

# Auditor General Report on the Province's 2023 Financial Statement Audits

February 2024



OFFICE OF THE AUDITOR GENERAL  
NEWFOUNDLAND AND LABRADOR

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## 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.

## 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?

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# Introduction

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The Office of the Auditor General is legislated to conduct the financial audit of the Public Accounts of the province as well as other financial audits involving government entities, claims and compliance requirements. The Office provides an audit opinion indicating whether the financial statements present fairly the financial position of the entity.

This report details the financial audit work conducted by the Office, namely the Public Accounts and the 20 government reporting entities it audits, as well as the work performed by component auditors, who conducted 21 Crown entity audits. The Office also conducted 8 other special-purpose financial audits. This report also provides additional information on observations from this audit work. It is the intention of the Office to promote accountability through its audit activities and the transparent communication of audit results.

Appendix I provides background information regarding this work, including information on the composition of the government reporting entity for Newfoundland and Labrador.



# Audit Results

## Audit Opinions

As per Section 17 of the Auditor General Act, 2021, the Office of the Auditor General (Office) must conduct an annual financial audit of the Public Accounts. These statements show financial results for all organizations in the government reporting entity. The government reporting entity includes government departments and the Legislature, government organizations, government business enterprises, and a proportionate share of a government business partnership, as listed in Schedule 15 of the Consolidated Summary Financial Statements.

An unqualified audit opinion on the Consolidated Summary Financial Statements for the year ended March 31, 2023, was issued on October 27, 2023. It concluded that the statements were presented fairly, in all material respects, in accordance with Canadian Public Sector Accounting Standards. This audit opinion does not extend to the effectiveness of internal controls. However, if we identified issues during our audit that resulted in recommendations to improve controls or management practices, those issues were communicated to government.

Government includes a financial statement discussion and analysis report with the Consolidated Summary Financial Statements, entitled 'Understanding the Financial Health of the Province of Newfoundland and Labrador.' Our opinion on the statements does not cover this analysis report and we do not express any form of conclusion on it. However, generally accepted auditing standards require us to review the analysis report and, in doing so, consider whether this information is materially inconsistent with the financial statements, the information obtained during the audit, or otherwise appears to be materially misstated. If we conclude that there is a material misstatement, we are required to report that. For the year ended March 31, 2023, there was no material misstatement identified in the analysis report presented with the Public Accounts. Appendix II contains the full audit opinion.

The Consolidated Summary Financial Statements are audited by our Office to support our opinion on the Public Accounts. Of the other 43 entities, 20 are audited by our Office, 21 are audited by component auditors, and two are unaudited.

### **Crown Agencies**

C.A. Pippy Park Commission  
C.A. Pippy Park Golf  
Celebrate NL Inc.  
Chicken Farmers of Newfoundland and Labrador  
Credit Union Deposit Guarantee Corporation  
Eastern Regional Health Authority 1  
Heritage Foundation of Newfoundland and Labrador  
Innovation and Business Investment Corporation  
Livestock Owners Compensation Board  
Newfoundland and Labrador Arts Council  
Newfoundland and Labrador Crop Insurance Agency  
Newfoundland and Labrador Housing Corporation  
Newfoundland and Labrador Immigrant Investor Fund Limited  
Newfoundland and Labrador Industrial Development Corporation  
Newfoundland and Labrador Legal Aid Commission  
Newfoundland and Labrador Liquor Corporation  
Newfoundland and Labrador Municipal Financial Corporation  
Provincial Advisory Council on the Status of Women - Newfoundland and Labrador  
Provincial Information and Library Resources Board  
The Rooms Corporation of Newfoundland and Labrador



For the year ended March 31, 2023, component auditors, also known as private sector auditors, completed the financial statement audits for the following:

Atlantic Lottery Corporation  
Board of Commissioners of Public Utilities  
Central Regional Health Authority <sup>1</sup>  
College of the North Atlantic  
Conseil Scolaire francophone provincial de Terre-Neuve-et-Labrador  
Dairy Farmers of Newfoundland and Labrador  
Egg Farmers of Newfoundland and Labrador  
Labrador-Grenfell Regional Health Authority <sup>1</sup>  
Marble Mountain Development Corporation  
Memorial University of Newfoundland  
Multi-Materials Stewardship Board  
Municipal Assessment Agency Inc.  
Nalcor Energy  
Newfoundland and Labrador 911 Bureau Inc.  
Newfoundland and Labrador Centre for Health Information <sup>1</sup>  
Newfoundland and Labrador English School District  
Newfoundland and Labrador Film Development Corporation  
Newfoundland and Labrador Sports Centre  
Newfoundland Hardwoods Limited  
Oil and Gas Corporation of Newfoundland and Labrador  
Western Regional Health Authority <sup>1</sup>

Audits are conducted in accordance with Canadian audit and assurance standards as set out by the Chartered Professional Accountants of Canada. Since our last annual report, the Auditor General issued 31 financial audit opinions. All audit opinions issued were unqualified. All of the statutory audit deadlines were met.



1. Effective April 1, 2023, Central Regional Health Authority, Eastern Regional Health Authority, Labrador Grenfell Regional Health Authority, Western Regional Health Authority and Newfoundland and Labrador Centre for Health Information have been dissolved and amalgamated within Newfoundland and Labrador Health Services.

## Rate Mitigation

As permitted by Generally Accepted Auditing Standards, the independent auditor's report on the Consolidated Summary Financial Statements contains an "Other Matter" paragraph which references the province's rate mitigation plan.

In April 2019, government released a proposed framework that outlined possible options to mitigate the expected electricity rate increases which would result from the Muskrat Falls Project coming online. At the time, government stated that a final report from the Public Utilities Board to be released in January 2020 would inform their final plan. In February 2020, the Province and the Federal Government agreed to take on a financial restructuring of the Muskrat Falls Project. Two years later, term sheets were signed for the \$1 billion federal loan guarantee.

The Muskrat Falls plant was commissioned in November 2021. Newfoundland and Labrador Hydro was then required to begin making payments under the Power Purchase Agreement for the associated costs to build, finance and operate the plant. These costs accumulated in the Supply Cost Variance Deferral Account, which represents the difference between the costs to supply the Island Interconnected System and the costs currently collected from customers in electricity rates. This is essentially an amount owed from customers that is primarily due to payments made under the Muskrat Falls Power Purchase Agreement.

In March 2023, government announced that it was paying the \$190.4 million balance in the Supply Cost Variance Deferral Account. This was necessary due to the fact that rate mitigation had not yet been finalized. At the time, government stated that the implementation of the final components of rate mitigation could not be finalized until full commissioning of all aspects of the Lower Churchill project, including the Labrador-Island Link.

The Labrador-Island Link was commissioned a month later in April 2023. Despite this, government has yet to finalize details of its rate mitigation plan.

Implementation of this plan will have a significant impact on the residents of the province. The costs of the Muskrat Falls project will have to be paid through some combination of increased electricity rates, higher taxes or reduced spending on government programs and services.

**Rate mitigation could also significantly impact the Consolidated Summary Financial Statements of the province. Depending on the details of the plan, this may have an impact on how NL Hydro is accounted for in the Public Accounts which in turn may impact certain financial ratios of the province and thereby the province's credit rating.**

**Given the importance of this issue and the financial impact on Newfoundlanders and Labradorians, as well as on the provincial treasury, government should work to finalize the details of its rate mitigation plan as soon as possible.**



# Opportunities for Improvement

During financial audits, we often identify opportunities for management to improve various areas of their operations such as accounting practices, governance, internal controls or compliance with policies, legislation, and regulations. Management letters explain these areas of opportunity, offer recommendations on improvements, and include a response from the organization. Issues raised in management letters do not indicate that financial statements are materially misstated; however, issues are deemed by the auditor to be important enough to report to an entity's board of directors or those charged with governance.

The table below provides a summary of the government reporting entity's management letter topics provided by the Office and external auditors during 2022-23 2.

## Management Letter Issues for Government Reporting Entity

Categories	Public Accounts	Entities Audited by the Auditor General	Entities Audited by External Auditors	Total
Accounting Practices	13	4	4	21
Governance	0	4	0	4
Internal Controls	8	40	14	62
Compliance with Policies, Legislation, and Regulations	0	2	2	4
<b>Total</b>	<b>21</b>	<b>50</b>	<b>20</b>	<b>91</b>

Some management letter issues are resolved in the year following the letter's release, while others remain an issue in subsequent management letters. With respect to the 71 issues identified by the Auditor General, 59 issues were new in the 2022-23 audits and 12 issues remain unresolved from prior years.

2. Egg Farmers of Newfoundland and Labrador were externally audited but did not respond to our request for audit results documentation including management letter issues.

## Prior Years' Topics - Public Accounts

### Preparation of Public Accounts

Again this year, concerns were raised with respect to some processes and systems used to prepare the Consolidated Summary Financial Statements. As currently configured, the system relies heavily upon manual processes, which may be prone to error. During our audit, we observed numerous instances where submissions were incorrect and required correction by the Office of the Comptroller General.

**Utilization of manual processes increases the risk of errors due to information being excluded or not recorded correctly. We recommend government review the Financial Administration Act to reassess the modified cash basis of accounting. In the interim, the Office of the Comptroller General should continue its efforts to have complete and accurate information for consolidation in a timely manner.**

Government's financial management system operates on a modified cash basis of accounting, in accordance with the 'write back' requirements of the Financial Administration Act. Customizations have been made to the Oracle financial management system as a result, and the system does not produce full accrual financial information. Information on assets and liabilities that would be included in a statement of financial position is not readily available directly from the system. Full accrual financial information is a reasonable expectation from government's financial management system.

### Tangible Capital Assets

During our audit, significant errors and omissions were discovered with respect to assets under development or construction (considered work-in-progress status). Numerous roads, buildings, and marine assets were not removed from work-in-progress in the prior year and current year, resulting in amortization not being recorded.

Over the past few years, we have continuously identified a pervasive issue with the management and monitoring of work-in-progress assets.

**Total errors in work-in-progress assets of \$240 million has been identified since 2017-18. We recommend the Office of the Comptroller General require all departments to review work-in-progress assets, at least annually, and require an accurate list of work-in-progress assets, certified by the applicable Deputy Minister, be included with the departments' Public Accounts submission.**

Our audit work continues to identify repeated issues with tangible capital asset disposal reporting. For example, two heavy equipment assets were disposed of in 2018, but not removed from the tangible capital asset module until the current fiscal year; a similar issue was identified regarding two buildings that were no longer in use and were disposed of in prior years.

**We recommend government, in order to assist the Comptroller General to complete the annual financial statements, implement a process to physically verify its tangible capital asset listing on a rotational basis.**

### Public Private Partnerships (P3s)

In last year's report, concerns were raised regarding disclosures relating to the contractual obligations of P3s. Specifically, a small change in the inflation rate could have a significant impact on the total contractual obligations for P3s included in the Consolidated Summary Financial Statements. There is a risk that without reviewing the inflation rate used, contractual obligations for P3s could change and could be materially incorrect as a result. As of March 31, 2023, the total contractual obligations for P3s disclosed in the financial statements was \$1.8 billion - capital payments of \$1.2 billion, and operating payments of \$600 million.

**A sensitivity analysis that explains the impact of changes in inflation on the total value of contractual obligations disclosed related to P3s would be beneficial to users in assessing the impact that changes in inflation would have on the Province's contractual obligations related to P3s. We recommend government ensure the inflation rate used for contractual obligations for P3s is reviewed on an annual basis. Government should also include an inflation sensitivity analysis for P3s in the Public Accounts, as recommended by Public Sector Accounting Standards.**

**Loans, Advances, and Mortgages Receivable**

Again this year our audit found a significant number of loans were fully included in the allowance that the province records against loans, advances, and mortgages receivable to account for the possible non-collection of amounts. A number of these loans have had an allowance for many years and there does not appear to be any reasonable probability that any type of recovery is likely. For loans that have a full allowance against them for a number of years, their existence as a true asset may be questionable.

**It is good accounting practice to remove from the accounting records loans and receivable balances which management has no intention to pursue collection. 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**

In previous management letters, we recommended that the Province consolidate the Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB). Our rationale for this inclusion is based on Section 10 of the Canada-Newfoundland and Labrador Atlantic Accord Implementation Newfoundland and Labrador Act which states that the Board consist of seven members, three appointed by the federal government, three appointed by the province, and a chair who is jointly appointed by both the province and the federal government. In the Office of the Comptroller General's assessment, they concluded that in theory, a scenario could exist whereby a board meeting with a majority of federally appointed members would control decision-making. We disagree with this assessment as the intent is clearly shared control.

**Excluding the C-NLOPB understates the total assets, liabilities, revenues and expenses of the Province. We recommend that they be consolidated as a government partnership.**

As noted last year, Egg Farmers of Newfoundland and Labrador, a commodity board established under the Egg Scheme, 2000, have indicated that they do not consider themselves a part of the government reporting entity. They have declined to provide information to the Office of the Comptroller General to facilitate their consolidation into the province's Public Accounts. Furthermore, they directed their auditors to not share their financial statement information with our Office during our Public Accounts audit. All other commodity boards established under different Schemes (such as Chicken Farmers of NL and Dairy Farmers of NL) have cooperated and provided financial information for inclusion in the Public Accounts.

