

# Chapter 5

## Results of our Audit of the Province of New Brunswick's Financial Statements

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# Results of our Audit of the Province of New Brunswick's Financial Statements

## Summary

### *Unqualified opinion*

**5.1** On September 12, 2019 the Auditor General signed an unqualified (“clean”) audit opinion on the consolidated financial statements of the Province of New Brunswick for the year ended March 31, 2019.

**5.2** The opinion indicates the Province’s consolidated financial statements are presented in accordance with Public Sector Accounting Standards.

**5.3** To reach an opinion on the consolidated financial statements, we carry out audit work on the major programs and activities in departments and Crown agencies. In addition, we audit major revenue items and a sample of expenses chosen from departments. We also examine internal controls of significant computer systems.

### *Recommendations made to Office of the Comptroller*

**5.4** In almost every audit, we have audit findings to discuss with management. For the 2019 provincial audit, we made fourteen recommendations to the Office of the Comptroller (“OOC”). We summarized these recommendations in a report to the Province’s audit committee.

**5.5** Although, in our view, these recommendations were important to report to the Comptroller and the audit committee, the recommendations were not sufficiently large in dollar or qualitative terms to affect our opinion on the consolidated financial statements. We have reported any significant findings in this report.

**5.6** While we have not noted any significant fraud, the existence of our findings may increase the risk of loss or error in the Province’s consolidated financial statements. These findings should be addressed prior to the next audit cycle.

**5.7** In general, the OOC agreed with our recommendations and intend to address our concerns in the coming year.

## No Formal Fraud Policy

*No formal policy to prevent fraud*

**5.8** We found the Province does not have a formal fraud policy in its administration manual. Our inter-jurisdictional review found that other jurisdictions such as Newfoundland & Labrador, and Nova Scotia have a formal fraud policy.

**5.9** Public sector fraud is concerning as it could result in the loss of public funds which would reduce the public's confidence in the Province's ability to safeguard assets.

*A government-wide policy would reduce fraud risk*

**5.10** A policy helping departments and Crown agencies prevent and detect fraud would help reduce the risk of fraud. Some examples of what a policy could include are:

- documented fraud risks;
- documented procedures for preventing, detecting and reporting fraud; and
- the need for fraud awareness training and education.

**5.11** We made a recommendation to the OOC to develop a formal fraud policy.

*Recommendation*

**5.12 We recommend the Office of the Comptroller (Internal Audit) develop a formal fraud policy to include in the Province's Administration Manual.**

## MLA Expenses

*MLAs should be held to a high level of accountability*

**5.13** As elected officials, Members of the Legislative Assembly (MLAs) should be held to a high level of accountability for expenses they incur to fulfil their mandate. This year as part of our audit procedures, we performed work to determine if MLAs are following policies and procedures with regards to their MLA related expenses.

*No evidence of fraud found in a sample of MLA related expenses*

**5.14** During the audit of the Province's consolidated financial statements, we examined a sample of 53 MLA related expenses. We found no evidence of fraud in any of the items we examined.

**5.15** Although we found no evidence of fraud in the items we examined, we did note some instances where the support for the expenses was not fully documented. For example, we found instances where the purpose of MLA expenses such as departmental business trips and business meetings

were not documented as required by policy. We were subsequently provided evidence to support all of these items.

*We examined different types of expenses*

**5.16** We examined different types of expenses including:

- travel claims;
- business meetings;
- constituency office costs; and
- monthly allowances.

*We considered the results of the 2018 election*

**5.17** Our work also considered the results of the September 2018 provincial general election. We examined expenses for outgoing, incoming, and re-elected MLAs. In total, we examined expenses for 45 of the 66 MLAs.

**5.18** We examined expenses for:

- MLAs from each of the four elected parties;
- MLAs who were party leaders;
- MLAs who were appointed as a Minister; and
- MLAs who were not appointed as a Minister.

*Policies and procedures exist for MLA expenses*

**5.19** We found policies and procedures exist which outline eligible expenses and the support required before an MLA expense can be approved.

**5.20** Most of the expenses we examined were amounts paid to MLAs through either a claim or reimbursement process. These expenses were approved at either the Legislative Assembly or the department (for some Minister expenses). We found management at the Legislative Assembly and in each of the departments were knowledgeable in policies and procedures to approve MLA expenses.

