

Chapter 5

Results of Crown Agency Financial Statement Audits

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Results of Crown Agency Financial Statement Audits

What We Found: Audits of Crown Agency Financial Statements

*Unqualified audit
opinions issued to all
but one Crown agency*

5.1 Each year, our Office conducts audits of Crown agency financial statements. This past year, we completed:

- 13 Crown agency financial statement audits; and
- one claim audit.

As a result of our work, we issued unqualified (“clean”) audit opinions to all but one of the Crown agencies we audit.

5.2 In almost every audit, we have audit findings and recommendations we present to management and the Board of Directors. This year, we made recommendations during 11 of our 14 audits of Crown agency financial statements. Some of our recommendations were made to address items such as:

- weaknesses in internal control processes;
- uncorrected accounting errors; and
- lack of oversight from the Board of Directors.

5.3 Exhibit 5.1 provides information on:

- the Crown agencies we have completed audits for over the past year (November 2020 – December 2021);
- the fiscal year-end completed;
- if we issued an unqualified audit opinion; and
- if recommendations were issued to the Crown agencies.

*Exhibit 5.1 - Summary of Crown Agency Financial Statement Audits Performed
Between November 2020 and December 2021*

**Summary of Crown Agency Financial Statement Audits Performed
Between November 2020 and December 2021**

| Crown Agency | Unqualified Audit Opinion Issued | Recommendations Issued |
|---|---|-----------------------------------|
| March 31, 2021 Year End Audits | | |
| Cannabis Management Corporation | Yes | Yes |
| New Brunswick Legal Aid Services Commission | Yes | Yes |
| New Brunswick Legal Aid Services Commission – Federal Claim | Yes | No |
| New Brunswick Legal Aid Services Commission – Trusts Under the Administration of the Public Trustee | No | Yes |
| New Brunswick Lotteries and Gaming Corporation | Yes | Yes |
| Opportunities New Brunswick | Yes | Yes |
| Service New Brunswick | Yes | Yes |
| December 31, 2020 Year End Audits | | |
| New Brunswick Municipal Finance Corporation | Yes | No |
| March 31, 2020 Year End Audits | | |
| Cannabis Management Corporation | Yes | No |
| New Brunswick Energy Solutions Corporation | Yes | Yes |
| New Brunswick Highway Corporation | Yes | Yes |
| New Brunswick Legal Aid Services Commission – Trusts Under the Administration of the Public Trustee | No | Yes |
| New Brunswick Lotteries and Gaming Corporation | Yes | Yes |
| Regional Development Corporation | Yes | Yes |

Source: Prepared by AGNB.

Common with many trusts, we were not able to verify the completeness of trust assets

5.4 We issued qualified opinions for the March 31, 2021 and March 31, 2020 financial statement audits of the Trusts Under the Administration of the Public Trustee. As is common with many trusts, we were not able to verify the completeness of trust assets. As a result, our work was limited to amounts recorded in the accounting records.

Crown agencies should implement our recommendations before the next audit cycle

5.5 While we did not find evidence significant fraud, theft or error occurred, our recommendations indicate deficiencies in internal control or mistakes in financial reporting. We encourage Crown agencies to implement our recommendations prior to the next audit cycle.

5.6 In this Chapter, we do not specifically discuss the results of all of our work over Crown agencies' financial statements. In the sections that follow, we present our significant concerns found during our audits of Crown agencies.

Recommendations Made to Service New Brunswick

Service New Brunswick is a large and complex audit

5.7 The financial statement audit of Service New Brunswick (SNB) is the largest and most complex Crown agency audit performed by our Office. SNB is a common services organization and provides essential services to both government and the tax payers of New Brunswick. In 2021, SNB had revenues of approximately \$291 million and expenses of approximately \$292 million.

Recommendations made again this year to address risk of fraud at Service New Brunswick

5.8 This year, during our audit of SNB, we found three areas where weaknesses in internal control processes increased the risk of fraud. We also have noted each of these items below in prior year audits and we are concerned these weaknesses remain unresolved.

Payments Made Without Proof of Goods Received

SNB made approximately \$6.8 million in payments to vendors without any proof the goods had been received. As a result of our work, SNB was able to provide proof for \$4.8 million of these payments. This proof, however, was not provided until after the payments had already been made. In our view, not having proof of receipt of goods increases the risk of fraud through payments made for goods or services not received or through unauthorized purchases.

Duplicate Payments Made to Vendors

This year, we found six instances where SNB made duplicate payments to vendors for the same invoice. SNB uses more than one accounting and payment processing system and, as a result, duplicate payments occur when SNB uses two different systems to pay the same invoice. In our view, operating multiple accounting and payment systems

increases the risk of fraudulent payments to vendors. We found SNB had been refunded for five of these instances.