**It is a reasonable expectation that audit information for the Province's financial statements be available directly. We recommend that government compel the submission of financial information from Egg Farmers of Newfoundland and Labrador to government.**

**Offshore Royalties – Carryback of Decommissioning Costs**

As noted previously, it was recommended that government determine the impact that the carryback of expected decommissioning costs would have on offshore royalties and ensure that these costs are accounted for in the Public Accounts in accordance with the Canadian Public Sector Accounting Standards. Government continues to indicate that they are working with the Department of Industry, Energy and Technology to review the current projects to determine if an estimate of the decommissioning costs can be determined, how these costs will factor into the royalty calculation, and whether there will be any carryback amounts. As noted last year, the province could estimate future liability from the financial statements of the operators of the oil production facilities, since they disclose this information in their financial statements.

**Liabilities regarding offshore royalties could be material and are reasonably available for consideration. We recommend government conclude its work to determine the impact that the carryback of expected decommissioning costs will have on offshore royalties and ensure that these costs are accounted for in the Public Accounts in accordance with Canadian public sector accounting standards.**

## **Financial Statement Audits for the Office of the High Sheriff**

As noted in prior year's reports, the audit of the Office of the High Sheriff's financial statements are behind by several years. Since August 2022, we have been able to complete the audits for the fiscal years ended March 31, 2018, to 2020, with audit work underway for the year ended March 31, 2021. However, we have yet to receive the financial statements for the years ended March 31, 2022 and 2023 and would normally expect the 2024 information by May 2024.

**The risk that there are undetected errors remains. We recommend government prioritize the submission of required financial information to allow for the completion of these audits without further delay.**







## Prior Years' Topics – Entities

### C.A. Pippy Park Commission - Compliance with Authority

As reported previously, Cabinet had directed the C.A. Pippy Park Commission in 2004 to enter into a management agreement - this direction has not been acted on to date.

**We recommend the C.A. Pippy Park Commission comply with Cabinet direction or seek further direction so that the issue of the management agreement is resolved.**

### C.A. Pippy Park Golf Course - Board Appointments

As reported previously, board member appointments did not go through the Public Service Commission as required by the Independent Appointments Commission Act. The process that is being followed is in accordance with the entity's corporate bylaws, however, it appears it does not appropriately reflect the Act.

**We recommend the C.A. Pippy Park Golf Course finalize a process for future board member appointments.**

### Newfoundland and Labrador Pooled Pension Fund - Pension Investment Committee

Similar to the prior year, there are no approved Terms of Reference to guide the Pension Investment Committee. Furthermore, we note that there was only one meeting of the Pension Investment Committee during the 2022 fiscal year.

**The Trustee would have received limited advice from the Pension Investment Committee on the operations and investment activities of the Fund during the 2022 fiscal year. There is a risk that the development, assessment, and implementation of the Newfoundland and Labrador Pooled Pension Fund's objectives and investment strategies are not being appropriately managed. 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.**

## New Topics – Public Accounts

### Quality of Information

To prepare the Public Accounts, the Office of the Comptroller General relies heavily on Departments and Crown Corporations to provide complete and accurate information. The Office of the Comptroller General provides fillable templates for required information, which are subsequently imported into the financial reporting system to create the Public Accounts. As a result, issues with the quality of information have a significant impact on the amount of time and work associated with creating and auditing the Public Accounts.

During our audit, we observed numerous instances where the quality of submitted information was not adequate to complete the Public Accounts audit, resulting in additional audit time. A sample of issues encountered included:

- Spreadsheets from entities with hidden or duplicate lines, as well as missing, outdated, or incorrect information, which were further incorporated into the financial statements and required correction;
- Incorrect or missed contractual obligations, receivables, revenues, and transactions between related government entities;
- Lack of appropriate accounting treatment regarding the new Asset Retirement Obligations standard;
- Significant issue involving the Home Heating Rebate Program, whereby the initial amounts spent for the program were incorrectly charged against revenues rather than as expenditures. Upon investigation, our audit discovered that there was no budget allocation for these expenses, nor was the program listed as a tax expenditure in the Estimates. This error further reduced the comparability of budget versus actual results.

### Summary Of Audit Adjustments 2022-23

Financial Statement Area	Statement of Operations			Statement of Financial Position		
	Correcting Debit (Credit) (\$000s)		Correcting Decrease (Increase) (\$000s)	Correcting Debit (Credit) (\$000s)		
	Revenue	Expenses	Surplus/ Deficit	Assets	Liabilities	Equity
Financial Audits	10,815	794	11,609	(23,414)	(4,015)	15,820
Public Accounts	174,585	(89,189)	85,396	(244,116)	22,106	136,614
<b>Total</b>	<b>185,400</b>	<b>(88,395)</b>	<b>97,005</b>	<b>(267,530)</b>	<b>18,091</b>	<b>152,434</b>

While the dollar value of corrected errors may appear small compared to the entire Public Accounts, the wide-spread nature and degree of error as well as its impact on the annual audit process may call into question the financial capacity of government to efficiently and effectively produce their financial statements without missing the statutory deadline.

**As the preparer and co-signor of the financial statements of the province, 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 and to take the necessary actions to ensure that the Public Accounts statutory deadlines are not compromised through compressed audit schedules. We recommend the Office of the Comptroller General take action to work with departments and entities to improve the quality of Public Accounts submissions.**

### **Accounts Receivable**

As at March 31, 2023, the total balance of accounts receivable related to the Consolidated Revenue fund was \$3.3 billion, with an allowance for doubtful accounts balance of \$122.2 million. During our audit, we found that a significant portion of receivables have been outstanding for several years and have been fully included in the allowance, with only \$1.5 million written off.

**Best practice would dictate regularly assessing accounts receivable and the associated allowance for doubtful accounts to identify the accounts that should be considered for write-off. 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**

Asset retirement obligations are legal obligations associated with retiring tangible capital assets, such as sale or abandonment. During our audit work, numerous examples of asset retirement obligations were incorrectly calculated for several assets because the information used in the calculation was inaccurate. For example, an obligation was incorrectly recorded for three assets that were disposed of in prior years and four assets that were disposed of in the current year. We also had trouble obtaining support for inputs to the obligation calculation, such as the total square footage of assets.

**The ability to implement new accounting standards and maintain adherence is critical to effective financial management. 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**

Canadian public sector accounting standards include specific disclosure requirements that help provide users with a full understanding of an entity's financial statements. There were several instances noted where disclosures included in the Public Accounts were either deficient according to the applicable standard, or should have been further assessed by the Office of the Comptroller General to determine if additional disclosures were required.

This year, we noted deficiencies with asset retirement obligations, investments, and loans receivable. We also noted disclosures relating to account receivables, long-term debt, and contractual obligations needed to be further assessed.

**Addressing deficient disclosures and performing assessments to determine if other disclosures are required will help provide users with the information needed to fully understand the information presented. 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**

During the audit, our Office completed a review of general IT controls for the government's financial management system and human resource management system. There were six issues noted, including:

- Certain documented IT policies and procedures are not being reviewed at a scheduled frequency, ranging from once every year to once every three years. We identified that some were not reviewed within the prior three-year period.
- Appropriate segregation of duties for individuals who develop changes to IT systems and those who implement them into the production environment was not maintained.
- Documentation was not available to show that staff access to an application used to administer a government program was reviewed on a regular basis by the department.

**Effective IT controls are a key component of government's internal controls environment. We recommend government address these issues to enhance general IT controls.**

## **Inventory Management**

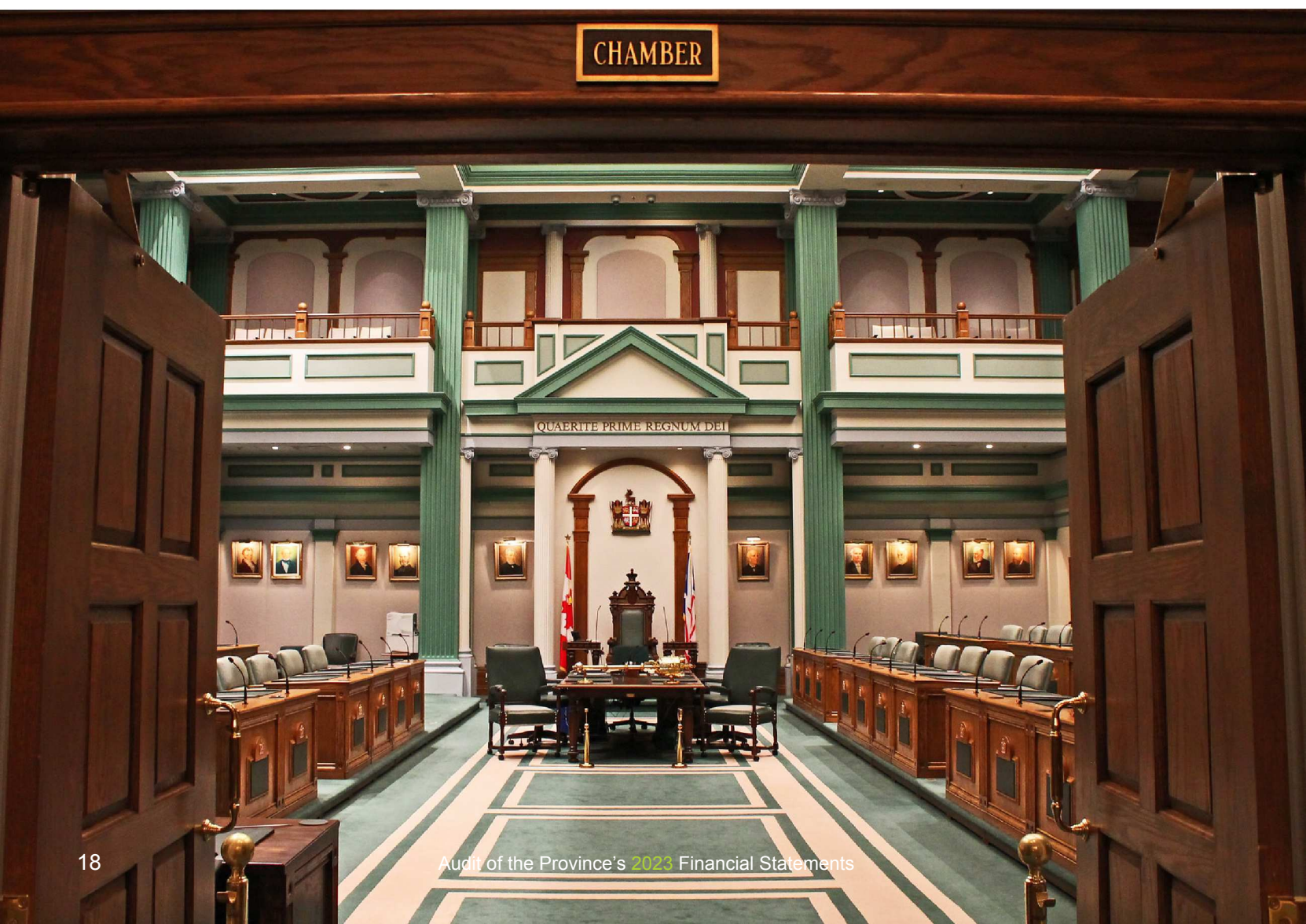
During our audit, we identified that inventory count guidelines were not consistently followed by all departments. During our testing of inventories, we discovered instances where inventory count sheets did not identify the date the count was completed, who completed the count, and were not signed by the count supervisor, for example, we found counts were not completed until after March 31 for 35 of 69 highway depots; some counts were completed as late as May 2023.

**Inventory management is an area of risk to government; the nature of some of these items makes them inherently susceptible to the risk of theft or loss (automotive and mechanical parts, medical supplies, salt and sand, weapons and ammunition). 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 that are responsible for inventory management have documented policies which are appropriate for the risk of the inventory which they carry.**

## **Bank Reconciliations**

The Office of the Comptroller General is responsible for many active bank accounts related to government disbursements and revenue transfers. Government guidance requires that all accounts be reconciled promptly each month. During our audit, we identified that bank reconciliations were not prepared on a timely basis. Accounting for the 10 days after month end for the general ledger to close, there were still four instances, affecting three major banks, in which it took 60 or more days for the bank reconciliation to be prepared.

**Bank reconciliations represent an important element in the system of internal control and serve to identify errors in reported bank balances. We recommend government ensure that bank reconciliations are prepared on a timely basis.**



## New Topics – Entities

### Eastern Regional Health Authority - Fixed Asset Register

During our audit of the Eastern Regional Health Authority's Operating Fund, we noted that a Fixed Asset Register is not used to track tangible capital assets; assets are not individually identifiable and details such as their date of acquisition are not noted.

