

Chapter 5

Matters Arising from our Audits of Crown Agencies and Federal Claims

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Matters Arising from our Audits of Crown Agencies and Federal Claims

Introduction

5.1 In this chapter we discuss our significant findings and recommendations relating to our audits of Crown agencies' financial statements and federal claims.

5.2 We audit the following Crown corporations, Boards, Commissions and other agencies:

- Centre communautaire Sainte-Anne (CCSA)
- Collège communautaire du Nouveau-Brunswick (CCNB)
- Energy Efficiency and Conservation Agency of New Brunswick (EECANB)
- Financial and Consumer Services Commission (formerly New Brunswick Securities Commission) (FCNB)
- Invest New Brunswick (INB)
- Kings Landing Corporation (KLC)
- New Brunswick Agricultural Insurance Commission (NBAIC)
- New Brunswick Community College (NBCC)
- New Brunswick Electric Finance Corporation (NBEFC)
- New Brunswick Highway Corporation (NBHC)
- New Brunswick Immigrant Investor Fund (2009) Ltd. (NBIIIF)
- New Brunswick Internal Services Agency (NBISA)
- New Brunswick Legal Aid Services Commission (LA)
- New Brunswick Lotteries and Gaming Corporation (NBLGC)
- New Brunswick Municipal Finance

Corporation (NBMFC)

- New Brunswick Research and Productivity Council (RPC)
- Premier's Council on the Status of Disabled Persons (PCSDP)
- Provincial Holdings Ltd. (PHL)
- Public Trustee - Trusts administered (PT)
- Regional Development Corporation (RDC)

5.3 We also audit the following Federal claims:

- Agreement on Labour Market Development
- Agreement on Targeted Initiative for Older Workers
- Agreement on the Transfer of Federal Gas Tax Revenues
- Agreement Respecting Legal Aid and Court-Ordered Counsel
- Agreement for Saint John Harbour Bridge Rehabilitation
- Agreement on the Transfer of Federal Public Transit Funds
- Building Canada Fund– Communities Agreement
- Building Canada Infrastructure Plan – Base Funding Agreement
- Strategic Infrastructure Agreement for Improvements to the National Highway System

5.4 To reach an opinion on the Crown agencies' financial statements and federal claims, we carry out audit work on the major programs and activities in Crown agencies or departments. In addition, we audit major transactions and account balances, and examine internal controls of significant computerized systems.

5.5 In almost every audit, matters arise that need to be discussed with management. Except in cases where an audit opinion is qualified, these matters, although significant, are not sufficiently large in dollar or qualitative terms to affect our opinion on the financial statements. It is our practice to report these matters to senior officials of the agencies/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 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.

5.6 We are reporting significant audit findings from the fiscal years ended 2014 and 2013, 2012 or 2010 depending on the timing of the completion of our audit work relative to the printing of the Auditor General's Annual Report.

5.7 We had several findings from our audits of Crown agencies' financial statements and federal claims. 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 entities;
- if the finding was reported in a prior year; and
- if we believe the finding is overall significant in nature.

Highlights and Recurring Themes

5.8 Highlights and recurring themes of our significant findings are presented in Exhibit 5.1.

Exhibit 5.1 - Highlights and Recurring Themes

| | Entity where concern was noted for 2014 AG Report | Concern in this area also noted in 2013 AG Report | Concern in this area also noted in 2012 AG Report |
|----------------------------|---|---|---|
| <i>Accounting Concerns</i> | CCNB | Yes | |
| | EECANB | Yes | |
| | FCNB | | |
| | INB | | |
| | KLC | | Yes |
| | LA | | |
| | NBAIC | | |

*Shaded Crown entities indicate a concern in this area was also noted in the 2013 or 2012 AG Reports
Continued on following page*

