

Chapter 2

Liquor Industry Development in New Brunswick- New Brunswick Liquor Corporation

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Liquor Industry Development in New Brunswick – New Brunswick Liquor Corporation (ANBL)

Report of the Auditor General – Volume I, Chapter 2 - June 2022

Why Is This Important?

- ANBL contributed \$1.7 billion to the Province over a ten-year period ending in March 2021
- ANBL is a monopoly corporation responsible for controlling all access to New Brunswick’s liquor market and its decisions have social and economic impacts on New Brunswickers
- Local craft products accounted for 4.2% of sales (\$19 million) yet made up 27.6% of ANBL’s portfolio

Overall Conclusions

- ANBL did not plan for its role in the development of the liquor industry in the Province
- ANBL did not effectively participate and engage in the development of the liquor industry in the Province
- ANBL did not follow key steps within its product lifecycle management processes
- ANBL’s pricing model has the potential to hinder ANBL profits and favours some suppliers over others
- ANBL has widespread data and document retention issues throughout its key processes

What We Found

Ineffective Planning and Engagement to Develop Province’s Liquor Industry

- No outcomes-based plan or documented strategy for the development of the liquor industry in the Province
- Local producers not effectively engaged by ANBL and solutions to issues raised by local producers not adopted
- No definitions or targets for providing suitable financial revenues
- Strategic Plan targets missed in 2016-2020, no targets set in 2020-2023 strategic plan

Data and Documentation Retention Issues

- ANBL does not retain historical information in Bev Hub system
- Communication with suppliers not retained

Weaknesses in Product Lifecycle Management

- No records to support key financial decisions
- Verbal approval and no evidence of review are common practices
- Key steps within listing and delisting processes not followed for all product categories
- Evaluation criteria not consistently applied
- Special arrangements existed for some local producers resulting in higher costs for ANBL
- Suppliers typically relied upon to set retail prices across product categories
- Pricing process encouraged suppliers to maximize cost to ANBL
- Pricing strategy not finalized or followed across product categories
- Sales thresholds had several weaknesses in all product categories

Key Findings and Observations Table

Liquor Industry Development In New Brunswick – New Brunswick Liquor Corporation

Paragraph	Key Findings and Observations
	Ineffective Planning and Engagement to Develop Province's Liquor Industry
2.27	<i>No outcomes-based plan or documented strategy for the development of the liquor industry in the Province</i>
2.31	<i>ANBL's role in supporting local industry not clearly defined</i>
2.32	<i>No risk analysis, review of best practices or industry research performed</i>
2.33	<i>No targets against which to regularly monitor or evaluate performance</i>
2.37	<i>ANBL informed local producers of any decisions or changes that may affect the industry</i>
2.37	<i>ANBL failed to effectively engage with local producers</i>
2.39	<i>ANBL did not adopt solutions to issues raised by local producers from the working group</i>
2.41	<i>Engagement activities with local producers were not a regular occurrence and did not include all regions of the province or all categories of alcohol</i>
2.46	<i>No definitions or targets for providing suitable financial revenues</i>
2.48	<i>Strategic plan targets missed in 2016-2020, no targets set in 2020-2023 strategic plan</i>
	Weaknesses in Product Lifecycle Management
2.54	<i>No records to support key financial decisions</i>
2.56	<i>Verbal approval common practice</i>
2.56	<i>No evidence of review</i>
2.60	<i>Product Lifecycle Management manual and product listing call schedule not communicated to all suppliers in 2018-2019</i>
2.63	<i>No defined listing process existed for local producers to submit products to be sold at ANBL</i>
2.66	<i>ANBL did not follow its defined listing process for all product categories</i>
2.66	<i>No evidence of ANBL following key steps in listing process for product evaluation and approval across all product categories</i>
2.67	<i>Product evaluation criteria not consistently applied</i>

Key Findings and Observations Table (Continued)

Paragraph	Key Findings and Observations
	Weaknesses in Product Lifecycle Management (continued)
2.68	<i>Product taste not evaluated on a consistent basis across categories and not documented</i>
2.69	<i>Products accepted outside the call criteria and date parameters</i>
2.71	<i>Lack of transparency regarding how and why products were distributed through its retail network</i>
2.82	<i>Mark-up structure excluded one-time and test product listings</i>
2.83	<i>Special arrangements created for some local producers</i>
2.85	<i>One arrangement resulted in paying a producer more than double the original cost</i>
2.88	<i>Reliance on suppliers across product categories for setting retail prices</i>
2.89	<i>Price call process encouraged suppliers across product categories to maximize cost to ANBL</i>
2.91	<i>Pricing strategy not finalized or followed across product categories</i>
2.93	<i>Retail information not shared with all suppliers within the spirits category</i>
2.96	<i>Retail prices compared annually limited to top performing products</i>
2.97	<i>Thirty-two percent of recalculated retail prices did not agree to final price</i>
2.99	<i>Annual price calls delayed</i>
2.102	<i>Price changes completed earlier for large brewers</i>
2.106	<i>Risk of missing price change requests not adequately mitigated</i>
2.108	<i>Manual process increases risks of errors and omissions</i>
2.110	<i>Minimum retail price policy not updated annually</i>
2.117	<i>Price compliance with agency stores not monitored</i>
2.121	<i>ANBL did not follow its defined delisting process for all product categories</i>
2.122	<i>No defined delisting process existed for local producers</i>
2.124	<i>Product ranking review process undocumented, manual, and prone to errors</i>
2.126	<i>Product ranking reviews not documented</i>
2.126	<i>Products indicated for delisting could not be found on delist memos</i>
2.127	<i>Numerous exemptions to product ranking review process</i>

Key Findings and Observations Table (Continued)

Paragraph	Key Findings and Observations
	Weaknesses in Product Lifecycle Management (continued)
2.128	<i>Products indicated for delisting based on sales thresholds not always removed</i>
2.129	<i>Forty-three percent of products tested were not delisted for various undocumented exemptions</i>
2.133	<i>Sales thresholds had several weaknesses in all product categories</i>
2.134	<i>Sales thresholds did not exist for local producers</i>
2.139	<i>Lack of transparency regarding sales thresholds with suppliers</i>
	Data & Document Retention Issues
2.142	<i>ANBL does not retain historical information in Bev Hub system</i>
2.152	<i>Communication with suppliers not retained</i>
	Other Areas of Concern
2.158	<i>Promotion of responsible consumption not effectively planned or managed</i>
2.159	<i>No plan or targets, lack of moderation campaigns, program spending not tracked</i>
2.160	<i>New corporate social responsibility framework and policy lacks focus on responsible consumption</i>
2.161	<i>Information on responsible consumption difficult to find on website</i>
2.165	<i>Mystery shopper program failed to meet targets</i>
2.165	<i>Mystery shopper compliance rates show troubling trend</i>
2.166	<i>No action taken for retailers with poor compliance rates</i>
2.167	<i>Lack of segregation of duties a potential conflict of interest within the mystery shopper program</i>
2.168	<i>Social responsibility training program improperly designed and error prone</i>
2.172	<i>No risk analysis to ensure compliance with trade agreements</i>
2.175	<i>Risks of conflict of interest with the appointment of board members</i>

Recommendations and Responses

Recommendation	Department's response	Target date for implementation
We recommend the New Brunswick Liquor Corporation:		
<p>2.35 document an outcomes-based strategic plan detailing:</p> <ul style="list-style-type: none"> • its role for participating in developing the New Brunswick liquor industry; • risks identified from its analysis and evaluation of the development issues within the New Brunswick liquor industry; and • performance targets for evaluating and publicly reporting on the success of its participation efforts. 	<p><i>ANBL agrees with this recommendation and aligns its strategic and annual plans for its role in participating in developing the New Brunswick liquor industry to the New Brunswick Liquor Corporation Act, and its Memorandum of Understanding and annual Mandate Letters as defined in the Accountability and Continuous Improvement Act.</i></p> <p><i>In addition, ANBL and has established a 3-year NB Local Craft Producer Strategy that defines its role in the development of the New Brunswick Local Producer liquor industry. The Strategy incorporates risk elements. The Strategy was approved by ANBL's Board of Directors and was communicated to Government in March 2022. The Strategy will be reviewed annually.</i></p> <p><i>ANBL will establish performance targets and evaluate how best to publicly report on its success.</i></p>	<p><i>The strategic plan has been initiated and will be implemented over the course of its three years.</i></p> <p><i>Performance targets will be established in FY2022-23 and reported against beginning in FY2023-24.</i></p>

Recommendation	Department’s response	Target date for implementation
We recommend the New Brunswick Liquor Corporation:		
<p>2.44 develop a communications and engagement plan for its interaction with local producers to establish:</p> <ul style="list-style-type: none"> • terms of engagement with local producers; • objectives and targets against which to measure the effectiveness of local producer engagement; and • required monitoring and reporting on the effectiveness of local producer engagement in developing the local liquor industry. 	<p><i>ANBL agrees with this recommendation, and as part of the Local Craft Producer Strategy, ANBL has established a Local Industry Advisory Committee to effect industry consultations with New Brunswick local producers.</i></p> <p><i>Terms of engagement have been drafted, and the Committee’s mandate and terms of reference will be reviewed annually.</i></p> <p><i>ANBL will establish measurable objectives and targets against which to measure and report on both local producer engagement and effectiveness.</i></p>	<p><i>An engagement plan for local producers has been implemented. Meetings for the Advisory Committee will begin in June 2022.</i></p> <p><i>Terms of engagement will be finalized and implemented in FY2022-23.</i></p> <p><i>Objectives and targets will be established in FY2022-23 and reported against in FY2023-24.</i></p>

Recommendation	Department's response	Target date for implementation
We recommend the New Brunswick Liquor Corporation:		
2.51 define and set clear financial targets to meet the legislated purpose “to provide suitable financial revenues” and report its performance against those targets in its annual report.	<p><i>ANBL agrees with this recommendation and establishes financial targets through its annual planning cycle that support the return of suitable financial revenues to the province, in balance with corporate and social responsibility, and in line with its annual Mandate letter. These financial targets are included in ANBL's Annual Plan. Effective FY2020-21, ANBL's Annual Plan is published at ANBL.com, with the established financial targets reported against in its Annual Report. ANBL will continue to report against the Annual Plan financial targets in its FY2021-22 Annual Report.</i></p> <p><i>In FY2022-23, ANBL published expanded performance measures in its Annual Plan that support its purpose to provide suitable financial revenues. ANBL will report against these targets in its FY2022-23 Annual Report.</i></p>	Implemented
2.59 clearly document and retain decision rationale and criteria used for evaluating key process decisions as well as analysis supporting the financial impact of those decisions on the corporation.	<p><i>ANBL agrees with this recommendation and a formal records management policy was adopted and approved by ANBL in November 2020, supporting the need for appropriate documentation and retention requirements.</i></p>	ANBL's records management policy was implemented in FY2020-21.
2.65 provide current information, including the Product Lifecycle Management manual and product listing call schedules, to all suppliers in a consistent, transparent, and timely manner.	<p><i>ANBL agrees with this recommendation, and its Product Lifecycle Procedure Manual and Product Listing Call Schedule are available to all current and potential suppliers at ANBL.com/suppliers.</i></p>	Implemented

Recommendation	Department's response	Target date for implementation
We recommend the New Brunswick Liquor Corporation:		
<p>2.70 regarding the listing process:</p> <ul style="list-style-type: none"> • implement a decision matrix to evaluate product listing submissions against clearly defined and consistently applied criteria; and • document decision rationale for each criterion used in evaluating products for listing. 	<p><i>ANBL agrees with the recommendation.</i></p> <p><i>While ANBL does have a decision matrix in place for its Product Listing process, it will review decision criteria for clarity and ensure all changes and sufficient detail are included in the Product Lifecycle manual.</i></p> <p><i>All decision rationale will be documented and retained in accordance with ANBL's Records Management policy.</i></p>	FY2022-23
<p>2.74 increase transparency by updating the Product Lifecycle Management manual with a section detailing how it distributes products throughout its retail network.</p>	<p><i>ANBL agrees with this recommendation.</i></p> <p><i>ANBL will incorporate how it distributes products through its retail network in its listing process and tied to its Product Lifecycle manual. This work is in progress as part of a greater Product Lifecycle manual project.</i></p>	FY2022-23

Recommendation	Department's response	Target date for implementation
We recommend the New Brunswick Liquor Corporation:		
<p>2.92 complete a comprehensive review and update of its pricing strategy and mark-up structure to ensure:</p> <ul style="list-style-type: none"> • all product listing status types are included; • the process, decision criteria and documentation requirements for special agreements outside the standard mark-up structure are clearly included; and • business practices align with the pricing strategy, the mark-up structure, and the purposes prescribed in the <i>New Brunswick Liquor Corporation Act</i>. 	<p><i>ANBL agrees with this recommendation, and will complete a review of its pricing documentation to ensure:</i></p> <ul style="list-style-type: none"> • <i>all permitted exceptions to the product listing status types are clearly defined and documented;</i> • <i>the process, decision criteria and documentation requirements for special agreements outside of the standard mark-up structure are clearly included, supporting consistent, fair, and documented arrangements; and</i> • <i>business practises align to pricing documentation, including a pricing policy and mark-up structure, which support the purposes as prescribed in the NB Liquor Act.</i> <p><i>A formal records management policy was adopted and approved by ANBL in November 2020, supporting the need for appropriate documentation and retention requirements.</i></p>	<p><i>A draft pricing policy will be established by the end of FY2022-23.</i></p> <p><i>The pricing policy will seek approval and implementation in FY2023-24.</i></p>

