

Chapter 3

Understanding Key Financial Audit Issues

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Understanding Key Financial Audit Issues

Chapter Summary

Unqualified audit opinion in most audits

- The Province had an unqualified audit opinion
- Most Crown Agencies had an unqualified audit opinion
- Key issues in our financial audits are found in this chapter

Little progress on centralizing accounts receivable collection since 2011

- The Province is owed more than \$2.8 billion
- SNB collections branch has no clear mandate for the collection of all accounts receivable
- No timeline for completion of centralization of accounts receivable
- Collecting receivables should be a priority
- Disaster financial assistance receivable now at \$61 million for past storms and flood damages

Many of the Province's key IT systems are out of date

- Systems are out-of-date
- Province is in the process of obtaining a new system to replace many systems

Future government interference in NB Power rate setting process may have serious consequences

- History of past governments imposing rate caps or freezes impacts NB Power's authority to carry on as a business and self-sustain operations
- Respect for the independent rate setting regulatory process must exist in substance and form
- There may be significant impact in the Province's consolidated financial statements in future

Government spending announcements impact financial statements at different times

- Timing of announcements and expense differs
- The financial statements disclose \$4.7 billion in committed spending for future expense

Government Interference in NB Power Rate Setting Process

What Happens When Government Interferes in the NB Power Rate Setting Process?

Future government interference may jeopardize accounting

3.1 Future government interference in the New Brunswick Power Corporation's (NB Power) rate setting process may jeopardize the accounting method used to record NB Power in the Province's consolidated financial statements. This could result in a significant impact on the Province's financial condition, such as increased Net Debt.

3.2 Currently, the accounting method used records only the Province's equity investment in NB Power, which includes annual net earnings or loss and other adjustments. This means the following significant NB Power amounts are excluded from the Province's consolidated financial statements:

- \$4.4 billion of debt;
- \$4.3 billion of capital assets;
- \$900 million in rate regulatory balances ("regulatory assets");
- all other assets and liabilities; and
- revenue and expenses on a line by line basis.

3.3 A change in accounting method would likely result in a change to the way the Province records NB Power in the consolidated financial statements.

Why Would the Accounting Method Used to Record NB Power Change?

Accounting for NB Power is complex

3.4 Explaining the different accounting methods for recording NB Power in the Province's consolidated financial statements is very complex. In the paragraphs that follow, we attempt to present this information in a simplified manner. See paragraph 3.22 for more detailed technical information.

3.5 In simple terms (for accounting purposes) NB Power is seen as an independent business separate from government. This means NB Power has the financial and

operational authority to carry on as a business. It also means NB Power is able to self-sustain its operations by meeting its liabilities (e.g. debt) from revenue generated from non-government sources (e.g. ratepayers).

NB Power must be independent and self-sustaining to continue with current accounting treatment

3.6 If conditions change and NB Power is no longer independent from government or able to self-sustain its operations from non-government revenue sources, NB Power would no longer be considered a separate business for accounting purposes. This means the accounting method used to combine NB Power with the Province would change. This may have a significant impact on the Province's financial statements.

3.7 Assessing whether or not NB Power remains independent from government and can self-sustain its operations is complex and requires professional judgement. The substance of the relationship is on a scale or continuum. This requires review each year to determine if the cumulative impact of government interference has reached an extent such that NB Power is no longer independent or self-sustaining.

Future government interference may change accounting treatment

3.8 In summary:

- The more governments interfere in NB Power's business, the less independent NB Power is from government; and
- The more governments interfere in the rate setting process, the less revenue NB Power may generate from non-government sources. This could affect NB Power's ability to meet its existing liabilities or repay its debt, making it less able to sustain its operations.

How Have Past Governments Interfered?

Past governments have interfered in rate setting process

3.9 Past governments have interfered in the rate setting process by imposing rate increases or freezes. Recently, during the 2018 provincial election campaign period, an election promise was made to freeze rates in future years.

EUB process bypassed

3.10 Past governments were able to interfere in the rate setting process by changing legislation and/or directing NB Power operations. This bypassed the legislated independent rate regulation process of the Energy and Utilities Board (EUB). See paragraph 3.39 for more

information on the EUB.

Five examples of government inference

3.11 Five recent occasions where government interfered in NB Power operations are described below.

- In 2006, Cabinet overturned a decision by the EUB and reduced an average power rate increase of 9.64% to 6.57%.
- In 2008, the government directed NB Power "*barring unforeseen circumstances, the maximum average power rate increase for each of the next three years through 2010 will not surpass three per cent.*"
- In 2010, the government committed to implementing a three-year electricity rate freeze for NB Power ratepayers. NB Power implemented the freeze in October 2010.
- A new Electricity Act that came into effect in 2013, which allowed NB Power to change rates up to 2% annually for two years without applying to the EUB.
- In March 2018, the Premier indicated he would consider overruling a 'weather tax' proposal by NB Power through legislation if approved by the EUB.

Annual assessment

3.12 As part of the annual audit process, the impact of government actions is assessed to determine, if cumulatively, NB Power should no longer be considered an independent, self-sustaining business. In 2018 the Comptroller prepared the assessment and AGNB audited the assessment.

Concluded NB Power independent and self-sustaining in 2018

3.13 We concluded, at the time, NB Power was still independent, and self-sustaining. No change was needed to the accounting method used to record NB Power in the Province's consolidated financial statements for March 31, 2018.

3.14 Given these recent examples of past governments' interference, we will continue to audit this significant conclusion annually.

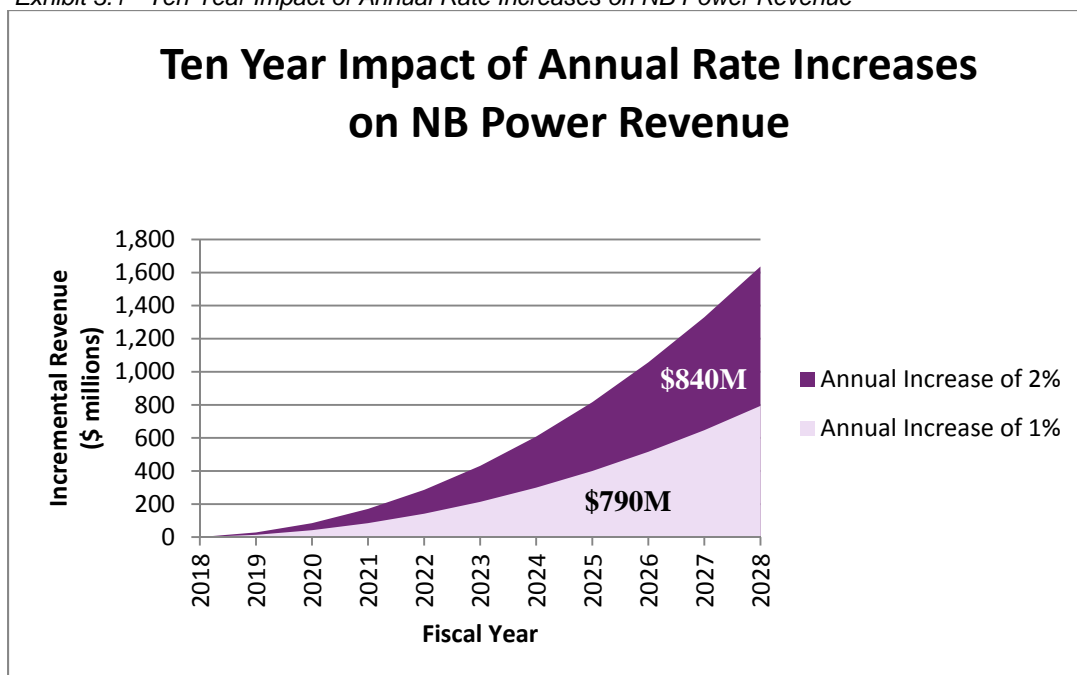
What Happens When a Lower Power Rate Increase Is Imposed?

