

# Chapter 4

## 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

## Introduction

***Acting Auditor General  
signed unqualified audit  
opinion***

- 4.1** On September 16, 2021 the Acting 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, 2021.
- 4.2** This opinion indicates the Province’s consolidated financial statements are presented fairly in accordance with Public Sector Accounting Standards.
- 4.3** To reach an opinion on the consolidated financial statements, we:
- perform audit work on the major programs and activities in government departments and Crown agencies;
  - audit significant revenue items;
  - audit a sample of expenses; and
  - examine internal controls of significant computer systems.
- 4.4** In this Chapter, we present our significant findings and recommendations we made to the Office of the Comptroller (OOC) in our audit of the Province’s public accounts. We also present our findings regarding the Province’s major out-dated information technology systems and findings regarding property assessment processes at Service New Brunswick.
- 4.5** In our view, while all of our recommendations were important to report to both the Comptroller and Service New Brunswick, they were not, however, sufficiently large in monetary or qualitative terms to affect our opinion on the consolidated financial statements.
- 4.6** 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.

<b><i>NB Power and Vestcor remain areas of significant concern</i></b>	<b>4.7</b>	Two of our most significant areas of concern continue to be NB Power's ability to self-sustain its operations and the Auditor General's access to Vestcor. These items were both included in a presentation we made to the Province's audit committee at the end of our audit.
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### **NB Power's Ability to Self-Sustain its Operations Remains a Concern**

<b><i>On-going concerns regarding NB Power's ability to self-sustain operations</i></b>	<b>4.8</b>	For the past three years, we have reported our concerns NB Power may not be able to self-sustain its operations in the long-term without involvement or assistance from the Province. Our concerns are due to continued elevated debt levels, nominal annual net earnings, new operating challenges and significant capital investments which will be required in the future.
<b><i>Other recent concerns regarding NB Power's debt challenges</i></b>	<b>4.9</b>	In February 2021, we also presented our concerns regarding NB Power's on-going debt challenges. This was included in the 2020 Report of the Auditor General – Volume II, Chapter 3, NB Power Debt Challenges.
	<b>4.10</b>	NB Power is 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.
<b><i>Accounting method for NB Power will change if it can no longer self-sustain its operations</i></b>	<b>4.11</b>	If NB Power was ever determined to no longer be self-sustaining (e.g. through rate payers), it would no longer be considered a Government Business Enterprise for accounting purposes. If this were to occur, the Province's consolidated financial statements would be required to include NB Power's: <ul style="list-style-type: none"> <li>• \$7.4 billion in assets and regulatory balances;</li> <li>• \$7.1 billion in debt and liabilities;</li> <li>• \$1.8 billion in revenues; and</li> <li>• \$1.7 billion in expenses.</li> </ul>

***Province's financial results could change significantly***

- 4.12** Including these balances in the financial statements could cause significant changes to the Province's financial results. This could impact items such as:
- the Province's annual surplus and net debt (the importance of these items is included in Chapter 2 of this Volume);
  - the indicators of the Province's sustainability, vulnerability and flexibility (see Chapter 3 of this Volume for more information on the indicators); and
  - the Province's credit rating.
- 4.13** This would also result in a much more complicated process to account for NB Power in the consolidated financial statements and significantly increase the risk in our audit work.

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

- 4.14** We noted again this year NB Power's ability to self-sustain its operations continues to worsen from year to year and our concerns are increasing. During our audit this year, we noted the following areas of significant concern.
- Income remains at break-even levels. This year, NB Power recorded a net loss of \$4 million. If mark-to-market income is removed (unrealized income which fluctuates year-to-year), NB Power has not made a profit since 2016.
  - NB Power did not meet its requirement under the *Electricity Act* for an 80-to-20 debt-to-equity ratio. NB Power's debt at March 31, 2021 was approximately \$5 billion and their long-term plan indicates they do not expect to meet this requirement until 2027.
  - Significant capital investments remain on the horizon for NB Power. For example, refurbishing the Mactaquac Dam. Capital investments will result in increased debt for NB Power.
  - NB Power's regulator, the Energy and Utilities Board (EUB) has not always approved rate increases requested by NB Power.

