

Chapter 4

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

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

Province receives clean audit opinion in 2016

- 4.1 On September 27, 2016 the Auditor General signed an unqualified audit opinion on the consolidated financial statements of the Province of New Brunswick.
- 4.2 The opinion indicates the Province's consolidated financial statements are presented in accordance with Public Sector Accounting Standards. We were very pleased to be able to issue an unqualified audit opinion this year.

2015 audit opinion contained reservations

- 4.3 The prior year audit resulted in a serious and disappointing outcome, as the 2015 audit opinion contained reservations regarding the Province's accounting for shared risk pension plans.

New for the Province's financial statement audit in 2016

- 4.4 This year, after much discussion and analysis, the Province changed the accounting classification of its shared risk pension plans in its consolidated financial statements. Also this year, the Province consolidated the balances and transactions for approximately 60 not-for-profit nursing homes, as a result of a new expert accounting assessment.
- 4.5 More information on the Province's accounting for its shared risk pension plans and its consolidation of not-for-profit nursing homes is found in Chapter 3 of this volume.
- 4.6 Significant accounting work and analysis was required to implement both of these accounting changes in the consolidated financial statements and we wish to thank the Office of the Comptroller for its effort and collaboration in both of these areas.

4.7 To reach an opinion on the consolidated financial statements of the Province, we carry out audit work on the major programs and activities in departments. In addition, we audit major revenue items and a sample of expenditures chosen from departments. We also examine internal controls of significant computerized systems.

Audit findings

4.8 In almost every audit, there are audit findings to be discussed with management. The findings from our March 31, 2016 audit were not sufficiently large in dollar or qualitative terms to affect our opinion on the consolidated financial statements. It is our practice to report these matters to senior officials of the departments concerned, and to ask for a response. Our significant findings and recommendations from the audit of the Province's consolidated financial statements with departmental responses are presented in this chapter.

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

4.10 We had several findings from the March 31, 2016 audit of the Province's consolidated financial statements. We review the findings identified to determine which findings from our work are significant. When considering which findings are significant we assess:

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

Highlights and Recurring Themes

- 4.11** Highlights and recurring themes of our significant audit findings are presented in Exhibit 4.1.
- 4.12** Overall, we are pleased at the number of prior year audit findings being corrected in 2016. While there remain a number of uncorrected findings, there has been significant progress in implementing our prior year audit recommendations. Areas of improvement in implementing prior years audit recommendations are noted in Exhibit 4.1.
- 4.13** We hope the remaining audit findings are corrected in advance of the next year's audit cycle. Exhibit 4.1 presents the prior year uncorrected findings in shaded boxes.
- 4.14** In addition, we also identified a number of new audit findings in 2016. These are also presented in Exhibit 4.1.

Significant progress in implementation of prior year audit recommendations

Some prior year audit findings remain uncorrected

New audit findings also identified in 2016

Exhibit 4.1 - Highlights and Recurring Themes

Theme	Finding	Finding addressed to	Concern in this area also noted for 2016 AG Report	Concern in this area also noted for 2015 AG Report	Concern in this area also noted in 2014 AG Report	Paragraph Number
Accounting Concerns	Pension accounting – shared risk pension plans	OOC ¹	Improvement	Yes	Yes	2015 Report Chapter 3
	Netting of assets and liabilities	OOC ¹	Yes	No	No	4.72
	Proper and complete accounting for school raised funds	EECD ³	Yes	Yes	Yes	4.79
	Accounting for Nursing Homes	OOC ¹ / SD ⁴	Improvement	Yes	No	2015 Report 6.77 & 6.78
	Liability for contaminated sites	OOC ¹	Yes	Yes	Yes	4.81 & 4.83
	Presentation of Budget Numbers	OOC ¹	Yes	No	No	4.73
	Improper Use of Special Purpose Account	OOC ¹ / SD ⁴	Yes	No	No	4.77
	Nursing Home Pension Plan Classification	OOC ¹	Yes	No	No	4.76
	Approval of Journal Entries	OOC ¹	Yes	No	No	4.82
	Accounting for Province's self-insured WorkSafe liability	OOC ¹	Improvement	Yes	No	2015 Report 6.81
	Accounting for contingent liabilities	OOC ¹	Improvement	Yes	No	2015 Report 6.82
	Classification of accounts in the consolidated financial statements	OOC ¹	Improvement	Improvement	Yes	2014 Report 4.77
	Grants/government transfers – need for accounting analysis	OOC ¹	Improvement	Improvement	Yes	2014 Report 4.79

Shaded findings indicate a concern in this area was also noted in the 2015 or 2014 AG Reports

¹Office of the Comptroller, Department of Finance

²Department of Transportation & Infrastructure

³Department of Education and Early Childhood Development

⁴Department of Social Development

⁵Department of Post-Secondary Education, Training and Labour

⁶Department of Agriculture, Aquaculture and Fisheries

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

⁸Department of Public Safety

Exhibit 4.1 - Highlights and Recurring Themes (continued)

