

Chapter 6

Matters Arising from our Audit of the Financial Statements of the Province

Contents

Province’s Audit Opinion Contained Reservations	117
Audit Findings.....	118
Highlights and Recurring Themes.....	119
Appendix I – Audit Objectives.....	133
Appendix II – Loss through Fraud, Default or Mistake	135
Appendix III –Significant Findings.....	136

Matters Arising from our Audit of the Financial Statements of the Province

Province's Audit Opinion Contained Reservations

- 6.1** On September 29, 2015 the Auditor General signed a qualified audit opinion on the consolidated financial statements of the Province of New Brunswick. A qualified audit opinion is different from other audit opinions normally issued by our Office. A qualified audit opinion expresses reservations or concerns about the information contained in the financial statements.
- 6.2** In this case, the reservations in our audit opinion pertained to the Province's accounting for four of its shared risk pension plans. We have presented further information on our concerns and observations regarding the Province's pension plans in Chapter 3.
- 6.3** As a result of the reservations expressed in the audit opinion, we are unable to quantify the impact of the possible changes required to the financial statements as the government has not provided the necessary information.

Serious and disappointing outcome

- 6.4** A qualified audit opinion is a very serious and disappointing outcome for the March 31, 2015 financial statement audit of the Province. We had many discussions with senior officials in the Department of Finance, as well as representatives from the Office of the Comptroller, in order to address and resolve our concerns in an effort to avoid qualifying the audit opinion on the Province's financial statements. As the Province decided not to change its position on pension accounting or calculate the impact of its pension accounting decisions, a qualified audit opinion was required.

Reservations will impact future years' audit opinions

6.5 While we hope this situation can be resolved in future, until resolved, the current year audit opinion qualification will affect each and every year's future audit opinion on the Province's financial statements. This will continue until accounting standards change, or until the Province changes its accounting position for shared risk pension plans. Setting accounting standards is the responsibility of the Public Sector Accounting Board (PSAB). While PSAB has begun to review the pension accounting standard, it is expected to be several years before changes (if any) are made to the current public sector pension accounting standard.

Audit findings

6.6 To reach an opinion on the consolidated 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 departments. We also examine internal controls of significant computerized systems.

6.7 In almost every audit, there are audit findings to be discussed with management. Except for accounting concerns pertaining to shared risk pension plans, the findings from our March 31, 2015 audit were not sufficiently large in dollar or qualitative terms to affect our opinion on the consolidated financial statements. It is our practice to report these matters to senior officials of the departments concerned, and to ask for a response. Our significant findings and recommendations from the audit of the Province's consolidated financial statements with departmental responses are presented in this chapter except for findings on pensions and school raised funds accounting which are presented in Chapters 3 and 4 respectively.

6.8 It should be noted, though, not all findings are included in the Report. In some instances we do not consider the findings to be of sufficient importance to bring to the attention of the Legislative Assembly, or because public attention to internal control weaknesses, before they are corrected, could possibly result in loss of government assets. For further background on our audit objectives refer to Appendix I.

6.9 We had several findings from the March 31, 2015 audit of the Province's consolidated financial statements. We review the findings identified to determine which findings from our work are significant. When considering which findings are significant we assess:

- dollar magnitude of the item;

- the risk the finding could result in a large loss or error in future;
- the number of instances the finding has occurred;
- if the finding has occurred in multiple departments;
- if the finding was reported in a prior year; and
- if we believe the finding is overall significant in nature.

Highlights and Recurring Themes

6.10 Highlights and recurring themes of our significant findings are presented in Exhibit 6.1.

6.11 We are concerned at the trend of findings not being corrected in advance of the next year's audit cycle. This is particularly concerning given the significance of a number of the findings remaining uncorrected. Of note, all prior year governance/oversight findings remain uncorrected.

6.12 We also noted a number of areas of improvement compared to our 2014 findings. These are also noted in Exhibit 6.1. Exhibit 6.1 presents the prior year uncorrected findings in shaded boxes.

Exhibit 6.1 - Highlights and Recurring Themes

Theme	Finding	Finding addressed to	Concern in this area also noted for 2015 AG Report	Concern in this area also noted in 2014 AG Report	Concern in this area also noted in 2013 AG Report	Paragraph Number
Accounting Concerns	Pension accounting – shared risk pension plans	OOC ¹	Yes	Yes	Partial	Chapter 3
	Proper and complete accounting for school raised funds	EECD ³	Yes	Yes	No	Chapter 4
	Accounting for Nursing Homes	OOC ¹ /SD ⁴	Yes	No	No	6.77 and 6.78
	Liability for contaminated sites	OOC ¹	Yes	Yes	Yes	6.79 and 6.80
	Accounting for Province’s self-insured WorkSafe liability	OOC ¹	Yes	No	No	6.81
	Accounting for contingent liabilities	OOC ¹	Yes	No	No	6.82
	Classification of accounts in the consolidated financial statements	OOC ¹	Improvement	Yes	No	2014 Report 4.77
	Grants/government transfers – need for accounting analysis	OOC ¹	Improvement	Yes	Yes	2014 Report 4.79
	Tangible capital assets (TCA) – communication of tangible capital asset policy and asset impairment assessment	OOC ¹ / DTI ²	Improvement	Yes	No	2014 Report 4.78
	Property tax revenue - municipal suspense account reconciliations	Finance	Improvement	Yes	Yes	2014 Report 4.81
	Netting of property tax revenue	Finance	Improvement	Yes	No	2014 Report 4.82
	Support for changes to property tax assessment values	Service New Brunswick	Improvement	Yes	Partial	2014 Report 4.83

Shaded findings indicate a concern in this area was also noted in the 2014 or 2013 AG Reports

¹Office of the Comptroller, Department of Finance

²Department of Transportation & Infrastructure

³Department of Education and Early Childhood Development

⁴Department of Social Development

⁵Department of Post-Secondary Education, Training and Labour

⁶Department of Agriculture, Aquaculture and Fisheries

⁷Service New Brunswick (formerly the New Brunswick Internal Service Agency)

