Table of Contents

Chapter 5 – Financial Audit of New Brunswick Lotteries and Gaming Corporation

Chapter 6 – Matters Arising from our Audit of the Financial Statements of the Province

Chapter 7 – Matters Arising from our Audits of Crown Agencies and Federal Claims

Chapter 1
Introductory Comments by the Auditor General

Contents

Introductory Comments by the Auditor General

Volume III Reports Our Financial Audit Work

Province's audit opinion contained reservations

1.1 This volume of our Report deals with matters arising from our financial audits of the Province and its Crown agencies for the year ended March 31, 2015.

1.2 On September 29, 2015 I signed a qualified audit opinion on the 2015 consolidated financial statements of the Province of New Brunswick. A qualified audit opinion is different from other audit opinions normally issued by my Office. A qualified audit opinion expresses reservations or concerns about the information contained in the financial statements.

1.3 This is the first qualified audit opinion on the Province's financial statements in 17 years. The reservations expressed in the qualified audit opinion relate to major concerns regarding accounting for the Province's shared risk pension plans. This reservation will impact future years' audit opinions as well until the accounting for these pension plans changes or until accounting standards change.

Unexpected and unsupported change

1.4 After March 31, 2015 the Province informed my Office that it would be accounting for its shared risk pension plans using defined contribution accounting. We do not agree with the Province's position as we believe these changes are contrary to Canadian Public Sector Accounting Standards.

Serious and disappointing outcome

1.5 This is more than a disagreement among accountants. In my opinion, as a result of the severity and significance of the accounting issues, the public, elected officials and possibly credit rating agencies cannot fully assess the fiscal situation using the Province's March 31, 2015 financial statements.

1.6 As a result of the reservations expressed in the audit opinion, we are unable to quantify the impact of the possible changes required to the financial statements as the government has not provided the necessary information.

1.7 In order to address and resolve our concerns and avoid qualifying the audit opinion on the Province's financial statements, we had many discussions with senior officials in the Department of Finance and the Office of the Comptroller. However, a qualified audit opinion was required as the government decided not to change its position on shared-risk pension accounting or provide information to calculate the impact of its pension accounting decisions.

1.8 This is a very serious and disappointing outcome for the Province's March 31, 2015 financial statement audit.

1.9 Our detailed observations on the Province's pension plans are contained in Chapter 3. In Chapter 3 we include a list of information not prepared that would be required to determine the Province's financial situation under Canadian Public Sector Accounting Standards. We also make recommendations for the Province to correct its pension accounting and obtain missing information.

Auditor General's Comments on the Province's Fiscal Status

1.10 The Province's fiscal situation remains a significant concern. While we do not have fully audited numbers to assess the Province's true fiscal situation, using the Province's March 31, 2015 financial statements we note the Province had a seventh consecutive deficit since 2009. From 2009-2015 annual deficits have occurred of approximately $3.2 billion cumulatively, and approximately $5 billion (or about 40%) of the Province's $12 billion total Net Debt has been added in this period.

1.11 This pace of accumulating deficits and growth of Net Debt is not sustainable for the Province of New Brunswick's population and resources.

Unfavourable sustainability indicators

1.12 Chapter 2 presents commonly used indicators of financial condition assessed for the Province. While neutral or favourable results have occurred for the Province's flexibility and vulnerability indicators, results are largely unfavourable for sustainability indicators on a long term and short term basis.

Structural deficits persist

1.13 Although recent government efforts to control spending are noteworthy, it is not enough. The Province's structural deficit continues. A structural deficit is a sustained situation where expenses exceed revenues. It is also concerning that this fiscal imbalance persists in a time when our infrastructure such as buildings, roads and bridges are not being maintained and renewed at optimal levels (as per our work performed on bridges and highways in recent performance audits).

1.14 In general, to correct a structural deficit, expenses or services/programs need to be reduced, revenues need to be increased, or some combination of the two need to occur. The solution chosen is dependent on government policy and decision making.

Continued diligence is needed to improve the financial health of the Province

1.15 Continued fiscal diligence is required in government policy and decision making to improve the financial health of the Province.

Need to return to balanced budgets and control growth in Net Debt

1.16 Our Province must return to balanced budgets in the foreseeable future. As well, our Province must control Net Debt growth. Both measures, the annual deficit and change in Net Debt, are important in assessing the financial health of the Province.

1.17 We look forward to seeing the government set targets in their upcoming budget. The government's next budget is an opportunity to publicly report on their future fiscal plan for the Province. Ideally this would include the introduction of a detailed long term plan with deficit reduction targets followed by eventual Net Debt reduction. Such a detailed fiscal plan would then allow the public to measure performance of the government in meeting these important fiscal objectives.

School Raised Funds

1.18 This year we reviewed the Province's accounting for school raised funds. We found the Province was not consistently recording all school raised funds in its financial statements.

1.19 As a result of our work in this area, the Province has recorded approximately $14 million in its March 31, 2015 financial statements related to school raised funds activity. Chapter 4 discusses in further detail our work to date and the remaining work still to be addressed regarding lack of consistent policies and procedures for school raised funds in New Brunswick, and lack of public reporting of these funds.

New Brunswick Lotteries and Gaming Corporation

1.20 As a result of the significant delays we have experienced with the annual audits of the New Brunswick Lotteries and Gaming Corporation (NBLGC) financial statements, we present a chapter in this Report to discuss the audit problems encountered as well as the reasons for the delays. The March 31, 2013 audit was completed as of July 13, 2015 (almost two and a half years after year end).

1.21 Chapter 5 discusses the NBLGC’s significant and complex accounting issues including participation in the Atlantic Lottery Corporation (ALC)’s Geonomics investment of $ 4 million (which has subsequently been recorded as a loss by ALC), as well as failure to address and correct over $14 million in ongoing over-payments to First Nations, and weaknesses in NBLGC’s governance practices at the board oversight level.

Other findings from the Province’s audit

1.22 Chapter 6 reports other matters arising from our March 31, 2015 audit of the Province’s financial statements. Among the findings highlighted in this chapter include accounting concerns regarding the Province’s 65 licensed nursing homes, management of receivables as well as governance and oversight concerns, such as the Province’s ongoing lack of an audit committee. IT findings from our audit work on provincial computer systems are also presented in Chapter 6.

Crown agencies and Federal claims audits

1.23 Chapter 7 reports on matters arising from our audits of Crown agencies and Federal claims. In this chapter we highlight recurring themes in our findings on Crown agency audit work. Of particular concern are the oversight/governance findings encountered in our Crown agency work which include findings such as lack of regular board meetings, lack of risk management or internal control oversight, delay in publishing annual reports and lack of oversight or monitoring of significant agreements.

Acknowledgements

1.24 Overall, my Office is grateful for the continuing cooperation we receive from government departments and agencies during the course of our financial audit work.

1.25 I want to thank all staff from my Office for their hard work and dedication. It is a small group of professionals committed to fulfilling the mandate of the Office and producing a quality report to the Legislative Assembly. The report we are presenting today is a reflection of a team effort where each member of the staff has greatly contributed.

Kim MacPherson, CPA, CA
Auditor General

Chapter 2
Comments on the Province's Financial Position

Contents

Comments on the Province's Financial Position

2.1 It should be noted that the numbers used in this chapter are from the Province's March 31, 2015 Public Accounts. The audit opinion connected with these financial statements expressed reservations that, had our concerns been addressed, may cause the numbers presented in this chapter to change for certain expenses, liabilities, the annual deficit and net debt. We are unable to quantify the impact of the possible changes as government has not provided the necessary information. Readers are cautioned that the numbers presented in this chapter may not be appropriate for their purposes.

Seventh Consecutive Deficit

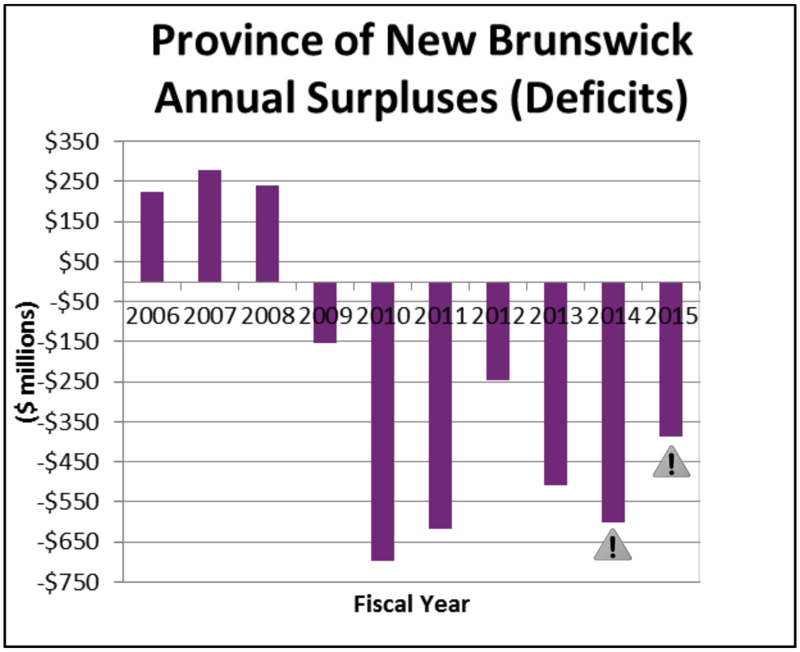
2.2 The Province's March 31, 2015 audited consolidated financial statements reported a deficit of $388.6 million and an increase in Net Debt for the fiscal year of $610.6 million. The Province now has a Net Debt of $12.4 billion.

2.3 The $388.6 million annual deficit was lower than the budgeted deficit of $391.1 million and was lower than the prior year deficit of $600.4 million.

Action is Required

2.4 This represents the seventh consecutive annual deficit. To assist in financing these deficits, the Province has incurred additional debt. This trend is very concerning. Significant changes are required to improve the financial health of the Province.

Exhibit 2.1 - Annual Surpluses (Deficits)



As restated

The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been marked with a caution symbol above.

Exhibit 2.2 - Annual Surpluses (Deficits) Data

Annual Surpluses (Deficits) ($ millions)										
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
As restated	225.3	277.3	241.1	(152.0)	(695.9)	(617.2)	(244.8)	(507.5)	(600.4)	n/a
As originally recorded	243.6	236.8	86.7	(192.3)	(737.9)	(633.0)	(260.6)	(507.7)	(498.7)	(388.6)

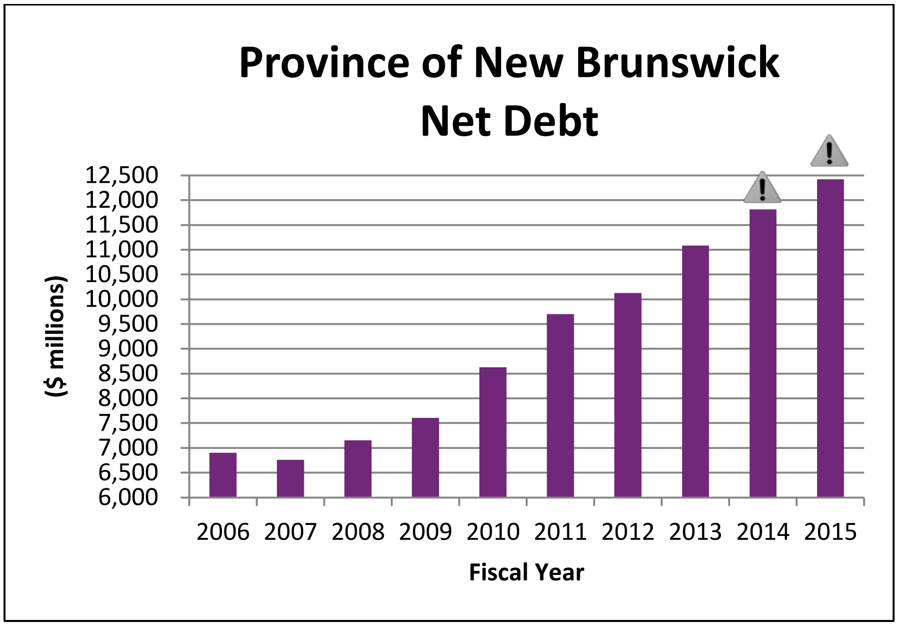
The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

2.5 Exhibits 2.1 and 2.2 show the surplus or deficit for the past ten years. The preceding years' amounts have been restated as per Note 17 of the Province's March 31, 2015 consolidated financial statements.

Continued Growth in Net Debt

2.6 Net Debt is one of the most important measures of the financial position of the Province. Exhibits 2.3 and 2.4 show Net Debt for the past ten years. Net Debt measures the difference between a government's liabilities and financial assets. This difference provides a measurement of the future revenues required to pay for past transactions and events.

Exhibit 2.3 - Province of New Brunswick Net Debt



As restated

The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been marked with a caution symbol above.

Exhibit 2.4 - Net Debt Data

Net Debt ($ millions)										
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
As restated	6,900.6	6,761.4	7,151.6	7,608.0	8,628.9	9,700.4	10,125.8	11,084.6	11,811.3	n/a
As originally recorded	6,655.7	6,577.9	6,942.9	7,387.8	8,353.0	9,480.4	10,045.8	11,054.0	11,641.2	12,421.9

The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

2.7 We would like to draw attention to the following facts:

- For the year ended 31 March 2015, Net Debt increased by $610.6 million to $12.4 billion.
- In the ten years reported in Exhibit 2.4, Net Debt has increased $5.5 billion.
- The 2015-2016 Main Estimates budgets for an increase in Net Debt of $585.5 million for the year ended 31 March 2016.
- Based on 2015-2016 Main Estimates, Net Debt of the Province could be in excess of $13 billion for the year ended 31 March 2016.

Net Debt growth through budget deficits

2.8 Exhibit 2.5 shows the annual budgeted deficit for the Province for the last five years. Even though expenditure growth is slowing, budgeted deficits have been planned in the last five years which have contributed to Net Debt growth. In order to reduce Net Debt, the budgeted deficit needs improvement (i.e. through either increases to revenues, reductions to expenses, or a combination of both). If no other plan of action is taken, the deficit and Net Debt increases will continue.

Exhibit 2.5 - Annual Budgeted Deficit

Annual Budgeted Deficit ($ millions)					
	2011	**2012**	**2013**	**2014**	**2015**
Budgeted Deficit	(748.8)	(448.8)	(182.9)	(478.7)	(391.1)

Comparison to Other Provinces

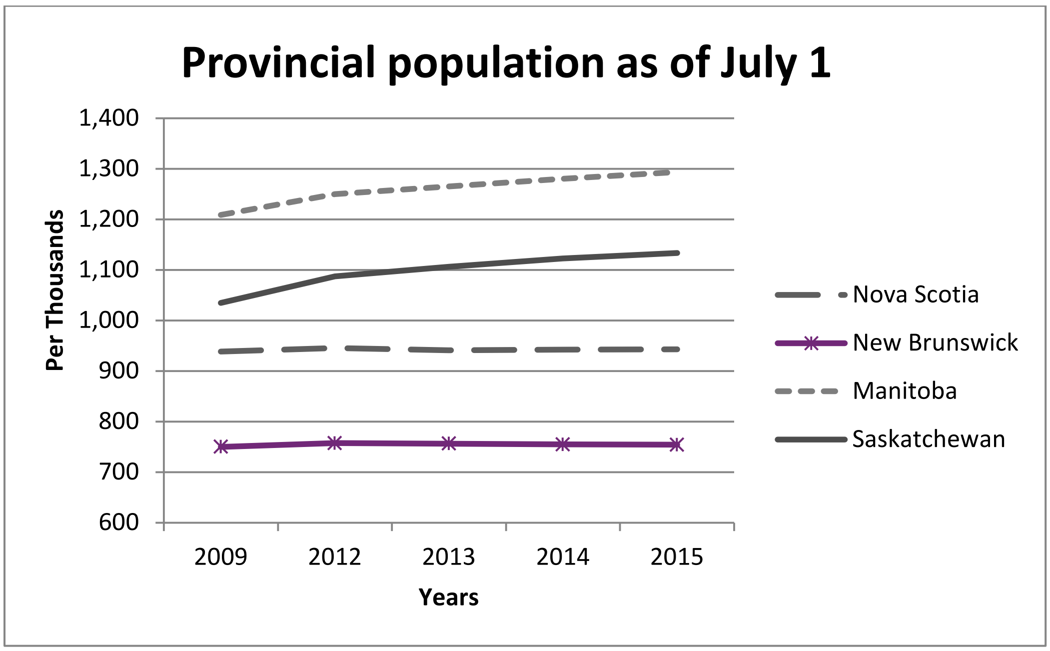
2.9 Another way to assess the significance of the size of the Province's Net Debt is to compare it to the Net Debt of other provinces in absolute amount, per capita and as a percentage of GDP. Provinces used in our comparison include, Newfoundland and Labrador, Nova Scotia, Manitoba and Saskatchewan. These provinces presented for comparison purposes were selected based on application of judgement where certain similarities in population or economic circumstances were considered. The provinces' application of accounting principles may differ upon comparing financial information, depending on particular circumstances. Population data for provinces used in our comparison is found in Exhibits 2.6

and 2.7.

2.10 In the next eight exhibits:

- information from the audited summary financial statements of the individual provinces is used;
- information about population is taken from the Statistics Canada website, and
- GDP figures are from the financial statement discussion and analysis attached to the individual provinces' audited summary financial statements.

Exhibit 2.6 - Provincial Population as of July 1

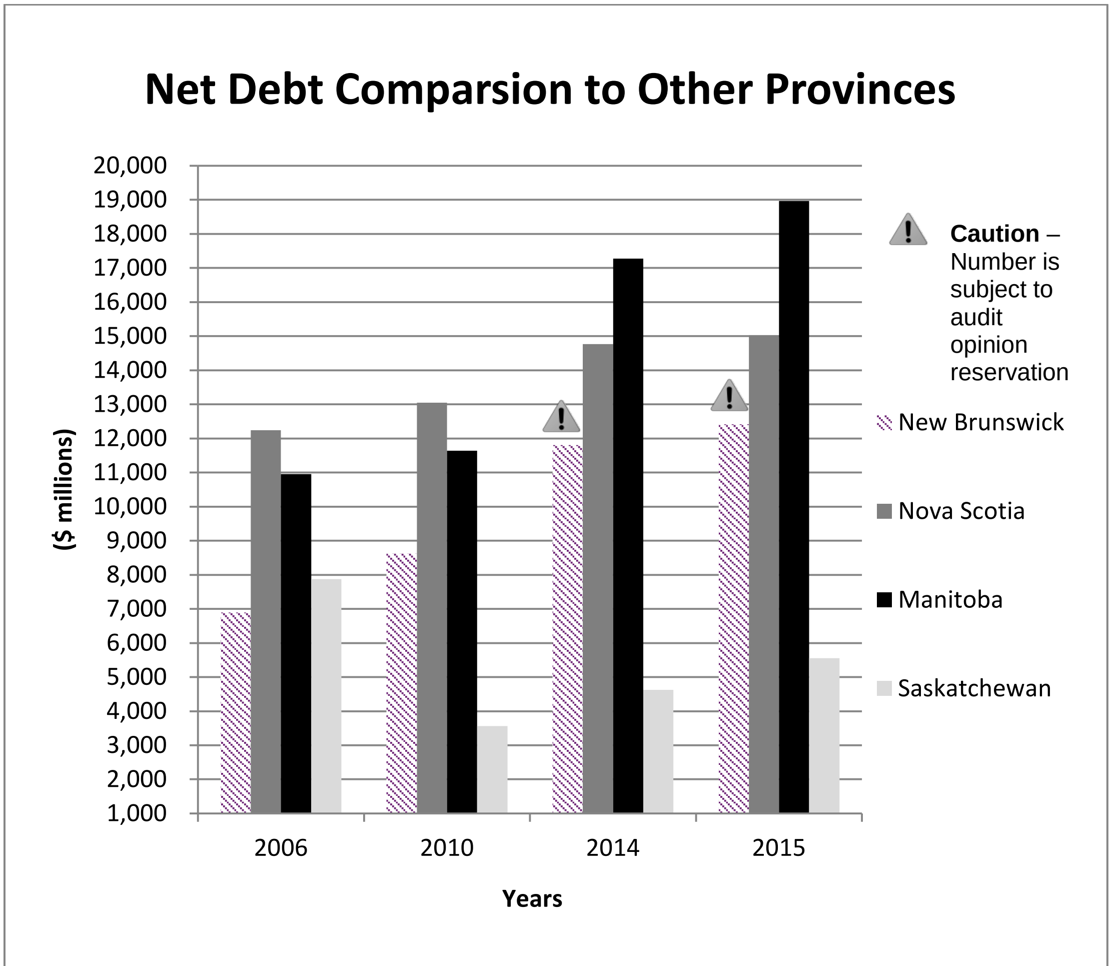


Source: Statistics Canada
http://www5.statcan.gc.ca/cansim/a26?lang=eng&retrLang=eng&id=0510001&pattern=&csid=

Exhibit 2.7 - Provincial Population as of July 1 Data

Provincial Population Data as of July 1					
Province	**(thousands)**				
	2009	**2012**	**2013**	**2014**	**2015**
Nova Scotia	935.9	944.5	944.8	943.0	942.4
New Brunswick	746.9	755.5	756.8	755.7	754.6
Manitoba	1,197.8	1,233.7	1,250.4	1,265.3	1,280.2
Saskatchewan	1,017.3	1,066.3	1,087.2	1,106.1	1,122.3

Exhibit 2.8 - Net Debt Comparison to Other Provinces



The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been marked with a caution symbol above.

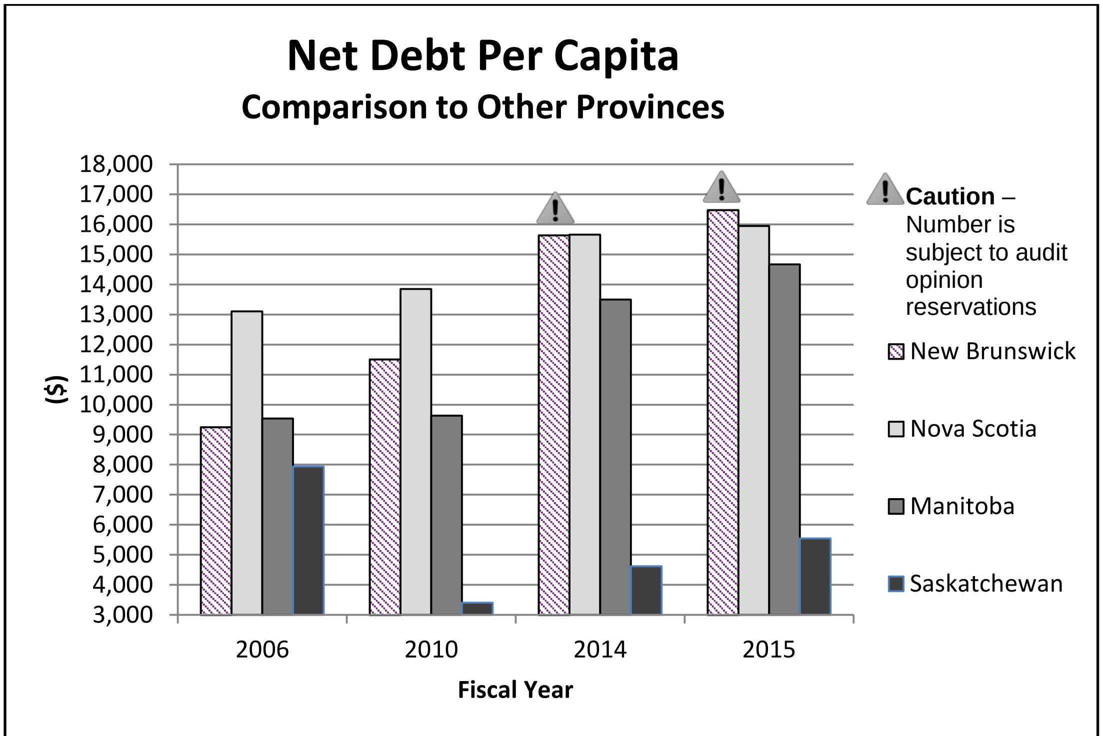
Exhibit 2.9 - Net Debt Comparison to Other Provinces Data

Net Debt Comparison to Other Provinces ($ millions)					
Province	**Increase (Decrease) 2006 to 2015**	**2006**	**2010**	**2014**	**2015**
New Brunswick	80%	6,901	8,629	11,811	12,422
Manitoba	73%	10,952	11,643	17,272	18,963
Nova Scotia	23%	12,239	13,045	14,762	15,031
Saskatchewan	(29%)	7,870	3,560	4,620	5,550

The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

2.11 Exhibits 2.8 and 2.9 show that over the last ten years within this group, New Brunswick has had the highest increase in Net Debt. New Brunswick's rate of Net Debt growth has increased by 80% over the last ten years. The magnitude of this increase is significant. The overall debt burden for the Province remains at an elevated level. The 2015-2016 Main Estimates budgets an increase in Net Debt of approximately $585.5 million. The continued increase in Net Debt causes concern for the long-term sustainability of the Province.

