

# Chapter 1

## Financial Audit – Key Messages from the Auditor General

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# Financial Audit Volume

Report of the Auditor General – Volume III 2020

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## What We Found

### 2020 Surplus

- 2020 annual surplus was \$49 million, the third consecutive annual surplus
- Revenues increased by \$195 million mostly because of increased transfers from the Federal government
- Expenses increased by \$219 million, mostly due to increases in Labour and Employment and other government departments.

### Net Debt Reduction

- Net Debt decreased by \$37 million to \$13.9 billion, first time it decreased since 2007
- Net Debt-to-GDP ratio decreased 1.2% to 36.6%, but is still one of the highest among comparable Provinces
- Net Debt per capita decreased \$200 to \$17,900
- Government set multi-year Net Debt and Net Debt-to-GDP reduction targets

### Contaminated Public Housing Units

- At least 1/3 public housing units tested contain radon gas exceeding guideline levels for radon gas
- 3,645 of 4,516 units have not been tested for radon
- SD's testing plan is too slow, and it is not notifying impacted tenants of contaminated units in a timely manner.

### Financial Impacts of Covid-19 Global Pandemic

- As of September 30, 2020 New Brunswick's government has spent \$163 million related to the pandemic
- Government tracking of related expenses can improve to include other financial relief programs
- We did not find evidence authority was obtained from the Legislative Assembly at the time of our work

### State of the Province's Financial Condition

- Small steps of progress in short-term sustainability, one short-term trend changed from neutral to unfavourable
- Past deficits and Net Debt prevent improvements in long-term sustainability

### Results of our Audit of the Province of New Brunswick and Crown Agencies

- Vestcor denied the Auditor General unrestricted access
- The *Financial Administration Act* is out of date
- Concerns about NB Power's ability to self-sustain its operations
- Many key IT systems are out of date and the Province is in process of replacing them
- The reason to incorporate New Brunswick Energy Solutions Corporation not clear

## Financial Audit – Key Messages from the Auditor General

### Introduction

*Unqualified (clean) audit opinion issued on October 8, 2020*

*AG encouraged by signs of fiscal progress for year-ended March 31, 2020*

*Encouraging but small surplus largely driven by Federal transfers*

**1.1** This volume of my Report deals with matters arising from financial audits of the Province of New Brunswick (the Province) and its Crown agencies for the year ended March 31, 2020.

**1.2** On October 8, 2020, I was pleased to issue an unqualified audit opinion on the Province’s 2020 consolidated financial statements. An unqualified opinion, also referred to as a “clean audit opinion”, indicates the Province’s consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards.

**1.3** I am again encouraged by the signs of fiscal progress for the year ended March 31, 2020 as the Province had:

- an annual surplus of \$49 million, the third consecutive surplus;
- a decrease in Net Debt of \$37 million, the first time it decreased since 2007; and
- government set multi-year Net Debt reduction targets, as recommended in my previous Reports.

**1.4** These results are encouraging; however, a note of caution is required as the small annual surplus was largely driven by increases in transfers from the Federal government. Corresponding increases in expenses during the year prevented the Province from recording a larger annual surplus.

**1.5** In my view, for the Province to significantly improve its fiscal situation, it will need to find a way to restrain spending, consider revenue increases or a combination of both in the future.

***\$18.4 billion in Funded Debt outstanding***

**1.6** I am also still concerned with the amount of Funded Debt outstanding, which reached a record high of \$18.4 billion in 2020. This is the long-term debt the Province is legally bound to pay in the future. The annual cost of servicing this debt, mostly consisting of interest costs, was \$643 million.

***Vestcor denied the Auditor General unrestricted access to Vestcor Investment Entities external audit file***

**1.7** Vestcor denied me unrestricted access to view the Vestcor Investment Entities' (VIE) external audit file. VIE financial information is included in the Province's financial statements, and in my opinion, review of this information relates to the fulfillment of my duties under the *Auditor General Act*.

**1.8** The VIE manages certain investment assets of the New Brunswick Public Service and Teachers Pension Plans (NBPSPP and NBTTP) and many other provincial pension plans. These assets are included in the Province's financial statements in Note 11- Retirement Benefits.

***Alternate solution found for Province's 2020 audit***

**1.9** To meet our audit requirements this year I worked cooperatively with the OOC for an alternate solution to have the VIE external auditor (who was permitted access) perform an engagement using procedures designed by my office.