Exhibit 6.1 - Highlights and Recurring Themes (continued)

Theme	Finding	Finding addressed to	Concern in this area also noted for 2015 AG Report	Concern in this area also noted in 2014 AG Report	Concern in this area also noted in 2013 AG Report	Paragraph Number
Receivables management	Outstanding receivable from 2008 flood	Department of Public Safety/OOC ¹	Yes	No	No	6.83
	Timeliness of property tax receivables processing	Finance	Yes	No	No	6.84
	Property tax accounts receivable balances	Finance	Yes	No	No	6.85
	First Nations education – documentation for receivables policy changes	OOC ¹ /EECD ³	Yes	No	No	6.86
Governance/ Oversight Concerns	Lack of an audit committee	Finance	Yes	Yes	Yes	6.87
	Lack of an internal audit plan	OOC ¹	Yes	Yes	No	6.88
	Need to align Administration Manual Policy AD6402 – Approval of Payments	OOC ¹ /SNB ⁷	Yes	Yes	Yes	6.89
	Need to complete purchase card policy	OOC ¹	Yes	Yes	Yes	6.90
Accounting/ Documentation Concerns With Estimates	Write off of accounts and loans receivable	OOC ¹	Yes	Yes	No	6.91
	Need to review allowance for doubtful accounts – loans and accounts receivable	OOC ¹ /SD ⁴ /PETL ⁵ /AAF ⁶ /Justice	Improvement	Yes	Yes	2014 Report 4.75
	Need to update estimate of federal tax revenues	Finance	Improvement	Yes	No	2014 Report 4.76

6.13 In general, except for issues concerning pension accounting, departments' responses indicated they agreed with our recommendations and they intend to address our

concerns in the coming year.

6.14 While we have not noted any significant fraud, theft or error as discussed later in Appendix II, the existence of the findings noted in Exhibit 6.1 increases the risk of loss or mistake in the Province's consolidated financial statements. These items should be addressed prior to the next audit cycle.

Details of Significant Findings

6.15 Our detailed observations, recommendations and departmental responses to our full list of significant findings are presented in Appendix III. Summarized comments pertaining to the key themes of our audit findings are presented in the following paragraphs.

Additional Discussion

Accounting concerns

6.16 During our 2015 audit of the Province's financial statements, we noted six areas of accounting concerns, three of which were previously reported in either our 2014 or 2013 Annual Reports. In general, the findings regarding accounting related mostly to appropriate application of accounting standards, accounting errors or other accounting concerns.

6.17 Accounting standards continue to evolve as new standards are introduced (e.g. liabilities for contaminated sites in fiscal 2014-15) and as existing standards are applied to new situations (e.g. shared risk pension plans - refer to Chapter 3 for further comments). Proper application of accounting standards is necessary to ensure financial results are fairly presented.

6.18 In recent years, accounting standards have involved complex questions and judgments, as well as significant dollar transactions and balances. We expect this trend to persist as accounting standards continue to change. We continue to encourage the Office of the Comptroller and the Department of Finance to be proactive in addressing accounting standards changes to allow for timely resolution of accounting questions and sufficient time for appropriate analysis. Also, appropriate expert advice to address complex technical matters should be obtained as needed.

6.19 In 2015, we noted concerns regarding accounting for the Province's 65 licensed nursing homes. These 65 homes are not included in Province's consolidated financial statements as the Province has presently assessed nursing homes as not controlled. However, we understand several government initiatives are being contemplated which may impact this control assessment for accounting purposes in future periods.

Refer to paragraph 6.77 for more information.

6.20 Given our work in 2015, after reviewing the Province's accounting for nursing homes, we have recommended a formal accounting assessment be prepared for next year's audit.

6.21 The issue of accounting for nursing homes would have a very large impact on the Province's financial statements if it is determined that the Province controls the 65 licensed nursing homes for accounting purposes. If controlled, all nursing home assets, liabilities, revenues and expenses would be consolidated in the Province's consolidated financial statements (similar to how regional health authorities are accounted for in the Province's consolidated financial statements). We will be addressing this issue in much greater detail in next year's audit.

***Receivables
management***

6.22 We noted four findings this year related to receivables management. In particular, we noted the Province has still not received Federal funding related to the 2008 Floods. The amount involved is approximately \$20 million.

6.23 We also noted significant delays in processing property tax receivables payments. At July 10, 2015, there was \$51 million in property tax payments not applied to tax payers' accounts.

6.24 In addition, we noted increasing trends in uncollected property tax receivables balances. As well, we noted First Nations receivables of \$15.8 million related to education services were subject to inconsistent collection policies and inadequate documentation of the rationale to support such changes.

6.25 Overall, we are concerned about the Province's receivables management. An increase or delay in collecting receivables balances of this magnitude represents both increased borrowing costs and expenditures for the Province.

***Governance/
oversight concerns***

6.26 During the Province's 2015 financial statement audit, we also noted four findings related to governance or oversight weaknesses. All of these findings were previously reported in either our 2014 or 2013 Annual Reports. One of these findings, regarding a lack of an audit committee, would have been especially helpful to have in place this year to address concerns raised during the audit (given the reservations expressed in the audit opinion). An audit committee would

also bring increased scrutiny to provincial financial and risk management practices, as well as provide increased discipline and structure to management reporting, which would in turn reinforce accountabilities.

6.27 Our oversight/governance findings represent foundational weaknesses in the Province's internal control and risk management practices. Appropriate committee oversight, internal audit plans and completing and approving policies which govern approximately \$28 million in purchase card spending are all important steps to strengthening the Province's internal control and risk management environment. We will revisit these audit areas again next year.