Recommendation	Department’s response	Target date for implementation
We recommend the New Brunswick Liquor Corporation:		
<p>2.109 enhance pricing practices to ensure transparent and consistent treatment by:</p> <ul style="list-style-type: none"> • undertaking a comprehensive retail price comparison across all product categories; • sharing retail prices with all applicable suppliers across product categories; • documenting decision rationale for setting prices that deviate from mark-up structure; and • automating annual price call invitations on a regular schedule where possible. 	<p><i>ANBL strives to ensure its pricing practises are transparent, fair, and consistent for all suppliers.</i></p> <ul style="list-style-type: none"> • <i>ANBL reviewed and revised its process for setting retail prices in Q1 of FY2022-23. A price comparison will take place for top performing, high volume products each quarter, and will be referenced during the price call process. These comparisons will be representative of a high percentage of overall sales. The competitiveness of a retail price is evaluated when reviewing new listing applications;</i> • <i>ANBL does share retail prices with all applicable suppliers across product categories during the standard two round price call process, and provides a full listing of retail prices to any requesting supplier;</i> • <i>ANBL now ensures that decision rationale and support for mark-up structure deviations are documented and retained, in line with ANBL’s Records Management policy; and</i> • <i>ANBL does not currently have the ability to implement an automated price call process. ANBL implemented a regular price call schedule, in FY2021-22, for April and October, and does make exceptions for price changes outside of the standard schedule for strategic purposes or to reduce risk of omission.</i> 	<p><i>ANBL has implemented its revised process, however, will not be undertaking a comprehensive retail price comparison across all product categories.</i></p> <p><i>Implemented</i></p> <p><i>Implemented</i></p> <p><i>ANBL is not able to implement an automated process at this time.</i></p>

Recommendation	Department's response	Target date for implementation
We recommend the New Brunswick Liquor Corporation:		
2.116 review and update the Minimum Retail Pricing (MRP) policy annually.	<p><i>ANBL agrees with this recommendation.</i></p> <p><i>While ANBL had not updated the MRP policy for the periods under audit, effective in FY2020-21, it is now reviewing and updating the policy annually.</i></p>	<i>Implemented</i>
2.119 actively monitor liquor prices in agency stores on a regular schedule to ensure conformity with pricing policies.	<i>ANBL agrees with this recommendation. Work is underway to establish a compliance monitoring process.</i>	<i>ANBL will implement spot checks immediately, and an agency store pricing policy monitoring plan will be established in FY2022-23, for implementation in FY2023-24.</i>

Recommendation	Department’s response	Target date for implementation
We recommend the New Brunswick Liquor Corporation:		
<p>2.132 regarding the delisting process:</p> <ul style="list-style-type: none"> • clearly define and document the delisting process and the product ranking review process and include applicable updates in the Product Lifecycle Management manual; • document decision rationale, including financial impact, for exceptions to the documented product ranking review process and the delisting process; and • automate the product ranking review report. 	<p><i>ANBL agrees with this recommendation.</i></p> <p><i>ANBL’s Delist Product Process now incorporates an automated approval and records retention process. ANBL will communicate all applicable changes and incorporate them into the Product Lifecycle Management manual.</i></p> <p><i>As part of the above process, ANBL will ensure that all exception decision rationale and financial impact analysis is documented and retained.</i></p> <p><i>ANBL is not currently able to automate the product ranking review report.</i></p>	<p><i>FY2022-23</i></p>

Recommendation	Department's response	Target date for implementation
We recommend the New Brunswick Liquor Corporation:		
<p>2.141 document the process used to set sales thresholds for delisting purposes, and:</p> <ul style="list-style-type: none"> • establish criteria to be used when setting relevant sales thresholds for product categories and sub-categories; • communicate sales thresholds to suppliers as part of the product ranking review process; and • review sales thresholds on an annual basis prior to the beginning of the fiscal year. 	<p><i>ANBL agrees with this recommendation and is actively evaluating criteria, communication plans, and the monitoring process.</i></p> <p><i>Once established, the criteria will be incorporated into ANBL's Product Lifecycle Management publication. Annual sales thresholds are published in the Product Lifecycle manual.</i></p>	<p><i>FY2023-24</i></p>
<p>2.151 review and update Bev Hub and sales data applications to ensure historical information can be retrieved.</p>	<p><i>ANBL agrees with this recommendation.</i></p> <p><i>ANBL will evaluate system options to retain historical information based on existing system functionality and limitations. The requirement will be incorporated into the scope of future system enhancements or replacements.</i></p>	<p><i>ANBL will review current options in FY2022-23.</i></p>
<p>2.156 retain all communications with suppliers which support prices changed during the annual price call process.</p>	<p><i>ANBL agrees with this recommendation, and effective for the October 2021 price call, all communications with suppliers supporting prices changed are documented and retained, in accordance with ANBL's Records Management policy.</i></p>	<p><i>Implemented</i></p>

Recommendation	Department’s response	Target date for implementation
<p>We recommend the New Brunswick Liquor Corporation:</p>		
<p>2.169 develop and implement a plan to address its legislative requirement to promote the responsible consumption of liquor, to include:</p> <ul style="list-style-type: none"> • goals, targets, and measures against which to evaluate performance; • a communication strategy and implementation plan to promote the responsible consumption of liquor; and • action plans, performance targets and public reporting requirements for programs designed to promote the responsible consumption of liquor, including the mystery shopper program and social responsibility training program. 	<p><i>ANBL agrees with this recommendation and has recently completed Corporate Social Responsibility (“CSR”) research to support clear and focused messaging that resonates with customers. As a result, ANBL has established two focused CSR pillars, Safe Ride and Celebrate Safe.</i></p> <p><i>With the goals clearly defined, ANBL is evaluating the programs to establish the appropriate targets against which to measure and report on performance.</i></p> <p><i>A communications strategy is underway, and part of a larger content strategy, to ensure clear and consistent messaging across the organization. CSR and Governance is a key strategy as part of ANBL’s strategic plan, with achieving the associated framework and program milestones being an organizational performance measure in FY2022-23.</i></p> <p><i>ANBL remains committed to its support of other key initiatives, including MADD, however, does not publicize these initiatives due to their focus on youth.</i></p>	<p><i>ANBL has established its key pillars and FY2022-23 will be used to evaluate and benchmark the programs.</i></p> <p><i>Targets and measures will be established and reported against in FY2023-24.</i></p> <p><i>The communications strategy will be released as part of the larger content strategy in FY2023-24.</i></p>

Recommendation	Department's response	Target date for implementation
We recommend the New Brunswick Liquor Corporation:		
<p>2.170 Board of Directors review the corporation's performance in promoting the responsible consumption of liquor, as prescribed in the New Brunswick Liquor Corporation Act. If the board review identifies potential improvements, we recommend the New Brunswick Liquor Corporation implement the changes required to improve performance in promoting the responsible consumption of liquor.</p>	<p><i>CSR and Governance are key strategies of ANBL's Board of Directors approved strategic plan. ANBL has outlined the achievement of the framework and program milestones as a key performance measure for FY2022-23. Progress is reported to the Board quarterly.</i></p> <p><i>ANBL will review the details of the CSR framework with the Board and incorporate, if applicable, recommended improvements.</i></p> <p><i>In addition, and to further support the responsible consumption of liquor, ANBL's Board has met with the Department of Health to discuss shared responsibilities.</i></p>	<p><i>CSR framework to be reviewed in detail with the Board of Directors in FY2022-23.</i></p>
<p>2.174 undertake a risk assessment to ensure its pricing policies comply with applicable trade agreements.</p>	<p><i>The New Brunswick Liquor Corporation Act requires ANBL to establish by-laws to conform to the spirit and intent of the Procurement Act for the purchase of supplies, excepting liquor, and to conform to the Crown Construction Contracts Act, which is not applicable to the purchase of liquor.</i></p> <p><i>ANBL will confirm and document that there are no other applicable trade agreements to which adherence is required pertaining to pricing policies.</i></p>	<p><i>FY2022-23</i></p>

Recommendation	Department’s response	Target date for implementation
<p>We recommend the New Brunswick Liquor Corporation:</p>		
<p>2.179 Board of Directors review and update the corporation’s by-laws to address potential, perceived or actual situations that increase risk to the corporation’s independence from government.</p>	<p><i>ANBL agrees with this recommendation and has updated its Conflict-of-Interest By-law to remove disclosure exemptions pertaining to political activity involvement. The changes have been approved by ANBL’s Board of Directors and now require Cabinet approval.</i></p> <p><i>ANBL has existing controls in place to address conflicts of interest that do arise for Board members while participating in a Board or Committee meeting.</i></p> <p><i>Board member appointment is managed through the Agencies, Boards, and Commissions group, and not by ANBL.</i></p>	<p><i>Cabinet approval for the Board approved By-law changes is targeted for FY2022-23.</i></p>

Audit Introduction

- 2.1** The New Brunswick Liquor Corporation (ANBL) is a Crown corporation responsible for purchasing, importing, distributing, and retailing all liquor in New Brunswick. ANBL serves New Brunswick (the Province) through a retail network of corporate, agency, and grocery stores. Over the ten-year period ending in March 2021, ANBL contributed \$1.7 billion to the Province.
- 2.2** As a monopoly, ANBL’s decisions have social and economic impacts on all New Brunswickers. Its net income is accounted for in the Province’s financial statements and helps fund public services and programs such as healthcare, education, and infrastructure. Local producers¹ are directly impacted by ANBL’s planning and policy development as ANBL controls access to the New Brunswick liquor retail market.
- 2.3** The New Brunswick Craft Alcohol Producers Association (NBCAPA) represents 74 of 102 local producers. In 2021, NBCAPA reported craft alcohol producers provide a \$24 million Gross Domestic Product (GDP) contribution to New Brunswick’s economy and 618 jobs.²
- 2.4** Appendix I contains a glossary of key industry terms used in this chapter.

Glossary of Terms

¹ Local producers: New Brunswick owned producers who produce any kind of beverage alcohol (product) in the Province regardless of production volume

² New Brunswick Craft Alcohol Industry- Economic Impact Analysis – January 2021 - Pierre-Marcel Desjardins

- Why we chose this topic**
- 2.5** We chose to audit ANBL’s role in the development of the liquor industry in the Province for the following reasons:
- ANBL’s contribution to the Province is significant (\$1.7 billion over 10 years);
 - as a monopoly, ANBL controls all access to the New Brunswick liquor market and, as such, is critical to success for the liquor industry in the Province;
 - according to ANBL’s 2019-2020 annual report, New Brunswick craft products accounted for 4.2% (\$19 million) of ANBL total sales (\$449 million) yet represented 27.6% of ANBL’s total products available for sale during that period;
 - participating in the development of the liquor industry in the Province is a legislated purpose per the *New Brunswick Liquor Corporation Act (NBLC Act)*; and
 - the liquor industry in the Province not only has an impact on local producers, but also other industries and the provincial gross domestic product (GDP).
- Audit Objective**
- 2.6** The objective of this audit was to determine if the New Brunswick Liquor Corporation is:
- effectively managing its participation in the development of the liquor industry in the Province, while providing financial revenues in line with its mandate.
- Audit Scope**
- 2.7** We examined ANBL’s participation in the development of the liquor industry in the Province and its engagement with local producers. Our audit covered key elements of ANBL’s Product Lifecycle Management process. Additionally, we reviewed the programs and policies ANBL had in place to meet its legislated purpose “to promote the responsible consumption of liquor”.
- 2.8** Our audit covered ANBL’s three fiscal years from April 2, 2018 to March 28, 2021. This is the period for which our audit conclusions apply. However, to gain a more complete understanding, we examined certain matters that preceded or succeeded our audit period.

2.9 More details on our audit objective, criteria, scope, and approach can be found in Appendix II and Appendix III.

Conclusions

2.10 We concluded that ANBL did not:

- have an outcomes-based plan including clearly defined objectives, initiatives, and measurable targets for its role in the development of the liquor industry in the Province;
- effectively engage with local producers in the Province;
- follow key steps within its product lifecycle management processes; and
- have a pricing model for all product listing statuses that provided financial revenues in line with its mandate.

2.11 If unaddressed, weaknesses identified in this report will increase the risk of:

- reduced profits for both ANBL and suppliers, potentially resulting in less income for the Province and inhibited growth of local producers;
- non-compliance with legislative purposes and limited effectiveness in promoting local industry development;
- hindered economic development opportunities for local producers, potentially impeding industry growth; and
- favouritism and poor decision making in key processes that can impact ANBL revenue and inhibit growth opportunities for all industry participants.

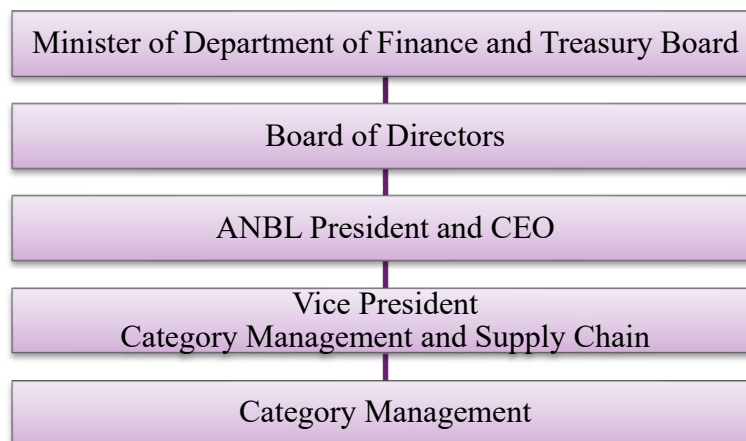
Background Information

2.12 The New Brunswick Liquor Corporation (ANBL) is a Crown corporation, operating under the *New Brunswick Liquor Corporation Act (NBLC Act)*. Government provides ANBL with an annual mandate letter outlining its expectations of the corporation. ANBL’s purposes as prescribed in the *NBLC Act* are to:

- “carry on the general business of manufacturing, buying, importing and selling liquor of every kind and description”;
- “promote the responsible consumption of liquor”;
- “participate in the development of the liquor industry in the Province”;
- “meet the needs of its customers”;
- “provide suitable financial revenues for the Province”.

