

Chapter 6

Results of Crown Agency Financial Statement Audits

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Results of Crown Agency Financial Statement Audits

What We Found in Our Crown Agency Audits

Unqualified audit opinions issued to all crown agencies

6.1 For all Crown agencies we audit, we issued unqualified (“clean”) audit opinions. During the year, we completed ten audits of Crown agencies’ financial statements, one claim audit, and one notice to reader engagement.

Recommendations made to Crown agencies

6.2 We made recommendations in nine of our ten Crown agency financial statement audits, as noted in Exhibit 6.1. 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.

Significant findings are incorporated into our observations throughout the volume

6.3 We have not specifically discussed the results of our Crown agency work in this chapter. Throughout this volume, however, we have incorporated our significant Crown agency findings into our observations.

Crown agencies should implement our recommendations before the next audit cycle

6.4 While we did not find evidence that 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

6.5 Exhibit 6.1 provides information on the Crown agencies we audited over the past year (October 2019 – October 2020), the fiscal year-end completed, and if recommendations were made to the Crown agencies. We also present information on one Crown agency where we performed a notice to reader engagement.

Exhibit 6.1 - List of Crown Agency Audits and Notice to Reader Engagement Performed by AGNB and if Recommendations were issued to the Board of Directors of the Crown Agency

Crown Agency	Recommendations Issued
March 31, 2020 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, 2019 Notice to Reader	
New Brunswick Combat Sport Commission	N/A – Not an Audit
March 31, 2019 Year End Audits	
Cannabis Management Corporation	No
Kings Landing Corporation	Yes
New Brunswick Energy Solutions Corporation	Yes
New Brunswick Highway Corporation	Yes
New Brunswick Lotteries and Gaming Corporation	Yes
Regional Development Corporation	Yes
March 31, 2018 Year End Audits	
New Brunswick Highway Corporation	Yes

Source: Prepared by AGNB.

- 6.6** In general, Crown agencies indicated they agreed with our recommendations and they intend to address our concerns in the coming year.
- 6.7** New Brunswick Energy Solutions Corporation (Energy Solutions) was incorporated in June 2017. We signed an unmodified (clean) opinion on its March 31, 2019 financial statements in August 2020. The March 31, 2018 financial statements were not audited due to only nominal transactions for share capital occurring in its first fiscal year.
- 6.8** Energy Solutions’ financial statements state it “*focuses on the strategic identification and development of economically viable projects leading to investments in the energy sector to create future revenues for the Province.*”
- 6.9** Incorporation materials indicate Energy Solutions was created to pursue projects outside the New Brunswick Power Corporation’s (NB Power) mandate. Through this method of funding Energy Solutions would not be subject to scrutiny by NB Power’s regulator, the Energy and Utilities Board. It is governed by a Board of Directors primarily comprised of senior officials from the Department of Natural Resources and Energy Development (Department) and NB Power, however it received all its \$10.2 million operational funding from the Department.
- 6.10** Energy Solutions’ first significant financial transactions occurred in fiscal 2019, when \$10 million in total financial assistance was provided to two recipients for small modular nuclear reactor research. The Department, Energy Solutions, NB Power, and each recipient were signing parties on the agreements to the two recipients. As of November 2020, the time of writing this report, no other significant financial transactions have occurred in Energy Solutions.
- 6.11** The \$10.2 million expenditure by the Department to Energy Solutions was unbudgeted as it was not included in the Department’s original budget for its 2019 fiscal year. Treasury Board approved the additional expenditure in the Department in June 2018. Part of the expenditure was absorbed by the Department, however the remaining \$8.6 million was transferred from Central Government as a supplementary estimate draw. This transfer and its approval did not occur until after the fiscal year on May 10, 2019.
- Energy Solutions created in June 2017**
- Intended focus was energy sector investments**
- \$10 million in financial assistance for small modular nuclear reactor research**
- Budget transfer not obtained until after year-end**

Supplementary estimates should be obtained before departments overspend

Reason to incorporate as a Crown Corporation not clear

6.12 The Department indicated it did not obtain the supplementary estimate following Treasury Board approval because it was unknown at the time how much could be absorbed within the Department's existing budget. As well it was not known how quickly the financial assistance recipients would meet the conditions of the contract and thus being eligible for payment.

6.13 However, during the fiscal year the Department overspent prior to obtaining the supplementary estimate. As recommended in past AG reports and Chapter 5 of this report, we recommended supplementary estimates be obtained before departments overspend.

6.14 In our audit of Energy Solutions at March 31, 2019, review of incorporation materials, and discussions with the Department it was also not clear why:

- a separate Crown Corporation outside of the Department was needed;
- the Department could not work with NB Power directly to pursue such energy sector investments; and
- the financial assistance provided to recipients was not channelled through the Department directly or other existing economic development agencies such as ONB, RDC or PHL.

6.15 While we questioned Energy Solutions and Department management regarding the above, we did not receive a satisfactory explanation. We therefore chose to highlight the situation in this Report for the attention and information of Public Accounts Committee Members.