Theme	Finding	Finding addressed to	Concern in this area also noted for 2016 AG Report	Concern in this area also noted for 2015 AG Report	Concern in this area also noted in 2014 AG Report	Paragraph Number
Accounting Concerns (continued)	Tangible capital assets (TCA) – communication of tangible capital asset policy and asset impairment assessment	OOC ¹ /DTI ²	Improvement	Improvement	Yes	2014 Report 4.78
	Property tax revenue - municipal suspense account reconciliations	Finance	Improvement	Improvement	Yes	2014 Report 4.81
	Netting of property tax revenue	Finance	Improvement	Improvement	Yes	2014 Report 4.82
	Support for changes to property tax assessment values	SNB ⁷	Improvement	Improvement	Yes	2014 Report 4.83
Receivables management	Outstanding receivable from 2008 flood	DPS ⁸ /OOC ¹	Improvement	Yes	No	2015 Report 6.83
	Timeliness of property tax receivables processing	Finance	Improvement	Yes	No	2015 Report 6.84
	Property tax accounts receivable balances	Finance	Yes	Yes	No	4.86
	First Nations education – documentation for receivables policy changes	OOC ¹ /EECD ³	Improvement	Yes	No	2015 Report 6.86
Governance/ Oversight Concerns	Lack of an audit committee	Finance	Improvement	Yes	Yes	2015 Report 6.87
	Lack of an internal audit plan	OOC ¹	Improvement	Yes	Yes	2015 Report 6.88
	Need to align Administration Manual Policy AD-6402 – Approval of Payments	OOC ¹ /SNB ⁷	Yes	Yes	Yes	4.78
	Need to complete purchase card policy	OOC ¹	Yes	Yes	Yes	4.85

Exhibit 4.1 - Highlights and Recurring Themes (continued)

Theme	Finding	Finding addressed to	Concern in this area also noted for 2016 AG Report	Concern in this area also noted for 2015 AG Report	Concern in this area also noted in 2014 AG Report	Paragraph Number
<i>Accounting/ Documentation Concerns With Estimates</i>	Nursing Home Employee Benefits	OOC ¹	Yes	No	No	4.74
	Assumptions used by actuaries	OOC ¹	Yes	No	No	4.80
	Write off of accounts and loans receivable	OOC ¹	Yes	Yes	Yes	4.84
	Need to review allowance for doubtful accounts – loans and accounts receivable	OOC ¹ / SD ⁴ / PETL ⁵ / AAF ⁶ / Justice	Improvement	Improvement	Yes	2014 Report 4.75
	Estimate and disclosure of Corporate income tax revenue	Finance	Yes	Improvement	Yes	4.75

4.15 In general, departments' responses indicated they agreed with our recommendations and they intend to address our concerns in the coming year.

4.16 While we have not noted any significant fraud, theft or error as discussed later in Appendix II, the existence of the findings noted in Exhibit 4.1 may increase the risk of loss or mistake in the Province's consolidated financial statements. These items should be addressed prior to the next audit cycle.

Details of Significant Findings

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

Additional Discussion

4.18 During our 2016 audit of the Province's consolidated financial statements, we noted four themes in our audit findings, all of which were previously reported in either our 2015 or 2014 Annual Reports.

Accounting concerns

4.19 In general, the findings regarding accounting concerns related mostly to appropriate application of accounting standards, accounting errors or other accounting concerns.

4.20 The theme of accounting concerns was notably the area where we saw the greatest implementation of our prior year audit recommendations including: accounting for shared risk pensions, accounting for nursing homes, and accounting for the Province's self-insured WorkSafe liability.

4.21 Prior year accounting concerns in the areas of school raised funds and contaminated sites continue. Also, new in 2016, we had audit findings in areas including: netting of assets and liabilities in the Province's accounts, presentation of budget figures in the audited financial statements and use of special purpose accounts. We hope these new 2016 audit findings are addressed in 2017.

Receivables management

4.22 We noted one audit finding in 2016 related to receivables management. Improvements were also seen in this area compared to the prior year.

4.23 However, we continue to note unfavourable trends and delays in uncollected property tax receivables balances. As this area involves significant balances we remain concerned.

4.24 We are pleased with the progress in implementing audit recommendations from prior years and would like to see the remaining finding addressed for the 2017 audit.

4.25 Overall, we will continue to examine receivables management in our audit processes as it is an important area of good financial management for the Province. An increase or delay in collecting receivables balances of this magnitude represents both increased borrowing costs and expenditures for the Province.

Governance/oversight concerns

4.26 During the Province's 2016 financial statement audit, we noted two findings related to governance/oversight weaknesses, which were previously reported in either our 2015 or 2014 Annual Reports.

4.27 These repeated findings are very concerning given they involve areas with significant provincial expenditures. We will revisit these audit areas again next year. We hope to see these findings addressed prior to the 2017 audit.

4.28 Of particular note in 2016, however, was the Province's implementation of an audit committee. It is very pleasing that this important recommendation dating back to 2012 was implemented. This committee will be a particular benefit in discussing significant audit issues with senior government officials.

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

4.29 This audit theme had four findings in 2016; three of these findings were new this year. This is somewhat disappointing after last year's improvement in this audit area when there was only one audit finding for this theme.

4.30 Proper support for estimates and assumptions remains an important area of audit focus. Significant management estimates and underlying assumptions need to be well supported with proper rationale, and should include reviewing prior year's estimates to assist in determining estimate accuracy. Evidence of appropriate review for significant judgment areas is also an essential component of an effective internal control system.

4.31 We encourage departments to continue improving in this area.

Information Technology Findings

Auditing the Province's systems and information technology

4.32 In order to express an opinion on the Province's financial statements, we document controls and test transactions processed by significant financial IT systems. Some of this work is performed on a cyclical basis. We also document the controls associated with the Province's overall IT infrastructure. Exhibit 4.2 lists IT systems we examined in the past year.