- We monitor NB Power every year***      **4.15**      Each year, we request the OOC prepare an accounting analysis regarding NB Power's ability to self-sustain its operations. Although we agreed with the OOC's analysis that NB Power can self-sustain its operations as at March 31, 2021, we did not see strong evidence in the analysis of how assumptions and estimates were challenged or compared to current results. Given the challenges identified above, the situation remains very concerning.
- Recommendation***      **4.16**      **We recommend the Office of the Comptroller update and improve its accounting analysis for NB Power to include items such as:**
- **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.**
- Province announced it intends to amend the Electricity Act***      **4.17**      In November 2021, the Province announced it would amend the *Electricity Act* with the intent to "...allow NB Power to improve its fiscal health." These amendments may impact how NB Power is accounted for in the Province's consolidated financial statements in the future.
- 4.18**      We will continue to monitor NB Power and report our concerns regarding its ability to self-sustain its operations, as well as concerns, if any, related to an independent rate setting process being maintained.

## Auditor General Access to Vestcor Remains Unresolved

- 4.19** Last year, we reported on how Vestcor denied the Auditor General unrestricted access to view the Vestcor Investment Entities' (VIE) external audit files as part of our audit of the Province's 2020 financial statements. The VIE manage over \$15 billion in public sector pension plan investments of the New Brunswick Public Service and Teachers' Pension Plans (NBPSPP and NBTPP).
- 4.20** We also reported on how we worked cooperatively with the OOC last year to have the VIE external auditor (who was permitted access) perform an engagement using procedures designed by our Office. This work was necessary to address the value of pension plan assets which were impacted by the volatility in the financial markets between December 2019 and March 2020.
- 4.21** During our work each year, we design audit procedures to respond to areas of audit risk and our procedures will change from year to year as audit risks change. As there was overall less volatility in the financial markets between December 2020 and March 2021, our audit risk was lower this year. As a result, we did not require access to the review the VIE external audit files this year.
- 4.22** We did, however, still request the VIE auditor to provide us with additional information. This year, we again worked cooperatively with the OOC to obtain the information needed for our work. This report came at a cost of approximately \$2,000 to the Province.
- 4.23** While we have been able to work cooperatively with the OOC, in our view, a permanent solution is still needed for our audit of the Province's financial statements.
- 4.24** Given Vestcor's stated role as an external services provider to the Province, we would expect to receive information on how Vestcor fulfills its duties relating to how its internal controls are designed and operated. Typically, this is provided by an external auditor in a Report on Controls at a Service Organization (such as

*We still required the VIE auditor to provide us with additional information*

*A permanent solution is needed*

a CSAE 3416 report). We found Vestcor does not provide the Province or the OOC with such a report.

<i>Recommendations</i>	<b>4.25</b>	<b>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.</b>
	<b>4.26</b>	<b>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.</b>
<i>Last year's denial of access could happen again</i>	<b>4.27</b>	The value of pension plan assets could again become a more significant audit risk in the future, if extreme volatility in the financial markets were to happen again (as it did last year) at March 31. It is likely our Office would again require more audit assurance in this situation to address the underlying investment audit risks.
<i>2020 AG report raised concerns</i>	<b>4.28</b>	In February 2021, our Office issued a report regarding how Vestcor declined and restricted the Auditor General's access to information required to perform her duties. This was included in the 2020 Report of the Auditor General, Volume II, Chapter 5 – Auditor General's Access to Vestcor Significantly Limited.
<i>No further response to our recommendations and no implementation timeline has been provided</i>	<b>4.29</b>	In this report, recommendations were made to ensure the Auditor General has access to Vestcor to perform work needed for financial audits (such as the value of pension plan assets) and performance audits. Our Office has not received any further response or an implementation timeline for our recommendations made in the February 2021 chapter regarding access to Vestcor.

## Other Findings from our Audit of the Province's Financial Statements

<i>Other recommendations made to the OOC</i>	<b>4.30</b>	As part of our work, we made other recommendations to the OOC and Service New Brunswick. These recommendations are summarized in the sections below.
<i>\$12 million accounting error in deferred revenue</i>	<b>4.31</b>	We found the liability for deferred revenue recorded by the Department of Social Development for the Healthy Seniors Pilot Project was understated by \$12 million. Under the terms of an agreement with the Public Health Agency of Canada, revenue can only be recognized for this project when eligible expenditures have occurred by the Province. We estimate \$12 million has been incorrectly recognized in revenue since the start of this project in fiscal 2019.
	<b>4.32</b>	While we believe this error is not material to the Province's financial statements, it demonstrates increased diligence is required when recognizing revenue related to the project.
<i>Recommendation</i>	<b>4.33</b>	<p><b>We recommend the Office of the Comptroller work with the Department of Social Development to ensure:</b></p> <ul style="list-style-type: none"> <li>• <b>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</b></li> <li>• <b>the deferred revenue balance for the Healthy Seniors Pilot Project is properly recorded.</b></li> </ul>
<i>Accounting estimates need to be improved</i>	<b>4.34</b>	We noted during our work, estimates prepared by the OOC and departments need to be improved. For example, we found estimates made by the OOC regarding COVID-19 vaccines used amounts which could not be reliably validated. We also noted the Department of Post-Secondary Education, Training and Labour did not update its estimate of the allowance for doubtful accounts for student loans receivable to consider the impact of the COVID-19 pandemic.
	<b>4.35</b>	While we believe the accounting estimates prepared by the OOC and departments are not materially misstated,



the issues demonstrate increased diligence is required when preparing estimates.

