

Chapter 1

Introductory Comments by the Auditor General

Contents

Volume IV Reports Our Financial Audit Work.....	3
Acknowledgments.....	6

Introductory Comments by the Auditor General

Volume IV Reports Our Financial Audit Work

*Province receives
clean audit opinion*

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

*Encouraging recent
progress, however,
action is still required*

1.1 This volume of our Report deals with matters arising from financial audits of the Province and its Crown agencies for the year ended March 31, 2017.

1.2 On August 22, 2017, I was pleased to issue an unqualified audit opinion on the 2017 consolidated financial statements of the Province of New Brunswick. An unqualified opinion also referred to as a “clean audit opinion” indicates the Province’s consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards.

1.3 I am encouraged by the signs of recent fiscal progress for the year ended March 31, 2017, including:

- significant improvements in the short-term sustainability indicators;
- deficit was reduced from \$260.5 million in 2016 to \$118.9 million in 2017;
- deficit in 2017 was lower than the 2017 budgeted deficit of \$246.1 million; and
- year-over-year Net Debt increase went from \$541.4 million in 2016 to \$167.4 million in 2017.

1.4 Although we are encouraged by this recent progress, we remain concerned with the Province’s overall long-term fiscal situation. A note of caution is required as the reduction in the deficit is largely driven by increases in provincial tax revenue in a period when expenses also increased.

1.5 The Province’s March 31, 2017 financial statements represent the ninth consecutive annual deficit and deficits are forecasted by the government to continue until 2020-2021. To assist in financing these deficits, the Province has incurred additional debt. While the increase in the

Province's Net Debt (total liabilities less financial assets) from 2016 to 2017 was \$167.4 million, the increase in the Province's Funded Debt (actual debt obligations) during the same period was \$875.8 million.

1.6 In addition to addressing the annual deficit, we encourage the Province to set and achieve targets for debt control and reduction.

Presentation of Retirement Benefits in the Province's Consolidated Financial Statements

1.7 I remain concerned that detailed information for the Province's pension plans on a plan-by-plan basis was not included in the Province's financial statements. It had been past practice to include this information in the notes to the Province's financial statements in 2014 and prior years. We believe the pension information, as well as information for retirement allowances, should be included each and every year on a plan-by-plan basis to provide more detailed and transparent information to readers of the Province's financial statements.

1.8 As such, we have included this information in Chapter 2 to ensure the information is publicly available. We have also made a recommendation in Chapter 3 for this information to be presented in the Province's financial statements in future years. I am very pleased the Comptroller has committed to make this change in fiscal 2017-2018.

Importance of timely completion of financial audits and public annual reports

1.9 We noted again this year certain Crown agencies are not completing their public reporting in a timely manner. In the past we have commented on New Brunswick Lotteries and Gaming Corporation's lateness in reporting its annual results publicly. However, we are noticing certain other Crown agencies (those we audit annually or those we have examined recently on a rotational basis) have not yet reported their 2016 annual results or published their 2016 annual reports in a timely manner. We discuss this more in Chapters 3 and 4.

1.10 Producing financial statements and annual reports 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 annual financial reporting obligations.

AG encourages timely publication of Province’s audited financial statements prior to September 2018 election

1.11 Particularly important is the Province’s timely release of its public accounts next year as the provincial election approaches in September 2018. Audited financial statements are one of the key measures that allows the public to assess government’s performance with respect to fiscal management of public resources. Exhibit 1.1 provides details on past dates of audit completion and government public release of the audited financial statements. I would encourage timely publication of the Province’s 2017-2018 audited financial statements prior to the upcoming election in September 2018.

Exhibit 1.1 - PNB Audited Financial Statements - Past Dates of Audit Completion and Public Release by Minister of Finance

PNB Audited Financial Statements - Past Dates of Audit Completion and Public Release by Minister of Finance			
March 31	Date of Audit Opinion (Audit Completion)	Date of Government Public Release by Minister of Finance	Date of Provincial Election
2017	August 22, 2017	September 28, 2017	n/a
2016	September 27, 2016	September 30, 2016	n/a
2015	September 29, 2015	September 30, 2015	n/a
2014	July 17, 2014*	July 23, 2014*	September 22, 2014
2013	October 4, 2013	October 16, 2013	n/a
2012	August 9, 2012	August 14, 2012	n/a
2011	August 12, 2011	August 16, 2011	n/a
2010	July 30, 2010*	August 13, 2010*	September 27, 2010
2009	August 21, 2009	September 28, 2009	n/a
2008	August 14, 2008	September 26, 2008	n/a

Source: Chart created by AGNB

**election year (comparatively early release)*

Renewal of “mission critical systems”

1.12 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.

1.13 Again this year, we would like to highlight the following observations:

- one system (for teachers and 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) are no longer fully supported;
- there are some redundant systems in SNB (three financial reporting systems and three payroll systems) causing inefficiencies in processing financial information; and
- funding for the Province’s new ERP (Enterprise Resource Planning) system was approved in the 2017-18 budget and the process of evaluating the RFP results is underway.

Current IT weaknesses may have significant consequences

1.14 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;
- a potential impact on service delivery may occur;
- 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

1.15 In our 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.

Acknowledgements

1.16 My Office is grateful for the continuing cooperation we receive from government departments and agencies during the course of our financial audit work.

1.17 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.



Kim MacPherson, CPA, CA, ICD.D
Auditor General