*2011 recommendation implemented*

**5.21** The Legislative Assembly informed us that as of April 2019, it has implemented the last of our 2011 recommendations from our audit on “Constituency Office Costs for Members of the Legislative Assembly and Executive Council”. We are pleased of this positive outcome and that these recommendations were implemented.<sup>1</sup>

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<sup>1</sup> We did not audit if the recommendation was implemented as the timeframe was outside the scope of our March 31, 2019 audit.

**5.22** The final two recommendations that were outstanding from our 2011 audit were:

**“We recommend all constituency office costs should be authorized, paid, recorded, monitored and reported through the Office of the Clerk of the Legislative Assembly. Appropriate revisions should be made by the Legislative Assembly and the Executive Council Office to existing guidelines to facilitate this change.”** and

**“To provide better accountability, the Legislative Assembly should publicly report total constituency office costs claimed by each Member, whether paid by the Clerk or a department.”**

### Improving School Cash Reconciliations

***Variances between bank and accounting records***

**5.23** We found:

- in 16 of the 17 school bank accounts tested, a total variance of \$400,000 between the bank account balance and the accounting records; and
- in 6 of the 7 school districts tested, variances totalling \$2.4 million between the information we received from the districts and individual schools.

***Schools and school districts could not provide support for variances***

**5.24** The schools and school districts could not provide support for these variances. We were informed the variances are due to timing of when cash moves between schools, school districts and the Department of Education and Early Childhood Development.

**5.25** Although we saw no evidence of fraud, variances in cash reconciliations increase the risk of fraud or theft of cash in schools and school districts. The variances show a more robust process is needed to reconcile cash in schools and school districts at year-end.

**5.26** We made a recommendation to the Department of Education and Early Childhood Development to improve the process.

***Recommendation***

**5.27** **We recommend the Department of Education and Early Childhood Development:**

- **reconcile school cash amounts quarterly and at year-end prior to the next reporting period; and**
- **retain school cash reconciliations for audit purposes.**

## NB Power's Ability to Self-Sustain its Operations

*Recap of 2018 report – Concerns regarding NB Power's ability to self-sustain operations*

**5.28** We reported in the 2018 Auditor General's report – Volume III concerns NB Power may not be able to self-sustain its operations in the long-term due to an elevated debt level and nominal annual net earnings.

*Recap of 2018 report – How NB Power is accounted for in the Province*

**5.29** We also included information on how NB Power is currently accounted for in the Province's consolidated financial statements as a Government Business Enterprise. This means only NB Power's earnings or losses are included in the Province's consolidated financial statements.

**5.30** If NB Power was ever determined to no longer be self-sustaining through rate payers, and therefore no longer a Government Business Enterprise for accounting purposes, all debts, assets, liabilities, revenue and expenses would be included in the Province's consolidated financial statements.

*NB Power can still self-sustain its operations*

**5.31** We reviewed the OOC's work regarding NB Power's ability to self-sustain its operations for the year ended March 31, 2019. We agreed NB Power can self-sustain its operations at that point in time.

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

**5.32** We remain concerned, however, regarding NB Power's ability to self-sustain its operations in the future because:

- net earnings (surplus) continues to remain at a break-even level (\$20 million net earnings in 2019);
- debt remains at an elevated level (\$4.6 billion in 2019);
- again this year, NB Power did not meet its requirement under the *Electricity Act* for an 80/20 debt/equity ratio. NB Power's long-term plan indicates it does not expect to meet this requirement until 2029;
- significant investment remains on the horizon for assets such as the Mactaquac Generating Station (dam);
- NB Power's attempt to create new regulatory deferral accounts to allow costs to be moved to future periods was denied by the Energy and Utilities Board.
- significant future operating and financial challenges on the horizon such as carbon tax.

***Continue to monitor NB Power and report next year***

**5.33** We will request the Office of the Comptroller to prepare an analysis on NB Power's ability to self-sustain its operations again next year. If NB Power was determined to no longer be self-sustaining, there would be a significant impact on how the Province accounts for NB Power in its financial statements.

**5.34** Further information on how the Province accounts for NB Power and the potential impact of a change can be found in the 2018 Auditor General's report (Volume III – Chapter 3).

**Combined NB Liquor and Cannabis NB  
Financial Statements Not Needed**

***NB Liquor and Cannabis NB are required to be combined by the Act***

**5.35** The *New Brunswick Liquor Corporation Act* requires the financial information of New Brunswick Liquor Corporation (NB Liquor) and Cannabis NB to be combined annually and audited at a cost to the organizations.

