

Chapter 7

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

- 7.1** In this chapter we discuss our significant findings and recommendations relating to our audits of Crown agencies' financial statements and Federal claims.
- 7.2** We perform an annual financial statement audit for the following Crown corporations, Boards, Commissions, Councils and other agencies:
- Centre communautaire Sainte-Anne (CCSA)
 - Collège communautaire du Nouveau-Brunswick (CCNB)
 - Invest New Brunswick (INB)
 - Kings Landing Corporation (KLC)
 - New Brunswick Agricultural Insurance Commission (NBAIC)
 - New Brunswick Community College (NBCC)
 - New Brunswick Highway Corporation (NBHC)
 - New Brunswick Immigrant Investor Fund (2009) Ltd. (NBIIF)
 - New Brunswick Internal Services Agency (NBISA) (SNB)
 - New Brunswick Legal Aid Services Commission (LA)
 - New Brunswick Lotteries and Gaming Corporation (NBLGC)
 - New Brunswick Municipal Finance Corporation (NBMFC)
 - Premier's Council on the Status of Disabled Persons (PCSDP)
 - Public Trustee - Trusts administered (OPT)
 - Regional Development Corporation (RDC)
- 7.3** We also audit the following Federal claims:
- Agreement on the Transfer of Federal Gas Tax

Revenues

- Agreement Respecting Legal Aid and Court-Ordered Counsel
- Building Canada Fund– Communities Agreement
- Building Canada Infrastructure Plan – Base Funding Agreement.

7.4 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 and/or departments. In addition, we audit major transactions and account balances, and examine internal controls of significant computerized systems.

7.5 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. Our practice is 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.

7.6 We are reporting significant audit findings from our past year's audit work. Our findings reported in this chapter depend upon the completion of our audit work relative to the printing of our annual report. Exhibit 7.1 presents the Crown agency financial statement and Federal claims audits reported in this chapter.

Exhibit 7.1 – Crown Agency with Audit Work in the Last Year Where Findings Were Noted

Crown Agency / Federal Claim with Audit Work in the Last Year Where Findings Were Noted	Abbreviation	Financial Statement Year End(s) Completed
Agreement on the Transfer of Federal Gas Tax Revenues	Gas Tax	March 31, 2014
Centre Communautaire Sainte-Anne	CCSA	March 31, 2014
Collège Communautaire Nouveau - Brunswick	CCNB	March 31, 2015
Invest New Brunswick	INB	March 31, 2015
Kings Landing Corporation	KLC	March 31, 2014
New Brunswick Agricultural Insurance Corporation	NBAIC	March 31, 2014
New Brunswick Community College	NBCC	March 31, 2015
New Brunswick Highway Corporation	NBHC	March 31, 2014
New Brunswick Immigrant Investor Fund (2009) Ltd.	NBIIF	March 31, 2014
New Brunswick Internal Services Agency	NBISA	March 31, 2015
New Brunswick Legal Aid Services Commission	LA	March 31, 2015
New Brunswick Lotteries and Gaming Corporation	NBLGC	March 31, 2013
New Brunswick Research and Productivity Council	RPC	March 31, 2014
Premier's Council on the Status of Disabled Persons	PCSDP	March 31, 2014 and 2015
Public Trustee - Trusts administered	OPT	March 31, 2013 and 2014
Regional Development Corporation	RDC	March 31, 2014

7.7 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 the 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