Exhibit 2.10 - Net Debt Per Capita Comparison to Other Provinces



The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been marked with a caution symbol above.

Exhibit 2.11 - Net Debt Per Capita Comparison to Other Provinces Data

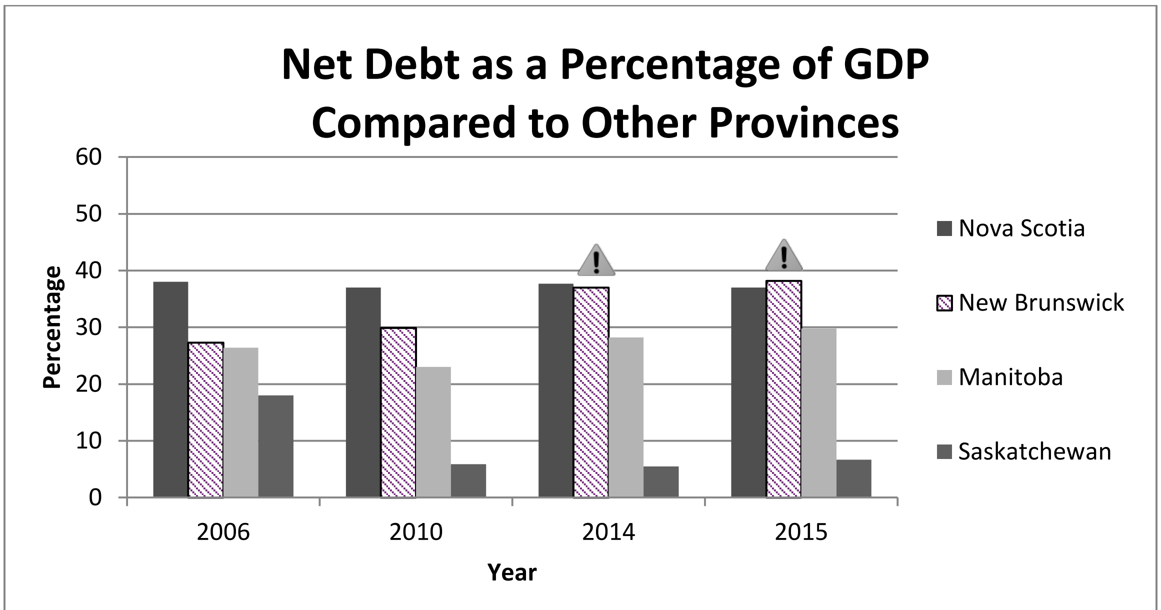
Net Debt Per Capita Comparison to Other Provinces* ($)				
Province	**2006**	**2010**	**2014**	**2015**
New Brunswick	9,255	11,506	15,631	16,477
Nova Scotia	13,104	13,847	15,656	15,944
Manitoba	9,537	9,633	13,492	14,661
Saskatchewan	7,940	3,410	4,620	5,552

The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

**Amounts from provinces' 2015 financial statement discussion and analysis where available. For those provinces where this indicator was not published in the same format, information was obtained on population from Statistics Canada as of July 1 within the fiscal year. (i.e. 2015 was July 1 2014 population). Numbers have been rounded for presentation purposes.*

2.12 Information in Exhibits 2.10 and 2.11 show that New Brunswick has the highest Net Debt per capita in the comparable group. If the debt were to be eliminated by way of contributions from New Brunswickers, each would contribute $16,477. Again, this indicator has increased significantly from 2010 at $11,506 to 2015 at $16,477 (a 43.2% increase in five years).

Exhibit 2.12 - Net Debt as a Percentage of GDP Compared to Other Provinces



The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been marked with a caution symbol above.

Exhibit 2.13 - Net Debt as a Percentage of GDP Compared to Other Provinces Data

Net Debt as a Percentage of GDP Compared to Other Provinces (percent)					
Province	**2006**	**2010**	**2014**	**2015**	**% Increase (Decrease) from 2006 to 2015**
New Brunswick	27.3	29.9	37.0	38.2	39.9%
Nova Scotia	38.0	37.0	37.7	37.0	(2.6%)
Manitoba	26.4	23.0	28.2	29.8	12.9%
Saskatchewan	17.5	5.9	5.5	6.7	(61.7%)

The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

2.13 As shown in Exhibits 2.12 and 2.13, New Brunswick had the highest increase of Net Debt as a percentage of GDP from 2006 to 2015, and the highest Net Debt as a percentage of GDP among comparable provinces for 2015. For the year ended March 31, 2006, New Brunswick's Net Debt as a percentage of GDP was 71.8% of Nova Scotia's; for the year ended March 31, 2015 it was 103.2%.

Net Debt comparison summary

2.14 New Brunswick's Net Debt performance compared to other provinces remains a significant concern. New Brunswick's increase in Net Debt of $5.5 billion from 2006 indicates the need for continued efforts to address the level of Net Debt.

Comments on the Province's Financial Health

2.15 For the past number of years, we included in our annual report a historical trend analysis of the Province's financial condition by looking at measures of sustainability, flexibility and vulnerability.

2.16 Starting in 2009, the Province began reporting some of these measures as part of Volume 1 of Public Accounts (Indicators of Financial Health section). As we commented in previous years, we are pleased to see the Province report this historical information.

2.17 In this section, we report on twelve indicators of financial condition identified by the Public Sector Accounting Board (PSAB) in a Statement of Recommended Practice (SORP). This analysis is intended to give a broader view of the financial health of the Province as the analysis shows trends. The analysis expands on the information reported in the audited consolidated financial statements which only reflect the Province's fiscal status at a point in time.

Assumptions Used

2.18 We have not audited some of the numbers used in our indicator analysis; instead, we are using numbers the Province restated as per Note 17 of the Province's consolidated financial statements. The Province used these restated figures in its management discussion and analysis in Volume 1 of Public Accounts. We have not audited the annualized numbers we obtained from the Province for the years 2005 to 2010. For the 2011- 2015 numbers, we audited the numbers in conjunction with our annual audit work.

2.19 In some of the Exhibits that follow, we show five years of comparative figures instead of ten. For these cases, restated numbers for prior years are not available because of changes in accounting policies.

Summary of the Province’s Indicators of Financial Condition

2.20 In Exhibit 2.14, we summarize our analysis of the Province's financial indicators. We show the indicators for each element, the purpose of the indicator, the short-term (two year) and long-term (five or ten year) trend, as well as a reference within this chapter of where we discuss the indicator in more detail.

Exhibit 2.14 - Summary of Indicators of Financial Condition

	Indicator	Purpose	Short-term Trend	Term	Long-term Trend[1]	Paragraph
Sustainability	Assets-to-liabilities	Measures extent that government finances its operations by issuing debt	Unfavourable	5 year	Unfavourable	2.24
	Financial asset-to-liabilities	Measures whether future revenues will be needed to pay for past transactions	Unfavourable	5 year	Unfavourable	2.26
	Net Debt-to-total annual revenue	Shows whether more time is needed to pay for past transactions	Unfavourable	10 year	Unfavourable	2.28
	Expense by function-to-total expenses	Shows the trend of government spending over time	Neutral	5 year	Neutral	2.30
	Net Debt-to-GDP	Shows the relationship between Net Debt and the activity in the economy	Unfavourable	10 year	Unfavourable	2.33
	Accumulated deficit–to-GDP	Measures the sum of the current and all prior year operating results relative to the growth in the economy	Unfavourable	5 year	Unfavourable	2.35
	Total expenses-to-GDP	Shows the trend of government spending over time in relation to the growth in the economy	Unfavourable[2]	10 year	Unfavourable	2.37
Flexibility	Public debt charges-to-revenues	Measures extent that past borrowing decisions limits ability to meet current financial and service commitments	Neutral	10 year	**Favourable**	2.41
	Net book value of capital assets-to-cost of capital assets	Measures the estimated useful lives of tangible capital assets available to provide products /services	Neutral	5 year	Neutral	2.45
	Own-source revenues-to-GDP	Measures extent income is taken out of the economy	Unfavourable[2]	10 year	Neutral	2.47
Vulnerability	Government transfers-to-total revenues	Measures the dependence on another level of government	**Favourable**	10 year	Mixed	2.54
	Foreign currency debt-to-Net Debt	Measures the government's potential vulnerability to currency fluctuations	**Favourable**	10 year	**Favourable**	2.57

[1]Long-term trend assessments unchanged in Auditor General Annual Reports 2012-2015
[2]Last year was "Neutral"

Conclusion

2.21 The long-term and short-term trends continue to show a number of unfavourable sustainability indicators. Flexibility and vulnerability indicators show more positive results. Overall, the Province's long-term indicators of financial condition have remained unchanged since 2012. Ten of twelve of the Province's short term indicators of financial condition have not changed since the prior year. The other two indicators have declined to unfavourable from the prior year assessment of neutral.

2.22 However, we remain concerned about the sustainability indicator trends. The level of Net Debt, now $12.4 billion and the increase of 80% since 2006 is undesirable. This pace of Net Debt growth is not sustainable in the long-term, and action is required to address this problem. It may eventually impact the Province's ability to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others. We again this year, in addition to addressing the annual deficit, encourage the Province to set and achieve targets for long-term Net Debt control and reduction.

Sustainability Indicators

2.23 Sustainability indicates whether the Province can maintain programs and meet existing creditor requirements without increasing the debt burden on the economy.

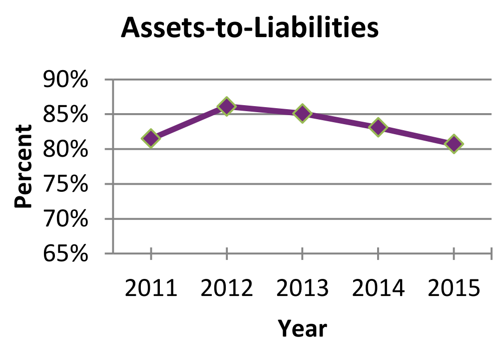
Assets-to-Liabilities

2.24 The sustainability indicator assets-to-liabilities is presented in Exhibit 2.15.

Exhibit 2.15 - Comparison of Assets-to-Liabilities

Comparison of Assets-to-Liabilities

Year ended	Total assets ($ millions)	Total liabilities ($ millions)	Total assets/ total liabilities (percent)
2011	13,646.5	16,744.0	81.5%
2012	14,973.9	17,386.9	86.1%
2013	15,933.7	18,738.4	85.0%
2014	16,160.5	19,586.6	82.5%
2015	16,531.0	20,492.3	80.7%



As restated

The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

2.25 An assets-to-liability indicator below 100% indicates a government has accumulated deficits and has been financing its operations by issuing debt. For the past five years, the Province's rate was less than 100%. Recent trends are negative due to continuous decline in this ratio. Overall we have assessed the short-term and long-term trend as unfavourable.

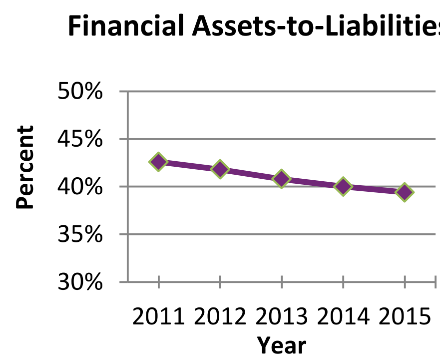
Financial Assets-to-Liabilities

2.26 Another sustainability indicator, financial assets-to-liabilities, is presented in Exhibit 2.16.

Exhibit 2.16 - Comparison of Financial Assets-to-Liabilities

Comparison of Financial Assets-to-Liabilities

Year ended	Total financial assets ($ millions)	Total liabilities ($ millions)	Total financial assets/ total liabilities (percent)
2011	7,128.3	16,744.0	42.6%
2012	7,264.7	17,386.9	41.8%
2013	7,653.8	18,738.4	40.8%
2014	7,775.3	19,586.6	39.7%
2015	8,070.4	20,492.3	39.4%



As restated

The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

2.27 When liabilities exceed financial assets the government is in a Net Debt position, and the implication is that future surpluses will be required to pay for past transactions and events. The Province's percentage overall decreased from 2011 to 2015. We have assessed the short term and long-term trend as unfavourable.

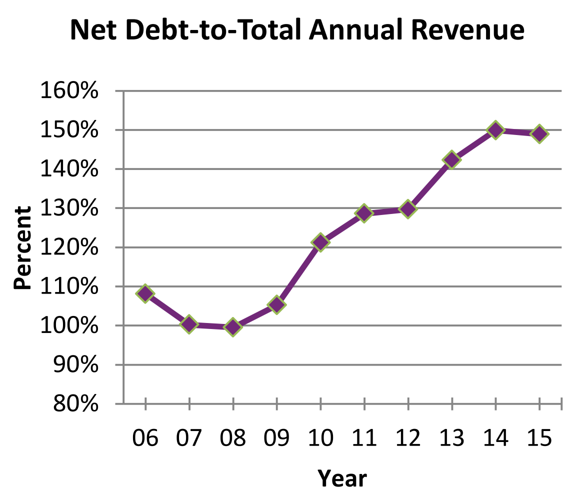
Net Debt-to-Total Annual Revenue

2.28 Net Debt-to-total annual revenue is another indicator of sustainability and is presented in Exhibit 2.17.

Exhibit 2.17 - Comparison of Net Debt-to-Total Annual Revenue

Comparison of Net Debt-to-Total Annual Revenue

Year ended	Net Debt ($ millions)	Total revenue ($ millions)	Net Debt/ total revenue (percent)
2006	6,900.6	6,387.1	108.0%
2007	6,761.4	6,756.3	100.1%
2008	7,151.6	7,190.3	99.5%
2009	7,608.0	7,230.9	105.2%
2010	8,628.9	7,120.5	121.2%
2011	9,700.4	7,542.8	128.6%
2012	10,125.8	7,805.9	129.7%
2013	11,084.6	7,787.9	142.3%
2014	11,811.3	7,778.0	151.9%
2015	12,421.9	8,340.2	148.9%



The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

2.29 Net Debt provides a measure of the future revenue required to pay for past transactions and events. A Net Debt-to-total revenue percentage that is increasing indicates that the Province will need more time to eliminate the Net Debt. The Province's percentage has been increasing between 2009 and 2014. The increase in 2013 attributed mainly to the annual deficit and the net capital asset transactions of highways, hospitals, schools and other buildings. Overall, we have assessed this trend as unfavourable.

Expense by Function-to-Total Expenses

2.30 Exhibit 2.18 presents expense by function-to-total expenses.

Exhibit 2.18 - Comparison of Expense by Function-to-Total Expenses

Comparison of Expense by Function-to-Total Expenses										
	2011		2012		2013		2014		2015	
	($ millions)	(%)	($ millions)	(%)	($ millions)	(%)	($ millions)	(%)	($ millions)	(%)
Health	2,687.0	32.9	2,730.0	33.9	2,786.1	33.6	2,789.9	33.3	2,838.6	32.5
Education and Training	1,723.6	21.1	1,749.3	21.7	1,787.6	21.5	1,836.1	21.9	2,083.7	23.9
Social Development	1,037.5	12.7	1,029.8	12.8	1,052.8	12.7	1,076.6	12.8	1,115.4	12.8
Service of the Public Debt	641.4	7.9	661.8	8.2	660.3	8.0	661.9	7.9	675.2	7.7
Transportation and Infrastructure	402.6	4.9	527.6	6.6	547.7	6.6	577.9	6.9	649.7	7.4
Central Government	722.0	8.8	542.2	6.7	636.6	7.7	637.1	7.6	538.3	6.2
Protection Services	260.8	3.2	229.9	2.9	237.3	2.9	235.2	2.8	268.7	3.1
Economic Development	328.4	4.0	257.2	3.2	269.1	3.2	231.4	2.8	239.3	2.7
Resources	215.1	2.6	214.5	2.7	217.4	2.6	214.0	2.6	197.3	2.3
Labour and Employment	141.6	1.7	108.4	1.3	100.5	1.2	118.3	1.4	122.6	1.4
Total	**8,160.0**	**100**	**8,050.7**	**100**	**8,295.4**	**100**	**8,378.4**	**100**	**8,728.8**	**100**

The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

2.31 The years ended March 31, 2011 to March 31, 2015 reported deficits. This means that during 2011-2015 while individual expense trends may have remained steady, this result was achieved by incurring a total level of expenses that was in excess of revenue generated in those years. Education and Training and Health's allocation of expenses consume over 56.4% of the total expenses, consistent with prior years.

2.32 The allocation of expenses upon comparing 2015 was relatively stable, however, the impact of continuing deficits and New Brunswick's growing Net Debt will need to be closely monitored in the future as the related interest burden on it consumes resources that would otherwise be used to deliver services. We have assessed this indicator as neutral.

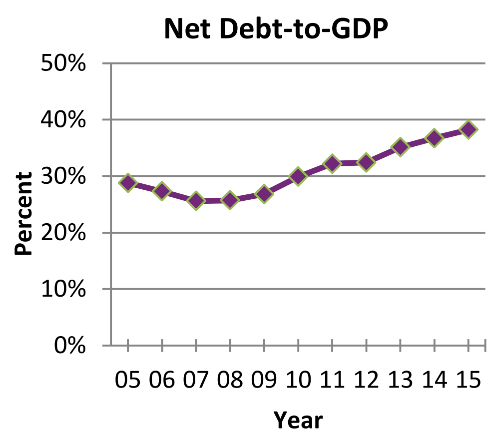
Net Debt-to-GDP

2.33 The sustainability indicator, Net Debt-to-GDP is presented in the Exhibit 2.19.

Exhibit 2.19 - Comparison of Net Debt-to-GDP

Comparison of Net Debt-to-GDP

Year ended	Net Debt ($ millions)	GDP ($ millions)	Net Debt/ GDP (percent)
2006	6,900.6	25,272	27.3%
2007	6,761.4	26,378	25.6%
2008	7,151.6	27,869	25.7%
2009	7,608.0	28,422	26.8%
2010	8,628.9	28,825	29.9%
2011	9,700.4	30,082	32.2%
2012	10,125.8	31,409	32.2%
2013	11,084.6	31,751	34.9%
2014	11,811.3	31,900	37.0%
2015	12,421.9	32,506	38.2%



The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

2.34 This indicator compares the Province's Net Debt, the difference between its liabilities and its financial assets, to its GDP. This ratio declined from 2006 to 2007 indicating that over that time period the level of the Province's debt became less onerous on the economy. The ratio increased from 2008 to 2015 because the rate of growth of Net Debt exceeded the rate of growth in GDP over that time period. In 2015, the ratio reached its highest level in ten years. This means the Net Debt of the Province is increasing faster than the growth in the economy. We have assessed the trend as unfavourable.

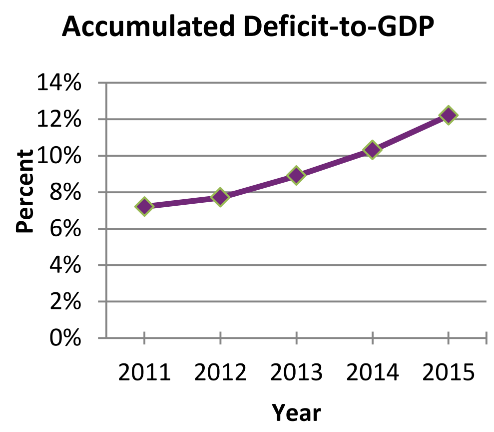
Accumulated Deficit-to-GDP

2.35 In the Exhibit 2.20, we present the sustainability indicator accumulated deficit-to-GDP.

Exhibit 2.20 - Comparison of Accumulated Deficit-to-GDP

Comparison of Accumulated Deficit-to-GDP

Year ended	Accumulated deficit ($ millions)	GDP ($ millions)	Accumulated deficit/GDP (percent)
2011	2,179.2	30,082	7.2%
2012	2,416.5	31,409	7.7%
2013	2,804.7	31,751	8.8%
2014	3,426.1	31,900	10.7%
2015	3,961.3	32,506	12.2%



The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

2.36 The accumulated deficit is the extent to which annual revenues have been insufficient to cover the annual costs of providing services. The information above shows that from 2011 to 2015, the accumulated deficit has increased faster than the growth of the economy. This represents an unfavourable trend.

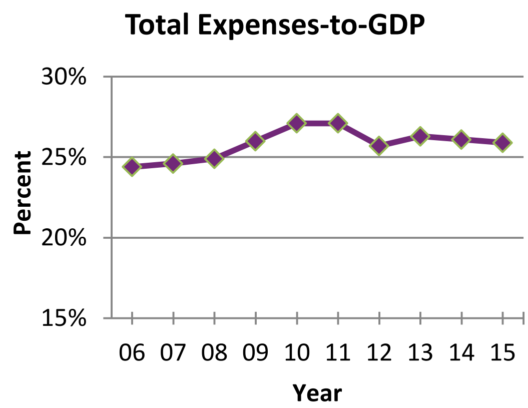
Total Expenses-to-GDP

2.37 Exhibit 2.21 presents the total expenses-to-GDP indicator.

Exhibit 2.21 - Comparison of Total Expenses-to-GDP

Comparison of Total Expenses-to-GDP

Year ended	Total expenses ($ millions)	GDP ($ millions)	Total expenses/GDP (percent)
2006	6,161.8	25,272	24.4%
2007	6,479.0	26,378	24.6%
2008	6,949.2	27,869	24.9%
2009	7,382.9	28,422	26.0%
2010	7,816.4	28,825	27.1%
2011	8,160.0	30,082	27.1%
2012	8,050.7	31,409	25.6%
2013	8,295.4	31,751	26.1%
2014	8,378.4	31,900	26.3%
2015	8,728.8	32,506	26.9%



The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

2.38 Exhibit 2.21 indicates from 2006 to 2008, government expenses were held to about 25% of GDP, however, this percentage has increased over time. In 2015, the percentage increased slightly from 26.3% in 2014 to 26.9%. Overall, this represents an unfavourable trend as expenses are growing faster than the economy is expanding. We have assessed the short term and long-term trends as unfavourable.

Exhibit 2.22 - Sustainability Indicator Trends

Sustainability Indicator Trends

Sustainability indicator	Short-term trend	Long-term trend
Assets-to-liabilities	Unfavourable	Unfavourable
Financial assets-to-liabilities	Unfavourable	Unfavourable
Net Debt-to-total annual revenue	Unfavourable	Unfavourable
Expense by function-to-total expenses	Neutral	Neutral
Net Debt-to-GDP	Unfavourable	Unfavourable
Accumulated deficit-to-GDP	Unfavourable	Unfavourable
Total expenses-to-GDP	Unfavourable	Unfavourable

Summary of Sustainability Indicators

2.39 Exhibit 2.22 presents a summary of the Province's sustainability indicators. We note six of seven sustainability indicators are unfavourable in the long-term, and six of seven are unfavourable in the short term, and therefore our overall assessment of these trends remains unfavourable. This negative sustainability trend should be of concern to New Brunswickers.

Flexibility Indicators

2.40 Flexibility is the degree to which the government can change its debt or tax burden on the economy to maintain programs and meet existing creditor requirements.

Public Debt Charges-to-Revenues

2.41 One of the most publicized factors which affect the flexibility of governments is the cost of servicing the public debt. This is considered to be an indicator of flexibility, since the Province's first payment commitment is to service its debt, leaving no flexibility in the timing of these payments.

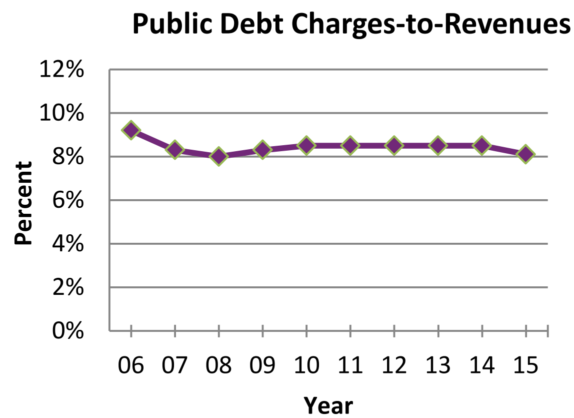
2.42 The cost of servicing the public debt is comprised mainly of interest on the funded debt of the Province. It also includes foreign exchange paid on interest and maturities during the year, the amortization of foreign exchange gains and losses, and the amortization of discounts and premiums which were incurred on the issuance of provincial debt. It does not include principal repayments on the funded debt of the Province.