**Without a fixed asset listing, there is an increased risk that capital asset disposals, amortization and retirement obligations are not recorded accurately or in a timely manner. We recommend Newfoundland and Labrador Health Services create and regularly update a tangible capital asset listing with important details to allow for tangible capital assets to be recorded and tracked with increased accuracy.**

### Eastern Regional Health Authority - Approval of Purchase Requisitions

During our audit of the Eastern Regional Health Authority's Operating Fund, while testing samples of expenses, we identified an issue where there was no evidence of approval for a purchase requisition prior to the purchase being made. The Eastern Regional Health Authority requires a purchase requisition to be approved before a purchase occurs.

**There is an increased risk that unauthorized or fraudulent expenses are incurred if a purchase is made without an approved purchase requisition in place. We recommend Newfoundland and Labrador Health Services ensure all purchase requisitions be properly approved before an expenditure occurs and that evidence of purchase requisition approvals be maintained.**

### Eastern Regional Health Authority - Inventory Tracking

During our audit of the Eastern Regional Health Authority's Operating Fund, we noted that there were pandemic inventory items on hand that would be expiring during the next 12 months. After further inquiry, we learned that there is no formal process for identifying these items and ensuring that write-downs if required, are recorded in a timely manner.

**Inadequately tracked inventory increases the risk that inventory is overstated in the financial statements. There is also a risk that on-hand inventory is expired and as a result, is no longer safe to be used; or that supplies thought to be available and useable are actually not. We recommend Newfoundland and Labrador Health Services implement a process to track inventory expiration dates and that inventory write-downs, if required, are recorded in a timely manner.**

### Eastern Regional Health Authority - Electronic Funds Transfer File Access

During our audit of the Eastern Regional Health Authority's Operating Fund, we noted one instance where an Electronic Funds Transfer file containing confidential payment processing information was accessible on an internal network drive. Staff without proper authorization had access to the location of this file, which was also ready to be uploaded.

**Improper access to banking files increases the risk that unauthorized modifications could be made, resulting in incorrect or fraudulent information uploaded for payment. We recommend Newfoundland and Labrador Health Services ensure Electronic Funds Transfer files are either password protected or processed as an outgoing bank payment immediately after being prepared; also they should ensure that only personnel with appropriate authority have access to this data.**

### **Newfoundland and Labrador Liquor Corporation - Product Categorization**

The Newfoundland and Labrador Liquor Corporation supports Small Beverage Alcohol Producers by providing a discounted markup structure based on product type, categorization and annual production. During the year, the Corporation identified that incorrect discount rates were applied on certain purchases. The Corporation advised that due to a lack of clarity in the original pricing policy, and based on legal advice received, it will not be pursuing recovery of these amounts. The Corporation has since modified its policy, adjusted internal processes and notified relevant parties.

**Wording within the Corporation's Pricing Policy did not clearly distinguish between distilled and blended products. We recommend that the Newfoundland and Labrador Liquor Corporation ensure future compliance with the wording of the Pricing Policy.**

### **Credit Union Deposit Guarantee Corporation - Salary Top-Ups**

Employees of the Credit Union Deposit Corporation are considered members of the public service and are paid through government's payroll process at rates approved by Treasury Board. During the Corporation's audit, we identified salary top-ups were given to employees in excess of Treasury Board rates.

**Treasury Board approves payroll rates. We recommend the Credit Union Deposit Guarantee Corporation should further pursue this matter with the Deputy Minister of Digital Government and Service NL to implement the direction provided by Treasury Board.**

### **Credit Union Deposit Guarantee Corporation – Documentation of Policies**

During the audit of the Credit Union Deposit Guarantee Corporation, we found multiple examples of payments to, or on behalf of employees, for which there were no documented policies or explicit approval by the Board of Directors. For example, an apartment was being rented for \$1,000 per month for the former Chief Executive Office in Marystown.

**The Board is charged with governance. We recommended any payments to or on behalf of Credit Union Deposit Guarantee Corporation employees, other than regular salary payments, should have documented Board approval.**

### **Credit Union Deposit Guarantee Corporation - HST**

During the audit, it was found that HST returns are only filed on an annual basis. As at March 31, 2023, there were fifteen months of HST receivable outstanding resulting in delays in receiving HST refunds by the Corporation.

**It is reasonable to expect entities to have timely remittances. We recommend the Credit Union Deposit Corporation file HST returns on a more frequent basis.**

### **Credit Union Deposit Guarantee Corporation - Journal Entry Approval**

During the audit, it was identified that there was no documentation available to support the approval of journal entries.

**Journal entries are inherently risky transactions and without documented support for their approval, there is an increase in the risk of fraud and error. We recommend the Credit Union Deposit Corporation implement a process for approving journal entries and ensure that documentation of support of approval is maintained.**

### **Credit Union Deposit Guarantee Corporation - Sick Leave Accrual**

During the audit, we found that analysis had not been completed to determine the historical sick leave usage rate to support the sick leave accrual recorded in the financial statements. We were able to satisfy ourselves through other audit procedures that there was not a material misstatement in the accrual.

**An analysis of historical usage rates would provide management with more accurate information on which to base the accrual. We recommend the Credit Union Deposit 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 - Fixed Assets**

The Newfoundland and Labrador Legal Aid Commission has capital assets in its financial statements with a cost of \$2.5 million, a large portion of which (\$2.2 million) relates to office furniture and equipment and computer equipment. Some of these items on the listing are more than 20 years old. Given the passage of time, it is likely that some of these assets are no longer in productive use or even in the Commission's possession.

**The lack of an accurate capital asset listing makes it difficult for the Newfoundland and Labrador Legal Aid Commission to manage the assets for which it is responsible. We recommend the Commission regularly review and update its list of tangible capital assets.**

### **Supreme Court of Newfoundland and Labrador - Administration Bonds**

During the audit it was discovered that the entity recorded administration bonds in error. These types of bonds do not represent actual liens against assets, have no monetary value, do not represent payments to the Courts, and therefore should not have been recorded.

**A material misstatement of the financial statements in the prior period and a significant adjustment to the current period financial statements occurred. We recommended that the Supreme Court of Newfoundland and Labrador 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 recommended the financial policy be updated to differentiate between types of bonds.**

### **Supreme Court of Newfoundland and Labrador - Completeness**

While it is noted that we did not find any errors related to the incomplete recording of bonds during our audit of the Supreme Court of Newfoundland and Labrador, we did identify an opportunity to improve internal controls around the completeness and accuracy of the list of bonds maintained. New bonds are required to be recorded by employees yet, there are no reports from this system related to the receipt of bonds.

**Reports serve as a check against the completeness and accuracy of their bond listing. We recommend the Supreme Court implement a process to provide reports from the case management system.**

### **Newfoundland and Labrador Municipal Financing Corporation - Reserve Fund**

The Newfoundland and Labrador Municipal Financing Corporation maintains a reserve fund to mitigate arrears with respect to municipal loans. As at March 31, 2023, the Fund had a balance of \$3.1 million. While Section 9 of the Municipal Financing Corporation Act provides for the establishment of by-laws for the management of the Fund, the Corporation was not able to provide a copy of any such by-laws.

**By-laws would help govern the use of the excess cash and whether it should be retained and invested or paid over to the Consolidated Revenue Fund. 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.**

### **Newfoundland and Labrador Municipal Financing Corporation - Time Billings**

Operations of the Newfoundland and Labrador Municipal Financing Corporation are winding down. It is administered by the Department of Finance and the Office of the Chief Information Officer (OCIO). The Corporation receives a quarterly invoice for an allocation of salaries for support provided to the Corporation; even though the actual value of the billings is declining.

**The process of generating invoices from government and the subsequent processing and payment by the Corporation is a time-intensive process as compared with the value derived from the billings. It is recommended the Corporation consult with the Department of Finance and the OCIO on whether to continue the practice of billing for salaries.**

### **Celebrate NL - Audit Preparedness**

Celebrate NL was incorporated on March 7, 2022, to attract major events to the province within the tourism, arts, and recreation sectors. Upon receiving the financial statements from Celebrate NL's for its first full year, it was discovered that the statements were prepared on a cash basis rather than being prepared on an accrual basis to comply with Canadian public sector accounting standards.

**It is reasonable to expect financial statements to be ready for audit. We recommend Celebrate NL ensure complete and accurate financial information and note disclosures are presented for audit in a timely manner.**

### **Celebrate NL - Accounting Records**

There were extensive adjustment recommendations made by our audit team to Celebrate NL's 2023 draft financial statements in order to correct material misstatements. As well, subsequent to our Office receiving documents, we identified that there were other journal entries made for the year under audit for which we were not advised.

**Not having a complete set of journal entries and an inaccurate trial balance increases the audit risk that errors will go undetected. Celebrate NL should ensure accounting records are accurately maintained and in accordance with Canadian public sector accounting standards. We recommend Celebrate NL ensure any adjustments identified after the year-end have been appropriately communicated.**

### **Celebrate NL - Internal Controls**

During the audit of Celebrate NL, it was identified that there was inadequate documentation on invoices to show processing and payment information. We also identified there were no formal risk assessment processes in place.

**Risk assessment processes and documentation are necessary components of an internal control system. We recommend Celebrate NL establish controls to address the identified control weaknesses. We also recommend Celebrate NL establish a formal risk assessment process.**

### **C.A. Pippy Park Golf Course - Log Books**

During the audit of the C.A. Pippy Park Golf Course, we found that 7 out of 10 samples selected for our inventory count did not match the count listing provided. When we asked for logbooks to reconcile the differences, we were advised that the former superintendent stopped the practice of maintaining logbooks after March 31, 2023.

**Without updated inventory logbooks, there is an increased risk of unidentifiable misappropriation of assets and inaccurate financial statement valuations. We recommend the C.A. Pippy Park Golf Course should have procedures in place to track all repairs, the parts used and the remaining inventory on hand.**

### **C.A. Pippy Park Golf Course - Count Sheet Review**

During the audit of the C.A. Pippy Park Golf Course, we reviewed the cash and float count sheets. There was no documented secondary review on the count sheets.

**Without a secondary observation and review of cash counts, there is an increased risk of fraud and error. We recommend the C.A. Pippy Park Golf Course 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 - Approval Documentation**

During the Chicken Farmers of Newfoundland and Labrador's audit, we identified an issue where Board Member approvals were not obtained, despite having a dual approval policy in place. This issue is related to select items, such as certain monthly journal entries, HST returns, and bank reconciliations.

**Internal controls such as dual-purpose approvals help to minimize operational and financial reporting risks. Requiring two signatures also increases oversight, thus decreasing the opportunity for fraud or error to occur. We recommend the Chicken Farmers of Newfoundland and Labrador ensure Board review and approval is obtained on a timely basis and that any issues detected are corrected.**

### **Chicken Farmers of Newfoundland and Labrador - Board Member Independence**

During our audit, we identified instances in which a Board member signed cheques and approved financial activity, such as journal entries, despite being a close relative of the Chicken Farmers of Newfoundland and Labrador management.

**Given the increased risk associated with the segregation of duties in a small office environment, it is important for those charged with governance to be independent of management. We recommend The Chicken Farmers of Newfoundland and Labrador ensure that approvals are obtained from Board members who are independent of management.**

### **Provincial Advisory Council on the Status of Women - Signing Authorities**

During the audit of the Provincial Advisory Council on the Status of Women, we identified that signing authority lists were not updated, resulting in payment delays.

**Maintaining an up-to-date signing authority listing with multiple signing authorities ensures that payments can be issued without delay when the need arises. We recommend the Provincial Advisory Council on the Status of Women keep its banking signing authority list current.**

### **Provincial Advisory Council on the Status of Women - Dual Approvals**

During the audit of the Provincial Advisory Council on the Status of Women, we found instances where dual approvals were not obtained prior to payments being made, despite the Council having a two-person approval policy in place. In certain cases, one approval was obtained before, and the other approval was obtained after the purchase occurred.

**Internal controls such as dual purchase approvals help to minimize operational and financial reporting risks. Requiring two signatures also increases oversight, thus decreasing the opportunity for fraud or error to occur. We recommend the Provincial Advisory Council on the Status of Women ensure, where applicable, that dual approvals are obtained before a purchase occurs.**

### **Innovation and Business Investment Corporation - Operations**

On May 31, 2018, the Innovation and Business Investment Corporation (the Corporation) was established as the successor to the former Business Investment Corporation and the former Research and Development Corporation of Newfoundland and Labrador. However, the operations of the Corporation and Research and Development Corporation have yet to be fully amalgamated under one entity. While progress has been made in amalgamating the Corporation and Research and Development Corporation their systems remain separate.

**Maintaining separate systems may lead to operational inefficiencies. 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**

During our Office's crown entity audits, there were also 21 additional management letter issues identified related to information systems and general information technology controls. Issues noted include user access, password configurations and IT policies.