***Accounting/
documentation
concerns with
estimates***

6.28 Overall, we noted improvement in the accounting/documentation of estimates during our 2015 audit. One finding remains outstanding from the prior year regarding amending the current policy for receivables write off to ensure more timely approvals of department receivables write off (especially in cases where amounts are now statute barred).

6.29 Proper support for estimates and assumptions continues to remain an important area in our audit work. Auditing standards now require auditors to challenge significant management estimates and underlying assumptions including reviewing prior year's estimates to assist in determining estimate accuracy. We encourage departments to continue improving in these areas.

Information Technology Findings

Auditing the Province's systems and information technology

6.30 In order to express an opinion on the Province's financial statements, we document controls and test transactions processed by significant financial IT systems. Some of this work is performed on a cyclical basis. We also document the controls associated with the Province's overall IT infrastructure. Exhibit 6.2 lists IT systems we examined in the past year:

Exhibit 6.2 - IT work conducted in the past year

Department	IT Work Conducted
Education and Early Childhood Development (EECD)	Teachers' Payroll
Finance	Property Tax System (Ptax)
Service New Brunswick (SNB) (formerly New Brunswick Internal Services Agency)	HRIS Payroll System
	Oracle Input System (IPM)
	IT Infrastructure
	Property Tax Assessment System
Office of the Comptroller (OOC)	Oracle Financials
Social Development (SD)	Long-term Care System-NBFamilies
	Social Assistance Payment System - NBCase
Officer of the Chief Information Officer (OCIO)	IT Governance

Key Themes

6.31 We are not publishing the details of all of our IT system work given the technical nature of many of our findings, and as noted previously in this chapter, the risk of possible loss of government assets if the details of such findings are reported. Instead, we are summarizing our findings into key themes by the responsible department. We are reporting this information in Exhibit 6.3.

Exhibit 6.3 - Information Technology Findings – Key Themes

Theme	Finding	Finding addressed to
Segregation of Duties	Property tax system	Finance (Ptax)
	Approval of purchase cards	EECD
System Replacement	Teachers' payroll system	EECD
	HRIS payroll system	SNB (HRIS)
IT Security	Excessive permissions	SNB (IPM), OOC (Oracle)
	Disabling access	OOO (Oracle), SNB (IT Infrastructure), SNB (Ptax)
	Encryption of data	SNB (IT Infrastructure)
	Monitoring – Administrators	OOO (Oracle), SNB (Ptax)
	Patch management	OOO (Oracle), SNB (IT Infrastructure)
	Lack of an audit trail	OOO (Oracle)
	Management of network access	SNB (IT Infrastructure)
Data Integrity/Accuracy/ Completeness	Sick leave tracking	EECD
	Quality of assessment data	SNB (Ptax)
	Information for property assessment purposes	SNB (Ptax)
Non-compliance with policies/standards/guidelines	Password standards	SNB (Ptax), SNB (IT Infrastructure), OOC (Oracle)
	Assessment re-inspection cycle	SNB (Ptax)
	Purchase card transaction limits	EECD
	Annual client reviews	SD (NBFamilies)
	NBCase payments	SD (NBCase)
Documentation Deficiencies	Purchase card procedures	EECD
	Expired funding application for intervention services	SD (NBFamilies)
	Conflict of interest	SNB (IPM) – Transportation and Infrastructure
Approvals	Completing delegation forms	SD
	Documenting approval	SNB, EECD
Monitoring	Third-party service reports	Health, OOC (Oracle), SNB (IT Infrastructure), OCIO
Other Observations from Our IT Work	Disaster recovery plan	OOO (Oracle)
	Reconciling payments	SD (NBFamilies)
	Process inefficiencies	SD

6.32 We are not aware of any significant loss of government assets or errors which resulted from the findings noted in Exhibit 6.3, however, we are concerned for the potential for future loss of assets or error. Given the findings pertaining to IT security as noted in Exhibit 6.3 we are also concerned for

the potential of loss of confidentiality and privacy inherent in the findings if they remain uncorrected.

6.33 It should be noted, this work was performed with a focus on the financial statement audit impact. Risks arising as a result of operational or confidentiality/privacy concerns are noted where observed, but were not the main focus of our work.

Additional Discussion

6.34 Given the significance of some of the findings and the fact we have similar findings across multiple departments, we will discuss some of the findings outlined in Exhibit 6.3 in more detail.

Segregation of Duties

6.35 We noted two findings relating to a lack of segregation of duties. Proper segregation of duties is necessary to reduce the risk of fraud and error in the accounting records.

- One finding relates to the property tax system in the Department of Finance. We found the same individual approves and assigns user access privileges. These responsibilities should be separated. We also noted senior management in the Department of Finance acts in the role of system administrator increasing the risk of fraud and management override.
- One finding relates to the approval of purchase card transactions in EECD. We found one case in our sample of EECD purchase card transactions where the cardholder provided spending authority on his/her own transaction.

System Replacement

6.36 In our work, we found two IT systems need to be replaced or modernized. Similar to prior years, the EECD teachers' payroll system still needs to be replaced. This year, we also noted the SNB HRIS payroll system will no longer be supported after 2017.

6.37 Both of these payroll systems will be replaced by one new human resource management system which SNB is responsible for implementing. We are concerned with the lack of progress in implementing a human resource management system. As we have mentioned in the past, replacing the teachers' payroll system is critical as access security is extremely weak, support is provided by a single contractor with no backup and the system runs on old, out-dated hardware. The system is over 20 years old and is at risk of failure.

***IT Security -
Excessive
Permissions***

- 6.38** We had two findings relating to excessive system access.
- For the SNB IPM system, we found an excessive number of users had system administrator privileges increasing the risk of inappropriate access to financial information and system functionality.
 - For the OOC Oracle system, we found IT support had functional access to the system and appropriate monitoring controls were not in place to reduce the risk of processing unauthorized transactions.

