

Chapter 1

Introductory Comments by the Auditor General

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Volume IV Reports our Financial Audit Work

Province receives clean audit opinion

1.1 This volume of our Report deals with matters arising from our financial audits of the Province and its Crown agencies for the year ended March 31, 2016.

1.2 On September 27, 2016 I signed an unqualified audit opinion on the 2016 consolidated financial statements of the Province of New Brunswick.

Significant change from 2015

1.3 This represents a significant change from the prior year when the Province received its first qualified audit opinion in 17 years. The reservations expressed in the prior year qualified audit opinion related to concerns regarding accounting for the Province's shared risk pension plans.

Province changed its position on the accounting for shared risk pension plans

1.4 In 2016, the Province revised the accounting for its shared risk pension plans. As a result of the Province's accounting change for these pension plans, I was able to issue an opinion without reservations.

Other significant audit and accounting issues also addressed in 2016

1.5 In addition, the Province addressed other significant accounting issues during the 2016 audit such as consolidation of the Province's not-for-profit nursing homes, and the presentation of the contingency reserve in the Province's audited financial statements. The Province also implemented a number of prior year financial statement audit recommendations, including forming an audit committee, which was announced in a September 23, 2016 news release "*Government establishes audit committee*".

1.6 Chapter 3 in this volume contains further details on

accounting for pensions, nursing homes and the contingency reserve. Chapter 4 contains details of other accounting findings from the Province's March 31, 2016 financial statement audit, as well as details of the implementation of prior year audit recommendations.

Pleased with the Province's 2016 progress on accounting and audit issues

1.7 Overall I am very pleased with the progress made this year in resolving the Province's prior year audit and accounting issues. My Office worked collaboratively with the Office of the Comptroller and other senior government officials to address and resolve these issues, and we hope this positive implementation and cooperation trend continues in future years' financial statement audits.

Auditor General's Comments on the Province's Fiscal Status

1.8 The Province's fiscal situation remains a significant concern. The Province's March 31, 2016 financial statements note the Province has its eighth consecutive deficit since 2009. From 2009 to 2016 annual deficits have occurred totaling approximately \$3.5 billion cumulatively, and approximately \$6 billion (or 43%) of the Province's \$14 billion total Net Debt has been added in this period.

Unfavourable long-term sustainability indicators

1.9 Chapter 2 presents our assessment of commonly used indicators of financial condition for the Province. While mostly neutral or favourable results have occurred for the Province's long-term flexibility and vulnerability indicators, unfavourable results have largely occurred for long-term sustainability indicators.

Deficits are planned to continue until 2020-2021

1.10 This pace of accumulating deficits and growth of Net Debt is not sustainable for the Province of New Brunswick's population and resources. Further, the 2016-2017 budget speech announced that deficits are planned to continue until 2020-2021.

Net Debt planned to grow by almost \$1 billion until 2020-2021

1.11 The budget speech indicated from 2016-2017 to 2019-2020 annual deficits will be incurred each year, which will further increase the Province's accumulated deficit and Net Debt at the end of fiscal 2019-2020 by a total of \$830 million. I am very concerned with the government's fiscal plan that continues New Brunswick's Net Debt growth by almost \$1 billion until 2020-2021.

Continued diligence is needed to improve the financial health of the Province

1.12 Continued fiscal diligence is required in government policy and decision making to further improve the financial health of the Province.

Crown agencies and Federal claims audits

1.13 Chapter 5 reports on matters arising from our audits of Crown agencies and Federal claims. In this chapter we highlight recurring themes in our findings on Crown agency audit work.

Concerning continued findings re Crown agency oversight/governance

1.14 Of particular concern are the oversight/governance findings encountered in our Crown agency work which include findings such as lack of regular board meetings, lack of oversight of key decisions, delays in publishing annual reports, lack of risk management or internal control oversight, weaknesses in conflict of interest disclosures and other oversight/governance weaknesses.

New theme in 2016 Crown agency findings re financial management/cash concerns

1.15 Also concerning in 2016 was the emergence of a new theme in the Crown agency findings relating to financial management/cash. We saw such findings in eight of our Crown agency audits. The findings included items such as:

- insufficient management of inventory and lack of proper inventory ordering quantity;
- delays in implementing investment policies;
- lack of approval of budgets used for comparison purposes in the audited financial statements;
- payment of duplicate invoices;
- a violation of the *Financial Administration Act* (in terms of obtaining appropriate spending approvals where budgets are overspent); and
- a lack of proper procedures for safe guarding of cash.

New Brunswick Lotteries and Gaming Corporation audit findings remain very concerning

1.16 As well, the New Brunswick Lotteries and Gaming Corporation (NBLGC) audit findings continue to remain very concerning. The financial audit for this Crown agency is behind. At the time of writing this chapter, the most recent audited financial statement for NBLGC was for the year ended March 31, 2014.

1.17 In addition, the recent joint performance audit by the Atlantic Auditors General found several governance issues and issues in the structure of the Province's arrangements with the Atlantic Lottery Corporation. A different structure should be considered for NBLGC to ensure it is effectively meeting the needs of government and taxpayers.

1.18 In my view, Newfoundland and Labrador's structure where the provincial lotteries operate as a division within the Department of Finance (not as a separate Crown agency) should be reviewed and considered in any determination of NBLGC's future structure. The efficiency and simplicity in such a structure merits a closer look for application in New Brunswick.

Renewal of "mission critical" Systems

1.19 In the course of our financial audit work, we examine certain of the Province's information technology systems. The systems we examine tend to focus on "mission critical" aspects of financial data and information processing such as: payroll processing, payment processing, financial reporting systems etc.

1.20 We made the following observations:

- one system (for teachers and certain school district employee payroll) is outdated and may be at risk of failure;
- two systems (for the Province's public servants' payroll and for the Province's vendor payments) may no longer be fully supported as of 2017;
- there are some redundant systems causing significant inefficiencies in processing financial information; and
- there have been delays in implementing the Province's new ERP (Enterprise Resource Planning) system.

Current IT weaknesses may have significant consequences

- 1.21** These IT weaknesses may have significant consequences such as:
- timely processing of the Province’s payroll may be at risk if action is not taken to address these ongoing issues;
 - these weaknesses could cause a potential impact on service delivery;
 - the availability of financial information for decision making or other purposes may also be at risk; and
 - unnecessary resources are being consumed in operating inefficient systems.

Government should prioritize replacement of aging and at risk IT infrastructure

- 1.22** In my view, government should prioritize replacement of aging and at risk IT infrastructure to ensure “mission critical” systems continue to operate ensuring delivery of essential services to the taxpayers of New Brunswick. Further details on information systems findings are found in Chapters 4 and 5 of this volume.

Acknowledgements

- 1.23** Overall, my Office is grateful for the continuing cooperation we receive from government departments and agencies during the course of our financial audit work.

- 1.24** I want to thank all staff from my Office for their hard work and dedication. It is a small group of professionals committed to fulfilling the mandate of the Office and producing a quality report to the Legislative Assembly. The report we are presenting today is a reflection of a team effort where each member of the staff has greatly contributed.



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