

Chapter 5

Results of our Audit of the Province of New Brunswick's Financial Statements

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Results of our Audit of the Province of New Brunswick's Financial Statements

Summary

- AG signed unqualified audit opinion***
- 5.1** On October 8, 2020 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, 2020.
- 5.2** This opinion indicates the Province’s consolidated financial statements are presented fairly in accordance with Public Sector Accounting Standards.
- 5.3** To reach an opinion on the consolidated financial statements, we perform 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 Office of the Comptroller***
- 5.4** In almost every audit, we have audit findings to discuss with management. For the 2020 provincial audit, we made 11 recommendations to the Office of the Comptroller (OOC). We summarized these recommendations in a report to the Province’s audit committee.
- 5.5** Although, in our view these recommendations were important to report to the Comptroller and the audit committee, the recommendations were not sufficiently large in monetary or qualitative terms to affect our opinion on the consolidated financial statements. We have presented any significant findings in this report.

- 5.6** While we have not noted any significant fraud, the existence of our findings may increase the risk of loss or error in the Province's consolidated financial statements. These findings should be addressed prior to the next audit cycle.
- 5.7** In general, the OOC agreed with our recommendations and intend to address our concerns in the coming year.

Vestcor Denied Auditor General Unrestricted Access to Pension Information

Vestcor denied the Auditor General unrestricted access to Vestcor Investment Entities external audit file

- 5.8** Vestcor denied the Auditor General unrestricted access to view the Vestcor Investment Entities' (VIE) external audit file. Vestcor was willing to grant restricted access with conditions to view the VIE external audit file, however, these conditions were unacceptable to the Auditor General, and access was therefore not obtained.

- 5.9** The VIE manages certain investments of the New Brunswick Public Service and Teachers Pension Plans (NBPSPP and NBTPP). We requested access to the VIE external audit file to review investment information for the audit of the Province's 2020 financial statements.

The Auditor General Act provides the Auditor General access to perform her duties

- 5.10** In our view, the Auditor General is permitted access under the *Auditor General Act* to review the VIE external audit file. This is because VIE financial information is included in the Province's financial statements, and in our opinion, review of this information relates to the fulfillment of the Auditor General's duties under the *Auditor General Act*¹. Further discussion regarding Vestcor's access denial to the Auditor General is presented in the Report of the Auditor General - Volume II, Chapter 5.

¹ *Auditor General Act 2011, s.13* "Despite any other Act, the Auditor General is entitled: (a) to free access at all convenient times to information, including files, documents, records, agreements and contracts, despite that they may be confidential or private, that relates to the fulfilment of his or her responsibilities."

5.11 The NBPSPP and NBTPP, among other pension plans, are included in the Province's financial statements in Note 11- Retirement Benefits. Note 11 is an integral part of the Province's financial statements as it provides several pages of significant detail of the over \$14 billion in public sector pension plan assets and obligations. The VIE manages investment assets of the plans.

***Alternate solution found
for Province's 2020
financial audit***

5.12 To meet our audit requirements this year we worked cooperatively with the OOC to have the VIE external auditor, who was permitted access, perform an engagement using procedures designed by our office. This was an alternate solution for the Province's 2020 financial audit, and resulted in:

- approximately \$30,000 in incremental costs to the taxpayer for the VIE external auditor to perform the specified procedures engagement contracted by the OOC;
- additional audit time by both AGNB and the OOC to discuss, correspond with management at Vestcor and the VIE external auditor, and design procedures to be performed; and
- delays in finalizing the Province's financial statement audit ultimately resulting in finalization past the legislated deadline of September 30th.

5.13 While the alternate solution resolved issues for this year's audit, in our view the preferred solution is for AGNB to be permitted unrestricted access in accordance with the *Auditor General Act* to the VIE external audit file as it would be more efficient and cost effective to the taxpayer, AGNB and the OOC. Therefore, the Auditor General is seeking ongoing AGNB access to the VIE external audit file.