***IT Security -
Disabling Access***

- 6.39** We noted findings in three of our audits relating to disabling users' system access. We reported the same findings in the prior year. Departments have not implemented our recommendations. We found cases where:
- resigned/terminated employees users' access was not removed/disabled in a timely manner;
 - users' access was not disabled within 90 days of inactivity as required by policy; and
 - users' access was not confirmed on an annual basis to ensure the access was still appropriate.

- 6.40** Timely disabling of user accounts, along with an annual review of user access assignments, reduces the risk of unauthorized transactions being executed by terminated or existing employees, loss or corruption of data and exposure of confidential corporate information.

***IT Security -
Encryption of Data***

- 6.41** We noted findings relating to encryption of hardware and data. Having appropriate encryption controls in place helps safeguard information and reduces the risk of a breach of confidentiality in the event of unauthorized access of data/hardware or theft.

***IT Security –
Monitoring
Administrators***

- 6.42** We noted in two audits departments are not monitoring IT support/database administrator's activity. These administrators/individuals have powerful system access. Proper monitoring controls are required to reduce the risk of unauthorized changes/updates to significant database tables.

***IT Security –Patch
Management***

- 6.43** In two audits, we noted weaknesses in the patch management strategy used to ensure software and operating systems are running current versions. Failure to have an appropriate patching strategy increases the risk software vulnerabilities could be exploited by outside parties, which could result in loss of information and could impact the stability of systems.

IT Security – Lack of an Audit Trail

6.44 In the OOC Oracle audit, we noted auditing is not enabled on key tables in the database. Not enabling auditing increases the risk of unauthorized changes or updates going undetected.

Data Integrity/Accuracy / Completeness

6.45 We had one finding relating to the accuracy of employee (e.g. teachers) sick leave data in EECD. We found the data was not up-to-date which impacts the calculation of the Province's sick leave liability, as well as the ability for EECD to manage the sick leave usage of its employees.

6.46 We had one finding relating to accuracy of assessment information recorded in SNB's property tax assessment system. We noted the work of assessors is not reviewed. This lack of review related to both calculating the property assessment values and the input of information into the assessment system. We were told a sample of this information is reviewed by regional managers. As the review was not documented, we found no evidence of this review. Verifying the accuracy of assessment information is required to reduce the risk of inaccurate property assessment values which could result in the over/understatement of provincial revenue.

6.47 We also had a finding relating to the completeness of information received from property owners for property assessment purposes. Property owners are not providing information to SNB as requested and SNB is not imposing fines or penalties on those who do not comply with requests. Inaccurate property assessment values impacts the amount of property tax revenue recorded by the Province.

Non-compliance with policies /standards /guidelines

6.48 In our work, we noted seven cases where departments failed to comply with departmental policies/standards or guidelines.

6.49 We found three cases in three audits where departmental system accounts did not comply with password standards. Having inadequate password security policies increases the risk of unauthorized system access.

6.50 In our audit of SNB property tax assessments, we noted SNB had not visually inspected 91 of 851 neighborhoods in more than ten years. This is an improvement from prior year where we noted 193 neighborhoods were not inspected. SNB aims to perform a visual inspection on every property in the Province within a ten-year timeframe. Completing re-inspections within the ten-year timeframe helps reduce the risk of inaccurate property assessments which would result in

provincial tax revenue being over or understated.

- 6.51** In our work, we noted EECD exceeded the \$1,500 spending limit on a purchase by having the vendor produce two separate invoices for one purchase. Both invoices were under the \$1,500 limit, but when combined, they exceeded the \$1,500 spending limit.
- 6.52** We found SD has improved in its compliance with NBFamilies policies and standards. This year, we noted one area of non-compliance compared with three areas in the prior year. The area of non-compliance this year relates to clients' annual case reviews. We found three of 15 cases examined where annual case reviews were not up-to-date compared with seven of ten noted in prior year. Not complying with departmental policy increases the risk of SD making ineligible or inaccurate payments.
- 6.53** Again this year, in our testing of NBCase payments in SD, we found no evidence of spending authority being exercised on payments from the system. This documentation is required to comply with the Province's approval of payments policy.

***Documentation
Deficiencies***

- 6.54** In three audits, we noted documentation deficiencies. In EECD, we noted not all school districts had documented procedures for issuing, monitoring and disabling purchase cards. These procedures would help to reduce the risk of inappropriate use of purchase cards.
- 6.55** In SD NBFamilies, we found one item in two cases where the funding application for a payment had expired at the time of the payment. Not having up-to-date funding agreements on file increases the risk of ineligible and/or incorrect payments.
- 6.56** In the SNB IPM work, we noted the Department of Transportation and Infrastructure did not require conflict of interest forms be completed by bid evaluators or those recommending tender awards for *Crown Construction Contract Act* tenders.

***Approvals –
Delegating Authority***

- 6.57** In SD, we found one case where a spending delegation form was not present to authorize the person approving the payment. In the annual confirmation of spending authority access, we found two cases where SD incorrectly confirmed spending limits. Properly delegating spending authority reduces the risk of unauthorized or inappropriate payments.

***Approvals –
Documenting
Approval***

- 6.58** In SNB property tax assessments, we noted regional managers are not always documenting their review and approval of the pre-inspection road reviews which support property assessment values. Documenting approval of the road reviews help ensure the accuracy of assessment data.
- 6.59** In the EECD (teachers' payroll) audit, we noted EECD did not retain formal documented approval to move a system change into production (to make a change to the system currently in use). This documented approval should be retained to provide evidence that all changes have been authorized. This helps reduce the risk of unauthorized or untested changes being put into use.
- 6.60** We also found, EECD did not obtain appropriate approvals for four of ten payments made from the Teachers' Working Condition Fund. This fund is used to improve working conditions for teachers. Approval for payments must be made either by a teachers' committee or the district superintendent.

