

Chapter 1

Financial Audit – Key Messages from the Auditor General

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Financial Audit Volume

Report of the Auditor General – Volume III 2021

What We Found

2021 Surplus

- 2021 annual surplus was \$409 million, the fourth consecutive annual surplus
- Revenues increased by \$426 million mostly because of increased transfers from the Federal government, \$301 million of which was one-time Covid-19 related funding
- Expenses increased by \$67 million, mostly due to increased spending for COVID-19 of \$123 million which is offset by decreased spending for financial assistance of \$79 million
- Opportunity to improve disclosure, especially related to pandemic spending, in the Province's financial statement discussion and analysis

Net Debt

- Net Debt decreased by \$470 million to \$13.5 billion, the second consecutive annual decrease which was largely caused by the surplus
- Net Debt is \$3.4 billion higher than it was ten years ago mostly due to:
 - total annual deficits and surpluses of \$1.4 billion and
 - capital asset costs of \$1.6 billion
- Net Debt per capita decreased \$700 to \$17,200
- Government's multi-year Net Debt reduction targets remain in place, as recommended in previous Auditor General reports

Results of our Audit of the Province of New Brunswick

- Remain concerned about NB Power's ability to self-sustain its operations
- Many key IT systems are out of date but the Province has started implementing a new Oracle Fusion system to replace them
- Auditor General's past recommendations regarding access to Vestcor remain unresolved

State of the Province's Financial Condition

- Two long-term trends deteriorated – one changed from favourable to unfavourable and the other changed from favourable to neutral
- One long-term trend improved from unfavourable to neutral and the remaining long and short-term trends were unchanged
- Past deficits and Net Debt prevent improvements in long-term sustainability

Results of our Audit of Crown Agencies

- Service New Brunswick made \$6.8 million in payments without proof the goods were received – evidence of receipt for \$4.8 million of these payments was eventually provided by SNB during our audit
- Opportunities New Brunswick needs to improve its process for estimating loan provisions to reflect current repayment information

Financial Audit – Key Messages from the Auditor General

New Auditor General Appointed

1.1 I was appointed Auditor General effective January 1, 2022. Deputy Auditor General, Janice Leahy, was appointed Acting Auditor General effective May 3, 2021 to December 31, 2021, and oversaw the work of the Office during this interim period.

1.2 This volume of the Report deals with matters arising from the Office’s financial audits of the Province of New Brunswick and its Crown agencies which were conducted for the year ended March 31, 2021. During the conduct of these audits, I served as Comptroller of the Province and, in that role, I was responsible for, or to some extent involved with, much of the material that was being audited by the Office of the Auditor General. Hence, a number of the observations and recommendations in this Report were directed to me in my former position as the Comptroller.

1.3 The chapters in this volume of the Report were drafted prior to my arrival in the Office of the Auditor General. Except for this introductory chapter, I have not edited the chapters, or made any comments on the material since I became Auditor General. I acknowledge, however, as Auditor General, I am responsible to present this Report to the Legislative Assembly and, as Auditor General, I stand behind and fully support its contents.

Unqualified (clean) audit opinion issued on September 16, 2021

1.4 On September 16, 2021, the Office completed the Province’s public accounts audit and issued an unqualified audit opinion on the Province’s 2021 consolidated financial statements. An unqualified opinion, also referred to as a “clean audit opinion”, indicates the Province’s consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards.

Further signs of fiscal progress for year-ended March 31, 2021

1.5 As discussed in Chapter 2, the Office is again encouraged by the signs of fiscal progress for the year ended March 31, 2021 as the Province:

- incurred an annual surplus of \$408.5 million, the fourth consecutive surplus;

- decreased Net Debt by \$469.9 million, the largest decrease in the last ten years; and
- exceeded its Net Debt reduction target by \$340.6 million, and exceeded its budgeted surplus by \$316.1 million.

Fiscal progress is largely driven by Federal transfers

1.6 These results indicate the Province's fiscal situation is improving; however, a note of caution is required as the annual surplus this year was largely driven by increases in Federal government transfers. Corresponding increases in expenses during the year prevented the Province from recording a larger annual surplus.

1.7 In our view, for the Province to significantly improve its fiscal situation independently, over the long term, it will need to find a way to restrain spending, consider revenue increases, or a combination of both in the future.