**5.36** We found, however, this financial information is not used for accounting purposes by Province, as the financial statements from the two organizations are presented in the Province's consolidated financial statements separately:

- NB Liquor is presented as an "Investment in Government Business Enterprises" (Note 6); and
- Cannabis NB is presented as an "Other Investment" (Schedule 6).

***Purpose and benefit of combined statements unclear***

**5.37** The purpose and benefit of combining the financial statements of NB Liquor and Cannabis NB is not clear, other than as a legislative requirement. The exercise of combining the financial statements and receiving an external audit is an unnecessary cost to the organizations.

**5.38** We made a recommendation to the Department of Finance and Treasury Board to consider if there is a purpose for combining the two sets of financial statements and propose changes to legislation if needed.

***Recommendation***

**5.39 We recommend the Department of Finance and Treasury Board:**

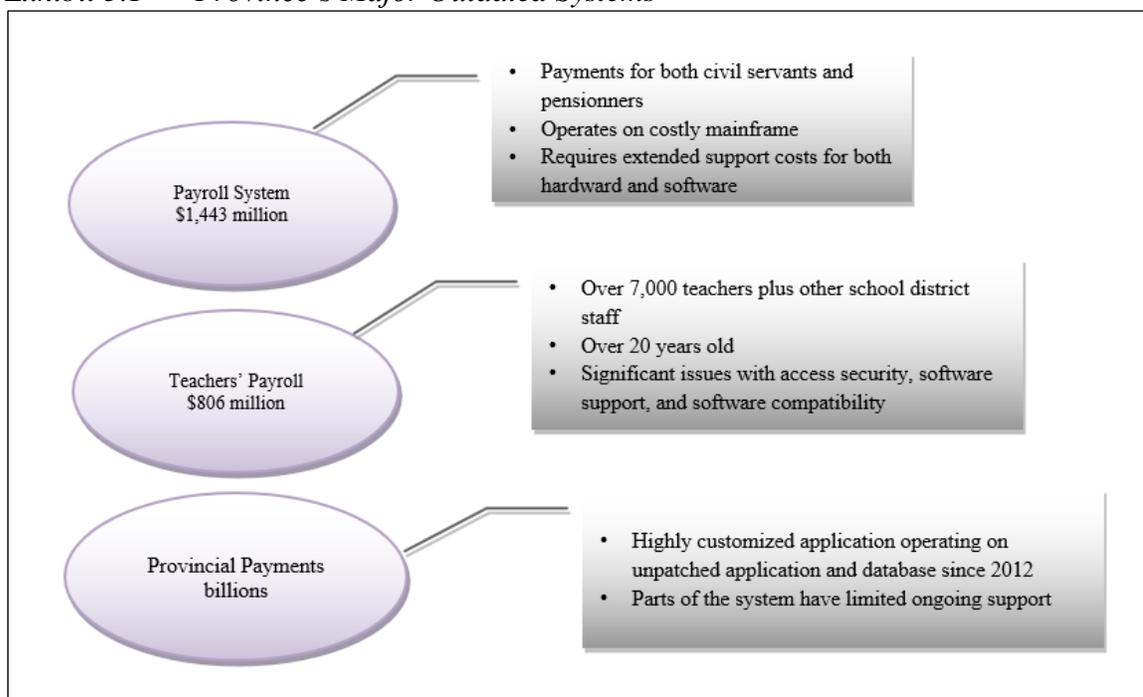
- **evaluate the purpose and benefit of combining the financial statements of NB Liquor and Cannabis NB; and**

- **amend the *New Brunswick Liquor Corporation Act* to remove the need for combining the financial statements if they have no purpose and benefit.**

## The Province Has Major Outdated IT Systems

**Major systems are out of date** **5.40** A failure of the Province's major IT systems would affect the majority of New Brunswickers. For the past seven years, we reported the Province has many outdated IT systems. Exhibit 5.1 shows the Province's major out dated systems, dollars processed, and associated risks.

*Exhibit 5.1 - Province's Major Outdated Systems*



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

**5.41** These outdated systems process the majority of the Province's employee payroll and its payments to suppliers, nursing homes, municipalities, etc. Replacing these systems should be a key priority and the Province should proceed as quickly as possible to implement a new system.

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

**5.42** Operating multiple duplicate systems results in wasted time for employees and can result in duplicate payments to employees and suppliers. We noted SNB (Service New Brunswick) is operating three separate payroll and

payments systems. We also found SNB made duplicate payroll and supplier payments as a result of operating multiple systems.