2.43 In Exhibit 2.23, we present the public debt charges-to-revenues.

Exhibit 2.23 - Comparison of the Public Debt Charges-to-Revenues

Comparison of the Public Debt Charges-to-Revenues

Year ended	Cost of servicing public debt ($ millions)	Revenue ($ millions)	Cost of servicing public debt/ revenue (percent)
2006	590.3	6,387.1	9.2%
2007	558.0	6,756.3	8.3%
2008	575.7	7,190.3	8.0%
2009	601.4	7,230.9	8.3%
2010	607.2	7,120.5	8.5%
2011	641.5	7,542.8	8.5%
2012	661.8	7,805.9	8.5%
2013	660.3	7,787.9	8.5%
2014	661.9	7,778.0	8.5%
2015	675.2	8,340.2	8.1%



2.44 Exhibit 2.23 shows that the cost of servicing the public debt as a percentage of the Province's total revenues is significantly lower in the year ended March 31, 2015 than it was in the year ended March 31, 2006. This means the Province is spending proportionately less of its current year revenue to cover debt charges resulting in more current year revenue available to cover services to the public. For the period 2010 to 2014, the ratio has remained the same and has decreased slightly to 8.1% in 2015; we are assessing the short-term trend as neutral. We are assessing the long-term trend as favourable as the current year's ratio is less than the ratio in 2006. Although we are assessing this indicator as favourable, caution is needed when looking at this indicator. The cost of servicing the Province's debt is increasing in a time when interest rates have declined and the Province's debt is increasing significantly.

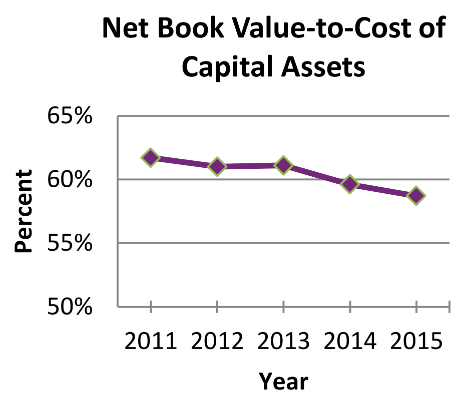
Net Book Value of Capital Assets-to-Cost of Capital Assets

2.45 We present the net book value of capital assets-to-cost of capital assets in the Exhibit 2.24.

Exhibit 2.24 - Comparison of Net Book Value of Capital Assets-to-Cost of Capital Assets

Comparison of Net Book Value of Capital Assets-to-Cost of Capital Assets

Year ended	Net book value ($ millions)	Capital cost ($ millions)	Net book value/ capital cost (percent)
2011	7,241.7	11,733.2	61.7%
2012	7,452.5	12,221.3	61.0%
2013	7,977.6	13,065.3	61.1%
2014	8,018.5	13,451.2	59.6%
2015	8,148.9	13,891.5	58.7%



2.46 This data indicates that the Province's inventory of capital assets as at March 31, 2015 has 58.7% of its average useful life remaining. This roughly means that on average any provincial assets that were originally expected to be useable for ten years still had just under six years of remaining useful life at March 31, 2015, and assets with original useful lives of twenty years were still considered useable for just under twelve years on average. As the ratios have remained relatively the same over the past five years, we are assessing the short-term and long-term trends as neutral.

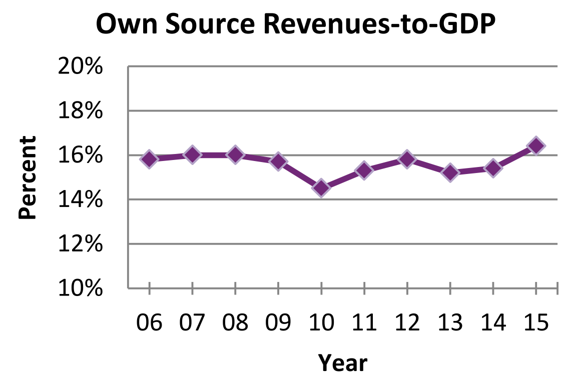
Own Source Revenues-to-GDP

2.47 We present own source revenues-to-GDP in Exhibit 2.25.

Exhibit 2.25 - Comparison of Own Source Revenues-to-GDP

Comparison of Own Source Revenues-to-GDP

Year ended	Own source revenues ($ millions)	GDP ($ millions)	Own source revenues/ GDP (percent)
2006	3,994.2	25,272	15.8%
2007	4,225.4	26,378	16.0%
2008	4,469.7	27,869	16.0%
2009	4,467.3	28,422	15.7%
2010	4,179.7	28,825	14.5%
2011	4,612.5	30,082	15.3%
2012	4,931.7	31,409	15.7%
2013	4,787.4	31,751	15.1%
2014	4,900.1	31,900	15.4%
2015	5,330.4	32,506	16.4%



2.48 The own source revenues-to-GDP indicator measures the extent to which the Province is raising its revenue through extracting it from the provincial economy. If the ratio increases, more of the Province's revenue is generated from the provincial economy. For example, an increase in this ratio could result if the Province increased taxes. If the ratio decreases, less of the Province's revenue is generated from the provincial economy. A decreasing ratio increases the Province's ability to raise taxes, thus, making the Province more flexible in how it can generate revenue. Generally, this ratio has stayed the same over the long-term and we have assessed this indicator as neutral. In the short term this ratio is increasing and we have assessed this trend as unfavourable.

2.49 There was a decrease in the year 2010 mostly as a result of a large loss by the then New Brunswick Electric Finance Corporation (EFC) (now amalgamated with New Brunswick Power Corporation). In that year, the reduction in own source revenue was not as a result of lower fees or taxes.

2.50 In 2015, own source revenue increased by $430.3 million. The most significant source of this increase was an increase in taxes of $392.2 million relating to personal and corporate income taxes, increase in Provincial Real Property

Tax as a result of an increase in assessment base, increase in Harmonized Sales Tax due to prior year adjustments and higher in-year payments, and an increase in Metallic Minerals Tax due to audits of previous year mining activities.

2.51 A note of caution should be taken when looking at this indicator for the last six years. The Province incurred deficits which means expenses were higher than the revenue generated.

Exhibit 2.26 - Flexibility Indicator Trends

Flexibility Indicator Trends		
Flexibility indicator	**Short-term trend**	**Long-term trend**
Public debt charges-to-revenues	Neutral	Favourable
Net book value of capital assets-to-cost of capital assets	Neutral	Neutral
Own source revenues-to-GDP	Unfavourable	Neutral

Summary of Flexibility Indicators

2.52 As summarized in Exhibit 2.26, our overall assessment on flexibility in the short term and long-term is largely neutral. However, caution should be used in interpreting these results. This result was achieved in a period where the Province incurred its seventh consecutive deficit and the cost of servicing the Province's debt was increasing (i.e. in a period when interest rates are generally decreasing and the Province's debt load is increasing).

Vulnerability Indicators

2.53 Vulnerability is the degree to which a government is dependent on sources of funding outside its control or influence.

Government Transfers-to-Total Revenues

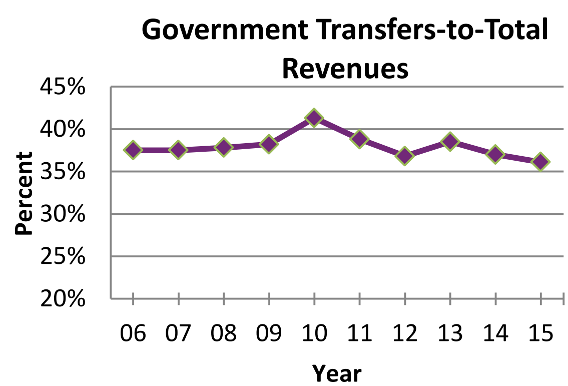
2.54 By comparing the proportion of total revenue that comes from the federal government to the total revenue of the Province, we get a measure of the degree to which the Province is dependent on the federal government. If that dependence increases, the Province is more vulnerable to funding decisions made by the federal government.

2.55 Exhibit 2.27 presents the comparison of government transfers-to-total revenues.

Exhibit 2.27 - Comparison of Government Transfers-to-Total Revenues

Comparison of Government Transfers-to-Total Revenues

Year ended	Federal government transfer revenue ($ millions)	Total revenue ($ millions)	Federal government transfer revenue/ total revenue (percent)
2006	2,392.9	6,387.1	37.5%
2007	2,530.9	6,756.3	37.5%
2008	2,720.6	7,190.3	37.8%
2009	2,763.6	7,230.9	38.2%
2010	2,940.8	7,120.5	41.3%
2011	2,930.3	7,542.8	38.8%
2012	2,874.2	7,805.9	36.8%
2013	3,000.5	7,787.9	38.5%
2014	2,877.9	7,778.0	37.0%
2015	3,009.8	8,340.2	36.1%



2.56 Exhibit 2.27 shows the Province's reliance on federal government transfers decreased from 2010 to 2012, and increased after 2012. However, revenues decreased in part in 2014 due to a one-time capital revenue received in 2013 related to the Route One Gateway Project. The reliance on federal transfers decreased in 2015 and has remained relatively consistent with prior years. Thus we are assessing the short-term trend as favourable and the long-term trend as mixed.

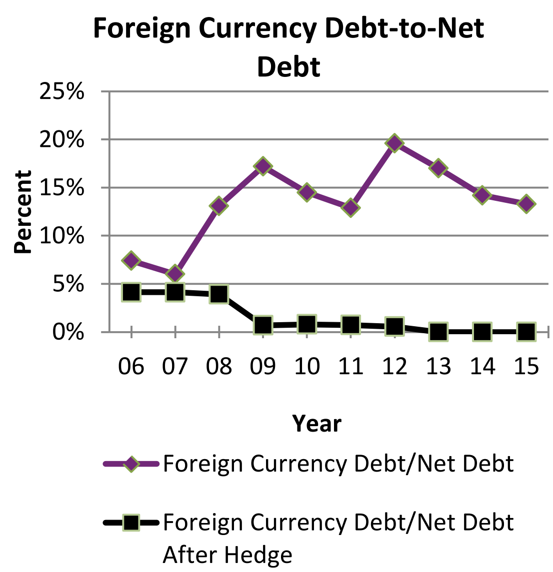
Foreign Currency Debt-to-Net Debt

2.57 The foreign currency debt-to-net debt indicator measures the Province's potential vulnerability to currency fluctuations and is presented in Exhibit 2.28.

Exhibit 2.28 - Comparison of Foreign Currency Debt-to-Net Debt

Comparison of Foreign Currency Debt-to-Net Debt

Year ended	Foreign currency debt ($ millions)	Net Debt ($ millions)	Foreign currency debt/ Net Debt (percent)	Foreign currency debt/ Net Debt after hedge (percent)
2006	512.9	6,900.6	7.4%	4.2%
2007	403.5	6,761.4	6.0%	3.9%
2008	937.0	7,151.6	13.1%	0.7%
2009	1,304.8	7,608.0	17.2%	0.8%
2010	1,255.8	8,628.9	14.2%	0.7%
2011	1,247.3	9,700.4	12.9%	0.6%
2012	1,986.8	10,125.8	19.6%	0.0%
2013	1,888.5	11,084.6	17.0%	0.0%
2014	1,656.9	11,811.3	14.0%	0.0%
2015	1,656.9	12,421.9	13.3%	0.0%



The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

2.58 The above information shows that the Province's foreign currency debt has increased from 2007 to 2012; however foreign currency debt decreased between 2013 and 2015. The risk of exposure to foreign currency fluctuations is offset by the Province's hedging strategy. The Province uses several alternatives to reduce (hedge) risk associated with debt repayable in foreign currencies:

- purchasing assets denominated in foreign currencies for the Province's sinking fund;
- entering into swap agreements which allows repayment of the debt and interest payments in Canadian dollars; and
- entering into forward contracts (which allow the Province to purchase foreign currency at a stipulated price on a specified future date).

2.59 From Exhibit 2.28, we see the risk of exposure to foreign currency fluctuations has decreased significantly over time. Because of the effectiveness of the Province's hedging strategy, we assess this indicator as favourable.

Exhibit 2.29 - Vulnerability Indicator Trends

Vulnerability Indicator Trends		
Vulnerability indicator	**Short-term trend**	**Long-term trend**
Government transfers-to-total revenues	Favourable	Mixed
Foreign currency debt-to-net debt	Favourable	Favourable

Summary of Vulnerability Indicators

2.60 As summarized in Exhibit 2.29, the Province's vulnerability exposure is mixed. In years when EFC (now amalgamated with NB Power) generated income through its investment in NB Power, the Province's reliance on federal revenue lessened and this indicator improves. As well, there is reliance on the federal government in certain years to assist in funding major infrastructure projects. Also of note is that the Province is effectively managing and controlling its exposure to fluctuations in foreign currency.

Comments on Significant Trends Observed in the Province's Consolidated Financial Statements

2.61 In this section, we discuss significant trends we have observed in the Province's consolidated financial statements. We have highlighted these trends to raise public awareness and to provide legislators with an independent assessment of the areas we believe should be a focus for the government.

Deficit

2.62 For the year ended March 31, 2015, the Province reported a deficit of $388.6 million. This is a decrease of $211.8 million from the $600.4 million deficit reported for the year ended March 31, 2014 (restated).

2.63 Exhibit 2.30 shows, at a high level, the reasons for the change in the deficit from March 31, 2014 to March 31, 2015.

Exhibit 2.30 - Analysis of Deficit Decrease

Analysis of Deficit Decrease	
	(millions)
2014 Deficit (restated)	$(600.4)
Increase in provincial source revenue	430.3
Increase in federal source revenue	131.9
Increase in expense	(350.4)
2015 Deficit	**$ (388.6)**

The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

2.64 Increases in provincial source revenue are mainly attributable to an increase of $179.1 million of Harmonized Sales tax and an increase of $153.4 million of personal income tax, increase in Provincial Real Property Tax of $33.1 million and Corporate income tax of $15.3 million, and Metallic Minerals tax of $14.9 million. Income from Government Business Enterprises (primarily due to New Brunswick Power Corporation) increased by $22.8 million, as reported in the Province's 2015 audited consolidated financial statements. Other provincial revenue is up $16.6 million mainly due to increased revenue for the Regional Health Authorities and the health recovery levy.

Expenses

2.65 Total expenses have increased by $350.4 million. The most significant increase in expenses is $247.6 million in Education and Training. This increase is mainly due to higher pension expense and additional investments and salaries in K-12 education. Significant increases were also noted in Transportation and Infrastructure ($71.8 million), Health ($48.7 million), and Social Development ($38.8 million) during the year. The increase in Health was mainly the result of additional expenses for wages and inflation, an increase in payments under the Medicare program, and higher amortization expense. The increase in Transportation and Infrastructure was attributed to increased provision expense, amortization expense, Winter Maintenance costs, and the transfer of some provincial roads from Local Service Districts to a newly incorporated municipality. Social Development's increase in expenses was mainly due to increases in caseload of long-term care clients, Social

Assistance Reform and pay equity.

2.66 Exhibit 2.31 shows the one year and total annual growth rates between 2013 and 2015.

Exhibit 2.31 - Expense Trends by Function

Expense Trends by Function							
Function	($ millions)			(% percentages)			
	2013 Expenses	2014 Expenses	2015 Expenses	2013 Growth Rate	2014 Growth Rate	2015 Growth Rate	Growth rate 2013-2015
Education and Training	1,787.6	1,836.1	2,083.7	2.2	2.7	13.5	5.5
Health	2,786.1	2,789.9	2,838.6	2.1	0.1	1.7	0.6
Service of the Public Debt	660.3	661.9	675.2	(0.2)	0.2	2.0	0.8
Social Development	1,052.8	1,076.6	1,115.4	2.2	2.3	3.6	2.0
Transportation and Infrastructure	547.7	577.9	649.7	3.8	5.5	12.4	6.2
Protection Services	237.3	235.2	268.7	3.2	(0.9)	14.2	4.4
Resources	217.4	214.0	197.3	1.3	(1.6)	(7.8)	(3.1)
Central Government	636.6	637.1	538.3	17.4	0.1	(15.5)	(5.1)
Labour and Employment	100.5	118.3	122.6	(7.3)	17.7	3.6	7.3
Economic Development	269.1	231.4	239.3	4.6	(14.0)	3.4	(3.7)
Total	**8,295.4**	**8,378.4**	**8,728.8**				
Total Annual Growth Rate				**3.0**	**1.0**	**4.2**	**1.7**

As restated

The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

2.67 Exhibit 2.31 shows the Province's 2015 one year expense growth rate is 4.2% compared to the 2014 growth rate 1.0%. In fiscal 2015, eight out of ten functions showed an increase in the one year growth rate. Two of ten function areas show a negative growth in 2015 which implies cost reductions were realized. The total expense growth rate between 2013 and 2015 was 1.7%.

2.68 We noted the largest 2015 expense growth rate decrease occurred in the Central Government and Resources areas.

2.69 However, Exhibit 2.31 shows Protection Services experiencing the largest one year growth rate in 2015 of 14.2%, primarily due to higher expenses in the Department of Public Safety resulting from Disaster Financial Assistance funding associated with various flood events. Education and Training experienced the second highest growth rate due to changes in pensions as well as other factors.

Revenue

2.70 Exhibit 2.32 shows the one year growth rate and the total annual growth rate of revenue between 2013-2015.

2.71 Total revenues have increased by $562.2 million. This is attributable to increased revenue from federal sources of $131.9 million and increases in revenue from provincial sources of $430.3 million.

Exhibit 2.32 - Revenue Trends by Source

Revenue Trends by Source							
Source	($ millions)			(% percentages)			
	2013 Revenue Amount	2014 Revenue Amount	2015 Revenue Amount	2013 Growth Rate	2014 Growth Rate	2015 Growth Rate	Growth rate 2013-2015
Provincial Sources							
Taxes	3,542.1	3,595.3	3,987.5	(0.9)	1.5	10.9	4.2
Licenses and Permits	144.6	148.7	149.4	4.2	2.8	0.5	1.1
Royalties	86.1	90.9	97.5	(3.6)	5.6	7.3	4.4
Other Provincial Revenue	793.9	860.7	900.1	(12.1)	8.4	4.6	4.5
Sinking Fund Earnings	220.7	204.5	195.9	(2.2)	(7.3)	(4.2)	(3.7)
Federal Sources							
Fiscal Equalization Payments	1,597.7	1,562.0	1,666.0	(2.1)	(2.2)	6.7	1.4
Unconditional Grants	894.2	948.9	955.8	3.3	6.1	0.7	2.3
Conditional Grants	508.6	367.0	388.0	35.3	(27.8)	5.7	(7.9)
Total	**7,787.9**	**7,778.0**	**8,340.2**				
Total Annual Growth Rate				**(0.2)**	**(0.1)**	**7.2**	**2.4**

As restated

2.72 Exhibit 2.32 shows the Province's 2015 revenue growth rate was 7.2% with a growth rate of 2.4% between 2013 and 2015.

Other Provinces – Revenue and Expense Comparison

2.73 Exhibit 2.33 presents a revenue and expense comparison to certain other provinces.

Exhibit 2.33 - Revenue and Expense (Comparison to other provinces)

Revenue and Expense (Comparison to other provinces) ($ millions)								
	Gross Revenues				Gross Expenses			
	2013	2014	2015	Growth rate 2013-2015	2013	2014	2015	Growth Rate 2013-2015
New Brunswick	7,787.9	7,778.0	8,340.2	2.4%	8,295.2	8,378.4	8,728.8	1.7%
Nova Scotia	10,104.1	10,060.2	10,635.2	1.8%	10,407.7	10,778.9	10,778.9	1.2%
Saskatchewan	14,323.0	14,418.0	14,058.7	(0.6)%	14,285.0	13,829.0	13,996.8	(0.7)%
Manitoba	13,614.0	14,214.0	14,739.0	2.8%	14,174.0	14,736.0	15,191.0	2.4%

The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

2.74 We note since 2013 within this group, New Brunswick's 2013-2015 revenue growth rate was 2.4%. Two of three other provinces have experienced smaller revenue growth rates. We also note the New Brunswick 2013-2015 expense growth rate was 1.7%. New Brunswick has had the second highest growth rate in gross expenses during this time period.

Exhibit 2.34 – Comparison to Other Provinces – Deficit

Deficit (Comparison to other provinces)				
	($millions) Annual Surplus (Deficit)			
	2013	2014	2015	Growth rate between 2013 and 2015
New Brunswick	(507.5)	(600.4)	(388.6)	-7.8%
Nova Scotia	(301.6)	(676.9)	(143.7)	-17.5%
Saskatchewan	37.0	589.0	62.0	22.5%
Manitoba	(560.0)	(522.0)	(452.0)	-6.4%

The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

2.75 As shown in Exhibit 2.34 in comparison to other provinces, New Brunswick has the second largest deficit in 2013, 2014 and 2015 and the second largest deficit growth rate in this same period. While much has been done to address government expense growth, action is needed still to address New Brunswick's structural deficit and continued net debt growth. Despite the increase in 2015, NB's revenues continue to fall short of its expenses for the seventh consecutive year.

Chapter 3
Province of New Brunswick Audit: Observations on Pension Plans

Contents

Province of New Brunswick Audit: Observations on Pension Plans

Introduction

3.1 Accounting for pensions is material to the Province's consolidated financial statements and involves complex accounting issues. A Glossary of terms is found in Appendix I. This year we encountered significant difficulties in our audit work on pension plans. As such we have presented our observations on these topics in a separate chapter of our Report.

Audit Opinion Qualified Re Pension Accounting

3.2 On September 29, 2015, our Office issued a reservation or a "qualified audit opinion" on the Province's March 31, 2015 consolidated financial statements. Our audit qualification details our concerns regarding how the Province has accounted for its shared risk pension plans. At the time of release of the Province's financial statements, we also published a separate document (found in Appendix II) to explain our accounting concerns. We view this qualification as a very serious matter.

3.3 As described in the audit opinion qualification there is insufficient information to appropriately determine the annual deficit, accumulated deficit, total liabilities and net debt of the Province. This is the first qualified audit opinion on the Province's financial statements in 17 years.

3.4 As of March 31, 2015, four of the Province's pension plans containing more than $14 billion in pension plan assets (unaudited) have been converted to a joint trusteeship form of pension plan. The converted plans are found in Exhibit 3.1.

Exhibit 3.1 – Pension plan conversion dates

Converted Plan Name	Conversion Date
Public Service Shared Risk Pension Plan (the "PSSRP")	January 1, 2014
New Brunswick Teacher's Pension Plan (the "NBTPP")	July 1, 2014
Shared Risk Pension Plan for CUPE Employees of New Brunswick Hospitals (the "H-CUPE")	July 1, 2012
Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals (the "H-CBE").	July 1, 2012

Each pension plan must be assessed on its own merits

3.5 Accounting for shared risk pension plans is a complex process for accounting purposes. The Public Sector Accounting Standard (PS 3250- Retirement Benefits) does not specifically address unique arrangements such as shared risk pension plans. These plans may include both defined benefit and defined contribution elements depending on the plan design. Shared risk pension plans are inherently more complex than traditional pension plan models and present new factors to consider for accounting purposes.

3.6 The Public Sector Accounting Board of CPA Canada has recently formed a task force to study possible changes that may be required to PS 3250. It will likely be a number of years before a revised standard (if any) is published. However, we believe the current standard contains sufficient guidance to permit appropriate accounting analysis and decisions regarding shared risk pension plans.

3.7 We note other provinces and certain municipalities have adopted new pension models. We caution that each pension plan must be assessed on its own merits. Pension plan legislation and specific pension plan provisions may differ between pension plans (and different jurisdictions), and an assessment on a plan by plan basis is required to determine the appropriate accounting treatment of any pension plan conversion.

Departure from Canadian Public Sector Accounting Standards

3.8 Our assessment of the Province's four shared risk plans involved a complex evaluation of the plans' legislation and specific pension plan provisions. Public Sector Accounting Standard 3250 states, "because benefit plans are often complex, careful analysis and professional judgment are needed to determine whether the substance of a particular plan makes it a defined benefit or a defined contribution plan."

3.9 The Province has accounted for the PSSRP, NBTPP, H-CUPE and H-CBE pension plans using defined contribution accounting. Definitions for defined contribution accounting and defined benefit accounting are found in Appendix I.

3.10 We disagree with the Province's choice of defined contribution accounting, as under this method the Province contributes a certain amount in each period and has no responsibilities to make any further contributions. A liability would only be recorded when the amount paid during the period differed from the amount required to be paid.

3.11 Given the structure and substance of these plans, this constitutes a departure from Canadian public sector accounting standards. As a result, the Province's consolidated financial statements for the year ended March 31, 2015 do not reflect the risk inherent in the design of the shared risk pension plans. Examples of plan features that disqualify the use of defined contribution accounting include:

- the employer remains exposed to risk of possible contribution increases that cannot be considered limited or minor;
- the employees' retirement benefits are based on a defined formula; and
- the employer can benefit from plan surpluses through the reversal of past contribution increases.

3.12 Overall, we believe the PSSRP should continue to use defined benefit accounting. Also, we believe using joint defined benefit accounting for the NBTPP, H-CBE and H-CUPE plans would help the Province better portray its remaining exposures to pension plan risk and volatility in its financial statements. In recognition of the mitigation of certain risks, including volatility, we see joint defined benefit accounting as an appropriate middle ground for these plans compared to the defined benefit and defined contribution accounting alternatives.

Unexpected and unsupported change in accounting policy

3.13 After March 31, 2015 the Province informed us it would be retroactively changing its accounting policy for the PSSRP and recording this pension plan using defined contribution accounting in the March 31, 2015 financial statements. Previously, in the March 31, 2014 consolidated financial statements, the PSSRP (including the pre-conversion benefits guaranteed by the Province) was correctly accounted for using defined benefit accounting. The Province has now determined that an accounting treatment similar to a defined contribution plan most closely suits the economic substance of the plan.