**Preventing and detecting deficiencies may ultimately decrease vulnerabilities coming from IT-related processes, policies and systems. We recommend entities review any IT findings and implement all recommendations in a timely manner.**



## New Topics Identified by External Auditors

### Western and Central Regional Health Authorities - Lack of Internal Audit Function

The auditor of the Western and Central Regional Health Authorities noted that the organizations did not have an internal process for monitoring internal controls. Given the diversity of the programs offered by the organizations and their geographic disbursement, a process for monitoring the effectiveness of internal controls would be beneficial.

**Without an internal audit function, internal controls may not be working as designed. The external auditor recommends that Newfoundland and Labrador Health Services should assess whether an internal audit function should be established.**

### Labrador-Grenfell Health Authority - Asset Retirement Obligations

The auditor of the Labrador-Grenfell Regional Health Authority noted that management did not consider the expected useful life of buildings or the anticipated date of remediation for asset retirement obligations. Additionally, accretion expense was not being recorded on the asset retirement obligation liability.

**Without appropriately estimating the asset retirement obligation, the asset is not being discounted to the net present value. The external auditor recommends Newfoundland and Labrador Health Services management determine the expected useful life and the timing of building remediation, and record accretion expense going forward.**

### Marble Mountain Development Corporation - Point of Sale System

The auditor of Marble Mountain Development Corporation noted issues with the entity's new point of sale system, where 49 per cent of tested samples had cash over or underestimated. This issue can cause discrepancies between the actual cash and the amount recorded on the financial statements.

**To prevent future cash recording errors and reconciliation issues, the external auditor recommends Marble Mountain Development Corporation investigate the root cause for cash over/under discrepancies and implement a resolution.**

### Marble Mountain Development Corporation - Purchasing Policy

Marble Mountain Development Corporation has a purchasing policy based on the Public Procurement Act, although the Corporation's policy has different limits for calls for bids and purchase documentation. In the auditor's capital asset sample, three of 12 purchases did not have proper approval in accordance with the Corporation's policy as they were over \$10,000 and purchased without a public call for bids. In addition, the required documentation of three quotes for a fair and reasonable price was not provided for 11 of 29 samples. Also, nine items in the auditor's sample had no purchase order and all purchase orders in the samples did not have prior approval as required by the Corporation's Purchase Order Policy.

**It is reasonable to expect that the Public Procurement Act is reflected in policies. The external auditor recommends all procurement and purchasing policies to be followed by Marble Mountain Development Corporation's staff.**

### Marble Mountain Development Corporation - Contracts

The external auditor noted that contracts were not enforced. A contract for a lease with a third party had been expired for over five years with no extension or renewal.

**Continuing with an expired contract can cause non-compliance with business regulations, rules and standards that need to be followed. The external auditor recommends Marble Mountain Development Corporation enforce current contracts and that new contracts are entered on the expiration of old contracts to ensure that the responsibilities of both parties are clear.**

### **Marble Mountain Development Corporation - Gross Margins**

The gross margin on food and beverage operations increased 7 per cent from last year, however, it was less than usual before the COVID-19 pandemic. In 2022-23 the gross margin was 55 per cent versus 60 per cent in 2018-19. Staff indicated the reduction is likely due to staff turnover, price markups, and spoilage. The markups and spoilage were not documented and could not be verified.

**Analysis of ratios may indicate operational issues; documentation is critical for internal control. The external auditor recommends Marble Mountain Development Corporation track and document changes in markups and spoilage.**

### **Marble Mountain Development Corporation - Financial Statement Disclosure**

Canadian Public Sector Accounting Standards require financial statements to disclose the gross amounts of revenue and expenses, however, the financial statements for the Corporation disclose net surplus/deficit for divisions.

**To meet current accounting standards, the external auditor recommends management and those charged with governance of the Marble Mountain Development Corporation consider updating the statement presentation.**

### **Newfoundland and Labrador Centre for Health Information - Journal Entry Approval**

The auditor of the Newfoundland and Labrador Centre for Health Information noted that journal entries were posted by staff without approval from the Director of Finance. The journal entry approval process is manual, requiring staff to email the journal entry batches for approval before posting them to the general ledger.

**Manual controls can be susceptible to circumvention by employees, which can result in errors or fraud. The external auditor recommends the Newfoundland and Labrador Centre for Health Information implement journal entry system internal controls in order to prevent entries from being posted before review.**

### **Dairy Farmers of Newfoundland and Labrador - Segregation of Duties**

The external auditor of the Dairy Farmers of Newfoundland and Labrador noted a lack of segregation of duties and that, essentially, all accounting functions reside with one individual.

**A lack of segregation of duties can create opportunities for misappropriation of funds and fraudulent activities. The external auditor recommends accounting duties be segregated among competent employees of the Dairy Farmers of Newfoundland and Labrador to reduce the risk of fraud.**

### **Dairy Farmers of Newfoundland and Labrador – Internal Payment Control**

The auditor of the Dairy Farmers of Newfoundland and Labrador noted that current policy is to stamp invoices as “Posted” when entered into the accounting system to prevent duplicate entries. During the audit, it was noted there were instances where invoices were not cancelled with the “Posted” stamp when entered.

**To minimize the risk of duplicate entries, the external auditor recommends all invoices of the Dairy Farmers of Newfoundland and Labrador be clearly marked to indicate they have been processed.**

### **Newfoundland and Labrador Sports Centre - Calculation of HST**

During the audit of the Newfoundland and Labrador Sports Centre, it was determined that HST had not been reconciled to the General Ledger. The payable or refund is being applied to the HST collected on the sales account rather than being allocated to both the HST collected and ITC accounts.

**A lack of reconciliation could result in HST reporting errors. The external auditor recommends the Newfoundland and Labrador Sports Centre ensure that the general ledger accounts are cleared when HST returns are filed and ensure that HST is being calculated at the allowed amount.**

### **Additional Issues – General Information Technology Controls**

During audits performed by external auditors, there were 8 other issues identified related to information systems and general information technology controls. The external auditors recommend reviewing any IT findings and implementing all recommendations in a timely manner.

# Observations

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During financial statement audit work, the Auditor General may identify areas that require additional scrutiny or disclosure. The following observations are intended to promote accountability in government's management and use of public resources and encourage positive change in its delivery of programs and services.

## Financial Health of the Province

Government provides an unaudited financial statement discussion and analysis report preceding the Public Accounts which gives an overview of the Province's financial position, highlights key indicators, and outlines a risk analysis.

The key indicators included in the analysis report are among those recommended for reporting by the Public Sector Accounting Board's Statement of Recommended Practice – 4: Indicators of Financial Condition.

The indicators reported are meant to provide additional information on the Province's financial condition, such as those related to sustainability, flexibility, and vulnerability. These tools can assist the Province's Consolidated Summary Financial Statement users in interpreting its information.

**It is important to note that no single indicator can provide a full picture of the Province's financial health. Residents of the province are encouraged to review many indicators and think about how they interact together to assess the financial health of the Province.**



## Financial Health of the Province

	Five-Year Trend	
<b>Sustainability:</b>	<b>The government's ability to maintain its existing programs and commitments without having to increase debt or tax rates.</b>	
<b>Annual Surplus (Deficit) (millions)</b> 2023 - \$323.14 2022 - (\$277.27) 2021 - (\$1,491.82) 2020 - \$1,117.18 2019 - (\$552.53)	This indicator has had significant fluctuations during the five-year period. The surplus in 2023 was due to increased revenues from personal taxes, sales tax, and corporate income taxes.	
<b>Net Debt (billions)</b> 2023 - \$16.51 2022 - \$16.92 2021 - \$16.02 2020 - \$14.43 2019 - \$15.38	<b>Total Borrowing (billions)</b> 2023 - \$16.72 2022 - \$16.97 2021 - \$15.96 2020 - \$14.88 2019 - \$12.80	This indicator has worsened over the five-year period. The Province's total borrowings, which are combined with other liabilities in the calculation of net debt, has increased by at least \$1 billion each year between 2019-2022.
<b>Net Debt to GDP</b> 2023 - 39.3% 2022 - 44.6% 2021 - 49.7% 2020 - 40.3% 2019 - 44.5%	This indicator has marginally improved since 2019 with an upward fluctuation in 2021.	
<b>Net Debt per Capita (thousands)</b> 2023 - \$31.63 2022 - \$31.83 2021 - \$30.82 2020 - \$27.74 2019 - \$29.41	Net debt per capita is a measure of how much debt a government has per citizen. While the population increased by 9,400 people in 2023 from 2022, the Province's net debt per capita in 2022-23 decreased by \$1,333 from the previous year.	
<b>Flexibility</b>	<b>The government's ability to change its debt burden or raise taxes within its economy to meet its existing financial obligations.</b>	
<b>Debt Expense as a % of Total Revenue</b> 2023 - 10.7% 2022 - 11.0% 2021 - 15.4% 2020 - 11.1% 2019 - 13.3%	This indicator has improved steadily (with the exception of 2021) and is down from 2019. Debt expenses still represent a substantial burden on provincial revenues and have averaged over \$1 billion per year in the last five years.	
<b>Own Source Revenues to GDP</b> 2023 - 18.0% 2022 - 17.9% 2021 - 16.5% 2020 - 16.2% 2019 - 17.8%	This indicator is up slightly from 2019 and has increased in each of the last four years (gross domestic product has been down in recent years generally due to the global pandemic). An increase in this indicator over time suggests reduced flexibility for a government to access own source revenues in the future. Newfoundland and Labrador already has one of the highest per capita tax burdens in the country.	
<b>Vulnerability</b>	<b>The government's dependency on revenue sources outside its control.</b>	
<b>Oil Royalties as a % of Total Revenue</b> 2023 - 11.4% 2022 - 13.9% 2021 - 7.9% 2020 - 10.0% 2019 - 13.8%	This indicator has remained relatively stable over the last five years with the exception of 2021, when the oil and gas industry experienced a downturn. Oil royalties still remain a significant percentage of total revenue for the Province.	
<b>Oil Royalties and Federal Transfers as a % of Total Revenues</b> 2023 - 28.1% 2022 - 30.1% 2021 - 29.4% 2020 - 47.4% 2019 - 28.9%	This indicator has remained stable over the last 5 years with the exception of 2020, where federal transfers formed a much greater percentage of total revenues than normal due to COVID-19 funding. This externally generated revenue formed by oil royalties and federal transfers is the lowest it has been since before 2019. The Province is still heavily dependent on these two revenue sources.	



The Financial Statement Discussion and Analysis also includes a risk section, which provides information on the various forms of risk inherent in certain financial elements and financial markets. The province is subject to risks from using accounting and other estimates to record certain transactions; debt-related risks such as foreign exchange risk; interest rate risk; credit and liquidity risk; and commodity price and production risks.

The report highlights three key risks that have the potential to significantly affect the provincial economy and fiscal position:

- 1. Muskrat Falls Project:** Achieving rate mitigation remains one of the biggest challenges facing the province. The cost of the project is ultimately borne by Newfoundlanders and Labradorians through the combination of increased electricity rates, increased taxation/fees, or reductions in government spending. On February 14, 2022, a financing agreement between the province and the federal government for the financial restructuring of the Lower Churchill Project was finalized and signed. As previously noted, a rate mitigation plan remains incomplete.
- 2. Market Conditions:** Cost of living increases continue to affect the province's economy. Accelerated global inflation has resulted in cost-of-living increases becoming an even greater burden on a population with higher-than-average consumer debt (as compared to the national average), and tight credit conditions created by high interest rates are projected to suppress economic activity. Increasing interest rates can impact businesses of all sizes and lead to layoffs, operational downsizing, loan defaults, or bankruptcies. Given the increasing interest rates, it is expected that future borrowing and debt servicing costs will continue to increase.
- 3. Demographic Factors:** Compared to other Canadian jurisdictions, Newfoundland and Labrador has the highest proportion of individuals over the age of 65 and the lowest proportion of children under the age of 14. The province's aging demographic has significant fiscal implications, including an expected future increase in demand for services such as healthcare. Rural populations are both declining and getting older. The need to provide high-quality services to a smaller and widely dispersed population presents a significant challenge given the province's fiscal situation.

**In our opinion, 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

In 2017, the Financial Administration Act was amended to require tabling of the Public Accounts before November 1 of the following fiscal year. For the year ended March 31, 2023, government satisfied this legislative requirement.