Exhibit 4.2 - IT work conducted in the past year

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

Key themes

4.33 We are not publishing the details of all of our IT system work given the technical nature of many of our findings, and as noted previously in this chapter, the risk of possible loss of government assets if the details of such findings are reported. Instead, we are summarizing our findings into key themes by the responsible department. We are reporting this information in Exhibit 4.3.

Exhibit 4.3 - Information Technology Findings – Key Themes

Theme	Finding	Finding addressed to
System replacement	Teachers' payroll system	EECD
	HRIS payroll system	SNB (HRIS)
	Oracle invoice input	SNB (IPM)
Process improvements	Modernization of property assessments	SNB (EvAN)
Segregation of duties	Property tax system	Finance (Ptax)
IT Security	Excessive permissions	Finance (Ptax), SNB (IPM), OOC (Oracle)
	Disabling access	SNB (IT Infrastructure), SNB (EvAN)
	Encryption of data	SNB & DTI (IT Infrastructure)
	Monitoring – Administrators	SNB (EvAN)
	Patch management	OOC (Oracle)
	Management of network access	SNB (IT Infrastructure)
Data integrity/accuracy/ completeness	Exception reports	OOC (Oracle)
	Quality of assessment data	SNB (EvAN)
Non-compliance with policies/standards/guidelines	Assessment re-inspection cycle	SNB (EvAN)
	Annual client reviews	SD (NBFamilies)
	Adult residential certificate of approval	SD (NBFamilies)
Documentation deficiencies	Support for reconciliations	Finance (Ptax)
	Documenting approval	Finance(Ptax)
	Inconsistent payroll documentation	EECD
	Purchase cards – goods received	EECD
	Medicare – physician documentation	Health
Monitoring	Third-party service reports	Health, OOC (Oracle), SNB (IT Infrastructure)
Other observations from our IT work	Business continuity/disaster recovery plan	SNB (HRIS), OOC (Oracle)
	System error	Finance (Ptax)

4.34 We are not aware of any significant loss of government assets or errors which resulted from the findings noted in Exhibit 4.3, however, we are concerned for the potential for future loss of assets or error. Given the findings pertaining to IT security as noted in Exhibit 4.3 we are also concerned

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

4.35 Of particular interest this year, is the number of IT systems needing replacing or modernizing. This number has increased from prior year and we are concerned about the delays in replacing these older systems. In some cases, these systems process vendor payments and provincial payroll which are an essential component of the Province's operations.

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

System replacement

4.37 As mentioned earlier, this year we found three IT systems need to be replaced or modernized. Similar to prior year, the EECD teachers' payroll system is still at risk of failure and the SNB (HRIS) payroll system will no longer be supported after 2017.

4.38 This year, the SNB (IPM) system has been added to our system replacement list. IPM is a mission critical system used to enter vendor invoices for payment and it is now no longer fully supported by the supplier. While support has been rarely required in the past, continuing to use unsupported software increases the risk the Province will be unable to process vendor invoices in the future should changes in technology occur.

4.39 All three of these systems will be replaced by one new ERP (enterprise resource planning) system which SNB is responsible for implementing. We are concerned with the lack of progress with this system replacement project. We have received planning information each year on the project, but we have yet to see approval from the Board of Management for funding to commence the project. The latest information we received indicates that approval of funding will be requested in the upcoming budget process.

4.40 As we have mentioned in the past, replacing these outdated systems is critical. For example, the teachers' payroll system access security is extremely weak, support is provided by a single contractor with no backup and the system runs on old, out-dated hardware. The system is over 20 years old and is at risk of failure.

- Process improvements – Property assessments** 4.41 We also noted this year, SNB is modernizing its property assessment system. This modernization project is expected to address the numerous property assessment recommendations we have made in the past and it is expected to be completed as part of a multi-year process. Failure to complete this project in a timely manner will result in the past audit weaknesses continuing until either the modernization is complete or alternative procedures are put in place.
- Segregation of duties** 4.42 This year we had one finding relating to segregation of duties. This finding related to our work in the property tax system where we found one manager was assigned roles for processing transactions and was also responsible for preparing year-end account reconciliations. Having proper segregation of duties helps reduce the risk of fraud and/or error.
- IT security - Excessive permissions** 4.43 We had three findings relating to excessive system access.
- For the property tax system in Finance, we found access to sensitive files was not restricted to only those individuals who require access. The files were stored in a shared location on the network increasing the risk of error or disclosure of potentially confidential information.
 - For the SNB IPM system, we found issues around the use of the administrator account such as external offsite consultants using the administrator account without appropriate monitoring controls or access restrictions. This increases the risk of unauthorized system changes.
 - For the OOC Oracle system, we found the OOC made progress in monitoring the access of the IT support/development team. Additional procedures are required, however, to reduce the risk of inappropriate and unauthorized transactions and/or system changes.
- IT security - Disabling access** 4.44 We noted findings in two of our audits relating to disabling users' system access. Both findings related to SNB. In one case, we found four users continued to have a system owner role after this access had been deemed inappropriate. This access has since been removed. Also for the IT Infrastructure audit, our prior year recommendation on disabling users' access in a timely manner was not implemented.
- 4.45 Timely disabling of user accounts, along with an annual

review of user access assignments, reduces the risk of unauthorized transactions being executed by terminated or existing employees, loss or corruption of data and exposure of confidential corporate information.

