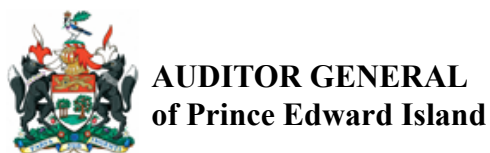
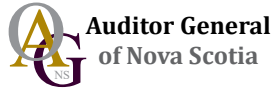


Joint Follow-up of Recommendations to the Atlantic Lottery Corporation

April 2019



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June 19, 2019

Dear Sirs:

We have the honour to submit herewith our Report to our respective House of Assembly or Legislative Assembly.

- As required under Section 15(1) of the New Brunswick Auditor General Act
- In accordance with the Auditor General Act of Newfoundland and Labrador
- As required under Section 18(2) of the Nova Scotia Auditor General Act, to be laid before the House in accordance with Section 18(4) of the Nova Scotia Auditor General Act
- In accordance with the Audit Act of Prince Edward Island

Please note our report herein is dated April 2019 even though it is being tabled in June 2019. Provincial elections occurring in Prince Edward Island and Newfoundland & Labrador delayed our planned April 2019 report release.

Respectfully,

KIM MACPHERSON, FCPA, CA, ICD.D
Auditor General of New Brunswick

JULIA MULLALEY, CPA, CA
Auditor General of Newfoundland and Labrador

MICHAEL A. PICKUP, FCPA, FCA
Auditor General of Nova Scotia

JANE MACADAM, FCPA, CA
Auditor General of Prince Edward Island

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Atlantic Provinces' Joint Follow-up of Recommendations to the Atlantic Lottery Corporation

Overall Results:

Overall, 72% of recommendations had been implemented as at October 1, 2018

- Shareholder governments collectively completed 22% of the recommendations (2 of 9)
- ALC Board of Directors completed 100% of the recommendations (7 of 7)
- ALC management completed 100% of the recommendations (9 of 9)

Shareholder governments did not implement two recommendations intended to improve governance:

- Authorize updated governance practices so that Board members are not elected officials nor employees of government.
- Change the role of public servants on the Board to be non-voting, ex officio members in accordance with best practice.

This is consistent with their response to the recommendations in our October 2016 report. Failure to implement these recommendations risks impeding the Board's fiduciary duty to the corporation and its overall effectiveness in providing sound governance.

Five additional recommendations made to shareholder governments were also not complete:

- Complete an in-depth review of ALC's mandate.
- Periodically review the shareholder agreement and revise as warranted.
- Routinely collaborate and give ALC regular and timely policy direction.
- Define formal performance expectations for ALC that are clear and publicly communicated.
- Complete the ongoing review of the Council of Atlantic Premiers' pension plan and implement required changes.

Failure to implement these recommendations may hinder ALC's effectiveness in making timely business decisions and in the shareholders' ability to evaluate ALC's performance and future sustainability.

We are pleased that all recommendations made to the ALC Board and management were implemented.

We noted shareholder governments have made progress towards implementing our recommendations. However, more effort is required to ensure these key recommendations are implemented in a timely fashion. ALC is a profit-oriented Crown corporation operating in a rapidly evolving industry. In order to remain relevant into the future, it needs more timely strategic direction and policy guidance from the shareholder governments.

We encourage the shareholder governments to collectively expedite implementation of the remaining recommendations to improve governance and business agility of ALC and enhance its public accountability and transparency.


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1 Atlantic Provinces' Joint Follow-up of Recommendations to the Atlantic Lottery Corporation

