

# Chapter 4

## Audit of Crown Agencies

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# Audits of Crown Agencies

## Background

**4.1** We audit the Crown Corporations, Boards, Commissions and other Agencies which are listed below. We expect that by the date this Report is released we will have issued audited financial statements of all of these agencies for the year under review.

**4.2** Agencies included in the Public Accounts:

- Advisory Council on the Status of Women
- Algonquin Properties Limited
- Kings Landing Corporation
- Lotteries Commission of New Brunswick
- NB Agriexport Inc.
- New Brunswick Credit Union Deposit Insurance Corporation
- New Brunswick Crop Insurance Commission
- New Brunswick Municipal Finance Corporation
- New Brunswick Research and Productivity Council
- Premier's Council on the Status of Disabled Persons
- Provincial Holdings Ltd.
- Regional Development Corporation
- Youth Council of New Brunswick

**4.3** Other Agencies:

- Le Centre communautaire Sainte-Anne
- Legal Aid Fund
- New Brunswick Women's Institute

**4.4** We were also appointed auditors of the New Brunswick Highway Corporation under the New Brunswick Highway Corporation Act which received Royal Assent on 29 March 1995. There has been no activity in the Corporation up to 31 March 1997.

**4.5** Last year, we reported that the Board of Directors of the New Brunswick Investment Management Corporation had appointed us auditors of the Corporation for the years ended 31 March 1996 and 1997. The Corporation was established on 11 March 1996 to act as trustee for the Province's major pension funds and to provide investment counselling services for the Province's sinking funds.

**4.6** In late 1996 the Corporation issued a Request for Proposals for audit services beginning with the year ending 31 March 1998. KPMG was

the successful bidder. In our discussions with the Corporation subsequent to the appointment of KPMG, we agreed that it would be more efficient if KPMG undertook the audit of the Corporation for the years ended 31 March 1996 and 1997. Accordingly, the Board of Directors of the Corporation rescinded our appointment and appointed KPMG in our place. Under the provisions of the Auditor General Act, we have full access to the working papers of the auditors of the Corporation, and we can carry out additional work in the Corporation should we consider it necessary to do so. We will be working closely with the auditors of the Corporation to ensure there is no duplication of work between our two offices, nor any gaps in audit coverage.

**4.7** NB Agriexport Inc. was established on 23 May 1996. It is wholly owned by the Province. Its mandate is to provide a focal point for the Department of Agriculture and Rural Development's international market development efforts, to facilitate exporters' access to international markets and to help exporters manage the risks of international marketing.

## Scope

**4.8** Our work in Crown agencies is usually aimed at enabling us to give an opinion on their financial statements. During the course of this work, we may note errors in accounting records or weaknesses in accounting controls. We bring these matters to the attention of the agency, together with any recommendations for improvement. In the majority of cases, we do not consider the issues raised to be significant to the members of the Legislative Assembly, and accordingly do not include them in this Report.

## Results in brief

**4.9** We are no longer auditors of the New Brunswick Investment Management Corporation.

**4.10** The Board of Directors of Algonquin Properties Limited should approve all changes to the remuneration of the General Manager of the Algonquin Hotel prior to their implementation. They should also approve all capital projects undertaken at the Hotel.

**4.11** Internal control weaknesses were noted at Kings Landing.

**4.12** The Board of Directors of the New Brunswick Municipal Finance Corporation are taking steps to more clearly define their role in the governance of the Corporation.

## Algonquin Properties Limited

### *Compliance with management agreement*

**4.13** We noted that changes to the remuneration of the General Manager of the Hotel which occurred during 1996 were not brought to the Board of Directors of Algonquin Properties Limited for its *written* approval *prior* to being implemented. We could not find any written evidence of a submission to the Board, or its subsequent approval. The management agreement with Canadian Pacific Hotels and Resorts in effect at the time required this procedure to be followed. This is the third time we have noted and reported this since 1994.

**4.14** We believe this important control ensures accountability by Canadian Pacific Hotels and Resorts to the Board of Directors of Algonquin Properties Limited and it should be retained in future contracts. We recommended this in our 1995 Report.

**4.15** In January 1997 Algonquin Properties Limited finalized a new management agreement with Canadian Pacific Hotels and Resorts which will expire in 2002. The new agreement states that the remuneration of the General Manager is subject to the approval of Algonquin Properties Limited. However, the requirement for *written* approval has been eliminated. Similarly, the requirement for approval *prior to implementation* has been eliminated.

