

# Chapter 3

## Financial Audits in Departments and Crown Agencies

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# Financial Audits in Departments and Crown Agencies

## Background

**3.1** The Legislative Assembly approves the budget that sets out the government's financial plans. The duties imposed on our Office require us to audit the actual financial results and report our findings to the Legislative Assembly.

**3.2** Our audit work encompasses financial transactions in all government departments. As well, we audit pension plans and other trust funds.

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

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

- Advisory Council on the Status of Women
- Algonquin Golf Limited
- 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 Highway Corporation
- 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

## Scope

### 3.5 Other Agencies:

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

**3.6** To reach an opinion on the financial statements of the Province, we carry out audit work on the major programs and activities in departments. In addition, we audit major revenue items and a sample of expenditures chosen from all departments. We also test controls surrounding centralized systems.

**3.7** We take a similar approach to our testing of the Province's pension plans. Our objective in doing this work is to reach an opinion on the financial statements of each plan.

**3.8** Because of the limited objectives of this type of audit work, it may not identify matters which might come to light during a more extensive or special examination. However, it often reveals deficiencies or lines of enquiry which we might choose to pursue in our broader-scope audit work.

**3.9** It is our practice to report our findings to senior officials of the departments concerned, and to ask for a response. Some of these findings may not be included in this Report, because we do not consider them to be of sufficient importance to bring to the attention of the Legislative Assembly.

**3.10** 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.

**3.11** This chapter of our Report summarizes issues related to departments, pension plans and Crown agencies which we consider to be significant to the members of the Legislative Assembly.

**3.12** Our examination of the matters included in this chapter of our Report was performed in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. The matters reported should not be used as a basis for drawing conclusions as to compliance or non-compliance with respect to matters not reported.

## General Expenditure Test Results

**3.13** As discussed under "Scope", we select for testing a sample of expenditures from all government departments. This sample is selected using statistical sampling techniques. The approach is designed to give

us confidence that, in total, provincial expenditures reported on the financial statements are correct in all material respects.

**3.14** Our tests are not just designed to reveal monetary errors, of which there are few. We also check to ensure the expenditure is properly approved, is reasonable in the circumstances and complies with the legislation, regulations and policies which give authority to the transaction. We find more deficiencies in these areas. When we suspect a deficiency is more than just an isolated incident, we may schedule additional audit work in that particular area to confirm or deny our suspicions. This additional work may take place in a subsequent audit year.

**3.15** We noted the following deficiencies in our 1999 audit of expenditures:

- individuals who were not on an approved signing authority list but who authorized a document, or who exceeded their authorized spending limit (7 items);
- no evidence that goods were received (1 item);
- no signature for spending authority (1 item);
- incorrect classification of expenditures (2 items); and
- documentation did not support the payment made (3 items).

**3.16** We want to emphasize that the Province spends in excess of \$4 billion each year. The instances referred to in this chapter of our Report represent a tiny fraction of these expenditures. No large organization can operate perfectly, all the time. Errors can occur, and mistakes can be made. By far the overwhelming majority of transactions processed by the Province are accurate, authentic and in compliance with established policies and legislation. Our role is to ensure that this continues to be the case.

## Losses Through Fraud, Default or Mistake

**3.17** Section 13(2) of the Auditor General Act requires us to report to the Legislative Assembly any case where there has been a significant deficiency or loss through fraud, default or mistake of any person.

**3.18** During the course of our work we became aware of the following significant losses. Our work is not intended to identify all instances where losses may have occurred, so it would be inappropriate to conclude that all losses have been identified.

### Department of Human Resources Development

- Cheques cashed by persons not eligible to receive the funds. This loss is comprised of social assistance cheques that recipients reported lost or stolen. \$90,724

### Department of Justice

- Cash shortages and amounts paid out in error. \$1,234

## Department of Natural Resources and Energy

- Loss of equipment \$6,937

**3.19** Losses reported by our Office only include incidents where there is no evidence of break and enter, fire or vandalism.

**3.20** The Province reports in Volume 2 of the Public Accounts the amount of lost tangible public assets (other than inventory shortages). In 1999, the Province reported lost tangible public assets in the amount of \$167,786.

**Department of Finance***Pension funds*

**3.21** Early in the year we completed our audits of seven provincial pension funds with year ends of 31 December 1997 and 31 March 1998. We issued a management letter to the Department, outlining a number of issues arising during the course of these audits. These issues were relatively minor, dealing with financial statement disclosure and reconciliations of various reports received by the Department related to pension fund activities. The Department responded positively to our recommendations.

**3.22** We also raised an issue relating to the calculation of reciprocal transfers into the Teachers' Pension Plan. An error in the program logic could result in inaccurate calculations of the amounts to be transferred. The Department indicated that the error has been corrected, and a project initiated to recalculate and adjust all transfers received since 1 January 1996.

**Department of Health  
and Community  
Services**

**3.23** As a result of our work in the Department in connection with our audit of the Province for the year ended 31 March 1999, we made a number of observations and recommendations.

**3.24** We noted weaknesses in the payment process for Family and Community Social Services (FCSS) clients. These weaknesses included the use of out-of-date information to calculate payments, insufficient documentation to support payments, inconsistencies in completing client assessments and inconsistencies in file documentation. We recommended that standards be set for file management, that there be consistency in the documentation maintained on clients and that files should be kept current.

**3.25** The Department agreed with our recommendations and indicated that steps were underway to address the issues we raised.

**3.26** We also noted that over the past three fiscal years there has been substantial overspending on ambulance services despite increases to the budget. We recommended the Department ensure that the budget is a reasonable estimate reflecting the operating needs of the program.

**3.27** In response, the Department stated that program changes have been adequately planned and budgeted for. However, the budget process has not kept up with the pace of increases in human resource costs due to unionization of staff, a decrease in volunteerism and decreased availability of part-time/on call staff.

**3.28** In updating our previous year's comments, we noted that year-end settlements with hospital corporations and nursing homes were now up to date. However, the audited financial statements for at least 23 of the 60 nursing homes were not received by their legislated due date, 31 July 1999. Moreover, only two regional hospital corporations submitted audited, board-approved financial statements by the same, legislated, due date. The Department said it would attempt to improve compliance by sending out more advance instructions and reinforcing the content requirements and due dates.

### **Kings Landing Corporation**

**3.29** For the third consecutive year we found it necessary to bring to the attention of the Corporation weaknesses in internal controls surrounding site admissions and the use of tickets. This is a key area in the operation of the Corporation and we indicated our concern at the lack of action to address this issue.

**3.30** The Corporation agreed that corrective action was not implemented as intended. Written instructions have now been given to staff, and the Controller will monitor compliance.

**3.31** Also for the third consecutive year we addressed the weaknesses in controls surrounding the Emporium's sales terminals. The Corporation stated that they are continuing to implement better controls and inventory management applicable to the system for the Emporium. As funds become available, they intend to improve their computer systems.

### **New Brunswick Credit Union Deposit Insurance Corporation**

**3.32** In 1998 we reported the failure of the Corporation to create a deposit insurance fund. Such a fund is required under the Credit Unions Act.

**3.33** On 30 September 1999, the board of directors of the Corporation approved the trust indentures and the investment policies required for the establishment of a deposit insurance fund. In December 1999, the Credit Union Stabilization Boards transferred title to \$1,770,200 to the Corporation.

**3.34** We are pleased to report that the Corporation now has a deposit insurance fund, and is in compliance with its governing legislation.