***IT security -
Encryption of data***

4.46 We had findings relating to the secure transmission of data in our IT Infrastructure audit. Having appropriate encryption policies in place helps safeguard information and reduces the risk of a breach of confidentiality in the event of unauthorized access to data.

***IT security -
Monitoring
administrators***

4.47 We noted in our SNB property assessment audit, weaknesses in the monitoring of database administrator activity. Database administrators have powerful system access and require proper monitoring controls to reduce the risk of unauthorized changes/updates to significant database tables.

***IT security - Patch
management***

4.48 In our OOC (Oracle) audit, we noted weaknesses in the patch management strategy used to ensure software and databases are running current versions. Failure to have an appropriate patching strategy increases the risk software vulnerabilities could be exploited by outside parties, which could result in loss of information and could impact the stability of systems.

***Data integrity/
accuracy/
completeness***

4.49 We had two findings relating to the integrity, accuracy and completeness of data. One finding related to the accuracy of assessment information recorded in SNB's property tax assessment system. We noted the work of assessors is not reviewed. This lack of review is related to inputting the information into the assessment system. We were informed the new modernization project will address these control deficiencies. Verifying the accuracy of assessment information is required to reduce the risk of inaccurate property assessment values which could result in the over/understatement of provincial revenue.

4.50 The other finding resulted from failure to review exception reports which would identify errors in data transfers between systems. Verifying the accuracy of data transfers helps reduce the risk of error in the accounting records.

Non-compliance with policies/standards/guidelines

- 4.51** In our work, we noted three cases where departments failed to comply with departmental policies/standards or guidelines.
- 4.52** In our audit of SNB property tax assessments, we noted SNB had not visually inspected properties within the timeframe recommended in its departmental guidelines. Completing re-inspections within the appropriate timeframe helps reduce the risk of inaccurate property assessments which would result in provincial tax revenue being over or understated. This control deficiency will be addressed by the property assessment modernization project.
- 4.53** This year in SD, we noted two areas of non-compliance with departmental policy. Not complying with departmental policies increases the risk of SD making ineligible or inaccurate payments.
- We found three in 13 cases examined where annual case reviews were not up-to-date. We noted in two cases, however, the case reviews were subsequently completed.
 - We found one in eight items tested where an adult residential facility did not have a valid certificate of approval for the month tested. A certificate of approval is issued to a facility and renewed annually after the facility is inspected.

Documentation deficiencies

- 4.54** In three audits, we noted documentation deficiencies in our testing. Proper documentation to support transactions provides evidence that transactions are valid and reduces the risk of fraud and error.
- 4.55** In EECD, we were unable to review properly approved payroll documentation to support three of 54 items tested. We also found no evidence goods were received in three of six purchase card transactions tested.
- 4.56** In our testing of 24 Medicare transactions, we noted two cases where documentation was not on file. In one case a physician registration form was not on file, and in the other case, a physician Medicare registration form and signed teletransmission form was not available.
- 4.57** In Finance (Ptax), we noted two areas where documentation was lacking. We found several instances where account reconciliations did not agree with

corresponding general ledger accounts. While these differences were not significant, more diligence and review is required when preparing year-end reconciliations. We also noted Finance does not document its review of the underlying manual calculations for bankruptcies and related write offs.

Monitoring – Third-party service reports

4.58 In three audits, we found cases where departments outsourced services, but did not obtain assurance over the adequacy of controls in place at the service provider. This lack of oversight in relation to services provided by third parties increases the risk critical processes and outsourced controls are not performed in accordance with departments' expectations.

Other observations – Disaster recovery and business continuity planning

4.59 In two audits, we noted issues relating to disaster recovery and business continuity planning. In one case, the plan was out of date and in the other case the plan had not been tested in over three years. Having a documented and tested disaster recovery plan helps ensure systems can be recovered in the event of a disaster.

Other observations – System error

4.60 In Finance (Ptax), we found system errors occur when the system processes certain types of transactions. While these transactions do not regularly occur and cumulatively the dollar value is low, such errors increase the risk of misstatement in the future.

Appendix I - Audit Objectives

4.61 Our examination of the matters included in this chapter of our Report was performed in accordance with Canadian generally accepted auditing standards, including such tests and other procedures as we considered necessary in the circumstances. The matters reported should not be used as a basis for drawing conclusions as to compliance or non-compliance with respect to matters not reported.

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

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

4.64 Because of the limited objectives of this type of audit work, it may not identify matters which might come to light during a more extensive or special examination. However, it often reveals deficiencies or lines of enquiry which we might choose to pursue in future audit work.

Responsibilities Pertaining to the Audit Process

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

accrued expenditures or tangible capital assets).

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

Appendix II - Loss through Fraud, Default or Mistake

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

4.68 During the course of our work we became aware of the following losses. Our work is not intended to identify all instances where losses may have occurred so it would be inappropriate to conclude that all losses have been identified.

Department of Natural Resources Missing equipment from various regions	\$ 3,065
Department of Education and Early Childhood Development Missing cash and equipment	\$ 2,150
Department of Transportation and Infrastructure Missing equipment	\$ 54,493
Department of Post-Secondary Education, Training & Labour Missing Cash	\$ 1,640

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

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

4.71 In 2016, the Province reported lost tangible public assets in the amount of \$259,700 compared to a loss of \$21,400 reported for 2015 (revised from \$21,100).