***Monitoring – Third-
party service reports***

- 6.61** In three audits, we found cases where departments outsourced services, but did not obtain assurance over the adequacy of controls in place at the service provider. This lack of oversight in relation to services provided by third parties increases the risk critical processes and outsourced controls are not performed in accordance with departments' expectations.
- 6.62** We have noted this finding for a number of years across multiple departments. To address this finding, we recommended the Office of the Chief Information Officer (OCIO) include, in its standards, the need for third-party assurance reports and for the OCIO to promote obtaining third-party reports across government.

***Other Observations
from Our IT Work***

- 6.63** In our audit of the OOC Oracle system, we noted the disaster recovery and business continuity plans were out-of-date. The OOC is in the process of updating these plans, but this work is not yet complete.
- 6.64** In our SD (NBFamilies) audit, we noted SD does not regularly reconcile client payments with the cost of services paid by the client.
- 6.65** We also noted when SD registers participants in the rent supplement program, it does not obtain electronic fund transfer information. This results in vendors receiving two

pieces of mail each month for each payment. Costs would be reduced if participants received payment by way of electronic funds transfer avoiding the cost of monthly mailing.

Appendix I - Audit Objectives

6.66 Our examination of the matters included in this chapter of our Report was performed in accordance with Canadian generally accepted auditing standards, including 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.

6.67 We obtain reasonable assurance on the financial statement figures because it would not be cost effective to obtain absolute assurance - our auditors cannot test every transaction.

6.68 By applying audit procedures to test the accuracy or reasonableness of the figures appearing in the financial statements, we achieve our desired level of assurance. We use audit procedures such as tracing samples of transactions to supporting documents, testing the effectiveness of certain internal controls, confirming year-end balances with third parties and reviewing the reasonableness of estimates.

6.69 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 future audit work.

Responsibilities Pertaining to the Audit Process

6.70 The government is responsible for the preparation and the content of the Province's consolidated financial statements. The Statement of Responsibility at the front of Volume 1 of Public Accounts is signed by the Minister of Finance on behalf of the government. The Comptroller is responsible for preparing the financial statements in accordance with Canadian public sector accounting standards. When preparing the financial statements, the government must make significant estimates, as not all information is available or determinable at the time of finalizing the statements. Examples of areas where management has made estimates in the financial statements are: provision for loss on loans and accounts receivable, contingencies, employee future benefits, environmental liabilities, tax revenue reassessments from prior years, tangible capital assets amortization rates and timing of rehabilitation work completed under public private partnership road contracts (which may not reflect when work is actually completed by the contractors and may impact classification of payments as prepaid expenses, accrued

expenditures or tangible capital assets).

6.71 Our Office is responsible for auditing the financial statements. An audit provides reasonable, but not absolute, assurance the Province's financial statements are free of material misstatement. Material misstatement refers to an item or group of items that, if omitted or misstated, would alter the decisions of reasonably knowledgeable financial statement users. The tolerable level of error or misstatement is a matter of judgment.

Appendix II - Loss through Fraud, Default or Mistake

6.72 Section 17(2) of the *Auditor General Act* indicates that the Auditor General may report to the Legislative Assembly cases where fraud or illegal activity has been discovered.

6.73 During the course of our work we became aware of the following 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 Natural Resources Missing cash and equipment from various regions	\$ 8,040
Department of Education and Early Childhood Development Missing computer equipment	\$ 3,199
Department of Public Safety Missing cash	\$ 379
Department of Justice and Attorney General Missing cash	\$ 72
Department of Post-Secondary Education, Training & Labour Missing Cash	\$ 64

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

6.75 The Province reports in Volume 2 of the Public Accounts the amount of lost tangible public assets (other than inventory shortages).

6.76 In 2015, the Province reported lost tangible public assets in the amount of \$21,100 compared to a loss of \$23,017 reported in 2014.

Appendix III - Significant Findings

6.77	Accounting for Nursing Homes	
<p>The 65 licensed nursing homes operating within the Province are currently not included within the Province's consolidated financial statements, as management deems the Province does not have control over them. Canadian Public Sector Accounting Standard 1300 requires the use of professional judgment in the determination of whether control exists and consolidation in the Government reporting entity is appropriate. To assist in applying professional judgment, this standard provides guidance and suggestions of persuasive indicators of whether or not control is in place. Control is defined as <i>the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities.</i></p> <p>We were provided an assessment of this standard and these persuasive indicators by management who concluded the Province does not control nursing homes. We note a number of new policies and initiatives in this sector are presently being considered. Some of these new initiatives may influence the accounting determination in a future year and lead us to conclude that the government controls these 65 licensed nursing homes. If this conclusion was reached, all of the homes financial results including the revenue, expenses, assets and liabilities would be consolidated in the Province's financial statements. We will continue to monitor and reassess this situation in future years.</p>		
Recommendation		Comments from Management
<p>We recommend the Office of the Comptroller and the Department of Social Development perform a formal assessment of the substance of Provincial activity relating to nursing homes to determine if control exists under Canadian Public Sector Accounting Standards. This assessment should consider the substance of the nursing homes and government relationship and how it has evolved in recent years, as well as all contemplated and completed strategic reform or other initiatives. This may include consultations with professional accounting firms. This assessment should be performed (and provided to our office) no later than December 2015.</p>		<p><i>The Office of the Comptroller performs an annual assessment of the relationship between the Province and nursing homes to determine if control exists under Canadian public sector accounting standard 1300. The 2015-16 assessment will consider the impact of strategic reform and/or other initiatives undertaken by government during the reporting period.</i></p>