- 1.1 In the fall of 2018, the Auditors General of New Brunswick, Newfoundland and Labrador, Nova Scotia, and Prince Edward Island collaborated on a joint follow-up report on the status of implementing the 25 recommendations from the October 2016 report on the results of their joint audit of the Atlantic Lottery Corporation (ALC).
- 1.2 The October 2016 report included two chapters: one covering corporate governance and one on other operational areas.
- 1.3 **Chapter 2: Corporate Governance** – The objective was to determine whether the Atlantic Lottery Corporation's governance structures and processes created a framework for effective governance and were working well.
- 1.4 Our audit of corporate governance concluded the governance framework in place at that time was not equipped to deal with challenges facing ALC and the shareholder governments; the Board was not always provided with sufficient and timely information for effective decision making; and the Board composition may have made effective operations more challenging. The report included eight recommendations to the shareholder governments and five to the ALC Board of Directors.
- 1.5 **Chapter 3: Non-Governance** – The objective was to determine whether:
 - executive and employee compensation and benefits were appropriately managed;
 - travel, hospitality, and board expenses were managed in a transparent manner that promoted the appropriate use of shareholder money;
 - significant contracts were monitored to ensure services were received, and payments made, in accordance with contract terms;
 - ALC assessed the effectiveness of significant contracts in meeting its objectives and achieving enterprise value; and
 - ALC procured required services in an efficient and economical manner.
- 1.6 Our audit of non-governance concluded there were significant pay increases for executives without consulting with shareholder governments; travel, hospitality, and board expenses were not well-managed; and improvements

were needed around contract management and the purchase of services. The report included one recommendation to the shareholder governments, two to the ALC Board of Directors, and nine to ALC management.

- 1.7 Collectively, the four shareholder governments, as well as the ALC Board of Directors and management, were asked to assess the implementation status of the 25 recommendations as at October 1, 2018. Further information on our approach to this engagement can be found in Appendix III.

 **Board and management implemented all recommendations; shareholder governments collectively had many outstanding recommendations**

- 1.8 Overall, 72 percent of the 25 recommendations were implemented by October 1, 2018. The status of each recommendation is shown in Appendix I.

| ALC Shareholder Governments | | | | |
|-----------------------------|-----------------|-----------------|----------------------------|------------------|
| Chapter | Complete | Not Complete | Do Not Intend to Implement | Total |
| Chapter 2: Governance | 2 | 4 | 2 | 8 |
| Chapter 3: Non-Governance | 0 | 1 | 0 | 1 |
| Total | 2 22% | 5 56% | 2 22% | 9 100% |

| ALC Board of Directors | | | | |
|---------------------------|------------------|----------------|----------------------------|------------------|
| Chapter | Complete | Not Complete | Do Not Intend to Implement | Total |
| Chapter 2: Governance | 5 | 0 | 0 | 5 |
| Chapter 3: Non-Governance | 2 | 0 | 0 | 2 |
| Total | 7 100% | 0 0% | 0 0% | 7 100% |

| ALC Management | | | | |
|---------------------------|------------------|----------------|----------------------------|------------------|
| Chapter | Complete | Not Complete | Do Not Intend to Implement | Total |
| Chapter 3: Non-Governance | 9 | 0 | 0 | 9 |
| Total | 9 100% | 0 0% | 0 0% | 9 100% |

| | | | | |
|----------------------|------------------|-----------------|----------------|-------------------|
| Overall Total | 18 72% | 5 20% | 2 8% | 25 100% |
|----------------------|------------------|-----------------|----------------|-------------------|

- 1.9 We are pleased that the ALC Board of Directors and management completed 100 percent of the recommendations (16 of 16) made to them.

- 1.10 Collectively, in the two years since the initial report, the shareholder governments of New Brunswick, Newfoundland and Labrador, Nova Scotia, and Prince Edward Island completed 22 percent of the recommendations (two of nine) made to them.
- 1.11 Consistent with their response to the recommendations in our October 2016 report, shareholder governments did not intend to implement or fully implement 22 percent of the recommendations (two of nine).
- 1.12 The remaining five recommendations were assessed as not complete as at October 1, 2018. Shareholder governments told us they have made progress in implementing the five recommendations, and for many are waiting for final review and approval by senior levels of government before considering them to be fully implemented. Although we do not provide any assurance on the collective and individual responses to recommendations assessed as not complete, we provide a summary of the responses to these recommendations in Appendix II.
- 1.13 The recommendations made collectively to the shareholder governments address important components of governance and help ensure ALC has a clear mandate, performance expectations, and clear policy direction for strategic and business planning. Although we recognize recommendations to the shareholder governments may be more involved and time consuming to implement, it is important these recommendations be collectively actioned by all shareholder governments in a timely manner to improve governance and business agility of ALC, as well as enhance its public accountability and transparency.