When governments interfere, NB Power's revenue is impacted

3.15 In paragraph 3.11, we cited certain examples where government imposed a lower rate increase than approved by the EUB. In the paragraphs that follow, we will show the impact of these decisions on NB Power's revenue not only in the current year, but in future years as rate changes have a compounding effect.

3.16 Exhibit 3.1 shows a simple example of the incremental effect of increases in power rates over 10 years.

Exhibit 3.1 - Ten Year Impact of Annual Rate Increases on NB Power Revenue



Source: AGNB prepared information. Calculated using NB Power's 2018 in-province revenue of \$1.4 billion as a base year.

3.17 Exhibit 3.1 shows if the EUB approved an annual rate increase of 2% each year over the next 10 years, NB Power would earn \$1.6 billion in additional revenue. This is \$840 million higher than if only a 1% rate increase was approved over the same period.

3.18 The example in Exhibit 3.1 shows the compounding effect in the future if government overrules a rate decision by the EUB to obtain a lower rate for rate payers. This is one example of how government interference impacts NB Power's ability to remain independent and self-sustaining.

How Is NB Power Accounted for in the Province's Financial Statements?

3.19 The Province's consolidated financial statements include the results of:

- Government departments,
- Government organizations (Crown agencies and other organizations controlled by the government), for example Service New Brunswick; and
- Government Business Enterprises (GBE's) (Government corporations which are self-sustaining), for example NB Power.

Not all accounting is presented the same

3.20 Depending on the type of organization, a different accounting framework is appropriate. For example, all departments and most Crown agencies use Public Sector Accounting Standards (PSAS) to report their financial results, while Government Business Enterprises (GBE) use International Financial Reporting Standards (IFRS).

3.21 Since NB Power has been classified as a GBE, it therefore uses International Financial Reporting Standards to present its financial results.

Why Is NB Power Classified as a GBE?

What are the criteria of a GBE?

3.22 To be classified as a Government Business Enterprise (GBE), there are four criteria in which NB Power must annually meet including:

- a separate entity with power to contract in its own name;
- sells goods and services outside of the government as its main activity;
- delegated the financial and operational authority to carry on as a business; and
- it can self-sustain its operations by being able to meet its liabilities (e.g. debt) from revenue received from sources outside of the government.

Two criteria are a concern

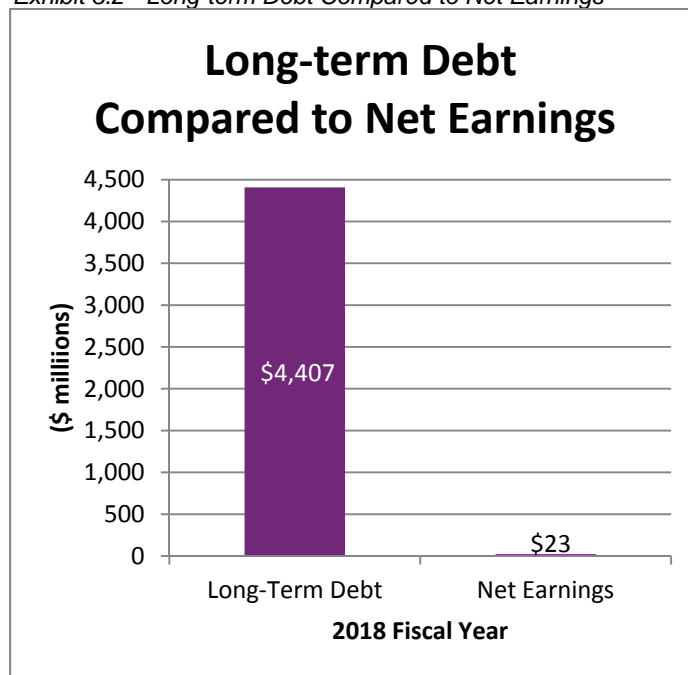
3.23 The last two criteria remain an annual concern for NB Power due to:

- past governments interference in the entity rate setting process indicating a lack of independence or delegation; and
- continuing elevated debt level with nominal

annual net earnings, indicating NB Power may not be able to self-sustain operations in the long-term.

3.24 Exhibit 3.2 illustrates NB Power's elevated long-term debt compared to annual net earnings, showing the disparity between the amounts.

Exhibit 3.2 - Long-term Debt Compared to Net Earnings



Source: NB Power Corporation Financial Statements fiscal 2018.

How Does the Province Present NB Power Now?

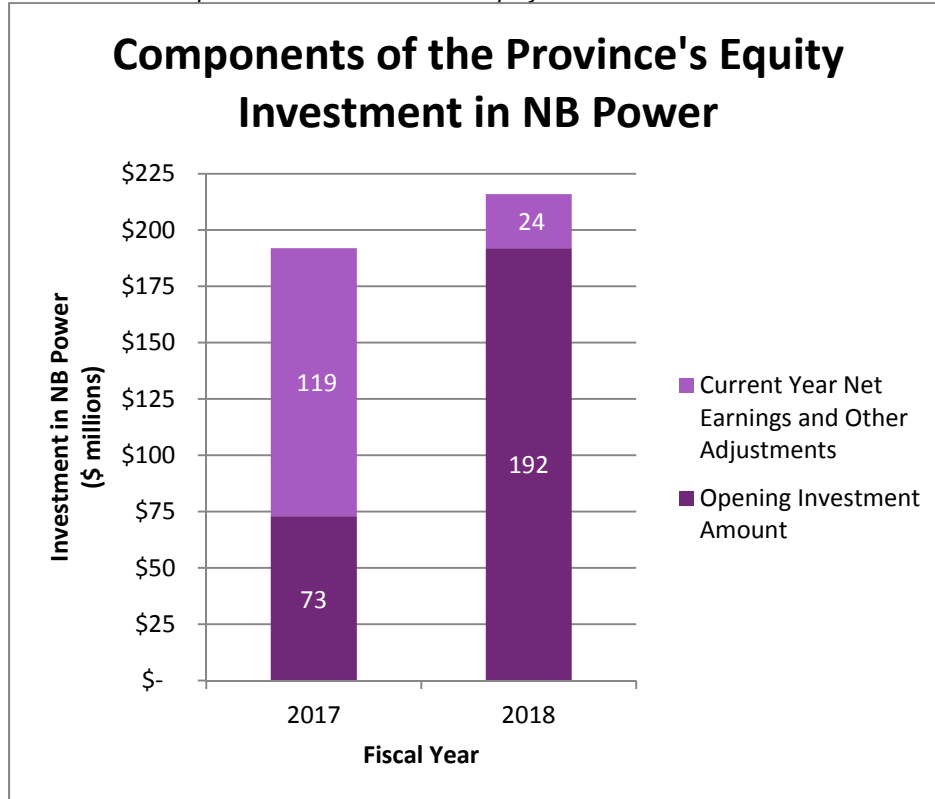
3.25 Each year NB Power's earnings or loss is included in the Province's consolidated financial statements as revenue. There are also other adjustments for NB Power's change in Other Comprehensive Income¹ and deferred

¹ Other comprehensive income is those revenues (gains) and expenses (losses) under International Financial Reporting Standards excluded from net income on the income statement because they have not yet been realized. Typically these include investments, and are realized when the investment is sold.

regulatory assets as a result of the Point Lepreau Nuclear Generating Station refurbishment². The total net earnings or loss from all past years is the Province’s equity investment balance in NB Power, and is recorded as an asset.