\$18.3 billion in Funded Debt outstanding

1.8 We are also still concerned with the amount of Funded Debt outstanding, which is still at a record high of \$18.3 billion in 2021. This is the long-term debt the Province is legally bound to pay in the future. The annual cost of servicing this debt, mostly consisting of interest costs, is \$647 million. This debt figure does not include \$4.7 billion in NB Power borrowing, as well as just under \$1 billion in New Brunswick Municipal Finance Corporation borrowing relating to the financing needs of New Brunswick municipalities.

NB Power's ability to self-sustain its operations requires ongoing review

1.9 We remain concerned NB Power may not be able to self-sustain its operations over the long term. New capital, debt, environmental challenges and legislative changes will also impact our ongoing analysis of NB Power's ability to self-sustain its operations. We will continue to monitor this situation closely for our public accounts audit. As well, we will review changes, if any, that may impact the independence in the electricity rate setting process.

Vestcor concerns remain, but different audit risks for 2021

1.10 Another concern for the Office is our ongoing audit access to and relationship with Vestcor. This year's public accounts audit did not have the same audit risks regarding investment market changes (volatility) as the prior year. As a result, we did not require the same level of audit evidence from Vestcor and access issues did not arise, unlike the prior year. Our access to Vestcor is further described in Chapter 4; however, we have not received any further response or an implementation timeline for our

recommendations made in the February 2021 chapter regarding access to Vestcor.

1.11 If investment market volatility recurs at future year ends, similar to March 31, 2020, our Vestcor access issues could reoccur. As a result, Vestcor's accountability to government, the Legislative Assembly and the public remains a significant concern for our Office. This is especially so considering the significant amount of funds from public sources Vestcor manages, as well as its extensive government-entity client base.

Aging IT systems still in operations

1.12 For the past nine years, we have reported on the Province's outdated IT systems and the risks associated with operating this old technology. If these critical aging government systems fail before a solution can be fully deployed there will be a significant impact on government operations, such as employee payroll.

New system being gradually deployed

1.13 The Province is in the process of deploying a new system called Oracle Fusion as part of the new ERP (Enterprise Resource Planning) Project to replace the outdated systems at risk of failure. The new system will be a major focus in our next year's public accounts audit. Chapter 4 further discusses IT risks and provides an update on the progress of the new system.

Crown agency financial audit findings

1.14 In Chapter 5 of this report, we report on our work in 14 Crown agency audits, as well as significant recommendations made to Crown agencies. Many of the findings we comment on in this chapter indicate a possible risk of fraud or misstatement if the underlying issue remains unaddressed.

1.15 Service New Brunswick, Opportunities New Brunswick, New Brunswick Lotteries and Gaming Corporation, as well as Cannabis Management Corporation all have findings from our financial statement audit work included in Chapter 5.

Improvements still needed in SNB property assessment processes

1.16 For the past two years, we have reported the results of our public accounts audit relating to SNB's work on property assessments. Overall, while progress has been made, further improvements are needed in the areas of quality control, data integrity and review of assessors work. These findings and recommendations relating to property assessment are presented in Chapter 4.

Acknowledgements

1.17 A listing of findings, observations and recommendations as presented in this financial audit volume is presented in Exhibits 1.1 and 1.2.

1.18 We are grateful for the continuing cooperation we receive from government departments and agencies during our financial audit work.

1.19 I want to thank all the Office’s staff for their commitment and dedication to fulfilling the mandate of the Office of the Auditor General of New Brunswick. The Report I am presenting here today reflects their hard work and professionalism.