3.14 There have been no changes to the PSSRP that warranted a change in accounting policy during this audit year nor has management provided sufficient justification to support a change to defined contribution accounting. Therefore, defined benefit accounting should have continued at March 31, 2015.

Lack of evidence to change defined benefit accounting conclusion for the PSSRP

3.15 Last year the Province chose and supported defined benefit pension plan accounting for the PSSRP based on the following factors:

- level of variability in employer contributions;
- frequency of variability in employer contributions;
- likelihood of variability in employer contributions;
- whether separate accounts are maintained for each employee;
- whether employee benefits earned in the past may be reduced;
- communication to plan members;
- existence of guarantees; and
- presence of constructive or equitable obligations.

3.16 Given the persuasive arguments for defined benefit accounting for the PSSRP, we agreed with the Province's classification of the PSSRP as a defined benefit plan in its March 31, 2014 financial statements. External experts (both the Province's external experts as well as our own) were consulted and agreed with the defined benefit accounting choice. We reconfirmed our accounting conclusion with our experts again for the Province's March 31, 2015 financial statement audit. Conversely, the Province did not obtain expert conclusions and recommendations regarding their accounting decision for the March 31, 2015 financial statements. To date we have not seen adequate evidence to change our opinion that the PSSRP should be accounted for using defined benefit accounting.

Impact of PSSRP change

3.17 The Province's unsupported change in accounting policy from defined benefit to defined contribution accounting for the PSSRP has resulted in:

- the restatement of the opening net pension liability, opening net debt and accumulated deficit of $100.6 million;
- the recognition of a prior year settlement expense of $100.6 million as the plan assets, obligation and unamortized adjustment balance were retroactively removed at the January 1, 2014 plan conversion date; and

- the reversal of a prior year adjustment which included NB Power's pension assets, obligation and unamortized adjustment balances in the Province's pension information.

3.18 It is impossible to determine the changes required to the Province's financial statements as the necessary information has not been provided or calculated. Many numbers are impacted in the Province's financial statements including annual deficit, accumulated deficit, total liabilities and net debt.

3.19 Exhibit 3.2 presents details regarding further information required to determine the impact of this accounting departure on the Province's deficit. In summary, as the Province did not request a valuation for accounting purposes from their actuaries and perform the necessary calculations, the impact cannot be determined.

Exhibit 3.2 – Information required to determine impact of accounting departure

Converted Plan Name	Information required
PSSRP	• Actuarial valuation for accounting purposes at March 31, 2015 to measure the Province's obligation/liability for the plan. • Prepare accounting calculations and determine pension balances and entries required under defined benefit accounting.
NBTPP	• Audit of plan assets as at July 1, 2014 (plan conversion date). • Actuarial valuation for accounting purposes at March 31, 2015 to measure the Province's obligation/liability for the plan. • Prepare accounting calculations and determine pension balances and entries required under joint defined benefit accounting.
H-CUPE	• Actuarial valuation for accounting purposes at March 31, 2015 (with comparative figures at March 31, 2014 and April 1, 2013) to measure the Province's obligation/liability for the plan. • Prepare accounting calculations and determine pension balances at March 31, 2015 (with comparative balances at March 31, 2014 and April 1, 2013) and entries required under joint defined benefit accounting.
H-CBE	• Actuarial valuation for accounting purposes at March 31, 2015 (with comparative figures at March 31, 2014 and April 1, 2013) to measure the Province's obligation/liability for the plan. • Prepare accounting calculations and determine pension balances at March 31, 2015 (with comparative balances at March 31, 2014 and April 1, 2013) and entries required under joint defined benefit accounting.

Management would need to prepare best estimates for assumptions, which would include its best estimate of the obligations, mortality rates, discount rates, indexation, annual wage and salary increase assumptions, etc.

Accounting for the NBTPP as a joint defined benefit plan

3.20 The NBTPP converted to a new pension structure on July 1, 2014. The previous structure was accounted for by the Province using defined benefit accounting. The NBTPP has now been accounted for by the Province using defined contribution accounting. Given factors such as:

- the employer remains exposed to possible contribution increases that cannot be considered limited or minor;
- employees' retirement benefits are based on a defined formula; and
- the employer can benefit from plan surpluses through the reversal of past contribution increases;

there is persuasive evidence that this plan should have been accounted for using joint defined benefit accounting.

3.21 A reservation was also included in the audit opinion for the Province's March 31, 2015 consolidated financial statements regarding the lack of an audit performed on NBTPP asset balances as at July 1, 2014 (the plan conversion date). It was important an audit be performed at this date to verify the asset value transferred to the new plan and then confirm the accuracy of the plan settlement details. Without an audit to verify the asset balance transferred to the new plan, we cannot verify details of the settlement calculation. It is also important that an audit be performed to ensure the asset balance transferred to the NBTPP Board of Trustees and asset performance measurements for the new plan are accurate.

Accounting for the H-CUPE and H-CBE Shared Risk Plans

3.22 During fiscal 2012-13, the H-CUPE pension plan and the H-CBE pension plan converted to a Shared Risk Pension Plan model.

3.23 Prior to conversion to shared risk plans, both H-CUPE and H-CBE pension plans had been reported in the Province's consolidated financial statements as defined contribution pension plans. Upon conversion, the Province's position was that the shared risk plans should continue to be accounted for as defined contribution plans given the risks inherent in the plans are largely borne by the employees. As the contributions on the part of the Province are defined and limited with minimal variability expected from one year to the next, defined contribution accounting was accepted at that time, due to the small size of these plans compared to the PSSRP and NBTPP, and given that a contribution liability of $66.9 million was recorded for the shortfall of employer contributions. When this liability was reversed/extinguished by the Province as part of the March 31, 2015 financial statement audit, the pension accounting for H-CUPE and H-CBE became a significant audit concern.

3.24 As the remaining contribution liability has now been eliminated, there is persuasive evidence that joint defined benefit accounting should also be used for the H-CUPE, and the H-CBE plans:

- the employer remains exposed (as no employer contributions liability is now recorded) to possible contribution increases that cannot be considered limited or minor;
- employees' retirement benefits are based on a defined formula; and

- the employer can benefit from plan surpluses through the reversal of past contribution increases.

Pension Expense and Pension Contributions

3.25 Exhibit 3.3 provides details of the Province's total pension expense for the past ten years. For purposes of illustrating the potential volatility of this figure, a longer-term approach of ten years has been provided.

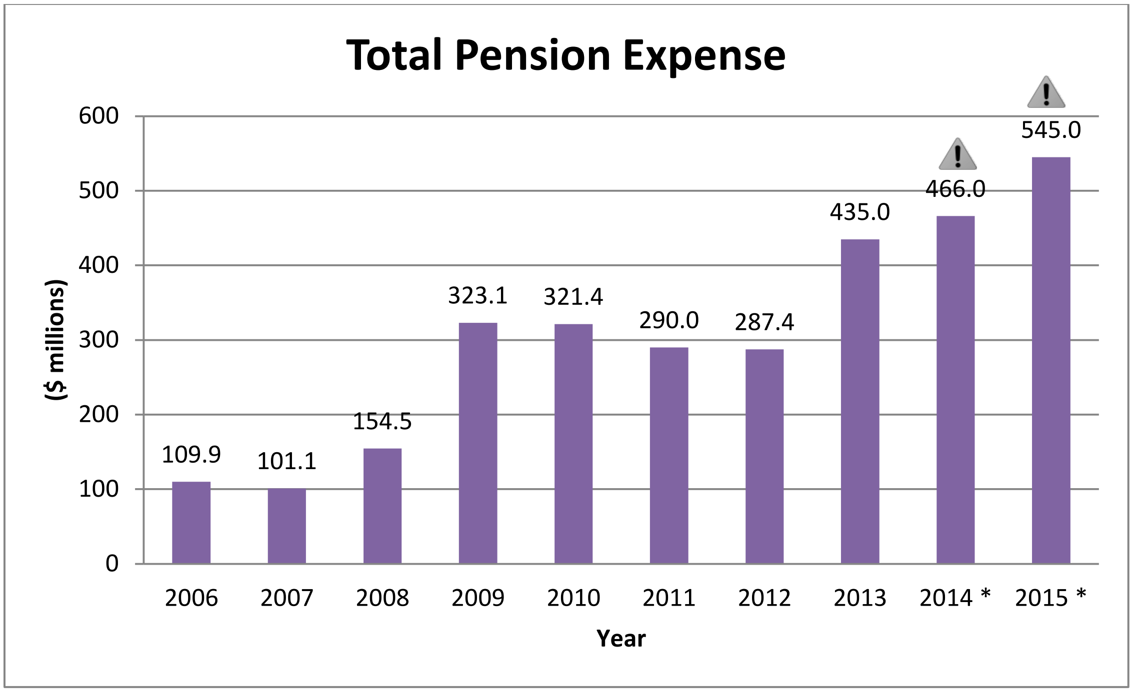
Exhibit 3.3 - Components of Pension Expense

Components of Pension Expense ($ millions)										
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014*** Restated	**2015***
Employer's share of pension benefits earned	117.0	126.1	133.8	146.1	131.6	137.4	148.9	177.4	199.9	258.2
Net interest expense (revenue)	30.9	0.4	(9.1)	20.6	118.2	52.9	32.0	62.7	61.9	18.5
Plan amendments	-	5.9	-	-	-	-	-	-	-	(5.5)
Curtailment costs	-	-	-	-	-	-	-	-	-	0.1
Amortization of adjustments	(40.3)	(31.2)	30.3	159.7	87.1	99.7	106.5	194.9	104.2	44.0
Change in valuation adjustment	2.3	(0.1)	(0.5)	(3.3)	(15.5)	-	-	-	-	-
Plan settlements ***(recorded in year as a result of conversion to new pension plan structure)***	-	-	-	-	-	-	-	-	100.0	229.7
Total pension expense	**109.9**	**101.1**	**154.5**	**323.1**	**321.4**	**290.0**	**287.4**	**435.0**	**466.0**	**545.0**

** Note the pension expense for 2014 (restated) and 2015 would have been significantly different if the shared risk/targeted benefit pension plans were properly accounted for in accordance with Canadian Public Sector Accounting Standards.*

The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

Exhibit 3.4 - Total Pension Expense



** Note the pension expense for 2014 (restated) and 2015 and would have been significantly different if the shared risk/targeted benefit pension plans were properly accounted for in accordance with Canadian Public Sector Accounting Standards.*

The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been marked with a caution symbol above.

Pension expense volatility

3.26 Exhibits 3.3 and 3.4 highlight the significant increase in the annual pension expense over the ten-year period as well as the volatility in expense. In the year ended March 31, 2006, the pension expense was $109.9 million. By way of contrast, in the year ended March 31, 2015, the pension expense was $545.0 million, an increase of $435.1 million when compared to 2006.

Plan settlement pension expenses

3.27 The pension expense for the year ended March 31, 2015 was $545.0 million, which included a one time plan settlement expense of $229.7 million because of the Province's decision to account for the NBTPP using defined contribution accounting.

3.28 Pension plan expense as reported in the consolidated financial statements for the year ended March 31, 2014 was $365.4 million. The restated pension plan expense for the year ended March 31, 2014 was $466 million because of the Province's decision to account for the PSSRP as a defined contribution plan (previously correctly accounted for as a defined benefit plan). This decision involved retroactively recording a 2014 plan settlement expense for the PSSRP of approximately $100 million.

Details of the Province's pension balance

3.29 Exhibit 3.5 provides the history of the Province's pension balance for all pension plans reported in the consolidated financial statements for accounting purposes as well as the important components involved in the pension balance calculation over the past ten years. It is important to note that the pension balance is different than pension expense. In Exhibit 3.5, the pension balance for accounting purposes is the amount that appears on the statement of financial position (or balance sheet) of the Province.

Exhibit 3.5 - Components of the Pension Balance for Accounting Purposes

Components of the Pension Balance for Accounting Purposes ($ millions)										
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014*** Restated	**2015***
Estimated accrued benefit obligations	7,324.5	7,865.5	8,289.3	8,642.5	8,570.2	8,895.7	9,318.3	10,146.6	5,766.6	989.1
Value of plan assets	7,449.3	8,030.5	8,024.1	6,512.4	7,703.1	8,387.0	8,674.7	9,293.9	5,293.1	473.0
Pension position before accounting adjustments	(124.8)	(165.0)	265.2	2,130.1	867.1	508.7	643.6	852.7	473.5	516.1
Accounting adjustments	155.0	38.6	(509.9)	(2,340.3)	(1,063.7)	(728.6)	(903.1)	(1,002.2)	(373.5)	(136.4)
Pension balance for accounting purposes	30.2	(126.4)	(244.7)	(210.2)	(196.6)	(219.9)	(259.5)	(149.5)	100.0	379.7

** Note the pension balance for accounting purposes for 2014 (restated) and 2015 would have been significantly different if the shared risk/targeted benefit pension plans were properly accounted for in accordance with Canadian Public Sector Accounting Standards.*

The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

3.30 Under defined benefit pension accounting the pension balance for accounting purposes is calculated by comparing the estimated market value of plan assets to the actuarial estimate of accrued benefit obligations owing to present and future pensioners. From this difference an adjustment is made for accounting purposes. The purpose of the accounting adjustment is to reduce year to year pension expense volatility by allowing actual results achieved on plan assumptions to be reported over time and not all in one year. As a result of the Province's accounting policy to record the PSSRP and NBTPP using defined contribution accounting, the pension assets and related obligations were removed from the Province' consolidated financial statements.

3.31 As well the prior year unamortized expense adjustments for the PSSRP and NBTPP (which had been deferred and not previously expensed) were entirely reversed and expensed upon adoption of defined contribution accounting for the PSSRP and NBTPP.

3.32 The magnitude of this change to defined contribution accounting is further illustrated when considering the size of the balances removed as part of the pension accounting conversion. Using the March 31, 2014 figures (as all of the figures for March 31, 2015 cannot be calculated) the Province effectively removed in 2015:

- $11.5 billion in pension liabilities;
- $11.0 billion in pension assets; and
- unamortized accounting adjustments of $759.3 million

as part of the change to defined contribution accounting.

3.33 It should be noted the volatility of the plans would be expected to be reduced over the long term with the introduction of the new shared risk/targeted benefit model, however, the exposure to volatility and risk has not been eliminated.

3.34 Overall, we believe using joint defined benefit accounting for the NBTPP, H-CBE and H-CUPE plans would help the Province better portray its remaining exposures to pension plan risk and volatility in its financial statements. In recognition of the mitigation of certain risks, including volatility, we see joint defined benefit accounting as an appropriate middle ground for these plans compared to the defined benefit and defined contribution accounting alternatives. With respect to the PSSRP, as the Province's obligation related to pre-conversion benefits expire, over time, we believe joint defined benefit accounting would be also appropriate for this plan.

Pension contribution volatility

3.35 Exhibit 3.6 compares the annual pension expense to the amount of contributions made by the Province to the various pension plans.

Exhibit 3.6 – Pension Expense and Contributions

Pension Expense and Contributions ($ millions)										
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014 ***	**2015 ***
Pension expense	109.9	101.1	154.5	323.1	321.4	290.0	287.4	435.0	466.0	545.0
Employer contributions	236.4	257.7	272.8	288.6	307.8	313.3	327.0	350.8	216.5	265.3
Excess (deficiency) of employer contributions over pension expense	126.5	156.6	118.3	(34.5)	(13.6)	23.3	39.6	(84.2)	(249.5)	(279.7)

** Note the pension expense for 2014 (restated) and 2015 would have been significantly different if the shared risk/targeted benefit pension plans were properly accounted for in accordance with Canadian Public sector accounting standards.*

The audit opinion for the Province of New Brunswick's March 31, 2015 financial statements expressed reservations which may impact expenses, liabilities, annual and cumulative deficit as well as Net Debt. Readers are cautioned the above information may not be appropriate for their purposes. The numbers impacted by the reservations have been shaded above.

3.36 Exhibit 3.6 shows that for half of the past ten years, the Province's contributions to its various pension plans have been less than the annual pension expense, whereas half of the past ten years the amount of employer contributions exceeded the amount of the pension expense. Over the past ten years, the Province has contributed $197.2 million less than the pension expense.

3.37 The year to year differences are largely due to the legislated and actuarial funding requirements of the plans being different than the measurement of pension expense as required by Canadian Public Sector Accounting Standards. Funding requirements are intended to ensure there will be sufficient funds in the plans to pay pension benefits while the pension expense is intended to measure the net cost of pension benefits earned by employees during the year.

3.38 The significant increase in the deficiency of employer contributions compared to pension expense in fiscal years 2014 ($ 249.5 million) and 2015 ($279.7 million) relate to one time “plan settlement” expenses for the PSSRP of $100.6 million and NBTPP of $229.7 million as a result of the Province’s decision to apply defined contribution accounting.

Pension contributions for the Province’s two largest plans

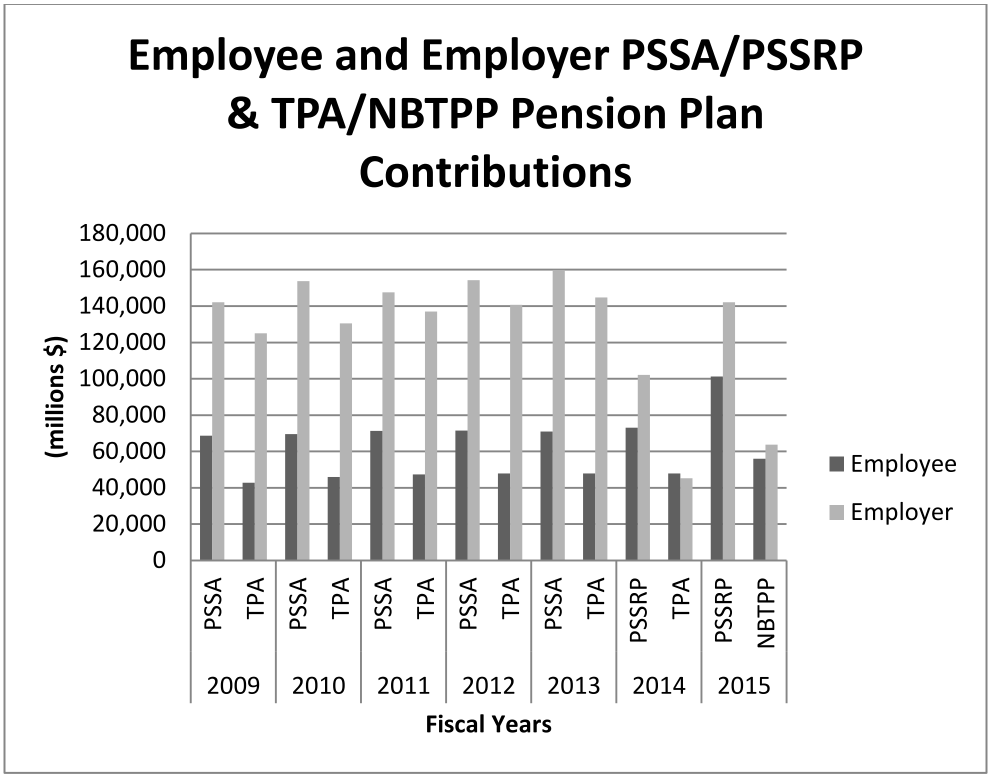
3.39 Further details on pension contributions from 2009 to 2015 for the Province’s two largest plans, the Public Service Superannuation Plan (PSSA), now the PSSRP and the Teacher’s Pension Plan (TPA), now the NBTPP are found in Exhibit 3.7 and Exhibit 3.8.

Exhibit 3.7 – Pension Contributions for the PSSRP/PSSA and NBTPP/TPA Plans

Pension Contributions for PSSRP/PSSA and NBTPP/TPA Plans ($ millions)							
Fiscal Year	Plan	Employee Contributions	Employer Contributions[1]			Total Employee and Employer Contributions	Ratio of Employer to Employee Contributions
			Normal	Special Payments	Total Employer Contributions		
2015	PSSRP	101.2	142.1	-	***142.1***	243.3	1.40
	NBTPP	56.0	63.8	-	***63.8***	119.8	1.14
2014	PSSRP	73.1	102.1	-	***102.1***	175.3	1.40
	TPA	47.7	46.5	-	***46.5***	94.2	0.97
2013	PSSA	70.9	92.1	67.9	160.0	230.9	2.26
	TPA	47.9	46.1	98.6	144.8	192.6	3.02
2012	PSSA	71.5	89.4	64.9	154.3	225.8	2.16
	TPA	47.8	46.4	94.4	140.7	188.6	2.94
2011	PSSA	71.2	84.3	63.2	147.5	218.7	2.07
	TPA	47.3	45.1	91.9	137.0	184.3	2.90
2010	PSSA	69.6	92.8	61.0	153.7	223.3	2.21
	TPA	45.9	41.9	88.6	130.5	176.4	2.84
2009	PSSA	68.6	83.6	58.5	142.1	210.7	2.07
	TPA	42.7	39.9	85.0	124.9	167.6	2.93
Total 2009-2015	**PSSRP**	**526.1**	**686.4**	**315.5**	**1,001.9**	**1,528.0**	**1.90**
	TPP	**335.3**	**329.7**	**458.5**	**788.2**	**1,123.5**	**2.35**

[1] *PSSRP/PSSA Employer contributions include contributions from the Province, Crown Corporations and other participants.*

Exhibit 3.8 – Employee and Employer (PSSRP/PSSA & NBTPP/TPA)



3.40 We noted in Exhibit 3.7, the total employer contributions increased for both the PSSRP $40.0 million (39.2%) and the NBTPP/TPA $17.3 million (37.2%) plans in fiscal 2015 compared to fiscal 2014. Significant changes were made to the employer's contribution rates which resulted in higher employer contributions compared to the prior year. It is important to note that no special payments were made for the PSSRP/PSSA or the NBTPP/TPA in fiscal 2015 or 2014.

3.41 The $40.0 million increase in PSSRP ($17.3 million increase for NBTPP) employer contributions compared to the prior year results in part relates to an increase in employer contribution rates. Exhibit 3.9 below provides detail on the employer contribution rate changes for the PSSRP and the NBTPP.

Exhibit 3.9 – Employer Pension Contribution Rates

Pension Plan	Employer Rates	
	Prior to New Plan	**After New Plan**
PSSRP[1]	8.932% up to YMPE[3]	12.5%
	11.55% in excess of YMPE	
NBTPP[2]	7.3% up to YMPE plus special payments determined by an actuary	11.5% up to YMPE
	9% in excess of YMPE plus special payments determined by an actuary	13.2% in excess of YMPE

[1]PSSRP employer contribution rates changed April 1, 2014
[2]NBTPP employer contribution rates changed July 1, 2014
[3]YMPE – Yearly Maximum Pensionable Earnings

3.42 Employee contributions also increased for both the PSSRP and the NBTPP/TPA as shown in Exhibits 3.7 and 3.8. In 2015, PSSRP employee contributions increased 38.4% and NBTPP/TPA employee contributions increased 17.4%. However, the ratio of employer to employee contributions for the PSSRP remained consistent year over year at 1.40.

3.43 The ratio of employer to employee contributions for the NBTPP/TPA increased from 0.97 in 2014 to 1.14 in 2015. Despite the increase in the NBTPP/TPA ratio from the prior year, the 2015 ratio is significantly lower than the total ratio for 2009 to 2015 of 2.35.

Pension Assets Rates of Return

3.44 The net interest component of the pension expense depends primarily on the rate of return earned on pension fund assets. These returns are volatile, as illustrated in Exhibit 3.10 which reports the rates of return for the New Brunswick Investment Management Corporation’s (NBIMC) pension funds under management since it was established in 1996 and diversified away from government bonds. The NBIMC serves as trustee and investment manager for the Provincial Court Judges’ pension fund, and the investment manager for the PSSRP and NBTPP.

Exhibit 3.10 - NBIMC Rates of Return: Pension funds under management

NBIMC Rates of Return			
Year	**Percentage**	**Year**	**Percentage**
2015	14.05	2006	15.87
2014	13.56	2005	8.51
2013	9.08	2004	25.27
2012	5.00	2003	(6.95)
2011	10.42	2002	3.45
2010	19.94	2001	(5.25)
2009	(18.34)	2000	20.57
2008	0.79	1999	(0.62)
2007	8.68	1998	18.68
		1997	10.14
19 year annualized return			**7.50%**

3.45 The returns earned by the NBIMC on pension funds under management have ranged from a high of 25.27% in the year ended 31 March 2004 to a low of (18.34) % in the year ended 31 March 2009. Over the past 19 fiscal years the annualized rate of return has been 7.50% for pension funds under management.

Funding status of the Province's largest pension plans

3.46 A funding policy valuation is required annually under subsection 100.61(1) of the New Brunswick *Pension Benefits Act* ("PBA") and subsections 14(5) to 14(7) of Regulation 2012-75 for the PSSRP, the H-CUPE and H-CBE shared risk pension plans. The *Teacher's Pension Plan Act* 17(1) states *"The administrator shall ensure that a funding valuation of the plan is performed by, and an actuarial valuation report respecting the plan is prepared by, an actuary (a) before July 1, 2014, and (b) subsequently at least once every three years."* An overview of the funding status of significant provincial pension plans is found in Exhibit 3.11.