Recommendations

5.14 **We recommend the OOC work with Vestcor to ensure the Auditor General has unrestricted access to pension plan information. Access is needed to obtain sufficient and appropriate audit evidence in order to express an opinion on the Province's financial statements as required under the *Auditor General Act* sections 11 and 13.**

- 5.15** In addition, we recommend the OOC work with Vestcor to find a permanent solution to obtain audit evidence at March 31 for plan assets of the Public Service and Teachers' pension plans before the 2020-21 public accounts audit.

Outdated *Financial Administration Act*

- | | | |
|--|-------------|--|
| <i>Past recommendations made to update the Financial Administration Act</i> | 5.16 | Over the past three years, we have made multiple recommendations to Executive Council Office, Department of Finance and Treasury Board, and the OOC on the need for the <i>Financial Administration Act</i> (FAA) to be updated. |
| <i>The FAA is out of date</i> | 5.17 | The FAA is out-of-date and does not align with current accounting standards or governance best practices, such as the Legislature approving an appropriation before the contract is signed. This includes appropriations for multi-year contracts, such as those included in the \$5 billion commitments amount disclosed in <i>Note 14 – Commitments</i> of the Province's consolidated financial statements for Departments and Other Government Entities. |

Past recommendations **5.18** A summary of past recommendations in Auditor General reports is included below.

June 2018 - Chapter 4:

4.33 We recommend Treasury Board prepare and submit Supplementary Estimates or Special Warrants before departments overspend their approved budgets.

4.34 We recommend Treasury Board pursue legislative amendments to the *Financial Administration Act* to align with current accounting practices.

June 2019 – Chapter 5:

5.54 We recommend the Executive Council Office/Treasury Board Secretariat ensures the need for an appropriation in advance of expending provincial funds as per the *Financial Administration Act*

5.85 We recommend Treasury Board Secretariat/provincial Comptroller review and update the *Financial Administration Act* to:

- modernize the Act with respect to payments, accruals and conformance with Public Sector Accounting Standards;
- increase clarity for key financial officers processing payments throughout government to know if proper budget authority exists; and
- provide budget appropriations for multi-year agreements at the time in which funds are legally committed.

December 2019 – Chapter 12:

12.16 We recommend the OOC take the lead in promoting change to the *Financial Administration Act*. We recommend in particular the OOC focus on changes recommended in past Auditor General reports and develop a timeline for completion.

2020 Update

5.19 We are pleased the Office of the Comptroller conducted a review of the FAA based on the recommendations we had in our previous reports however no legislative changes have been brought forward to Executive Council and Finance and Treasury Board.

- Comptroller should complete his review and bring forward legislative changes in 2021*** **5.20** In our view, the Comptroller should complete his *Financial Administrative Act* review through further evaluation, seeking stakeholder feedback and legal advice as required to bring forward legislative changes to the Executive Council and Treasury Board in 2021.
- Recommendation*** **5.21** **We recommend the Comptroller take the lead to amend the *Financial Administration Act* and develop a timeline for completion in 2021.**

NB Power's Ability to Self-Sustain its Operations

- Recap of 2018 report – Concerns regarding NB Power's ability to self-sustain operations*** **5.22** We presented in the 2018 Report of the Auditor General – Volume III our concern NB Power may not be able to self-sustain its operations in the long-term due to an elevated debt level and nominal annual net earnings.
- Recap of 2018 report – How NB Power is accounted for in the Province*** **5.23** We also included information on how NB Power is currently accounted for in the Province's consolidated financial statements as a Government Business Enterprise. This means only NB Power's earnings or losses are included in the Province's consolidated financial statements.
- 5.24** If NB Power was ever determined to no longer be self-sustaining through rate payers, and therefore no longer a Government Business Enterprise for accounting purposes, all debts, assets, liabilities, revenue and expenses would be included in the Province's consolidated financial statements.
- As at March 31, 2020 NB Power can still self-sustain its operations*** **5.25** We reviewed the OOC's work regarding NB Power's ability to self-sustain its operations for the year ended March 31, 2020. We agreed NB Power can self-sustain its operations at that point in time.