Paul Martin, FCPA, FCA
Auditor General



Janice Leahy, CPA, CA, CIA
Deputy Auditor General

Exhibit 1.1 - Key Findings and Observations Table

Paragraph	Key Findings and Observations by Chapter
Chapter 2	Annual Surplus, Net Debt and Funded Debt
2.1	<i>Province recorded an annual surplus of \$409 million</i>
2.3	<i>The COVID-19 pandemic along with the Province's response to the pandemic resulted in significant increases and decreases to both revenues and expenses</i>
2.4	<i>Surplus is mostly due to increased revenue</i>
2.10, 2.12	<i>We identified opportunities where public disclosure could be improved</i>
2.15	<i>2021 surplus may not represent a continued trend</i>
2.18	<i>Net Debt at March 31, 2021 was \$13.5 billion</i>
2.18	<i>\$470 million decrease in Net Debt was mostly caused by the surplus</i>
2.22	<i>Net Debt is \$3.4 billion higher than it was 10 years ago</i>
2.28, 2.33	<i>New Brunswick's Net Debt as a percentage of GDP and Net Debt per capita and are mid-range among comparable provinces</i>
2.38	<i>Province has set multi-year Net Debt reduction targets</i>
2.40	<i>Funded Debt remains at a historic high of over \$18 billion</i>
2.44	<i>Debt servicing costs were \$647 million during the year (this cost approximately \$1,231 per minute in 2021)</i>
2.46	<i>Approximately \$24 billion in debt between the Province's Funded Debt, NB Power debt and New Brunswick Municipal Finance Corporation debt</i>
Chapter 3	State of New Brunswick's Financial Condition
3.1	<i>Financial condition largely unchanged from 2020</i>
3.1	<i>Two long-term trends deteriorated while one long-term trend improved</i>
3.5	<i>Past deficits and Net Debt prevent improvements in long-term sustainability</i>
Chapter 4	Results of our Audit of the Province of New Brunswick's Financial Statements
4.1	<i>Acting Auditor General issued an unqualified (clean) audit opinion on the Province's consolidated financial statements for the year ended March 31, 2021</i>

Paragraph	Key Findings and Observations by Chapter
4.8	<i>We have on-going concerns regarding NB Power's ability to self-sustain operations</i>
4.11, 4.12	<i>Accounting method for NB Power will change if it can no longer self-sustain its operations - Province's financial results could change significantly as a result</i>
4.14	<i>We remain concerned because factors affecting NB Power's ability to self-sustain operations continue to worsen</i>
4.23	<i>A permanent solution is needed for Auditor General access to Vestcor as part of our audit of the Province's financial statements</i>
4.29	<i>Past recommendations regarding Vestcor access remain unresolved</i>
4.30	<i>Recommendations made to the Office of the Comptroller to address accounting errors, improve accounting estimates and to amend the Financial Administration Act</i>
4.43	<i>Some property assessment processes have improved, however, we are still concerned</i>
4.44	<i>Four recommendations made to Service New Brunswick regarding property assessment processes</i>
4.50, 4.51	<i>Province has many outdated IT systems which process the majority of the Province's employee payroll and its payments to suppliers, nursing homes, municipalities, etc.</i>
4.53	<i>Province has started implementing a new Oracle Fusion system to replace outdated systems</i>
4.57	<i>Oracle Fusion is expected to be completed by March 2025</i>
4.63	<i>We found IT system weaknesses in all seven of our computer system audits and we are concerned with the nature, number and severity of the weaknesses</i>
Chapter 5	Results of Crown Agency Financial Statement Audits
5.1	<i>Unqualified audit opinions issued to all but one Crown agency</i>
5.8	<i>Recommendations made again this year to address risk of fraud at Service New Brunswick</i>
5.25, 5.29	<i>Recommendations made to Opportunities New Brunswick to improve estimates of loan provisions and address weaknesses when paying financial assistance claims</i>
5.34	<i>Recommendation made to New Brunswick Lotteries and Gaming Corporation - \$14.7 million in overpayments to First Nations is still unresolved after five years</i>
5.39	<i>Recommendations made to Cannabis Management Corporation to improve oversight of Cannabis Education Awareness Fund</i>