6.78	Timeliness of Nursing Home Reconciliations	
<p>At the time of the audit, we noted employees at the Department of Social Development (SD) had finished the year-end reconciliations for each nursing home for the 2012-13 fiscal year.</p> <p>Certain components of the funding provided by the Department to nursing homes are non – transferrable, meaning funding provided must be used specifically for the purpose it is provided. These categories include pension, debt payments, retirement allowance, and nurses’ retention premium.</p> <p>The year-end reconciliation for nursing homes is a key control for financial reporting as it ensures the nursing homes are accurately reporting their revenue and that the non-transferrable funds were spent as approved.</p> <p>Presently, the Department is two years behind in completing year end reconciliations. Timely completion of reconciliations helps reduce the risk the Department may have provided funding for non-transferrable costs for which the nursing homes did not incur and this over funding could go undetected and uncorrected for many years.</p>		
Recommendation	Comments from Management	
<p>We recommend the Department of Social Development complete the year-end nursing home reconciliations on a timely basis (fiscal year after) so that any over funding provided to the nursing homes for non–transferrable costs can be detected and corrected on a timely basis.</p>	<p><i>The 2013-14 year end reconciliation was completed in August 2015. The 2014-15 reconciliation is in progress and will be completed within the fiscal year.</i></p>	

6.79	Estimates for Remediation of Contaminated Sites	
	<p>Estimates of \$59.7 million for future remediation of certain sites in the Province were prepared by the Department of Energy and Mines and the Department of Transportation and Infrastructure. During our audit, we noted the following:</p> <ul style="list-style-type: none"> • the use of independent consultant reports dates back to 2011. These potentially outdated estimates have not been updated to reflect any possible changes in estimated remediation costs; • use of independent consultant reports which were issued on an interim basis and not as a final report; • estimates prepared using informal information provided by external sources; and • estimates recorded at the low end of possible ranges provided by independent consultants without site visits being performed to support the estimate. <p>While we believe possible differences in these estimates do not represent a material misstatement, a current remediation analysis for these sites should be performed prior to the next year's financial statement audit.</p> <p>We also noted a lack of consistent policy across departments for date of last observation and assessment of site contamination. This inconsistent practice may lead to a risk that determination of the accounting liability is inconsistent or outdated.</p>	
	Recommendations	Comments from Management
	<p>We recommend the Office of the Comptroller direct the Department of Energy and Mines and the Department of Transportation and Infrastructure to obtain current remediation analysis for these sites as soon as possible. Interim reports used in determining a liability for accounting purposes should be obtained in final form.</p> <p>We recommend the Office of the Comptroller ensure the Department of Energy and Mines obtain independent consultant reports in final form when such reports will be used in determining a liability for accounting purposes.</p> <p>We recommend the Office of the Comptroller direct the Department of Transportation and Infrastructure to perform site visits to support estimates when a range of possibilities has been provided by third parties.</p> <p>We also recommend a consistent policy be developed by the Office of the Comptroller in conjunction with departments, to address the date of last site visit that is acceptable for accounting purposes. Guidelines should be provided to the departments to avoid inconsistent or delayed timing in assessing contaminated sites.</p>	<p><i>Canadian public sector accounting standard 3260 allows for the use of alternate means of determining the cost of remediation when the cost of gathering and processing the information required is significant. The Office of the Comptroller, in conjunction with subject matter professionals from within departments, will assess the need for additional assessment activity based upon the specific circumstances surrounding each individual site.</i></p>

6.80	Liabilities for Contaminated Sites – Leased Land	
<p>The Department of Natural Resources (DNR) and the Department of Agriculture, Aquaculture and Fisheries (DAAF) both lease Crown land to third parties. During our audit, we noted DNR requires lessees to provide insurance for site contamination at the inception of the lease; however, we noted DNR does not monitor lessee insurance coverage for compliance after the first year of the lease. DAAF does not ask lessees for evidence of insurance for site contamination. With no insurance in place, there is risk the Province will be liable for any site contamination resulting from use by lessees.</p>		
Recommendation		Comments from Management
<p>We recommend departments obtain evidence of insurance for contaminated sites at the inception of all leases, as well as for each subsequent year the leases are in effect. This should be documented for audit purposes.</p>		<p><i>The Departments of Agriculture, Aquaculture and Fisheries and Natural Resources are currently undertaking initiatives to address the above noted risks.</i></p>
6.81	Accounting for the Province’s Worksafe Liability	
<p>The Province has recorded a Worksafe liability of \$134.9 million in its consolidated financial statements regarding self-insured claims of injured workers. During our work, we noted this liability is unfunded and the assumption used for the discount rate is not consistent with the calculation of the Province’s other unfunded liabilities under Canadian Public Sector Accounting Standards (the Province’s cost of borrowing).</p>		
Recommendation		Comments from Management
<p>We recommend the Office of the Comptroller review the calculation of the Worksafe liability, including appropriateness of assumptions used, in advance of the next year’s audit. Valuations for all unfunded liabilities should be performed using assumptions which are consistent with other unfunded liabilities.</p>		<p><i>The Office of the Comptroller will review the assumptions used in the calculation of this liability.</i></p>

6.82	Contingent Liabilities	
<p>During our audit, we noted some instances where the Office of the Comptroller and certain departments recorded contingent liabilities despite evidence which suggested recognition criteria in Canadian Public Sector Accounting Standard 3300 had not been met. We also noted inconsistencies in the interpretation of the standard and the thresholds used for recognition purposes. While these contingent liabilities do not represent a material misstatement, interpretation of Canadian Public Sector Accounting Standard 3300 should be reviewed prior to the next year's financial statement audit.</p>		
Recommendation		Comments from Management
<p>We recommend the Office of the Comptroller develop and implement consistent criteria and thresholds for recognition of all contingent liabilities under Canadian Public Sector Accounting Standard 3300.</p>		<p><i>In accordance with Canadian public sector accounting standards, in the above noted instances, a decision was made by the Office of the Comptroller to forego an adjustment to the amounts in question, based on materiality. The Office of the Comptroller will continue to review departmental application of Canadian public sector accounting standard 3300.</i></p>
6.83	2008 Flood Claim	
<p>Although the Federal audit of the Province's 2008 flood claims receivable under the Disaster Financial Assistance program occurred in 2014, we noted the Department of Public Safety has not yet responded to all additional requests from the Federal auditors for further documentation to support the eligible expenditures. As a result, the Federal audit has been delayed which has delayed the payment of approximately \$20.1 million to the Province. Delay of receipt of funds results in increased borrowing costs for the Province.</p>		
Recommendation		Comments from Management
<p>We recommend the Department of Public Safety work towards completing all outstanding requests as soon as possible in order to ensure timely receipt of funding from the Federal government.</p>		<p><i>The Department of Public Safety has provided the Federal auditors with all of the requested information and advised them of their desire to finalize the audit as quickly as possible. The Federal auditors are reviewing this information and have indicated additional information may be required, the details of which have not been provided to date.</i></p>

