

# Report Overview



OFFICE OF THE AUDITOR GENERAL  
NEWFOUNDLAND AND LABRADOR



## Why We Report on the Province's Financial Statements

We prepared this report on the province's financial statements in accordance with the Auditor General Act, 2021, and to expand on our audit opinion and observations on the province's financial statements for the year ended March 31, 2023.



## Audit Results

In 2023, the Auditor General provided a clean audit opinion on the Public Accounts. The Consolidated Summary Financial Statements have received an unqualified audit opinion for the past 29 consecutive years. The Provincial Government has yet to finalize its rate mitigation plan; the implementation of this plan may have a significant financial impact on the province in future years.



## Opportunities for Improvement

There were 91 management letter points outstanding across the government reporting entity in 2023, up from 30 in 2022.

### Topics that were not remedied from 2022:

- **Preparation of Public Accounts:** We recommend government perform an analysis of its business processes to reduce the risk of error.
- **Tangible Capital Assets:** We recommend the Office of the Comptroller General require all departments to review work-in-progress assets annually. We recommend government implement a process to physically verify its tangible capital asset listing on a rotational basis.
- **Public Private Partnerships (P3s):** We recommend government ensure the inflation rate used for contractual obligations for P3s is reviewed annually, and include an inflation sensitivity analysis for P3s in the Public Accounts.
- **Loans, Advances, and Mortgages Receivable:** We recommend government review this portfolio to identify accounts and related allowances that have been present for many years. Accounts for which there is no reasonable probability of recovery should be considered for write-off.
- **Government Reporting Entity:** We recommend C-NLOPB be consolidated as a government partnership. We recommend government compel the submission of financial information from Egg Farmers of NL.
- **Offshore Royalties – Carryback of Decommissioning Costs:** We recommend government conclude its work to determine the impact that the carryback of expected decommissioning costs will have on offshore royalties.
- **Financial Statement Audits for the Office of the High Sheriff:** We recommend government prioritize the submission of required financial information to allow for the completion of these audits without further delay.
- **C.A. Pippy Park:** We recommend the Pippy Park Commission comply with Cabinet direction or seek clarity. We recommend the Pippy Park Golf Course finalize a process for future board member appointments.
- **Newfoundland and Labrador Pooled Pension Fund:** We recommend the Fund consider finalizing and approving a Terms of Reference to guide the Pension Investment Committee, which includes specifying the frequency of the Pension Investment Committee meetings.

### Additional topics that were realized in 2023 regarding Public Accounts:

- **Quality of Information:** As the preparer and co-signor of the financial statements, we believe the Comptroller General should pursue timely corrective actions for areas that have traditionally resulted in information that is not of sufficient quality for audit. We recommend the Office of the Comptroller General take action to improve the quality of Public Accounts submissions.
- **Accounts Receivable:** We recommend government review the accounts receivable and the allowance for doubtful accounts to identify outstanding balances that should be considered for write-off.
- **Asset Retirement Obligations:** We recommend the Office of the Comptroller General ensure asset retirement obligations are reviewed annually to ensure costs are up to date and reflect currently held assets.
- **Public Sector Accounting Standards Deficiencies:** We recommend the Office of the Comptroller General ensure relevant disclosure requirements are evaluated and included in the Public Accounts.
- **Review of General Information Technology (IT) Controls:** We recommend government address these issues to enhance general IT controls.
- **Inventory Management:** We recommend government ensure that inventory count procedures are properly completed and that counts are conducted as required. We also recommend Government ensure that departments who are responsible for inventory management have documented policies which are appropriate for the risk of the inventory which they carry.
- **Bank Reconciliations:** We recommend government ensure that bank reconciliations are prepared on a timely basis.