Exhibit 3.11 - Funding Status of Significant Provincial Pension Plans

Funding Status of Significant Provincial Pension Plans								
	PSSRP		NBTPP		H-CUPE		H-CBE	
	$	% funded	$	% funded	$	% funded	$	% funded
Funding Status prior to Conversions[5]	1.0 billion deficit	83.6	595.0 million deficit	87.5	199.8 million deficit	67.9	246.7 million deficit	82.2
Funding Status After Conversions[6]	18.9 million surplus	100.3	8.5 million surplus	100.2	254.5 million deficit	64.7	42 million deficit	96.4
Most Recent Actuarial Funding Valuations[6]	290.0 million surplus[1]	104.6	8.5 million surplus[2]	100.2	161.0 million deficit[3]	80.8	250.5 million surplus[4]	117.7
Indexation applied January 1, 2015	1.43%		1.43%		1.43%		1.43%	

Date of most recent actuarial funding valuation
[1]PSSRP: January 1, 2015
[2]NBTPP: January 1, 2014
[3]H-CUPE: December 31, 2014
[4]H-CBE: December 31, 2014
[5]Refer to paragraph 3.47
[6]Refer to paragraph 3.48

3.47 The calculation of the funding status prior to conversion considers a “going-concern basis” approach. This value is determined by comparing the actuarial value of the assets to the actuarial liabilities. The actuarial liabilities are based on the benefits earned up to the valuation date assuming the plans would continue indefinitely.

3.48 The funding status after conversion calculation considers a “termination” value approach. The termination value calculates that amount a member is entitled to if the member leaves the plan prior to retirement. This obligation is measured based on services accrued at the valuation date and future salary increases and future indexing of benefits are excluded from this calculation.

3.49 It is important to note the measurement process differs before and after conversion due to the nature of the valuation. Therefore, the funding policy valuation cannot be directly compared with the valuation techniques used before conversion, but it serves as a reference point to understand the financial impacts of the new pension plan structures.

Exhibit 3.12 - 15 Year Open Group Funded Ratio

15 Year Open Group Funded Ratio	
PSSRP	123.7 %
H-CUPE	122.0 %
H-CBE	145.2 %

3.50 The 15-Year Open Group Funded Ratio is presented in Exhibit 3.12. In simple terms, the 15 year open group funded ratio compares the fair market value of the pension plan's assets, plus the present value of contributions over the next 15 years, to the pension plan's liabilities.[1] This is a very important ratio as it is used extensively under the funding policy to determine the actions to be undertaken by the Trustees under the funding policy deficit recovery plan and the funding policy excess utilization plan.

Status of risk management goals

3.51 Exhibits 3.13 and 3.14 detail the achievement of certain risk management goals of the Province's largest pension plans.

[1] H-CBE Pension Plan Newsletter, Winter 2015

Exhibit 3.13- Shared Risk Management Goals under the Pension Benefits Act (PBA) and Results

Risk Management Goal	Goal under PBA	PSSRP (Results as at 1 January 2015)	H-CBE (Results as at 31 December 2014)	H-CUPE* (Results as at 31 December 2014)
Primary Risk Management Goal There is at least a 97.5% probability that base benefits will not be reduced over the 20 years following the valuation.	97.5%	98.55% Passed	99.15% Passed	99.85% Passed
Secondary Goal 1 [Regulation7(3)(a)] Expected contingent indexing of base benefits of active members for service before the conversion date shall, on average over the next 20 – year period, exceed 75% of the increase in the Consumer Price Index; Or Expected contingent indexing of base benefits of retirees and deferred vested members of service rendered before the conversion date shall, on average over the next 20- year period, exceed 75% of the escalated adjustments specified in the pension plan immediately before it was converted to a shared risk plan (i.e. Full CPI subject to a maximum increase of 5.0% or 6.0% per year depending on the date of retirement.)	75.0% of the assumed increase in CPI	85.9% of the assumed increased in CPI Passed	83.7% of the assumed increase in CPI Passed	93.9% of the assumed increase in CPI Passed
Secondary Goal 2 [Regulation7(3)(b)] The amount of ancillary benefits (other than contingent indexing) that are expected to be provided shall, on average over the next 20 – year period, exceed 75% of the value of the ancillary benefits specified in the plan text.	75% of the value of ancillary benefits will be provided	Above 97.8% Passed	At or above 99.15% Passed	At or above 99.85% Passed

**H-CUPE (with Facilicorp NB Transfer)*

Exhibit 3.14 - Risk Management Goal under TPPA and Results

Risk Management Goal	Minimum requirement under TPPA	Results for NBTPP (Results as at 1 January 2014)
Risk Management Goal **[Paragraph 11(1) of TPPA]** There is at least a 97.5% probability that the past base benefits at the end of each year will not be reduced over a 20- year period.	97.5%	98.3% Passed

Conclusion - Summary of Significant Findings

3.52 Our observations, recommendations and departmental responses to our significant findings regarding pension plans are presented in the following pages.

3.53	Unsupported change in pension accounting policy

The Office of the Comptroller (OOC)/Department of Finance retroactively changed the Province's accounting policy for the PSSRP (including the pre-conversion benefits guaranteed by the Province) from defined benefit accounting to defined contribution accounting. However, there have been no changes to this plan during this audit year nor has management provided sufficient justification to support the reasons for this change.

The OOC/Department of Finance did not accurately assess the accounting classification of the NBTPP. Given:

- the employer remains exposed to possible contribution increases that cannot be considered limited or minor;
- employees' retirement benefits are based on a defined formula;
- the employer can benefit from plan surpluses through the reversal of past contribution increases;
- the absence of a pre-conversion benefit guarantee; and
- there is persuasive evidence that this plan should have been accounted for using joint defined benefit accounting.

The OOC/Department of Finance did not accurately assess the accounting classification of the H-CBE and H-CUPE plans. The accounting for H-CUPE and H-CBE became a significant accounting concern during our March 31, 2015 audit as the Province reversed/extinguished the previously recorded contribution liability for a shortfall in employer pension contributions.

As the remaining contribution liability has now been eliminated, there is persuasive evidence that joint defined benefit accounting should now be used for the H-CUPE, and the H-CBE plans:

- the employer remains exposed (as no employer contributions liability is now recorded) to possible contribution increases that cannot be considered limited or minor;
- employees' retirement benefits are based on a defined formula;
- the employer can benefit from plan surpluses through the reversal of past contribution increases; and
- the absence of a pre-conversion benefit guarantee.

Further, the OOC/Department of Finance did not determine the impact of these accounting changes on the Province's consolidated financial statements, so it is not possible to determine what the deficit, accumulated deficit, total liabilities and net debt of the Province would have been had these pension accounting changes not occurred.

Recommendations

We recommend the OOC and Department of Finance record the PSSRP using defined benefit plan accounting and the NBTPP, H-CUPE and H-CBE be recorded using joint defined benefit accounting in accordance with Canadian public sector accounting standards.

We recommend the OOC/Department of Finance restate the Province's March 31, 2015 consolidated financial statements to present correct pension accounting for the PSSRP, NBTPP, H-CUPE and H-CBE.

We recommend the OOC/Department of Finance obtain actuarial valuations for accounting purposes for the Province's shared risk/targeted benefit plans, as well as other necessary information, so that the impact of not implementing defined benefit accounting for the PSSRP and joint defined benefit accounting for the NBTPP, H-CUPE and H-CBE can be determined.

Comments from Management

The Office of the Comptroller has determined that based on the substance of these plans, defined contribution accounting is the appropriate accounting treatment in accordance with Canadian public sector accounting standards.

The Office of the Comptroller has determined that based on the substance of these plans, defined contribution accounting is the appropriate accounting treatment in accordance with Canadian public sector accounting standards. We will continue to account for these plans using defined contribution accounting until changes in the accounting standards or pension plans prompt a review of this position.

Canadian public sector accounting standards do not require this information for defined contribution accounting. Therefore, the Office of the Comptroller does not intend to commit public resources to obtain this information.

3.54	Late accounting decisions

Subsequent to March 31, 2015 the Province informed our office of its decision to account for the PSSRP and the NBTPP using defined contribution accounting. As a result, there were delays in issuing the Province's financial statements and our audit report due to complex accounting matters that required significant time and analysis.

In the prior year, we provided the Office of the Comptroller a recommendation to engage appropriate pension accounting resources to evaluate and select accounting options for the Teacher's Pension Plan conversion and that this work should be completed no later than December 2014.

Recommendation	Comments from Management
We recommend the Office of the Comptroller/ Department of Finance complete its annual review and assessment of pension classification and make significant pension accounting decisions well in advance of year end. For the March 31, 2016 audit we recommend this work be completed no later than January 31, 2016.	*The OOC does not envision any changes in the pension accounting classification for the March 2016 audit.*

3.55	Accounting/ documentation concerns with estimates

During our audit of pension plans, we compared the assumptions proposed by the Actuarial Valuation Committee to the actuarial valuation reports prepared by the Province's external actuary.

Certain assumptions used in the actuarial valuations for accounting purposes were on the higher end of an acceptable range. These included certain discount and inflation rates. There was no supporting rationale documented to note why these values would be the best choice within the range.

Recommendation	Comments from Management
We recommend the Department of Finance ensure the Actuarial Valuation Committee prepare and maintain evidence to justify and support assumptions used for the Province's actuarial valuations for accounting purposes including documenting rationale to support choices within acceptable ranges.	*The Actuarial Valuation Committee will maintain evidence to support assumptions used by the actuaries.*

3.56	Insufficient Audit Evidence for the NBTPP Assets at Conversion Date

We were unable to obtain sufficient appropriate audit evidence to support the value of the NBTPP assets of $4.9 billion at conversion (July 1, 2014) and related calculated values as presented in the consolidated financial statements (plan asset actuarial gains, new items in unamortized adjustments, plan settlement of unamortized adjustments, amortization of unamortized adjustments, plan settlement expense and amortization adjustment expense). We have therefore qualified our March 31, 2015 audit opinion on the Province's financial statements for this circumstance.

It is important an audit be performed at this date to verify the asset value transferred to the new plan and confirm the accuracy of the plan settlement calculation details. It is also important that an audit be performed to ensure the asset balance transferred (and now under the oversight of the NBTPP Board of Trustees) as well as asset performance measurements for the new NBTPP plan are accurate.

The plan asset value is a significant number and the Province should have ensured the plan asset values were audited upon conversion, however, there was no request of the pension fund's auditor to conduct an audit at the conversion date.

Recommendation	Comments from Management
We recommend the Department of Finance obtain audited asset values for the NBTPP as at July 1, 2014 and also at the conversion date for any future pension plan conversions or settlements.	*Audits of the asset values for the NBTPP were performed at March 31, 2014 and December 31, 2014. Going forward, asset values will be audited annually as at December 31. Audits of the contributions to the plan and benefit payments from the plan were performed at March 31, 2014 and December 31, 2014. Going forward, these audits will be performed annually as at December 31. We will consider this recommendation with respect to any future pension plan conversions.*

3.57	Pension Plan Financial Statements

During our audit of pension plans, it was noted the trustees of the PSSRP and the NBTPP obtained audited pension fund financial statements instead of audited pension plan financial statements. Pension plan financial statements include the pension liability on the financial statements whereas pension fund financial statements do not. The inclusion of the liability on the plan's audited financial statements is important as it not only shows pension plan members and decision makers the full financial position of the plan but also provides audit verification of the pension plan liability.

In addition, if the liability is not recorded in the Province's financial statements, due to use of defined contribution accounting, our office will not continue to perform annual audit procedures on this liability balance. Considering the current financial reporting for the PSSRP and NBTPP excludes the liability, no annual audit procedures would then be performed on this significant balance.

Recommendation

We recommend the Board of Trustees of the NBTPP and the PSSRP request audited annual pension plan financial statements be obtained for the NBTPP and PSSRP plans upcoming fiscal year ends and that these plan financial statements be published in the pension plans' annual report to members.

Comments from NBTPP

The NBTPP Board of Trustees has carefully considered the issue of whether to prepare pension plan financial statements.

Of particular concern for the Board was the lack of explicit guidance as to the appropriate accounting for target benefit pension plan liabilities under the current accounting framework contained in Part IV --- Accounting Standards for Pension Plans of the Canadian Professional Accountants Handbook.

The Board of Trustees is responsible for ensuring that an actuarial valuation is prepared triennially in accordance with the PBA and the TPPA and filed with the Superintendent of Pensions. In years in which the actuarial valuation is not required, a cost certificate is required to be filed with respect to the Funding Policy. In addition, the contribution and benefit decisions that the Board is responsible for are based solely on the actuarial valuation prepared with respect to the Funding Policy.

We understand, from our discussions with our external auditor, that the appropriate accounting for target benefit plans such as the NBTPP is currently being examined by the Public Sector Accounting Board and that they expect to issue an Invitation to Comment to the public in the second quarter of 2016. We look forward to the accounting profession dealing with this lack of accounting guidance. In the meantime, the Board will be guided by our legislated reporting requirements and our duty to provide information to plan members. We have already decided to publish all audited pension fund financial statements and all actuarial valuations when available on our plan website and to highlight these valuations in our semi-annual plan newsletters.

Comments from PSSRP

The PSSRP Board of Trustees has considered your recommendation to prepare audited pension plan financial statements. Currently the audited pension fund statements and the funding obligation, as determined by the plan actuary, are provided to plan members in the annual report.

The Board of Trustees are concerned of the lack of explicit guidance as to the appropriate accounting for target benefit pension plan liabilities. We understand that the Public Sector Accounting Standards Board is currently examining the issue. We look forward to the accounting profession providing accounting guidance in this regard.

Nevertheless, the Board of Trustees have referred your recommendation to the Audit Committee for further examination and a recommendation to the Board.

3.58	Retirement Compensation Arrangement Concerns

Each year the Income Tax Act (ITA) establishes a maximum pension benefit limit (based on employment income) that can be earned under a registered pension plan. For the 2014 calendar year this employment income limit was $154,250 for the Public Service Shared Risk Plan (PSSRP). Certain employees' annual earnings in the public service exceed this amount. Pension contributions in relation to income earned above this limit cannot be retained in the PSSRP as it is a registered pension plan subject to the ITA limit. Therefore, a Retirement Compensation Arrangement (RCA) fund was created to accept employer and employee contributions in excess of the ITA limits. The RCA is part of the Province's Supplementary Retirement Fund (SERP).

The RCA fund was created after December 31, 2014. Contributions that should have gone to the RCA fund during the 2014 calendar year were deposited into the PSSRP. This resulted in a receivable from the PSSRP to the RCA fund for $6.3 million at December 31, 2014 which remained at March 31, 2015. Contributions above the ITA limit should not have been deposited into the PSSRP and should have been deposited into the RCA fund. It was noted that the RCA fund's application was completed in the 2015 calendar year.

Recommendation	Comments from Management
We recommend the Departments of Finance and Human Resources ensure the pension plans administered by the Province have filed the required documents with the Canada Revenue Agency on a timely basis and that pension contributions are deposited with the correct party.	*As a result of the complexities surrounding the establishment of a Registered Compensation Arrangement (RCA), the process took longer than originally planned. As the RCA was established earlier this year, the required contributions will be deposited with the correct party in 2015.*

3.59	Lack of Rigor in Review of Pension Calculations

During our audit, we noted a lack of documented evidence that another individual who has sufficient knowledge of the Province's pension plans performed a detailed review of these schedules and related note disclosure to ensure this information was correct. An example where further review was warranted was the NB Power pension adjustment (initially included in error with the pension restatement). This error was identified by our Office and subsequently adjusted.

Recommendation	Comments from Management
Given the complex nature of pension accounting, we recommend the Department of Finance and the Office of the Comptroller have another person (other than the preparer) with sufficient pension knowledge perform a detailed review of the Province's pension schedules and related note disclosure to ensure this information is correct.	*It is the policy of the Office of the Comptroller that all calculations, accounting entries and note disclosures be reviewed by a person other than the preparer. This policy was followed, the review was documented and the reviewer has sufficient knowledge with respect to pension accounting.*

Appendix I – Glossary of Terms

Defined Benefit (DB) pension plan: This method requires the Province to calculate and record a liability for future payments to current and future retirees. It is a less risky structure for the employee, but more risky for the Province. It is structured to provide members with predetermined income benefits at retirement. The Province contributes towards the pension and in addition offers more security to members as the pension promise is based on benefits to be paid during retirement. The Province would step in financially if the investments dramatically crash in order to ensure that members receive their retirement income benefits.

Defined Contribution (DC) pension plan: This method results in the Province not calculating or recording a liability for future payments to current or future retirees. The Province only records its yearly contributions to the plans. It is more risky for the employee, with no risk for the Province. It is structured to provide members with retirement income, but is only meant "to help individuals accumulate retirement savings during their active career"[2]. This means the Province still contributes towards the pension, but does not guarantee a return nor does it guarantee income benefits to be paid at retirement.

Joint Defined Benefit (JDB) pension plan: A joint defined benefit plan is one in which the Province does not have full control over the retirement benefit plan. Control is shared between the Province and another plan sponsor. Sharing of control does not necessarily mean that all parties have the same level of control; one party may have more control than another. In such an arrangement there is an equitable relationship between the funding by the parties, the extent of control each party is able to exercise over the plan and the risks and benefits that accrue to the parties from the plan.[3]

[2] https://hoopp.com/Left-Rail-Page.aspx?pageid=189&LangType=1033

[3] 2006 Report of the Auditor General of New Brunswick, Volume I, Chapter 2, paragraph 2.116

Appendix II – CLEAN AUDIT OPINIONS ARE IMPORTANT

Auditor General’s comments regarding audit opinion on 31 March 2015 financial statement of the Province of New Brunswick

October 1, 2015

Under section 11 of the Auditor General Act, I am legislated to audit the financial statements of the Province of New Brunswick (the “Province”) and to express my opinion as to the fair presentation of the financial statements.

Professional audit standards establish when it is appropriate for me to express an “unqualified opinion” also referred to as a clean opinion. Alternatively, professional standards establish when a “qualified opinion” or in other words, a reservation is warranted for inclusion in the opinion. In the auditing profession, a qualified audit opinion is a rare occurrence in the public sector. It indicates to the users of the financial statements that some of the information is misleading or not auditable.

After many meetings and discussions with the Department of Finance and the Office of the Comptroller, on 29 September 2015 I signed the audit opinion on the Province’s 31 March 2015 financial statements. On this date, I issued a reservation or a “qualified audit opinion” on the financial statements in regards to the Province’s accounting for Shared Risk Pension Plans.

This is first qualified audit opinion on the Province’s financial statements in 17 years.

This document has been prepared to clearly explain the significance of issuing a qualified audit opinion. Further details will be contained in my next annual report to the Legislative Assembly, expected to be tabled in December 2015.

Kim MacPherson

Kim MacPherson, CPA CA
Auditor General of New Brunswick

Appendix II – CLEAN AUDIT OPINIONS ARE IMPORTANT
(continued)

1. What is a qualified audit opinion?
2. Why should taxpayers be concerned?
3. In general terms, what's the problem?
4. In more technical terms, what is the problem?
5. Has there been a qualified audit for the Province of New Brunswick before?

1. What is a qualified audit opinion?

A qualified audit opinion is a rare occurrence in the public sector. It indicates to the readers of the financial statements some of the information presented is either misleading or not auditable. When auditors issue a qualified opinion, they are communicating they have a major concern with:

- The availability of sufficient and appropriate evidence; or
- The entity's compliance with accounting standards (GAAP).

An auditor may issue a qualified audit opinion when parts (but not all) of the financial statements are inaccurate or lack support.

2. Why should taxpayers be concerned?

This is more than a disagreement among accountants. When the Auditor General, who is independent from government, disagrees with the Department of Finance and those responsible for preparing the financial statements, it brings into question the credibility of the numbers. In this case, the Province's financial statements do not properly account for the four Shared Risk Pension Plans. These four plans contain more than $14 billion in pension plan assets at 31 March 2015. The financial statements do not reflect the risk inherent in the design of a Shared Risk Pension Plan.

In the Auditor General's opinion, this means that readers of the financial statements, such as the public, elected officials and credit rating agencies, cannot fully assess the fiscal situation using the Province's financial statements for the year end of 31 March 2015.

The deficit reflected of $388.6 million would be different had the four plans been accounted for properly, however this difference cannot be determined as sufficient information was not provided by the Province.

Furthermore, when the Auditor General qualifies an audit report for accounting standards compliance, she must continue to qualify it each and every year after until changes are reflected that satisfy the Auditor General.

3. In general terms, what's the problem?

Last fiscal year, the **Defined Benefit (DB) pension plan accounting** was the accounting method used to account for the Public Service Shared Risk Pension Plan (PSSRP). This was agreed on by the Province, Auditor General and external experts.

Appendix II – CLEAN AUDIT OPINIONS ARE IMPORTANT *(continued)*

This year, nothing changed in the pension plans, but the Province changed its accounting to ***Defined Contribution (DC) pension plan accounting.*** This change, however, was not supported by external experts or the Auditor General and the Province did not provide sufficient support to justify the change.

The result of changing from **Defined Benefit (DB) accounting** to ***Defined Contribution (DC) accounting*** means the Province no longer records future pension payments as a liability in the books. For PSSRP, it erases over $4.7 billion in pension assets, which are typically offset by $5.1 billion in liability relating to future pension payments.

4. In more technical terms, what is the problem?

Essentially, the issue relates to the difference between a ***Defined Benefit (DB) pension plan*** and a ***Defined Contribution (DC) pension plan*.** Public Sector Accounting Standard on pensions (PS 3250 **-** Retirement Benefits) does not fully address unique arrangements such as shared risk pension plans. PS 3250 also states that "because benefit plans are often complex, careful analysis and professional judgment are needed to determine whether the substance of particular plan makes it a defined benefit or a defined contribution plan."

As of March 31, 2015, four of the Province's pension plans have been converted to a joint trusteeship form of pension plan.

Converted Plan Name	Conversion Date
Public Service Shared Risk Pension Plan (the "PSSRP")	**January 1, 2014**
New Brunswick Teacher's Pension Plan (the "NBTPP")	**July 1, 2014**
Shared Risk Pension Plan for CUPE Employees of New Brunswick Hospitals (the "H-CUPE")	**July 1, 2012**
Shared Risk Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals (the "H-CBE")	**July 1, 2012**

The Province has accounted for the four plans using defined contribution accounting.

In the March 31, 2014 consolidated financial statements, the PSSRP, was correctly accounted for using defined benefit accounting. There have been no changes to this plan during this audit year nor has management provided sufficient justification to support a change to defined contribution accounting. Therefore, defined benefit accounting should have continued at March 31, 2015.

For the NBTPP, the H-CUPE, and the H-CBE, given the absence of pre-conversion benefits guarantees, as in the PSSRP, these three plans should have used joint defined benefit accounting.

In addition, joint defined benefit accounting should be used for the H-CUPE, and the H-CBE because the past contribution liability of $66.9 million established upon conversion of these plans (for a past shortfall in employer contributions) has now been extinguished.

5. Has there been a qualified audit for the Province of New Brunswick before?

Yes, a qualified audit opinion has been issued for the Province before, but it is a rare occurrence. The last time an Auditor General of New Brunswick had a reservation on the Province's audited financial statements was 17 years ago in 1998. In that year, there were two concerns regarding:

- The carrying value of the investment in New Brunswick Power Corporation, and
- The method of recognizing revenue received from Canada relating to the implementation of the Harmonized Sales Tax (HST).

Chapter 4 Department of Education and Early Childhood Development Administration of School Raised Funds

Contents

Department of Education and Early Childhood Development

Administration of School Raised Funds

Introduction

4.1 School raised funds are funds raised to support student activities. An example of school raised funds activity for three schools for 2014/15 is shown in Exhibit 4.1 These funds are collected in every district and at virtually every school and classroom in the Province. As a result of our 2015 audit of the Province's public accounts, we estimated the annual amount of school raised funds is approximately $27 million. Exhibit 4.2 indicates the number of districts, schools, students and teachers in the Province, all of which are, at some point, involved with school raised funds.