We remain concerned because factors affecting ability to self-sustain operations continue to worsen

5.26 We noted, however, NB Power's ability to self-sustain its operations appeared to be deteriorating from year to year and our concerns are increasing. Observations during 2020 include:

- a net loss of \$16 million was incurred;
- if mark-to-market investment income is removed from net earnings/loss, which is unrealized and fluctuates year to year, NB Power has not made a profit since 2016. See table below:

Fiscal Year	Net Earnings (Loss) Reported	Net Earnings without Mark-to-Market
2020	(16)	(12)
2019	20	(34)
2018	23	(7)
2017	27	(23)
2016	12	13

- again this year, NB Power did not meet its requirement under the *Electricity Act* for an 80-to-20 debt-to-equity ratio. Their long-term plan indicates they do not expect to meet this requirement until 2027;
- significant capital investments remain on the horizon for the entity. These include the Mactaquac Dam refurbishment, carbon tax and smart metres, likely resulting in increased debt; and
- a recent decision by NB Power to defer its approved 1.9% rate increase that would have been effective April 1, 2020 will further limit NB Power's ability to repay debt in the future.

Continue to monitor NB Power and report next year

5.27 We will request the Office of the Comptroller prepare an analysis on NB Power's ability to self-sustain its operations again next year. If NB Power was determined to no longer be self-sustaining, there would be a significant impact on how the Province accounts for NB Power in its financial statements.

5.28 Further information on how the Province accounts for NB Power and the potential impact of a change can be found in the 2018 Auditor General's Report (Volume III – Chapter 3).

The Province Does Not Have a Formal Fraud Policy

<i>No formal policy to prevent fraud</i>	5.29	We again found the Province does not have a formal fraud policy in its administration manual. Our inter-jurisdictional review found that other jurisdictions such as Newfoundland & Labrador, and Nova Scotia have a formal fraud policy.
	5.30	Public sector fraud is concerning as it could result in the loss of public funds which would reduce the public's confidence in the Province's ability to safeguard assets.
<i>Government-wide policy would reduce fraud risk</i>	5.31	A policy helping departments and Crown agencies prevent and detect fraud would help reduce the risk of fraud. Some examples of what a policy could include are: <ul style="list-style-type: none"> • documented fraud risks; • documented procedures for preventing, detecting and reporting fraud; and • the need for fraud awareness training and education.
	5.32	Since our recommendation last year, the OOC (Internal Audit) has added the development of a formal fraud policy to their 2021 fiscal year work plan. As this plan is not yet complete, we again made a formal recommendation.
<i>Recommendation</i>	5.33	We again recommend the Office of the Comptroller (Internal Audit) develop a formal fraud policy to include in the Province's Administration Manual.

School Raised Funds Tracking - Improvement is Needed

	5.34	Tracking of school raised funds has been a long-standing issue going back to the Office of the Comptroller's audit reports dating from 2006 to 2011.
<i>What are school raised funds?</i>	5.35	School raised funds refer to monies raised by school personnel, parents, students, volunteers or donations from the community, for the use and benefit of the students of the school.