Shareholder governments did not intend to implement two recommendations to improve governance

- 1.14 As noted above, the shareholder governments did not intend to implement two recommendations. In our October 2016 report the shareholder governments did not agree with one recommendation and part of one other.
- 1.15 The four shareholder governments collectively did not intend to fully implement recommendation 2.12 which recommended:
- updated governance structures and processes, including a competency-based Board selection process;
 - director terms greater than one year; and
 - Board members not being elected officials nor employees of government.

- 1.16 Atlantic Lottery Corporation By-laws have been updated to require staggered three-year terms for directors. The four shareholder governments use competency-based processes to appoint eight independent, voting, provincial shareholder representatives to the ALC Board, while the remaining four positions are held by senior public servants.
- 1.17 We noted in Chapter 2 of our October 2016 report that having elected officials or employees of government as Board members was not recommended practice in the public sector; the dual role and expectations as both a Board member and a government employee may hinder the effectiveness of governance of the corporation. We provided an example in which the Board with government employee Board members unanimously approved By-law amendments related to changes in the director appointment process, then those same four Board members, acting in their capacity as shareholder representatives, did not accept the changes they had just approved.
- 1.18 The four shareholder governments collectively did not intend to implement recommendation 2.13 which recommended changing the role of public servants (i.e., government shareholder representatives) on the ALC Board to be non-voting, ex officio members in accordance with best practice. As noted in their response in our October 2016 report, the shareholder government representatives did not agree with this recommendation and did not intend to implement it.
- 1.19 Shareholder government representatives told us they believe it is in their best interest to continue to have government employees on the Board as voting directors. We recognise there is value in having public servants representing government on the Board. For complex areas such as gaming, they can speak to government priorities and address government concerns directly with the Board.
- 1.20 However, these roles should be separate from the role of a voting corporate director. The dual role poses a conflict between the fiduciary duty to the corporation and policy interests of their employer. Having public servants as voting board members may place those directors in a position to approve a good corporate decision that may not be a decision they would support as a government representative, or alternatively, make a decision at the provincial gaming level that could negatively impact ALC.



Shareholder governments did not complete five recommendations

- 1.21 As noted above, five recommendations were assessed as not complete as at October 1, 2018.
- 1.22 The four shareholder governments collectively assessed recommendation 2.1 as not complete. We recommended the shareholder governments complete

an in-depth review of ALC's mandate that considered how ALC fits into each government's gaming policy and public policy objectives, and the organizational structures required to achieve these. We further recommended ALC's mandate be updated as required. Not completing this recommendation increases the risk that ALC may not have a clear and consistent mandate that outlines its autonomy to make appropriate and timely business decisions.

- 1.23 The four shareholder governments collectively assessed recommendation 2.2 as not complete. We recommended the shareholder governments periodically review the Unanimous Shareholder Agreement and Corporate By-laws and revise as warranted. The shareholder agreement is an important governance document and provides ALC with its authority and operating mandate. Not completing this recommendation increases the risk that key terms and conditions do not reflect the current environment at ALC.
- 1.24 The four shareholder governments collectively assessed recommendation 2.3 as not complete. We recommended the shareholder governments routinely collaborate and give ALC regular and timely policy direction to use in its strategic and business planning processes. Not completing this recommendation increases the risk that ALC will have unclear or inconsistent government direction which could lead to significant business inefficiencies. It could also result in ALC operating outside of its approved mandate.
- 1.25 The four shareholder governments collectively assessed recommendation 2.5 as not complete. We recommended the shareholder governments define formal performance expectations for ALC that are clear and publicly communicated. We further recommended that these performance expectations be updated annually as part of the shareholder governments' oversight and strategic direction. Not completing this recommendation increases the risk that ALC may not have clear performance expectations or could have performance expectations which conflict with the expectations of shareholders. Formal and publicly communicated performance expectations also increase public accountability and transparency.
- 1.26 The four shareholder governments collectively assessed recommendation 3.2 as not complete. We recommended the shareholder governments complete the ongoing review of the Council of Atlantic Premiers pension plan and implement the required changes. Not completing this recommendation may impact the sustainability and cost of ALC's pension plan.