6.84	Property Tax Receivables - Timeliness of Processing	
<p>During our audit work, we noted significant delays in some of the processes performed by the Revenue and Taxation Division in the Department of Finance. In particular, we noted significant delays in the processing of payments on property tax accounts. There were \$17 million in unapplied payments at March 31, 2015 and \$51 million at July 10, 2015. We were informed these delays were mostly caused by lack of staff resources, errors in payment files submitted by mortgage companies, and certain issues relating to the property tax system processing payment files from Service New Brunswick. Significant delays in performing routine processes can result in inaccurate account balances and undetected errors.</p>		
Recommendation	Comments from Management	
<p>We recommend the Department of Finance review the processes performed by the Revenue and Taxation Division to determine which processes are not up-to-date and the cause of the delays. Once determined, the Department of Finance should put procedures in place to complete processes in a timely manner.</p>	<p><i>The Department of Finance has made improvements to its processes and system functions to accelerate the posting of payments to individual accounts. Outside of the peak periods, payments are generally processed within one day.</i></p> <p><i>Management will continue to monitor delays during the peak periods in 2016 and improve its processes accordingly. The Department will work with financial institutions to reduce the number of discrepancies in the payment files received.</i></p>	

6.85 Property Tax Accounts Receivable Balances

The percentage of property tax accounts in arrears for one year or more (excluding Federal properties) has been increasing for the past number of years.

	As at March 31 (in \$millions)			
	2015	2014	2013	2012
Total receivable balance	\$1,087	\$1,028	\$1,004	\$965
Total in arrears 1 or more years	108	99	94	90
Percentage of arrears 1 or more years	9.9%	9.6%	9.4%	9.3%

	March 31 Listing			
	2015	2014	2013	2012
Total number of property accounts	391,944	382,206	383,672	372,402
Total with arrears 1 or more years	53,213	51,071	56,471	53,688
Percentage with arrears 1 or more years	13.6%	13.4%	14.7%	14.4%

We were informed the collection of aged accounts receivable is the responsibility of the new Service New Brunswick and that the Department of Finance monitors the collection process on a monthly basis. Increasing uncollected balances of this magnitude represent both increased borrowing costs and expenditures for the Province.

Recommendation	Comments from Management
<p>We recommend the Department of Finance continue to monitor the aging of accounts receivable balances on a monthly basis and, in conjunction with Service New Brunswick, take action to improve the effectiveness of the collection process.</p>	<p><i>The Department of Finance continues to monitor its receivable balances on a monthly basis and works with SNB on an on-going basis to improve the effectiveness of the collection process within the context of its Service Partnership Agreement.</i></p>

6.86	First Nations Receivables in Early Education and Childhood Development
<p>In Volume II of the 2013 Auditor General Report, our Office published a chapter entitled Department of Finance Collection of Accounts Receivable. This report highlighted significant issues regarding receivables management and collections (AR and Loans) for the Province.</p> <p>Our Office recommended in this Report: “Given the current five year Enhanced Agreements with First Nations are ending in 2013, we recommend the Aboriginal Affairs Secretariat and the Department of Education and Early Childhood Development (EECD) establish payment arrangements for all arrears owing prior to the signing of new Enhanced Agreements. Reinvestment of provincial funds (under the new Agreements) should not take place until payment arrangements have been negotiated.”</p> <p>EECD’s response to this recommendation indicated the government would approve extensions to the enhanced agreements in place until such time as new agreements are negotiated and in place. EECD indicated the signing of extensions to the enhanced agreements will require that First Nations be in good standing with EECD.</p> <p>During the Province’s March 31, 2015 financial statement audit, we noted enhanced agreements were again granted an extension. First Nations who owed the Province \$15.8 million were awarded these extensions without being in good standing, which is in contradiction to EECD’s original statement regarding the requirements for awards of extensions. We noted the reasons outlining the rationale for the change in approach was not well documented by either EECD or the Office of the Comptroller (OOC).</p>	
Recommendation	
<p>We recommend the EECD, supported by the OOC, adopt a consistent, long-term approach to negotiations with debtors and when changes in application of prior policies are implemented there should be a well documented rationale to support the change.</p>	
Comments from Management	
<p><i>In May 2013, EECD and the Aboriginal Affairs Secretariat (AAS) requested a twelve month extension of the original 5-year Agreements. This was a result of a preliminary evaluation and concerns raised by First Nation communities, school districts and schools in terms of the impact of the Agreements on the success of First Nation students in public schools.</i></p> <p><i>A committee comprised of First Nation community representatives, through a sub-committee of the Provincial Aboriginal Education Committee (PAEC), EECD representatives from the Office of First Nation Perspectives, AAS, Aboriginal Affairs and Northern Development Canada (AANDC) and the Department of Postsecondary Education, Training and Labour (PETL), have been engaged in work aimed at improving the outcomes for First Nation students in New Brunswick schools via the Agreements. This work indicated that the Agreement should include articulated accountability measures, further defining roles and responsibilities, establishing funding norms, and developing protocols for district-level committees, to name a few.</i></p> <p><i>The work was not completed prior to the expiration of the one year extension (2013-2014). The original Agreements marked a positive and significant change in the relationship between First Nation Communities and the Province. In addition, governing systems in each community require that all amendments to the Agreement be supported by its membership. The approval process requires time for all 15 communities to consult with their stakeholders. As such, it is critical that discussions and decisions take this history into account during the negotiation of the new Agreement, which requires time, respect and diplomacy. In particular, the sub-committee believed the work pertaining to funding and allocation of resources and services required additional community input, which was not possible to obtain by the end of the school year (June 2014). An additional extension for the Agreement of one school year was requested and approved. Subsequently, government has approved the signing of the Enhanced First Nation Education Programs and Services Agreement (2015-16 to 2019-20). Payment arrangements for arrears owing have been established with all applicable First Nation communities.</i></p>	