### Timing of the Consolidated Summary Financial Statements

Year End	Statutory Deadline	Days After Year End	Audit Report Date	Days After Year-End
March 31, 2023	October 31, 2023	214	October 27, 2023	210
March 31, 2022	October 31, 2022	214	October 26, 2022	209
March 31, 2021	October 31, 2021	214	October 22, 2021	205
March 31, 2020	January 31, 2021	306	December 23, 2020	267
March 31, 2019	October 31, 2019	214	October 18, 2019	201
March 31, 2018	October 31, 2018	214	October 4, 2018	187
March 31, 2017	October 31, 2017	214	September 29, 2017	182

Source: Public Accounts

However, a review of other Canadian jurisdictions for the past two years indicates a range of audit report dates, with Newfoundland and Labrador continuing to be one of the latest to report each year:

Jurisdiction	Audit Report Date for the Year Ended March 31, 2023	Audit Report Date for the Year Ended March 31, 2022
Saskatchewan	June 15, 2023	June 16, 2022
Alberta	June 16, 2023	June 16, 2022
British Columbia	August 22, 2023	July 28, 2022
Ontario	August 29, 2023	September 12, 2022
Canada	September 7, 2023	September 12, 2022
Nova Scotia	September 7, 2023	July 22, 2022
New Brunswick	September 21, 2023	September 22, 2022
Manitoba	September 28, 2023	September 27, 2022
Newfoundland and Labrador	October 27, 2023	October 26, 2022
Prince Edward Island	November 3, 2023	October 28, 2022
Quebec	December 11, 2023	November 1, 2022

Source: Public Accounts – all provinces and Canada

As noted previously, one obstacle to a timelier release is due to the Province's books remaining open for up to a month after year-end to facilitate invoice processing (a write-back period). Newfoundland and Labrador is the only province that follows this practice.

There are options the Province could pursue to shorten the time needed to complete the Public Accounts release. Consideration of business process improvements, such as the utilization of consolidation thresholds, increased usage of estimates for nonmaterial balances, or less time assigned to correcting trivial errors, would result in time savings for the government and for our Office, resulting in a timelier release.

**In our opinion, 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

On April 1, 2023, the following entities were merged into one provincial health authority, Newfoundland and Labrador Health Services:

- Eastern Regional Health Authority
- Central Regional Health Authority
- Western Regional Health Authority
- Labrador-Grenfell Regional Health Authority
- Newfoundland and Labrador Centre for Health Information

Newfoundland and Labrador Health Services reports to the Department of Health and Community Services and is responsible to the Minister of Health and Community Services through its Board of Trustees, whose members are appointed by the Minister.

### Credit Facilities

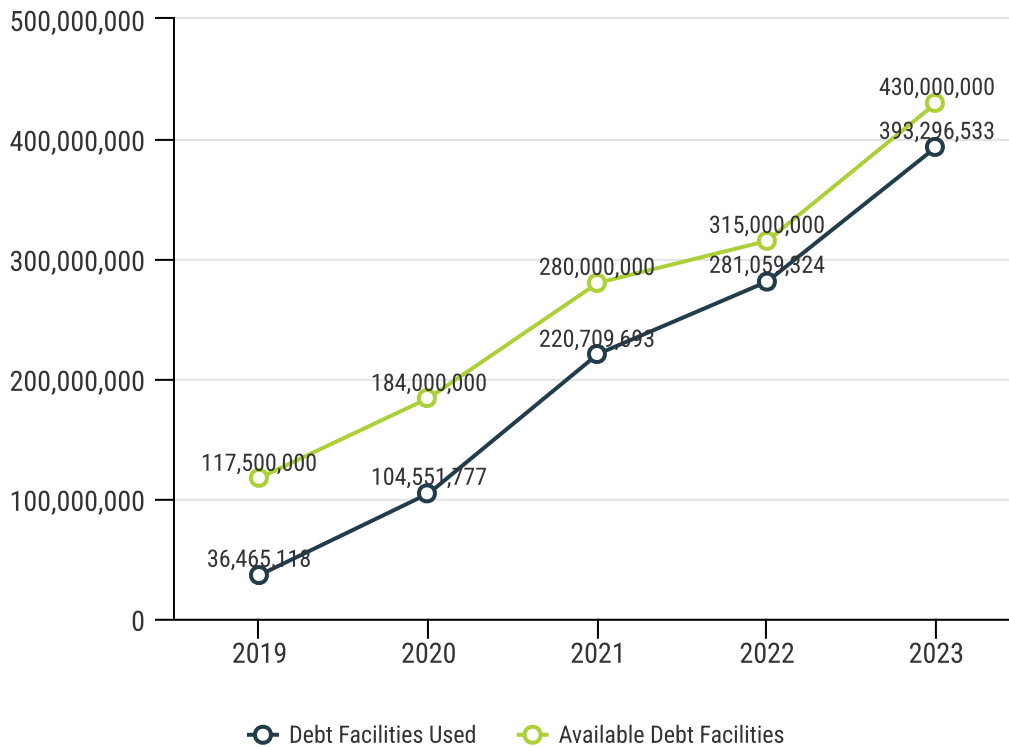
Credit facilities are a form of debt where money is available on an ongoing basis over an extended period of time, like a line of credit, rather than through a traditional loan or debt issuance. The former health authorities, like other government entities, have used credit facilities as part of their cash management strategy. The Minister of Health and Community Services approves the usage and changes to the health-related credit facilities.

The credit facilities in place with the former health authorities have increased substantially since 2019:

Entity	Operating Line of Credit Limit (March 2019)	Operating Line of Credit Limit (March 2023)	Operating Line of Credit Limit (February 2024)	Limit Increase (2019-2024)
Eastern	\$64 million	\$300 million	\$435 million	580%
Central	\$15 million	\$45 million	\$82 million	447%
Western	\$19 million	\$55 million	\$102 million	437%
Labrador-Grenfell	\$20 million	\$30 million	\$41 million	105%
<b>TOTAL</b>	<b>\$118 million</b>	<b>\$430 million</b>	<b>\$660 million</b>	<b>459%</b>

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.

### Newfoundland and Labrador Health Services Operating Line of Credit Availability and Debt Balance



**Government should 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.**

As of March 31, 2023, the Eastern Regional Health Authority’s current net payable balance was \$101 million, which is the sum of its accounts payable balances net of its accounts receivable and cash balances. Compared to the balance available on its operating line of credit of \$10 million, it appears that 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.

**Newfoundland and Labrador Health Services and the Province should review the components of Newfoundland and Labrador Health Services’ current debt to current financial asset ratio to ensure that its financial obligations can be met.**

#### Interest Costs

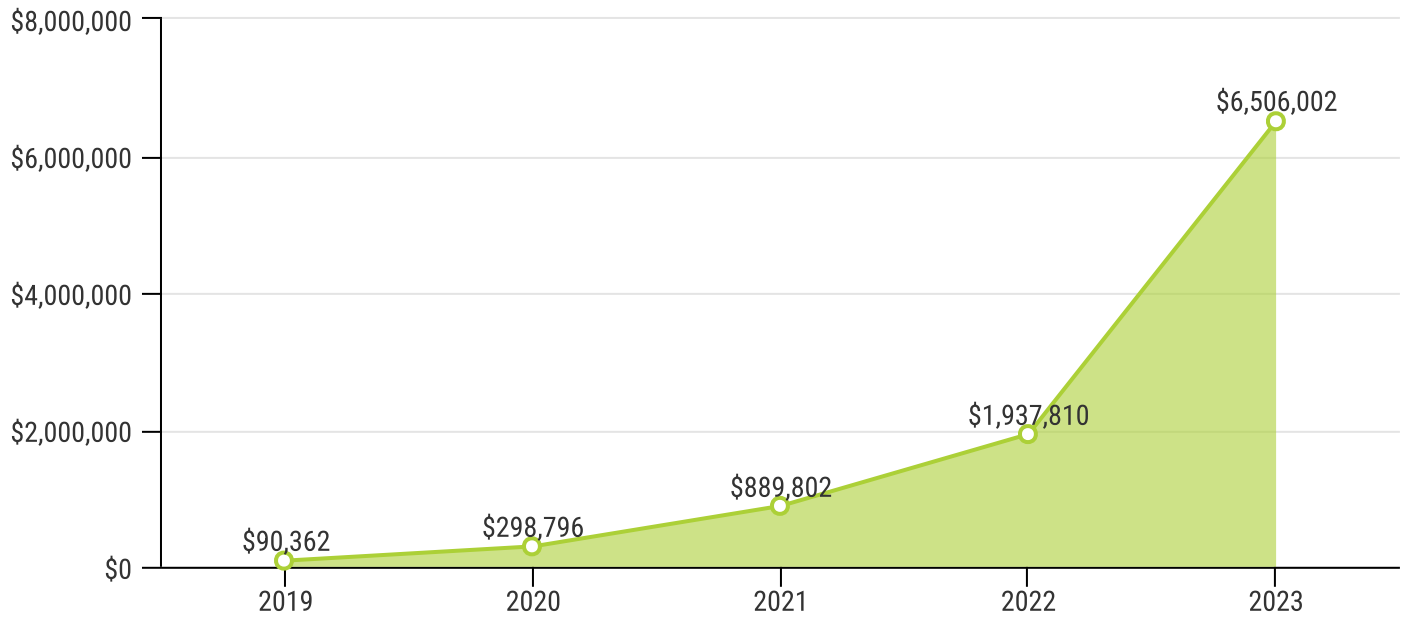
Credit facilities, like other forms of debt, incur interest costs, fees and contractual terms (known as covenants) as part of the arrangement with the lending institution.

The interest costs of servicing this debt have increased significantly. 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 operating line of credit had an interest rate of 5.95 per cent, which is an increase of 4 per cent compared to the prior year (2022 - 1.95 per cent).

The interest costs incurred between April 1, 2023 and January 22, 2024, was over \$7 million, based on interest rates ranging from 5.8 per cent to 6.7 per cent. Government’s latest debt issuance had an interest rate of approximately 4 per cent.

### Health Sector Annual Debt Servicing Costs April 1, 2018 - March 31, 2023



**Given increasing liability balances and increasing interest costs, the Province should consider its vulnerability to rising interest rates and seek opportunities to reduce its exposure.**

Increasing interest rates along with a higher liability balance results in higher debt servicing costs and further pressure on budgets.



## Income Support Overpayments

The Department of Children, Seniors and Social Development is responsible to administer various benefits within the Income Support program in accordance with the Income and Employment Support Act (the Act) and Regulations. The department provides financial benefits and other services to eligible recipients to assist them with meeting daily living expenses.

Subsection 2(n) of the Act defines an ‘overpayment’ as “income or employment support:

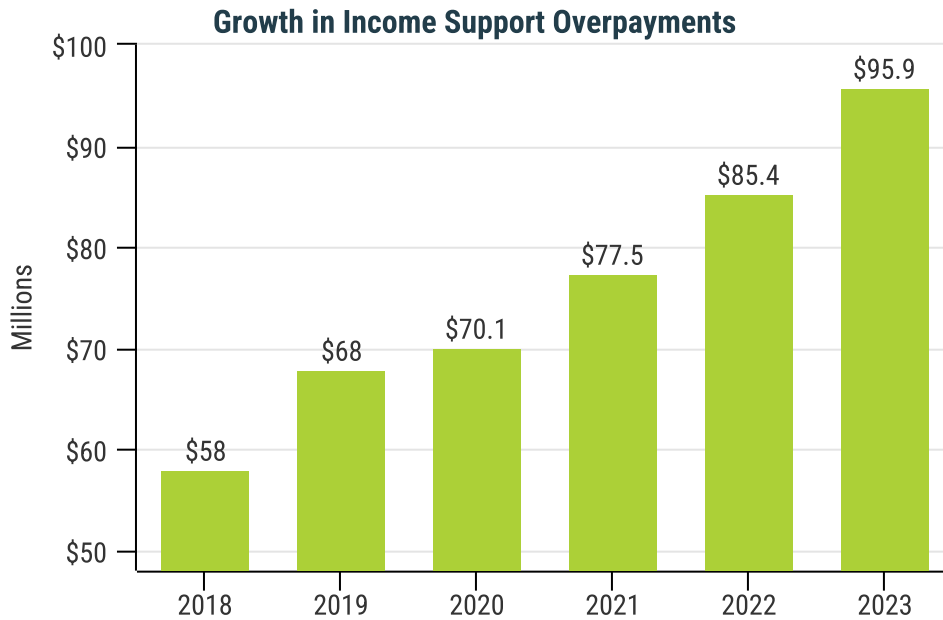
1. provided to or on behalf of a recipient or to a trustee where evidence indicates that there was no entitlement to all or part of those benefits; or
2. which a recipient receives to meet an immediate need, and which the recipient agrees, in writing, to repay all or a portion of at a future date.”

The Act further outlines the process for overpayment recovery.

The Department of Children, Seniors and Social Development has primary responsibility for overpayment collection from active income support clients. Once a client leaves the income support program, they are transferred to the Collection Services Division of the Department of Digital Government and Service Newfoundland and Labrador for collection efforts.

### Overpayment Growth

Overpayments have been increasing every year for the past six years:



Source: compiled from public accounts submissions

The balance of outstanding income support overpayments has increased by \$37.8 million (65.2 per cent) since 2018.