Appendix III - Significant Findings

4.72	Netting of Assets and Liabilities	
<p>As a result of historical accounting practices, loans of \$68.9 million due to Canada Mortgage and Housing (CMHC) relating to not-for profit housing were originally netted against related receivables from the not-for-profit agencies. Current PSAS requires assets and liabilities be reported on a gross basis unless there is a legal right to offset or an entity plans to settle on a net basis. These transactions did not meet these requirements. As a result, the OOC adjusted the Province's financial statements to correct the netted amounts.</p> <p>We are concerned more cases of netting may exist in the Province's financial statements relating to either assets and liabilities or revenues and expenses. This netting would result in an understatement of amounts recorded in the financial statements.</p>		
Recommendation		Comments from Management
<p>We recommend the Office of the Comptroller review the accounting records to determine if other instances of netting exist relating to either assets and liabilities or revenues and expenses. This review should be documented and available for our review.</p>		<p><i>Office of the Comptroller staff identified this issue during the year-end financial statement process and notified the Office of the Auditor General. The instance of netting had been taking place since 1997. Our staff quantified the impact of this item and corrected it in the accounts of the Province.</i></p> <p><i>The Office of the Comptroller does not believe this item is systemic in GNB. As part of the year end process for March 31, 2017, the Office of the Comptroller will ask all departmental accounting staff to review their various programs for instances of netting and report the results of that review to the Office of the Comptroller. This dialogue will be made available to the Office of the Auditor General as the March 31, 2017 audit is being performed.</i></p>

4.73	Presentation of Budget Numbers	
<p>During our audit, we noted the budget figures reported (Main Estimates) on the financial statements were not prepared on the same basis of accounting as the current year numbers reported. Significant differences in presentation between these amounts should be investigated, resolved and presented in a reconciliation in the notes to the financial statements. One example we noted during this year's audit was consolidated nursing home amounts were not included in Main Estimates.</p>		
Recommendation		Comments from Management
<p>We recommend the Office of the Comptroller review the budget numbers reported on the financial statements to determine if the budget is reported on a basis consistent with the actual current year figures. Any differences as required by PSAS, should be explained in the notes to the financial statements.</p>		<p><i>The Office of the Comptroller will review this issue to ensure reporting is in accordance with PSAS.</i></p>

4.74	Nursing Home Employee Benefits	
<p>During this audit, significant progress was made with respect to nursing home consolidation. We noted, however, various assumptions were used by the Office of the Comptroller (OOC) in deriving nursing home accounting estimates. While assumptions are necessary to determine estimates, we found the precision of some of the assumptions could be improved. We noted:</p> <ul style="list-style-type: none"> • the sick leave liability was based on usage data of employees in a similar line of work because this data was not available for nursing home employees; and • the retirement allowance benefit assumed for the Management Group was not supported by an agreement. <p>We recognize consolidating the nursing homes was a significant undertaking requiring many estimates and, in the end, we are comfortable these estimates are not materially misstated. We believe, however, the accuracy of the estimates could be improved if access to detailed data was available.</p>		
Recommendations	Comments from Management	
<p>We recommend the OOC work with nursing homes to obtain sick leave usage and retirement data in order to calculate more precise estimates for the nursing home sick leave and retirement allowance liabilities.</p>	<p><i>The Office of the Comptroller requested data from nursing homes in order to calculate more precise estimates for all areas relating to employee benefit liabilities. The majority of nursing homes advised they were concerned with reporting their information on the books of government given they are independent corporations and to that end, chose not to submit any information. The Office of the Comptroller will continue to make the best possible estimates with the information available.</i></p> <p><i>As this was the first year of the extremely complex process of consolidating nursing homes, the Office of the Comptroller acknowledges there may be potential to improve. Improvement will be made as we refine our methodology based on the information available.</i></p>	

4.75	Estimates and Disclosure of Corporate Income Tax Revenue	
<p>During our audit, we noted documentation deficiencies in the process used to estimate corporate tax revenue. These estimates are a key component in determining provincial corporate income tax revenue which results in approximately \$226 million of provincial revenue.</p>		
<p>The Department of Finance (Finance) does not have a formal documented process for reviewing and approving estimates provided by the Federal government to calculate Corporate Income Tax revenue. We were told these estimates are reviewed, however, evidence of this review is not sufficiently documented. This increases the risk of inaccurate revenues from the Federal government. Given the significance of the revenue involved having an appropriately documented process with proper review is essential to determining an accurate revenue estimate.</p>		
<p>From our review of the financial statement notes, we noted a sensitivity analysis of the corporate income tax revenue is not prepared and the results not disclosed in the financial statements. The sensitivity of these estimates should be disclosed in the financial statement notes in accordance with PS2130. This disclosure should be made given the history of significant year-end adjustments, uncertainty of the estimate submissions and the significant dollar impact if the estimate submissions are adjusted.</p>		
Recommendation	Comments from Management	
<p>We recommend the Department of Finance formally document its process for reviewing and approving estimates provided by the Federal government to calculate Corporate Income Tax revenue. Documented evidence of the approval should be retained for audit purposes.</p> <p>We recommend the Office of the Comptroller disclose the sensitivity of the corporate income tax revenue in accordance with PS2130.</p>	<p><i>The Department of Finance regularly reviews all draft federal estimates relating to the calculation of Corporate Income Tax revenue and is afforded the opportunity to provide input into and verify the official estimate. Confirmation and/or changes are communicated to the federal government by email or verbally. The Department of Finance has documentation on file that supports the estimates used in the calculation of Corporate Income Tax revenue. In order to fulfill this recommendation, the Department of Finance will provide documentation of the approval of estimates with the Federal government going forward.</i></p> <p><i>The Office of the Comptroller will review the reporting of income tax revenue as it relates to PS2130.</i></p>	