6.87	Lack of an Audit Committee	
<p>Canadian auditing standards require auditors to communicate to those charged with governance of an entity (e.g. audit committees or boards of directors) certain matters that may assist them in their governance roles and in overseeing management's financial reporting and disclosure processes. Matters that require communication include but are not limited to:</p> <ul style="list-style-type: none"> • Disagreements with management; • Significant difficulties encountered during the audit; • Significant audit adjustments and/or deficiencies in financial statement disclosures; • Significant weaknesses in internal control; and • Significant issues discussed, or subject to correspondence, with management. <p>During our audit, we encountered some of these matters which included, but are not limited to, accounting for certain pension plans, school raised funds and nursing homes. As a result of disagreements we encountered with management in these areas, this year's audit was qualified. This may not have been necessary had an audit committee for the Province been in place.</p>		
Recommendation	Comments from Management	
<p>We again recommend the Department of Finance establish an audit committee for the Province of New Brunswick.</p>	<p><i>We recognize that an audit committee may provide benefits to the audit process. However, given the demand for senior management time, it is important that the establishment of any committee be clear on its purpose, responsibilities, composition, and benefit to government.</i></p> <p><i>All concerns and matters brought forward by the Office of the Auditor General have and will always be duly considered. We disagree that an audit committee would have changed the final audit result.</i></p> <p><i>We will continue to discuss this recommendation and consider the cost/benefit of establishing an audit committee.</i></p>	

6.88	Lack of an Internal Audit Plan	
<p>We noted the Audit and Consulting Services Branch of the Office of the Comptroller (OOC) did not have a formal internal audit work plan completed for the 2014-2015 year and also for the preceding year. Having an effective internal audit plan helps focus OOC resources on areas of risk, allows outcomes to be measured against targets and assists management and those charged with governance (audit committee) in their role of minimizing exposure to the Province.</p>		
Recommendation		Comments from Management
<p>We again recommend, on an annual basis, the Audit and Consulting Services branch of the Office of the Comptroller develop an internal audit plan and communicate the internal audit plan to the audit committee. The internal audit plan should detail the nature and timing of the projects to be completed in the upcoming year.</p>		<p><i>The Internal Audit and Consulting Services branch of the Office of the Comptroller recognizes the importance of an internal audit plan. Completion of the 2015-16 internal audit plan is ongoing. While the audit plan is being finalized, the Internal Audit and Consulting Services branch remains focused on high risk and high priority audit areas.</i></p>
6.89	Need to Align Administration Manual Policy AD6402 – Approval of Payments	
<p>As noted in prior year, the process used by Service New Brunswick (the former New Brunswick Internal Services Agency) for making payments is not in alignment with administration manual policy AD6402 – approval of payments. This policy and respective processes used by the shared services environment, as well as other payment system interfaces used by various government departments, are not appropriately aligned.</p>		
Recommendation		Comments from Management
<p>We again recommend the OOC and Service New Brunswick work together to update administration manual policy AD6402 and align the policy and processes to reflect current payment approval requirements for processing government transactions.</p>		<p><i>While there are inconsistencies between the current administrative policy and the payment approval process, given the extent of changes that have occurred recently with the creation of the new Service New Brunswick (SNB), the Office of the Comptroller and SNB have focused their efforts on assessing the adequacy of existing processes and controls in safeguarding the assets of the Province.</i></p>

6.90	Incomplete Purchase Card Policy	
<p>Again this year, we noted the Province does not have a policy in place regarding the use of purchase cards. A draft policy of 2005 does exist; however, it has never been finalized. Given the significant government spending completed by purchase cards of approximately \$28 million, it is important that this policy be finalized to reduce the risk of fraud or inappropriate use.</p>		
Recommendation		Comments from Management
<p>We again recommend the Office of the Comptroller finalize the purchase card policy in fiscal 2016.</p>		<p><i>The Office of the Comptroller continues to work with stakeholders in the development of this policy. While the policy is being developed, processes and controls are in place to monitor the use of purchase cards. In addition, the responsibilities of cardholders are set out in the cardholder agreement, which must be signed prior to the issuance of a purchase card.</i></p>
6.91	Write off of Accounts and Loans Receivable	
<p>We noted during our audit, write-offs for accounts and loans receivable are not completed in a timely manner. The policy indicates Board of Management is required to approve receivable write-offs before they can occur. This results in the gross accounts receivable and the allowance for doubtful accounts balances being overstated in the Province's consolidated financial statement note disclosures.</p>		
Recommendation		Comments from Management
<p>We again recommend the Office of the Comptroller amend the write-off policy to ensure write-offs and their respective accounting occur in a timelier manner.</p>		<p><i>Implementation of this recommendation will have no impact on the net debt or deficit of the Province. As a result of the same finding in the prior year, the presentation of accounts receivable and allowance for doubtful accounts was enhanced to increase the disclosure surrounding these account balances.</i></p> <p><i>The deletion of assets from the accounts of the Province is the responsibility of Board of Management, as prescribed in section 29 of the Financial Administration Act. Administration Manual policy AD 6307, referenced in the Auditor General's finding, is a policy of Board of Management, prescribed by section 5 (1) (c) of the same Act. While it is possible for the Office of the Comptroller to recommend changes to policies, the authority to amend a policy lies solely with Board of Management.</i></p>