Appendix I

Implementation Status of Recommendations

| Nine Recommendations to the Shareholder Governments | Implementation Status at October 1, 2018 |
|---|--|
| 2.1 The shareholder governments should complete an indepth review of ALC's mandate that considers how the Corporation fits into each government's gaming policy and public policy objectives and the organizational structures required to achieve these. Based on this review, Atlantic Lottery Corporation's mandate should be updated as required. | Not Complete |
| 2.2 Shareholder governments should periodically review the Unanimous Shareholder Agreement and Corporate By-Laws and revise as warranted. | Not Complete |
| 2.3 Shareholder governments should routinely collaborate and give ALC regular and timely policy direction for ALC to use in its strategic and business planning process. | Not Complete |
| 2.4 Shareholder governments should define and document their roles, responsibilities and authorities for oversight of ALC. Each shareholder government should clarify the relationships between the Board, the responsible Minister, and other government representatives. | Complete |
| 2.5 Shareholder governments should define formal performance expectations for ALC that are clear and publicly communicated. These performance expectations should be updated annually as part of the shareholder governments' oversight and strategic direction. | Not Complete |
| 2.7 Within the accountability framework, shareholder governments should clarify which level of government authority (Deputy Minister, Minister, Cabinet or Order in Council) ALC requires to enter into transactions. | Complete |
| 2.12 Shareholder governments should authorize updated governance structures and processes to reflect best practices for the composition and appointment of Directors, including: <ul style="list-style-type: none"> • A Board selection process that is competency-based, professional, competitive, open, transparent and reflective of the skill requirements for the Board and the needs and practices of each shareholder; • Shareholders appoint voting Board directors for a fixed term greater than one year, subject to renewal; and, • Board members should not be elected officials nor employees of Government. | Do Not Intend to Implement |
| 2.13 Shareholder governments should change the role of public servants (i.e., government shareholder representatives) on the ALC Board to be non-voting, ex officio members in accordance with best practice. | Do Not Intend to Implement |
| 3.2 The shareholder governments should complete the ongoing review of the Council of Atlantic Premiers pension plan and implement required changes. | Not Complete |

| Seven Recommendations to the Atlantic Lottery Corporation Board of Directors | Implementation Status at October 1, 2018 |
|---|--|
| 2.6 The ALC Board should set performance targets that are measurable indicators of planned outcomes, as well as incorporating relevant industry performance benchmarks. Actual performance against these targets should be publicly reported annually. | Complete |
| 2.8 The ALC Board should separately report in the Corporation's annual report any decisions taken by a shareholder government that would otherwise contravene a Board decision or established business practices. | Complete |
| 2.9 When evaluating new or unusual business ventures, the ALC Board should critically evaluate the relevant experience and skill sets on the Board. As needed, the Board should supplement missing skills with contracted, independent, third-party support. | Complete |
| 2.10 The ALC Board should ensure risks are properly assessed and mitigated to an acceptable level before making investment decisions. It should also ensure that future business venture decisions are aligned with shareholder governments' priorities, policies and tolerance for risk before proceeding. | Complete |
| 2.11 The ALC Board should ensure it obtains sufficient and appropriate information from management to adequately assess the potential risks, rewards, and appropriateness of future proposed initiatives. | Complete |
| 3.1 Atlantic Lottery's Board of Directors should get direction from the four shareholder governments on the Corporation's approach to its compensation packages, including salaries, bonuses, pensions, and other benefits, to determine if it is aligned with shareholder expectations. | Complete |
| 3.7 Atlantic Lottery Board should set policies on spending related to Christmas events and the employee recognition program that are in line with shareholder governments' expectations. | Complete |