Exhibit 4.1 - Examples of various types of school raised funds in three large schools in the Province for 2014/15

Activity	School A	School B	School C
Student Fees	$ 18,000	$ 27,000	$ 55,000
Basketball	-	8,000	54,000
Football	-	14,000	23,000
Hockey	-	20,000	116,000
Volleyball	14,000	9,000	35,000
Soccer	4,000	10,000	12,000
Athletic- General	2,000	16,000	50,000
Music	6,000	11,000	32,000
Drama and Production	5,000	-	39,000
Trips	65,000	13,000	-
Graduation Related Activities	-	58,000	114,000
Yearbook	2,000	9,000	10,000
Scholarships (Awards and Prizes)	1,000	7,000	15,000
General Fundraising	38,000	33,000	46,000
Other (Dances, Donations, Art, Technology etc.)	26,000	49,000	128,000
Total	**$ 181,000**	**$ 284,000**	**$ 729,000**

Source: Information was provided by the Department and has not been audited

Exhibit 4.2 - Summary Statistics of Districts, Schools, Students and Teachers

Summary of Key Information			
	Anglophone Districts (4)	**Francophone Districts (3)**	**Total School Districts (7)**
NB Schools	220	94	314
NB Students	69,972	28,934	98,906
NB Regular Teachers	4,075	1,736	5,811
Percentage of Total Students	71 %	29 %	100 %

Source: Summary statistics, 2014-15 school year

Why we did this work

4.2 From our prior year audit work, we determined the Province has not been recording all school raised funds in its financial statements; only a small portion of the funds was being recorded by the Province. We noticed discrepancies between districts on how school raised funds were recorded. Given school raised funds are an important source of funding for schools (approximately $27 million in revenues and expenses flow through school bank accounts each year), we reviewed the policies and procedures governing school raised funds in the Department of Education and Early Childhood Development (the Department).

4.3 We also noted school raised funds are more susceptible to theft or mismanagement than other financial transactions as they are comprised of a high-volume of cash transactions with limited staff in schools trained to administer and manage the funds. Because of the inherent fraud risk in cash based transactions, we reviewed internal control procedures associated with school raised funds.

4.4 Also, school raised funds have been a long standing issue between the Department and the Office of the Comptroller. The issue was noted in the Office of the Comptroller's audit reports dated from 2006 to 2011. The Department never addressed the concerns of the Comptroller due to lack of resources and problems with agreement on the definition of school raised funds.

Impact of our work

4.5 As a result of our work, the Province is recording and reporting an additional $14 million of revenue and expenses, as well as approximately $10 million of assets relating to school raised funds in its financial statements for the first time.

Recommendations

4.6 In addition, we have made recommendations with regards to school raised funds. A summary of our recommendations can be found in Exhibit 4.3.

Exhibit 4.3 – Summary of Recommendations

Recommendations	Department's response	Target date for implementation
4.25 We recommend the Department, in consultation with the Comptroller, establish a process for recording school raised funds in the Province's financial statements.	*The Department agrees with the recommendation. In conjunction with the Office of the Comptroller and through specific reference of school raised funds in existing school district financial responsibilities policy, EECD will establish a process for recording school raised funds in the Province's financial statements.*	*Immediate and ongoing with target completion of April 2017*
4.37 We recommend the Department ensure a consistent policy be completed and implemented for school raised funds. The policy should: • include roles and responsibilities for all involved parties including DECs, superintendents, principals, school staff and fund raisers, and • contain a comprehensive definition of school raised funds which should be communicated to all districts to aid in the consistency of recording and reporting school raised fund accounts.	*The Department does agree that a high level, comprehensive definition of school raised funds should be incorporated into existing policies. The Department views roles and responsibilities as being adequately outlined in existing policies (Policy 132, 101, Education Act).*	*Immediate and ongoing with target completion of April 2017*
4.38 We recommend the Department evaluate the current use of online revenue collection and the use of the school cash computerized system. As part of this process, the Department should determine the optimal online cash handling process. A consistent Province-wide system should be implemented.	*The Department will consult with its Information System Services branch as to the feasibility and cost-benefit of a consistent provincial system including on-line revenue collection. The Department believes that reference to Policy AD-6305 would adequately cover internal control guidance over cash handling.*	*Immediate and ongoing*
4.45 We recommend the Department finalize departmental policies regarding recording and reporting school raised funds.	*The Department agrees with this recommendation.*	*Immediate and ongoing with target completion of April 2017*

Exhibit 4.3 – Summary of Recommendations (continued)

Recommendations	Department's response	Target date for implementation
4.46 We recommend the Department ensure public reporting at the school level (e.g. communication to parents or posting within the school) is available as part of the online system to increase transparency and accountability.	*The Department, in consultation with school districts will explore options for increasing transparency and accountability of school raised funds.*	*Immediate and ongoing*
4.47 We recommend the Department ensure the Province-wide online system has the ability to produce school raised funds reports at both the school and district levels. The Department should require schools and districts make these reports publically available.	*See response to recommendations 4.38 and 4.46*	*N/A*
4.48 We recommend the Department policy on school raised funds require periodic onsite review and testing of school procedures for collecting, accounting and spending school raised funds. Evidence of this process should be retained for audit.	*The Department will consult with school districts to assess the necessary resource requirements in order to implement the recommendation.*	*Immediate and ongoing*

Objective

4.7 The objective of our work was to follow up on the recommendations made in our prior year management letter to the Department on the administration of school raised funds. Our 2014 recommendations centered on two issues:

- whether all school raised funds should be included in the financial statements of the Province, and
- the lack of consistent policies and procedures between districts related to school raised funds.

Scope

4.8 The majority of our work was conducted through interviews with departmental, district and school employees. We conducted visits to three district offices and two schools. Information was obtained from other districts via email or telephone conversations. As well, we reviewed the *Education Act, the Financial Administration Act*, departmental and district policies and manuals.

4.9 Certain financial and statistical information presented in this report was compiled from information provided by the Department and districts. It has not been audited or otherwise verified. Readers are cautioned that this financial and statistical information may not be appropriate for their purposes.

What we did not examine

4.10 We did not examine school raised funds of $10.6 million already recorded in the Province's special purpose accounts. Nor did we review funds raised by affiliated parties such as home and school associations.

Who is responsible

4.11 The *Education Act* and related regulation specifies the responsibilities and authority of the Minister, the Department, the seven District Education Councils (DEC), superintendents, principals and teachers.

4.12 School principals are specifically charged in the *Education Act* with administrative responsibility over school raised funds.

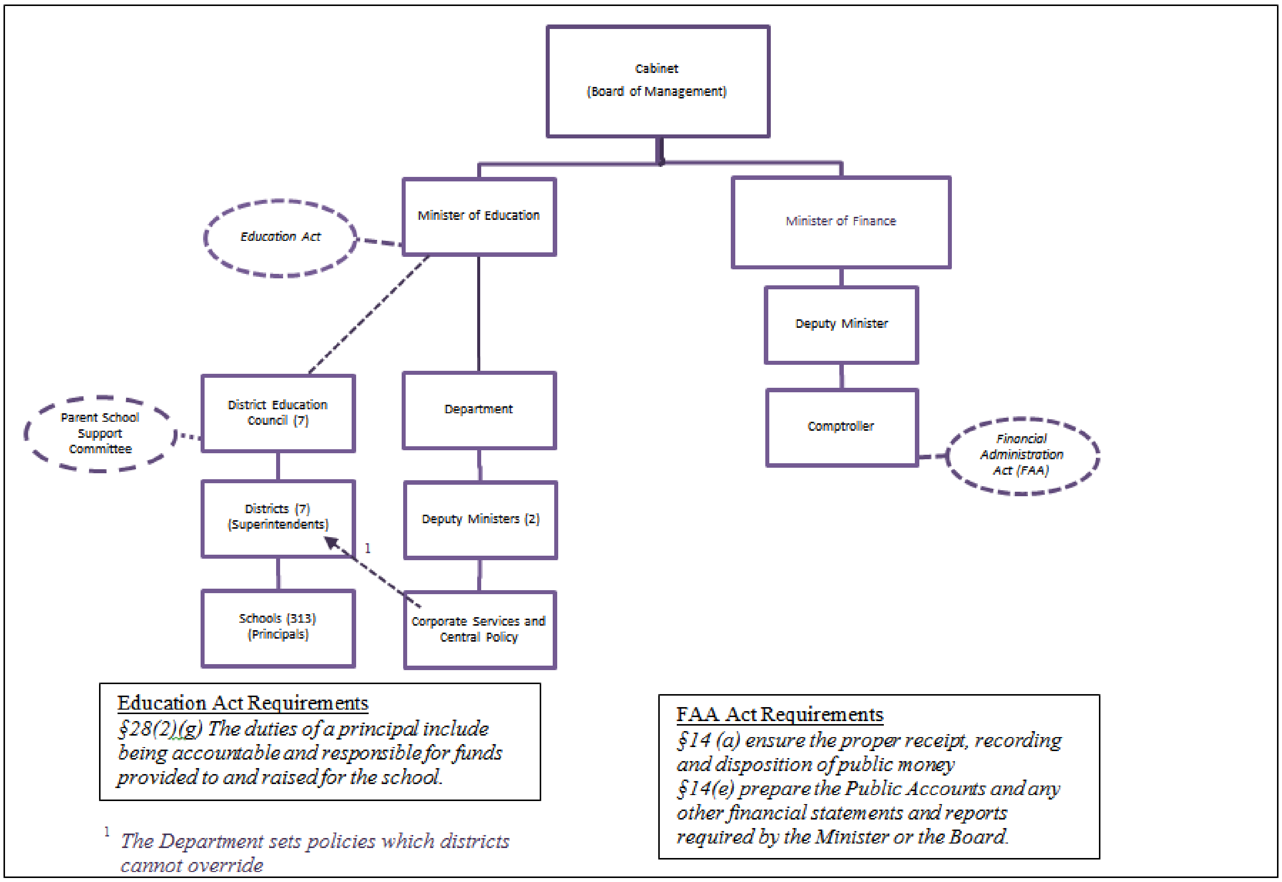
4.13 The Minister of Education and the Department set out financial and other policies for the seven DECs to follow. The DECs may set their own policies as long as they do not contradict the departmental policies.

4.14 Reporting of school raised funds financial information generally flows from the school and principal to the district superintendent. Departmental policy 132 **– Contribution of**

Resources by Parents requires principals to provide school raised funds reports to parent school support committees. The districts provide financial reports to the Department quarterly and annually. The districts would provide reports on school raised funds to the Department if requested.

4.15 Refer to Exhibit 4.4 for lines of financial reporting responsibilities.

Exhibit 4.4 – Lines of financial reporting responsibilities



Key Finding: Until this year, the majority of school raised funds have not been recorded in the Province's financial statements

School raised funds amounts not recorded

4.16 At the start of our 2015 audit, the Province was not recording all school raised funds in the Province's financial statements. From our work, we determined these amounts should be all recorded by the Province. Exhibit 4.4 outlines the reporting responsibilities and the requirements of the *Education* and *Financial Administration Acts*.

Rationale for recording school raised funds amounts in the Province's financial statements

4.17 The *Education Act* grants authority to school principals for funds provided to and raised for the schools. School principals report to the district superintendent who reports to the DEC. Although the DECs operate independently, they are accountable to the Minister of Education and Early Childhood Development. The *Financial Administration Act* grants authority to the Comptroller for ensuring the proper receipt, recording and disposition of public money. Both the school principals and the Comptroller are accountable to the Cabinet through their respective Ministers. This accountability framework results in the Comptroller being ultimately responsible for recording and reporting school raised funds in the Province's financial statements.

School raised funds under the control of principals should be recorded by the Province

4.18 Accounting standards provide guidance on when to record amounts in financial records. These standards require amounts to be recorded if they are under control of an organization. Draft policy 133, **School Raised Funds**, states: *"For control to exist, a school principal or designate must have the authority to make decisions on when, how and on what the funds are to be spent."* This determination of control should be assessed for each type of school raised funds collected.[1] If control is determined, then the funds should be recorded and reported in the Province's financial statements.

Position at the start of our work

4.19 At the start of our work, five of the seven districts had not recorded the majority of school raised funds in the Province's financial accounts. The remaining two districts, however, informed us they had recorded these amounts in the

[1] Policy 133 (Draft), School Raised Funds, Department of Education. February 19, 2008.

Province's accounts.

Records are easily available for four of five school districts

4.20 The five districts who had not recorded all school raised funds in the Province's financial records provided information to us by either using their district-wide accounting systems or with some additional work. In one case, the district could only provide information for 26 of the 38 schools in the district.

Estimate supplied by districts

4.21 We asked district staff to provide an estimate of the school raised funds not recorded in the Province's financial statements. Exhibit 4.5 is based on district responses to our inquiries concerning school raised funds and have not been audited.

Exhibit 4.5 – Estimate of original unrecorded and subsequently recorded amounts for school raised funds by district

School Raised Funds by District ($ millions)				
District	**31-Mar-14 Opening Cash Balance**	**2015 Revenues**	**2015 Expenses**	**31-Mar-15 Closing Cash Balance**
Anglophone				
South (74 schools)	2.80	5.60	5.40	3.00
West (75 schools)	3.40	7.40	7.10	3.70
East (37 schools)	1.90	3.60	3.70	1.80
North (34 schools)	1.10	1.70	1.80	1.00
Francophone				
South [1] (36 schools)	1.13	3.50	3.50	1.13
North-west [1] (19 schools)	0.88	1.83	1.71	1.00
North-east [2] (38 schools) Information for 26 of 38 schools	0.90	2.88	2.94	0.84
Total school raised funds	**12.11**	**26.51**	**26.15**	**12.47**
Less: Amounts already recorded in the Province's financial statements	2.13	10.58	10.59	2.12
Original unrecorded amounts in Province's financial statements	**9.98**	**15.93**	**15.56**	**10.35**
Amounts recorded as a result of our work[3]	**9.20**	**13.80**	**13.50**	**9.50**
Remaining unrecorded amounts[3]	0.78	2.13	2.06	0.85

The above amounts are estimates derived from figures provided by school district staff. These amounts are not audited.

The number of schools was obtained from the Department's "Summary Statistics – School Year 2014-2015".

[1] *All revenue and expense amounts for these districts are already recorded in the Province's financial records except for small amounts for emergency purposes*

[2] *The district was only able to provide information for 26 of the 38 schools in the district. The information was provided on October 22, 2015 and was not included in the Province's financial statements.*

[3] *The Province's financial statements were adjusted for the unrecorded amounts noted above except for approximately $2 million of revenue and expenses because of the timing of when information was received. See point [2] for more information.*

Original position

4.22 From Exhibit 4.5, we note the amounts not recorded by the Province were approximately $16 million of revenue and expenses in its financial statements, as well as year-end bank balances of approximately $10 million.

Changes as a result of our work

4.23 As a result of our work, the Province recorded approximately $14 million of revenue and expenses, as well as approximately $10 million of assets relating to school raised funds in its financial statements. A retroactive adjustment also was made to update prior year amounts.

Conclusion

4.24 The Province should continue to record and report school raised funds in its financial statements and gather information from the school districts who were not recording amounts in the Province's records.

Recommendation

4.25 **We recommend the Department, in consultation with the Comptroller, establish a process for recording school raised funds in the Province's financial statements.**

Key Findings: Lack of Consistent Policies, Procedures and Systems Between Districts
Disagreement on Definition for School Raised Funds

Why consistent policies and procedures are needed

4.26 Because of the extensive number of transactions, the number of districts and schools involved and a lack of oversight at the departmental level, the Department must set clear policies and procedures in order to promote consistency in reporting between districts and schools. In general, districts may set their own policies as long as they do not contradict or over-ride the departmental policies. If the Department does not set policies for the districts, then it will be difficult to achieve consistency between districts in recording and reporting school raised funds.

Current policy definition

4.27 From our work, we noted departmental policy 101 – **Financial Responsibilities of School Districts** defines school raised funds as, "monies that are raised within the school by various groups, from or in support of, extra-curricular activities, or pupil activities (i.e. monies raised from school-wide projects such as dances or concerts, student council activities, classroom sponsored hot lunch programs, athletic group events, or other group fund-raising events, such as magazine sales, car washes)."

Incomplete departmental policy

4.28 The districts informed us they were expecting more guidance from the Department on school raised funds. We noted in policy 101 a section titled *School Raised Funds* has never been completed. The policy states, "This section is currently under construction." This policy has been in place since August 1981 with various updates as recent as July 2012.

Draft policy not implemented

4.29 We also noted the Department has a draft policy 133- **School Raised Funds** which addresses many issues relating to school raised funds and establishes standards for the safeguarding, controlling and reporting of school raised funds. This draft policy, dated February 2008, however, has never been finalized.

Disagreement on definition

4.30 The Department indicated the main barrier in implementing the new policy relates to formulating a comprehensive definition as to what was included in school raised funds. We were told the Department has intended to create a comprehensive definition so as to remove the potential inconsistency from the districts. Agreement could not be reached on a definition, however, and the project has been stalled since 2008.

Different approaches by different districts

4.31 In the case of school raised funds, different schools and districts sometimes use different systems to track and record school raised funds. This may be part of the reason districts account for the funds in different ways.

No overall provincial systems and procedures

4.32 As well, the seven districts had various approaches to the administration of school raised funds. In general the Anglophone districts allowed each school to raise, keep and spend school raised funds without involvement by the district. Oversight by the districts was carried out by district staff through the use of a district-wide computer system, “school cash.” In the Francophone districts, in general, amounts were deposited in the school account and transferred to the district on a regular basis. There was no Province-wide computer system. In general, we noted some districts had difficulty providing us with very basic details on school raised funds numbers.

School Cash System in Anglophone Districts

4.33 Currently most of the Anglophone school districts are using a cash handling system known as “school cash”. The system can be used to account for a multitude of different fund raising activities in a transparent and timely basis. The school cash system encourages online, real time monitoring of the school cash process, consistency of process and the possibility of using an interactive online purchase / fee collection module for parents.

Standard Province-wide system beneficial

4.34 Further, it would seem beneficial to promote the use of online cash payment systems for parents and students. This would reduce the risk of cash loss, administrative burden for teachers and make it easier for parents to provide funds. Because the scope of the school cash collection process is Province-wide and literally affects thousands of administrators, parents, students and teachers, the effect of moving to an online cash collection process would be significant.

4.35 Schools in the Francophone districts do not use the “school cash” system. As previously mentioned, we understand in two of the three Francophone districts school raised funds are transferred to the district office monthly and are then deposited into the district bank accounts. Funds are then reported in the Province’s financial records. We understand the third district does not do this. Using different systems at the school and district levels make administration of school raised funds in the New Brunswick education system less efficient. Although there are different size schools, seven districts and dual language requirements, the underlying situations, challenges and risks relating to school raised funds are generally the same throughout

New Brunswick.

Conclusion

4.36 The *Education Act* and the Department's policies are the common thread holding the overall management of the system together. Together they should ensure basic standards for accounting, oversight and reporting are in place. The current policies and definitions need to be supplemented to provide further direction to districts and ultimately to schools.

Recommendations

4.37 We recommend the Department ensure a consistent policy be completed and implemented for school raised funds. The policy should:

- **include roles and responsibilities for all involved parties including the DECs, superintendents, principals, school staff and fund raisers, and**
- **contain a comprehensive definition of school raised funds which should be communicated to all districts to aid in the consistency of recording and reporting school raised fund amounts.**

4.38 We recommend the Department evaluate the current use of online revenue collection and the use of the school cash computerized system. As part of this process, the Department should determine the optimal online cash handling process. A consistent Province-wide system should be implemented.

Key finding: Lack of Public Reporting and Oversight by the Department

Mandatory reporting not required by policy

4.39 In the course of our work we noted the expectations for reporting on school raised funds are not clear:

- Draft policy 133 - **School Raised Funds** requires schools to maintain financial records and prepare reports for review by the superintendent or the Office of the Comptroller if requested. The draft policy indicates proper reporting processes should be in place and proper financial disclosure must be provided to parents of children directly involved in the school raised fund activity if requested.
- Departmental policy 132 **– Contribution of Resources by Parents** requires school principals to provide to the parent school support committee a report on school raised funds as part of the school performance report. The policy does not require this information to be publically reported.
- Departmental policy 101 **– Financial Responsibilities of School Districts** requires school districts to submit quarterly and annual financial reports to the Department. It also notes school districts are to submit other statements and reports as required. These reports may include reports on school funds.

No reporting required by the DEC

4.40 As part of our work, we reviewed the generic DEC Member Handbook provided to us by the Department. This document is dated June 2012 and is still draft. We did not note any section specifically relating to reporting school raised funds.

District not providing school raised fund reports to the Department

4.41 The districts are required to provide the Department with various reports and schedules at year end if requested. We are not aware of the districts providing any reports or schedules for school raised funds in the past few years.

No independent review of financial information

4.42 In past years, school districts were audited by the Office of the Comptroller. After the Comptroller audits were discontinued, we understand that no other extra level of oversight was provided by the Department through the quality assurance, internal audit or any other branch.

Public reporting not required

4.43 From our policy review, we did not see any requirement for school raised funds to be publically reported. Since there is no audit function in place, mandatory reporting of school raised funds to the district, the Department and parents would highlight any unusual financial errors or irregularities and help improve accountability.

Inconsistent district oversight processes

4.44 We are not aware of any departmental oversight being carried out in regards to school raised funds. All the districts we visited, however, had oversight programs. The amount of oversight varied between districts. Some districts' oversight was limited to reviewing accounting records sent in or available online. Others periodically viewed and tested the processes in place at schools to collect/spend funds. Departmental policy should require districts to periodically visit and test school processes to ensure proper controls are in place for collecting, recording and reporting school raised funds. It should also require the Department to periodically monitor the district oversight process to ensure it is functioning properly.

Recommendations

4.45 We recommend the Department finalize departmental policies regarding recording and reporting school raised funds.

4.46 We recommend the Department ensure public reporting at the school level (e.g. communication to parents or posting within the school) is available as part of the online system to increase transparency and accountability.

4.47 We recommend the Department ensure the Province-wide online system has the ability to produce school raised funds reports at both the school and district levels. The Department should require schools and districts make these reports publically available.

4.48 We recommend the Department policy on school raised funds require periodic onsite review and testing of school procedures for collecting, accounting and spending school raised funds. Evidence of this process should be retained for audit.

Chapter 5
Financial Audit of New Brunswick Lotteries and Gaming Corporation

Contents

Financial Audit of New Brunswick Lotteries and Gaming Corporation

Introduction

5.1 Lottery and gaming activity in the Province is governed by the *Gaming Control Act*. The New Brunswick Lotteries and Gaming Corporation (NBLGC) is a Crown corporation created under this Act whose objective is to manage lottery activity on behalf of the government of the Province. The NBLGC operates as a division of the Department of Finance.

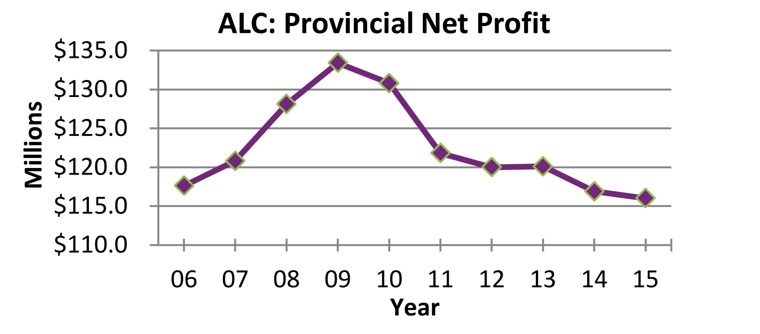
Lottery and gaming activities are an important source of revenue for the Province

5.2 Two of the most significant responsibilities of the NBLGC include acting as the Province's shareholder in the Atlantic Lottery Corporation Inc. (ALC) and managing the casino service provider agreement with Sonco Gaming New Brunswick Limited Partnership (Sonco) which operates Casino New Brunswick. These operations provide a significant source of provincial revenue at approximately $142 million annually (ALC provincial net profit & Sonco casino revenue combined). Exhibit 5.1 shows provincial revenue for the year ended March 31 related to ALC for the past ten years. Exhibit 5.2 shows provincial revenue the year ended March 31 related to Sonco for the past five years. Sonco began operating Casino New Brunswick in May 2010.

Exhibit 5.1 – ALC: Provincial Net Profit

ALC: Provincial Net Profit

Year Ended	Revenue ($ millions)
2006	117.6
2007	120.8
2008	128.1
2009	133.4
2010	130.8
2011	121.8
2012	120.0
2013	120.1
2014	116.9
2015	116.0

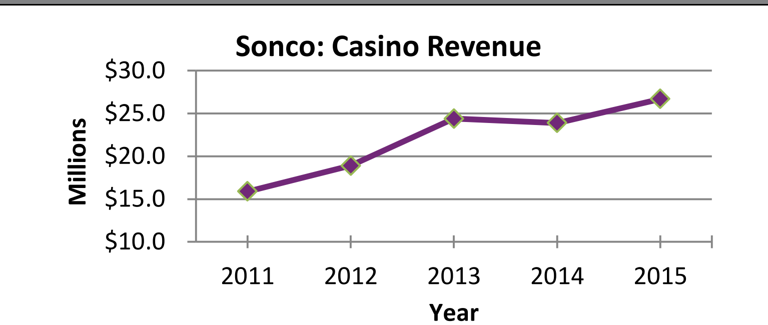


Source: For 2006-2013 – NBLGC audited financial statements
For 2014-2015 – New Brunswick Public Accounts Volume I, March 31, 2014 and March 31, 2015

Exhibit 5.2 – Sonco: Casino Revenue

Sonco: Casino Revenue

Year Ended	Revenue ($ millions)
2011	15.9
2012	18.9
2013	24.4
2014	23.9
2015	26.7



Source: For 2006-2013 – NBLGC audited financial statements
For 2014-2015 – New Brunswick Public Accounts Volume I, March 31, 2014 and March 31, 2015

Why We Did This Work

5.3 We experienced significant delays in completing both the March 31, 2012 and 2013 audits of the NBLGC. These delays occurred due to significant and complex issues relating to the management of lottery and gaming activity in the Province as described in this chapter. As a result of these delays, the reporting of our audit results for the NBLGC was also significantly delayed.

