

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 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)
 - Kings Landing Corporation (KLC)
 - New Brunswick Agricultural Insurance Commission (NBAIC)
 - New Brunswick Community College (NBCC)
 - New Brunswick Highway Corporation (NBHC)
 - New Brunswick Legal Aid Services Commission (LA)
 - New Brunswick Lotteries and Gaming Corporation (NBLGC)
 - New Brunswick Municipal Finance Corporation (NBMFC)
 - Opportunities New Brunswick (ONB)
 - Premier's Council on the Status of Disabled Persons (PCSDP)
 - Public Trustee - Trusts administered (OPT)
 - Regional Development Corporation (RDC)
 - Service New Brunswick (SNB)
- 5.3** We also audit the following Federal claim:
- Agreement Respecting Legal Aid and Court-Ordered Counsel

- 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 and/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. 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.
- 5.6** 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 5.1 presents the Crown agency financial statement audit work in the last year where findings were noted.

Exhibit 5.1 – Crown Agency with Audit Work in the Last Year Where Findings Were Noted

Crown Agency with Audit Work in the Last Year Where Findings Were Noted	Abbreviation	Financial Statement Year End(s) Completed
Centre Communautaire Sainte-Anne	CCSA	March 31, 2015
Collège Communautaire Nouveau - Brunswick	CCNB	March 31, 2016
Kings Landing Corporation	KLC	March 31, 2015
Legal Aid Services Commission	LA	March 31, 2016
New Brunswick Agricultural Insurance Corporation	NBAIC	March 31, 2015
New Brunswick Community College	NBCC	March 31, 2016
New Brunswick Highway Corporation	NBHC	March 31, 2015
New Brunswick Internal Services Agency (wind up)	NBISA	September 30, 2015
New Brunswick Lotteries and Gaming Corporation	NBLGC	March 31, 2014
Public Trustee - Trusts administered	OPT	March 31, 2015
Regional Development Corporation	RDC	March 31, 2015
Service New Brunswick	SNB	March 31, 2016

5.7 We had several findings from our audits of Crown agencies' 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 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

5.8 Highlights and recurring themes of our significant findings are presented in Exhibit 5.2.

Exhibit 5.2 - Highlights and Recurring Themes

	Crown Agency/ Federal Claim	Concerns in this area noted for 2016 AG Report	Concerns in this area also noted in 2015 AG Report	Concerns in this area also noted in 2014 AG Report
Accounting Concerns	CCNB	Yes	Yes	Yes
	CCSA	Yes		
	Gas Tax	N/A	Yes	
	KLC	Yes	Yes	Yes
	LA	Yes	Yes	Yes
	NBAIC	Yes	Yes	Yes
	NBCC	Improvement	Yes	Yes
	NBHC	Improvement	Improvement	Yes
	NBLGC	Yes	Yes	
	OPT	Yes	Yes	
	PCSDP	*	Yes	
	RDC	Yes	Yes	Yes
SNB	Yes			
Lack of Segregation of Duties	CCNB	Improvement	Yes	Yes
	CCSA	Yes	Yes	
	KLC	Yes	Yes	Yes
	LA	Improvement	Yes	Yes
	NBAIC	Yes	Improvement	Yes
	NBCC	Improvement	Yes	Yes
	OPT	Yes	Yes	
	PCSDP	*	Yes	
	RDC	Improvement	Improvement	Yes
	SNB	Yes		

Shaded Crown agencies indicate a concern in this area was also noted in the 2015 or 2014 AG Reports

**Audit was not completed when exhibit was compiled.*

Continued on following page

Exhibit 5.2 - Highlights and Recurring Themes (continued)

	Crown Agency/ Federal Claim	Concerns in this area noted for 2016 AG Report	Concerns in this area also noted in 2015 AG Report	Concern in this area also noted in 2014 AG Report
Oversight/Governance Concerns	CCNB	Improvement	Yes	Yes
	LA	Improvement	Improvement	Yes
	NBAIC	Yes	Yes	Yes
	NBHC	Yes	Yes	
	NBLGC	Yes	Yes	
	OPT	Yes	Yes	
	PCSDP	*	Yes	
	RDC	Yes	Improvement	Yes
SNB	Yes			
Financial Management/Cash Concerns	CCNB	Yes		
	CCSA	Yes		
	KLC	Yes		
	LA	Yes		
	NBAIC	Yes		
	NBHC	Yes		
	RDC	Yes		
	SNB	Yes		
Accounting/Documentation Concerns With Estimates	CCNB	Improvement	Yes	Yes
	CCSA	Yes		
	NBAIC	Improvement	Yes	Yes
	NBCC	Improvement	Improvement	Yes
	NBHC	Yes	Yes	Yes
	RDC	Yes	Yes	
	SNB	Yes		
Management of Agreements or Third Party Arrangements	CCNB	Yes	Yes	Yes
	NBAIC	Yes	Yes	
	NBCC	Yes	Yes	Yes
	NBLGC	Improvement	Yes	
	SNB	Yes		

Shaded Crown agencies indicate a concern in this area was also noted in the 2015 or 2014 AG Reports

*Audit was not completed when exhibit was compiled.