Exhibit 1.2 - Recommendations and Responses

Recommendation	Department's response	Target date for implementation
<p>4.16 We recommend the Office of the Comptroller update and improve its accounting analysis for NB Power to include items such as:</p> <ul style="list-style-type: none"> • information reported in the 2020 Report of the Auditor General, Volume II, Chapter 3; • significant business and operations events in the year; • government involvement in NB Power's operations; and • activity and decisions from the EUB. 	<p><i>The Office of the Comptroller will update the accounting analysis for NB Power's classification as a Government Business Enterprise, as it has for the past four fiscal years. The analysis will continue to consider the characteristics of a Government Business Enterprise definition, as per Public Sector Accounting Standards PS 1300 – Government Reporting Entity.</i></p>	<p><i>Spring 2022</i></p>
<p>4.25 We recommend the Office of the Comptroller obtain audit assurance on controls in place at Vestcor (such as a CSAE 3416 report) before the 2021-2022 public accounts audit</p>	<p><i>The Office of the Comptroller will work with Vestcor to obtain assurance on the controls it has in place in connection with the 2021-2022 public accounts audit.</i></p>	<p><i>Spring 2022 with respect to the 2021-2022 public accounts audit</i></p>
<p>4.26 We again recommend the Office of the Comptroller work with Vestcor to allow the Auditor General unrestricted access to pension plan information including access to Vestcor Investment Entities.</p>	<p><i>Through legislation, Vestcor is not an agent of the Crown and was established to operate independently of government. The office of the Comptroller understands that there is no plan to change legislation to allow the Auditor General unrestricted access to Vestcor.</i></p>	<p><i>Not applicable</i></p>

Recommendation	Department’s response	Target date for implementation
<p>4.33 We recommend the Office of the Comptroller work with the Department of Social Development to ensure:</p> <ul style="list-style-type: none"> • revenue for the Healthy Seniors Pilot Project is recognized for accounting purposes only when the terms specified in the agreement with the Public Health Agency of Canada have been met; and • the deferred revenue balance for the Healthy Seniors Pilot Project is properly recorded. 	<p><i>The Department of Social Development is reviewing the agreement to ensure revenue with respect to this one-time funding is recognized in accordance with Public Sector Accounting Standards PS 3410 – Government Transfers.</i></p>	<p><i>Fall 2021</i></p>
<p>4.36 We recommend the Office of the Comptroller work with departments to improve the quality of estimates in the consolidated financial statements.</p> <p>We also recommend estimates, at a minimum, are supported by historical data and include review of results of previous periods where appropriate.</p>	<p><i>The Office of the Comptroller will continue to work with departments and to provide guidance with respect to the preparation of estimates used in the consolidated financial statements.</i></p> <p><i>As estimates are prepared in the future, departments and the Office of the Comptroller will continue to determine these amounts using relevant and reliable data that is available. Efforts will be made to improve the documentation of the information considered in preparing the estimates.</i></p>	<p><i>Spring 2022</i></p>
<p>4.39 We again recommend the Office of the Comptroller take the lead to amend the <i>Financial Administration Act</i> and develop a timeline to complete this work in 2022.</p>	<p><i>The Office of the Comptroller has assembled a project team with the objective of updating the <i>Financial Administration Act</i>.</i></p>	<p><i>In Progress</i></p>

Recommendation	Department's response	Target date for implementation
<p>4.45 We again recommend SNB improve the quality control processes used to verify the accuracy of property assessment values in advance of next year's assessment cycle.</p>	<p><i>SNB continuously enhances its quality control program to improve the accuracy of property assessments using a risk-based approach. In 2021 SNB Automated elements of the QC process using existing tools and resources. In 2022, SNB will enhance the review of excluded property information.</i></p> <p><i>The current Computer Assisted Mass Appraisal system does not provide the functionality to perform an automated quality control process. As a result, SNB is required to perform its QC manually until such time that new technology can be introduced.</i></p>	<p>Ongoing</p>
<p>4.46 We again recommend SNB proceed as quickly as possible to validate the assessment data of properties assessed using methodologies from the 2017 Fast Track initiative.</p> <p>We again recommend SNB develop and implement a re-inspection cycle to ensure all properties in the province are visually re-inspected. We again recommend this information be used when creating annual assessor work plans.</p>	<p><i>SNB recognizes the importance of validating the assessment data of properties that were assessed using the 2017 methodologies. SNB has enhanced the Data Validation process for efficiency and was able to focus on this initiative in 2021. This will continue in 2022.</i></p> <p><i>SNB recognizes the importance of re-inspecting properties. A plan to improve the re-inspection cycle is being developed and will be implemented and monitored once defined.</i></p> <p><i>Priority has been placed on achieving progress with the initiatives.</i></p>	<p>Ongoing</p>
<p>4.47 We again recommend SNB strengthen its processes to verify property assessment values by using a risk-based approach to review the work of assessors and assessment staff.</p>	<p><i>SNB has introduced several enhancements and intends to introduce more to improve the overall control environment. SNB will continue to enhance the review of assessor and assessment staff work with an emphasis on a risk-based approach.</i></p> <p><i>SNB performs Quality Assurance activities that include the review of processes and assessor and assessment staff work.</i></p>	<p>September 2022</p>