| Nine Recommendations to the Atlantic Lottery Corporation | Implementation Status at October 1, 2018 |
|---|--|
| 3.3 Atlantic Lottery should establish a process to ensure required changes to its payroll system are made. The process should include communicating changes to the required staff and confirmation that changes are made. | Complete |
| 3.4 Atlantic Lottery should publicly disclose compensation information to promote accountability and transparency. Atlantic Lottery should consult shareholder governments on their expectations for this disclosure. | Complete |
| 3.5 Atlantic Lottery should revise its travel and expense policy to: <ul style="list-style-type: none"> - address whether alcohol is an acceptable expense; - require meeting and entertainment expenses to be preapproved; and - address appropriate approvals for Board member and CEO expenses. Expenses should only be reimbursed if an adequate description is provided, the expense is supported by an itemized receipt, and the claim is properly approved. | Complete |

| Nine Recommendations to the Atlantic Lottery Corporation | Implementation Status at October 1, 2018 |
|---|--|
| 3.6 Atlantic Lottery should not buy event and concert tickets to give to government and elected officials in an effort to simply improve shareholder relations. | Complete |
| 3.8 Atlantic Lottery should include appropriate performance measures in vendor contracts. These should be established prior to signing the contract. | Complete |
| 3.9 Atlantic Lottery should ensure vendors provide detailed invoices that adequately describe the services provided. | Complete |
| 3.10 Atlantic Lottery should ensure payments to vendors are only made once the appropriate ALC staff confirms that services billed were received. | Complete |
| 3.11 Atlantic Lottery should document contract monitoring processes, including responsibilities for contract monitoring, and follow up to help ensure the required processes are completed. | Complete |
| 3.12 Atlantic Lottery should review its controls around purchases of services to help ensure they are operating effectively. | Complete |

Appendix II

Shareholder Government Responses to Recommendations Assessed as Not Complete

(Unaudited – We provide no assurance on the responses)

| Recommendation and Shareholder Governments' Collective Response as at October 1, 2018 | Individual Shareholder Governments' Responses Updated as at February 25, 2019 |
|---|---|
| <p>2.1 The shareholder governments should complete an indepth review of ALC's mandate that considers how the Corporation fits into each government's gaming policy and public policy objectives and the organizational structures required to achieve these. Based on this review, Atlantic Lottery Corporation's mandate should be updated as required.</p> <p>Shareholders' Collective Response: <i>The mandate will be formally communicated in letter to ALC once approved by respective provincial governments, after which the ALC shareholder provinces will review ALC's mandate every five years or as required to accommodate the evolving business environment.</i></p> | <p>New Brunswick: The New Brunswick Lotteries and Gaming Corporation (NBLGC) Board has approved the updated mandate. A mandate letter will be sent to ALC by NBLGC in 2019.</p> <p>Newfoundland and Labrador: The mandate has been reviewed and communicated by letter to ALC.</p> <p>Nova Scotia: ALC's mandate and organizational structure has been reviewed. The mandate has been updated and included in the annual instruction letter sent to ALC.</p> <p>Prince Edward Island: Mandate has been reviewed and has been communicated by letter to ALC.</p> |
| <p>2.2 Shareholder governments should periodically review the Unanimous Shareholder Agreement and Corporate By-Laws and revise as warranted.</p> <p>Shareholders' Collective Response: <i>The Unanimous Shareholder Agreement (USA) has been updated and is awaiting certain provinces' final approval. The shareholder provinces will review the Unanimous Shareholder Agreement and Corporate By-Laws every five years.</i></p> | <p>New Brunswick: NBLGC Board updated USA is to be brought to Cabinet for approval.</p> <p>Newfoundland and Labrador: In the process of requesting Cabinet approval.</p> <p>Nova Scotia: Nova Scotia Gaming Corporation's (NSGC) CEO will sign the updated USA when all four provinces are ready to sign it.</p> <p>Prince Edward Island: In process of requesting Cabinet approval.</p> |
| <p>2.3 Shareholder governments should routinely collaborate and give ALC regular and timely policy direction for ALC to use in its strategic and business planning process.</p> <p>Shareholders' Collective Response: <i>The shareholder provinces have collaborated on a letter containing the mandate to be sent to ALC for strategic and business planning purposes.</i></p> | <p>New Brunswick: NBLGC board approved process of including direction and performance expectations in the annual mandate letter which will be sent to ALC.</p> <p>Newfoundland and Labrador: Included in mandate letter sent to ALC. To be updated and sent every 5 years.</p> <p>Nova Scotia: This is included in the annual instruction letter which has been sent to ALC.</p> <p>Prince Edward Island: Included in mandate letter sent to ALC. To be updated and sent every 5 years.</p> |