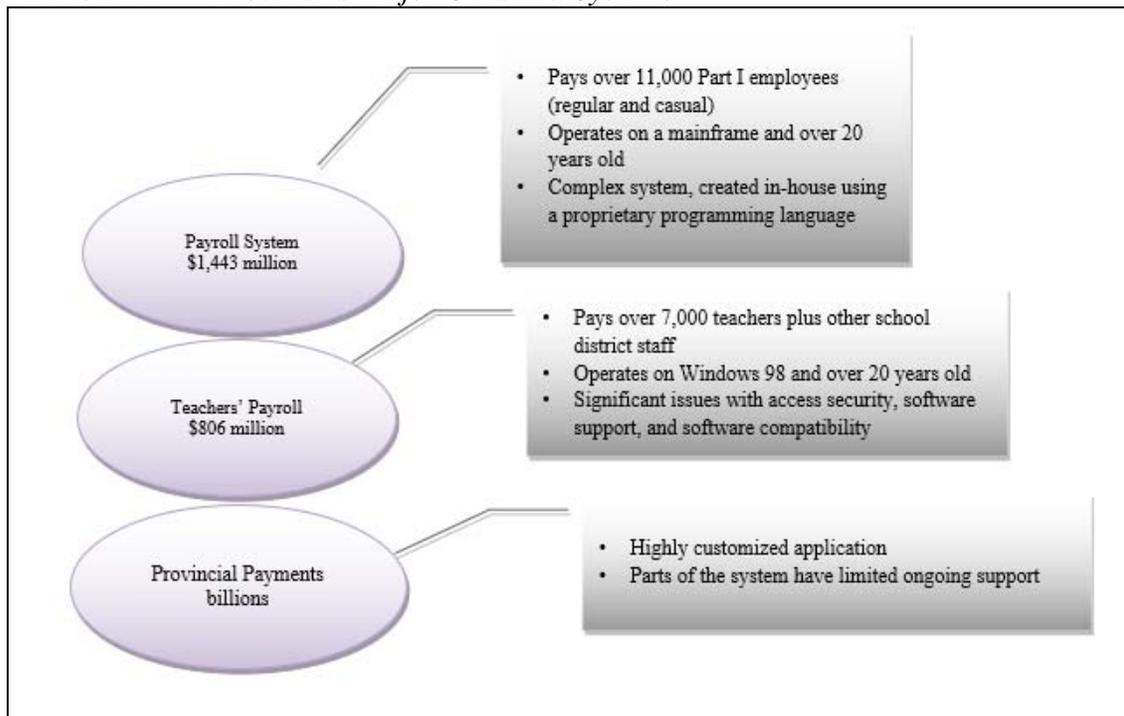
- 5.36** These funds are more susceptible to theft or mismanagement than other financial transactions as they are comprised of high-volumes of cash transactions with limited staff in schools trained to administer and manage them.
- 5.37** School districts and schools should have appropriate administrative and accounting processes and controls in place to provide safeguards of assets and clear accountability for revenues, expenditures, assets and liabilities of school raised fund activities.
- Inconsistencies noted in tracking of school raised funds*** **5.38** During our audit we continued to note inconsistencies on how school raised funds are tracked between the school districts. Unclear roles and responsibilities resulted in information not being readily available during our audit which resulted in more audit efforts and the involvement of numerous Department staff.
- Recommendations*** **5.39** **We again recommend the Department of Education and Early Childhood Development evaluate the current use of online revenue collection and the use of the school cash computerized system. As part of this process, the Department, in collaboration with the Office of the Comptroller should determine the optimal online cash handling process. A consistent Province-wide system should be implemented.**
- 5.40** **We recommend the Department and the OOC ensure the Province-wide online system can produce school raised funds reports at both the school and district levels. The Department should require schools and districts make these reports publicly available.**
- 5.41** **In addition, the OOC should set up specified coding in Oracle exclusively for school raised funds so that expenses and revenues can easily be distinguished.**

Province Has Major Outdated IT Systems

Major systems are out of date

A failure of the Province's major IT systems would affect the majority of New Brunswickers. For the past eight years, we reported the Province has many outdated IT systems. Exhibit 5.1 shows the Province's major outdated systems, dollars processed, and associated risks.

Exhibit 5.1 - Province's Major Outdated Systems



Source: Prepared by AGNB from information provided by SNB and Department of Education and Early Childhood Development (unaudited).

5.43 These outdated systems process the majority of the Province's employee 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 can result in duplicate payments and efforts

5.44 Operating multiple duplicate systems results in wasted time for employees and can result in duplicate payments to employees and 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 multiple systems.

What Is the Province Doing About Its Outdated IT Systems?

New ERP system expected to start being rolled out in December 2020

5.45 The Province plans to replace its outdated and duplicate systems with a new ERP (Enterprise Resource Planning) system. We were informed the new ERP will be deployed in stages and the first stage is expected to be deployed in December 2020. This is a significant milestone in the project.

No timeline for the ERP to be fully in place

5.46 The schedule for deploying the remaining stages after December 2020 is not yet finalized. Each stage of deployment will introduce new modules such as accounts payable and payroll. The Province will continue to use its current, outdated, systems until the new ERP is fully in place

5.47 Three benefits from implementing a new ERP include the following.

- It will be more efficient as it will replace many of the Province's outdated systems.
- It will prevent system failures from outdated systems as the new ERP will run on up-to-date software and hardware.
- It will provide timely and better information for decision makers.

