurate receivables value.</p>	
Recommendations	Comments from Management
<p>We recommend the Office of the Comptroller amend the write-off policy to require departments to present to the Board of Management at a minimum annually and ideally in the fourth quarter, receivable adjustments and write-offs.</p> <p>We also recommend the presentation of the accounts receivables balance in the schedules of the financial statements be updated to identify allowance for doubtful accounts amounts for each reported receivable grouping.</p>	<p><i>The Office of the Comptroller will consider, as part of its future planning, a review of Administration Manual policy AD-6307 Deletion of Debts. A review of alternate presentations of the accounts receivable and allowances for doubtful accounts included in schedule 20 of the financial statements will also be considered.</i></p>

4.81	Property Tax Revenue - Municipal Suspense Account Reconciliation
<p>During the year, the Department of Finance identified an error in the municipal revenue suspense account (account 1121) resulting from prior year. The error was caused last year when the Department was reconciling the 1121 account and encountered a large unexpected variance in the account. To reduce the variance, the Department posted an entry in error. The amount of the entry was \$4.3 million. This situation indicates challenges still exist in reconciling the 1121 municipal suspense account.</p> <p>This year the Department was able to provide an explanation for the variance in the 1121 account, however, some difficulties arose when providing documentation to support the explanation. The Department should review the various entries posted to the 1121 account (municipal revenue suspense) as these entries have a direct impact on the amount of provincial revenue recorded. The Department should also maintain documented evidence to support any variances in this account.</p>	
Recommendations	Comments from Management
<p>We recommend the Department perform a detailed analysis of the entries posted to the municipal revenue suspense account to ensure they are correct.</p> <p>We recommend the Department maintain documented evidence to support the variance in the municipal revenue suspense account.</p>	<p><i>The Department of Finance agrees with the recommendation and will implement a monthly reconciliation process for the municipal revenue suspense account.</i></p>

4.82	Netting of Property Tax Revenue
<p>During the audit, we noted a number of instances where provincial tax revenue was reduced inappropriately. For example, we noted revenue was reduced by \$7.3 million for the clearing of the 1121 municipal revenue suspense account. We also noted revenue was reduced by \$2 million for appeals relating to municipal taxes. PSAB standards require financial statements disclose the gross amount of revenues. Reducing or netting revenue for the above items is not appropriate accounting treatment and these items should be more appropriately recorded as expenses.</p>	
Recommendations	Comments from Management
<p>We recommend the Department of Finance record the gross amount of property tax revenue in the financial statements.</p> <p>We recommend the Department of Finance record the clearing of the municipal suspense account and the portion of tax appeals relating to municipal taxes as expenses in the financial statements.</p>	<p><i>The Department of Finance agrees with the recommendation and will report these adjustments as expenditure. The process to create the expense account is underway with the Budget and Financial Affairs Division.</i></p>
4.83 Support for and Review of Changes to Property Tax Assessment Values	
<p>In our sample of 29 properties, we noted one instance where the assessed value of a property was changed as the result of a request for review. The property card we were provided did not contain any documentation or support for the re-assessed property value. We inquired with SNB assessment staff and were informed they were unable to provide any documentation or support for the re-assessed value. Without proper support for the assessment, there is risk the property is not assessed at its real and true value.</p>	
Recommendation	Comments from Management
<p>We recommend all changes made to assessed property values be documented and recorded with the property card. Changes in assessed value should contain a documented sign off and review by the assessor's manager.</p>	<p><i>Service New Brunswick has recently deployed electronic data collection equipment. The changes made to property's assessed value will be tracked and the responsible assessor will be required to document the change. Quality Control enhancements will be in place to prevent un-documented changes in assessed value.</i></p>