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|---|-------------|---|
| <b>Recommendations</b>                                  | <b>4.36</b> | <b>We recommend the Office of the Comptroller work with departments to improve the quality of estimates in the consolidated financial statements.</b><br><b>We also recommend estimates, at a minimum, are supported by historical data and include review of results of previous periods where appropriate.</b>  |
| <b>Financial Administration Act needs to be amended</b> | <b>4.37</b> | For the past three years, we have made multiple recommendations to the Executive Council Office, the Department of Finance and Treasury Board, and the OOC regarding the need for the <i>Financial Administration Act</i> (FAA) to be updated. The FAA remains out of date and does not align with current accounting standards or governance best practices. |
|   | <b>4.38</b> | Although we were pleased to see the OOC conducted a review of the FAA in 2020, we noted the FAA was still not amended during 2021.  |
| <b>Recommendation</b>                                   | <b>4.39</b> | <b>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.</b>  |
|   | <b>4.40</b> | In general, the OOC agreed with our recommendations and intends to address our concerns in the coming year.   |

## Improvements are Still Needed in Property Assessment Processes

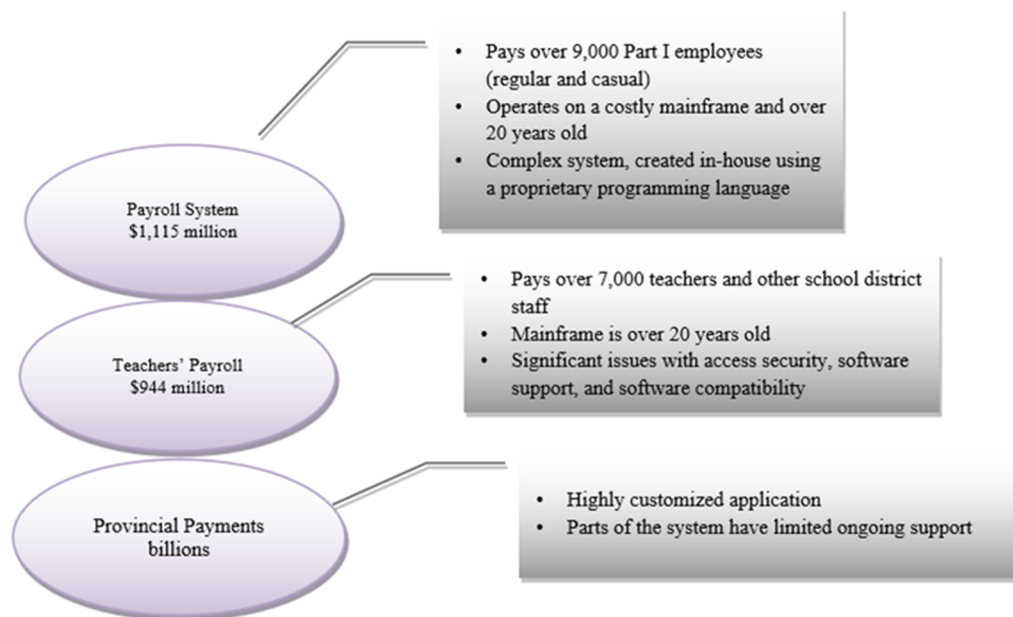
- 4.41** For the past two years, we have reported the results of our work regarding SNB's property assessment processes which we perform each year as part of the audit of the Province's consolidated financial statements. This Chapter does not include follow up on our November 2017 special report to the Legislative Assembly describing many weaknesses we found in property assessment processes. Refer to Chapter 4 in Volume II of the 2021 Report of the Auditor General for this follow-up work.
- Property assessments result in approximately over \$550 million in revenue and \$1 billion of taxes receivable for the Province**      **4.42** Property assessment values are a critical component in calculating revenue and accounts receivable amounts for the Province. Each year, Service New Brunswick (SNB) is mandated to assess approximately 470,000 properties which generate approximately \$70 billion in tax assessment base for the Province and municipalities. This results in approximately over \$550 million in revenue, and over \$1 billion in property tax receivable for the Province.
- Some processes have improved, however, we are still concerned**      **4.43** During our audit this year, we found SNB has responded to our past recommendations and improved some of its property assessment processes. This includes creating a Quality Assurance unit and improving the accuracy of some property assessment data. We are still concerned, however, by the number of serious weaknesses we are still observing in property assessment processes.
- Four recommendations made in 2021**      **4.44** We made four recommendations this year to SNB relating to property assessment processes. We made each of these recommendations during last year's audit and found they have not yet been fully implemented. In our view, this shows the need for SNB to continue to work toward improving its:
- quality control processes;
  - data integrity (including validating approximately 78,000 properties from the Fast Track initiative in 2017); and
  - review of assessor's work and property assessment staff.