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## Opportunities for Improvement

### Additional topics that were realized in 2023 regarding entities:

- **Eastern Regional Health Authority:** We recommend Newfoundland and Labrador Health Services create and update a tangible capital asset listing to allow assets to be recorded with accuracy. We recommend they ensure all purchase requisitions be properly approved before an expenditure occurs and that evidence be maintained. We recommend they implement a process to track inventory expiration dates and that inventory write-downs are recorded in a timely manner. We recommend they ensure Electronic Funds Transfer files are protected or processed as an outgoing bank payment immediately; also they should ensure that only personnel with appropriate authority have access to this data.
- **Newfoundland and Labrador Liquor Corporation:** We recommend that the Liquor Corporation ensure future compliance with the wording of the Pricing Policy.
- **Credit Union Deposit Guarantee Corporation:** We recommend the Corporation should further pursue the matter of salary top-ups with the department to implement the direction provided. We recommend any payments to or on behalf of the Corporation employees, other than regular salary payments, should have documented Board approval. We recommend the Corporation file HST returns on a more frequent basis. We recommend the Corporation implement a process for approving journal entries. We recommend the Corporation perform an analysis of historical sick leave usage information in support of its calculation of the sick leave accrual.
- **Newfoundland and Labrador Legal Aid Commission:** We recommend the Commission regularly review and update its list of tangible capital assets.
- **Supreme Court of Newfoundland and Labrador:** We recommend that the Supreme Court ensure all bonds being held by the financial officer are physically inspected to confirm the type of bond and whether it should be recorded as a payment. We also recommend the financial policy be updated to differentiate between types of bonds. We recommend the Supreme Court implement a process to provide reports from their system.
- **Newfoundland and Labrador Municipal Financing Corporation:** We recommend the Newfoundland and Labrador Municipal Financing Corporation develop by-laws, or some other mechanism, to decide what to do with its cash balance. We recommend the Corporation consult with the Department of Finance and the OCIO on whether to continue the practice of billing for salaries.
- **Celebrate NL:** We recommend Celebrate NL ensure complete and accurate financial information is presented for audit in a timely manner. We recommend they ensure any adjustments identified after the year-end have been appropriately communicated. We recommend they establish controls to address the identified control weaknesses. We also recommend they establish a formal risk assessment process.
- **C.A. Pippy Park Golf Course:** We recommend the Pippy Park Golf Course should have procedures in place to track all repairs, the parts used and the remaining inventory on hand. We recommend they ensure that all cash counts are attended by two people and that counts are signed by both the counter and the reviewer.
- **Chicken Farmers of Newfoundland and Labrador:** We recommend the Chicken Farmers ensure Board review and approval are obtained on a timely basis and any issues detected are corrected. We recommend they ensure that approvals are obtained from Board members who are independent of management.
- **Provincial Advisory Council on the Status of Women:** We recommend the Provincial Advisory Council on the Status of Women keep its banking signing authority list current. We recommend the Council ensure, where applicable, dual approvals are obtained before a purchase occurs.
- **Innovation and Business Investment Corporation:** We recommend the Innovation and Business Investment Corporation continue the process of consolidating the operations of the former Business Investment Corporation and former Research and Development Corporation of Newfoundland and Labrador under one entity.
- **Additional Issues - General Information Technology Controls:** We recommend entities review any IT findings and implement all recommendations in a timely manner.

Additional topics were identified by external auditors relating to three formal regional health authorities, Marble Mountain Development Corporation, the Newfoundland and Labrador Centre for Health Information, Dairy Farmers of Newfoundland and Labrador, and the Newfoundland and Labrador Sports Centre.



## After reading this report, you may want to ask the following questions of government:

1. When will government conclude and release its rate mitigation plan?
2. Why are there still management letter topics outstanding from previous years?
3. What action is being taken to address the concerns in the 2023 management letters?



## Observations

**Financial Health of the Province:** The province should consider the various indicators of financial health and potential risks when planning its current and capital spending. The province should also plan to become less exposed to the increased cost of borrowing through conscious strategies to reduce its debt.

**Timing of the Consolidated Summary Financial Statements:** The province should strongly consider amendments to the Financial Administration Act and business process changes to reflect modern accounting and controllership practices. By pursuing alternatives to ensure that Public Accounts can be released in a timelier manner, the province would improve the accountability and transparency that comes from the actual financial results.