- 5.9** The data in Exhibit 5.2 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 (Invest New Brunswick and the New Brunswick Internal Services Agency) or for where we no longer perform the financial statement audit or Federal claims audit (e.g. New Brunswick Immigrant Investor Fund (2009) Ltd., Agreement on the Transfer of Federal Gas Tax Revenues).
- 5.10** This year we were engaged to perform the financial statement audit of Service New Brunswick, a new entity resulting from the merger of a number of governmental units. This was a significant undertaking for our Office both in terms of resourcing and volume of work required to complete the audit. The findings from this audit have been included in our analysis in Exhibit 5.2.
- 5.11** We are concerned that a number of these findings in Exhibit 5.2 were observed across different agencies. As a result of the same issue arising in different entities, we saw recurring themes emerge over the course of our work. Exhibit 5.2 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.
- 5.12** Exhibit 5.2 includes a new theme this year which we saw emerge over a number of Crown agency audits: Financial Management/Cash concerns. The new theme occurred because a number of entities had audit findings related to financial management and cash issues. We are concerned at not only the addition of a new theme, but the underlying nature of these audit findings. We will discuss a summary of the findings contained in this new theme later in this chapter.
- 5.13** There were several accounting concerns noted in our Crown agency audits for 2016 involving nine Crown agencies. Seven of these nine Crown agencies also had a finding regarding accounting concerns in either of our 2015 or 2014 Reports. We are pleased to note improvements in two Crown agencies (NBCC, NBHC) where accounting concerns were noted in past.
- 5.14** 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.

***Accounting
concerns***

5.15 We noted accounting concerns most often related to inadequate support for accounting balances and reconciliations, 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 agencies had inconsistent accounting policies for different internal units as well as inefficient systems and processes for financial statement preparation.

5.16 It is our view that Crown agencies should have sufficient knowledgeable resources available to ensure the accounting standards are appropriately followed and consistently applied.

5.17 Some of the accounting concerns noted in Exhibit 5.2 related to issues observed during our audits, 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

5.18 This year, we observed five Crown agencies where we had concerns regarding proper segregation of duties. Of these five Crown agencies, four also had a segregation of duties finding in our 2015 or 2014 Reports. We are pleased to note four Crown agencies (CCNB, NBCC, RDC, LA) had improvements in this area compared to our past findings.

5.19 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.

5.20 When we note a lack of segregation of duties, our auditors normally perform extra procedures to reduce the risk of fraud or error in the financial statements. We encourage Crown agencies to review their financial processes to ensure these processes are properly structured and appropriate approval processes are present.

***Oversight/
governance
concerns***

5.21 Given recent Crown agency reorganizations, we 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.

5.22 There were six 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, 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.

5.23 We noted five of these Crown agencies also had oversight/governance concerns reported in either of our 2015 or 2014 Reports. We were pleased to note two Crown agencies (CCNB, LA) with improvements regarding their governance/oversight processes.

5.24 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***

5.25 We noted concerns with the accounting and documentation process for estimates in four Crown agency financial statement audits. Of these four, two had an issue noted in either of our 2015 or 2014 Reports regarding estimates.

5.26 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 significant tangible capital asset values. We are pleased to note three Crown agencies (CCNB, NBAIC, NBCC) had improvement regarding estimate processes.

5.27 Estimates involve applying 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.

Management of agreements or third party arrangements

5.28 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.

5.29 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 2015 or 2014 Reports.

5.30 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 have not been clearly documented.

5.31 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 two years, the issues are not yet addressed and resolved.

5.32 We noted one Crown agency (NBLGC) where improvement was noted regarding management of agreement or third party arrangements.

5.33 Our concern regarding management of agreements or third party arrangements may also be present for 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 to support significant accounting decisions contained in the Crown agency financial statements.

Financial Management/Cash Concerns

5.34 We noted concerns with financial management/cash in eight Crown agencies. As there were a number of similar findings, we identified this as a new audit findings theme this year.

5.35 The concerns noted include:

- insufficient management of inventory and 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.

5.36 We are concerned at the nature of these findings as they directly relate to potential loss of assets, expending of public resources and appropriate asset management. They also indicate a greater level of due care is required with public resources to ensure assets are appropriately managed and protected and that proper budgeting practices and approvals are respected. We encourage all Crown agency boards of directors and management to ensure appropriate financial management/cash processes are operating effectively in each of their Crown agencies.

Applicability to other Crown agencies

5.37 We note a number of these themes from Crown agency audits 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.

SNB Amalgamation

5.38 We noted in our audit of SNB that the Corporation is operating three separate financial reporting systems and three separate payroll systems. This structure presents significant risk of error or duplication and creates numerous inefficiencies when processing transactions and preparing financial reports.

5.39 While work on a new system is underway, we understand it could be three to five years before a solution is implemented. We are troubled at the ongoing exposure to risk of error, duplication and general inefficiencies over this time period. Further, we are very concerned it will be difficult for the amalgamated corporation to achieve significant synergies until such internal changes are made.

5.40 We have recommended SNB proceed as quickly as possible in implementing new accounting and payroll

systems. If an extended timeframe for completing these projects is expected, the Corporation should consider combining systems and transactions into one system in the short term.

Significant concerns regarding NBLGC

5.41 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 published in Volume III of our 2015 Report (Chapter 5).

5.42 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 2016, the last fiscal year audited for NBLGC was March 31, 2014. 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

5.43 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

5.44 While we have not noted any significant fraud, theft or error, the existence of the findings noted in Exhibit 5.2, increases the risk of loss or mistake in agencies' financial reporting. We encourage Crown agencies to address our findings prior to the next audit cycle.

Appendix I - Audit Objectives

5.45 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.

5.46 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.

5.47 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.

5.48 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

5.49 The Crown agencies 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

5.50 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.