3.26 Exhibit 3.3 depicts these components of the Province’s equity investment in NB Power for fiscal years 2017 and 2018.

Exhibit 3.3 - Components of the Province’s Equity Investment in NB Power



Note: Refer to Paragraph 3.25 for description of current year net earnings and other adjustments.

Source: AGNB prepared from information from Public Accounts fiscal 2017 and 2018.

² The Province is recognizing a total amount of \$153.1 million in net income over the 27 year estimated useful life of the Point Lepreau Nuclear Generating Station for unrealized intercompany gains related to expenses deferred under the rate regulatory accounting practice used by the New Brunswick Power Group of Companies. The annual adjustment is \$5.7 million.

3.27 This differs from other Crown agencies following PSAS where every line of their financial statements are merged (consolidated) into the Province's accounts.

Debt as an example

3.28 For example, NB Power net earnings or loss are included each year in the Province's financial statements and form the Province's equity investment in NB Power. NB Power's debt of \$4.4 billion is excluded. In 2018, only NB Power's net earnings and other adjustments of \$24 million were included in the Province's annual results for a total equity investment of \$216 million.

What Would Happen If NB Power Was No Longer Considered a GBE?

3.29 If NB Power was no longer classified as a GBE for accounting purposes, all debts, assets, liabilities, revenue and expenses would be included in the Province's consolidated financial statements.

3.30 Amounts presented in NB Power's fiscal 2018 financial statements are shown in Exhibit 3.4 in condensed form.

Exhibit 3.4 - NB Power's Statement of Financial Position (Condensed)

(\$ billions)	Fiscal 2018
Property, Plant & Equipment	\$4.3
Regulatory Assets	0.9
Other Assets	1.7
Total Assets	\$6.9
Long Term Debt	\$4.4
Short-term Debt	0.9
Other Liabilities	1.3
Total Liabilities	6.6
Equity	0.3
Total Liabilities and Equity	\$6.9

Source: NB Power Corporation Financial Statements fiscal 2018.

3.31 None of the asset and liability amounts in Exhibit 3.4 are currently included in the Province's consolidated financial statements.

Rate regulatory asset of \$900 million is a significant concern if an accounting conversion is required

3.32 If the amounts presented in Exhibit 3.4 were consolidated into the Province's accounts, they would have to be converted from IFRS to PSAS, the accounting framework the Province uses as presented in Exhibit 3.5.

3.33 Converting includes adjusting for differences between the two accounting frameworks. For example, one known area of difference is the rate regulatory asset of \$900 million (deferred expenses mostly related to the refurbishment of the Point Lepreau Power Generating Station).

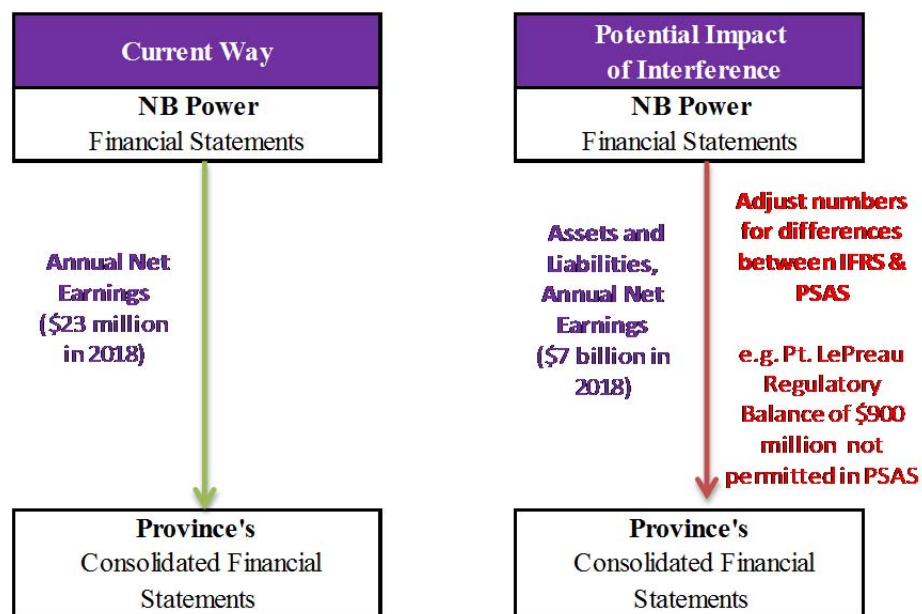
3.34 Currently, NB Power is permitted under International Financial Reporting Standards (IFRS) to record these regulatory assets. The assets are drawn down over the life of the capital asset. In the case of the Point Lepreau regulatory asset, it is drawn down over 27 years.

3.35 If the accounting framework changed from IFRS to Public Sector Accounting Standards (the standards the Province follows) the use of a rate regulatory accounting asset would not be permitted. This means when consolidating into the Province's financial statements the Comptroller would need to determine, and AGNB would need to audit, how this amount would be reported.

3.36 Exhibit 3.5 depicts the potential impact of government interfering in NB Power. Examples of government interference include:

- directing and impeding the legislated authority of the EUB to set rates of NB Power;
- directing the ongoing operations of NB Power; and
- impeding NB Power's ability to continue as a self-sustaining entity.

Exhibit 3.5 - Potential Impact of Government Interference in NB Power on the Province's Consolidated Financial Statements.



Source: AGNB prepared information.

Why Can NB Power Record Regulatory Assets but the Province Cannot?

Accounting standards differ for the Province and NB Power

3.37 Public Sector Accounting Standards (PSAS), the accounting standards the Province follows, do not permit the use of rate regulatory assets. NB Power, however, uses International Financial Reporting Standards (IFRS) which does permit the use of rate regulatory assets under certain conditions.

3.38 In order for NB Power to maintain its ability to record regulatory assets under IFRS, it must provide goods or services to customers at a price or rate that is subject to oversight and/or approval by an independent rate regulator. This process is referred to as 'rate regulation'.

The EUB regulates NB Power

3.39 In New Brunswick the authorized body ('rate regulator') that is empowered by statute (*Act*) to approve rates is the Energy and Utilities Board (EUB).

Government interference impacts independence of the regulatory process

3.40 Past interference by government as outlined in paragraph 3.11 diminishes the independence of the regulatory process. Continued interference could call into question the overall conclusion of independence in the regulatory process and the ability of NB Power to record these assets under IFRS.

Province Has Major Outdated IT Systems

What Is the Current State of the Province’s IT Systems?