### Income Support Overpayment Continuity Schedule (Thousands)

	2019	2020	2021	2022	2023
Opening balance	\$58,038	\$67,977	\$70,128	\$77,515	\$85,394
Overpayments identified	17,001	8,614	11,538	14,306	16,351
Recoveries	(5,083)	(5,272)	(3,193)	(4,268)	(4,880)
Refunds, write-offs and adjustments	(1,979)	(1,191)	(958)	(2,159)	(984)
Closing balance	\$67,977	\$70,128	\$77,515	\$85,394	\$95,881

Source: unaudited, compiled from data provided by Department of Children, Seniors and Social Development

**New overpayments are outpacing recoveries at a rate of three to one resulting in a steadily increasing balance.** The Department of Children, Seniors and Social Development has identified new income support overpayments averaging \$13.6 million per year. By contrast, the department has only collected an average of \$4.5 million per year.

While it is not within the scope of this report to explore the reasons why the balance has been increasing, some factors became apparent during our discussions with departmental officials:

- Additional resources were provided to the Eligibility Assurance Unit in the Department of Children, Seniors and Social Development, which is tasked with identifying income support overpayments.
- There are 19 financial collection officer positions in the Department of Digital Government and Service NL responsible for the collection of a large range of government program receivable accounts, such as former income support client overpayments, defaulted student loans, crown lands, and taxes. Most of these receivables are administered in different systems thereby making it difficult for the Collection Services Division of the department to efficiently manage a portfolio of receivables for an individual.
- The switching of responsibility for collecting income support overpayments between two departments (as clients move in and out of the income support program) makes it more challenging to ensure continuity in collection efforts.

The Department of Children, Seniors and Social Development has made significant efforts to identify new overpayments and should continue to do so. **While collection challenges need to be addressed, the department is encouraged to focus on preventative measures to reduce the amount of income support overpayments from arising. Otherwise, the overpayments receivable balance will continue to increase at a significant rate.**

### Profile of Overpayments

**Income support overpayments represent the third largest category of receivables for government (behind amounts due from the Government of Canada and offshore royalty receivables). The balance outstanding as of March 31, 2023, was \$95.9 million, with former clients representing 58 per cent of the receivable.**

The 2023 total outstanding of \$95.9 million is made up of 26,340 cases, an average of \$3,640 per case. Of the total balance, \$80.3 million (83.7 per cent) has been outstanding for over one year. Current income support clients makeup \$40.3 million (10,588 cases) of the total outstanding balance and former clients make up the remaining \$55.6 million (15,752 cases).

#### **Profile of income support overpayments as at March 31, 2023**

<b>Status</b>	<b># of cases</b>	<b>Amount</b>
Active Clients	10,588	\$40,347,000
Former Clients	6,607	\$42,940,000
• Inactive clients – federal garnishment	1,380	\$6,572,000
• Payment arrangements	7,765	\$6,022,000
• Uncollectible – recommended for write off		
<b>Total Overpayments</b>	<b>26,340</b>	<b>\$95,881,000</b>

Source: unaudited, compiled from data provided by CSSD.

For current clients, account receivable balances are recovered through claw backs on income and employment support benefits; regulations restrict the amount that may be clawed back to five per cent of income and employment support benefits received. Former clients are assigned to the Federal Offset Program; under this program, balances owing may be garnished by the Canada Revenue Agency on federal benefit payments to individuals.

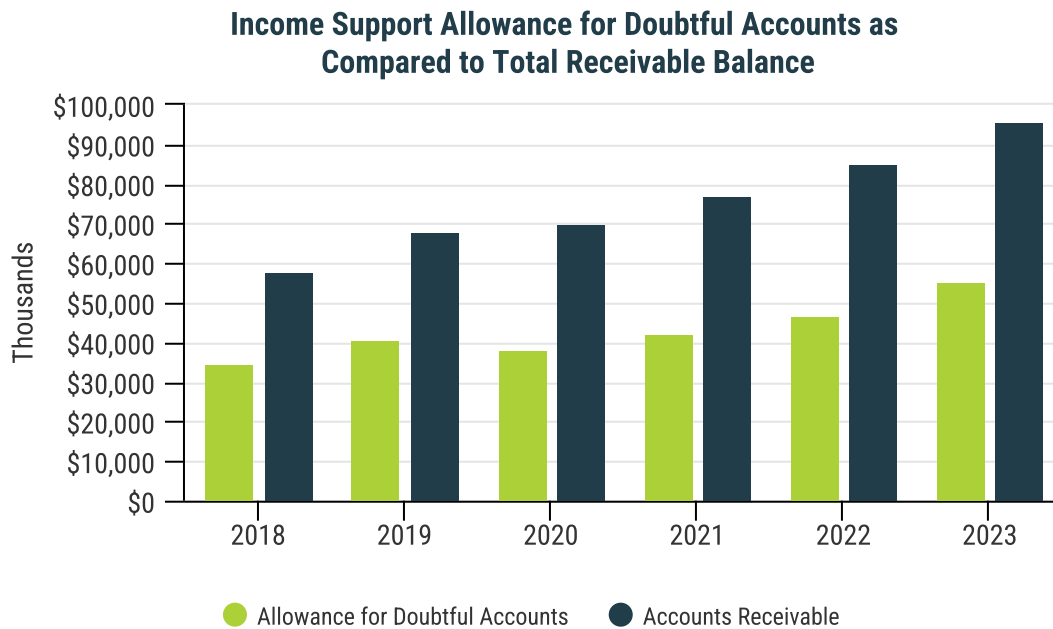
Our analysis found that there are 185 individuals who owed more than \$50,000 each, with a combined total of \$12.7 million. Of the 185 individuals, 139 (totalling \$9.7 million) were categorized by the Department of Children, Seniors and Social Development as obtained by 'false pretenses', meaning that the majority of the large dollar balances were due to fraudulent activity.

**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., by way of fraud). This represents 29.3 per cent of the total balance of income support overpayments. The average balance outstanding for these cases is \$14,131, well above the average of all cases of \$3,640.**

**Allowance for Doubtful Accounts**

The Department of Children, Seniors and Social Development uses a formula-based methodology to calculate the allowance for doubtful accounts.

The figure below compares the allowance for doubtful accounts compared to the total balance of income support overpayments receivable.



Source: compiled from data provided by CSSD

**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. An allowance for doubtful accounts of \$5.7 million has already been recognized for these accounts.**

Of the \$95.9 million identified as income support overpayments as of March 31, 2023, nearly 60 per cent - or \$55.6 million - has been deemed uncollectable and recorded as allowance for doubtful accounts.

When an organization has exhausted all reasonable collection efforts and the likelihood of collectability is low, it is good accounting practice to remove these amounts from the accounting records. It should be noted that removing an amount from the accounting records does not relieve the debtor from their obligation to pay.

**Over the six-year period, government has deemed that between 55 per cent and 60 per cent of the income support receivables are not collectable.**

For government departments, when it appears unlikely that an amount due to the Crown will be paid, Treasury Board has the authority to approve a write-off of that amount. The Office of the Comptroller General has the responsibility to review amounts submitted by departments for write-off and provide recommendations to Treasury Board as to whether the department's request for write-off should be approved. This provides an added level of control over the write-off of debts to the Crown.

Observations - Income Support Overpayments

Year	Amounts written off
2023	\$1,113,000
2022	\$2,268,000
2021	\$862,000
2020	\$1,637,000
2019	\$2,164,000
2018	\$2,731,000

Source: unaudited, compiled from data provided by the Department of Children, Seniors and Social Development

The table shows the amount of income support overpayments written off in the last six years (2018-2023):

The Collection Services Division of Digital Government and Service NL are responsible for the collection of inactive income support accounts only; collection from clients who are still active is the responsibility of Children, Seniors and Social Development. Digital Government and Service NL will generally submit accounts for write-off where the reason for the write-off leaves no other alternative (such as death of the debtor, statute of limitations, or bankruptcy). They have advised that it is the responsibility of the Department of Children, Seniors and Social Development to initiate write-offs for any other reason.

Collection on active income support clients is restricted by legislation and inactive clients may be difficult to locate with limited resources.

When a group of receivables has such a large number of accounts where recovery is unlikely, it is more difficult for collectors to focus their attention on accounts with a greater likelihood of recovery.



## Uniformed Services Pension Liability

The Government of Newfoundland and Labrador has six pension plans:

- Public Service Pension Plan
- Teachers' Pension Plan
- Memorial University of Newfoundland Pension Plan
- Uniformed Services Pension Plan
- Members of the House of Assembly Pension Plan
- Provincial Court Judges' Pension Plan

Government guarantees any deficiency in the Memorial University of Newfoundland Pension Plan; the Uniformed Services Pension Plan; the Members of the House of Assembly Pension Plan; and the Provincial Court Judges' Pension Plan. The two remaining pension plans, the Public Service Pension Plan and the Teachers' Pension Plan underwent pension reform in 2015, resulting in the government guarantee being removed as part of a joint trusteeship arrangement.

Government's Uniformed Services Pension Plan has an accumulated net unfunded pension liability of \$400.9 million, an increase of four per cent compared to the prior year. This amount represents the extent to which the Plan's accumulated benefit obligation exceeds the fair value of its plan assets.

**In other words, 74 per cent 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 per cent) compared to government's five other pension plans (34 per cent to 89 per cent).** The Uniformed Services Pension Plan was the only government pension plan to experience an underfunded pension expense during the year ended March 31, 2023, in the amount of \$18.6 million.

**We recommend that 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

In last year's report, we noted that some entities which government had assessed as being part of the government reporting entity indicated that they do not agree and declined to provide information to the Office of the Comptroller General to facilitate their consolidation into the Public Accounts.

During the prior year, the bylaws of Newfoundland and Labrador Health Services were amended to address this issue. As a result, Newfoundland and Labrador Health Services states that it no longer controls a number of foundations and these health foundations have not been consolidated within its financial statements, nor have they been included in the Province's Consolidated Summary Financial Statements. These entities are:

- The Health Care Foundation of St. John's Inc.
- The Janeway Children's Hospital Foundation
- The Dr. H. Bliss Murphy Cancer Care Foundation
- Discovery Health Care Foundation Inc.
- Trinity - Conception - Placentia Health Foundation Inc.
- The Burin Peninsula Health Care Foundation Inc.
- Grenfell Foundation

**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

Fraud in any form is a concern as it undermines public trust in government, is disruptive to the workplace, and diverts resources away from important public services. An understanding of fraud at all levels of an organization is essential to managing fraud risks.

The Government of Newfoundland and Labrador has a Fraud Management Policy (the Policy) that defines 'fraud' as "any act or omission designed to deceive others, resulting in a victim suffering a loss and/or the perpetrator achieving a gain for themselves or a third party." The threat of fraud can come from both internal and external sources to government. Within the Policy, government notes that there is 'zero tolerance' for fraud.

Fraud takes many forms. The traditional view of fraud is that it refers to theft of some sort. Fraud is actually a much broader concept and fraud can be an act or omission, which results in some form of gain to the perpetrator or loss to a victim. The Policy goes on to note that there does not necessarily have to be a financial impact (loss) to government for an act to be considered fraudulent. For example, the use of one's position within an organization to achieve personal gain could be considered a form of fraud, even if cash or other assets are not taken. Other examples of behaviour that are considered fraudulent based on the Policy include:

- falsification or alteration of financial records, payroll records or employment records including, without limitation, records relating to overtime and leave;
- unauthorized use of government owned or leased vehicles and equipment;
- intentional corruption of government files or data;
- intentionally failing to declare a conflict of interest;
- bid rigging or other forms of collusion with vendors; and,
- intention to deceive by the suppression of truth or the suggestion of what is false.

In recent years, government has implemented processes for reporting instances of fraud that promote accountability and raise awareness of roles and responsibilities regarding fraud within government. While there has been a decline in the number of reported cases of fraud in the last two years, we cannot conclude if this is due to fewer instances of fraud or if fewer cases are being detected and reported.

**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.**

### Fraud Management Program

Government has a Fraud Management Program, implemented across core government departments, that aims to promote a culture of awareness of fraud risks as well as define roles and responsibilities for public service employees. In doing so, the program assists in safeguarding government assets and information from fraudulent activity.

The program includes:

- Fraud Management Policy;
- training and awareness;
- fraud reporting process;
- fraud investigation process; and
- fraud risk assessment.

Our Office developed a questionnaire to assess whether similar fraud management practices existed in government entities. The questionnaire was distributed to 26 entities and of the 26, all responded except the Egg Farmers of Newfoundland and Labrador.

	Yes	No
Do you have a Code of Conduct, Code of Ethics or other similar document?	64%	36%
Do you have a Fraud Management Policy or other similar document? If so, please provide a copy. If you do not have a Fraud Management Policy, do you follow Government's Fraud Management Policy?	84%	16%
Does management communicate its expectations to employees regarding ethical behaviour?	100%	0%
In the last 12 months, has there been any training provided to employees regarding ethical behaviour?	60%	40%
Is there a process in place for employees to report suspected fraud (by either internal or external parties) against the organization?	84%	16%
Is there an established process in place to investigate instances of suspected fraud?	84%	16%
In the last 12 months, has your organization conducted an assessment of fraud risks?	16%	84%

**Approximately one of three respondents does not have a Code of Conduct in place, defining an appropriate standard for the behavior of employees and management.**

Most entities (84 per cent) either had their own policy (32 per cent) or defer to government policy (52 per cent). Where entities indicated that they have their own policy, we requested copies for examination and found that many either reference or are consistent, with government's policy. Others provided unique procedures tailored to their specific entity needs.