4.76	Nursing Home Pension Plan Classification	
<p>During our audit, we noted the Province classified the Pension Plan for General and Service Employees of New Brunswick Nursing Homes (NH-G&S) as a joint defined benefit pension plan. Regardless of demonstrating some of the characteristics of a joint defined benefit plan, the pension plan appears to be sustained by the Province, especially in light of the 2008 Financial Assistance Agreement with the Province to address the going concern funding deficiencies of this plan.</p> <p>We are concerned the significant risks associated with this pension plan are not shared on an equitable basis between the Province and the plan members and that the joint defined benefit classification may not be appropriate for this pension plan.</p>		
Recommendation		Comments from Management
<p>We recommend the OOC prepare a detailed analysis which supports and rationalizes the classification of the Pension Plan for General and Service Employees of New Brunswick Nursing Homes as a joint defined benefit plan. Public Sector Handbook criteria should be supported with evidence in the analysis.</p>		<p><i>The OOC does not share the concern expressed by the Office of the Auditor General and will prepare the detailed analysis requested.</i></p>

4.77	Improper Use of Special Purpose Accounts	
<p>During our audit, we noted the Department of Social Development (SD) appears to have been using the special purpose accounts for Canada Mortgage and Housing (CMHC) to evenly allocate expenses over a period of years. Although listed as CMHC funding in the Special Purpose financial statement note, the amount shown is not actually unspent funds received from CMHC. This “surplus” account is simply an internal mechanism to enable SD to accumulate funds to smooth Provincial contributions as the CMHC funding tapers off over the years. This mechanism enables SD to carry over some of its ordinary budget relating to social housing programs by increasing the amount recorded in special purpose account. The decision on what to allocate the special purpose account is determined annually based on a specific formula rather than on what is actually remains to be spent. This practice has been in place since the start of the agreement.</p>		
Recommendation		Comments from Management
<p>We recommend the OOC investigate whether the Department of Social Development is using the special purpose account appropriately and if the use is not appropriate, the OOC should revise the accounting records so that CMHC amounts are recorded appropriately.</p>		<p><i>The Office of the Comptroller will work with staff at the Department of Social Development to ensure revenues and expenditures relating to the identified program are properly reported.</i></p>
4.78	Need to Align Administration Manual Policy AD-6402 – Approval of Payments	
<p>Again this year, we noted the approval of payments policy AD-6402 and respective processes used at the SNB shared services environment, as well as by other departmental payment systems, are not appropriately aligned. Not following the approved government payment policy increases the risk of payments not being appropriately approved which could lead to invalid payments.</p>		
Recommendation		Comments from Management
<p>We again recommend the OOC and Service New Brunswick work together to update administration manual policy AD-6402 and align the policy and processes to reflect current payment approval requirements for processing government transactions.</p>		<p><i>While there are inconsistencies between the current administrative policy and the payment approval process, given the extent of changes that have occurred recently with the creation of the new Service New Brunswick (SNB), the Office of the Comptroller and SNB have focused their efforts on assessing the adequacy of existing processes and controls in safeguarding the assets of the Province.</i></p>

4.79	School Raised Funds – Communication with Districts	
<p>During our audit of school raised funds, we noted one district, Francophone Nord-Est, was unable to provide supporting backup for school raised funds for the district. We were unable to obtain backup for revenue collected, expenses made or opening and closing bank balances for schools in the district. This is the second year this information was not available. As a result, an estimate of the unsupported amounts was recorded in the Province’s financial statements. Even though we were comfortable with the estimate, not having supporting backup for school raised fund amounts increases the risk of fraud through misappropriation of assets and error in the financial statements.</p>		
Recommendation		Comments from Management
<p>We recommend the Department of Education and the Office of the Comptroller discuss and create a strategy, with representatives of the district Francophone Nord-Est, to obtain supporting backup for school raised fund balances for the district.</p>		<p><i>The Department of Education and Early Childhood Development as well as the Francophone North-East School District agree with this recommendation and are currently working collaboratively to establish a process to ensure backup is available to support revenue and expense transactions as well as opening and closing bank balances. Furthermore, the district is planning to implement a computerized system at the school level (School Cash Net or other) to facilitate the accounting and cash handling processes over school raised funds.</i></p>