2.13 Exhibit 2.1 illustrates ANBL’s Category Management reporting hierarchy. ANBL is governed by a Board of Directors and accountable to the Province through the Minister of the Department of Finance and Treasury Board. ANBL’s net income is accounted for in the Province’s financial statements. Our audit work focused on areas within Category Management, which is responsible for determining and managing all ongoing liquor product portfolios, merchandising programs, and day-to-day supplier relations.

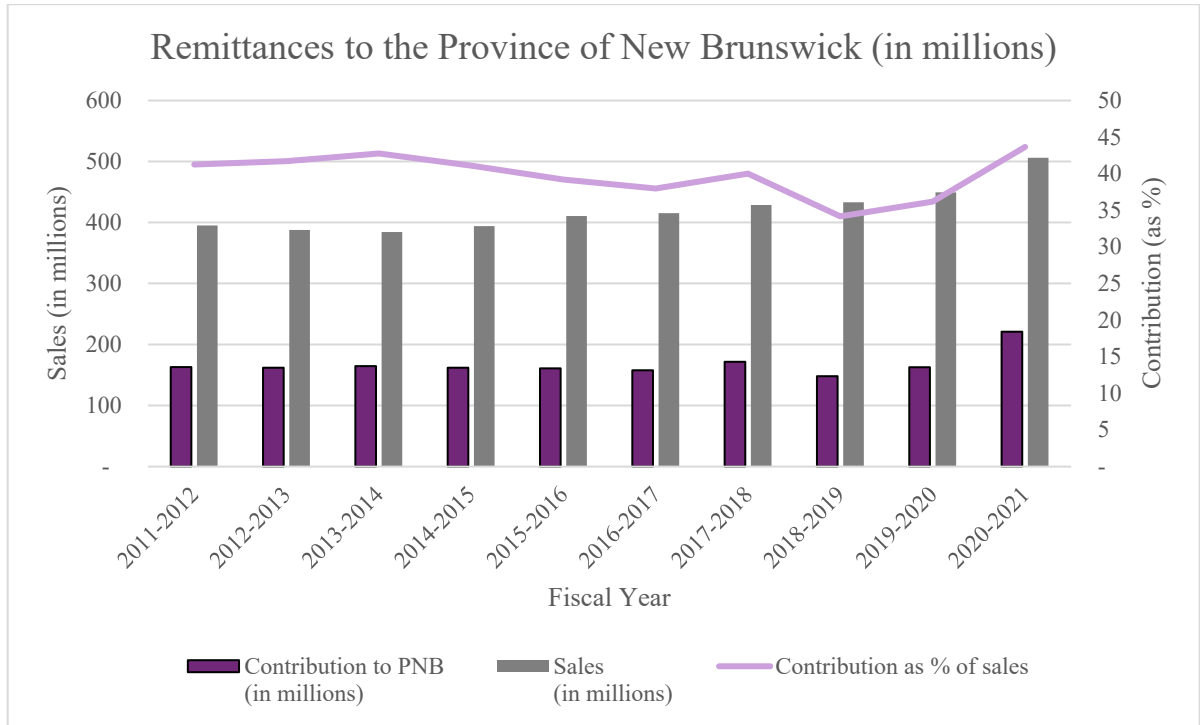
Exhibit 2.1 - ANBL’s Category Management Reporting Hierarchy



Source: Prepared by AGNB based on information provided by ANBL

2.14 Exhibit 2.2 provides a breakdown of ANBL’s financial contributions to the Province for fiscal years 2011-2012 to 2020-2021. In each of the past three years, ANBL has contributed more than 34% of its sales to the Province, reaching 44% for 2020-2021.

*Exhibit 2.2 - ANBL’s Financial Contribution to the Province
Fiscal Years 2011-2012 to 2020-2021 (in millions)*



Source: Prepared by AGNB based on information reported in ANBL’s Annual Report (unaudited)

2.15 Exhibit 2.3 provides a breakdown of the number of locations in ANBL's retail network serving New Brunswick for fiscal years 2018-2019 to 2020-2021.

*Exhibit 2.3 - Number of Locations in ANBL's Retail Network
Fiscal Years 2018-2019 to 2020-2021*

Number of Locations in ANBL's Retail Network Fiscal Years 2018-2019 to 2020-2021				
Fiscal Year	Corporate	Agency	Grocery	Total
2018-2019	42	87	66	195
2019-2020	39	86	66	191
2020-2021	41	87	67	195

Source: Prepared by AGNB based on information reported in ANBL's Annual Reports (unaudited)

2.16 Exhibit 2.4 provides a breakdown of the number of local producers in each liquor category in New Brunswick for fiscal years 2018-2019 to 2020-2021. In 2020-2021, 89 of 102 local producers sold products directly to the public at their production facilities.

*Exhibit 2.4 - Number of Local Producers in each Liquor Category
Fiscal Years 2018-2019 to 2020-2021*

Number of Local Producers in each Liquor Category Fiscal Years 2018-2019 to 2020-2021					
Fiscal Year	Breweries	Wineries*	Distilleries	Cideries**	Total
2018-2019	52	21	7	2	82
2019-2020	52	22	9	2	85
2020-2021	62	26	12	2	102

*Wineries include cideries and meaderies who do grow their own fruit for production.

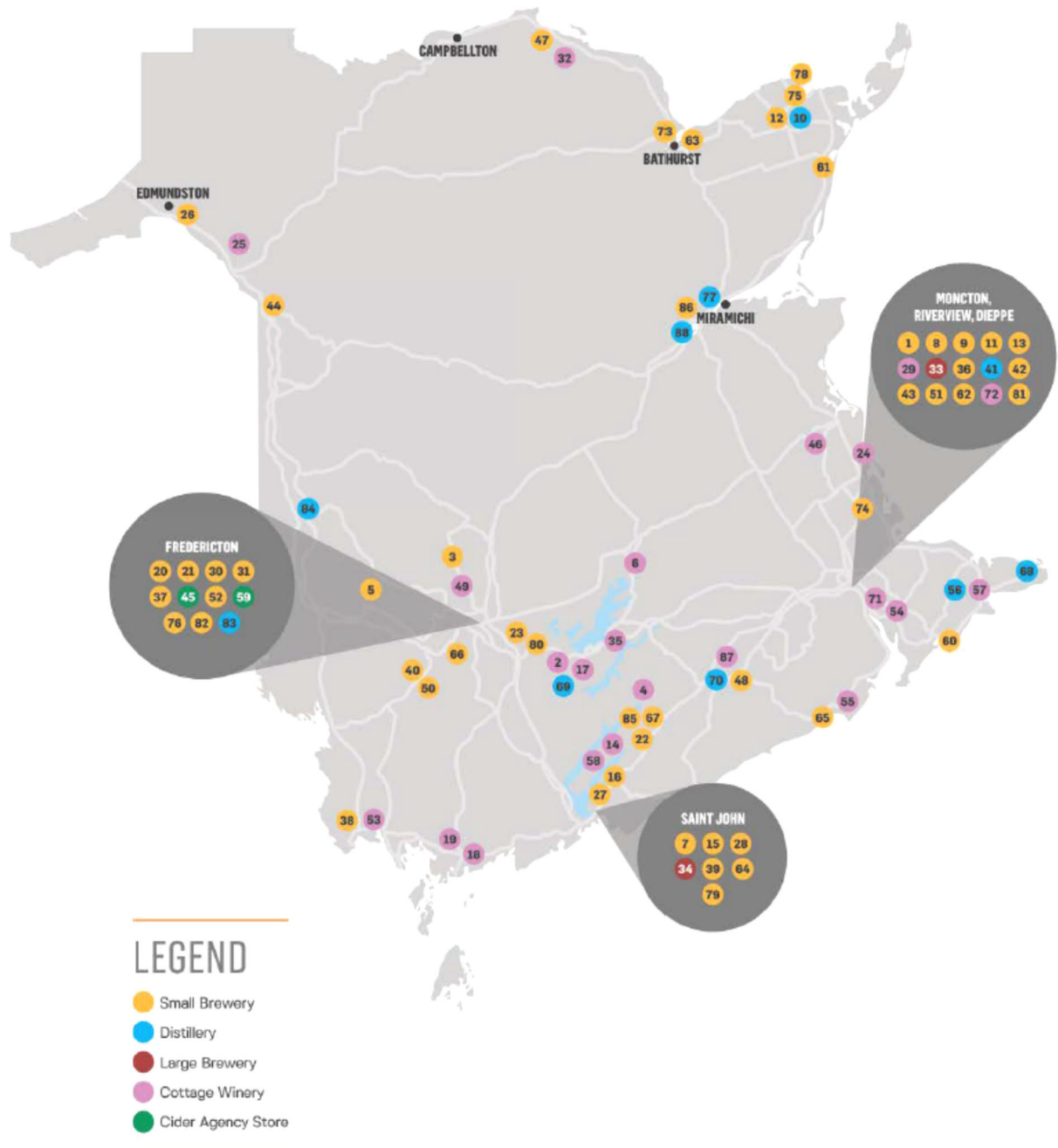
** Cideries: craft producers who do not grow their own fruit for production.

Note: ANBL listed 101 local producers in its 2020-2021 annual report. AGNB included one producer in two categories above to be consistent with how ANBL accounted for other producers who produce more than one product.

Source: Prepared by AGNB based on information reported in ANBL's Annual Reports (unaudited)

2.17 Exhibit 2.5 illustrates local producers' geographic locations throughout New Brunswick for 2019-2020. See Appendix IV for a corresponding list of local producers.

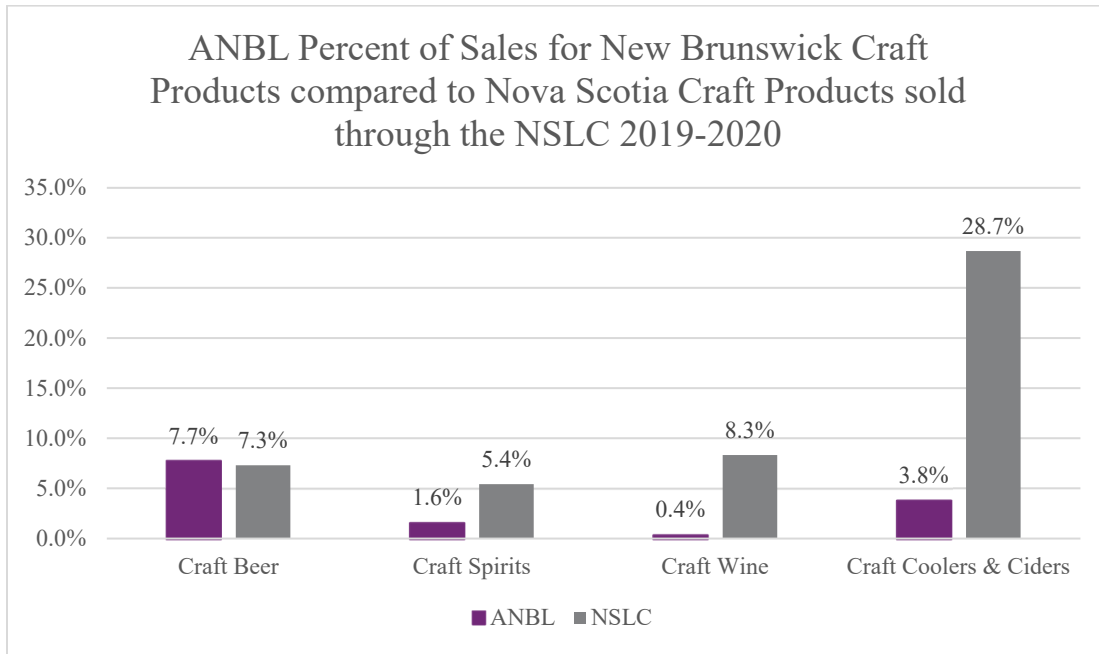
Exhibit 2.5 - Local Producers Network in New Brunswick 2019-2020



Source: ANBL's 2019-2020 Annual Report (unaudited)

2.18 Exhibit 2.6 illustrates ANBL’s percent of total annual sales for New Brunswick craft products compared to Nova Scotia craft products sold through the Nova Scotia Liquor Corporation (NSLC) in 2019-2020.

