

# Chapter 4

## 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

- 4.1** In this chapter we discuss our significant findings and recommendations relating to our audits of Crown agencies' financial statements and Federal claims.
- 4.2** 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 Combat Sport Commission (note: notice to reader, not an audit)
  - 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 Disabilities (PCD)
  - Public Trustee - Trusts administered (OPT)
  - Regional Development Corporation (RDC)
  - Service New Brunswick (SNB)
- 4.3** We also audit the following Federal claim:
- Agreement Respecting Legal Aid and Court-Ordered Counsel (Legal Aid Claim)

**4.4** 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.

**4.5** 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.

**4.6** 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 4.1 presents the Crown agency financial statement audit work in the last year where findings were noted.

*Exhibit 4.1 – Crown Agency with Audit Work in the Last Year Where Findings Were Noted*

<b>Crown Agency with Audit Work in the Last Year Where Findings Were Noted</b>	<b>Abbreviation</b>	<b>Financial Statement Year End(s) Completed</b>
Centre Communautaire Sainte-Anne	CCSA	March 31, 2016
Collège Communautaire Nouveau - Brunswick	CCNB	March 31, 2017
Kings Landing Corporation	KLC	March 31, 2016
Legal Aid Services Commission	LA	March 31, 2017
Legal Aid Services Commission - Claim	LA	March 31, 2017
New Brunswick Agricultural Insurance Corporation	NBAIC	March 31, 2016
New Brunswick Highway Corporation	NBHC	March 31, 2016
New Brunswick Lotteries and Gaming Corporation	NBLGC	March 31, 2015 & 2016
Opportunities New Brunswick	ONB	March 31, 2016 & 2017
Premier's Council on Disabilities	PCD	March 31, 2016
Public Trustee - Trusts administered	OPT	March 31, 2016
Regional Development Corporation	RDC	March 31, 2016
Service New Brunswick	SNB	March 31, 2017

**4.7** 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**

**4.8** Highlights and recurring themes of our significant findings are presented in Exhibit 4.2.

## Exhibit 4.2 - Highlights and Recurring Themes

	<b>Crown Agency/ Federal Claim</b>	<b>Concerns in this area noted for 2017 AG Report</b>	<b>Concerns in this area also noted for 2016 AG Report</b>	<b>Concerns in this area also noted in 2015 AG Report</b>
<b>Accounting Concerns</b>	CCNB	Yes	Yes	Yes
	CCSA	Implemented	Yes	No
	KLC	Yes	Yes	Yes
	LA	Yes	Yes	Yes
	NBAIC	Yes	Yes	Yes
	NBLGC	Yes	Yes	Yes
	ONB	Yes	*	N/A
	OPT	Yes	Yes	Yes
	PCD	Yes	*	Yes
	RDC	Implemented	Yes	Yes
	SNB	Yes	Yes	N/A
<b>Lack of Segregation of Duties</b>	CCSA	Implemented	Yes	Yes
	KLC	Yes	Yes	Yes
	NBAIC	Yes	Yes	No
	OPT	Yes	Yes	Yes
	ONB	Yes	*	N/A
	PCD	Yes	*	Yes
	SNB	Yes	Yes	N/A

*Shaded Crown agencies indicate a concern in this area was also noted in the 2016 or 2015 AG Reports*

*Continued on following page*

*\*Audit was not completed in time for publication of results in 2016 AG Report*

Exhibit 4.2 - Highlights and Recurring Themes (continued)

	Crown Agency/ Federal Claim	Concerns in this area noted for 2017 AG Report	Concerns in this area also noted for 2016 AG Report	Concerns in this area also noted in 2015 AG Report
<i>Oversight/Governance Concerns</i>	LA	Yes	No	No
	NBAIC	Yes	Yes	Yes
	NBHC	Yes	Yes	Yes
	NBLGC	Yes	Yes	Yes
	ONB	Yes	*	N/A
	PCD	Yes	*	Yes
	RDC	Yes	Yes	No
	SNB	Yes	Yes	N/A
<i>Financial Management/Cash Concerns</i>	CCNB	Implemented	Yes	**
	CCSA	Yes	Yes	**
	KLC	Yes	Yes	**
	LA	Yes	Yes	**
	LA-Claim	Yes	No	**
	NBAIC	Implemented	Yes	**
	NBHC	Implemented	Yes	**
	ONB	Yes	*	**
	PCD	Yes	*	**
	RDC	No	Yes	**
	SNB	Yes	Yes	**
<i>Accounting/Documentation Concerns With Estimates</i>	CCSA	Yes	Yes	No
	NBHC	Yes	Yes	Yes
	RDC	Implemented	Yes	Yes
	SNB	Yes	Yes	N/A
<i>Management of Agreements or Third Party Arrangements</i>	CCNB	Implemented	Yes	Yes
	NBAIC	Implemented	Yes	Yes
	NBCC	Implemented	Yes	Yes
	SNB	Yes	Yes	N/A

Shaded Crown agencies indicate a concern in this area was also noted in the 2016 or 2015 AG Reports

\*Audit was not completed in time for publication of results in 2016 AG Report

\*\*New theme in 2016 AG Report.

**4.9** The data in Exhibit 4.2 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).

**4.10** We are concerned that a number of these findings in Exhibit 4.2 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 4.2 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***

**4.11** There were several accounting concerns noted in our Crown agency audits for 2017 involving nine Crown agencies. Eight of these nine Crown agencies also had a finding regarding accounting concerns in either of our 2016 or 2015 Reports. We are pleased our recommendations were implemented in two Crown agencies (CCSA, RDC) where accounting concerns were noted in past.