4.80	Assumptions Used by Actuaries	
<p>During our audit of pension plans, we made the following observations about the assumptions used by actuaries for calculating financial statement estimates.</p> <ul style="list-style-type: none"> • The assumptions used for the Nursing Home Pension Plans and the Hospital Shared Risk Pension Plans were not reviewed and approved by the Actuarial Valuation Committee (AVC). • The assumptions tended towards the higher end of acceptable ranges for certain discount rates and the inflation rates. • Assumptions approved in advance by the AVC were not re-evaluated at year end to determine if they were still reasonable. • Not all information was considered when assumptions were developed. For example, pay equity amounts were not considered in the salary increase assumption. <p>Assumptions have a significant impact on an actuary's calculations. A small change in an assumption translates to a large fluctuation in the value of an estimate. Each year, we have noted large adjustments to actuarial estimates as a result of actual experience differing from the assumptions used by the actuary. Given this volatile relationship, management should have appropriate oversight and make every effort possible to ensure the accuracy of the assumptions to reduce the risk of inaccurate estimates.</p>		
Recommendation	Comments from Management	
<p>We recommend the OOC review the assumptions approved by the AVC to ensure they are accurate and complete. The assumptions should be based on current relevant data and revised as changes in events occur including significant payroll and economic changes. If the AVC sets assumptions early in the fiscal year, the OOC should review the assumptions to ensure they are still appropriate and consistent at year end.</p>	<p><i>Assumptions approved by the AVC were accurate, complete, and based on current relevant data as at the date of the AVC meeting on March 23, 2016. Changes in circumstances subsequent to year-end resulted in the items 1 and 4 identified above. The assumptions approved by the AVC were within acceptable ranges. Going forward, the OOC will review circumstances closer to the financial statement release date to determine if the approved assumptions remain appropriate.</i></p>	

4.81	Estimates for Remediation of Contaminated Sites					
<p>Estimates of \$33.7 million for future remediation of certain sites in the Province were prepared by the Department of Energy and Resource Development (DERD) and the Department of Transportation and Infrastructure (DTI). During our audit we noted the following:</p> <ul style="list-style-type: none"> • DERD has asserted three independent consultant reports remain an appropriate basis for remediation estimates recorded despite one of the reports dating back to 2011 and another to 2012; however we were unable to view formal documentation analysis to support this rationale; • Of the two older consultant reports, one was issued on an interim basis and not as a final report (DERD); • Estimates prepared using informal information provided by external sources (DTI); and • Estimates recorded at the low end of possible ranges provided by independent consultants without site visits being performed to support the estimate (DTI). <p>While we believe possible differences in these estimates do not represent a material misstatement, a current remediation analysis should be obtained and documented prior to the next year's financial statement audit.</p> <p>We also noted a lack of consistent policy across departments for date of last observation and assessment of site contamination. This inconsistent practice may lead to a risk that determination of the accounting liability is inconsistent or outdated.</p>						
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%; text-align: center;">Recommendation</th> <th style="width: 50%; text-align: center;">Comments from Management</th> </tr> </thead> <tbody> <tr> <td data-bbox="155 1003 808 1877"> <p>We recommend the Office of the Comptroller direct the Departments of Energy and Resource Development (DERD) and Transportation and Infrastructure (DTI) to obtain and document current remediation analysis for these mines as soon as possible. Interim reports obtained from independent consultants used in determining a liability for accounting purposes should be obtained in final form.</p> <p>We recommend DERD and DTI perform site visits to support estimates when a range of possibilities has been provided by third parties.</p> <p>We also recommend the Office of the Comptroller, in conjunction with departments, continue to develop a consistent policy to address the date of last site visit that is acceptable for accounting purposes. Guidelines should be provided to the departments to avoid inconsistent or delayed timing in assessing contaminated sites.</p> </td> <td data-bbox="808 1003 1463 1877"> <p><i>Canadian public sector accounting standard 3260 allows for the use of alternate means of determining the cost of remediation when the cost of gathering and processing the information required is significant. Subject matter professionals from within the department assess the continuing validity of the most recent environmental assessment reports, and the estimates are adjusted for inflation. The Office of the Comptroller, in conjunction with department professionals, will assess the need for additional assessment activity based upon the specific circumstances surrounding each individual site.</i></p> </td> </tr> </tbody> </table>			Recommendation	Comments from Management	<p>We recommend the Office of the Comptroller direct the Departments of Energy and Resource Development (DERD) and Transportation and Infrastructure (DTI) to obtain and document current remediation analysis for these mines as soon as possible. Interim reports obtained from independent consultants used in determining a liability for accounting purposes should be obtained in final form.</p> <p>We recommend DERD and DTI perform site visits to support estimates when a range of possibilities has been provided by third parties.</p> <p>We also recommend the Office of the Comptroller, in conjunction with departments, continue to develop a consistent policy to address the date of last site visit that is acceptable for accounting purposes. Guidelines should be provided to the departments to avoid inconsistent or delayed timing in assessing contaminated sites.</p>	<p><i>Canadian public sector accounting standard 3260 allows for the use of alternate means of determining the cost of remediation when the cost of gathering and processing the information required is significant. Subject matter professionals from within the department assess the continuing validity of the most recent environmental assessment reports, and the estimates are adjusted for inflation. The Office of the Comptroller, in conjunction with department professionals, will assess the need for additional assessment activity based upon the specific circumstances surrounding each individual site.</i></p>
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4.82	Approval of Journal Entries	
<p>As part of our audit, we tested a sample of thirty journal entries and found two of these journal entries were not properly approved. We saw evidence the OOC communicated the process for approving journal entries with departments. Given the inherent control weaknesses surrounding journal entries, significant risks exist such as fraud and error in the financial records. To reduce these risks, the OOC should communicate again the importance of journal entry approval with departments.</p>		
<p>Although we noted some improvement in this area, lack of journal entry approval has been an issue in our past work. As a result, internal audit should review the journal entry approval process to determine if it is applied consistently and recommend ways the process can be improved.</p>		
Recommendation	Comments from Management	
<p>We recommend the Office of the Comptroller continue to communicate regularly with departments the importance of journal entry approval to reduce the risk of fraud and error in the financial records.</p> <p>We recommend the Office of the Comptroller’s Internal Audit section review the journal entry approval process to determine if it is working appropriately and to suggest ways to improve the consistency of the process.</p>	<p><i>The OOC will continue to communicate regularly with departments regarding the importance of journal entry approval.</i></p>	