Major systems are out of date

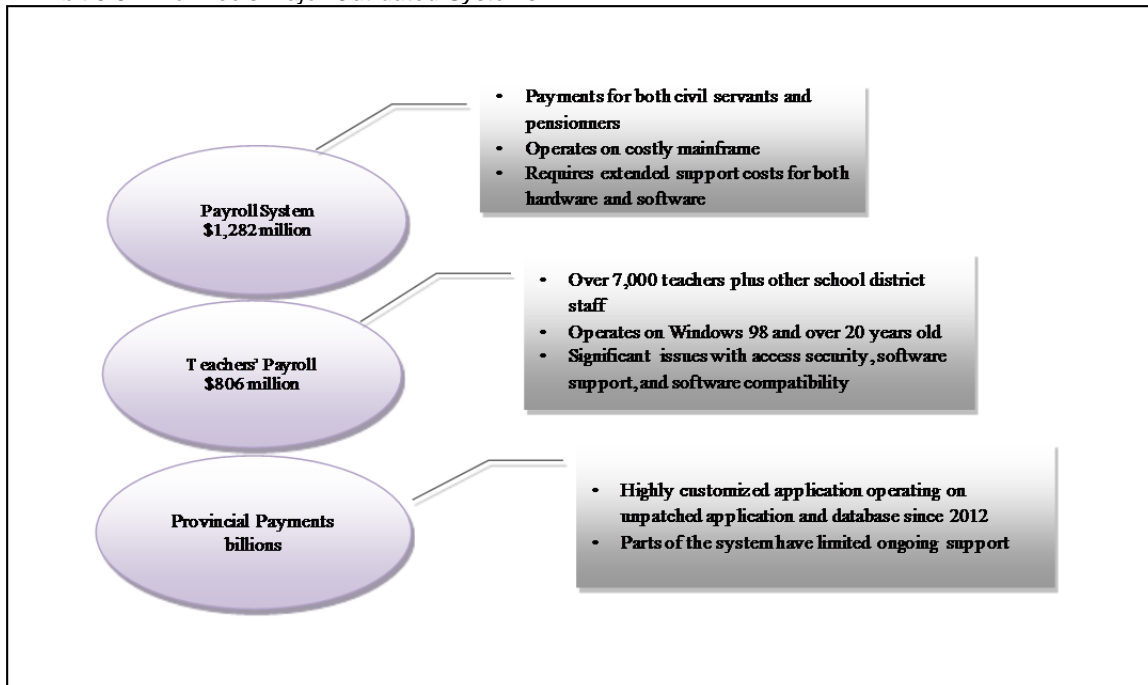
3.41 A failure of the Province’s major IT systems would affect the majority of New Brunswickers. For the past six years, we reported the Province has many outdated IT systems. These out-dated systems process the majority of the Province’s payroll and its payments to suppliers, nursing homes, municipalities, etc. Replacing these systems should be a key priority and the Province should proceed as quickly as possible to implement a new system.

Multiple duplicate systems result in waste and duplicate payments

3.42 Operating multiple duplicate systems results in wasted time for employees and can result in duplicate payments to suppliers. We noted SNB (Service New Brunswick) is operating three separate payroll and payments systems. We also found SNB made duplicate supplier payments as a result of operating three separate payment systems.

3.43 Exhibit 3.6 shows the Province’s major out-dated systems, dollars processed, and associated risks.

Exhibit 3.6 - Province’s Major Out-dated Systems



Source: AGNB prepared from information provided by SNB and Department of Education and Early Childhood Development.

What Is the Province Doing About Its Outdated Systems?

New system on the horizon

3.44 The Province plans to replace the out-dated and duplicate systems with a new ERP (Enterprise Resource Planning) system. The scope of the new ERP project is massive and needs to be properly managed by the Province to ensure success and to prevent a system development failure.

System's scope is massive

3.45 The new ERP system will be used by Parts 1 (departments and some Crown agencies), Part 2 (school districts), the Regional Health Authorities, and the Community Colleges. The system will cover many areas such as:

- Payroll and human resource management;
- Procurement (purchasing);
- Finance (payments, general ledger, fixed assets, cash management, etc.);
- Grant management; and
- Other areas such as residential tenancies.

3.46 From our interviews, we were informed SNB and Treasury Board are taking steps to ensure a strong project management framework is in place to oversee and monitor this major systems change.

When Will the ERP System Be Complete?

No date for when ERP will be complete

3.47 No date has been set for when the Province will implement the new ERP system. The Province is in the process of selecting a software solution. We were told the Province is taking time to evaluate proposals so the proper solution is selected. The Province issued a RFP (request for proposal) for a software solution in September 2017.

How Much Will the ERP System Cost?

System cost unknown

3.48 We are unable to determine the cost of the new ERP system. The project is still in its infancy stage and no contracts have been signed at the time of writing this report.

What Is the Auditor General Doing to Audit the New ERP System?

AG will continue to report

3.49 We consider the ERP system development a significant risk to the Province. Management has indicated it is monitoring, assessing and managing this risk. We will continue, however, to report on the ERP system development in future reports.

3.50 Until the ERP system is complete, we will continue to audit the existing out-dated systems.

Effect of Government Spending Announcements

How Do Spending Announcements Affect Financial Results?

Timing of announcements and expense differs

3.51 Throughout the course of a year government makes many spending announcements to the public. This may be in the form of a press release, budget process, or otherwise.

3.52 These announcements do not always have an immediate financial statement impact. Many announcements commit the government to spend money in the future, but some announcements are promises. Most promises do not commit the government to spend until they result in a formal agreement.

Financial statement users should look at the commitment note (note 14)

3.53 Users of financial statements may often overlook an important financial statement note which shows future spending commitments from past and present governments. Reviewing this note is part of a complete picture of the Province's financial situation.

Financial statement notes show committed funds - \$4.7 billion

3.54 The Province has committed to spend \$4.7 billion in the future. This is shown in Note 14(c) of the Province's consolidated financial statements. This note is also referenced at the bottom of the Consolidated Statement of Financial Position.

3.55 In the paragraphs that follow, we will provide further information on spending announcements and how they are recorded in the Province's consolidated financial statements. Every announcement, however, needs to be individually evaluated to determine the correct accounting treatment.

How Are Spending Announcements Recorded?

