

Chapter 5

Results of Crown Agency Financial Statement Audits

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Results of Crown Agency Financial Statement Audits

What We Found: Audits of Crown Agency Financial Statements

Unqualified audit opinions issued to all Crown agencies we audited

5.1 Each year, our Office conducts audits of Crown agency financial statements. Since our last report in February 2022, we completed not only the audit of the Province of New Brunswick’s financial statements, but also the financial statement audits of two large Crown agencies and two smaller Crown agencies. Of note, the two large Crown agency audits had added layers of complexity this year due to the implementation the new ERP Oracle Fusion software which required additional audit time and testing. As a result of our work, we issued unqualified (“clean”) audit opinions to each Crown agency we audited.

Recommendations related to payments, accounting estimates, and payroll are concerning

5.2 In almost every audit, we have audit findings and recommendations we present to management and the Board of Directors. This year, we made recommendations during all of our audits. Some of our recommendations were made to address weaknesses we found in:

- processing payments;
- preparing accounting estimates; and
- preparing and reviewing accounting and payroll transactions.

We are concerned with the number of weaknesses observed in these areas and that the same weaknesses appear across the different Crown agencies we audited.

5.3 Exhibit 5.1 provides information on:

- the Crown agencies where we have completed audits since our last report (March-September 2022);
- the fiscal year-end completed;
- if we issued an unqualified audit opinion; and
- if recommendations were issued to the Crown agencies.

*Exhibit 5.1 - Summary of Crown Agency Financial Statement Audits Performed
Between March 2022 and September 2022*

**Summary of Crown Agency Financial Statement Audits Performed
Between March 2022 and September 2022**

| Crown Agency | Unqualified Audit Opinion Issued | Recommendations Issued |
|------------------------------------------------|---------------------------------------------|-----------------------------------|
| March 31, 2022 Year End Audits | | |
| Service New Brunswick | Yes | Yes |
| Opportunities New Brunswick | Yes | Yes |
| New Brunswick Legal Aid Services Commission | Yes | Yes |
| March 31, 2020 Year End Audits | | |
| Provincial Holdings Ltd. | Yes | Yes |

Source: Prepared by AGNB.

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

5.4 While we did not find evidence that significant fraud or theft 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.

5.5 In this chapter, we do not specifically discuss the results of all of our work over Crown agencies' financial statements. In the sections that follow, we present our significant concerns found during our audits of Crown agencies.

Recommendations Made to Service New Brunswick

Service New Brunswick is a large and complex audit

5.6 The financial statement audit of Service New Brunswick (SNB) is the largest and most complex Crown agency audit performed by our Office. SNB is a common services organization and provides essential services to both government and the taxpayers of New Brunswick. In 2022, SNB had revenues of approximately \$304 million and expenses of approximately \$297 million.

Two recommendations made to Service New Brunswick to address risk of fraud when processing payments

5.7 This year, during our audit of SNB, we found two areas where weaknesses in internal control processes increased the risk of fraud when processing payments to vendors.

Payments Not Properly Authorized

This year, we found 11 instances totalling approximately \$4.6 million where invoices were approved for payment which exceeded an individual's authorized spending limit.

In our view, approving payments above authorized spending limits increases the risk expenses were not incurred for government business, do not comply with legislative and government policy, and increases the risk goods or services have not been provided.

Duplicate Payments Made to Vendors

This year, we found 26 instances where SNB made duplicate payments to vendors for the same invoices totalling \$239,000. SNB uses more than one accounting and payment processing system and, as a result, duplicate payments occur when SNB uses two different systems to pay the same invoice.

In our view, operating multiple accounting and payment systems increases the risk of fraudulent payments to vendors. At the time of our work, we found SNB had been refunded for ten of these instances totalling \$210,000.

We also have noted this item in prior year audits and we are concerned this weakness remains unresolved.

Recommendations

5.8 We recommend SNB educate its staff on the authorized policies and processes in place when approving payments.

5.9 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.

Three recommendations made to improve accounting processes

5.10 This year, we also made three recommendations for SNB to improve its accounting processes.

Errors in year-end accounting processes

5.11 One recommendation was for SNB to improve its year-end accounting processes. We found errors in year-end account reconciliations where:

- reconciliations were not complete (items were missing);
- transactions were recorded to the wrong account;
- revenue reconciliations contained errors; and
- transactions were recorded in the wrong fiscal year.