7.8 Highlights and recurring themes of our significant findings are presented in Exhibit 7.2.

Exhibit 7.2 - Highlights and Recurring Themes

	Crown Agency/ Federal Claim	Concerns in this area noted for 2015 AG Report	Concerns in this area also noted in 2014 AG Report	Concerns in this area also noted in 2013 AG Report
Accounting Concerns	CCNB	Yes	Yes	Yes
	Gas Tax	Yes		Yes
	INB	Yes	Yes	
	KLC	Yes	Yes	
	LA	Yes	Yes	
	NBAIC	Yes	Yes	
	NBCC	Yes	Yes	Yes
	NBHC	Improvement	Yes	
	NBIIF	Yes	Yes	
	NBISA	Yes	Yes	
	NBLGC	Yes		
	OPT	Yes		Yes
	PCSDP	Yes		Yes
	RPC	Yes		
RDC	Yes	Yes		
Lack of Segregation of Duties	CCNB	Yes	Yes	Yes
	CCSA	Yes		Yes
	INB	Improvement	Yes	Yes
	KLC	Yes	Yes	
	LA	Yes	Yes	Yes
	NBAIC	Improvement	Yes	Yes
	NBCC	Yes	Yes	Yes
	NBIIF	Yes	Yes	
	NBISA	Yes	Yes	
	NBLGC	Improvement		Yes
	OPT	Yes		Yes
	PCSDP	Yes		
RPC	Yes		Yes	
RDC	Improvement	Yes		

Shaded Crown entities indicate a concern in this area was also noted in the 2014 or 2013 AG Reports

Continued on following page

Exhibit 7.2 - Highlights and Recurring Themes (continued)

	Crown Agency/ Federal Claim	Concerns in this area noted for 2015 AG Report	Concerns in this area also noted in 2014 AG Report	Concern in this area also noted in 2013 AG Report
Oversight/Governance Concerns	CCNB	Yes	Yes	
	INB	Improvement	Yes	Yes
	LA	Improvement	Yes	
	NBAIC	Yes	Yes	Yes
	NBIIF	Yes	Yes	
	NBISA	To be amalgamated ¹	Yes	Yes
	NBHC	Yes		
	NBLGC	Yes		Yes
	OPT	Yes		Yes
	PCSDP	Yes		Yes
	RPC	Yes		Yes
	RDC	Improvement	Yes	
Accounting/Documentation Concerns With Estimates	CCNB	Yes	Yes	Yes
	NBAIC	Yes	Yes	
	NBCC	Improvement	Yes	Yes
	NBHC	Yes	Yes	
	RDC	Yes	Yes	
	RPC	Improvement		Yes
Management of Agreements or Third Party Arrangements	CCNB	Yes	Yes	
	NBAIC	Yes		
	NBCC	Yes	Yes	
	NBLGC	Yes		Yes
Recommendations for New Crown Agencies upon Restructuring	NBISA	Yes ¹		
	INB	Yes		

Shaded Crown entities indicate a concern in this area was also noted in the 2014 or 2013 AG Reports

¹NBISA was amalgamated October 1, 2015 with Service New Brunswick, FacilioCorpNB and the Department of Government Services. Due to the upcoming known changes to the governance structure, oversight/governance concerns were instead reported as recommendations for the new corporation.

7.9 The data in Exhibit 7.2 does not include Crown agencies or Federal claims we have audited in the past three years, where the Crown agency has now been wound up (Energy Efficiency and Conservation Agency of New Brunswick) or for where we no longer perform the financial statement audit or Federal claims audit (e.g. Provincial Holdings Ltd. and the Financial and Consumer Services Commission). We no longer audit the Research and Productivity Council and this

will be the last year of findings reported for this Crown agency.

7.10 We are concerned that a number of these findings in Exhibit 7.2 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 7.2 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

7.11 There were several accounting concerns noted in our Crown agency audits for 2015 involving 13 Crown agencies. Eleven of these 13 Crown agencies also had a finding regarding accounting concerns in either of our 2014 or 2013 Reports. We are pleased to note improvements in one Crown agency where accounting concerns were noted in past.

7.12 Accounting concerns should be resolved in advance of our year end audit to ensure the Board or oversight body of the Crown agency receives accurate and complete financial information during the year.

7.13 We noted accounting concerns most often related to inadequate approvals for payments, deficiencies with Crown agencies internal accounting policies or processes, as well as management not being aware of changes to accounting standards or not applying new accounting standards properly. We also noted instances where Crown agency accounting staff did not consider if the item being processed complied with relevant agreements, prior to processing transactions and disbursing funds.

7.14 It is our view that Crown agencies should have sufficient knowledgeable resources available to ensure the accounting standards are appropriately followed and payments are appropriately processed.