Recommendation	Department’s response	Target date for implementation
<p>4.48 We again recommend SNB review and resolve system access control weaknesses for the property assessment system (EvAN) as soon as possible. These weaknesses relate to user access reviews and managing user access for the EvAN application, database and operating system.</p>	<p><i>SNB’s current Computer Assisted Mass Appraisal system does not provide the functionality to perform reviews of roles using system reporting. SNB has enhanced the existing review process to the extent possible through a manual semi-annual access review of EvAN and is currently developing an access policy.</i></p> <p><i>Formal processes will be implemented to address access reviews and managing user access for the database and operating system.</i></p>	<p><i>Ongoing</i></p>
<p>5.9 We again recommend SNB only pay for goods or services when evidence exists to support the goods have been received or the services have been provided. For example, SNB should only pay for goods if proof of receipt is attached to an invoice.</p>	<p><i>Management agrees that proof of receipt of goods and services needs to be present when authorizing payment. SNB’s direction to staff has however included having this proof available for the auditors when requested, as it is not always possible to attach the proof of receipt to the invoice. SNB has reiterated the responsibility of spending approvers in February 2020 and will continue to provide additional communication as well as targeted training to the appropriate parties.</i></p> <p><i>SNB Internal Audit will also develop an audit plan to review the spending authority exercise on a sample of paid invoices throughout the year. The results of this audit will be included in the Internal Audit reporting to the Audit and Finance Committee of the SNB Board.</i></p> <p><i>No issues related to the specific prior year overpayment issue were identified during the fiscal 2020-2021 audit based on efforts and improvement made to that process.</i></p>	<p><i>In Progress</i></p>

Recommendation	Department’s response	Target date for implementation
<p>5.10 We again recommend SNB implement a new accounting and payroll system. If SNB expects an extended timeframe for completing this project, and if it is cost effective, SNB should process transactions in one system reducing the risk of duplicate payments, fraud and staff inefficiencies.</p>	<p><i>The Enterprise Resource Planning project has been approved and is moving forward. SNB made the decision in 2015 to wait for this project as it was not cost effective to invest in the three existing systems. SNB has however put in various mitigations in place in order to reduce the risk of duplicate payments, fraud and staff inefficiencies. We will continue to improve efforts to identify duplicate transactions in its multiple systems. SNB also wants to address the two observations:</i></p> <ul style="list-style-type: none"> • <i>Duplicate payments: A quarterly procedure continues to be in place to identify potential duplicates and ensure these instances are rectified. All of the duplicates identified through the audit were also identified through SNB’s review. SNB always follows up on duplicate payments and will seek to obtain full recovery, as it has in the past. SNB’s work to transfer more payments into one system provided a major decrease in the duplicate payments identified.</i> • <i>Data transfer errors: SNB has initiated a monthly reconciliation process by account to ensure that data has correctly transferred from one system to another and that all transfer errors are correctly identified and corrected. This reconciliation process allows SNB to detect significant errors and these are corrected in the next accounting period. This process is inefficient for staff but allows for a very low risk that an error would remain uncorrected in the financial statements.</i> 	<p><i>In Progress</i></p>