Bank Reconciliations Contained Errors

SNB's monthly bank reconciliations contained errors. For example, we found one instance where a transfer of cash was not reconciled until nine months after the transaction had taken place. In our view, not having bank accounts regularly reconciled increases the risk of fraud. SNB has a significant number of employees who handle or process cash transactions.

We have again made recommendations to SNB to address these weaknesses in internal control processes.

Recommendations

5.9 We again recommend SNB only pay for goods or services when evidence exists to support the goods have been received or the services have been provided. For example, SNB should only pay for goods if proof of receipt is attached to an invoice.

5.10 We again recommend SNB implement a new accounting and payroll system. If SNB expects an extended timeframe for completing this project, and if it is cost effective, SNB should process transactions in one system reducing the risk of duplicate payments, fraud and staff inefficiencies.

5.11 We recommend SNB investigate and correct any unreconciled cash amounts in its monthly bank reconciliations on a timely basis.

Four other recommendations made to Service New Brunswick

5.12 We also made four other recommendations to SNB as part of our work. These recommendations show the need for SNB to strengthen processes related to internal control and accounting. Three of these recommendations were made again this year and we are concerned they are not resolved. We made one recommendation where SNB needs to reduce the risk it is exposed to with its business partners.

Recommendation to improve internal control processes

5.13 We made one recommendation for SNB to improve its internal controls. We found 18 weaknesses in different areas such as payroll, payments to vendors and access to information technology systems. Eleven of these 18 items were noted in prior years and again this year and we are concerned these weaknesses have not been corrected.

- 5.14** We made a recommendation to SNB to review and resolve the weaknesses in internal control as soon as possible.
- 5.15** We made two recommendations for SNB to improve its accounting processes.
- 5.16** One recommendation was for SNB to improve its estimates of the useful lives of tangible capital assets. For example, we found instances where capital assets were disposed of before the end of their estimated useful life. We found other instances where SNB estimated the useful life of capital assets would extend beyond the maximum time allowed by its capital asset policies. These items show the need for SNB to review, and update as necessary, its estimates for useful lives and its policies for capital assets.
- 5.17** SNB has over \$148 million in tangible capital assets, most of which are computer software and hardware, databases and systems and major equipment. This year, SNB recorded an amortization expense of \$9 million. Rapid changes in technology may cause assets to become obsolete faster than expected while other capital assets may continue to be in use after their useful life has passed.
- 5.18** We recommend SNB review, and update as necessary:
- the useful life estimates of its Tangible Capital Assets;
 - its classes of Tangible Capital Assets (such as what is included in Major Equipment and if any new classes of Tangible Capital Assets are needed); and
 - its policies for Tangible Capital Assets.
- We recommend this review be performed on a regular basis such as annually.
- 5.19** Our second accounting related recommendation was for SNB to improve its process to identify and calculate contract amounts to be disclosed in its financial statements. This includes items such as leases for office space and other contractual agreements. This information is required by Canadian Public Sector Accounting Standards and provides valuable information to users of the financial statements regarding what SNB is committed to spend in

Recommendations to improve accounting processes

Estimates of the useful lives of tangible capital assets need to be improved

Recommendation

Process to identify and calculate amounts requiring disclosure needs to be improved

the future. We made this recommendation as part of our 2020 audit as well.

5.20 During our work, we found approximately \$17 million in contracts which were not disclosed. We also found errors of approximately \$1.5 million in contracts that were disclosed. SNB corrected its financial statement disclosure for each of these instances. At March 31, 2021, SNB had disclosed approximately \$142 million regarding its future contract commitments.

Recommendation

5.21 We recommend SNB refine and document its processes to identify and calculate contract amounts to be disclosed in its financial statements. We recommend evidence of this work be retained for audit purposes.

SNB is exposed to risk with its business partners

5.22 Our last recommendation was for SNB to reduce the risk it is exposed to with its business partners. We found SNB still does not have signed agreements for services it provides to six of its business partners. SNB is exposed to risk should one of these partners disagree with charges or services. This is the sixth consecutive year we have made this recommendation to SNB.

Recommendation

5.23 We again recommend SNB have signed service level agreements with all of its business partners.

Recommendations Made to Opportunities New Brunswick

Opportunities New Brunswick is another large and complex audit

5.24 The financial statement audit of Opportunities New Brunswick (ONB) is another large and complex Crown agency audit performed by our Office. ONB promotes economic development in the province and provides loans and financial assistance to businesses. At March 31, 2021, ONB had approximately \$197 million in loans receivable and during 2021, ONB made approximately \$15 million in financial assistance payments.

Recommendation made to improve estimates of loan provisions

5.25 We made one recommendation for ONB to improve its processes to estimate provisions on its loans. These provisions are amounts ONB estimates it will not be able to recover from loan recipients.

Loan provisions are a significant audit risk

5.26 The process to estimate the provisions for these loans is highly judgmental resulting in a risk of material error. As a

result, these estimates are a significant audit risk for our Office and require a great deal of scrutiny.