**4.12** 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.

**4.13** We noted accounting concerns most often related to:

- inadequate support for accounting balances and reconciliations;
- deficiencies with Crown agencies internal accounting policies or processes;
- management not being aware of changes to accounting standards or not applying new accounting standards properly;
- inconsistent accounting policies for different internal units; and
- inefficient systems and processes for financial statement preparation.

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

**4.15** Some of the accounting concerns noted in Exhibit 4.2 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***

**4.16** This year, we observed six Crown agencies where we had concerns regarding proper segregation of duties. Of these six Crown agencies, five also had a segregation of duties finding in our 2016 or 2015 Reports. We are pleased to note one Crown agency (CCSA) implemented our prior year recommendation.

**4.17** 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.

**4.18** 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.

**4.19** Given past 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.



***Oversight/  
governance  
concerns***

**4.20** 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;
- lack of oversight of key decisions;
- lack of risk management or internal control oversight;
- weaknesses in conflict of interest disclosures; and
- other oversight/governance weaknesses.

**4.21** We noted six of these Crown agencies also had oversight/governance concerns reported in either of our 2016 or 2015 Reports.

**4.22** 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 before our next audit.

***Financial  
management/cash  
concerns***

**4.23** We noted concerns with financial management/cash in seven Crown agencies. Four of these seven Crown agencies also had a finding regarding financial management/cash concerns in either of our 2016 or 2015 Reports. We are pleased to note three Crown agencies (CCNB, NBAIC, NBHC,) where prior year audit recommendations have been implemented.

**4.24** The concerns noted include:

- cash management;
- accumulated surplus management;
- disbursement of funds contrary to policies or lack of clarification on appropriateness of expense when policies are silent;
- risk of fraud;
- including insurance proceeds in claim reimbursement; and
- lack of appropriate documentation for asset disposals.

**4.25** 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.

*Accounting/  
documentation  
concerns with  
estimates*

**4.26** We noted concerns with the accounting and documentation process for estimates in three Crown agency financial statement audits. Of these three, all had an issue noted in either of our 2016 or 2015 Reports regarding estimates.

**4.27** Concerns regarding estimates were noted for significant tangible capital asset values, actuarially determined balances, as well as valuation of receivables. We are pleased to note one Crown agency (RDC) had implemented a prior recommendation regarding estimate processes.

**4.28** 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*

**4.29** This year we noted concerns with oversight and management of agreements or third-party arrangements in one Crown agency (SNB) which also had a concern reported in our 2016 Report.

**4.30** Specifically, we noted at the time of our 2017 audit that SNB did not have signed agreement with the two Regional Health Authorities (RHAs) and the Department of Social Development for nursing home laundry services. We were informed agreements have been drafted (dated 2015) but both RHAs nor SD have signed them.

**4.31** We noted three Crown agencies (CCNB, NBCC, NBAIC) where prior year recommendations were implemented regarding management of agreements or third

party arrangements.

**4.32** 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.

***Applicability to other Crown agencies***

**4.33** 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.

***Ongoing concerns with IT systems from SNB Amalgamation***

**4.34** We noted again this year in our audit of SNB that it 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.

**4.35** While work on a new system is underway, we understand it could still 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 SNB to achieve significant synergies until such internal changes are made.

**4.36** We have recommended SNB proceed as quickly as possible in implementing new accounting and payroll systems while still maintaining proper project management processes. If an extended timeframe for completing these projects is expected, SNB should consider combining systems and transactions into one system in the short term.

***Importance of timely completion of financial audits and public annual reports***

**4.37** 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 NBLGC'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. Exhibit 4.3 provides

further details on the timeliness of certain Crown agencies annual report publication.

**4.38** 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.

## Conclusion

**4.39** While we have not noted any significant fraud, theft or error, the existence of the findings noted in Exhibit 4.2, 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.

*Exhibit 4.3 – Crown Agency Annual Reports*

Crown Agency Annual Reports	
Name of Crown Agency	Annual Report for 2016 Publicly Available
Ambulance New Brunswick Inc.	Yes
Collège communautaire du Nouveau-Brunswick	Yes
Financial and Consumer Services Commission	Yes
Horizon Health Network	Yes
Kings Landing Corporation	No
New Brunswick Community College	Yes
New Brunswick Agricultural Insurance Commission	Yes
New Brunswick Credit Union Deposit Insurance Commission	Yes
New Brunswick Highway Corporation	No
New Brunswick Immigrant Investor Fund (2009) Ltd.	No
New Brunswick Legal Aid Services Commission	Yes
New Brunswick Lotteries and Gaming Corporation	No
Office of the Public Trustee	Yes
Opportunities New Brunswick	Yes
Provincial Holdings Ltd.	No
Regional Development Corporation	Yes
Service New Brunswick	Yes
Vitalité Health Network	Yes
New Brunswick Liquor Corporation	Yes
New Brunswick Municipal Finance Corporation	Yes
New Brunswick Power Corporation	Yes
Premier's Council on the Status of Disabled Persons (Premier's Council on Disabilities)	Yes

*Source: Chart compiled by AGNB. Data is current as of October 10, 2017 and considers Crown agencies AGNB audits annually or those Crown agencies AGNB has examined recently on a rotational basis.*

## Appendix I - Audit Objectives

**4.40** 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.

**4.41** We obtain reasonable assurance on the financial statement figures because it would not be cost effective to obtain absolute assurance (our auditors would be required to test every transaction).

**4.42** 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.

**4.43** 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

**4.44** 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

**4.45** Our Office is responsible for auditing the financial statements or claims listed in paragraphs 4.2 and 4.3. 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.