Exhibit 2.6 - ANBL Percent of Sales for New Brunswick Craft Products compared to Nova Scotia Craft Products Sold through the NSLC 2019-2020



Source: Prepared by AGNB based on information reported in ANBL's Annual Reports (unaudited) and NSLC's Annual Report (unaudited)

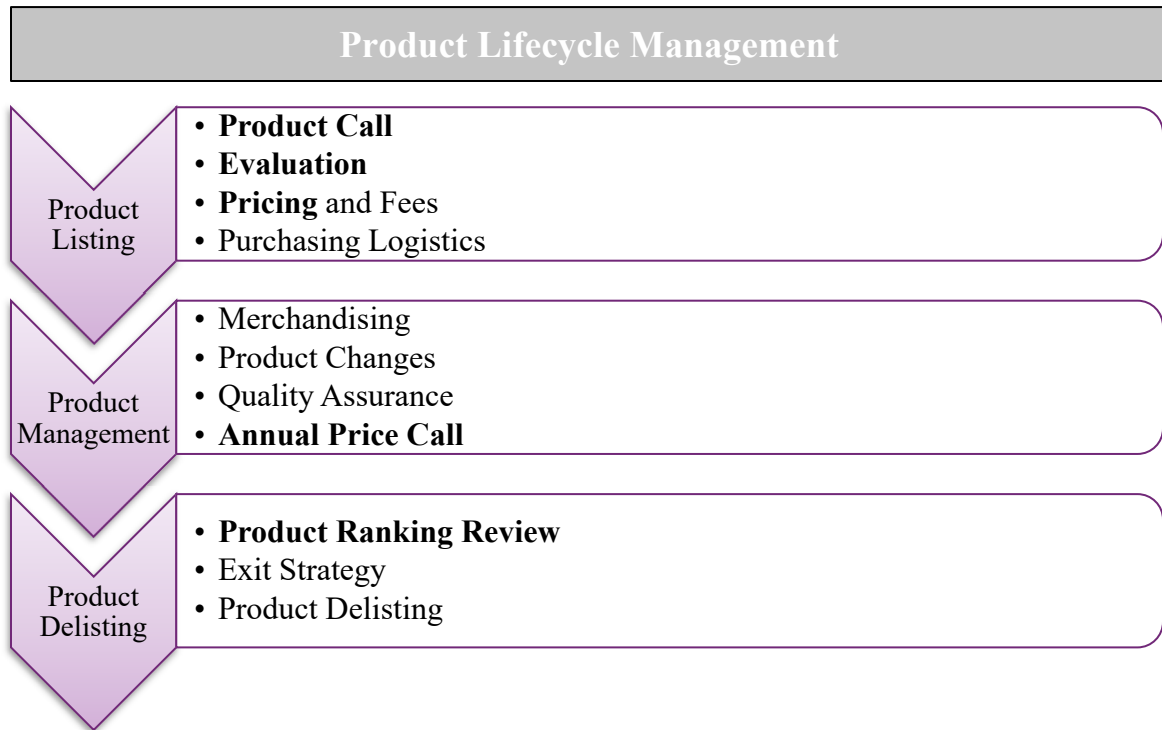
2.19 In 2019-2020, New Brunswick craft products sold through ANBL represented 4.2% (\$19 million) of its total annual sales. Nova Scotia craft products sold through the NSLC represented 8.9% (\$58 million) of the NSLC total annual sales.

Product Lifecycle Management

2.20 Exhibit 2.7 summarizes key elements of ANBL’s Product Lifecycle Management (PLM) Process. A PLM manual is posted on ANBL’s website for suppliers and ANBL internal documents guide staff through the process. The entire PLM is managed by ANBL’s Category Management team, which is divided into five areas of responsibility:

- Core Wine (general list, grocery, and depot);
- Specialty & Experience Wine (one-time orders, festival, and the experience boutique);
- Spirits and Non-Liquor;
- Refreshment (beer, and coolers and ciders); and
- New Brunswick Local Craft (added in March 2020).

Exhibit 2.7 - Key Elements of ANBL’s Product Lifecycle Management Process



Areas included in the audit are shown in bold

Source: Prepared by AGNB based on information obtained from ANBL (unaudited)

Product Listing

2.21 Suppliers can submit products for evaluation to ANBL on key dates outlined in the product listing call schedule³. This evaluation determines if a supplier's product will be offered for sale through the ANBL's retail network.

2.22 Category Management reviews products based on ANBL's internal process documents. Listings are evaluated based on the following criteria in no particular order:

- taste;
- suitability for the New Brunswick market;
- price;
- proposed marketing and merchandising plan;
- relationship to other listed products;
- performance in other markets;
- uniqueness;
- packaging;
- supply chain considerations;
- labelling;
- past performance of supplier;
- strategic fit; and
- portfolio requirements.

³ Product listing call schedule: a schedule of key dates for ANBL's evaluation of product submissions – date call opens for submissions, preliminary application due, full application, and samples due (for initially approved products), and final approval or rejection issued.

Product Listing Types

2.23 If approved by Category Management, the product is assigned one of ANBL's three listing statuses – general list (GL), test products (TP), or one-time listings (OT), which ultimately determine:

- pricing mark-up structure applied;
- if product is subject to product ranking review; and
- how product is ordered and stocked at ANBL's central warehouse.

2.24 Exhibit 2.8 provides a description of ANBL's three product listing types.

Exhibit 2.8 - ANBL's Product Listing Types

ANBL's Product Listing Types				
Listing Type	Description	Sales Thresholds	Central Warehouse	Mark-up
General List (GL)	Appeals to a large section of customers	Annual sales thresholds & product ranking review	Kept in continuous stock & re-ordered regularly based on projected sales volumes	General mark-up structure
Test Product (TP)	Similar to GL, however, conditionally listed for up to one year			Outside general mark-up structure
One-Time Listing (OT)	In market temporarily	No thresholds & product ranking review	Fully distributed and not re-ordered	Outside general mark-up structure

Source: Prepared by AGNB based on information reported in ANBL's Product Lifecycle Management manuals (unaudited) and/or provided by ANBL (unaudited)

Product Pricing

2.25 ANBL marks up all products using rates established in its mark-up structure document which is found within the PLM manual. New Brunswick local craft products have lower mark-up rates than the rest of ANBL's categories except coolers, which follow the regular mark-up structure. Products are designated as local craft based on annual production levels, as follows:

- microbreweries under 15,000 hectolitres;
- cottage wineries and cideries under 15,000 hectolitres; and
- distilleries under 50,000 litres.

Product Delisting

2.26 As indicated in ANBL's PLM manual, Category Management will remove a GL or TP product from its retail network due to poor performance through the product ranking review (part of its delisting process). OT listings and production site sales of local producers are excluded from the product ranking review. The ranking process takes place quarterly and evaluates each product's sales against ANBL sales thresholds. Products not meeting the threshold are to be delisted and rankings are communicated to suppliers through email.

Ineffective Planning and Engagement to Develop Province's Liquor Industry

No outcomes-based plan or documented strategy for the development of the liquor industry in the Province

2.27 We found ANBL had no outcomes-based plan or documented strategy detailing how it planned “to participate in the development of the liquor industry in the Province” despite being directed by government through mandate letters in 2012-2013 and 2015-2016 to define its role and establish measurement and reporting criteria. Specifically, ANBL:

- had not defined its role in supporting local industry beyond the broad purpose in the *NBLC Act*;
- had no documented goals or objectives clearly outlining its role in this industry;
- had no targets against which to measure its success in undertaking this role; and
- had no targets for the local industry.

2.28 In 2013, the *New Brunswick Liquor Corporation Act (NBLC Act)* was amended to include the legislated purpose “to participate in the development of the liquor industry in the Province”. In addition, ANBL’s mandate letters for fiscal year 2012-2013 and 2016-2017 provided specific directives to:

- “continue to provide economic opportunities throughout the province that contribute to the Gross Domestic Product (GDP)”;
- “recognize ANBL's role in the development of the liquor industry in the province by:
 - i. implementing policies that allow fledgling industries such as microbreweries, and cottage wineries/distilleries to prosper and grow; and
 - ii. continuing to support the province's craft brewer”.

2.29 Furthermore, the 2015-2016 mandate letter directed ANBL to support government policies by:

- finalizing and providing for government approval “*a clear definition of, and specific measurement and reporting criteria for ANBL's obligation to...participate in the development of the liquor industry in the province*”;
- continuing “*to provide economic opportunities throughout the province that contribute to the GDP*”;
- recognizing “*ANBL's role in assisting fledgling industries such as microbreweries, and cottage, wineries/distilleries*”; and
- continuing “*to actively support the province's craft brewer*”.

2.30 ANBL's 2018-2019 mandate letter did not include specific directive around the liquor industry in the Province, other than to follow its legislated purpose, to “*participate in the development*”. There was no mention of the local liquor industry in the 2020-2021 letter. No mandate letters were created in 2017-2018 and 2019-2020.

ANBL's role in supporting local industry not clearly defined

2.31 We expected ANBL to address these directives by effectively planning its participation in the development of the liquor industry in the Province. We requested ANBL provide documentation clearly defining its ‘participation’ in the development of the liquor industry beyond its purpose in the *NBLC Act* or mandate letters; however, no such documentation was provided.

No risk analysis, review of best practices or industry research performed

2.32 We found no evidence that ANBL had completed an updated review of best practices or industry research during the audit period or performed any analysis to determine what risks might be present in the New Brunswick liquor industry against which to focus its participation efforts.

No targets against which to regularly monitor or evaluate performance

2.33 An appropriate plan would have included targets relating to the local industry based on industry research and best practices. These targets would be regularly monitored, evaluated, and reported against in its annual report. Furthermore, we expected ANBL to have performed a risk analysis to determine what risks might be present and address those risks in the plan.

2.34 We believe ANBL needs to plan effectively to meet its legislated purpose as it relates to the New Brunswick liquor industry. A strong plan will allow ANBL to better focus its efforts, measure its performance and report on its successes in a transparent manner.

Recommendation

2.35 We recommend the New Brunswick Liquor Corporation document an outcomes-based strategic plan detailing:

- **its role for participating in developing the New Brunswick liquor industry;**
- **risks identified from its analysis and evaluation of the development issues within the New Brunswick liquor industry; and**
- **performance targets for evaluating and publicly reporting on the success of its participation efforts.**

2.36 As part of our work, we wanted to understand how ANBL engaged and consulted with local producers and the New Brunswick Craft Alcohol Producers Association (NBCAPA) regarding strategic decisions and policy changes having a direct impact on the liquor industry in the Province.

ANBL informed local producers of any decisions or changes that may affect the industry

2.37 While ANBL informed local producers of decisions or key changes which could have affected them; we found ANBL did not:

- have a communication strategy or plan for engagement with local producers;
- actively consult or engage with local producers across the province on a regularly scheduled basis; and
- proactively consult local producers regarding the development of plans and policies having a direct impact on their businesses.

ANBL failed to effectively engage with local producers

2.38 A working group was created in 2017, as a response to a request from NBCAPA to the Minister responsible for Opportunities New Brunswick (ONB). Members of the working group included ANBL, NBCAPA and several government departments. In its request, NBCAPA had identified several barriers to local producers' growth including:

- mark-up structure;
- consumer access to products;
- ANBL's support of the industry; and
- barriers to export.

ANBL did not adopt solutions to issues raised by local producers from the working group

2.39 The working group's closing document acknowledges "*policies and programs are developed in ways that are disconnected from the people who are most affected by them*" and the action to be taken was to "*actively continue industry involvement in implementing ideas and strategies to grow together.*" Despite this acknowledgement, ANBL did not act on issues raised and solutions identified, including "quick hit" solutions. It continued to develop policies in a manner which were disconnected from local producers instead of involving them in implementing ideas and strategies to grow together.

2.40 While ANBL indicated it did not act on issues raised by the working group, we noted ANBL did implement two policies during our audit period aimed at increasing support for local producers:

- "Don't Touch It / Don't Tax It" – effective July 1, 2019, ANBL stopped applying mark-up to local craft packaged products purchased directly from the producer and taken off-site; and
- Cross-selling – on May 15, 2020, ANBL allowed local producers to sell other local producers' products on their production sites for off-site consumption.

Engagement activities with local producers were not a regular occurrence and did not include all regions of the province or all categories of alcohol

2.41 On June 28, 2019 and July 10, 2019, ANBL hosted a Local Producers Workshop; however, it included only seven out of 85 local producers, the majority of which were from Fredericton and Moncton. ANBL could not provide evidence the engagement resulted in any actionable items or changes to business practices within the industry. In addition to the Workshop, ANBL presented at the NBCAPA Annual General Meetings (on June 18, 2019, June 17, 2020, and December 9, 2020).

2.42 ANBL missed the opportunity to proactively collaborate and engage with local producers regarding strategic decisions. ANBL attempted to implement its PLM process for local producers in January 2020. After receiving feedback from local producers regarding the application of sales thresholds, implementation was delayed until July 2021. This delay exemplifies the implications of not proactively engaging local producers. Delays in policy implementation can create uncertainty for both ANBL and impacted producers.

2.43 It is important that ANBL fulfill its legislated purpose “to participate in the development of the liquor industry in the Province” through effective planning and engagement practices. Further engagement with local producers and NBCAPA has the potential to provide many benefits including⁴:

- facilitating the development of better informed, enhanced quality, and more sustainable policies;
- obtaining greater support and acceptance (less conflicts and push back surrounding decisions);
- building cooperative relationships and generating mutual understanding;
- increasing communication, transparency, and accountability with industry; and
- avoiding or minimising adverse effects or unintended consequences of decisions.

⁴ The Newfoundland and Labrador Office of Public Engagement – Public Engagement Guide - <https://www.gov.nl.ca/pep/files/Public-Engagement-Guide.pdf>

- Recommendation**
- 2.44** We recommend the New Brunswick Liquor Corporation develop a communications and engagement plan for its interaction with local producers to establish:
- terms of engagement with local producers;
 - objectives and targets against which to measure the effectiveness of local producer engagement; and
 - required monitoring and reporting on the effectiveness of local producer engagement in developing the local liquor industry.
- Strategic Planning**
- 2.45** While our work focused on planning for the local industry, we also looked at ANBL’s overall strategic plan and mandate letters issued by the Minister of the Department of Finance and Treasury Board. We wanted to understand how ANBL’s overall planning and direction included the development of local industry.
- No definitions or targets for providing suitable financial revenues**
- 2.46** The 2015-2016 mandate letter required ANBL to provide clear definitions of, and specific measurement and reporting criteria for, all of its legislated responsibilities, including to “*provide suitable financial revenues*”. When asked whether this had been defined, ANBL indicated it had no definition or measurable targets and instead considered mandate letters to be what was deemed “*acceptable by the shareholder [the Province]*”.