***Seeking ongoing access to the VIE external audit file***

**1.10** While the alternate solution resolved issues for this year's audit, in my view the preferred solution is for AGNB to have unrestricted access to the VIE external audit file as it would be more efficient and cost effective to the taxpayer, AGNB and the OOC. Therefore, I am seeking ongoing AGNB access to the VIE external audit file.

***Financial Administration Act is out of date and does not align with current accounting standards or government best practices***

**1.11** As I have noted in three past reports, I am concerned with the Province's outdated *Financial Administration Act*. In my view, the Act is out of date and does not align with current accounting standards or government best practices, such as the Legislature approving an appropriation before the related spending happens. I have recommended the Office of the Comptroller take the lead in bringing forward/promoting this long overdue change. Further discussion can be found in Chapter 5.

***Concerns over NB Power's ability to self-sustain its operations remain***

**1.12** I remain concerned the New Brunswick Power Corporation (NB Power) may not be able to self-sustain its operations over the long term. NB Power had a net loss of \$16 million in 2020 and it continues to carry a large debt load (\$4.8 billion). My 2020 update is included in Chapter 5. I will continue to monitor this situation in the future.

***Aging IT systems still exist***

**1.13** For the past eight years, I have reported on the Province's outdated IT systems and the risks associated with operating this old technology. The Province is still in the process of obtaining a new system to replace the outdated ones. I discuss IT risks and provide an update on the progress of the new system in Chapter 5.

***Crown agency financial audit findings***

**1.14** I made recommendations in nine of our ten Crown agency financial statement audits. As well in 2020, I issued my first audit opinion on the newly formed Crown corporation, the New Brunswick Energy Solutions Corporation. I found during this financial audit the reason to incorporate as a Crown corporation was not clear. I present my findings on our crown agency financial audits in Chapter 6.

***Covid-19 global pandemic spending \$161 million and counting***

**1.15** As of September 30, 2020 the Province has spent \$161 million on financial relief programs and incremental spending in government departments and agencies related to the ongoing Covid-19 global pandemic.

**1.16** Unlike other Canadian jurisdictions, I found spending authority for Covid-19 relief programs and incremental spending in government departments and Crown corporations and agencies had not yet been obtained from the Legislative Assembly at the time of our work. As well I made a recommendation for the Office of the Comptroller to improve tracking of the financial impacts of the Covid-19 global pandemic. I present information on the Province's Covid-19 global pandemic spending in Chapter 7.

***Radon gas found in certain public housing units***

**1.17** Of 871 public housing units owned by the Department of Social Development tested for radon, 284 were found to have exceeded levels beyond the Government of Canada Radon guideline.

**1.18** Based on the Department of Social Development's plan I estimate it will take 23 years to test all units. I made recommendations to improve this process and provide timely notification to affected public housing unit tenants in Chapter 8.

**1.19** A listing of findings, observations, and recommendations as presented in this financial audit volume is presented in Exhibits 1.1 and 1.2.

**1.20** Detailed financial data for key aspects of the Province's financial reporting can be found in Appendix I to this report.

## Acknowledgements

**1.21** My Office is grateful for the continuing cooperation we receive from government departments and agencies during our financial audit work.

**1.22** I want to thank all staff from my Office for their hard work and dedication. It is a small group of professionals committed to fulfilling the mandate of the Office and producing a quality report to the Legislative Assembly. The report I am presenting today reflects a team effort where each member of the staff has contributed greatly.