In our view, these items show staff awareness and increased diligence is needed by SNB when preparing and reviewing year-end account reconciliations.

Recommendation

5.12 We recommend SNB train staff on how to prepare and review year-end account reconciliations and how to record transactions near year-end.

Significant accounting estimates were not supported

5.13 Another recommendation was for SNB to provide support for significant accounting estimates included in the financial statements. We found SNB did not provide support for the estimate for retro-active salary payments to employees of approximately \$9 million which had not been paid at year-end.

5.14 We found this estimate was prepared by the Department of Finance and Treasury Board (FTB) and provided to SNB to include in its financial statements. In our view, given the significance of the estimate in SNB's financial statements, SNB should have taken steps to validate and provide support for the amount. Unfortunately, our Office was required to spend a significant amount of unplanned audit time to obtain support and information from FTB and

then to audit the reasonableness and accuracy of the estimate.

Recommendation

5.15 We recommend SNB provide support for significant accounting estimates included in the financial statements.

Process to estimate the useful lives of tangible capital assets needs to be improved

5.16 In addition, one recommendation was for SNB to improve its estimates of the useful lives of tangible capital assets. For example, we found instances where SNB could not provide evidence it had assessed the estimated remaining useful life of its capital assets and if all capital assets were included as part of this review. These items show the need for SNB to review, update and document as necessary, its estimates for useful lives and its policies for capital assets.

5.17 SNB has over \$150 million in tangible capital assets, most of which are computer software and hardware, databases and systems and major equipment. This year, SNB recorded an amortization expense of almost \$9 million. Rapid changes in technology may cause assets to become obsolete faster than expected while other capital assets may continue to be in use after their useful life has passed.

Recommendations

5.18 We recommend SNB review, update and document as necessary:

- **the useful life estimates of its Tangible Capital Assets; and**
- **its policies for Tangible Capital Assets.**

We recommend this review be performed on a regular basis such as annually and be retained for audit purposes.

Recommendation to improve internal control processes

5.19 Lastly, we recommended SNB improve its internal controls. We found 13 weaknesses in different areas such as payroll, payments to vendors and access to information technology systems. Ten of these 13 items were noted in prior years and again this year. We are concerned these weaknesses have not been corrected.

5.20 We made a recommendation to SNB to review and resolve the weaknesses in internal control as soon as possible.

Recommendations Made to Opportunities New Brunswick

Opportunities New Brunswick is another large and complex audit

5.21 The financial statement audit of Opportunities New Brunswick (ONB) is another large and complex Crown agency audit performed by our Office. ONB promotes economic development in the province and provides loans and financial assistance to businesses. At March 31, 2022, ONB had approximately \$170 million in loans receivable and during 2022, ONB made approximately \$23 million in financial assistance payments.

Recommendation made again this year to improve estimates of loan provisions

5.22 We made a recommendation again this year for ONB to improve its processes to estimate provisions on its loans. These provisions are amounts ONB estimates it will not be able to recover from loan recipients (i.e. defaulted loans).

Loan provisions are a significant audit risk

5.23 The process to estimate the provisions for these loans is highly judgmental resulting in a risk of material error. As a result, these estimates are a significant audit risk for our Office and require a great deal of scrutiny.

5.24 In our sample of 21 loans, we found 12 instances where ONB's estimates needed to be improved. For example, we found instances again this year where ONB assessed repayment history as being current and up-to-date when repayments:

- were being deferred (as authorized by ONB) due to poor financial health of the entity; and
- were not yet required under the terms of the loan agreement.

Although we believe ONB's financial statements are not materially misstated, in our view, using a process that assesses loans as current and up-to-date when re-payments are not actually required to be made increases the risk loan provisions will be materially understated. We were informed ONB plans to introduce a new process to estimate loan provisions in the upcoming year which is expected to address this weakness.

Recommendation

5.25 We again recommend ONB review and update its process for estimating loan provisions to ensure loan repayment history is appropriately reflected in the estimate.

Recommendations made again this year to address weaknesses when processing payments

5.26 We made recommendations for ONB to address processing payments weaknesses. During our work we found instances where ONB:

- paid a claim for financial assistance before the funding recipient was eligible to receive the payment (we also noted this item in prior year); and
- made a duplicate payment in error related to compensation.

In our view, these items all show staff awareness and increased diligence is needed by ONB when processing payments.

Recommendations

5.27 We again 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 agreement.

We recommend ONB ensure payments are appropriately reviewed and supported prior to payment.