2.47 Exhibit 2.9 compares ANBL’s strategic plan targets to its actual results. The only target met was ANBL’s 2019-2020 sales target.

Exhibit 2.9 - ANBL Net Income and Sales Comparisons (in millions)

ANBL Net Income and Sales Comparisons (in millions)			
Actual Product Sales and Net Income vs. Strategic Plan	2018-2019	2019-2020	2020-2021
Strategic Plan Sales	\$438	\$445	N/A*
Actual Product Sales	\$433	\$449	\$506
Variance	-\$5	\$4	N/A*
Strategic Plan Net Income	\$180	\$185	N/A*
Actual Net Income	\$169	\$174	\$199
Variance	-\$11	-\$11	N/A*

* ANBL's 2020-23 Strategic Plan did not include sales or net income targets

Source: Prepared by AGNB based on information from ANBL's Annual Reports and Strategic Plans (unaudited)

Strategic plan targets missed in 2016-2020, no targets set in 2020-2023 strategic plan

2.48 Key pillars highlighted in both the 2016-2020 and 2020-2023 strategic plans did not address the local industry. In addition, we noted ANBL fell short of overall financial targets set in its 2016-2020 strategic plan, as shown in exhibit 2.9. Subsequently, its 2020-2023 plan was very broad with no measurable goals. In particular, we noted ANBL did not provide tangible reasons for why it did not meet financial targets set in the 2016-2020 strategic plan.

2.49 ANBL also prepares annual plans and submits them to the Minister of the Department of Finance and Treasury Board. ANBL’s overall net income target is then included in the Province’s Main Estimates. We noted that while plans prepared during the audit period did include financial targets, ANBL did not include any targets specific to the local industry.

2.50 Poor planning and reporting threaten the effectiveness and efficiency of a corporation. Unclear or non-existent long-term plans, roles, and targets increase the likelihood of ANBL not achieving desired results, such as maximizing gross profit or effectively participating in the development of the liquor industry in the Province. ANBL cannot be held accountable by the Minister of the Department of Finance and Treasury Board, the Legislative Assembly, and all New Brunswickers without clear plans and measurable targets.

Recommendation

2.51 We recommend the New Brunswick Liquor Corporation define and set clear financial targets to meet the legislated purpose “*to provide suitable financial revenues*” and report its performance against those targets in its annual report.

Weaknesses in Product Lifecycle Management

2.52 We examined three key Product Lifecycle Management (PLM) processes at ANBL for local and non-local liquor categories:

- listing (the evaluation and selection of products to be sold through ANBL’s retail network);
- pricing (the application of mark-up and final retail prices for each product); and
- delisting (the review of a product’s sales level against the ANBL sales threshold to determine if that product is to remain for sale).

2.53 Local producers and their products were the focus of the audit, however, our work included samples from all categories of liquor including non-local products. We wanted to determine if there were differences in treatment within the processes and found deficiencies across all categories. Some issues applied to all processes we audited, while others were process specific.

No records to support key financial decisions

2.54 ANBL could not provide rationale or documentation to support the impact several key financial decisions had on the Corporation, including:

- the target level set for gross profit in each category;
- holding retail beer prices constant in 2018-2019, while also paying the brewers more per case cost on 24 pack cans;
- the impact of its Everyday Value Beer promotion, created to reduce cross border sales;
- undertaking a two percent reduction in mark-up for domestic brewers in 2020-2021;
- entering into special pricing arrangements with select producers;
- an \$8 million annual investment in local producers (by way of its reduced mark-up structure); and
- setting the value for sales thresholds (which determines whether products stay on ANBL’s shelves).

2.55 ANBL provided financial analysis regarding its decision to undertake a two percent reduction in mark-up for domestic brewers in 2020-2021, estimated to have a \$1.5 million impact on net income. However, ANBL could not provide rationale for why it chose to move forward with this reduction or why a two percent reduction was recommended. Several other scenarios were included in the analysis which were not recommended and there was no clear rationale explaining why one change was recommended over another.

*Verbal approval
common practice*

2.56 Throughout the listing, pricing, and delisting processes, ANBL habitually approved key decisions verbally, through meetings and conversations. Additionally, there was no evidence that category managers reviewed:

- initial details and final evaluation of product submissions for listing;
- final retail prices during annual price call; and
- products recommended for delisting.

No evidence of review

2.57 We expected ANBL to have records and detailed analysis to support the review and approval of all key decisions within processes and strategic changes, especially those having significant impact on its operations.

2.58 The lack of documented review and approval of key processes and rationale for strategic decisions increases the risk of favouritism and poor decision-making. Without such evidence, we could not determine whether products were listed, priced, or delisted as a result of favouritism, bias, or objective information.

Recommendation

2.59 We recommend the New Brunswick Liquor Corporation clearly document and retain decision rationale and criteria used for evaluating key process decisions as well as analysis supporting the financial impact of those decisions on the corporation.

Risk of Favouritism in Listing Process

Product Lifecycle Management manual and product listing call schedule not communicated to all suppliers in 2018-2019

2.60 ANBL did not provide evidence that the PLM manual and product listing call schedule for fiscal year 2018-2019 were communicated to all suppliers. The PLM manual is ANBL's key document providing suppliers with information needed regarding its listing, pricing, and delisting processes. ANBL did provide the manual and product listing call schedule via ANBL.com for 2019-2020 and 2020-2021.

2.61 ANBL should ensure all suppliers receive this information as it is essential for doing business with ANBL. We encourage ANBL to continue to post the updated PLM and product listing call schedule on ANBL.com.

2.62 We reviewed ANBL's PLM manual and internal listing process documents to determine if ANBL made decisions leading to the selection of products it sold in a consistent and transparent manner. We tested a total of 13 product listing calls across all categories: three for each non-local category and one for local products.

No defined listing process existed for local producers to submit products to be sold at ANBL

2.63 Prior to January 2020, the PLM manual did not apply to local producers. ANBL did not include local producers in a product listing call schedule. Local producers were allowed to submit products at anytime for ANBL to add to its selection of products.

2.64 When asked who provided the directive or approval exempting local producers from being required to follow key processes in the PLM manual, ANBL replied "*this has been historical for many years... all products with a submitted application were accepted, automatically listed and expedited.*"

Recommendation

2.65 We recommend the New Brunswick Liquor Corporation provide current information, including the Product Lifecycle Management manual and product listing call schedules, to all suppliers in a consistent, transparent, and timely manner.

ANBL did not follow its defined listing process for all product categories

No evidence of ANBL following key steps in listing process for product evaluation and approval across all product categories

Product evaluation criteria not consistently applied

Product taste not evaluated on a consistent basis across categories and not documented

2.66 We found ANBL did not follow its defined listing process outlined in the PLM manual and internal process document for all product categories. Notably, ANBL could not provide support that the following key process steps were undertaken:

- an analysis to determine the specifics for the product call (i.e. individual call criteria and specifications);
- initial review of product submissions to determine if the product fits the call criteria and specifications;
- creation of a decision matrix for product evaluation based on the pre-established criteria outlined in the PLM manual and the individual call specifications;
- evaluation of product tasting (key to deciding if a product moves from initial approval to final approval);
- final approval of listing status (GL, TP, or OT) and the product life plan; and
- creation and approval of high-level distribution plan (setting ANBL’s retail network, sales forecast, and order quantity for the product).

2.67 ANBL advised that criteria used during evaluation are a general outline as to how it scores products; however, they are not consistently applied across categories and the assistant category manager determines the overall score. No established metric exists for each category. In our opinion, ANBL’s criteria was not clearly defined and left room for interpretation. Without consistently applied criteria in the evaluation process, ANBL increases its risk of bias and favouritism in the product selection process.

2.68 For example, we noted ANBL could not provide an evaluation record showing which products were tasted, who tasted the products, and the palatability notes. Based on the PLM manual “ANBL conducts tasting sessions to determine the palatability of products recommended for acceptance by the Category Teams” and the listing application is considered incomplete without a product sample.

Products accepted outside the call criteria and date parameters

2.69 ANBL confirmed products were accepted outside the product listing call dates and criteria. The number of applications submitted for evaluation in the cooler category was under ANBL’s target for allocated product shelf space. For this reason, ANBL did not evaluate them against any criteria.

Recommendation

2.70 We recommend the New Brunswick Liquor Corporation, regarding the listing process:

- **implement a decision matrix to evaluate product listing submissions against clearly defined and consistently applied criteria; and**
- **document decision rationale for each criterion used in evaluating products for listing.**

Lack of transparency regarding how and why products were distributed through its retail network

2.71 The PLM manual did not provide details to suppliers on how and why products are distributed through ANBL’s retail network. Furthermore, ANBL could not provide supporting documentation for how it determined distribution of approved product submissions.

2.72 We expected full transparency with suppliers regarding how and why products are allocated to various retail locations throughout the province. Although liquor is excluded from ANBL’s Acquisition of Goods and Services by-law, section 7.02 highlights the importance of fair treatment to suppliers: “*All prospective suppliers shall be treated fairly, equally and equitably*”.

2.73 In our view, without evidence to support distribution plans, ANBL increases the risk of favouritism, poor decision-making, and lack of transparency. Since ANBL could not provide this evidence, we could not determine whether appropriate steps were taken to ensure products were distributed in a fair, equal, and equitable manner.

Recommendation

2.74 We recommend the New Brunswick Liquor Corporation increase transparency by updating the Product Lifecycle Management manual with a section detailing how it distributes products throughout its retail network.

Poor Pricing Decisions Impact Profits

Pricing Mark-up Structure

2.75 ANBL determines product pricing at two separate times in its PLM process: when new products are chosen through its listing process, and during its annual price call. A mark-up is added to the suppliers' case cost, based on ANBL's mark-up structure (published as an appendix in its PLM manual). The mark-up structure is reviewed before the annual price call process begins.

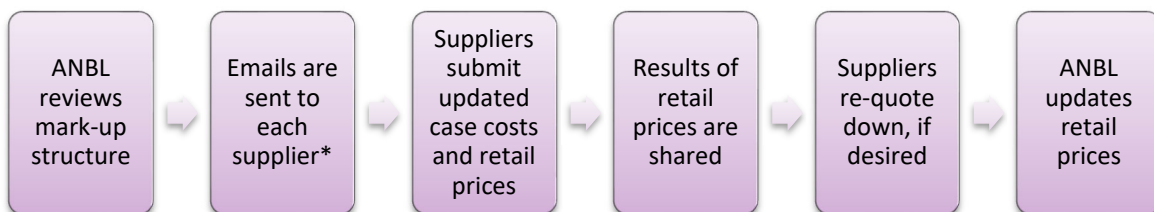
2.76 The annual price call allows suppliers to re-quote case costs and reposition retail prices for the next fiscal year. Adjustments are also made to excise and custom rates, foreign exchange, and shipping rates at this time.

2.77 ANBL sends individual emails to suppliers advising them of their current products' case costs and retail prices. Suppliers are also provided ANBL's pricing calculators, which allow them to calculate what new mark-up and retail prices will be if they increase, decrease, or maintain their current case costs. Suppliers are given a deadline to submit any desired changes for the upcoming year.

2.78 After submissions are received, ANBL shares proposed retail prices with all suppliers within each category (i.e. beer prices are shared with all beer suppliers). Suppliers are then given the option to keep the case costs and retail prices submitted, or to reduce their prices or revert to retail prices already in use.

2.79 Exhibit 2.10 highlights key elements of ANBL's annual price call process.

Exhibit 2.10 - Key elements of ANBL's Annual Price Call Process

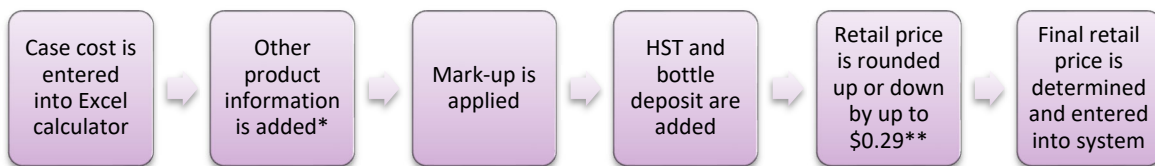


* Emails include instructions and deadline for submission, supplier's current case costs and retail prices, and ANBL's pricing calculators.

Source: Prepared by AGNB based on information in ANBL's internal process documents and provided by ANBL (unaudited)

2.80 Exhibit 2.11 highlights key elements of ANBL’s price change process. ANBL calculates each product’s retail price individually by using Excel calculator templates set up for each product category. The templates include pre-set formulas to determine the final retail price of each product based on various inputs such as alcohol content, freight charges, excise tax, and mark-up rates. Once the retail price has been calculated, the price is entered in ANBL’s accounting system.

Exhibit 2.11 - Key elements of ANBL’s Price Change Process



* Other product information includes items such as container size, alcohol content, foreign exchange, freight, excise, customs duty, and warehouse fees.

** Retail prices are rounded to established standard price points (prices ending in \$0.29, \$0.49, \$0.79, \$0.99).

Source: Prepared by AGNB based on information in ANBL's internal process documents and provided by ANBL (unaudited)

2.81 We reviewed ANBL’s pricing strategy and mark-up structure to determine if decisions made were in ANBL’s best interest and applied consistently. We tested products from all categories to understand how each category was priced and determine if any products deviated from the published mark-up structure. We divided our sample between active prices (recurring products) and new listings (new products added).