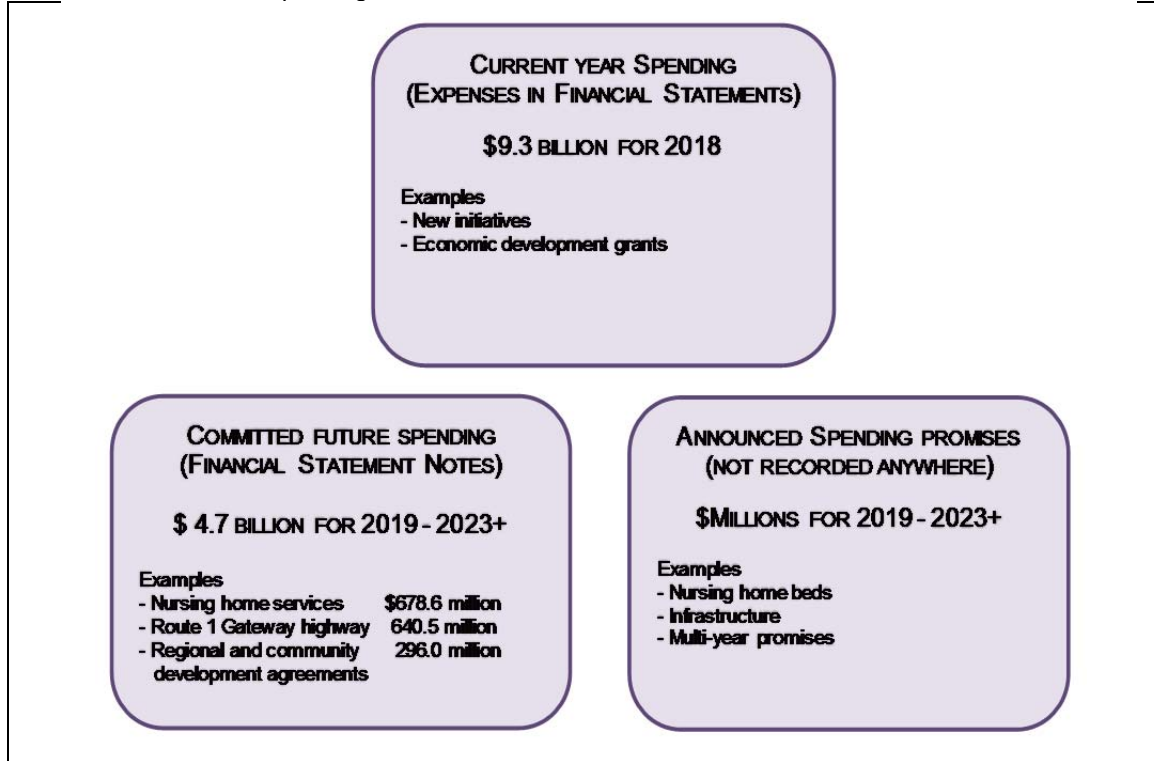
Government spending categories

3.56 As presented in Exhibit 3.7, government spending announcements can be divided into three categories:

- Record in current year expenses (spending is approved for current year);
- Record in future year expenses (agreements are signed to spend money in the future); or

- Record nothing (no spending is approved and no agreements are signed).

Exhibit 3.7 - Government spending and how it is reflected in the Province's consolidated financial statements



Source: AGNB prepared from Note 14 (c) in the Province of New Brunswick Volume 1 Consolidated Financial Statements for the fiscal year 2018. Press releases April 1, 2017 to March 31, 2018.

Current Year Spending – Recorded as Expenses in Financial Statements

Recorded as expenses **3.57** Some spending announcements relate to approved spending through the government’s budget process. In these cases, and if spent as planned, these amounts are recorded as expenses in the current year. This impacts the current year surplus or deficit in the consolidated financial statements.

\$9.3 billion actual expenses **3.58** The Province’s 2018 consolidated financial statements show \$9.3 billion in actual expenses. Included in this amount are some spending announcements which were approved during the year.

Examples **3.59** Examples for current year spending include economic development grants and other new initiatives.

Committed Future Year Spending – Recorded in Financial Statement Notes

Committed future spending

3.60 Sometimes spending announcements are reflected in the notes to the financial statements and are not recorded as expenses. These types of announcements commit the government to future spending if agreements or contracts have been signed.

Users should consult “Commitments” note in financial statement

3.61 Users should refer to the “Commitments” financial statement note presenting future spending (contractual obligations). This note is often overlooked, but it is a very important part of the picture of the Province’s financial situation.

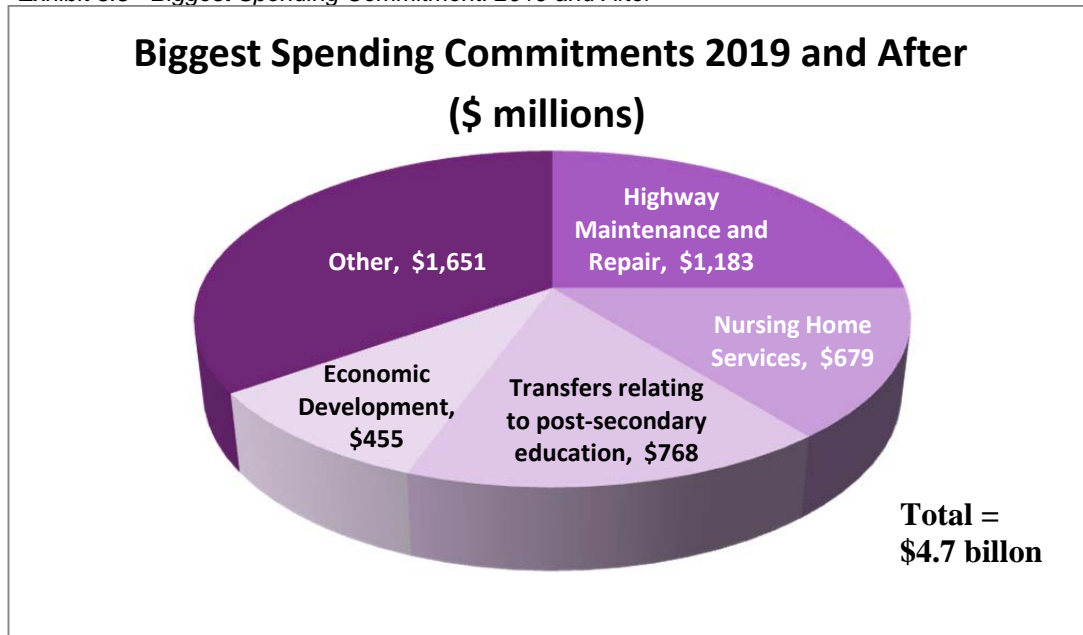
\$4.7 billion of committed spending

3.62 The Province’s consolidated financial statements Note 14(c) shows \$4.7 billion in future spending which was committed by past and present governments. This means the Province will be spending these amounts over future years. This \$4.7 billion had no impact on the 2018 annual surplus.

Examples of committed spending

3.63 Exhibit 3.8 provides some examples of committed spending in the future.

Exhibit 3.8 - Biggest Spending Commitment: 2019 and After



Source: AGNB prepared from Note 14 (c) in the Province of New Brunswick Volume 1 Consolidated Financial Statements for the fiscal year 2018.

Specific example

3.64 For example, included in the Highway Maintenance and Repair figure in Exhibit 3.8 is an operating agreement the Province signed relating to the Maintenance and Rehabilitation of the Route 1 Gateway highway. The Province will pay between \$22 million and \$24 million each year until 2022. After 2022, the Province will continue to make yearly payments totalling \$547 million.

Announced Spending Promises – Not Recorded

3.65 Sometimes spending announcements are promises that do not commit the government to spend money. Every announcement, however, needs to be individually evaluated to determine the correct accounting treatment.

Not recorded

3.66 As many spending promises are not supported by signed agreements or contracts, they do not appear in the financial statements. The government has not spent or contractually committed funds, and as such, in most cases is not required to record anything in its financial statements.

Specific example

3.67 For example in 2018, government published a multi-year plan to create more than a thousand nursing home beds. This promise was to be fulfilled over several years. This promise does not appear in the 2018 consolidated financial statements or its notes as signed contracts do not exist.

Centralizing Accounts Receivable Collection

Why is it Taking So Long to Centralize Accounts Receivable Collection?