Detailed listing of tangible capital assets is needed

5.28 Another recommendation was for ONB to prepare a detailed listing of its tangible capital assets. Fiscal 2022 was the first year ONB recorded tangible capital assets in its financial statements and we found ONB did not have a detailed listing of these items. ONB recorded the following capital assets this year.

- Software with a net book value of approximately \$630,000 was received from the Department of Post-Secondary Education, Training and Labour (PETL) as part of a restructuring transaction for the Population Growth Division.
- Land was recorded with an approximate value of \$390,000.

In our view, not having a detailed list of tangible capital assets increases the risk of error when calculating amortization expense and assessing if assets are to be impaired.

Recommendation

5.29 We recommend ONB prepare a detailed and itemized list of its tangible capital assets.

Recommendations Made to Provincial Holdings Ltd.

5.30 Provincial Holdings Ltd. (PHL) is responsible for administering industrial development project investments for the Province. Significant events in recent years for PHL include the following items:

- Construction was completed on a floating dry dock worth approximately \$7 million. PHL is responsible to manage the dry dock and has leased it to a private company.
- PHL is also responsible to manage properties at a former mill site in Miramichi and a shipyard located in Bas-Caraquet.

5.31 We understand PHL is in the process of working toward divesting its assets. Overall, we are pleased to see this moving forward. This is consistent with the spirit of our 2015 recommendation in our *Financial Assistance to Atcon Holding Inc and Industry* chapter, that the number of provincial entities which provide financial assistance to industry be rationalized, as an efficiency measure and to streamline administration.

Recommendations made to improve accounting estimates

5.32 At March 31, 2020, PHL recorded approximately \$3.6 million in environmental liabilities and \$13.8 million in tangible capital assets. As part of our audit of PHL, we made two recommendations to improve accounting estimates for these items.

5.33 One recommendation was to update the estimates for environmental liabilities. These liabilities relate to properties owned by PHL which are required to be remediated under environmental standards (such as landfills and lagoons). These estimates are highly judgmental and often require the use of an expert, such as an engineering firm.

Out-of-date information used to estimate environmental liabilities

5.34 During our work, we found PHL used expert reports dating back to 2015 to prepare the estimate for environmental liabilities. We also found PHL had not considered the impact of inflation as part of the estimates. While we believe the estimates were not materially misstated, in our view, obtaining up-to-date engineering reports and reviewing these liabilities on a regular basis would improve the accuracy of these amounts.

- Recommendation**
- 5.35 We recommend PHL obtain up-to-date engineering reports to support the estimate for environmental liabilities as soon as possible and, as a minimum, every five years or when conditions indicate an updated report is required.**
- Formal tangible capital asset policy is needed**
- 5.36** Another recommendation related to PHL developing and implementing a formal policy for its tangible capital assets. We found PHL had no such policy and instead considered the Province’s policy when accounting for and recording its capital assets. In our view, a formal tangible capital asset policy is needed to include items such as:
- cost thresholds for items to be capitalized, and
 - estimates of the useful lives for calculating amortization expense.
- While we believe the balances for tangible capital assets were not materially misstated, in our view, not having a formal policy increases the risk of error in the financial statements.
- Recommendations**
- 5.37 We recommend PHL develop and implement a formal policy for its tangible capital assets.**
- We also recommend this policy be approved, and then regularly reviewed, by the Board of Directors.**

Recommendation Made to New Brunswick Legal Aid Services Commission

NBLASC provides legal services to eligible New Brunswickers

5.38 The New Brunswick Legal Aid Services Commission (NBLASC) provides criminal and family legal services for eligible residents of the Province. These services are funded primarily by the Department of Justice and Public Safety.

Review of accounting and payroll processes needs to be improved

5.39 As part of our NBLASC audit this year, we made a recommendation to improve the review of accounting and payroll processes. Some of the issues we found in these review processes during our work included the following:

- Senior management did not review severance payments made to employees;
- Bi-weekly employee payroll registers were not always reviewed;
- Year-end account reconciliations were not reviewed; and
- There was no documented evidence the useful lives of tangible capital assets were reviewed.

Although, in our view, these items do not materially misstate the financial statements, not reviewing these key processes increases the risk of error in NBLASC's financial reporting.

Recommendations

5.40 We recommend NBLASC develop and implement a procedure to review key accounting and payroll processes.

We recommend evidence of this review be retained for audit purposes.