Kim Adair-MacPherson, FCPA, CA, ICD.D  
Auditor General

## Exhibit 1.1 - Key Findings and Observations Table

Paragraph	Key Findings and Observations by Chapter
<b>Chapter 2</b>	<b>Annual Surplus</b>
2.1	<i>The Province recorded an annual surplus of \$49 million in fiscal 2020. This is the Province's third consecutive annual surplus.</i>
Exhibit 2.3	<i>Revenues increased since the prior period due to increases in transfers from the Federal government. Expenses increased in larger departments, offset by reductions in others.</i>
<b>Chapter 3</b>	<b>Debt</b>
3.3, 3.4	<i>Net Debt decreased \$37 million and is now \$13.9 billion at March 31, 2020. It has increased \$4.3 billion over the past 10 years.</i>
3.9, Exhibit 3.4	<i>Net Debt-to-GDP ratio is 36.6% at March 31, 2020 and is trending favourably in the short term</i>
3.10	<i>New Brunswick's Net Debt-to-GDP ratio is higher than most other provinces with similar population size</i>
3.14	<i>Net Debt per capita decreased to \$17,900 in 2020</i>
3.15	<i>New Brunswick's Net Debt per capita is mid range when compared to other provinces with similar population size</i>
3.20	<i>Government set multi-year Net Debt and Net Debt-to-GDP reduction targets</i>
3.22	<i>Funded Debt reached a historic high of \$18.4 billion at March 31, 2020</i>
3.25	<i>Debt servicing costs were \$643 million during 2020.</i>
<b>Chapter 4</b>	<b>State of the Province's Financial Condition</b>
4.1	<i>Our assessment of one short-term trend changed from neutral to unfavourable since our last report. We concluded the financial condition of the Province was largely unchanged from last year due to a small annual surplus and small reduction in net debt, offset by an increased dependence on government transfers from the Federal government.</i>
<b>Chapter 5</b>	<b>Results of our Audit of the Province of New Brunswick's Financial Statements</b>
5.1	<i>An unqualified (clean) audit opinion was issued by the Auditor General on October 8, 2020 on the Province's consolidated financial statements for the year ended March 31, 2020.</i>
5.8	<i>Vestcor denied the Auditor General unrestricted access to Vestcor Investment Entities external audit file.</i>
5.16, 5.20	<i>The Financial Administration Act is out of date and, we recommended the Office of the Comptroller bring forward legislative changes in 2021.</i>
5.26	<i>We remain concerned on NB Power's ability to self-sustain its operations in the future.</i>
5.29	<i>The Province does not have a formal policy to prevent fraud.</i>

5.38	<i>We found inconsistencies in tracking of school raised funds</i>
5.42, 5.43	<i>The Province has many outdated IT systems which 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.</i>
5.45	<i>The Province plans to replace its outdated and duplicate systems with a new Enterprise Resource Planning system.</i>
5.56	<i>We found IT system weaknesses in 7 of our 7 system audits. We are concerned with the nature, number and severity of the weaknesses.</i>
<b>Chapter 6</b>	<b>Results of Crown Agency Financial Statement Audits</b>
6.1	<i>For all the Crown agencies we audited, we issued unqualified ("clean") audit opinions.</i>
6.2	<i>We made recommendations to 9 of 10 Crown agency audits we performed.</i>
6.7, 6.14	<i>New Brunswick Energy Solutions Corporation was created in June 2017. The reason to incorporate as a crown corporation was not clear.</i>
<b>Chapter 7</b>	<b>Covid-19 Global Pandemic</b>
7.1	<i>Government implemented financial relief initiatives and incurred incremental spending due to the Covid-19 global pandemic.</i>
7.11	<i>Tracking of Covid-19 Global Pandemic financial relief programs not complete.</i>
7.18	<i>We were unable to find evidence authority had been obtained from the Legislative Assembly for additional spending related to the Covid-19 global pandemic at the time of our work</i>
<b>Chapter 8</b>	<b>Risk of Contamination in Public Housing Units</b>
8.1	<i>Radon gas was found in certain public housing units.</i>
8.16	<i>The Department of Social Development's plan for testing is too slow and needs to be improved.</i>
8.19	<i>Impacted tenants not informed by the Department of Social Development in a timely manner.</i>
<b>Chapter 9</b>	<b>Service New Brunswick Property Assessments</b>
9.5	<i>Weaknesses in quality control processes to verify accuracy in property assessments</i>
9.10	<i>Fast-track properties: 70% of these properties have not been validated</i>
9.13	<i>Re-Inspecting Properties: 32% of residential properties have not been re-inspected in the last 10 years</i>
9.17	<i>Much work of property assessment assessors and staff is not reviewed</i>
9.24	<i>Service New Brunswick did not formally document the data conversion of 273,000 properties</i>
9.29	<i>Weaknesses found in system access controls in the areas of reviewing and managing user access</i>



## Exhibit 1.2 - Recommendations and Responses

Recommendation	Department's response	Target date for implementation
<p><b>5.14</b> We recommend the OOC work with Vestcor to ensure the Auditor General has unrestricted access to pension plan information. Access is needed to obtain sufficient and appropriate audit evidence in order to express an opinion on the Province's financial statements as required under the <i>Auditor General Act</i> sections 11 and 13.</p> <p><b>5.15</b> In addition, we recommend the OOC work with Vestcor to find a permanent solution to obtain audit evidence at March 31 for plan assets of the Public Service and Teachers' pension plans before the 2020-21 public accounts audit.</p>	<p><i>The Office of the Comptroller will review the situation and consider possible solutions to address the Auditor General's concerns regarding access to Vestcor, as it relates to obtaining sufficient and appropriate audit evidence for the pension plan assets recorded in the Province's financial statements.</i></p>	<p>TBD</p>
<p><b>5.21</b> We recommend the Comptroller take the lead to amend the <i>Financial Administration Act</i> and develop a timeline for completion in 2021.</p>	<p><i>The Office of the Comptroller will assemble a project team with the goal of updating the Financial Administration Act.</i></p>	<p>2021-2022</p>
<p><b>5.33</b> We again recommend the Office of the Comptroller (Internal Audit) develop a formal fraud policy to include in the Province's Administration Manual.</p>	<p><i>The Office of the Comptroller notes that the Province currently has policies in place, such as AD-6604 Loss of Tangible Public Assets, which cover various aspects of addressing fraud. The Office of the Comptroller acknowledges that having a separate fraud policy is a best practice and will develop a formal fraud policy for inclusion in the Province's Administration Manual.</i></p>	<p>December 31, 2021</p>