<i>Scope of the ERP project is extensive</i>	5.48	The scope of the new ERP project is extensive. It will be used by Part I (departments and some Crown agencies), Part II (school districts), and the Community Colleges. The system will cover many areas such as: <ul style="list-style-type: none"> • 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.
<i>We were informed project management practices are in place</i>	5.49	The new ERP project needs to be properly managed by the Province to prevent failure when implementing the system. From our interviews, we were informed the Department of Finance and Treasury Board is taking steps to ensure a strong project management framework is in place to oversee and monitor this major system change.
<i>Total system cost unknown</i>	5.50	We are unable to determine the total cost of the new ERP system. The project is still underway.

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

<i>AG will continue to report</i>	5.51	Implementing a new ERP system is a significant risk to the Province. The Province has indicated it is monitoring, assessing and managing this risk. We will continue, however, to report on the ERP system in future reports.
	5.52	Until the ERP system is complete, we will continue to audit the existing outdated systems.

IT Computer Systems Audited During the Provincial Financial Statement Audit

- 5.53** During the audit of the Province's consolidated financial statements, we perform work on various computer systems. In Exhibit 5.2, we provide information on the computer systems audited and if recommendations were made to each responsible department or Crown agency.
- 5.54** In this report, we have noted any findings we believe to be significant in nature from our computer systems work.

Exhibit 5.2 - List of IT Systems/Areas Audited by AGNB in 2020 and if Recommendations were Issued 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 and Treasury Board	Property tax system	Yes
Service New Brunswick	Employee payroll system (HRIS)	Yes
	Oracle input system (IPM)	Yes
	IT Infrastructure	Yes
	Property assessment system	Yes
Office of the Comptroller	Oracle financials	Yes

Source: Prepared by AGNB.

Some findings are sensitive

- 5.55** We are not publishing the details of all our IT system work given the technical nature of many of our findings, and the risk of possible loss of government assets if the details of such findings are reported. Instead, we are summarizing our observations and providing an overview of the most significant findings.

Multiple Weaknesses in IT System

<i>Concerned with the nature, number and severity of system weakness</i>	5.56	We found IT weaknesses, in all the computer system audits presented in Exhibit 5.2. We are concerned with the nature, number and severity of the weaknesses given the significance of the systems examined. We are not reporting the details of our observations as it could compromise the security of the various systems.
<i>Strong controls needed to protect data</i>	5.57	<p>We made 12 recommendations relating to the risk of unauthorized access to systems and data. We found weaknesses such as:</p> <ul style="list-style-type: none"> • unauthorized user access to view or change data, such as not receiving and reviewing a third-party service organization report on security of outsourced data; • lack of user access reviews; • delays in disabling user access; • weak system security access controls (such as passwords not set to expire); and • no policies or procedures for IT processes, such as identifying changes to data.
	5.58	Strong system controls are needed to protect data confidentiality and integrity. Without strong controls, the risk increases of fraud, error or unintended exposure of confidential information.
<i>Lack of review of system administrators</i>	5.59	We made four recommendations relating to lack of review of system administrators' work. We found three cases where no review was performed and one case where the review was not documented for system changes made by privileged users, such as system or database administrators. Not reviewing the work of these privileged users increases the risk of unauthorized changes to systems or data.
<i>Lack of review of the output from key system processes</i>	5.60	We made four recommendations relating to lack of review of the output from key system processes, such as verifying the accuracy of electronic payments. We found two cases where existing review processes need to be improved and two cases where no review processes were performed. We also found one case where system information was not reconciled. Not reviewing the output from key system processes

increases the risk of error in processes, such as payments.

Weakness in business continuity plans

5.61 We made two recommendations relating to business continuity plans (BCP). We found the BCPs were not tested for two systems and, in one case, the plan was not updated. Testing BCPs regularly helps ensure critical services are available and data corruption/loss is minimized should a disaster occur.