Exhibit 5.1 - Highlights and Recurring Themes (continued)

| | Entity where concern was noted for 2014 AG Report | Concern in this area also noted in 2013 AG Report | Concern in this area also noted in 2012 AG Report |
|---|---|---|---|
| <i>Accounting Concerns (continued)</i> | NBCC | Yes | Yes |
| | NBHC | | |
| | NBIIF | | |
| | NBISA | | |
| | PHL | | |
| | RDC | | Yes |
| <i>Lack of Segregation of Duties</i> | CCNB | Yes | |
| | EECANB | Yes | |
| | INB | Yes | Yes |
| | KLC | | Yes |
| | LA | Yes | Yes |
| | NBAIC | Yes | |
| | NBCC | Yes | Yes |
| | NBIIF | | Yes |
| | NBISA | | Yes |
| | PHL | | |
| | RDC | | |
| <i>Oversight/Governance Concerns</i> | CCNB | | |
| | EECANB | | |
| | INB | Yes | |
| | LA | | |
| | NBAIC | Yes | Yes |
| | NBIIF | | |
| | NBISA | Yes | |
| | PHL | | |
| RDC | | Yes | |
| <i>Accounting/Documentation Concerns With Estimates</i> | CCNB | Yes | |
| | EECANB | Yes | Yes |
| | NBAIC | | |
| | NBCC | Yes | Yes |
| | NBHC | | Yes |
| | PHL | | |
| | RDC | | Yes |
| <i>Management of Agreements or Third Party Arrangements</i> | CCNB | | |
| | NBCC | | |

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

5.9 We are concerned that a number of these findings were observed across different agencies/departments. As a result of the same issue arising in different entities we saw recurring themes emerge over the course of our work. Exhibit 5.1 shows the agencies/departments where we noted these recurring themes. Due to the significance of the issues and/or the number of instances observed, we have chosen to highlight these recurring themes in this chapter.

Accounting concerns

5.10 There were several accounting concerns noted in our Crown agency audits involving 13 Crown agencies. Five of these 13 Crown agencies also had a finding regarding accounting concerns in either of our 2013 or 2012 Reports. Accounting concerns should be resolved in advance of our audit to ensure the Board or oversight entity of the Crown agency is receiving accurate and complete financial information during the year.

5.11 Areas involving accounting concerns most often occurred regarding management not being aware of changes to accounting standards or not applying new accounting standards properly. In all cases, the accounting concerns related to a concern observed during our audit, that required our office's time to address or resolve prior to issuing our audit opinion.

5.12 It is our view that Crown agencies should have sufficient knowledgeable resources available to ensure the accounting standards are appropriately followed. The occurrence of the annual financial statement audit does not fulfil the board or management's responsibility to ensure adequate financial accounting expertise has been applied in the Crown agency's financial reporting.

Lack of segregation of duties

5.13 We observed 11 Crown agencies where we had concerns regarding proper segregation of duties. Of these 11 Crown agencies, nine also had a segregation of duties finding in our 2013 or 2012 Reports. Proper segregation of duties ensures the preparer and reviewer functions are performed by different people to eliminate the possibility of accounting work not being reviewed or being reviewed by the person who prepared it. Sometimes this also involves ensuring a proper segregation of duties in the accounting

software or ensuring appropriate policies are in place to direct that preparer and approval roles are required to be separated.

5.14 Normally a lack of segregation of duties is an indication of an accounting system weakness such that fraud or error could occur. When we note a lack of segregation of duties our auditors normally perform extra procedures to mitigate against the risk of fraud or error in the financial statements. We encourage Crown agencies to review their financial processes to ensure financial processes are appropriately structured and that appropriate approval processes are present.

5.15 We also encourage Crown agencies to be alert to potential segregation of duties concerns during agency restructurings or staff reorganizations. Safeguards should be in place so that separation of key accounting duties is maintained before and after any reorganization/restructuring activity.

Oversight/governance concerns

5.16 There were nine Crown agencies noted in our audits where we had concerns regarding oversight or governance processes. These concerns varied by entity and included items such as: weaknesses in conflict of interest disclosures, lack of an audit committee, lack of regular board meetings, lack of risk management or internal control oversight and other oversight/governance weaknesses.

5.17 We noted four of these Crown Agencies also had oversight/governance concerns reported in either of our 2013 or 2012 Reports. Effective oversight or "tone at the top" is important to building a strong internal control and risk management foundation for any Crown agency. We encourage those Crown agencies to address these concerns.