Mark-up structure excluded one-time and test product listings

2.82 One-time and test product listings (for local and non-local products) are excluded from the mark-up structure. While ANBL indicated that they generally follow the standard mark-up structure for all listing types, we noted these exclusions have the potential to create inequity in product pricing from one supplier or category to another. In addition, the mark-up structure document included a clause stating, “we reserve the right to source and price products that are not in our regular product mix outside of our normal mark-up structure”.

Special arrangements created for some local producers

2.83 ANBL had special arrangements for at least four local producers, giving them lower mark-up rates than what was outlined in the mark-up structure. ANBL did not measure the financial impact of three of the special arrangements. One arrangement was created by way of a new policy “for breweries of a certain size”, according to ANBL. The policy was based on production volumes and only one brewer qualified. ANBL indicated that two other contracts had been grandfathered. We noted that one of these contracts was expired and neither appeared to justify the reduced mark-up given.

2.84 The fourth arrangement was created for a local craft producer in lieu of updating ANBL’s craft distiller mark-up structure for cooler products. ANBL provided an analysis for this arrangement showing the financial impact over a partial fiscal year but we found it contained errors. ANBL calculated gross profit on these products would decrease from 56% to 28%. Our calculation estimated ANBL’s gross profit for products within this agreement would be under 14%. This estimate did not include any potential indirect costs, such as overhead expenses.

One arrangement resulted in paying a producer more than double the original cost

2.85 The arrangement, which ANBL called a “rebate”, was approved in all three years by its senior management. ANBL indicated it paid the producer \$425,000 above the original cost; however, based on purchases made by ANBL, we calculated this amount to be \$484,000. In just under three years, this increase more than doubled ANBL’s total cost of these products, from \$464,000 to \$949,000.

2.86 This special arrangement became effective in April 2019 and has been renewed annually. ANBL expects to continue this arrangement until a new mark-up structure for craft distillers is implemented (a review is planned for 2022-2023). This producer will continue to receive additional payments for its products for at least one more year, furthering the inequity among producers and hindering ANBL’s profit.

2.87 Since the 2020-2021 mandate letter to ANBL specifically directed it to “*increase its transparency with respect to liquor mark-ups and the pricing of alcoholic beverages in New Brunswick*”, we expected all products to be subject to the published mark-up structure. We also expected any exceptions to be clearly documented with financial analysis estimating the impact before implementing such arrangements. These private arrangements, which were outside the mark-up structure, not only decreased ANBL’s profit and introduced a risk of favouritism, they also decreased the level of transparency.

Reliance on suppliers across product categories for setting retail prices

2.88 ANBL asks suppliers to provide the retail price for their listed product(s) during its annual price call process. Retail prices are then shared, and suppliers are given an opportunity to update them (generally downward only or back to their previous price) to remain competitive.

Price call process encouraged suppliers across product categories to maximize cost to ANBL

2.89 ANBL’s annual price call process encouraged suppliers to maximize case costs which reduced its gross profit when retail prices were held constant. In its price call instructions, ANBL asked suppliers to use the calculator once retail prices were known to determine their case costs. In one email exchange, the supplier indicated that it was able to use the pricing calculator to maximize its case costs while keeping the retail price the same. In another email, the supplier indicated that the case costs could be changed in order to keep the desired retail price, if necessary.

2.90 The practice of instructing suppliers to use mark-up pricing calculators to determine retail prices and case costs resulted in a reduction of ANBL’s own profit. This was concerning to us as it contradicted two key pillars within its pricing strategy, to “*maximize annual gross profit delivered by ANBL*” and “*deliver value to New Brunswick beverage alcohol consumers*”.

Pricing strategy not finalized or followed across product categories

2.91 Although the pricing strategy has been in draft form since 2017, ANBL advised us that “*the general intent of the draft pricing strategy was honoured during the audit period*”. We expected ANBL to negotiate lower case costs, aligned with its key pillar in the pricing strategy to “*maximize annual gross profit*” by capitalizing “*on every opportunity to deliver incremental profit to the bottom line*”.

Recommendation

2.92 We recommend the New Brunswick Liquor Corporation complete a comprehensive review and update of its pricing strategy and mark-up structure to ensure:

- **all product listing status types are included;**
- **the process, decision criteria and documentation requirements for special agreements outside the standard mark-up structure are clearly included; and**
- **business practices align with the pricing strategy, the mark-up structure, and the purposes prescribed in the *New Brunswick Liquor Corporation Act*.**

Retail information not shared with all suppliers within the spirits category

2.93 During the 2019-2020 price call; retail pricing information was not shared with at least one spirits supplier, which ANBL indicated was for privacy reasons. However, we noted several instances when ANBL shared retail information across suppliers. This meant some suppliers had access to retail price submissions of other competitors.

2.94 We expected ANBL to either share retail information with all suppliers who submitted price changes, in line with its defined process, or not share them at all to ensure competitive price submissions were received.

2.95 Allowing retail prices to be set by suppliers increases the risk prices would not be competitively set, resulting in reduced profit margins. In addition, if only some suppliers receive competitors' retail information, others would be at a competitive disadvantage when deciding whether to submit re-quoted retail prices, as they would not have access to the same information.

Retail prices compared annually limited to top performing products

2.96 ANBL compared its retail prices to neighbouring jurisdictions to ensure prices were competitive; however, comparisons were limited to between 20 and 30 top performing products in each category. With nearly 4,000 products listed by ANBL, we felt that the number of comparators should be expanded to reduce the risk that prices would not be reviewed or inappropriately priced. Further risk could exist for products in danger of being delisted since they may not be reviewed, and delisting occurs when sales thresholds are not achieved.

Thirty-two percent of recalculated retail prices did not agree to final price

2.97 We recalculated 66 retail prices using ANBL’s Excel pricing calculators. We found 32% of retail prices we tested did not agree to the final product sales price.

2.98 Exhibit 2.12 summarizes the results of our testing. We found reasons for departures from the mark-up structure included:

- ANBL either kept or gave away some of the mark-up to meet supplier’s suggested retail price;
- price was incorrectly entered in the system; and
- calculators provided by ANBL did not yield correct price.

We noted ANBL used a mark-up rate based on a scenario that we were told was never used. Also, three price variances had no explanation because ANBL does not keep records of its price calculations.

Exhibit 2.12 - Summary of Recalculation Results of ANBL’s Retail Prices

Summary of Recalculation Results of ANBL’s Retail Prices			
	Active Prices	New Listings	Total
Price agreed within \$0.29	20	25	45
Price variance \$0.30 or more	14	7	21
Total number of prices recalculated	34	32	66

Source: Prepared by AGNB from testing performed on data set provided by ANBL

Annual price calls delayed

2.99 Annual price calls were not completed on the first day of the fiscal year for any of the past three years. We expected annual price calls to be completed in time to make prices effective the first day of each fiscal year, as outlined in ANBL’s process document.

2.100 Delaying annual price calls would have caused uncertainty and could have had negative impacts to gross profits for ANBL and its suppliers, since it is generally the only time during the year case costs and retail prices are updated for general listings.

2.101 Exhibit 2.13 provides a breakdown of ANBL’s annual price call dates compared to the start of its fiscal year. In 2020-2021, the call was delayed by almost four months, due to the pandemic. No reason was given for the three-month delay in 2019-2020 (although ANBL noted changes were made on April 1, 2019 for excise tax increases). The 2018-2019 call was done early as a result of an error with ANBL’s prior year end cut-off.

Exhibit 2.13 - Comparison of ANBL’s Annual Price Call Dates

Comparison of Annual Price Call Dates			
Fiscal Year	Start of fiscal year	Annual price call effective date	Days (before) or after start of fiscal year
2018-2019	April 2, 2018	March 26, 2018	(7)
2019-2020	April 1, 2019	July 2, 2019	92
2020-2021	March 30, 2020	July 27, 2020	119

Source: Prepared by AGNB based on information provided by ANBL (unaudited)

Price changes completed earlier for large brewers

2.102 We found ANBL made exceptions to the 2020-2021 price call effective date of July 27, 2020 for some categories:

- large brewers had prices adjusted on May 4, 2020; and
- local wineries were changed July 22, 2020.

2.103 We expected all price changes, regardless of supplier, to have been changed on the same date, specifically the first day of the fiscal year. ANBL provided no explanation for the changes noted above except to indicate it was at the direction of management to make earlier changes for the beer category. Based on our testing we noted changes were not made for local craft brewers.

2.104 Ten of the 2020-2021 price changes we tested applied to the beer category – seven were local craft products and three were for large brewers. None of the seven local products had prices changed until July 27th and all three large brewer products were changed on May 4th.

- 2.105** ANBL’s overall sales in the first quarter of 2020-2021 saw a 15.2% increase over the previous year. Beer sales increased by \$4.89 million over the previous year’s quarter. Implementing price changes for large brewers meant those brewers may have had almost three months’ worth of increased profit margins compared to local craft producers.
- Risk of missing price change requests not adequately mitigated**
- 2.106** We also found ANBL did not follow up with suppliers who didn’t respond to the annual price call invitation. Responses were tracked through a spreadsheet; however, follow up with suppliers who didn’t respond was only done if the supplier was deemed ‘significant’ by ANBL.
- 2.107** The annual price call process is manual. For this reason, we expected ANBL would have a comprehensive process to ensure suppliers received complete information in a timely manner.
- Manual process increases risks of errors and omissions**
- 2.108** Risk of errors and omissions increase due to the manual nature of the process. Suppliers who did not receive the annual price call invitation could miss an opportunity to increase their product costs to ANBL for an entire year.
- Recommendation**
- 2.109** We recommend the New Brunswick Liquor Corporation enhance pricing practices to ensure transparent and consistent treatment by:
- undertaking a comprehensive retail price comparison across all product categories;
 - sharing retail prices with all applicable suppliers across product categories;
 - documenting decision rationale for setting prices that deviate from mark-up structure; and
 - automating annual price call invitations on a regular schedule where possible.
- Minimum retail price policy not updated annually**
- 2.110** ANBL’s Minimum Retail Pricing (MRP) policy was not updated during our audit period, contrary to its policy to update it annually.
- 2.111** The intent of the MRP is to provide the absolute lowest price ANBL will sell its products. The goal of MRPs is to determine the lowest price at which it would be socially responsible to sell alcoholic products.

2.112 Each product category has its own MRP. Categories with higher average alcohol content have a higher MRP (spirits) and those with a lower alcohol content have lower MRP (beer). According to ANBL's policy, the MRP is supposed to be reviewed and updated annually by one percent or the increase in the Consumer Price Index (CPI), whichever is greater.

2.113 We expected the MRP policy to be updated annually by at least the increase in the CPI, as per the policy. ANBL's policy document indicated the last revision was March 26, 2018, with the next most recent change dating back to December 13, 2013. The MRPs were also supposed to be published as part of the mark-up structure document.

2.114 ANBL indicated the MRP was updated in 2021-2022; however, new prices were only calculated to reflect one year's worth of CPI even though it had not been increased for the past three years. In addition, the 2021-2022 PLM manual did not include the updated prices nor did the pricing calculators. ANBL's most recent pricing calculators, excluding the beer category, still had an MRP lower than the price effective in 2018.

2.115 Since the goal of MRP is to ensure products are not being sold at prices lower than what would be considered socially responsible, failure by ANBL to increase its MRP created a risk that products would be sold at prices lower than intended. Given products have mark-ups added to supplier costs, the risk is low that final retail prices would be less than the MRP. Risk would be increased when ANBL reduces prices for products being discontinued.

Recommendation

2.116 We recommend the New Brunswick Liquor Corporation review and update the Minimum Retail Pricing (MRP) policy annually.

Price compliance with agency stores not monitored

2.117 ANBL was not monitoring retail pricing compliance with its agency stores even though it requires agents to use the prices it sets. ANBL did not require them to provide reports to ensure prices were compliant with its mark-up structure. When asked how ANBL was monitoring compliance, it indicated that the top 25 agents were visited, focusing on sales and product mix. ANBL only spot-checked product prices for compliance with its mark-up structure. No documentation was provided to support spot-checks.

2.118 Not monitoring compliance increases the risk of products being sold at prices below ANBL's Minimum Retail Price or at a price lower than its Corporate stores.

Recommendation

2.119 **We recommend the New Brunswick Liquor Corporation actively monitor liquor prices in agency stores on a regular schedule to ensure conformity with pricing policies.**

Risk of Errors in Delisting Process

- 2.120** ANBL’s delisting process undertakes a product ranking review to evaluate a product’s performance against its sales thresholds. Each product category’s sales thresholds are broken down by sub-category (example: Gin is a sub-category of Spirits), and format (i.e. pack size). We tested 12 ranking reports across all non-local product categories to determine if a product not achieving its sales thresholds was delisted by ANBL.
- ANBL did not follow its defined delisting process for all product categories** **2.121** We found ANBL did not follow its defined delisting process for product ranking reviews outlined in the PLM manual and internal process documents for all product categories.
- No defined delisting process existed for local producers** **2.122** As previously stated, the PLM manual did not apply to local producers prior to January 2020. ANBL started sharing product ranking reviews with local producers in February 2020 for information purposes only. In July 2021, ANBL began delisting local products (after our audit period).
- 2.123** When asked who provided the directive or approval exempting local producers, ANBL replied *“this has been historical for many years. No New Brunswick craft has been delisted.”* Regardless of a local product’s performance, it remained on ANBL shelves, possibly taking space from a more profitable product.
- Product ranking review process undocumented, manual, and prone to errors** **2.124** ANBL’s product ranking review is a manual, undocumented process within delisting and is prone to errors. A system report is used for the review, however, it requires many alterations and deletions as its main function is not the product ranking review. For example, sales thresholds used for product evaluation are applied manually to the report. We noted the product ranking reports used during the delisting process could not be reproduced from prior years, further highlighting ANBL’s lack of historical information to support adequate records retention practices.