*Recommendations and Responses (Continued)*

Recommendation	Department’s response	Target date for implementation
<p><b>5.39</b> We again recommend the Department of Education and Early Childhood Development evaluate the current use of online revenue collection and the use of the school cash computerized system. As part of this process, the Department, in collaboration with the Office of the Comptroller should determine the optimal online cash handling process. A consistent Province-wide system should be implemented.</p> <p><b>5.40</b> We recommend the Department and the OOC ensure the Province-wide online system can produce school raised funds reports at both the school and district levels. The Department should require schools and districts make these reports publicly available.</p> <p><b>5.41</b> In addition, the OOC should set up specified coding in Oracle exclusively for school raised funds so that expenses and revenues can easily be distinguished.</p>	<p><i>Under the Education Act, districts must follow Department of Education and Early Childhood Development (EECD) policies. Under the governance structure, each superintendent reports to the District Education Council for their school district. Policy 101 states that the superintendent has the overall responsibility for ensuring minimum controls as provided in Appendix A are followed for school raised funds. The policies apply to all school-raised funds, including any revenues collected through online processes. A single Province-wide online system has not been identified that can meet the needs of both the Anglophone and Francophone school districts.</i></p> <p><i>Both Policy 101 and Policy 132 specify that school principals are to provide financial reports related to the school raised funds to their parent school support committee. These reports would include any revenues collected through an online platform.</i></p> <p><i>The Office of the Comptroller understands that coding related to school raised funds is being reviewed and updated as part of the Enterprise Resource Planning project.</i></p>	<p><i>Ongoing</i></p>

*Recommendations and Responses (Continued)*

Recommendation	Department's response	Target date for implementation
<p><b>7.14 We recommend the Office of the Comptroller continue to work with departments and agencies to improve tracking of the financial impacts relating to the Covid-19 global pandemic on the Province which could include:</b></p> <ul style="list-style-type: none"> <li>• <b>program funding (funding that has been approved – indication of what could be spent) and what has been spent to date;</b></li> <li>• <b>other financial relief measures (such as revenue reductions, deferrals, etc.); and</b></li> <li>• <b>Federal Assistance (such as the Canada Health Transfer).</b></li> </ul> <p><b>7.15 We recommend the OOC publicly report on their tracking of the financial impacts of the Covid-19 global pandemic.</b></p>	<p><i>The financial impacts of the COVID-19 global pandemic are recorded by the Province in its accounting system, along with all other revenues and expenses. The Fiscal and Economic Update published quarterly by the Department of Finance and Treasury Board reports the Province's financial results and includes the impacts of the COVID-19 global pandemic on the Province's projected and actual results.</i></p>	<p>N/A</p>

Recommendations and Responses (Continued)

Recommendation	Department’s response	Target date for implementation
<p><b>8.17 We recommend Social Development work with the Department of Transportation and Infrastructure to more aggressively address radon remediation in public housing units.</b></p>	<p><i>Social Development has currently tested over 27% of the approximately 4600 public housing units in New Brunswick. Subject to budgetary approval, Social Development intends to increase testing to 425 units per year which would decrease the amount of time to completion of all units to eight years.</i></p> <p><i>Limiting Factors</i></p> <ul style="list-style-type: none"> <li>• <i>Testing takes 90 days to complete and can only be completed in the winter months (because it needs to be done when windows are more likely to be closed so the test evaluates the highest possible Radon concentration in the unit). This leaves a 120-day period to complete the tests (Dec-March).</i></li> <li>• <i>Radon remediation is a specialized industry and requires contractors who are certified to perform the work. The availability of contractors is the limited which in turn limits the number of units that can be remediated.</i></li> </ul>	<p><i>Our original plan for radon testing and remediation allows for all units to be tested, mitigations done, where necessary, completed by 2032.</i></p> <p><i>An increase to our testing capability would allow for completion by 2028.</i></p>