\$3 billion in accounts receivable outstanding

3.68 The Province is owed almost \$3 billion in accounts receivable. We believe delays in centralizing accounts receivable collection are negatively impacting government's ability to collect its over-due accounts.

Efforts to centralize accounts receivable collection ongoing for 7 years

3.69 The project to centralize accounts receivable collection has been ongoing for seven years and we would expect the process to now be complete. We are disappointed with this delay.

3.70 In the Follow-up chapter in Volume 5 of our 2017 report, we report only two of nine recommendations have been implemented with respect to Accounts Receivable Collection. We reported a number of departments had not implemented various recommendations as they were waiting for the creation of the "Centralized Collection Unit".

3.71 Given the delays in centralizing accounts receivable collection and the lack of progress in implementing our past recommendations, we will again look at this area in more detail during our 2019 follow-up process.

Factors causing delays in centralizing accounts receivable collection

3.72 From our work this year, we determined the following factors are causing delays to centralize accounts receivable collection:

- the SNB collections branch has not been given a clear direction or mandate to centralize the collections of all accounts receivable;
- no timeline is in place to centralize all accounts receivable to the SNB collection branch;
- inefficiencies exist despite collection efforts having been in place since 2014;
- collection activities are inconsistent across government departments; and
- several resource challenges exist such as staffing and technology.

How Much Money is Owed to the Province?

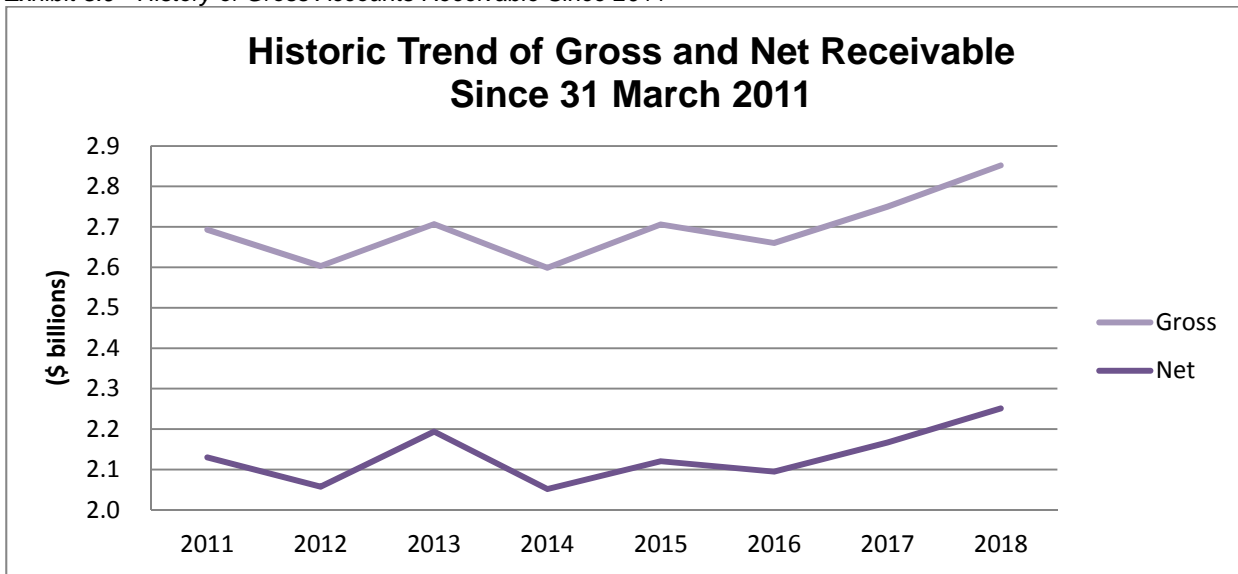
Accounts receivable continue to grow

3.73 Exhibit 3.9 summarizes the Province’s gross and net receivable balances since work to centralize accounts receivable collection began in 2011. Accounts receivable have grown during this time while efforts to centralize accounts receivable collection are delayed.

The Province is owed billions of dollars

3.74 At March 31, 2018, the Province was owed approximately \$2.8 billion for taxes, loans and other accounts receivable. On a net basis (after subtracting the provision for doubtful accounts), the Province was owed approximately \$2.3 billion at March 31, 2018.

Exhibit 3.9 - History of Gross Accounts Receivable Since 2011



Source: Prepared by AGNB from the Province’s audited March 31, 2018 consolidated financial statements.

What We Found

No clear direction has been given

3.75 We met with staff at the SNB collections branch and we were informed government has not provided staff with a direction or mandate to centralize the collections of all accounts receivable. SNB staff are still not clear on the responsibilities of the SNB collections branch and/or departments regarding enhancing the collection of overdue accounts receivable.

SNB has not asked for direction

3.76 SNB has also not approached government for direction in the two years since the collections branch transferred back to SNB in April 2017. We were told SNB plans to approach government in 2019 for direction.

3.77 We also found existing legislation still needs to be reviewed as part of the centralization process. For example, legislation needs to be reviewed to determine if it is possible to share debtor information between departments.

Accounts receivable are diverse

3.78 Overdue debtor accounts are diverse in nature and are specific to each department. This results in various approaches and processes to collect the different overdue accounts. Overdue accounts relate to property taxes, student loans, court fines, social assistance overpayments and other loans and general accounts.

Various repayment methods are used

3.79 For some overdue accounts, more steps are required than standard collection activities such as mailing letters and making telephone calls. Some departments have programs in place to help debtors repay such as payment plans and repayment assistance. Other departments use the Canada Revenue Agency (CRA) to offset tax refunds to collect overdue accounts.

Claims have limitation periods

3.80 Legislation is also in place which sets a time limit on bringing legal claims against debtors. Once the limitation period expires, so does the ability to make a legal claim. The Province changed legislation in 2011 to include a standstill provision to May 2016 to allow the Province time to develop a plan that would prevent further debts becoming statute barred. This standstill provision was extended again in 2016 to July 2021.

Accountability is not clear which is causing inefficiencies and delays

3.81 The SNB collections branch does not know if its mandate is to act solely as a typical collection agency or if, given the diversity of government accounts, it has a larger mandate for things such as administering repayment programs, assisting debtors and developing strategies to identify and prevent overdue account balances from increasing. We believe this uncertainty is causing inefficiencies and delays in collecting overdue accounts which may not be corrected until government provides a direction or mandate.

- 3.82** The impact of having no clear direction or mandate was evident in our work this year on overdue property tax accounts. Despite being responsible for collecting since 2014, we found the objectives and work performed by the SNB collections branch to collect overdue property tax accounts were not the same as what the Department of Finance expected. We also found some work was duplicated by both the Department of Finance and the SNB collections branch.
- Other challenges also exist** **3.83** We also found the SNB collections branch has experienced challenges such as staffing, limits on technology and continuous change since being created. Exhibit 3.10 summarizes the organizational changes since 2011.
- No timetable is in place** **3.84** It has still not been determined when the SNB collections branch will expand to include other departments or how the need for increased staff will be met. The ERP initiative includes technology to support collection efforts, however, the implementation timeline is not yet finalized.