5.27 In our sample of 25 loans, we found 11 instances where ONB's estimates needed to be improved. For example, we found instances where ONB assessed repayment history as being current and up-to-date when repayments:

- were being deferred (as authorized by ONB) due to poor financial health of the entity; and
- were not yet required under the terms of the loan agreement.

Although we believe the financial statements were not materially misstated, in our view, using a process that assesses loans as current and up-to-date when re-payments are not actually required to be made increases the risk loan provisions will be materially understated. We were informed ONB plans to introduce a new process to estimate loan provisions in the upcoming year.

Recommendation

5.28 We recommend ONB review and update its process for estimating loan provisions to ensure loan repayment history is appropriately reflected in the estimate.

Recommendations made to address weaknesses when paying financial assistance claims

5.29 We have also made recommendations for ONB to improve its processes when paying financial assistance claims. Financial assistance claims are another area of significant risk in our audit. These claims consist of items such as payroll rebates and funding recipients are required to submit claims before ONB will issue a payment. The nature and extent of these payments are also set out in the terms of signed agreements.

5.30 During our work we found two instances where ONB made payments for claims without first having received appropriate support. We also found one instance where ONB issued payments for the same claim more than once. In our view, failure to properly assess and monitor financial assistance claims increases the risk fraudulent claims submitted by recipients would not be detected before payment.

Recommendations

5.31 We recommend ONB only pay financial assistance claims when sufficient and appropriate support is provided to show claims are valid and eligible under the terms of financial assistance agreements.

5.32 We recommend ONB ensure financial assistance payments are appropriately reviewed and approved prior to payment.

**Recommendation Made to
New Brunswick Lotteries and Gaming Corporation**

5.33 The New Brunswick Lotteries and Gaming Corporation (NBLGC) is responsible for developing, organizing, conducting and managing provincial lottery schemes on behalf of the Province. NBLGC also manages the provincial gaming revenue sharing agreements with First Nations.

\$14.7 million in overpayments to First Nations is still unresolved after five years

5.34 During our audit of NBLGC, we again found there has been no decision regarding \$14.7 million in overpayments made to First Nations. These overpayments date back to 2016 and are the result of errors NBLGC made when calculating First Nations' share of gaming revenue. Each year since 2016, NBLGC has recorded these overpayments as an amount receivable with an allowance for doubtful accounts (provision) of 100%.

5.35 During our work, we were informed an Executive Council decision was made in February 2021 and concluded the Department of Finance and Treasury Board is to consider these overpayments as part of a larger First Nations strategy. The details of this First Nations strategy have yet to be determined.

5.36 Despite this Executive Council decision, we remain concerned this issue is still unresolved after five years. We have made recommendations each year since 2016, including again this year, for these overpayments to be resolved.

Recommendation

5.37 We again recommend the Department of Finance and Treasury Board and NBLGC resolve recovery of the unauthorized overpayments that were made to First Nations prior to January 1, 2016 as a result of an error in the calculation of gaming revenue.

Recommendations Made to Cannabis Management Corporation

CMC is responsible for the oversight, organization, conduct and management of the retail sales of cannabis in New Brunswick

5.38 The Cannabis Management Corporation (CMC) is responsible for the oversight, organization, conduct and management of the retail sales of cannabis in New Brunswick. CMC does this through a service provider agreement with Cannabis NB (CNB). CNB operates cannabis retail outlets in New Brunswick on behalf of the CMC.

Oversight of Cannabis Education Awareness Fund needs to be improved

5.39 As part of our CMC audit this year, we made two recommendations regarding the oversight of the Cannabis Education Awareness Fund (the fund). This fund is important because it is to be used specifically for items such as providing education and awareness programs related to cannabis. At year end, there was approximately \$1.6 million in the fund.

Amounts received from CNB were not verified

5.40 Our first recommendation was for CMC to verify the amounts received from CNB for the fund are accurate. CNB is required to remit a percentage of its net cannabis purchases to CMC each year. CMC, in turn, deposits all of these remittances into the fund. We found CMC was not verifying if these amounts were accurate. In our view, not having a process to verify amounts received from CNB increases the risk of error.

Recommendation

5.41 We recommend CMC develop and implement a process to verify the accuracy and completeness of Cannabis Education and Awareness Fund revenue. We recommend evidence of this work be retained for audit purposes.

Advisory Committee has not met since 2019

5.42 Our second recommendation was for CMC to work with the Advisory Committee responsible for the fund to resume committee meetings as soon as possible. These meetings are necessary to ensure the fund is actively managed and being used for its intended purpose. We found the Committee has not met since 2019.

Recommendation

5.43 We recommend CMC work with the Cannabis Education and Awareness Fund Advisory Committee to resume meetings as soon as possible to ensure there is active management and direction of the fund.