| Recommendation and Shareholder Governments' Collective Response as at October 1, 2018 | Individual Shareholder Governments' Responses Updated as at February 25, 2019 |
|---|---|
| <p>2.5 Shareholder governments should define formal performance expectations for ALC that are clear and publicly communicated. These performance expectations should be updated annually as part of the shareholder governments' oversight and strategic direction.</p> <p>Shareholders' Collective Response: <i>The shareholder provinces will annually review and publicly report on performance expectations and achievement of performance expectations. Certain provinces are still in the government approval process.</i></p> | <p>New Brunswick: Performance expectations will be included in the annual mandate letter to ALC.</p> <p>Newfoundland and Labrador: No change to prior process of using ALC's annual budgeted revenue distribution to the province.</p> <p>Nova Scotia: Performance expectations and mandate posted on NSGC website annually.</p> <p>Prince Edward Island: No change to prior process of using ALC's annual budgeted revenue distribution to the province.</p> |
| <p>3.2 The shareholder governments should complete the ongoing review of the Council of Atlantic Premiers pension plan and implement required changes.</p> <p>Shareholders' Collective Response: <i>The shareholder provinces continue to receive updates from the relevant departments in each province and will review and consider any required changes once the Council of Atlantic Premiers' Pension plan is complete.</i></p> | <p>Individual shareholder responses not applicable. Refer to collective shareholder response.</p> |

Appendix III

Limited Assurance Attestation Engagement Description and Conclusion

In January 2019, we completed an independent limited assurance attestation engagement on the status of audit recommendations included in our October 2016 joint audit report on the Atlantic Lottery Corporation. Our objective was to provide limited assurance, as of October 1, 2018, on those recommendations assessed as complete, do not intend to implement, or action no longer applicable, to determine if the assessment was free from material misstatement. We did not perform any procedures, and provide no assurance, on recommendations noted in this report as not complete.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

The Atlantic Lottery Corporation shareholder governments, Board of Directors, and management were responsible for assessing their status of implementing recommendations of the Auditors General. For recommendations they assessed as complete, we substantiated the assessment through interviews and examination of documentation. We evaluated the implementation status using criteria based on whether the supporting information provided by the organization addressed the audit recommendation, and whether the information was relevant, complete, reliable, neutral, and understandable. Our work was based on qualitative characteristics of information as described in the CPA Canada Handbook.

For a recommendation assessed as do not intend to implement or action no longer required, we focused on the reasons why the entity chose not to implement the recommendation or why the entity believes the recommendation is no longer applicable. If the rationale appeared reasonable, we removed the recommendation from our statistics.

All work in this engagement was performed to a limited assurance level in accordance with the Canadian Standard for Assurance Engagements (CSAE) 3000 – Attestation Engagements Other than Audits or Reviews of Historical Financial Information set out by the Chartered Professional Accountants of Canada. We obtained sufficient and appropriate evidence on which to base our conclusions in New Brunswick, Newfoundland and Labrador, Nova Scotia, and Prince Edward Island on February 27, 2019.

As auditors, we applied Canadian Standard on Quality Control 1, and, accordingly, maintained a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting our work, we complied with the independence and other ethical requirements of the relevant rules of professional conduct applicable to the practice of public accounting in Canada.

Conclusion on complete recommendations – Based on the limited assurance procedures performed and evidence obtained, no matters have come to our attention to cause us to believe the status of the recommendations reported as complete have been materially misstated. Additional information provided in this report is not intended to take away from our overall conclusion.