Some fraud management policies examined were brief with little detail on fraud reporting or investigation procedures, particularly those we received from the Provincial Information & Library Resources Board, the Provincial Advisory Council on the Status of Women and the Board of Commissioners of Public Utilities.

**There were 4 entities (16 per cent) that do not follow Government's Fraud Management Policy, nor do they have their own unique policy in place. These were the College of the North Atlantic, the Conseil Scolaire Francophone Provincial, Chicken Farmers of Newfoundland and Labrador and the Newfoundland and Labrador English School District.**

We note that while the Newfoundland and Labrador and the Newfoundland and Labrador English School District is now integrated with the Department of Education, the issue of fraud was a key concern in our performance audit of the District in 2018. We would have expected to see stronger actions taken by the District in response to the findings of that audit.

**We recommend government ensure that their fraud management policy or an equivalent and appropriate policy is applied consistently throughout the provincial 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.** The survey found that 60 per cent of entities provided some form of ethics training in the past year to their employees. While the 40 per cent that did not have formal ethics training in the past year, indicated that onboarding and management communication on ethical behaviour is used.

Most entities (84 per cent) have some form of fraud reporting mechanism and an established process to investigate instances of suspected fraud. In addition to internal processes, the Public Interest Disclosure and Whistleblower Protection Act provides public service employees who report suspected wrongdoing with legislative protection from harm or reprisal.

**Only 16 per cent of entities have completed a fraud risk assessment internally.** Some respondents noted their external financial statement audit as a form of fraud risk assessment, such as the College of the North Atlantic, Oil and Gas Corporation and the Board of Commissioners of Public Utilities. However, an external audit of financial statements is meant to provide reasonable assurance that financial statements are free from material misstatement. It is not a substitute for a fraud risk assessment and should not be relied on as such.

**We recommend 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.**

**Suspected Fraud (2018-2023)**

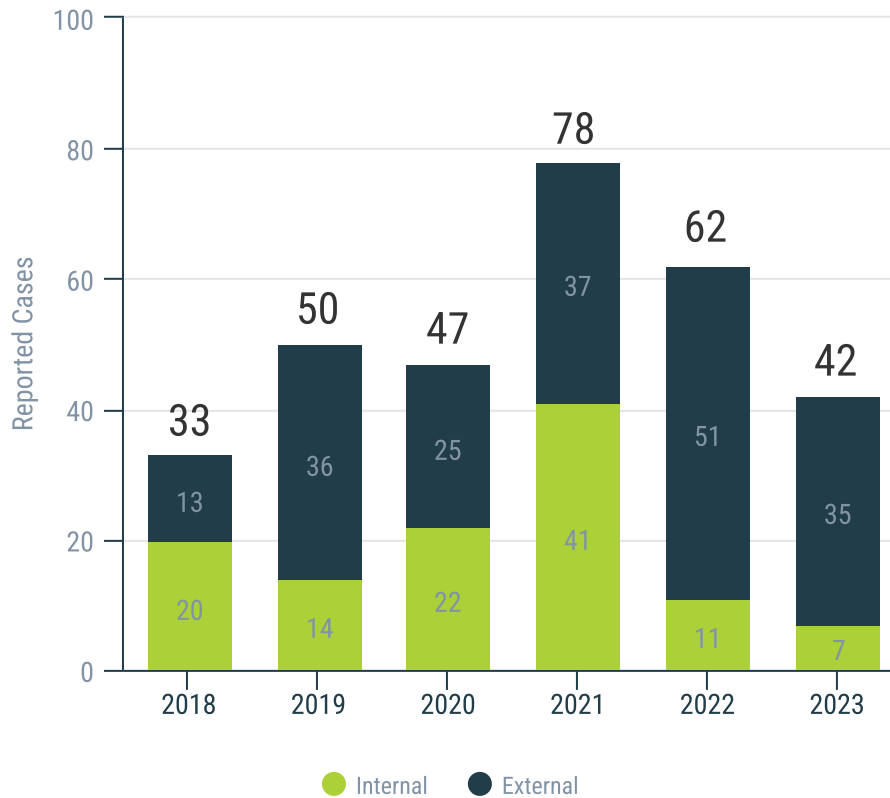
We have analyzed instances of suspected fraud reported to our Office for the years 2018 to 2023. Since 2018 (including this year), there have been 312 reported cases of suspected fraud included in our Office’s annual report.

**Of the 312 reported cases of fraud, 115 (37 per cent) were allegedly committed by internal sources, and 197 (63 per cent) were allegedly committed by external sources.**

It is important to note that these are reported cases of suspected fraud. In some cases, further investigation by the department/entity involved confirmed that fraud had occurred, while in other cases it was found that either fraud had not occurred or it could not be determined whether it occurred. Our reporting focuses on all reported cases (whether confirmed or not) and this summary is based on the status of the incident as it was initially reported to us.

Readers are also cautioned that because data is compiled based on ‘reported’ cases, it is not possible to draw a conclusion on the completeness of the numbers or how they compare year over year. In addition, these are ‘point in time’ reports, therefore data on potential losses and actions taken by government in response (disciplinary action, reporting to law enforcement) is not readily available.

**Reported Fraud Cases by Year**



Source: compiled from previous reports of the Office of the Auditor General

### Reported Fraud Cases by Type 2018-2023

Fraud Type	External	Internal	Total
Cheque fraud	164	2	166
Credit card fraud	3	66	69
Asset fraud/theft	5	19	24
Fraudulent invoices and claims	21	1	22
Payroll, time and employment fraud	2	8	10
Conflict of interest/corruption schemes	0	6	6
Group insurance fraud	0	5	5
Inappropriate use of government assets	0	4	4
Other	2	4	6
<b>Total</b>	<b>197</b>	<b>115</b>	<b>312</b>

Source: compiled from previous reports of the Office of the Auditor General

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.

### Reported Fraud Cases by Department 2018-2023

Department	External	Internal	Number of fraud cases reported
Immigration, Population Growth and Skills	66	1	67
Transportation and Infrastructure	5	57	62
Children, Seniors and Social Development	38	9	47
Justice and Public Safety	44	2	46
Digital Government and Service NL	8	8	16
Tourism, Culture, Arts and Recreation	10	4	14
Fisheries, Forestry and Agriculture	2	9	11
All others	24	25	49
<b>Total</b>	<b>197</b>	<b>115</b>	<b>312</b>

Source: compiled from previous reports of the Office of the Auditor General; most recent department name used

The most common types of reported fraud for the Government of Newfoundland and Labrador since 2018 have been cheque (166) and credit card fraud (69). These instances account for 75 per cent of reported cases since 2018 and 83 per cent of all cases last year.

A predominant source for cheque fraud is remote deposit capture technology. This happens when individuals in receipt of cheques attempt to electronically deposit a cheque multiple times using mobile banking apps. There is generally no loss to government in these instances due to the controls in government's banking processes that detect these instances before the loss can occur. If, however, an individual attempts to cash a previously cashed cheque at a local business, these businesses are at risk of loss.

Of the 166 reported cheque frauds, 103 (62 per cent) were from the Departments of Children, Seniors and Social Development and Immigration, Population Growth and Skills. Most of these instances relate to the Income Support program.

Credit card fraud predominantly includes cases of internal misuse of government-issued travel or purchasing cards, whereby employees charge personal expenses to, or obtain cash advances from, these credit cards. Of the reported cases, none resulted in a confirmed loss to government as repayment arrangements were put in place.

**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.**

### **Impacts of Fraud**

Every year, the Association of Certified Fraud Examiners publishes a global survey of the causes and impacts of fraud. In their 2022 Report to the Nations, the Association reported:

- A typical organization loses 5 per cent of its revenue to fraud annually;
- The median duration of a fraud from when it starts to when it is detected is 12 months. The longer fraud goes undetected, the greater the financial loss;
- The median loss per reported fraud case is \$117,000, while the median loss for government organizations is \$138,000;
- Asset thefts are the most common types of fraud reported; and
- 52 per cent of victim organizations do not recover their losses.

While these are broad averages based upon a global survey, they do point to the significance of the issue of fraud and the need for the Government of Newfoundland and Labrador to enhance anti-fraud controls.

The Association of Certified Fraud Examiners also notes that in organizations with anti-fraud controls, the median loss and duration of fraud are both less than in organizations without these controls. Some of the more effective anti-fraud controls based on Association data are:

<b>Anti-fraud control</b>	<b>Median loss with control in place</b>	<b>Median loss without control in place</b>	<b>Reduction</b>
Fraud reporting mechanism	\$100,000	\$200,000	50%
Anti-fraud policy	\$100,000	\$183,000	45%
Fraud training for employees	\$97,000	\$177,000	45%
Fraud risk assessments	\$82,000	\$150,000	45%
Fraud training for management/ executives	\$100,000	\$165,000	39%
Internal audit department (fraud investigation)	\$100,000	\$150,000	33%

Source: Association of Certified Fraud Examiners – Report to the Nations 2022

Many of these anti-fraud controls are relatively low-cost to implement but can be quite effective in reducing an organization’s risk of fraud.

**We recommend that government continue its efforts to promote a culture of ‘zero tolerance’ for fraud, including every effort to prevent instances and respond appropriately when instances are found.**

The Association of Certified Fraud Examiners reports in a global study that termination (61 per cent of reported cases) or suspension (12 per cent of reported cases) were the most common internal actions taken against perpetrators of fraud.

**We recommend that government consider whether it feels fraud cases are being handled in a consistent manner, particularly if they involve government employees.**

### **Fraud Reporting by Auditor General**

Pursuant to section 20 of the Auditor General Act, 2021, the Auditor General must report to the Lieutenant-Governor in Council any situation that may involve the improper retention or misappropriation of public money, or any activity that could constitute an offence under the Criminal Code, or another act, which became evident during the audit process. The Act also requires that a list of the incidents reported to the Lieutenant-Governor in Council be attached to the annual report. Incidents are discovered as a result of our audits or may be reported to the Auditor General by government and its agencies, boards, and commissions in response to inquiries during our financial audits. In some instances, these cases may be voluntarily reported to the Auditor General throughout the year. Refer to Appendix III for a list of incidents, which satisfies our reporting requirements under the Act.

Once again this year, we were informed of numerous instances of attempted cheque fraud using remote deposit functionality. We are pleased to report that based on the information provided by government, internal controls are in place to catch these instances resulting in no loss to government.



# Appendix I

## About this Report

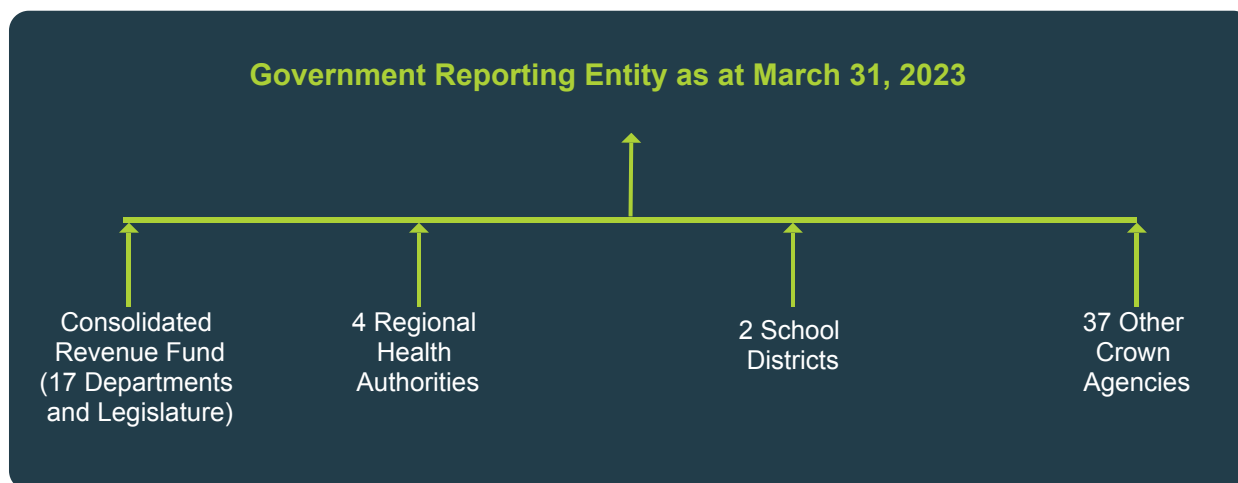
This report satisfies section 23 of the Auditor General Act, 2021, and ensures the Office of the Auditor General satisfies its legislative requirements of promoting accountability through its audit activities.

The Consolidated Summary Financial Statements (also referred to as the Public Accounts) provide the most complete information about the province's financial position and operating results. They are the principal means by which government reports on its accountability and management of public funds to the House of Assembly and the people of the province.