2.125 We found there is inadequate control over this key system report. Various ANBL personnel access this report for different purposes. If the report is changed for a reason unrelated to the product ranking process, there is a risk ranking formulas will be corrupted or removed, resulting in product ranking errors. This could result in products being delisted in error or products that should be delisted remaining on ANBL shelves.

Product ranking reviews not documented **2.126** ANBL could not provide evidence that key steps were completed in the product ranking review. We noted:

Products indicated for delisting could not be found on delist memos

- evidence of product ranking reviews could not be provided consistently within the Beer, and Coolers and Ciders categories (therefore, we could not confirm that they took place); and
- products identified for delisting were not always included in delist memos (which are meant to advise ANBL operations that products are delisted).

Numerous exemptions to product ranking review process

2.127 ANBL had numerous exemptions to the product ranking review process, none of which were documented. This resulted in products remaining for sale at ANBL despite not achieving sales thresholds. Exemptions from the normal ranking process included:

- products deemed a core listing (unique to category, niche product);
- products currently meeting sales thresholds despite not achieving targets in previous three quarters;
- product swap, change in package size or name;
- shift in product category strategy;
- supplier had inventory issues; and
- spirits were given four quarters rather than three to meet the required sales thresholds and products not meeting thresholds were only deemed ‘at risk’ of being delisted.

Products indicated for delisting based on sales thresholds not always removed

2.128 We found products identified for delisting were not always delisted by ANBL. This was most evident within the beer category with the following examples:

- various beer strategy changes delayed 2018-2019 products from being delisted until May 2019, July 2020, and August 2020; and
- a larger New Brunswick brewer product reviewed in the third quarter of 2020-2021 was not achieving sales thresholds. It was not delisted because sales levels achieved were still deemed significant by ANBL.

Forty-three percent of products tested were not delisted for various undocumented exemptions

2.129 Exhibit 2.14 highlights our testing results of products that should have been delisted based on sales thresholds. In total we reviewed 48 products from 12 product ranking reports across all non-local product categories and determined that only 34% of products were delisted in a timely manner and 43% were not delisted for various undocumented exemptions.

Exhibit 2.14 - Products Indicated to be Delisted based on Product Ranking Review

Products Indicated to be Delisted based Product Ranking Review				
Product Category	Delisted in a Timely Manner (by end of next quarter)	Delisted during Audit Period	Not Delisted (undocumented exemptions)	Delisted Outside Audit Period
Beer	0	6	3	2
Coolers & Ciders	7	1	4	0
Spirits	7	0	5	0
Wine	2	0	8	2
Total	16	7	20	4
% of Total Samples (47*)	34%	15%	43%	8%

** A total of 47 samples are included. One beer sample was excluded as the product was locally produced and product ranking did not officially begin until July 2021 (after the audit period)*

Source: Prepared by AGNB based on information provided by ANBL

2.130 We expected ANBL to:

- maintain documentation for key process steps;
- maintain documented decision rationale for process exemptions;
- delist products that did not achieve sales thresholds regardless of category or supplier; and
- have a report for the product ranking review that is reliable and does not need manual intervention to be useful.

2.131 The undocumented decisions and exemptions resulted in inconsistent application of the rules and potential decrease in ANBL revenue. Whether products were delisted or kept varied depending on category and manager, which increased the risk of favouritism, bias, or error. Ranking errors could result in products being removed from ANBL shelves, impacting a supplier's income. Additionally, risk exists that appropriate and accurate product availability is not communicated to ANBL's operations team.

Recommendation

2.132 We recommend the New Brunswick Liquor Corporation, regarding the delisting process:

- **clearly define and document the delisting process and the product ranking review process and include applicable updates in the Product Lifecycle Management manual;**
- **document decision rationale, including financial impact, for exceptions to the documented product ranking review process and the delisting process; and**
- **automate the product ranking review report.**

Sales thresholds had several weaknesses in all product categories

2.133 During our review of the delisting process we noted several weaknesses surrounding ANBL's sales thresholds. Sales thresholds:

- were not updated annually and ANBL could not provide evidence that they were backed by industry research and best practices;
- did not have a documented methodology for their creation; and
- did not include the cooler category, instead, product ranking consisted of removing roughly 60 products each year (to align with reduced shelf availability during the winter months).

Sales thresholds did not exist for local producers

2.134 We also noted local producer sales thresholds:

- were not implemented until July 2021;
- were based on overall ANBL sales data that did not include local producers' on-site sales;
- did not include sub-categories; and
- were based on 50% of the sales of the top performing non-local products for the cooler category.

2.135 As ANBL controls the market and retail prices, we expected it to have conducted and documented a review of industry research and best practices when determining suitable sales thresholds for all product categories including local producers. We believe ANBL should update sales thresholds on an annual basis aligned with its fiscal year to ensure any changing economic and market conditions are captured.

2.136 Sales thresholds are key to a product's success in remaining for sale at ANBL. This is especially true for local craft products which do not have a significant presence in the global market and are not sold at all ANBL retail locations. Without appropriate sales thresholds, these products are at a higher risk of being delisted, even from retail stores in which they perform well.

2.137 Since sales thresholds for local craft products are based on overall product categories and do not include sub-category thresholds similar to non-local products, there is an increased risk of unique products being delisted. Entire sub-categories could be delisted, resulting in a lack of diversity in New Brunswick craft products on ANBL shelves.

2.138 In our view, other factors should be considered by ANBL when delisting a local craft product in addition to sales thresholds, such as: the overall impact the product has on the economy; adequate store distribution to achieve sales targets; potential stock issues; and product placement and merchandising opportunities. ANBL may be considering these factors, but without a documented policy and records supporting the delisting process results, it is hard to determine what is actually being considered.

Lack of transparency regarding sales thresholds with suppliers

2.139 Furthermore, ANBL did not provide evidence suppliers were provided sales thresholds they needed to achieve to maintain a listed product. Thresholds were not included in the PLM manual, not posted on ANBL.com, and were not included in product ranking emails to suppliers we reviewed.

2.140 We expected ANBL to have communicated sales thresholds to all suppliers. Without providing this information in a consistent manner, those who were not informed would not know the sales thresholds they were expected to achieve to stay on ANBL's shelves.

Recommendation

2.141 We recommend the New Brunswick Liquor Corporation document the process used to set sales thresholds for delisting purposes, and:

- establish criteria to be used when setting relevant sales thresholds for product categories and sub-categories;
- communicate sales thresholds to suppliers as part of the product ranking review process; and
- review sales thresholds on an annual basis prior to the beginning of the fiscal year.

Data & Document Retention Issues

ANBL does not retain historical information in Bev Hub system

2.142 We found ANBL did not retain historical data in its Bev Hub system or in manual files to support key processes and decisions. Information provided by ANBL in response to our audit queries was often incomplete or did not adequately address the enquiry. For example, ANBL could not provide historical information on key PLM decisions. Historical information of this nature provides a baseline for continuous improvement of key processes and accountability to stakeholders.

2.143 Our testing revealed that key information is overwritten in the Bev Hub system and no separate file is maintained to support access to historical data. Examples of significant process issues we encountered are discussed in this section.

2.144 Call submission data, for example, should have included the date a product was submitted to ANBL and its approval status. Our testing revealed:

- the workflow status incorrectly indicated some approved product applications were rejected, or resubmitted;
- product application submission dates are overwritten in the system each time product information is updated, meaning the original submission date is unavailable; and
- final approved products on the listing memos showed dates outside the call parameters.

2.145 As a result, we were unable to determine:

- which products were actually approved through this process;
- whether those which were flagged as approved actually were listed;
- whether criteria such as submitting applications by the deadline was considered; and
- if decisions were supported by data submitted in the system.

- 2.146** ANBL could only provide an active list of local producers at the date of our request, rather than for each fiscal year of the audit.
- 2.147** We asked ANBL for the number of products available through its retail network by listing type for each year of our audit period. ANBL provided the data; but it did not agree with numbers in ANBL's annual reports and ANBL could not provide an explanation.
- 2.148** Due to the absence of historical data, ANBL could only provide us with product information as of July 2021. Any products which were active during the audit period but had since become inactive were not included. The reverse was also true – if a product was inactive during the audit period, but had since been re-activated, it was included. Several case cost amounts in the electronic file provided for our testing were incorrect and ANBL could not explain why.
- 2.149** We expected ANBL to keep historical information for its key processes. Without it, ANBL could be challenged by suppliers and have no documented rationale to defend its business decisions.
- 2.150** In our view, the inability to reproduce key information is a serious concern for a publicly accountable corporation, which is subject to the *Right to Information and Protection of Privacy Act*. Lack of historical information could also severely impact management's ability to complete financial analysis and make informed decisions.

Recommendation

- 2.151** **We recommend the New Brunswick Liquor Corporation review and update Bev Hub and sales data applications to ensure historical information can be retrieved.**

Communication with suppliers not retained

- 2.152** We requested copies of communication between suppliers and ANBL as part of our review of the annual price call process. While ANBL provided some email communications when requested, many were still missing and ANBL could provide no additional relevant communications in response to our requests. None of the 13 samples we tested included start-to-finish communication between the two parties. We also found instances where suppliers were given erroneous or incomplete information which was later corrected.

2.153 We expected ANBL to maintain adequate communication records for key processes, including product pricing and ranking. In our view, the inability to provide supporting documentation increases business risk for ANBL. For example, if pricing change decisions were later questioned by a supplier or by government, ANBL would not be able to provide complete records to support what was entered in the system or how the price was set.

2.154 ANBL provided us with a records management policy dated November 2020 with actions that will be taken to establish a records management system. The document may provide a foundation for records management practices, but it did not include specific elements such as a defined records retention schedule. The policy was not applicable to the majority of our audit period.

2.155 We believe maintenance and retention of data and records is required to support strategic, operational, and legal requirements. Without this information, ANBL's ability to effectively respond to supplier and stakeholder concerns may be significantly impacted.

Recommendation

2.156 We recommend the New Brunswick Liquor Corporation retain all communications with suppliers which support prices changed during the annual price call process.

Other Areas of Concern

- 2.157** We found several deficiencies during our audit respecting ANBL’s social responsibility programs. Since ANBL is legislated “*to promote the responsible consumption of liquor*” and alcohol consumption among Canadians has increased since the start of the COVID-19 pandemic⁵, we felt it was important to identify key observations from our work even though this was not the focus of our audit.
- 2.158** We found ANBL has not effectively promoted the responsible consumption of liquor in New Brunswick as required under the *NBLC Act*. In particular, ANBL failed to effectively:
- plan for the promotion of responsible consumption of liquor;
 - provide access to information promoting responsible consumption on its website; and
 - ensure programs directed at controlling access to liquor operated effectively.
- 2.159** ANBL had no plan or targets relating to this legislated purpose. The Corporation also lacked moderation and education campaigns and did not appropriately track spending on these campaigns. ANBL told us moderation campaigns in place in 2018-2019 and 2019-2020 were limited in 2020-2021 due to the COVID-19 pandemic. It further indicated there were two sponsorship events in 2020-2021 totalling \$9,500. Campaigns that did exist during the audit period had no measurable targets.

Promotion of responsible consumption not effectively planned or managed

No plan or targets, lack of moderation campaigns, program spending not tracked

⁵ Canadian Centre on Substance Use and Addiction “Boredom and Stress Drivers Increased Alcohol Consumption during COVID-19” May 2020

New corporate social responsibility framework and policy lacks focus on responsible consumption

Information on responsible consumption difficult to find on website

2.160 ANBL is currently working on a Corporate Social Responsibility (CSR) framework and policy. While we saw this as a positive first step, the policy remained in draft at the time of our work and as such, lacked details specific to the promotion of responsible consumption.

2.161 Information on responsible consumption was limited and difficult to locate on ANBL’s website. Some information can be found at the very bottom of the homepage under the section “ANBL Cares”.

2.162 When asked what public education campaigns existed around health and safety risks related to alcohol, ANBL expressed concern it may appear hypocritical for advising against alcohol consumption while also selling it. ANBL indicated that it would prefer to focus on safe and responsible consumption and that it plans on providing more information on where the public can access resources.

2.163 In Québec, Société des alcools du Québec (SAQ) mitigates this perceived issue by having a separate organization run its Éduc'alcool program, with funding provided from SAQ. Cannabis New Brunswick is another example of a Crown corporation responsible for retailing a controlled substance but provides funding to a separate entity to fulfil its social responsibility mandate.

2.164 ANBL has a mystery shopper program where shoppers who appear under the age of 19 go to ANBL stores (including agencies and grocery stores) and attempt to purchase liquor. If they are asked for I.D., the store is given a passing grade. If they are not asked, they are deemed to have failed.

Mystery shopper program failed to meet targets

Mystery shopper compliance rates show troubling trend

2.165 Exhibit 2.15 provides a breakdown of the mystery shopper compliance rate by retail network for fiscal years 2018-2019 to 2020-2021. Over the past three years ANBL's overall compliance rate has decreased by 23%. ANBL's 2016-2020 strategic plan included targets for this program; however, they were not achieved, and no targets were set in its 2020-2023 strategic plan.

Exhibit 2.15 - ANBL Mystery Shopper Compliance Rate by Retail Network

ANBL Mystery Shopper Compliance Rate by Retail Network			
Retail Network	2018-2019	2019-2020	2020-2021
Corporate	81%	77%	61%
Agency	53%	38%	36%
Grocery	65%	67%	56%
Weighted Average Results	66%	60%	51%
Strategic Plan targets	72%	75%	N/A

Source: Prepared by AGNB based on information provided by ANBL (unaudited)

No action taken for retailers with poor compliance rates

2.166 Although ANBL indicated that poor performers were visited more frequently, we found this was not the case. Corporate stores (which have higher compliance rates) were visited twice as often as agency and grocery stores.