- We have also made one recommendation for SNB to improve system access controls.
- Recommendations**
- 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.**
- 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.**
- 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.**
- 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.**
- 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.**
- 4.49 Overall, SNB agreed with our recommendations and intends to continue its work in the coming year to improve property assessment processes and address our concerns.**

### Province Has Major Outdated IT Systems

- Major systems are out of date** **4.50** A failure of the Province's major IT systems would affect the majority of New Brunswickers. For the past nine years, we reported the Province has many outdated IT systems. Exhibit 4.1 shows the Province's major out-dated systems at March 31, 2021, dollars processed, and associated risks.

Exhibit 4.1 - Province's Major Outdated Systems at March 31, 2021



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

**4.51** 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 has started the process of replacing these outdated systems.

**Multiple duplicate systems can result in duplicate payments and efforts**

**4.52** In addition to the risk of system failure, in our financial audit of SNB (Service New Brunswick) we noted SNB is now operating three separate payroll and payments systems. We also found SNB made duplicate payroll and supplier payments as a result of operating multiple systems. Operating multiple duplicate systems results in wasted time for employees and can result in duplicate payments to employees and suppliers.

**What Is the Province Doing About Its Outdated IT Systems?**

**New ERP project – Oracle Fusion**

**4.53** The Province has started replacing the outdated and duplicate systems with a new system called Oracle Fusion as part of the ERP (Enterprise Resource Planning) Project. The scope of the ERP Project is extensive, requiring multiple years to implement and,

as a result, needs to be properly managed by the Province to ensure success and to prevent a system implementation failure.

**4.54** Three benefits from implementing the Oracle Fusion system are as follows.

- 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 Oracle Fusion system will run on up-to-date software and hardware in a cloud environment.
- It is expected to provide more timely and detailed information for decision makers.

***System's scope is extensive***

**4.55** The Oracle Fusion system will be used by Part I (departments and some Crown agencies), Part II (school districts), the Legislative Assembly, 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.); and
- Other areas such as talent management and learning.

**4.56** The project is co-sponsored by the Department of Finance and Treasury Board and Service New Brunswick. The Province has created an ERP Project Team to oversee and monitor this major system change. This team is made up of government resources, as well as other professional resources from outside of government.

***Oracle Fusion is expected to be completed by March 2025***

**4.57** We were informed, a planned deployment schedule targeting an expected completion date of March 2025, has been approved by a Steering Committee and an Executive Committee. Exhibit 4.2, contains an excerpt from this schedule, as well as progress to date for, what we consider, key Fusion modules. As the ERP Project Team works through the different stages of implementation, the schedule may be revised.

*Exhibit 4.2 - Excerpts from the ERP Planned Deployment Schedule: Progress to Date and Future Deployment Plan and Comments from AGNB*