*Recommendations and Responses (Continued)*

<b>Recommendation</b>	<b>Department's response</b>	<b>Target date for implementation</b>
<p><b>8.21 We recommend Social Development notify public housing unit tenants in a timely manner of test results indicating a presence of radon and the remediation process being undertaken.</b></p>	<p><i>As of November 2020, tenants of all units that have tested positive have been notified in writing.</i></p> <p><i>All tenants of the remaining units will be notified in writing within 60 days of positive test results being received by the Department.</i></p> <p><i>Additionally, all positive units will be “flagged” within the HousingNB database and new tenants will be advised of their units’ status as it pertains to the presence of radon.</i></p>	<p><i>Implemented</i></p>

Recommendations and Responses (Continued)

Recommendation	Department’s response	Target date for implementation
<p><b>9.9 We again recommend SNB improve the quality control processes used to verify the accuracy of property assessment values in advance of next year’s billing cycle.</b></p>	<p><i>SNB has implemented several quality control enhancements over the year to ensure accurate property assessments. With the hiring of the QA Manager in December 2019 and the QA Auditors following in July of 2020, further review will be completed on the quality control process in 2021.</i></p> <p><i>Our current Computer Assisted Mass Appraisal system does not provide the functionality to perform an automated quality control process. As a result, SNB is required to perform its QC manually (using spreadsheets) until such time that new technology can be introduced.</i></p> <p><i>*SNB is in the process of bringing a proposal forward to government for the replacement of the Current EvAN system.</i></p>	<p><i>Ongoing</i></p>

*Recommendations and Responses (Continued)*

<b>Recommendation</b>	<b>Department's response</b>	<b>Target date for implementation</b>
<p><b>9.12 We recommend SNB proceed as quickly as possible to validate the assessment data of properties assessed using methodologies from the 2017 Fast Track initiative.</b></p> <p><b>9.16 We recommend SNB develop and implement a process to track when properties are visually re-inspected. We recommend this information be used when creating annual assessor work plans.</b></p>	<p><i>SNB recognizes the importance of validating the assessment data of properties that were assessed using the 2017 methodologies. Priority has been placed on achieving progress with this initiative during 2021.</i></p> <p><i>Our current Computer Assisted Mass Appraisal system does not provide the functionality to automate tracking of reinspections. As a result, SNB is required to manually compile this data until new technology is introduced. SNB recognizes the importance of enhancing the current tracking method for both reporting and prioritizing annual work programs.</i></p> <p><i>*SNB is in the process of bringing a proposal forward to government on the replacement of the Current EvAN system.</i></p>	<p><i>Ongoing</i></p>

*Recommendations and Responses (Continued)*

<b>Recommendation</b>	<b>Department's response</b>	<b>Target date for implementation</b>
<p><b>9.23 We recommend Service New Brunswick strengthen its processes to verify property tax assessment values by using a risk-based approach to review the work of assessors and assessment staff.</b></p>	<p><i>With the hiring of the Quality Assurance team, SNB has commenced various QA activities that encompass review of assessor work and process documentation. This has helped strengthen SNB's processes in verifying the quality of our assessment data. SNB will continue to develop these activities with emphasis towards a risk-based approach.</i></p>	<p><i>Ongoing</i></p>
<p><b>9.28 We recommend Service New Brunswick document its work to compare, review and approve property assessment values after systems are upgraded, or property assessment data is converted. We recommend evidence of this work be retained for audit purposes.</b></p>	<p><i>SNB acknowledges the importance of retaining and documenting the work completed concerning approvals and data comparisons for future system upgrades and conversions.</i></p>	<p><i>Ongoing</i></p>



*Recommendations and Responses (Continued)*

<b>Recommendation</b>	<b>Department's response</b>	<b>Target date for implementation</b>
<p><b>9.31 We recommend SNB review and resolve system access control weaknesses for the property assessment system (EvAN) as soon as possible. These weaknesses relate to user access reviews and managing user access for the EvAN application, database and operating system.</b></p>	<p><i>SNB's current Computer Assisted Mass Appraisal system does not provide the functionality to perform an automated review of roles and system access. With competing IT priorities, it is currently not practical to invest resources into defining additional user access listings.</i></p> <p><i>SNB is exploring additional controls and measures that can be added to our current access management procedures, the frequency of access reviews and the generation of a listing to be used when performing access reviews.</i></p>	<p><i>Ongoing</i></p>