Lack of segregation of duties a potential conflict of interest within the mystery shopper program

2.167 ANBL's Channel Sales team is responsible for reporting on the mystery shopper program as well as for performing I.D. checks in stores. Although the mystery visits were conducted by a third party, we felt this could represent a potential internal conflict of interest as the ANBL department responsible for delivering the program is also reporting on the results.

Social responsibility training program improperly designed and error prone

2.168 ANBL launched an online social responsibility training program for employees in 2020 (local producers were added in 2021-2022). We did not review the content of the training itself but noted some deficiencies regarding ANBL's monitoring of compliance:

- ANBL could not tell which employees completed the training in agency or grocery stores;
 - i. compliance was considered achieved when one employee per store (agency, grocery, and local producer) completed the training;
 - ii. if more than one employee completed the training, it would be added to the store's total; however, since only one completion per location was expected, those results were manually removed for monitoring and reporting purposes; and
- each Corporate employee was enrolled in training twice, once in English and once in French. ANBL had to manually delete duplicate enrolments for whichever language was not chosen in order to calculate compliance rates, increasing the risk of errors.

Recommendation

2.169 We recommend the New Brunswick Liquor Corporation develop and implement a plan to address its legislative requirement to promote the responsible consumption of liquor, to include:

- **goals, targets, and measures against which to evaluate performance;**
- **a communication strategy and implementation plan to promote the responsible consumption of liquor; and**
- **action plans, performance targets and public reporting requirements for programs designed to promote the responsible consumption of liquor, including the mystery shopper program and social responsibility training program.**

Recommendation

2.170 We recommend the New Brunswick Liquor Corporation board of directors review the corporation's performance in promoting the responsible consumption of liquor, as prescribed in the *New Brunswick Liquor Corporation Act*. If the board review identifies potential improvements, we recommend the New Brunswick Liquor Corporation implement the changes required to improve performance in promoting the responsible consumption of liquor.

2.171 In addition to social responsibility, our audit work identified other areas of concern. Findings we felt were significant are highlighted in this section.

No risk analysis to ensure compliance with trade agreements

2.172 We asked if any risk analysis ensuring the mark-up structure complied with applicable trade agreements had been performed. ANBL indicated that no such analysis existed.

2.173 ANBL should ensure its pricing policies are compliant with applicable trade agreements to avoid potential legal action. Sudden changes in ANBL's mark-up structure could impact its profits as well as those of its suppliers.

Recommendation

2.174 We recommend the New Brunswick Liquor Corporation undertake a risk assessment to ensure its pricing policies comply with applicable trade agreements.

Risks of conflict of interest with the appointment of board members

2.175 In our review of ANBL's by-laws, we noted ANBL's Conflict of Interest by-law enables the appointment of a board member that is not at arm's length of the government.

2.176 By-law 10 allows directors of the board to participate in the following activities, without a requirement for disclosure:

- being a member of a provincial or federal political party;
- attending all-candidates meetings and debates;
- holding office in a political party;
- contributing to, or dealing with money for, political parties or candidates;
- attending riding association meetings; and
- campaigning for a candidate in a provincial or federal election.

2.177 While Crown corporations ultimately report to the Province, directors of its boards are expected to operate at arm's length from government. We expected a conflict of interest by-law to either prohibit, or at a minimum require directors of the board to disclose, such political activities as they would give rise to perceived or actual conflicts of interest.

2.178 ANBL's conflict of interest by-law does not appropriately address the risk of its board of directors not being independent of government, which increases the risk of political interference.

Recommendation

2.179 We recommend the New Brunswick Liquor Corporation's board of directors review and update the corporation's by-laws to address potential, perceived or actual situations that increase risk to the corporation's independence from government.

Appendix I – Glossary of Industry Terms

Glossary of Industry Terms	
Term	Definition
Local Craft Producers and Products	New Brunswick producers who produce any kind of beverage alcohol (product) in the province and fall below a certain production volume, as outlined in ANBL’s mark-up structure and defined below.
Craft Breweries^{6,7,8}	<ul style="list-style-type: none"> • Production Volumes in hectolitres (HL) per year: <ul style="list-style-type: none"> ○ Microbreweries: less than 15,000 HL. ○ Large Craft Breweries: New Brunswick based brewers with a global production of more than 150,000HL of beer with production of craft beer not exceeding 30,000 HL.
Craft Distilleries⁹	<ul style="list-style-type: none"> • New Brunswick spirit producers producing less than 50,000 litres of finished product (20,000 litres of absolute alcohol) per year. <ul style="list-style-type: none"> ○ Anything over 50,000 litres per year, general mark-up rates apply. • Spirits are defined as beverage alcohol that has been concentrated through a process of distillation. <ul style="list-style-type: none"> ○ Craft Distiller: the process must start with raw materials such as grains or a mash and the alcohol must be fermented and distilled at the manufacturing site. ○ Blended Spirits: produced from a process starting with anything other than raw materials, including bulk spirits that have been refined through additional distillation.
Craft Cideries¹⁰	<ul style="list-style-type: none"> • Craft Cidery: production volume of less than 15,000 hectolitres per year. • Cottage Cidery: cider producers who own 10 or more acres of fruit trees with manufacturing facilities at growing site (Cottage Winery).

⁶ ANBL Brewery Agency Store Policy

⁷ ANBL Large Brewery Agency Store Policy

⁸ ANBL Mark-up Structure – April 2020

⁹ ANBL’s Craft Distiller Agency Store Policy

¹⁰ ANBL’s Cidery Agency Store Policy

Craft Wineries¹¹	<ul style="list-style-type: none"> • Cottage Winery: wineries who are producers of raw materials for beverage alcohol. <ul style="list-style-type: none"> ○ Total annual production capability not exceeding 100,000 litres of beverage alcohol products containing 0.5% or more alcohol by volume. ○ Each product produced must have 85% New Brunswick content.
Meaderies¹²	<ul style="list-style-type: none"> • <i>“Mead is an alcoholic beverage that is produced by fermenting a solution of honey and water. To be classified as Mead no less than 51% of the fermentable sugars must come from honey.”</i>
Hectolitres¹³	<ul style="list-style-type: none"> • <i>“a unit of capacity equal to 100 liters”</i>
Retail Network¹⁴	<ul style="list-style-type: none"> • Corporate ANBL stores; • Grocery stores; • Agency stores; • Depot (Salisbury); and • Boutique (EXPÉRIENCE by ANBL Boutique in Moncton and ANBL’s Craft Beer Room in Fredericton).
Supplier vs Producer	<ul style="list-style-type: none"> • Supplier: <i>“is a person, company, or organization that sells or supplies something”¹⁵</i>, in the case of ANBL, all beverage alcohol. • Producer: in this chapter it refers to Local Producers (see above).
Mark-up¹⁶	<ul style="list-style-type: none"> • The amount added to the cost of goods to cover overhead and profit. • In New Brunswick, this is the charge added to all alcohol that is sold before taxes and fees.
Case Cost	<ul style="list-style-type: none"> • The price quoted by the supplier or producer, also known as 'vendor price'.
Bev Hub	<ul style="list-style-type: none"> • ANBL’s listing portal (all suppliers have access). • Suppliers submit the product information into Bev Hub for each call submission they wish to apply for. • Data warehouse that contains all product information.

¹¹ ANBL’s Cottage Winery Store Policy

¹² <https://www.sunsetheightsmeadery.com/the-meadery/from-hive-to-bottle>

¹³ <https://www.merriam-webster.com/dictionary/hectoliter>

¹⁴ ANBL’s Product Lifecycle Management Manual

¹⁵ <https://www.collinsdictionary.com/dictionary/english/supplier>

¹⁶ 2017 Working Group between ANBL, government, and local producers’

Appendix II – Audit Objectives and Criteria

The objective and criteria for our audit of New Brunswick Liquor Corporation are presented below. The New Brunswick Liquor Corporation reviewed and agreed with the objective and associated criteria.

Objective 1	To determine whether the New Brunswick Liquor Corporation is effectively managing its participation in the development of the liquor industry in the Province, while providing financial revenues in line with its mandate.
Criterion 1	The New Brunswick Liquor Corporation (ANBL) should have an outcomes-based plan including clearly defined objectives, initiatives and measurable targets for their role in the development of the liquor industry in the Province.
Criterion 2	The New Brunswick Liquor Corporation (ANBL) should actively engage local producers in the development of the plan for the liquor industry in the Province.
Criterion 3	ANBL should follow well-defined and clearly communicated list and delist processes which effectively manage all product categories (beer, wine, spirits, ciders and coolers) and divisions (local, domestic, international).
Criterion 4	ANBL should have a pricing model for all product categories (beer, wine, spirits, ciders and coolers) and divisions (local, domestic, international) that provides financial revenues in line with its mandate.

Source of Criteria: Developed by AGNB based on reviews of legislation, best practices and reports by other jurisdictions' Auditors General.

Appendix III – About the Audit

This independent assurance report was prepared by the Office of the Auditor General of New Brunswick on the New Brunswick Liquor Corporation. Our responsibility was to provide objective information, advice, and assurance to assist the Legislative Assembly in its scrutiny of the New Brunswick Liquor Corporation on its development of the liquor industry in the Province.

All work in this audit was performed to a reasonable level of assurance in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3001 – Direct Engagements set out by the Chartered Professional Accountants of Canada (CPA Canada) in the CPA Canada Handbook – Assurance.

AGNB applies Canadian Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting the audit work, we have complied with the independence and other ethical requirements of the Rules of Professional Conduct of Chartered Professional Accountants of New Brunswick and the Code Professional Conduct of the Office of the Auditor General of New Brunswick. Both the Rules of Professional Conduct and the Code are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

In accordance with our regular audit process, we obtained the following from management:

- confirmation of management’s responsibility for the subject under audit;
- acknowledgement of the suitability of the criteria used in the audit;
- confirmation that all known information that has been requested, or that could affect the findings or audit conclusion, has been provided; and
- confirmation that the findings in this report are factually based.

Period covered by the audit:

The audit covered the period between April 2, 2018 and March 28, 2021. This is the period to which the audit conclusion applies. However, to gain a more complete understanding of the subject matter of the audit, we also examined certain matters that preceded the starting date of the audit.

Date of the report:

We obtained sufficient and appropriate audit evidence on which to base our conclusion on June 8, 2022 in Fredericton, New Brunswick.

Appendix IV – 2019-2020 List of Producers

LIST OF PRODUCERS	
3	3Flip Brewing
73	13 Barrels Brewing
1	Acadie-Broue Inc.
60	Bagtown Brewing Company
5	Big Axe Brewery Inc.
7	Big Tide Brewing
9	Bore City Brewing
75	Brasserie Retro Brewing
8	Brasserie Chockpish
61	Brasseux d'la Côte
74	Broue Du Païen
13	Brule Brewing Company (Flying Boats)
62	Cavok Brewing
11	Celtic Knot
12	Distillerie Fils du Roy Inc.
15	First City Brewing
18	Foghorn Brewing Company
63	Four Rivers Brewing
36	Gahan House Hub City
64	Gahan House Port City
76	Gahan House Riverside
44	Grand Falls Brewing
20	Greystone Brewing
67	Gridiron Brewing
21	Grimross Brewing Corp.
22	Hammond River
65	Hampton Brewing
66	Holy Whale Brewing
23	Johnny Jacks
26	Les Brasseurs de Petit-Sault
27	Long Bay Brewing
28	Loyalist City Brewing Co.
30	Mama's Brew Pub
31	Maybee Brewing Company
78	Microbrasserie Houblon-Pecheur
79	Moosehead Small Batch
68	MorALE Brewsters
66	New Maritime Brewing
66	Niche Brewing
29	Northampton Brewing (Picaroons - Saint John)
38	Northampton Brewing (Picaroons - St. Stephen)
37	Northampton Brewing (Picaroons - Union Street, Fredericton)
61	O'Creek Brewing Company
40	Off Grid Ales
43	Pump House (Mill Street, Moncton)
42	Pump House (Orange Lane, Moncton)
82	Rustico/King West Brewing
47	Savoie's Brewhouse
46	Sussex Ale Works
50	Think Brewing Co.
61	Tide & Boer
52	TrailWay Brewing
33	Molson-Coors Brewing
34	Moosehead Breweries Limited
68	Blue Roof Distillers
17	Carrol's Distillery
83	Devil's Keep Distillery- Hanwell
18	Distillerie Fils du Roy Inc
69	Gagetown Food & Fermentation
84	Moonshine Creek Craft Distillery
61	Port Royal Distillers (Snow Fox)
88	Three Dog Distilling
10	Sussex Craft Distillery
85	Winegarden Estate Ltd. Distillery
45	Red Rover Craft Cider
59	York County Cider
2	Applöman Farms Ltd.
4	Belleisle Vineyards
6	Big Sky Ventures
14	Dunham's Run Estate Winery
17	Gagetown Fruit Farms
18	Gordon McKay & Sons 1996 Ltd.
19	Granite Town Farms
35	La Framboise Francoeur
71	Latitude 46 Estate Winery
24	Le Ferme Maury
28	Magnetic Hill Winery
32	Miel-N-Bee Honey
35	Motts Landing Vineyards
72	Pioneer Mountain Estates
46	Richibucto River Wine Estates
48	Sunset Heights Meadery
87	Sussex Cider Company
53	Tuddenham Farms
54	Verger Bellivœu Orchard
55	Waterside Farms Cottage Winery
87	Winegarden Estate Ltd. Winery
56	Yip Cider

Source: ANBL's 2019-2020 Annual Report (unaudited)