Description	Timeline	To Replace	AGNB Comments
<b>Oracle: General Ledger (GL) goes live</b>	December 2020	Existing Oracle General Ledger	<ul style="list-style-type: none"> <li>Existing Oracle GL is still operating and transactions are transferred to the Fusion GL regularly.</li> <li>Existing Oracle GL and Fusion GL reconcile.</li> <li>Existing Oracle GL is the official book of record.</li> </ul>
<b>Oracle: Payables Module goes live*</b>	July 2021	Existing system to input invoices (IPM)/ Oracle	<ul style="list-style-type: none"> <li>Existing IPM system is still operating but in very limited circumstances.</li> <li>The existing Oracle GL is still operating and transactions are transferred to the Fusion GL.</li> <li><b>The official book of record is now the Fusion GL.</b></li> </ul>
<b>Oracle Fusion: Human Resources, Payroll, and Employee Expense Modules go live</b>	November 2021	Existing payroll system – HRIS  Existing employee expense system - iExpense	<ul style="list-style-type: none"> <li>Only some employees are transferred to the new Fusion modules.</li> <li>Employees in: SNB paid by HRIS, FTB, and organizations that receive Human Resources service from FTB. departments.</li> </ul>
<b>Oracle Fusion: Fixed Assets Module</b>	Fiscal 2022 & 2023	Existing Oracle ERP did not use a fixed asset module	<ul style="list-style-type: none"> <li>Fixed assets for the Province will be recorded in the Fusion Fixed Asset Module</li> </ul>
<b>Oracle Fusion: Human Resources, Payroll and Employee Expense Modules</b>	Fiscal 2023	Existing payroll and employee expense system - JD Edwards used by SNB	<ul style="list-style-type: none"> <li>SNB employees who are paid by JD Edwards system will be transferred over to Fusion Payroll, Human Resources and Employee Expenses.</li> </ul>
<b>Oracle Fusion: Human Resources, Payroll and Employee Expense Modules</b>	Fiscal 2023	HRIS, School District Payroll and employee expense systems	<ul style="list-style-type: none"> <li>Employees in the Department of Transportation and Infrastructure, and two school districts will be transferred to Fusion Payroll, Human Resources and Employee Expenses.</li> </ul>
<b>Oracle Fusion: Human Resources, Payroll and Employee Expense Modules</b>	Fiscal 2024 & 2025	School District Payroll System, HRIS and Meditech Payroll used by SNB	<ul style="list-style-type: none"> <li>Remaining School District employees and all employees in both Community Colleges to transfer to Fusion Payroll, Human Resources and Employee Expenses.</li> </ul>

<b>Oracle Fusion: Procurement Module</b>	Fiscal 2025	Existing procurement system (NBON)	<ul style="list-style-type: none"> <li>Procurement will now become integrated with accounts payable in the Oracle Fusion system.</li> </ul>
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*\*This roll-out included Cash Management, Fixed Assets and Project Costing modules  
Source: ERP Planned Deployment Schedule with comments from AGNB. Other modules in the deployment plan include Accounts Receivable, Planning and Budgeting and Talent Management and Learning.*

### What is the Auditor General Doing to Audit the New Oracle Fusion System?

- AGNB will audit Oracle Fusion modules in fiscal 2022 audit**
- 4.58** Given the substantial size and breadth of the Oracle Fusion system, we consider its implementation a significant risk for our 2022 audit of the Province. This is because new IT systems sometimes have a history of processing errors and data integrity issues. Given this, as well as the IT system implementation issues encountered by other government agencies (especially regarding payroll) we are assessing the audit risk for the Fusion system implementation as high.
- 4.59** To address this high audit risk, we will perform additional audit procedures as part of our fiscal 2022 audit of the Province. Our audit procedures will be designed to ensure appropriate system controls are in place and to ensure the amounts recorded and processed by Oracle Fusion modules are materially complete and accurate.
- 4.60** We will continue to audit the existing outdated systems, as long as they are still in use and still process a significant dollar value of transactions.

### IT Computer Systems Audited During the Provincial Financial Statement Audit

- 4.61** During the audit of the Province's consolidated financial statements, we perform work on various computer systems. In Exhibit 4.3, we provide information on the computer systems audited and if recommendations were made to each responsible department or Crown agency.

*Exhibit 4.3 - List of IT Systems/Areas Audited by AGNB in 2021 and if Recommendations were Issued to Management of the Department or Crown Agency*

<b>Department/Agency</b>	<b>IT System/Area</b>	<b>Recommendations Issued</b>
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***

- 4.62** 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

***Concerns with the nature, number and severity of system weakness***

- 4.63** In all of the seven computer system audits presented in Exhibit 4.3, we found multiple IT weaknesses. We are concerned with the nature, number and severity of the weaknesses given the significance of the systems examined.

***Risk of unauthorized access to systems***

- 4.64** We made 13 recommendations relating to controls to reduce the risk of unauthorized access to systems. We found weaknesses in areas such as user access to data, security weaknesses in accessing systems, and lack of review of configuration changes.
- 4.65** 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.



<b><i>Inappropriate segregation of duties</i></b>	<b>4.66</b>	We found cases where risk exists relating to segregation of duties. Users had access to perform key functions without knowledge or approval of another person.
<b><i>Excessive system rights</i></b>	<b>4.67</b>	We found some users had access beyond what was needed for their job responsibilities. These users had access to alter confidential scanned images.
<b><i>Weaknesses with maintenance of system accounts</i></b>	<b>4.68</b>	We found weaknesses relating to how system accounts are maintained. These weaknesses related to both user accounts, as well as system administrator accounts.