**4.16** We made the following recommendations:

- **Algonquin Properties Limited should ensure that formal means are put in place to regularly obtain up-to-date information from Canadian Pacific Hotels and Resorts regarding the remuneration of the Hotel's General Manager.**
- **Staff of Algonquin Properties Limited should adequately document any procedures put in place to review remuneration of the General Manager. Evidence of the Board's approval should be provided in the minutes of the appropriate meeting.**
- **Staff of Algonquin Properties Limited should regularly review the management agreement. They should also review financial transactions of the Hotel to ensure it is adhering to controls put in place by the management agreement.**

**4.17** Algonquin Properties Limited responded as follows:

*Review of the Board minutes allows us to concur with your findings concerning the approval of the salary of the General Manager of the hotel. The Board retro-actively approved the January 1, 1997 raise at the June annual meeting. Canadian Pacific Hotels and Resorts has been notified of this concern, and has stated that any proposed review will be available to the Board for review in the fall of each year. This situation will be monitored for compliance.*

***Inappropriate treatment of  
holdbacks on capital  
projects***

**4.18** One instance was found where a contractor's holdback was deducted from a payment to a contractor and not correctly recorded in the records of Algonquin Properties Limited. In another instance, a contractor's holdback should have been, but was not, deducted.

**4.19** We recommended accounting staff ensure contractors' holdbacks are correctly deducted from payments and properly recorded in the records of Algonquin Properties Limited.

**4.20** The Corporation responded:

*The one case where a project holdback was not properly taken was reviewed by the Algonquin Properties Ltd. Directors as well as the Department of Supply and Services construction staff. It was an inadvertant violation of the policy and practice in place and could not be explained. We will attempt to ensure that all holdbacks are properly held in the future.*

***Lack of proper approval for a capital project***

**4.21** In reviewing the budget documentation provided to us, we noted one instance where written approval by the Board of Directors of Algonquin Properties Limited was not obtained for a capital project which was requested by the Hotel.

**4.22** The records of the Corporation indicated that an approved capital project worth \$15,000 was subsequently cancelled. However, expenditures were then made (to the limit previously set for the cancelled item) regarding a project previously delayed by the Board of Directors pending receipt of a “payback analysis.” Staff informed us that approval for this “offset” was verbal between the former General Manager of Algonquin Properties Limited and the General Manager of the Hotel. We could not find any written evidence of Board approval or receipt of a “payback analysis”.

**4.23** Disbursements made without formal approval increase the risk that inappropriate projects are undertaken. It may also increase the risk that the intentions of the Board are not being fulfilled. The fact that further analysis was requested, and not subsequently received before disbursement, increases the risk these funds may not have been implemented in the most effective manner.

**4.24** **We recommended approval of each capital project by the Board, or its designate, be formally documented in writing. A review of expenditures paid or reimbursed should be performed to ensure they have been approved by the Board.**

**4.25** The Corporation responded:

*The history of all capital projects was reviewed and we agree with the comments that the former approval process was somewhat difficult to trace. The total capital budget for the current year has been reviewed and approved by the Board. All capital projects are in fact funded by the head office Directors of Algonquin Properties Ltd., therefore proper control does exist. Procedures will be amended so as to assure proper documentation does exist for any minor changes in the annual capital improvement list.*

## **Kings Landing Corporation**

**4.26** We reported to the Corporation a number of weaknesses in internal controls. Areas of weakness reported as a result of our 1997 audit included:

- controls surrounding the Emporium's computer sales terminals;
- documenting the reasons for differences between admission tickets issued and the cash register record of persons entering the site; and
- controls over food services revenue.

**4.27** In addition, we recommended an improvement in the use of cash floats, and a review of the value of the Corporation's book inventory.

## **New Brunswick Municipal Finance Corporation**

### *The role of the Board*

**4.28** In 1994 we commented that the role played by the Board of Directors appeared to be minimal. Meetings were conducted over the telephone and the only business conducted was related specifically to the issuance of debentures. We stated we would have expected discussion on other matters related to the operation of the Corporation and we commented that the Board should be actively fulfilling its role since it, in turn, is accountable to the Legislative Assembly.

**4.29** In 1995 the Board agreed that annual meetings would be held when there are sufficient matters to warrant the meeting. Such meetings would not be held by telephone. Rather, they would involve a face to face meeting of the Board members. At the time of our 1996 audit, it appeared the Board had taken little action on the issues we raised. However, we understood an annual meeting was planned within the current year.

**4.30** The Board of Directors met on 28 August 1997. At that meeting, they approved a set of by-laws for the Corporation setting out the powers and responsibilities of the directors and officers. We are pleased that the directors are taking steps to more clearly define their role in the governance of the Corporation.

### *Surplus funds held by the Corporation*

**4.31** In 1994 we commented that the Corporation held surplus funds in the amount of \$520,000, which in our opinion was more than was needed by the Corporation to meet the expenses relating to the outstanding debentures.

**4.32** Beginning in 1995, the estimated costs incurred by departments in issuing the debentures have been charged to the Corporation. In spite of this change, the retained earnings and the cash and short term investments of the Corporation have continued to grow, although at a slower pace.

**4.33** In discussions with departmental staff we have been assured that the excess funds will be consumed within four to five years. This is expected to take place under normal operating conditions.