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

*New ERP system on the horizon*

**5.43** The Province plans to replace the outdated and duplicate systems with a new ERP (Enterprise Resource Planning) system. The scope of the new ERP project is massive and needs to be properly managed by the Province to ensure success and to prevent a system implementation failure.

**5.44** Three benefits from implementing a new ERP are as follows.

- It will be more efficient as it will replace many of the Province's outdated systems.
- It will prevent system failures from outdated systems as the new ERP will run on up-to-date software and hardware.
- It will provide timely and better information for decision makers.

*System's scope is massive*

**5.45** The new ERP system will be used by Part 1 (departments and some Crown agencies), Part 2 (school districts), the Regional Health Authorities, and the Community Colleges. The system will cover many areas such as:

- Payroll and human resource management;
- Procurement (purchasing);
- Finance (payments, general ledger, fixed assets, cash management, etc.);
- Grant management; and
- Other areas such as residential tenancies.

**5.46** From our interviews, we were informed SNB and the Department of Finance and Treasury Board are taking steps to ensure a strong project management framework is in place to oversee and monitor this major system change.

*No date for when ERP will be complete*

**5.47** A timeline for implementing the new ERP has not been finalized. The Province is in the process of contracting with a vendor to help implement the new ERP. Once this contract is awarded, the team will set a timeline for implementation.

***Contract signed for cloud-based software***

**5.48** In May 2019, the Province signed a contract for cloud-based “Software as a Service” which will provide access to the technology solution that will support the new ERP. This was a significant milestone in the project.

***Total system cost unknown***

**5.49** We are unable to determine the total cost of the new ERP system. The project is still in its early stage.

<b>What is the Auditor General Doing to Audit the New ERP System?</b>
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***AG will continue to report***

**5.50** We consider the ERP system implementation a significant risk to the Province. Management has indicated it is monitoring, assessing and managing this risk. We will continue, however, to report on the ERP system implementation in future reports.

**5.51** Until the ERP system is complete, we will continue to audit the existing outdated systems.

<b>IT Computer Systems Audited During the Provincial Financial Statement Audit</b>
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**5.52** During the audit of the Province’s consolidated financial statements, we perform work on various computer systems. In Exhibit 5.2, we provide information on the computer systems audited and if recommendations were made to each responsible department or Crown agency.

**5.53** In this report, we have noted any findings we believe to be significant in nature from our computer systems work.

*Exhibit 5.2 - List of IT Systems/Areas Audited by AGNB in 2018-2019 and if Recommendations were Issued to Management of the Department or Crown Agency*

<b>Department/Agency</b>	<b>IT System/Area</b>	<b>Recommendations Issued</b>
Education and Early Childhood Development	Teachers' payroll system	Yes
Finance and Treasury Board	Property tax system	Yes
Service New Brunswick	Employee payroll system (HRIS)	Yes
	Oracle input system (IPM)	Yes
	IT Infrastructure	Yes
	Property assessment system	Yes
Office of the Comptroller	Oracle financials	*

*Source: Prepared by AGNB.*

*\*This audit was being finalized at the time of writing this chapter.*

***Some findings are sensitive***

**5.54** We are not publishing the details of all our IT system work given the technical nature of many of our findings, and the risk of possible loss of government assets if the details of such findings are reported. Instead, we are summarizing our observations and providing an overview of the most significant findings.

### **Multiple Weaknesses in IT System**

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

**5.55** In 6 of the 7 computer system audits presented in Exhibit 5.2, we found multiple IT weaknesses. We are concerned with the nature, number and severity of the weaknesses given the significance of the systems examined. We are not reporting the details of our observations as it could compromise the security of the various systems.

***Strong controls needed to protect data***

**5.56** Strong system controls are needed to protect data confidentiality and integrity. Without strong controls the risk increases of fraud, error or unintended exposure of confidential information.

***Inappropriate segregation of duties***

**5.57** We found two cases where risk exists relating to segregation of duties. Users had access to perform key functions without knowledge or approval of another person.

- Excessive system rights***      **5.58**    We found one case where users had access beyond what was needed for their job responsibilities. This case gave users access to alter confidential scanned images.
- Weaknesses with maintenance of system accounts***      **5.59**    We found weaknesses relating to how system accounts are maintained. These weaknesses related to both user accounts, as well as system administrator accounts.
- Poor building access controls***      **5.60**    We found one case where the process for granting access to a secure building housing sensitive data and equipment was ad-hoc and did not follow a formal approval process.