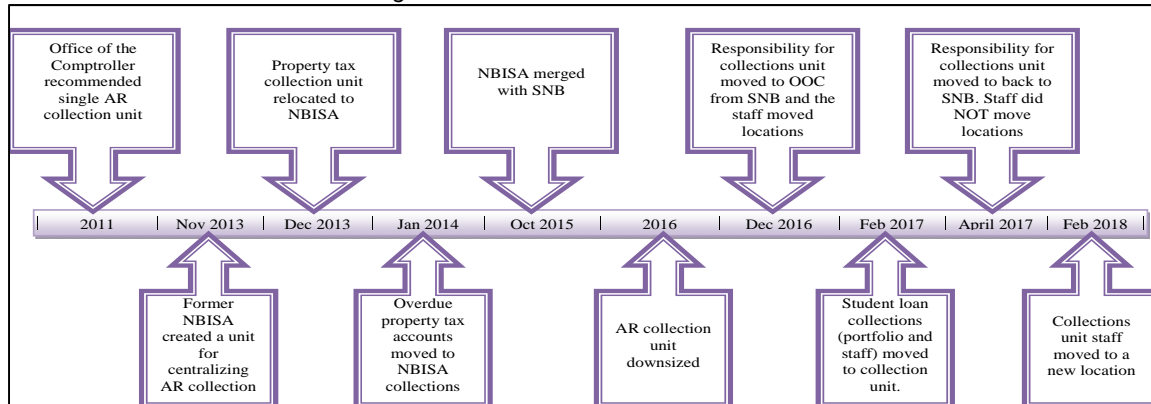
What is the History of Centralizing Accounts Receivable Collection?

- Little progress has been made to centralize collections** **3.85** In 2011, the Province began work to create a centralized branch to focus solely on collecting the Province's overdue accounts. The centralized branch was created in 2013 and was to collect overdue accounts for the Department of Finance and the Department of Agriculture, Aquaculture & Fisheries. Other departments were to be added in three more phases at later dates.
- 3.86** The growth of the centralized branch did not happen as planned. The centralized branch began collecting overdue property tax accounts for the Department of Finance in 2014. For three years, the centralized branch was only responsible for collecting overdue property tax accounts. In 2017, collecting overdue student loan accounts was transferred to the centralized branch from the Department of Post-Secondary Education, Training and Labour (PETL).
- 3.87** At March 31, 2018, seven years after efforts first began to centralize accounts receivable collection, the centralized branch collects property taxes and student

loans. All other accounts receivable are still the responsibility of other government departments. See Exhibit 3.10 for a timeline showing the changes associated with centralizing accounts receivable collection.

What was the Timeline for Centralizing Accounts Receivable Collection?

Exhibit 3.10 - Timeline for centralizing accounts receivable collection



Source: AGNB prepared based on information from SNB.

Collecting delays increase borrowing costs for the Province

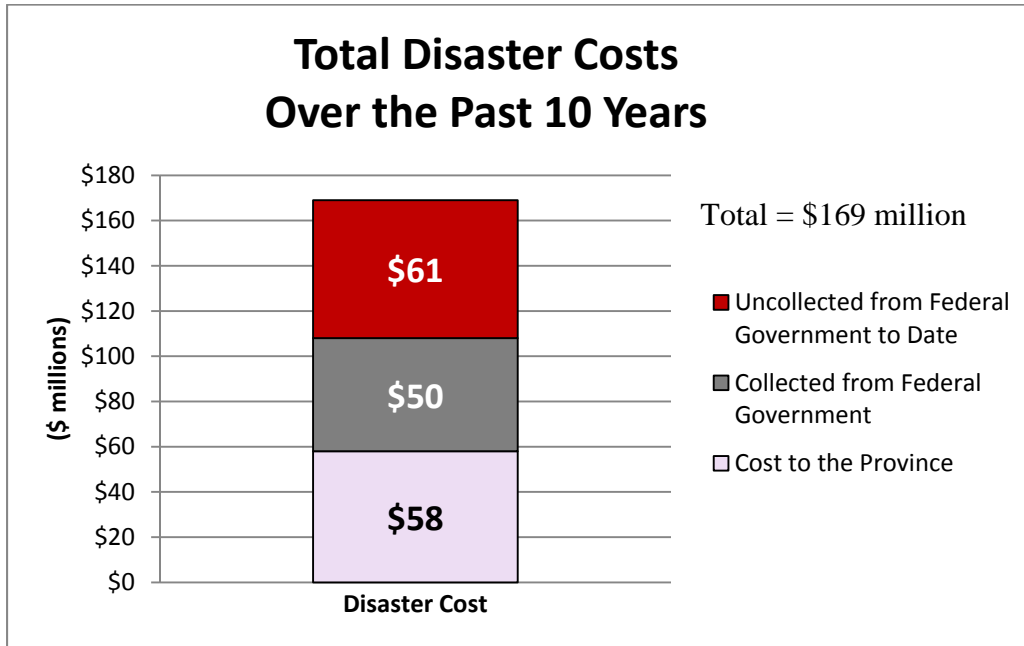
3.88 Delays in collecting significant receivable balances increase borrowing costs; the Province has to borrow money to pay current expenses. During a time when Net Debt has reached an all-time high as discussed in Chapter 2, collecting receivables should be made a priority.

Disaster Financial Assistance Receivable now at \$61 million

3.89 Another significant receivable is Disaster Financial Assistance. Over the last ten years, the Department, through the DFAA (Disaster Financial Assistance Arrangements) program has submitted \$169 million in disaster recovery expenses to the Federal government. Using a cost sharing formula, the Department's share is \$58 million with the remaining \$111 million being covered by the Federal government.

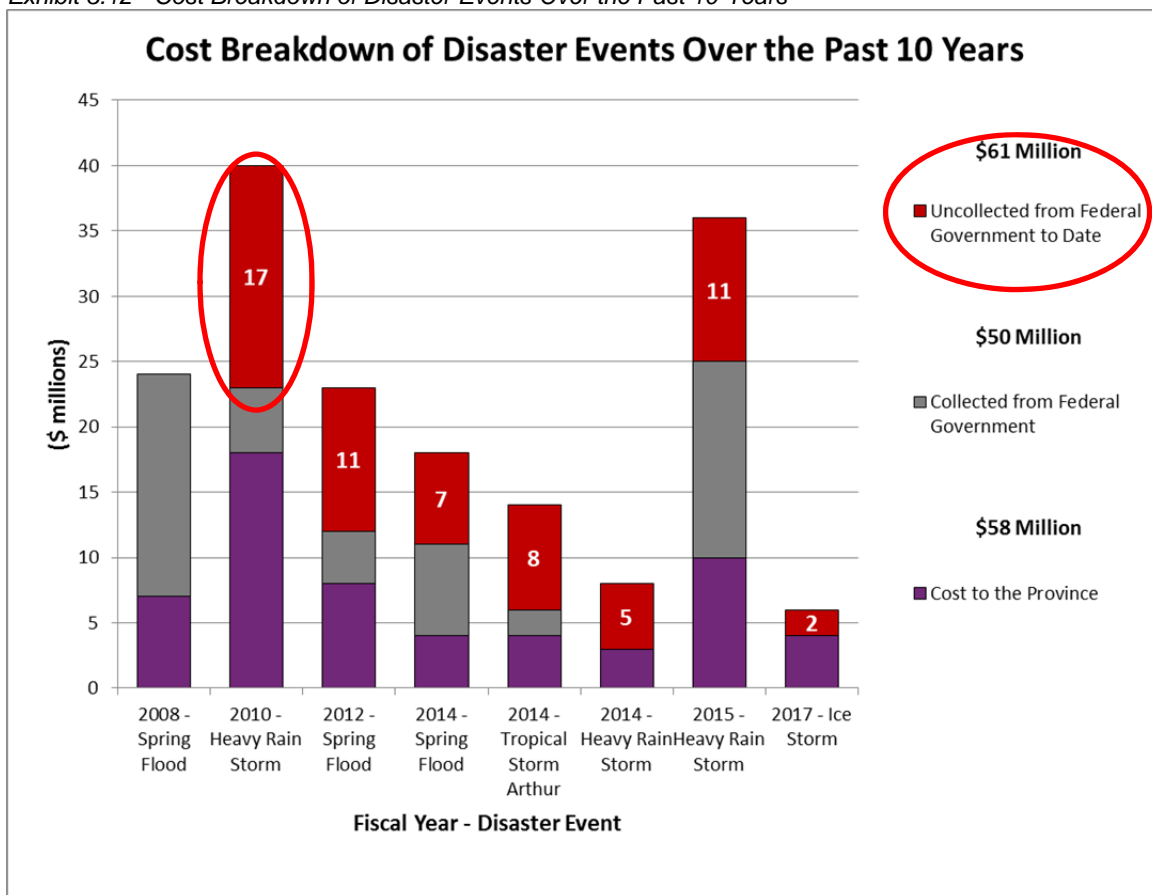
3.90 Of the \$111 million, only \$50 million has been collected and \$61 million remains outstanding. Exhibits 3.11 and 3.12 illustrate the cost breakdown of the disaster events for the past 10 years at March 31, 2018.