Accounting/documentation concerns with estimates

5.18 We had concerns with the accounting and documentation process for estimates in seven Crown agency financial statement audits. Of these seven, five had an issue noted in either of our 2013 or 2012 Reports regarding estimates.

5.19 In six of the seven Crown agencies where we noted concerns this year, the primary aspect of concern related to estimates supporting receivables balances (either accounts receivable or loans receivable), however concerns regarding estimates were also noted

for deferred revenues, tangible capital asset values and environmental liabilities.

5.20 Estimates involve the application of judgment to quantify unknown or uncertain amounts. Current auditing standards require that we examine estimates with more rigor, including reviewing the estimate's accuracy by comparing the estimate to current known outcomes and past accuracy history. This is an important process to ensure estimates are appropriate and supported.

5.21 In our audits we also noted a lack of appropriate support for management estimates. Management should document and support significant estimates used in preparing the financial statements. Support for significant estimates should also be reviewed by a second person other than the preparer.

Management of agreements or third party arrangements

5.22 We noted in both provincial community colleges concerns regarding agreements with the Province. Key aspects of the operating arrangements such as accounting for improvements to buildings and accounting for certain employee benefits have not been clearly documented.

5.23 While we have observed satisfactory information to form our audit opinion, the colleges and the Province need to document these arrangements to ensure a common, clear understanding and to provide enhanced support for the current accounting treatment.

5.24 Further, this concern may also be present for any other Crown agencies we do not audit. We encourage all Crown agencies to ensure there is a clearly documented understanding of the responsibilities/rights/obligations of the Crown agency and the Province to support significant accounting decisions contained in the Crown agency financial statements.

Applicability to other Crown agencies

5.25 We note a number of these themes from Crown agency comments have occurred in our prior years Reports. We encourage management of all Crown agencies to review these highlights and themes to consider if further improvements or adjustments are needed in their own organization.

Timeliness of Crown agency audits and financial reporting

5.26 We have also noted a recent trend in late completion of Crown agency audits. We acknowledge some of this situation is due to our office's own lack of staff resources to complete Crown agency audits in a more timely manner (especially in 2014 given the early completion of the Province of New Brunswick financial statement audit).

5.27 However, we note that some Crown agencies are more than one financial reporting cycle behind at time of finalizing this chapter including: New Brunswick Lotteries and Gaming Corporation, Energy Efficiency and Conservation Agency of New Brunswick, New Brunswick Immigrant Investor Fund (2009) Ltd. and Public Trustee - Trusts administered.

5.28 For these Crown agencies, the March 31, 2013 audited financial statements were not yet released at the time of finalizing this chapter. We see this as an undesirable trend with risk of growth.

5.29 Producing audited financial statements 18 months or more after the fiscal year end is still necessary, but the exercise holds much less value to the public and other users of this information if the reporting is not performed in a more timely manner. We strongly encourage all Crown agencies to promptly complete their financial reporting obligations.

5.30 While we have not noted any significant fraud, theft or error, the existence of the findings noted in Exhibit 5.1, increases the risk of loss or mistake in the agency's/department's financial reporting. These items should be addressed prior to the next audit cycle.

Conclusion

Appendix I - Audit Objectives

5.31 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.

5.32 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.

5.33 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, examining the effectiveness of certain internal controls, confirming year-end balances with third parties and reviewing the reasonableness of estimates.

5.34 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 of Crown Agencies and Government

5.35 The Crown agencies or departments are responsible for the preparation and the content of the financial statements or claims in accordance with the applicable accounting framework. When preparing the financial statements or claims, significant estimates may be made by the auditee, as not all information is available or determinable at the time of finalizing the statements.

Responsibilities of the Office of the Auditor General

5.36 Our Office is responsible for auditing the financial statements or claims listed in paragraphs 5.2 and 5.3. An audit provides reasonable, but not absolute, assurance that the financial statement(s) or claim(s) are free of material misstatement or are in compliance

with the relevant agreement. 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.