18 month delay in completing 2012 audit of the NBLGC

5.4 Our audit of the March 31, 2012 NBLGC financial statements was completed in September 2013 (18 months after year-end).

28 month delay in completing 2013 audit of the NBLGC

5.5 We began our audit of the March 31, 2013 NBLGC financial statements in December 2013 and issued our audit opinion on July 13, 2015 (28 months after year end).

5.6 Overall, such timing delays are not acceptable, especially in a publicly accountable entity. As noted in the 2014 Auditor General Report, Volume I, Chapter 5, *"Producing audited financial statements 18 months or more after the fiscal year end is still necessary, but the exercise holds much less value to the public and other users of this information if the reporting is not performed in a more timely manner. We strongly encourage all Crown agencies to promptly complete their financial reporting obligations."*

Recommendations

5.7 Recommendations from our work are found in Exhibit 5.3.

Exhibit 5.3 – Summary of Recommendations

Recommendation	Department's Response	Target date for implementation
5.16 We recommend, in light of the write off of the investment in Geonomics and to protect public funds, due diligence procedures be performed by the NBLGC for any similar future endeavours. This should include documentation of any conditions or criteria requirements that must be satisfied.	*In 2011-12, the ALC Board of Directors reviewed the investment proposal, engaged a trusted third party to undertake the due diligence on the proposal and approved the ALC's participation in the investment. The ALC provided the information to the Department through its New Brunswick director who also served as the vice-chair of the NBLGC. The information and recommendation was then brought forward to and approved by government.* *Management will continue to ensure that the appropriate due diligence procedures and documentation of any conditions or criteria requirements are undertaken in regard to similar future endeavours.*	*As required*
5.33 We recommended the NBLGC discontinue making unauthorized overpayments to First Nations immediately. We also recommend the Department of Finance and the NBLGC resolve recovery of the overpayments made to date.	*Government has committed to work collaboratively with the First Nations to achieve greater social, economic and health outcomes within their communities and to continue to strengthen its relationship with First Nations through collaboration and mutual respect.* *In July 2015, impacted First Nations were advised that the expense calculation would be amended effective August 1, 2015. First Nations have challenged the amended calculation and requested a dispute resolution process be triggered to review and validate the calculations used to determine expense amounts. The Department agreed to undertake this process which is currently underway. It is expected to be completed early in the New Year. Based on the outcomes of the dispute resolution process, the issue of the expense calculation will be resolved.* *As part of the dispute resolution process, the correction will be retroactive to August 1, 2015. The issue of the recovery of the overpayment will be undertaken in due course while respecting the financial challenges of our First Nation communities.*	*Early 2016*

Exhibit 5.3 – Summary of Recommendations (continued)

Recommendation	Department's Response	Target date for implementation
5.43 We recommend the NBLGC review and obtain support for third party information used to calculate significant financial statement items or amounts. Support and evidence of review should be available for audit purposes.	*The NBLGC has implemented this recommendation. The practice of reviewing, obtaining support and documenting (initialling) the review was adopted for 2013-14 fiscal year.*	*Complete*
5.50 We recommend the Department of Public Safety more proactively monitor and increase compliance initiatives to reduce or eliminate unauthorized VLTs. This could include setting measurable targets and evaluating achievement towards stated objectives to reduce or eliminate the existence of unauthorized VLTs.	*The Department of Public Safety (DPS) proactively monitors premises licenced under the Liquor Control Act and other provincial statutes, and treats the existence of illegal VLTs in such premises as a violation of licence terms and conditions. Where illegal VLTs are found in such premises, DPS takes corrective action.* *Illegal gaming outside of licenced premises is matter for police attention, and, when DPS receives reports of this, it passes on all available information to police.*	*See comments in response*

Exhibit 5.3 – Summary of Recommendations (continued)

Recommendation	Department's Response	Target date for implementation
5.54 We recommend the NBLGC, on an annual basis, review the casino service provider's audit results and determine if there is an impact to the NBLGC.	*As part of its on-going operations, the NBLGC receives daily, weekly, monthly, and quarterly financial and operational reports from the casino service provider as well as its annual financial statements and report. The audited financial statement provides verification, after the fact, by a trusted and accredited third party opinion that the gross gaming revenue (the calculation by which the NBLGC's revenue is determined) is properly accounted for. However the NBLGC constantly monitors the casino's financial reporting to ensure the NBLGC receives its rightful revenue allocation weekly. The NBLGC is confident that there are effective controls and systems in place to ensure that the casino revenue is properly monitored and tracked and that the Province receives its rightful allocation.* *In addition to its on-going activity, the NBLGC will ensure that in the future, the evidence referred to by the OAG (i.e. physically signed copies of the casino service provider financial statements to document its review) is on file.*	*Immediate*

Exhibit 5.3 – Summary of Recommendations (continued)

Recommendation	Department's Response	Target date for implementation
5.62 We recommend the NBLGC Board of Directors adopt improved governance practices such as: • **increasing the size of its board;** • **appointing external directors;** • **holding regular meetings (at least every quarter);** • **proactive oversight of corporate strategic direction and risk management; and** • **appointing an audit committee of the Board.** **Steps such as these would assist in providing appropriate oversight for the numerous challenges of the NBLGC including: First Nation overpayments, delays in audit completion and reliance upon information provided by the ALC and the casino service provider.**	*The Department will undertake a review of the NBLGC governance structure with a view to improving its governance practices while considering the OAG's recommendations.*	*Fiscal 2016-2017*

Significant and Complex Issues

5.8 There were significant and complex accounting and auditing issues involved in the 2012 and 2013 financial statement audits of the NBLGC. In this chapter we explain our concerns, indicate how these issues have been addressed to date and make recommendations to improve management practices regarding provincial lottery and gaming activity.

ALC $4 million investment in Geonomics (an on-line gaming company formerly known as Roboreus)

5.9 One of the issues that caused delays involved the NBLGC's participation in the ALC's investment in an on-line gaming company. In May 2011, the NBLGC Board of Directors agreed to participate, through the ALC, in a $4 million investment in Roboreus Limited (Roboreus), a UK based on-line gaming company. Board stipulations for participation in the investment included favourable reviews of Roboreus (which were performed by consultants hired by the ALC) and participation of at least one other ALC shareholder. This other shareholder would eventually become the Province of Prince Edward Island. Roboreus subsequently became known as Geonomics Global Games Limited (Geonomics).

5.10 The investment in Roboreus was anticipated to be profitable for the Province. Profits generated by Roboreus would flow to the ALC who would in turn distribute to the NBLGC (and the Province's consolidated fund) its share of profits.

Auditor General raised concerns with Geonomics investment during 2012 audit

5.11 As part of our work during the March 31, 2012 financial statement audit of the NBLGC, we raised concerns regarding the participation in the investment which included:

- We were unable to review appropriate documents to determine if the NBLGC Board condition for a favourable review by the ALC consultants was met;
- Lack of an agreement in place between the ALC and the NBLGC regarding responsibility of interest, debt and impairment costs related to the investment;
- The NBLGC did not perform its own due diligence separately from the ALC; and
- Roboreus was not required to provide audited financial statements to the ALC.

Monitoring of the investment

5.12 In the years subsequent to the initial investment, we noted the NBLGC did not prepare its own valuation of the investment and instead chose to rely on valuation work performed by the ALC and its auditors. With a lack of audited financial statements required for Roboreus, the reliability of information provided for valuation purposes, such as forecasted cash flows, should have been more heavily scrutinized by the NBLGC.

Geonomics investment resulted in $4.3 million loss to the Province

5.13 In its March 31, 2015 financial statements, the ALC recorded a full impairment of the investment in Geonomics due to the inability to recover the costs associated with the investment. The financial impact to the NBLGC and the Province relating to this investment is a loss of approximately $4.3 million. This loss consists of the initial $4 million cost of the investment incurred by the ALC along with various costs paid by the ALC to generate the investment.

5.14 The NBLGC financial statement notes specify any write down expenses incurred by the ALC will be deducted from profits otherwise payable by the ALC. We were informed there is no plan in place for when the ALC will begin to recover these losses from the NBLGC.

5.15 Appendix I contains a summary of our recommendations relating to the investment in Geonomics from the March 31, 2012 NBLGC financial statement audit.

Recommendation

5.16 We recommend, in light of the write off of the investment in Geonomics and to protect public funds, due diligence procedures be performed by the NBLGC for any similar future endeavours. This should include documentation of any conditions or criteria requirements that must be satisfied.

Agreements with First Nations – sharing of revenue

5.17 Under the Department of Finance, there are several revenue sharing agreements between the Province and First Nations. These revenue sharing agreements are designed to foster economic development and provide the means for Bands to provide social programs for community members.

5.18 The *Gaming Control Act* provides for First Nations in the Province to enter into arrangements with the NBLGC for the purpose of sharing certain lottery revenues generated on First Nations. There are currently seven First Nations with such arrangements in place. The arrangements specify First Nations receive 95% of the net profits for Video Lottery Terminals (VLT's). The NBLGC indicated negotiation of these arrangements can be very complex.

5.19 The ALC is responsible for conducting and managing VLT activity in the Province along with providing the NBLGC with information required for calculating payments for these arrangements. Net profits for VLTs generated on First Nations are collected by the ALC along with net profits from all other ALC related activities. On a monthly basis, the ALC remits to the NBLGC its net profits from all Province wide gaming activity. At this time, the ALC also provides the NBLGC with a schedule outlining the net profits for VLTs earned on First Nations.

Overpayments of $14 million due to calculation errors

5.20 In reviewing the VLT net profit calculations, the NBLGC identified errors between April 2002 and July 2015 which resulted in overpayments to seven First Nations of approximately $14 million.

Known overpayments continued to be made

5.21 The calculation errors were discovered in the fall of 2013 and have not been corrected as of August 2015. During that time, known overpayments continued to be made despite the presence of information which provided correct amounts. Impacted First Nations started to be notified of the overpayments in June 2014 and a formal notification was sent to First Nations in July 2015. We estimate overpayments of $172,000 per month will continue to accumulate until resolved.

5.22 The authority to continue to overpay First Nations is not clear and there is no plan to address recovery of the overpayments. Currently, the NBLGC has deemed these overpayments as uncollectable and has recorded a provision for loss for 100% of the amounts.

Nature of the overpayment errors

5.23 These errors in the information provided by the ALC for the calculation of monthly net profits for VLTs on seven First Nations occurred as a result of insufficient costs being considered in calculations, thus overstating net profits. The errors relate to net profit calculations dating back to April 2002.

5.24 After discovery of the errors, the ALC was able to provide the NBLGC with updated historical net profit calculations and correct calculations going forward. With the assistance of the ALC, the NBLGC calculated the amount of overpayments made up to the fall of 2013 to be $10.6 million.

Why the errors went undetected

5.25 The errors were identified in 2013 when the NBLGC questioned if the cost per terminal calculations used by the ALC were still appropriate. Up to this time, payments to

First Nations increased steadily year over year and there was no evidence to suggest to the NBLGC, the ALC, or our Office that there was an error in the year over year changes. The errors were only noted when the NBLGC reviewed the underlying net profit payment calculations.

Overpayments continue to be made despite the availability of correct information

5.26 We were informed that once the errors were discovered, the Department of Finance directed ALC not to correct the net profit calculations and to continue to provide the NBLGC with incorrect information for VLT net profit payments to First Nations. At that time, the Department also directed the NBLGC to continue to make monthly VLT net profit payments to First Nations using the incorrect calculations, resulting in continued overpayments. This direction was provided as the Province intended to collaborate with the seven First Nations on a resolution (to address the overpayments made to date and calculate monthly net profit payments using correct information).

No legislated authorization for overpayments

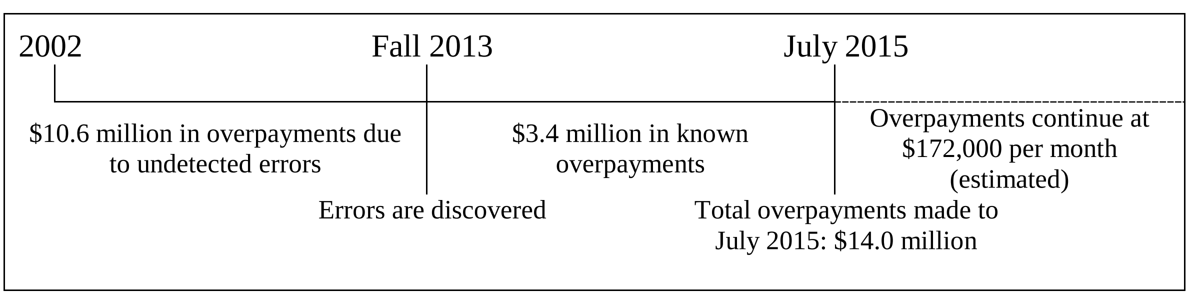
5.27 The known overpayments that continue to be made are outside the terms legislated in the *Gaming Control Act.* These overpayments appear to have no legislated authorization to be made and are a distribution of provincial funds which would have been available for other purposes.

Financial impact

5.28 The continued known overpayments totalled approximately $3.4 million from the time the error was discovered in the fall of 2013 through July, 2015. This $3.4 million in known overpayments combined with $10.6 million in overpayments made between 2002 and the fall of 2013 total $14 million in overpayments as of July 2015.

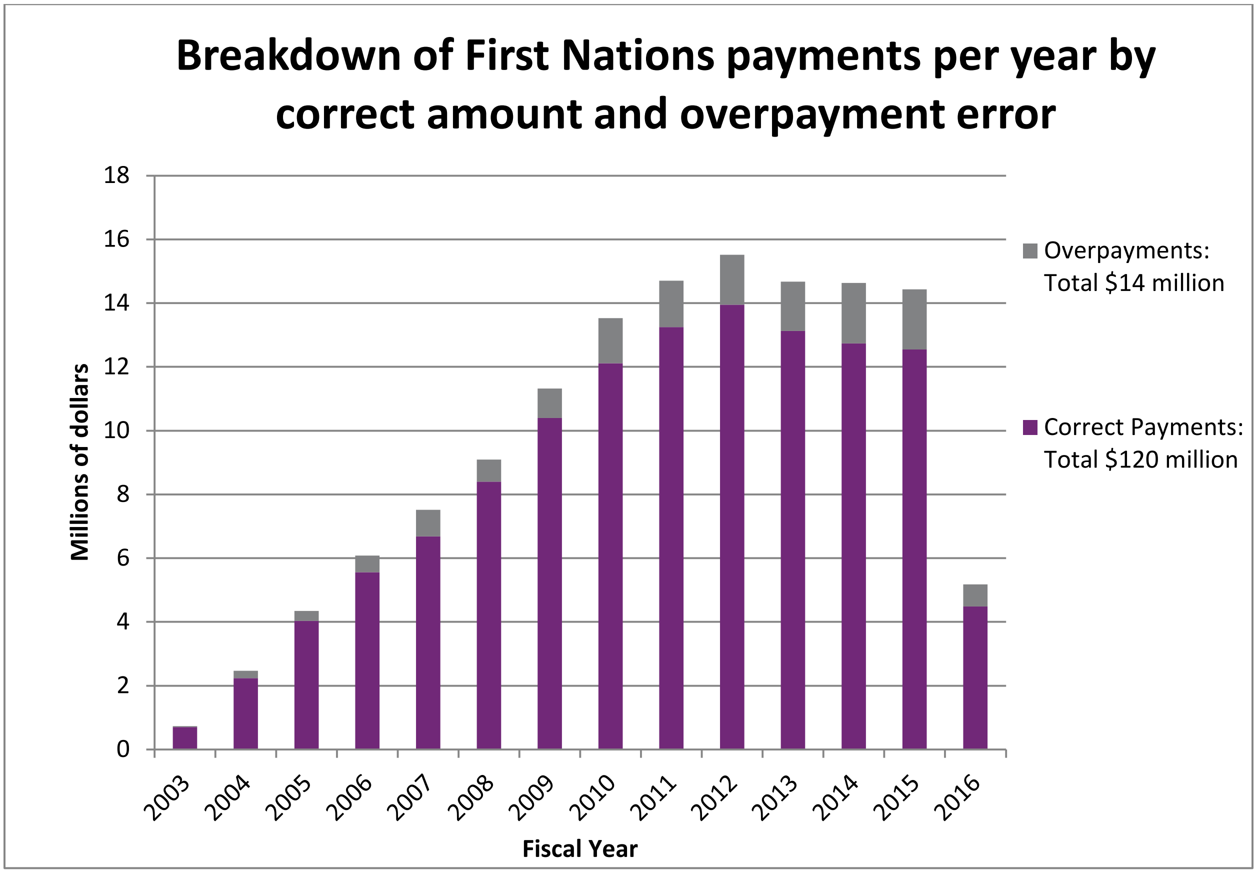
5.29 Exhibit 5.4 shows the timeline and financial impact of the calculation errors.

Exhibit 5.4 – Timeline of calculation error of overpayments to First Nations



5.30 Exhibit 5.5 shows the breakdown of First Nations payments per year by correct amount and overpayment error.

Exhibit 5.5 – Breakdown of First Nations payments per year by correct amount and over payment error



Source: For 2003-2013 – NBLGC audited financial statements
For 2014-2015 – unaudited information provided by the NBLGC and ALC
For 2016 – unaudited information through July 2015 provided by the NBLGC and ALC

A resolution has not yet been reached

5.31 The NBLGC started to notify impacted First Nations of the calculation error in June 2014 (with formal notification in July 2015) and as of August 2015, a resolution to the continued overpayments was still not in place. We find this delay in formal notification and resolution to be unacceptable given the length of time (21 months) the issue has been known to be outstanding. In October 2015, the NBLGC and First Nations agreed to participate in a formal dispute resolution process and at present, known overpayments will continue to be made.

No plan to address overpayments already made

5.32 To date, the Department of Finance and the NBLGC have not made a decision on the treatment or recovery of the $14 million in overpayments. 100% of this amount has been recorded as an expense assuming it will not be recovered (i.e. it has been recorded as a provision for loss). This is despite evidence suggesting the amounts are collectable and not statute barred. Avenues available to collect these overpayments are specified in the *Financial Administration Act* and include set offs of future payments of gaming net profits or other revenue sharing items such as fuel tax. We were informed the recovery of overpayments will be addressed with impacted First Nations in future discussions.

Recommendation

5.33 We recommended the NBLGC discontinue making unauthorized overpayments to First Nations immediately. We also recommend the Department of Finance and the NBLGC resolve recovery of the overpayments made to date.

Reliance on external information

5.34 In the preparation of its financial statements, the NBLGC management relies upon information provided to them by both the ALC and Sonco. This information is used to calculate the NBLGC's revenues and expenses and to assess the valuation of certain assets and liabilities.

5.35 Verification of third party calculations such as those prepared by the ALC or Sonco, including supporting information, should be independently assessed by the NBLGC. Accepting third party information, without appropriate review and verification, exposes the NBLGC to the risk of errors. We note the following three instances where there has been a lack of the NBLGC review and verification of third party calculations and supporting information.

Accounting for the investment in ALC

5.36 In fiscal 2013, the NBLGC changed the way it accounted for its investment in the ALC from the cost method to the modified equity method. The modified equity method of accounting requires the NBLGC to report its share of the ALC's shareholder surplus/deficit as an asset/liability in its financial statements.

5.37 The ALC provided the NBLGC with a figure for the balance of the NBLGC's share of the ALC's shareholder deficit. The NBLGC did not assess the reasonableness of this figure and included it in its financial statements without performing sufficient due diligence procedures.

5.38 This figure was a significant item in the NBLGC March 31, 2013 financial statements. Lack of verification of this amount lead to delays in obtaining necessary information and required our Office to perform a significant amount of additional work in order to audit this balance.

Accounting for overpayments to First Nations

5.39 The calculation errors for the First Nations overpayment of gaming revenue also resulted from the NBLGC's reliance on third party information. Accepting third party reports as presented without further verification resulted in the calculation error going undetected for 11 years (between 2002 and 2013).

5.40 The ALC provided the NBLGC with corrected payment information for presentation in the March 31, 2013 financial statements which the NBLGC told us they reviewed; however, we noted no evidence of verification of this information by the NBLGC during our March 31, 2013 financial statement audit.

5.41 These figures were also significant items in the NBLGC March 31, 2013 financial statements. Lack of verification by the NBLGC of these amounts lead to delays in obtaining the necessary information and required our Office to perform a significant amount of additional work in order to obtain sufficient audit evidence.

Accounting for transactions with Sonco

5.42 Certain revenue and expense transactions are recorded in the NBLGC's financial statements based on information provided by Sonco. While these items did not require our Office to perform a large amount of additional work, they are significant items in the NBLGC financial statements, and we noted no evidence of verification of this information by the NBLGC during our March 31, 2013 financial statement audit.

Recommendation

5.43 We recommend the NBLGC review and obtain support for third party information used to calculate significant financial statement items or amounts. Support and evidence of review should be available for audit purposes.

Unauthorized VLTs

5.44 Regulations under the *Gaming Control Act* specify ALC is responsible for conducting and managing video lottery schemes in the Province. These regulations specify a maximum of 2,000 Video Lottery Terminals (VLTs) can be in place throughout the Province at any time. The Act specifies these VLTs are all to be authorized and managed only by ALC.

5.45 During the course of our audit work, we were informed the NBLGC management estimates there are approximately 316 unauthorized VLTs, also known as grey machines, operating throughout the Province. The existence of these machines may reduce revenue otherwise available to the NBLGC. While the amount of revenue lost cannot be quantified, it represents a reduction of funds available to the Province's consolidated fund to finance programs such as education and health care.

Enforcement of unauthorized VLTs

5.46 We were informed by the NBLGC that the existence of unauthorized machines constitutes a violation under the *Criminal Code* and enforcement is not the responsibility of the NBLGC. We were also informed the Department of Public Safety (DPS) is taking steps to address the issue.

5.47 We inquired with the DPS staff and found the DPS is aware of the potential for unauthorized VLTs to operate in the Province. Any instances which the DPS is made aware of are investigated further by the DPS staff.

5.48 We were also informed by the DPS penalties for unauthorized VLTs are in place and enforced under the *Liquor Control Act*. These include cancelling or suspending liquor licenses in establishments where unauthorized VLTs operate. Certain cases may also be referred to the appropriate policing authorities under the *Criminal Code*.

Financial impact

5.49 We are concerned about the loss of revenue for the Province due to these unauthorized machines. We will continue to monitor the existence of unauthorized VLTs and the steps the NBLGC and the DPS are taking to address and correct this situation.

Recommendation

5.50 **We recommend the Department of Public Safety more proactively monitor and increase compliance initiatives to reduce or eliminate unauthorized VLTs. This could include setting measurable targets and evaluating achievement towards stated objectives to reduce or**

eliminate the existence of unauthorized VLTs.

Casino service provider agreement and monitoring of Sonco

5.51 In May 2015, Sonco entered into an agreement to sell Casino New Brunswick to a third party. This sale is being conducted in accordance with the casino service provider agreement and is subject to approval from the NBLGC. The sale of the casino is not expected to have an impact on provincial revenue calculations.

5.52 The casino service provider agreement and the *Auditor General Act* allow our Office access to information and materials from the casino service provider for the purposes of our NBLGC audit work. We will monitor this situation and in the future may perform additional audit work as we deem necessary related to the casino service provider.

5.53 During our March 31, 2013 NBLGC financial statement audit we noted no evidence of the NBLGC's review of annual Sonco audit results or any related internal control deficiencies identified by Sonco's external auditors. While we noted no items with an impact on the NBLGC's financial statements, the NBLGC should review Sonco audit results on an annual basis and ensure any impact to the NBLGC has been recorded in its financial statements.

Recommendation

5.54 We recommend the NBLGC, on an annual basis, review the casino service provider's audit results and determine if there is an impact to the NBLGC.

Governance of NBLGC – NBLGC Board of Directors

5.55 As legislated by the *Gaming Control Act*, the NBLGC Board of Directors shall administer the business and affairs of the NBLGC and shall be comprised of four directors. The Board composition under this legislation requires inclusion of the Minister and Deputy Minister of Finance and two senior civil servants appointed by the Lieutenant-Governor in Council, one of whom must be from the Department of Health.

Weak governance practices

5.56 In our review of the NBLGC minutes of the meetings of the Board of Directors we noted Board meetings do not follow a pre-determined schedule and are intermittent in nature with durations between meetings being anywhere from one to thirteen months. Voting resolutions are utilized in between Board dates to obtain required Board approval for certain NBLGC activities.

5.57 Through our review of these meeting minutes it was apparent the Board is aware of significant items such as the overpayment of gaming revenue to First Nations, delays in financial statement audit completion, reliance on third party information and unauthorized VLTs. We noted however the Board frequently did not act upon or provide direction to the management of the NBLGC with regards to required action or resolution of these significant items. As directors of the NBLGC, the Board should ensure significant items such as these are addressed and resolved in a timely manner.