Exhibit 3.11 - Total Disaster Costs Over the Past 10 Years



Source: AGNB prepared from information provided by the Department of Justice and Public Safety.

Exhibit 3.12 - Cost Breakdown of Disaster Events Over the Past 10 Years



Source: AGNB prepared from information provided by the Department of Justice and Public Safety.

3.91 Given the frequency of Disaster Events and the growing receivable, now at \$61 million, collection efforts must be persistent.

3.92 We were informed it takes several years to file a claim for Disaster Financial Assistance with the Federal government and respond to follow-up requests. For future disaster events, the Department indicated it is applying to receive cash advances rather than collecting funds after claims have been filed. This should help with managing the Province's cash flow in the future for significant disaster events.

Results of the Province's Financial Statement Audit

What We Found in Our Financial Statement Audit of the Province

Unqualified opinion

3.93 On August 13, 2018 the Auditor General signed an unqualified (“clean”) audit opinion on the consolidated financial statements of the Province of New Brunswick for the year ended March 31, 2018.

3.94 The opinion indicates the Province’s consolidated financial statements are presented in accordance with Public Sector Accounting Standards. We are very pleased an unqualified audit opinion was released prior to the September 2018 election.

3.95 To reach an opinion on the consolidated financial statements, we carry out audit work on the major programs and activities in departments and Crown agencies. In addition, we audit major revenue items and a sample of expenses chosen from departments. We also examine internal controls of significant computer systems

Recommendations made to provincial Comptroller

3.96 In almost every audit, there are audit findings to be discussed with management. We made nine recommendations to the provincial Comptroller during this year’s audit. These were also summarized in a report to the Province’s audit committee.

3.97 Although we believe these recommendations were important to report to the Comptroller and the audit committee, they were not sufficiently large in dollar or qualitative terms to affect our opinion on the consolidated financial statements. We have reported any significant findings in this chapter.

3.98 While we have not noted any significant fraud, the existence of the findings may increase the risk of loss or mistake in the Province's consolidated financial statements. These items should be addressed prior to the next audit cycle.

3.99 In general the provincial Comptroller indicated he agreed with our recommendations and intends to address our concerns in the coming year.

Computer Systems Audited During the Provincial Audit

3.100 During the audit of the Province’s consolidated financial statements, we perform work on various computer systems. In Exhibit 3.13, we provide information on the computer systems audited and if recommendations were made to each responsible department or Crown agency.

3.101 In this chapter we have reported any findings we believe to be significant in nature from our computer systems work.

Exhibit 3.13 - List of IT Systems/Areas Audited by AGNB and Number of Recommendations to Management of the Department or Crown Agency

Department/Agency	IT System/Area	Recommendations Issued
Education and Early Childhood Development	Teachers’ payroll system	Yes
Finance	Property tax system	Yes
Service New Brunswick	Civil service payroll system (HRIS)	Yes
	Oracle input system (IPM)	Yes
	IT Infrastructure	Yes
	Property assessment system	Yes
Office of the Comptroller	Oracle financials	Yes

Source: AGNB prepared information.

Results of Crown Agency Financial Statement Audits

What We Found in Our Crown Agency Audits

***Unqualified audit
opinions issued***

3.102 For all but one of the Crown agencies we audit, we issued unqualified (“clean”) audit opinions. We issued a qualified audit opinion for the audit of the Office of Public Trustee. In common with many trusts, we were unable to verify the completeness of assets and our work was limited to the amounts recorded in the records. During the year, we completed 12 audits of Crown agencies financial statements, 1 claim audit and one notice to reader engagement.

***Recommendations made
to Crown agencies***

3.103 We made recommendations in 11 of our 12 Crown agency financial statement audits, as noted in Exhibit 3.14. We made these recommendations to each agency’s board of directors. Our recommendations were in the areas of: board governance, accounting concerns, internal control weaknesses, and cash management.

***Crown agencies should
implement our
recommendations before
the next audit cycle***

3.104 While we did not find evidence of any significant fraud, theft or error occurred, our recommendations indicate deficiencies in internal control or mistakes in financial reporting. We encourage Crown agencies to implement our recommendations prior to the next audit cycle.

Crown Agencies Audited During the Year

3.105 Exhibit 3.14 provides information on the Crown agencies we audited over the past year (October 2017 – October 2018), the fiscal year-end completed, and if recommendations were made to each Crown agency. We present information on one Crown agency where we performed a notice to reader engagement.

Exhibit 3.14 - List of Crown Agency Audits and Notice to Reader Engagement Performed by AGNB and Recommendations to the Board of Directors of the Crown agency

Crown Agency	Recommendations Issued
March 31, 2018 Year End Audits	
Opportunities New Brunswick	Yes
Service New Brunswick	Yes
New Brunswick Legal Aid Services Commission	Yes
New Brunswick Legal Aid Services Commission – Federal Claim	Yes
March 31, 2018 Notice to Reader	
New Brunswick Combat Sport Commission	N/A – Not an Audit
December 31, 2017 Year End Audits	
New Brunswick Municipal Finance Corporation	No
March 31, 2017 Year End Audits	
Le Centre communautaire Sainte-Anne	Yes
Kings Landing Corporation	Yes
New Brunswick Agricultural Insurance Commission	Yes
New Brunswick Highway Corporation	Yes
New Brunswick Lotteries and Gaming Corporation	Yes
Premier’s Council on Disabilities	Yes
New Brunswick Legal Aid Services Commission – Trusts under the Administration of the Public Trustee	Yes
Regional Development Corporation	Yes

Source: AGNB prepared information.

3.106 In general Crown agencies indicated they agreed with our recommendations and they intend to address our concerns in the coming year.