Recommendation	Department's response	Target date for implementation
<p>5.11 We recommend SNB investigate and correct any unreconciled cash amounts in its monthly bank reconciliations on a timely basis.</p>	<p><i>SNB recognizes the importance of bank reconciliations and timely adjustments. SNB made significant improvements to the bank reconciliation process in the past year and will continue to see progress on accuracy and timing as a result. The instance mentioned above has since been adjusted and Internal Audit continues its quarterly review and report on bank reconciliations.</i></p>	<p><i>In Progress</i></p>
<p>5.18 We recommend SNB review, and update as necessary:</p> <ul style="list-style-type: none"> • the useful life estimates of its Tangible Capital Assets; • its classes of Tangible Capital Assets (such as what is included in Major Equipment and if any new classes of Tangible Capital Assets are needed); and • its policies for Tangible Capital Assets. <p>We recommend this review be performed on a regular basis such as annually.</p>	<p><i>Management agrees with the recommendation. While some of the findings were isolated incidents SNB will undertake the following actions to mitigate future risk:</i></p> <ul style="list-style-type: none"> • <i>Complete a review of the TCA accounting process; including useful lives, asset classes, and policies.</i> • <i>Further training will be provided to asset owners.</i> • <i>A listing of TCA will be provided to asset owners during testing for impairment.</i> 	<p><i>In Progress</i></p>
<p>5.21 We recommend SNB refine and document its processes to identify and calculate contract amounts to be disclosed in its financial statements. We recommend evidence of this work be retained for audit purposes.</p>	<p><i>Management accepts this recommendation. SNB instituted a new contract disclosure threshold policy for fiscal 2020-21 and will make improvements to this process moving forward. One of these improvements involves documentation of the process to rectify issues identified above.</i></p>	<p><i>In Progress</i></p>

Recommendation	Department's response	Target date for implementation
<p>5.23 We again recommend SNB have signed service level agreements with all of its business partners.</p>	<p><i>Management accepts the recommendation and continues to work with the business partners mentioned above to sign new agreements. Regardless, work continues and SNB continues to be paid for all services rendered.</i></p> <p><i>For the Regional Health Authorities an extension was provided due to the pandemic.</i></p> <p><i>We would like to note that the Service Level Agreement for Justice and the Office of the Attorney General was signed in July.</i></p>	<p><i>In Progress</i></p>
<p>5.28 We recommend ONB review and update its process for estimating loan provisions to ensure loan repayment history is appropriately reflected in the estimate.</p>	<p><i>ONB has, and will continue to, keep the AG appraised (Last meeting March 2021) on considerations currently being assessed to amend the current Credit Model.</i></p> <p><i>Currently, loan repayment history has a 20% weighting in the overall Credit Model. This Credit Model assessment work is also being completed with other GNB departments including ECO DAAF & RDC. This is to ensure a model is used in a consistent approach across all government departments.</i></p> <p><i>Finally, ONB confirms that we do incorporate loan deferrals as an additional risk when considering overall provision assessment. In the future, this will be clearly outlined and mitigated in the overall risk assessment.</i></p> <p><i>As noted by the AG, FS has not been materially misstated using the current process however further clarity will be provided in future provision assessments.</i></p>	<p><i>Ongoing</i></p>
<p>5.31 We recommend ONB only pay financial assistance claims when sufficient and appropriate support is provided to show claims are valid and eligible under the terms of financial assistance agreements.</p>	<p><i>ONB has begun the process of implementing a full review of the current process in processing financial assistance claims, particularly as it related to claims processed by Business Growth.</i></p>	<p><i>Ongoing</i></p>

Recommendation	Department's response	Target date for implementation
5.32 We recommend ONB ensure financial assistance payments are appropriately reviewed and approved prior to payment.	<i>YTD September 2021, ONB internal audit team has completed procurement testing. In addition, 1,333 claims between 2019 and 2021 from Business Growth and Financial Assistance to Industry were reviewed for internal compliance.</i>	<i>Ongoing</i>
5.37 We again recommend the Department of Finance and Treasury Board and NBLGC resolve recovery of the unauthorized overpayments that were made to First Nations prior to January 1, 2016 as a result of an error in the calculation of gaming revenue.	<i>Direction has been provided from Government for the Department of Finance and Treasury Board to ensure the overpayment issue is considered as part of the larger First Nations strategy.</i>	<i>Q2 2021-22</i>
5.41 We recommend CMC develop and implement a process to verify the accuracy and completeness of Cannabis Education and Awareness Fund revenue. We recommend evidence of this work be retained for audit purposes.	<i>The CMC will work with its auditors to determine where the current process of verifying the accuracy and completeness of Cannabis Education and Awareness Fund Revenue falls short of their requirements and implement enhancements to the process if required.</i>	<i>Q4 2021-22</i>
5.43 We recommend CMC work with the Cannabis Education and Awareness Fund Advisory Committee to resume meetings as soon as possible to ensure there is active management and direction of the fund.	<i>Meetings to actively manage the fund resumed in Q3 of 2021-22.</i>	<i>Q3 2021-22</i>