### Newfoundland and Labrador Health Services Debt:

- The credit facilities in place with the former health authorities have increased substantially since 2019, from \$118 million in March 2019 to \$660 million in February 2024 - an increase of 459%. During the same period, the Estimates appropriation for grants and subsidies for the provincial health authority also grew approximately \$600 million – from \$2.2 billion in Budget 2018 to \$2.8 billion in Budget 2023.
- Between April 1, 2018, and January 22, 2024, Newfoundland and Labrador Health Services and the former regional health authorities incurred \$17 million in interest charges on their operating lines of credit.
- As of March 31, 2023, the Eastern Regional Health Authority's net payable balance was \$101 million. Compared to the balance available on its operating line of credit of \$10 million, it appears without outside funding or further increases to its operating facility, the Eastern Regional Health Authority could not have met its financial obligations as of March 31, 2023.
- We recommend government determine whether the Newfoundland and Labrador Health Services debt usage is fiscally sustainable and consider reducing Newfoundland and Labrador Health Services' reliance on operating facilities to fund its operating expenditures.
- Given increasing liability balances and increasing interest costs, we recommend the province consider its vulnerability to rising interest rates and seek opportunities to reduce its exposure.

### Income Support Overpayments:

- Income support overpayments represent the third largest category of government's receivables (behind amounts due from the federal government and offshore royalty receivables). The balance outstanding as of March 31, 2023, was \$95.9 million, with former clients representing 58% of that receivable.
- The balance of outstanding income support overpayments has increased by \$37.8 million (65.2%) since 2018.
- New overpayments are outpacing recoveries at a rate of three to one.
- As at March 31, 2023, there were 1,985 cases totalling \$28.1 million where an income support overpayment arose due to 'false pretenses' (i.e. fraud). This represents 29.3% of the total balance of income support overpayments.
- As of March 31, 2023, there were \$6.0 million (7,765 cases) categorized as recommended for final write-off but have yet to be written off. Over the six-year period, government has deemed that between 55% and 60% of the income support receivables are not collectable.
- The department is encouraged to focus on preventative measures to reduce the amount of income support overpayments from arising.



## Observations

### Uniformed Services Pension Liability

- 74% of the pension obligation was not funded; as a result, the Plan does not have sufficient assets on hand to cover its current and future commitments.
- The Uniformed Services Pension Plan has the lowest fund assets to pension liability ratio (26%) compared to government's five other pension plans (34% to 89%).
- We recommend government review the Uniformed Services Pension Plan and determine if action is needed to ensure sustainability for Plan members and minimize risks for taxpayers

**Change in Audit Status of Health Foundations:** These foundations are no longer part of the mandate of the Office of the Auditor General. As a result, their operations would not be subject to audit as part of the Public Accounts audit or subject to performance audit scrutiny.

### Fraud Management:

- Although the Fraud Management Program has been implemented across core government departments, fraud risk remains in government entities. Strong fraud management policies provide guidance for management and employees that can increase both detective and preventative measures against fraud.
- Our Office developed a questionnaire to assess whether similar fraud management practices existed in 26 government entities and we determined:
  - approximately one in three respondents does not have a Code of Conduct in place,
  - there were four entities (16%) that did not follow government's Fraud Management Policy, nor did they have their own unique policy, and
  - only 16% of entities completed a fraud risk assessment internally.
- Of the 312 reported cases of fraud, 115 (37%) were allegedly committed by internal sources, and 197 (63%) were allegedly committed by external sources. The Department of Immigration, Population Growth and Skills had the greatest number of external fraud incidents while the Department of Transportation and Infrastructure had the greatest number of internal incidents of fraud.
- We recommend government ensure that its fraud management policy, or an equivalent policy, is applied consistently throughout the public service.
- We recommend government further promote awareness and education of fraud within government, with additional efforts around fraud awareness in departments with higher risk due to complexity or public-servicing operations; and that entities complete their own fraud risk assessments so they have a better understanding of where fraud is most likely to arise and, as a result, can develop appropriate policies in response.
- We recommend government be diligent in its review of government-issued credit card activity, as an essential part of detecting potential instances of fraud and in order to react in a timely manner should any loss to government occur.
- We recommend government continue its efforts to promote a culture of 'zero tolerance' for fraud, including every effort to prevent instances and respond appropriately when instances and consider whether it feels fraud cases are being handled in a consistent manner, particularly if they involve government employees.



After reading this report, you may want to ask the following questions of government:

1. Will government make the necessary legislative and operational changes to improve the timeliness of the Public Accounts?
2. What is the plan to address the debt levels and resultant interest costs at the provincial health authority?
3. Why doesn't government's Fraud Management Program cover the entire public service?