4.83	Liabilities for Contaminated Sites – Leased Land	
<p>As we noted in prior year's audit, the Department of Natural Resources (DNR) and the Department of Agriculture, Aquaculture and Fisheries (DAAF) both lease Crown land. We noted DNR requires lessees to provide insurance for site contamination at the inception of the lease; however DNR does not monitor lessee insurance coverage for compliance after the first year of the lease. DAAF does not ask lessees for evidence of insurance for site contamination. With no insurance in place, there is risk the Province will be liable for any site contamination resulting from use by lessees. During this year's audit we noted the departments made some progress since our prior year recommendation, however, more work is required by the departments to resolve the issue.</p>		
Recommendation		Comments from Management
<p>We recommend departments obtain evidence of insurance for contaminated sites at the inception of all leases, as well as for each subsequent year the leases are in effect. This review should be documented for audit purposes.</p>		<p><i>The departments have started working towards resolution of this issue and will continue that process.</i></p>
4.84	Write off of Accounts and Loans Receivable	
<p>We noted during our audit, write-offs for accounts and loans receivable are not completed in a timely manner. For example, we found accounts receivable dating back beyond the limitations specified in the <i>Limitations of Actions Act</i> for which the Province would not be able to collect. The <i>Financial Administration Act</i> and the Administration manual policy AD-6307 – Deletion of Debts, require either the Board of Management or Cabinet to approve loan and receivable write-offs. Not writing off of these balances results in an overstatement of gross accounts receivable and allowance for doubtful accounts balances in the Province's consolidated financial statement note disclosures.</p>		
Recommendation		Comments from Management
<p>We again recommend the Office of the Comptroller amend the <i>Financial Administration Act</i> and Administration Manual policy AD-6307 – Deletion of Debts to enable write-offs of loans and accounts receivable balances to occur in a timely manner.</p>		<p><i>Implementation of this recommendation will have no impact on the net debt or deficit of the Province. As a result of the same finding in the prior year, the presentation of accounts receivable and allowance for doubtful accounts was enhanced to increase the disclosure surrounding these account balances.</i></p> <p><i>The deletion of assets from the accounts of the Province is the responsibility of Board of Management, as prescribed in section 29 of the <i>Financial Administration Act</i>. Administration Manual policy AD 6307, referenced in the Auditor General's finding, is a policy of Board of Management, prescribed by section 5 (1) (c) of the same Act. While it is possible for the Office of the Comptroller to recommend changes to policies, the authority to amend a policy lies solely with Board of Management.</i></p>

4.85	Incomplete Purchase Card Policy	
<p>We noted the Province does not have a policy in place regarding the use of purchase cards. A new draft policy was completed this year, however, it has not been approved. Given \$32.2 million of government spending is made using purchase cards, a policy should be approved and followed to reduce the risk of fraud or inappropriate use.</p>		
Recommendation	Comments from Management	
<p>We recommend the Office of the Comptroller finalize the purchase card policy in fiscal 2017.</p>	<p><i>The OOC has, after consultation with stakeholders, prepared a draft Purchase Card Policy and intends to present it for approval.</i></p>	

4.86	Collection of Accounts Receivable Balances			
The percentage of property tax accounts in arrears for one year or more (excluding Federal properties) has remained high for the past number of years.				
As at March 31 (in \$millions)				
	2016	2015	2014	2013
Total receivable balance	\$1,089	\$1,087	\$1,028	\$1,004
Total in arrears 1 or more years	\$107	\$108	\$99	\$94
Percentage of arrears 1 or more years	9.8%	9.9%	9.6%	9.4%
	March 31 Listing			
	2016	2015	2014	2013
Total number of property accounts	387,030	391,944	382,206	383,672
Total with arrears 1 or more years	54,509	53,213	51,071	56,471
Percentage with arrears 1 or more years	14.1%	13.6%	13.4%	14.7%
Increasing uncollected balances of this magnitude represent both increased borrowing costs and expenditures for the Province.				
Prior to September 2016, the collection of aged accounts receivable was the responsibility of Service New Brunswick (SNB). We were informed the Department of Finance monitored the collection process on a monthly basis and the collection efforts of SNB were not meeting departmental expectations. The collection process did not include setoffs with the Canada Revenue Agency (CRA) and delays in collection activities at Service New Brunswick may have placed certain limitations on the Department's ability to proceed with tax sales. These limitations negatively impacted the Department's ability to recover overdue balances.				
In September 2016, the responsibility for collection of accounts receivable was reassigned to Treasury Board. Given this change in responsibility, discussion is needed between the Department and Treasury Board to align future collection efforts with departmental expectations for property tax accounts receivable.				
Recommendation	Comments from Management			
We recommend the Department of Finance develop an agreement with Treasury Board for the collection of property tax accounts receivable. This agreement should outline the Department's expectations for collection and courses of action should these expectations not be met. The Department should continue to monitor these collection efforts on a monthly basis.	<i>The Department of Finance will continue to monitor its receivable balances on a monthly basis and work with the Treasury Board on an on-going basis to improve the effectiveness of the collection process.</i>			