The Government of Newfoundland and Labrador (government), through the Office of the Comptroller General, is responsible for providing the House of Assembly with these financial statements, which are prepared in accordance with Canadian Public Sector Accounting Standards. The financial statements include a statement of responsibility which outlines government's responsibility for maintaining a system of internal control in order to provide reasonable assurance that transactions are properly authorized; assets are safeguarded; financial records are properly maintained; and financial statements are prepared that are free from material misstatement whether due to fraud or error. A copy of the Consolidated Summary Financial Statements is available on the government's website.

As per Section 17 of the Auditor General Act, 2021, the Office of the Auditor General (Office) must conduct an annual financial audit of the Public Accounts. These statements show financial results for all organizations in the government reporting entity. The government reporting entity includes government departments and the Legislature, government organizations, government business enterprises, and a proportionate share of a government business partnership, as listed in Schedule 15 of the Consolidated Summary Financial Statements.

The Consolidated Summary Financial Statements are audited by our Office to support our opinion on the Public Accounts. Of the 43 entities, 20 are audited by our Office, 21 are audited by component auditors, and two are unaudited.



### Level of Assurance & Audit Procedures

The audit of the Consolidated Summary Financial Statements is designed to obtain reasonable, but not absolute, assurance that the Consolidated Summary Financial Statements, as a whole, are free of material misstatement. Reasonable assurance, as defined in Canadian generally accepted auditing standards, means that sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level to support the conclusion that the financial statements are free of material misstatement. The Independent Auditor's Report provides the opinion as required.

We comply with Canadian Standard on Quality Management 1 and, accordingly, maintain a system of quality control that includes documented policies and procedures to ensure compliance with professional standards, ethical requirements and legal and regulatory requirements. We complied with the independence and ethical requirements of the Rules of Professional Conduct of Chartered Professional Accountants of Newfoundland and Labrador.

Our Office has an integrated system of quality management that provides reasonable assurance that engagements are performed in accordance with professional and Office standards and that engagement reports issued by the Office are appropriate in the circumstances.

All levels of auditors from audit students to the Auditor General have a responsibility for audit quality and ensuring all audits are performed in accordance with professional standards and the Office's policies and system of quality management.

Our Office is committed to continually monitoring and improving our audit quality. Our monitoring process includes internal file reviews completed by our Professional Practice and Innovation group, peer reviews completed by other legislative audit offices across Canada, and practice inspections completed by the Association of Chartered Professional Accountants (CPA) of Newfoundland and Labrador.



# Appendix II

## Independent Auditor's Report

To the House of Assembly  
Province of Newfoundland and Labrador

Report on the Audit of the Consolidated Summary Financial Statements

### Opinion

I have audited the consolidated summary financial statements of the Province of Newfoundland and Labrador, which comprise the consolidated statement of financial position as of March 31, 2023, and the consolidated statements of change in net debt, operations, change in accumulated deficit, remeasurement gains and losses and cash flows for the year then ended, and notes to the consolidated summary financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying consolidated summary financial statements present fairly, in all material respects, the consolidated financial position of the Province of Newfoundland and Labrador as of March 31, 2023, and its consolidated results of operations, consolidated change in its net debt, consolidated change in its accumulated deficit, consolidated remeasurement gains and losses and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

### Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Summary Financial Statements section of my report. I am independent of the Province of Newfoundland and Labrador in accordance with the ethical requirements that are relevant to my audit of the consolidated summary financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Other Matter

Without modifying my opinion, I draw attention to government's commitment to ensure electricity rates in this Province are not impacted by the Muskrat Falls Project. Government has not finalized specific strategies for its rate mitigation plan. Implementation of this plan may have a significant impact on the Province's consolidated summary financial statements in future years.

### Other Information

Management is responsible for the other information. The other information comprises the information in the Public Accounts of Newfoundland and Labrador, but does not include the consolidated summary financial statements and my auditor's report thereon.

My opinion on the consolidated summary financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the consolidated summary financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated summary financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

### Responsibilities of Management and Those Charged with Governance for the Consolidated Summary Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated summary financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated summary financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated summary financial statements, management is responsible for assessing the Province of Newfoundland and Labrador's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Province of Newfoundland and Labrador's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Summary Financial Statements**

My objectives are to obtain reasonable assurance about whether the consolidated summary financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated summary financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the consolidated summary financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Province of Newfoundland and Labrador's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Province of Newfoundland and Labrador's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated summary financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Province of Newfoundland and Labrador to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated summary financial statements, including the disclosures, and whether the consolidated summary financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the consolidated summary financial statements to express an opinion on the consolidated summary financial statements. I am responsible for the direction, supervision, and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit. I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

A handwritten signature in blue ink, appearing to read "D Hanrahan", with a long horizontal line extending to the right.

**DENISE HANRAHAN, CPA, CMA, MBA, ICD.D**  
**Auditor General**

October 27, 2023  
St. John's, Newfoundland and Labrador

# Appendix III

## Reports to Lieutenant-Governor in Council

The primary responsibility for reporting fraud rests with department management or the entity in which suspected fraud occurred; the instances of fraud included in this report came from a number of sources. Since our last report, we have become aware of the additional instances of fraud, which are listed in this Appendix by relevant department.

### Department of Children, Seniors, and Social Development

- The department reported numerous instances of cheque fraud where individuals attempted to cash cheques more than once. All instances were detected as duplicates, resulting in no loss to government. All instances were referred to the police. We reported these matters to the Minister of Finance on January 23, 2024. Details are as follows:
  - On August 15, 2022, the department reported three instances.
  - On December 5, 2022, the department reported six instances.
  - On April 12, 2023, the department reported one instance.
- In September 2022, the department reported five instances of counterfeit cheques. In each instance, the cheques were identified as counterfeit and returned by the bank. All instances were referred to the police and there was no financial loss to government. We reported this matter to the Minister of Finance on January 23, 2024.
- In November 2022, the Comptroller General of Finance received a report of an instance of potential Income Support fraud within the department. Investigations revealed that the allegation was unfounded. This incident was not reported to the police and there was no loss to government. We reported this matter to the Minister of Finance on January 23, 2024.
- On February 15, 2023, the department reported four instances of cheque fraud where individuals attempted to cash cheques more than once. All instances were detected as duplicates, resulting in no loss to government. All instances were referred to the police. We reported this matter to the Minister of Finance on April 5, 2023.
- On March 27, 2023, the department reported one instance of cheque fraud where an individual attempted to cash a cheque more than once. The instance was detected as a duplicate, resulting in no loss to government. This instance was referred to the police. We reported this matter to the Minister of Finance on April 11, 2023.
- On March 27, 2023, the department reported that cash was missing from the secure location where client cash payments were stored. Prior to any investigation, an employee came forward with the missing cash. This incident was not reported to the police and did not result in any loss to government. We reported this matter to the Minister of Finance on June 14, 2023.

### Department of Digital Government and Service NL

- On June 7, 2023, the department reported two instances of cheque fraud where individuals attempted to cash cheques more than once. All instances were detected as duplicates, resulting in no loss to government. All instances were referred to the police. We reported this matter to the Minister of Finance on January 23, 2024.
- On June 7, 2023, the department reported an instance whereby a cheque was forged and cashed by someone other than the intended individual. The funds were reversed by the bank, resulting in no loss to government. This instance was reported to the police. We reported this matter to the Minister of Finance on January 23, 2024.

**Executive Council**

- In October 2022, Treasury Board Secretariat reported one instance of cheque fraud where an individual attempted to cash a cheque more than once. This instance was detected as a duplicate, resulting in no loss to government. This instance was referred to the police. We reported this matter to the Minister of Finance on January 23, 2024.
- In February 2023, Executive Council reported an instance of group insurance fraud by an employee of the former Eastern Health Regional Authority. The investigation revealed a number of fraudulent claims by this employee from 2021 to 2022. The former employee agreed to repayment terms but after several payments were returned as non-sufficient funds, the file was referred for civil litigation in June 2023. This instance was reported to the police. We reported this matter to the Minister of Finance on January 23, 2024.
- In May 2023, Executive Council reported an instance of group insurance fraud by a retired employee. The insurance company completed an investigation and discovered fraudulent claims from October 2022 to February 2023. A repayment plan was put in place and the instance was reported to police. We reported this matter to the Minister of Finance on January 23, 2024.
- On November 8, 2023, an Office of the Executive Council reported one instance of misuse of a government-issued travel card. An employee submitted a travel claim and received a reimbursement but did not apply the reimbursement to the travel card. The employee eventually repaid a portion and acknowledged the remainder would be recovered through payroll garnishment. The employee was disciplined and the incident was not reported to police. We reported this matter to the Minister of Finance on January 23, 2024.

**Department of Health and Community Services**

- In October 2022, the department reported one instance of cheque fraud where an individual attempted to cash a cheque more than once. This instance was detected as a duplicate, resulting in no loss to government. This instance was referred to the police. We reported this matter to the Minister of Finance on January 23, 2024.

**Department of Immigration, Population Growth and Skills**

- On June 20, 2023, the department reported two instances of cheque fraud where individuals attempted to cash cheques more than once. All instances were detected as duplicates, resulting in no loss to government. All instances were referred to the police. We reported this matter to the Minister of Finance on January 23, 2024.

**Department of Justice and Public Safety**

- As a result of our audit inquiries, there were five instances of cheque fraud against the Support Enforcement Division of the department where individuals cashed cheques more than once. Support Enforcement was fully reimbursed by the bank, resulting in no loss to government. All instances were referred to the police. We reported this matter to the Minister of Finance on November 8, 2023.

**Department of Labrador Affairs**

- In March 2023, the department reported irregularities in fuel charges in relation to kilometres driven by an employee. The employee was suspended with pay while the investigation was conducted. The investigation revealed unaccounted-for fuel charges and also found additional personal fuel purchases using the employee's corporate charge card. The employee was terminated. A repayment plan has been put in place and the incident was reported to police. We reported this matter to the Minister of Finance on January 23, 2024.

**Department of Transportation and Infrastructure**

- On June 26, 2023, the department reported that four marine employees were investigated for allegedly requesting/approving vessel repairs or maintenance that may not have been required. Investigations determined there was not enough evidence to substantiate the allegations. We reported this matter to the Minister of Finance on January 23, 2024.

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# About the Office of the Auditor General

## Vision

Promoting positive change and accountability in the public sector through impactful audits.

## Mission

To promote accountability in government's management and use of public resources and encourage positive change in its delivery of programs and services.

## Values

Above all else, the Office of the Auditor General must have independence, credibility and integrity. These are essential to everything we do and critical to our success. The Office of the Auditor General complies with professional and office standards to produce relevant and reliable audit reports. The Office of the Auditor General's independence of government, in fact, and in appearance, provides objective conclusions, opinions and recommendations on the operations of government and crown agencies. Our staff work in a professional and ethical manner, ensuring respect, objectivity, trust, honesty and fairness.

## Office of the Auditor General Financial Audit Team

The Auditor General extends sincere thanks to her Financial Audit Team for their dedication, diligence, and patience over the past year. In addition to the Auditor General, Denise Hanrahan, and Deputy Auditor General, Sandra Russell, the personnel involved in the planning, coordination and direction of the Office's financial statement audit program are led by two outstanding Assistant Auditor Generals, Brian O'Neill and Dianna McGrath. The Office is able to fulfill its mission due to the consummate commitment and professionalism of a dynamic team of professional auditors, including:

Marc Blake, Audit Principal	Sujin Gu, Audit Senior
Erica Peddle, Audit Principal	Michael Kennedy, Audit Senior
Tracy Pelley, Audit Principal	Erica O'Brien, Audit Senior
Andrew Way, Audit Principal	Curtis Parrell, Audit Senior
Colin Butler, Audit Manager	Pauline Reynolds, Audit Senior
Matthew Drodge, Audit Manager	Brad Short, Audit Senior
Stephanie Cross, Audit Manager	Erica Clark, Auditor
Amanda Griffiths, Audit Manager	Rebecca Dooley, Auditor
Jillian Kennedy, Audit Manager	Aatish Aatish, Auditor
Aakash Patel, Audit Manager	Monica Griffin, Auditor
Chad Russell, Audit Manager	Stephanie Hartley, Auditor
Holly Aylward, Audit Senior	Caitlin Lockyer, Auditor
Waqas Ahmed, Audit Senior	Thomas Pritchard, Auditor
Stephen Chislett, Audit Senior	Anna Smith, Auditor
Sharf Chowdhury, Audit Senior	Mesud Toskic, Auditor
Juan Grillo, Audit Senior	Chris Fudge, Audit Tech

The Auditor General would like to thank the Professional Practice and Innovation Team - Keith Butt, Martin Cook, Snow Bai, and Leif Martin - for their support and dedication to the financial statement audit program. Combined with a solid corporate support team, the Office of the Auditor General was able to support the expansion of its financial statement audit program.

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