7.15 The accounting concerns noted in Exhibit 7.2 related to issues observed during our audit, that required our Office's time to address or resolve prior to issuing our audit opinion. 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

7.16 This year, we observed ten Crown agencies where we had concerns regarding proper segregation of duties. Of these ten Crown agencies, nine also had a segregation of duties finding in our 2014 or 2013 Reports. We are pleased to note four Crown agencies had improvements in this area compared to our 2014 findings.

7.17 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 an appropriate segregation of duties in the accounting software or ensuring appropriate policies are in place to separate preparer and approval roles. Proper segregation of duties is also important to prevent loss or misappropriation of assets or occurrences of fraud or error.

7.18 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 these processes are appropriately structured and appropriate approval processes are present.

7.19 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

7.20 There were eight 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: lack of regular board meetings, delay in publishing annual reports, lack of risk management or internal control oversight, lack of oversight or monitoring of significant agreements, weaknesses in conflict of interest disclosures and other oversight/governance weaknesses.

7.21 We noted seven of these Crown agencies also had oversight/governance concerns reported in either of our 2014 or 2013 Reports. We were pleased to note three Crown agencies with improvements regarding their governance/oversight processes.

7.22 Effective oversight or "tone at the top", as well as Board commitment to transparency and public accountability, are

important to building a strong internal control and risk management foundation for any Crown agency. We encourage Crown agencies to address governance or oversight findings provided to them during our audit.

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

7.23 We noted concerns with the accounting and documentation process for estimates in four Crown agency financial statement audits. Of these four, all had an issue noted in either of our 2014 or 2013 Reports regarding estimates. We are pleased to note two Crown agencies where improvement was noted regarding estimate processes.

7.24 In three of the four 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 tangible capital asset values.

7.25 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 as accurate as possible.

7.26 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***

7.27 We noted concerns with oversight and management of agreements or third party arrangements in four Crown agencies. Of these four, three were reported as concerns in either our 2014 or 2013 Reports.

7.28 Specifically, 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.

7.29 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. Although progress on this matter has been made since we reported this finding in the

prior year, the issues are not yet addressed and resolved.

7.30 Further, our concern regarding management of agreements or third party arrangements may also be present for any other Crown agencies we do not audit. In addition to the two provincial community colleges, two other Crown agencies experienced issues in this area. 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.

***Recommendations
for new Crown
agencies upon
restructuring***

7.31 We noted in our audits two Crown agencies (New Brunswick Internal Services Agency and Invest New Brunswick) where a significant restructuring transaction would occur after the Crown agency's fiscal year end. We provided recommendations to each Crown agency to consider and address in its restructuring processes (given past audit findings and known audit challenges).

7.32 These recommendations included items such as clarifying ownership of assets and liabilities upon transfer to the new corporation, clarifying who will be responsible for the employer portion of employee benefit costs, as well as clarifying the terms and conditions in future funding agreements of the new organization.

7.33 As these restructurings will bring significant changes and involve large transactions and balances, we encourage the Crown agencies to address these recommendations in a timely manner and prior to the next audit cycle.

***Applicability to
other Crown
agencies***

7.34 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 organizations.

***Significant
concerns regarding
NBLGC***

7.35 In our financial statement audit of NBLGC, we noted several significant concerns. Due to the large number of issues, we have described our findings in a separate chapter in this Report (Chapter 5).

7.36 We further note NBLGC's ongoing lateness in completion of the normal year end accounting and auditing exercise. At the time of writing, in autumn 2015, the last fiscal year audited for NBLGC was March 31, 2013. We find this

ongoing delay extremely unusual and unacceptable given NBLGC's public reporting responsibilities.

Importance of timely completion of financial audits and public reporting

7.37 Producing financial statements with such a delay 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.

Conclusion

7.38 While we have not noted any significant fraud, theft or error, the existence of the findings noted in Exhibit 7.2, increases the risk of loss or mistake in the agency's/department's financial reporting. We encourage Crown agencies/departments to address our findings prior to the next audit cycle.

Appendix I - Audit Objectives

7.39 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.

7.40 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.

7.41 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.

7.42 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 Departments

7.43 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 Auditor General of New Brunswick

7.44 Our Office is responsible for auditing the financial statements or claims listed in paragraphs 7.2 and 7.3. 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.