5.58 We note the NBLGC currently has several other initiatives underway which require monitoring and follow up with the Board. Some of these initiatives include follow up on implementation of our recommendations from previous years' audits. The NBLGC has no audit committee established to assist the board in providing oversight regarding these complex issues.

5.59 We are concerned the inconsistent oversight of the Board will delay implementation of these initiatives and our recommendations. Given lottery and gaming activity is a significant source of revenue for the Province (approximately $142 million annually), strong and committed Board oversight is necessary.

5.60 Based on our review, we noted the following weak governance practices:

- the small size of the board;
- the lack of regular meetings;
- the NBLGC has no audit committee; and
- the NBLGC has only internal government board directors.

5.61 The NBLGC's weak governance practices indicate the Board is not in a position to provide effective risk management oversight of the NBLGC, provide effective oversight of the NBLGC's corporate performance, or to address the NBLGC's complex issues on a timely basis.

Recommendation

5.62 We recommend the NBLGC Board of Directors adopt improved governance practices such as:

- **increasing the size of its board;**
- **appointing external directors;**
- **holding regular meetings (at least every quarter);**
- **proactive oversight of corporate strategic direction and risk management; and**

- **appointing an audit committee of the Board.**

Steps such as these would assist in providing appropriate oversight for the numerous challenges of the NBLGC including: First Nation overpayments, delays in audit completion and reliance upon information provided by the ALC and the casino service provider.

Appendix I: Summary of Recommendations Related to Geonomics from the March 31, 2012 Financial Statement Audit of NBLGC

Recommendations	Department's response	Target date for implementation
We recommend the NBLGC ensure proper documentation or agreements are in place to support transactions that are outside of the normal course of operations. Such documentation should be available for audit purposes.	We agree that appropriate documentation must be in place to support business decisions and that they be available for audit purposes. The Board of Directors feels that the letter from the Minister of Finance addressed to the President and CEO of ALC, dated April 26, 2012, outlines the NBLGC's responsibility for its role in the investment and the costs associated with the investment.	March 2014
We recommend the NBLGC perform due diligence when evaluating whether or not to participate in new business activities or investments. Management's decisions should be supported by documented evaluation, analysis and due diligence reports. Documented periodic review of investment performance should also be performed on a timely basis.	We agree that Management's decisions should be supported by documented evaluation, analysis and due diligence reports. While documented evidence was not available for audit purposes, the results of the due diligence reports prepared by the ALC consultants were reviewed and discussed by the NBLGC Board of Directors. It was felt that given the amount of the investment and the risk associated with the investment, that sufficient due diligence was done. We commit to better document this evaluation in the future.	September 2014
We recommend the NBLGC management continue to assess participation in this investment and to ensure compliance with Canadian public sector accounting standards.	We agree that we will continue to assess participation in this investment and that the statements are compliant with Canadian public sector accounting standards.	Finalization of 2012/2013 financial statements.

Chapter 6
Matters Arising from our Audit of the Financial Statements of the Province

Contents

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

Province's Audit Opinion Contained Reservations

6.1 On September 29, 2015 the Auditor General signed a qualified audit opinion on the consolidated financial statements of the Province of New Brunswick. A qualified audit opinion is different from other audit opinions normally issued by our Office. A qualified audit opinion expresses reservations or concerns about the information contained in the financial statements.

6.2 In this case, the reservations in our audit opinion pertained to the Province's accounting for four of its shared risk pension plans. We have presented further information on our concerns and observations regarding the Province's pension plans in Chapter 3.

6.3 As a result of the reservations expressed in the audit opinion, we are unable to quantify the impact of the possible changes required to the financial statements as the government has not provided the necessary information.

Serious and disappointing outcome

6.4 A qualified audit opinion is a very serious and disappointing outcome for the March 31, 2015 financial statement audit of the Province. We had many discussions with senior officials in the Department of Finance, as well as representatives from the Office of the Comptroller, in order to address and resolve our concerns in an effort to avoid qualifying the audit opinion on the Province's financial statements. As the Province decided not to change its position on pension accounting or calculate the impact of its pension accounting decisions, a qualified audit opinion was required.

Reservations will impact future years' audit opinions

6.5 While we hope this situation can be resolved in future, until resolved, the current year audit opinion qualification will affect each and every year's future audit opinion on the Province's financial statements. This will continue until accounting standards change, or until the Province changes its accounting position for shared risk pension plans. Setting accounting standards is the responsibility of the Public Sector Accounting Board (PSAB). While PSAB has begun to review the pension accounting standard, it is expected to be several years before changes (if any) are made to the current public sector pension accounting standard.

Audit findings

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

6.7 In almost every audit, there are audit findings to be discussed with management. Except for accounting concerns pertaining to shared risk pension plans, the findings from our March 31, 2015 audit were not sufficiently large in dollar or qualitative terms to affect our opinion on the consolidated financial statements. It is our practice to report these matters to senior officials of the departments concerned, and to ask for a response. Our significant findings and recommendations from the audit of the Province's consolidated financial statements with departmental responses are presented in this chapter except for findings on pensions and school raised funds accounting which are presented in Chapters 3 and 4 respectively.

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

6.9 We had several findings from the March 31, 2015 audit of the Province's consolidated financial statements. We review the findings identified to determine which findings from our work are significant. When considering which findings are significant we assess:

- dollar magnitude of the item;

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

Highlights and Recurring Themes

6.10 Highlights and recurring themes of our significant findings are presented in Exhibit 6.1.

6.11 We are concerned at the trend of findings not being corrected in advance of the next year's audit cycle. This is particularly concerning given the significance of a number of the findings remaining uncorrected. Of note, all prior year governance/oversight findings remain uncorrected.

6.12 We also noted a number of areas of improvement compared to our 2014 findings. These are also noted in Exhibit 6.1. Exhibit 6.1 presents the prior year uncorrected findings in shaded boxes.

Exhibit 6.1 - Highlights and Recurring Themes

Theme	Finding	Finding addressed to	Concern in this area also noted for 2015 AG Report	Concern in this area also noted in 2014 AG Report	Concern in this area also noted in 2013 AG Report	Paragraph Number
Accounting Concerns	Pension accounting – shared risk pension plans	OOC[1]	Yes	Yes	Partial	Chapter 3
	Proper and complete accounting for school raised funds	EECD[3]	Yes	Yes	No	Chapter 4
	Accounting for Nursing Homes	OOC[1]/SD[4]	Yes	No	No	6.77 and 6.78
	Liability for contaminated sites	OOC[1]	Yes	Yes	Yes	6.79 and 6.80
	Accounting for Province's self-insured WorkSafe liability	OOC[1]	Yes	No	No	6.81
	Accounting for contingent liabilities	OOC[1]	Yes	No	No	6.82
	Classification of accounts in the consolidated financial statements	OOC[1]	Improvement	Yes	No	2014 Report 4.77
	Grants/government transfers – need for accounting analysis	OOC[1]	Improvement	Yes	Yes	2014 Report 4.79
	Tangible capital assets (TCA) – communication of tangible capital asset policy and asset impairment assessment	OOC[1]/ DTI[2]	Improvement	Yes	No	2014 Report 4.78
	Property tax revenue - municipal suspense account reconciliations	Finance	Improvement	Yes	Yes	2014 Report 4.81
	Netting of property tax revenue	Finance	Improvement	Yes	No	2014 Report 4.82
	Support for changes to property tax assessment values	Service New Brunswick	Improvement	Yes	Partial	2014 Report 4.83

Shaded findings indicate a concern in this area was also noted in the 2014 or 2013 AG Reports
[1]Office of the Comptroller, Department of Finance
[2]Department of Transportation & Infrastructure
[3]Department of Education and Early Childhood Development
[4]Department of Social Development
[5]Department of Post-Secondary Education, Training and Labour
[6]Department of Agriculture, Aquaculture and Fisheries
[7]Service New Brunswick (formerly the New Brunswick Internal Service Agency)

Exhibit 6.1 - Highlights and Recurring Themes (continued)

Theme	Finding	Finding addressed to	Concern in this area also noted for 2015 AG Report	Concern in this area also noted in 2014 AG Report	Concern in this area also noted in 2013 AG Report	Paragraph Number
Receivables management	Outstanding receivable from 2008 flood	Department of Public Safety/OOC[1]	Yes	No	No	6.83
	Timeliness of property tax receivables processing	Finance	Yes	No	No	6.84
	Property tax accounts receivable balances	Finance	Yes	No	No	6.85
	First Nations education – documentation for receivables policy changes	OOC[1]/ EECD[3]	Yes	No	No	6.86
Governance/ Oversight Concerns	Lack of an audit committee	Finance	Yes	Yes	Yes	6.87
	Lack of an internal audit plan	OOC[1]	Yes	Yes	No	6.88
	Need to align Administration Manual Policy AD6402 – Approval of Payments	OOC[1]/ SNB[7]	Yes	Yes	Yes	6.89
	Need to complete purchase card policy	OOC[1]	Yes	Yes	Yes	6.90
Accounting/ Documentation Concerns With Estimates	Write off of accounts and loans receivable	OOC[1]	Yes	Yes	No	6.91
	Need to review allowance for doubtful accounts – loans and accounts receivable	OOC[1]/ SD[4]/ PETL[5] / AAF[6] / Justice	Improvement	Yes	Yes	2014 Report 4.75
	Need to update estimate of federal tax revenues	Finance	Improvement	Yes	No	2014 Report 4.76

6.13 In general, except for issues concerning pension accounting, departments' responses indicated they agreed with our recommendations and they intend to address our concerns in the coming year.

6.14 While we have not noted any significant fraud, theft or error as discussed later in Appendix II, the existence of the findings noted in Exhibit 6.1 increases the risk of loss or mistake in the Province's consolidated financial statements. These items should be addressed prior to the next audit cycle.

Details of Significant Findings

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

Additional Discussion

Accounting concerns

6.16 During our 2015 audit of the Province's financial statements, we noted six areas of accounting concerns, three of which were previously reported in either our 2014 or 2013 Annual Reports. In general, the findings regarding accounting related mostly to appropriate application of accounting standards, accounting errors or other accounting concerns.

6.17 Accounting standards continue to evolve as new standards are introduced (e.g. liabilities for contaminated sites in fiscal 2014-15) and as existing standards are applied to new situations (e.g. shared risk pension plans - refer to Chapter 3 for further comments). Proper application of accounting standards is necessary to ensure financial results are fairly presented.

6.18 In recent years, accounting standards have involved complex questions and judgments, as well as significant dollar transactions and balances. We expect this trend to persist as accounting standards continue to change. We continue to encourage the Office of the Comptroller and the Department of Finance to be proactive in addressing accounting standards changes to allow for timely resolution of accounting questions and sufficient time for appropriate analysis. Also, appropriate expert advice to address complex technical matters should be obtained as needed.

6.19 In 2015, we noted concerns regarding accounting for the Province’s 65 licensed nursing homes. These 65 homes are not included in Province’s consolidated financial statements as the Province has presently assessed nursing homes as not controlled. However, we understand several government initiatives are being contemplated which may impact this control assessment for accounting purposes in future periods.

Refer to paragraph 6.77 for more information.

6.20 Given our work in 2015, after reviewing the Province's accounting for nursing homes, we have recommended a formal accounting assessment be prepared for next year's audit.

6.21 The issue of accounting for nursing homes would have a very large impact on the Province's financial statements if it is determined that the Province controls the 65 licensed nursing homes for accounting purposes, If controlled, all nursing home assets, liabilities, revenues and expenses would be consolidated in the Province's consolidated financial statements (similar to how regional health authorities are accounted for in the Province's consolidated financial statements). We will be addressing this issue in much greater detail in next year's audit.

Receivables management

6.22 We noted four findings this year related to receivables management. In particular, we noted the Province has still not received Federal funding related to the 2008 Floods. The amount involved is approximately $20 million.

6.23 We also noted significant delays in processing property tax receivables payments. At July 10, 2015, there was $51 million in property tax payments not applied to tax payers' accounts.

6.24 In addition, we noted increasing trends in uncollected property tax receivables balances. As well, we noted First Nations receivables of $15.8 million related to education services were subject to inconsistent collection policies and inadequate documentation of the rationale to support such changes.

6.25 Overall, we are concerned about the Province's receivables management. An increase or delay in collecting receivables balances of this magnitude represents both increased borrowing costs and expenditures for the Province.

Governance/ oversight concerns

6.26 During the Province's 2015 financial statement audit, we also noted four findings related to governance or oversight weaknesses. All of these findings were previously reported in either our 2014 or 2013 Annual Reports. One of these findings, regarding a lack of an audit committee, would have been especially helpful to have in place this year to address concerns raised during the audit (given the reservations expressed in the audit opinion). An audit committee would also bring increased scrutiny to provincial financial and risk management practices, as well as provide increased discipline and structure to management reporting, which would in turn reinforce accountabilities.

6.27 Our oversight/governance findings represent foundational weaknesses in the Province's internal control and risk management practices. Appropriate committee oversight, internal audit plans and completing and approving policies which govern approximately $28 million in purchase card spending are all important steps to strengthening the Province's internal control and risk management environment. We will revisit these audit areas again next year.

Accounting/ documentation concerns with estimates

6.28 Overall, we noted improvement in the accounting/ documentation of estimates during our 2015 audit. One finding remains outstanding from the prior year regarding amending the current policy for receivables write off to ensure more timely approvals of department receivables write off (especially in cases where amounts are now statute barred).

6.29 Proper support for estimates and assumptions continues to remain an important area in our audit work. Auditing standards now require auditors to challenge significant management estimates and underlying assumptions including reviewing prior year’s estimates to assist in determining estimate accuracy. We encourage departments to continue improving in these areas.

Information Technology Findings

Auditing the Province's systems and information technology

6.30 In order to express an opinion on the Province's financial statements, we document controls and test transactions processed by significant financial IT systems. Some of this work is performed on a cyclical basis. We also document the controls associated with the Province's overall IT infrastructure. Exhibit 6.2 lists IT systems we examined in the past year:

Exhibit 6.2 - IT work conducted in the past year

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

Key Themes

6.31 We are not publishing the details of all of our IT system work given the technical nature of many of our findings, and as noted previously in this chapter, the risk of possible loss of government assets if the details of such findings are reported. Instead, we are summarizing our findings into key themes by the responsible department. We are reporting this information in Exhibit 6.3.

Exhibit 6.3 - Information Technology Findings – Key Themes

Theme	Finding	Finding addressed to
Segregation of Duties	Property tax system	Finance (Ptax)
	Approval of purchase cards	EECD
System Replacement	Teachers' payroll system	EECD
	HRIS payroll system	SNB (HRIS)
IT Security	Excessive permissions	SNB (IPM), OOC (Oracle)
	Disabling access	OOC (Oracle), SNB (IT Infrastructure), SNB (Ptax)
	Encryption of data	SNB (IT Infrastructure)
	Monitoring – Administrators	OOC (Oracle), SNB (Ptax)
	Patch management	OOC (Oracle), SNB (IT Infrastructure)
	Lack of an audit trail	OOC (Oracle)
	Management of network access	SNB (IT Infrastructure)
Data Integrity/Accuracy/ Completeness	Sick leave tracking	EECD
	Quality of assessment data	SNB (Ptax)
	Information for property assessment purposes	SNB (Ptax)
Non-compliance with policies/standards/guidelines	Password standards	SNB (Ptax), SNB (IT Infrastructure), OOC (Oracle)
	Assessment re-inspection cycle	SNB (Ptax)
	Purchase card transaction limits	EECD
	Annual client reviews	SD (NBFamilies)
	NBCase payments	SD (NBCase)
Documentation Deficiencies	Purchase card procedures	EECD
	Expired funding application for intervention services	SD (NBFamilies)
	Conflict of interest	SNB (IPM) – Transportation and Infrastructure
Approvals	Completing delegation forms	SD
	Documenting approval	SNB, EECD
Monitoring	Third-party service reports	Health, OOC (Oracle), SNB (IT Infrastructure), OCIO
Other Observations from Our IT Work	Disaster recovery plan	OOC (Oracle)
	Reconciling payments	SD (NBFamilies)
	Process inefficiencies	SD

6.32 We are not aware of any significant loss of government assets or errors which resulted from the findings noted in Exhibit 6.3, however, we are concerned for the potential for future loss of assets or error. Given the findings pertaining to IT security as noted in Exhibit 6.3 we are also concerned for the potential of loss of confidentiality and privacy inherent in the findings if they remain uncorrected.

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

Additional Discussion

6.34 Given the significance of some of the findings and the fact we have similar findings across multiple departments, we will discuss some of the findings outlined in Exhibit 6.3 in more detail.

Segregation of Duties

6.35 We noted two findings relating to a lack of segregation of duties. Proper segregation of duties is necessary to reduce the risk of fraud and error in the accounting records.

- One finding relates to the property tax system in the Department of Finance. We found the same individual approves and assigns user access privileges. These responsibilities should be separated. We also noted senior management in the Department of Finance acts in the role of system administrator increasing the risk of fraud and management override.
- One finding relates to the approval of purchase card transactions in EECD. We found one case in our sample of EECD purchase card transactions where the cardholder provided spending authority on his/her own transaction.

System Replacement

6.36 In our work, we found two IT systems need to be replaced or modernized. Similar to prior years, the EECD teachers' payroll system still needs to be replaced. This year, we also noted the SNB HRIS payroll system will no longer be supported after 2017.

6.37 Both of these payroll systems will be replaced by one new human resource management system which SNB is responsible for implementing. We are concerned with the lack of progress in implementing a human resource management system. As we have mentioned in the past, replacing the teachers' payroll system is critical as access security is extremely weak, support is provided by a single contractor with no backup and the system runs on old, outdated hardware. The system is over 20 years old and is at risk of failure.

IT Security - Excessive Permissions

6.38 We had two findings relating to excessive system access.

- For the SNB IPM system, we found an excessive number of users had system administrator privileges increasing the risk of inappropriate access to financial information and system functionality.
- For the OOC Oracle system, we found IT support had functional access to the system and appropriate monitoring controls were not in place to reduce the risk of processing unauthorized transactions.

IT Security - Disabling Access

6.39 We noted findings in three of our audits relating to disabling users' system access. We reported the same findings in the prior year. Departments have not implemented our recommendations. We found cases where:

- resigned/terminated employees users' access was not removed/disabled in a timely manner;
- users' access was not disabled within 90 days of inactivity as required by policy; and
- users' access was not confirmed on an annual basis to ensure the access was still appropriate.

6.40 Timely disabling of user accounts, along with an annual review of user access assignments, reduces the risk of unauthorized transactions being executed by terminated or existing employees, loss or corruption of data and exposure of confidential corporate information.

IT Security - Encryption of Data

6.41 We noted findings relating to encryption of hardware and data. Having appropriate encryption controls in place helps safeguard information and reduces the risk of a breach of confidentiality in the event of unauthorized access of data/hardware or theft.

IT Security – Monitoring Administrators

6.42 We noted in two audits departments are not monitoring IT support/database administrator's activity. These administrators/individuals have powerful system access. Proper monitoring controls are required to reduce the risk of unauthorized changes/updates to significant database tables.

IT Security –Patch Management

6.43 In two audits, we noted weaknesses in the patch management strategy used to ensure software and operating systems are running current versions. Failure to have an appropriate patching strategy increases the risk software vulnerabilities could be exploited by outside parties, which could result in loss of information and could impact the stability of systems.

IT Security – Lack of an Audit Trail

6.44 In the OOC Oracle audit, we noted auditing is not enabled on key tables in the database. Not enabling auditing increases the risk of unauthorized changes or updates going undetected.

Data Integrity/Accuracy / Completeness

6.45 We had one finding relating to the accuracy of employee (e.g. teachers) sick leave data in EECD. We found the data was not up-to-date which impacts the calculation of the Province's sick leave liability, as well as the ability for EECD to manage the sick leave usage of its employees.

6.46 We had one finding relating to accuracy of assessment information recorded in SNB's property tax assessment system. We noted the work of assessors is not reviewed. This lack of review related to both calculating the property assessment values and the input of information into the assessment system. We were told a sample of this information is reviewed by regional managers. As the review was not documented, we found no evidence of this review. Verifying the accuracy of assessment information is required to reduce the risk of inaccurate property assessment values which could result in the over/understatement of provincial revenue.

6.47 We also had a finding relating to the completeness of information received from property owners for property assessment purposes. Property owners are not providing information to SNB as requested and SNB is not imposing fines or penalties on those who do not comply with requests. Inaccurate property assessment values impacts the amount of property tax revenue recorded by the Province.

Non-compliance with policies /standards /guidelines

6.48 In our work, we noted seven cases where departments failed to comply with departmental policies/standards or guidelines.

6.49 We found three cases in three audits where departmental system accounts did not comply with password standards. Having inadequate password security policies increases the risk of unauthorized system access.

6.50 In our audit of SNB property tax assessments, we noted SNB had not visually inspected 91of 851 neighborhoods in more than ten years. This is an improvement from prior year where we noted 193 neighborhoods were not inspected. SNB aims to perform a visual inspection on every property in the Province within a ten-year timeframe. Completing re-inspections within the ten-year timeframe helps reduce the risk of inaccurate property assessments which would result in provincial tax revenue being over or understated.

6.51 In our work, we noted EECD exceeded the $1,500 spending limit on a purchase by having the vendor produce two separate invoices for one purchase. Both invoices were under the $1,500 limit, but when combined, they exceeded the $1,500 spending limit.

6.52 We found SD has improved in its compliance with NBFamilies policies and standards. This year, we noted one area of non-compliance compared with three areas in the prior year. The area of non-compliance this year relates to clients' annual case reviews. We found three of 15 cases examined where annual case reviews were not up-to-date compared with seven of ten noted in prior year. Not complying with departmental policy increases the risk of SD making ineligible or inaccurate payments.

6.53 Again this year, in our testing of NBCase payments in SD, we found no evidence of spending authority being exercised on payments from the system. This documentation is required to comply with the Province's approval of payments policy.

Documentation Deficiencies

6.54 In three audits, we noted documentation deficiencies. In EECD, we noted not all school districts had documented procedures for issuing, monitoring and disabling purchase cards. These procedures would help to reduce the risk of inappropriate use of purchase cards.

6.55 In SD NBFamilies, we found one item in two cases where the funding application for a payment had expired at the time of the payment. Not having up-to-date funding agreements on file increases the risk of ineligible and/or incorrect payments.

6.56 In the SNB IPM work, we noted the Department of Transportation and Infrastructure did not require conflict of interest forms be completed by bid evaluators or those recommending tender awards for *Crown Construction Contract Act* tenders.

Approvals – Delegating Authority

6.57 In SD, we found one case where a spending delegation form was not present to authorize the person approving the payment. In the annual confirmation of spending authority access, we found two cases where SD incorrectly confirmed spending limits. Properly delegating spending authority reduces the risk of unauthorized or inappropriate payments.

Approvals – Documenting Approval

6.58 In SNB property tax assessments, we noted regional managers are not always documenting their review and approval of the pre-inspection road reviews which support property assessment values. Documenting approval of the road reviews help ensure the accuracy of assessment data.

6.59 In the EECD (teachers' payroll) audit, we noted EECD did not retain formal documented approval to move a system change into production (to make a change to the system currently in use). This documented approval should be retained to provide evidence that all changes have been authorized. This helps reduce the risk of unauthorized or untested changes being put into use.

6.60 We also found, EECD did not obtain appropriate approvals for four of ten payments made from the Teachers' Working Condition Fund. This fund is used to improve working conditions for teachers. Approval for payments must be made either by a teachers' committee or the district superintendent.

Monitoring – Third-party service reports

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

6.62 We have noted this finding for a number of years across multiple departments. To address this finding, we recommended the Office of the Chief Information Officer (OCIO) include, in its standards, the need for third-party assurance reports and for the OCIO to promote obtaining third-party reports across government.

Other Observations from Our IT Work

6.63 In our audit of the OOC Oracle system, we noted the disaster recovery and business continuity plans were out-of-date. The OOC is in the process of updating these plans, but this work is not yet complete.

6.64 In our SD (NBFamilies) audit, we noted SD does not regularly reconcile client payments with the cost of services paid by the client.

6.65 We also noted when SD registers participants in the rent supplement program, it does not obtain electronic fund transfer information. This results in vendors receiving two pieces of mail each month for each payment. Costs would be reduced if participants received payment by way of electronic funds transfer avoiding the cost of monthly mailing.

Appendix I - Audit Objectives

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

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

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

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

Responsibilities Pertaining to the Audit Process

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

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

Appendix II - Loss through Fraud, Default or Mistake

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

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

Department of Natural Resources Missing cash and equipment from various regions	$ 8,040
Department of Education and Early Childhood Development Missing computer equipment	$ 3,199
Department of Public Safety Missing cash	$ 379
Department of Justice and Attorney General Missing cash	$ 72
Department of Post-Secondary Education, Training & Labour Missing Cash	$ 64

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

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

6.76 In 2015, the Province reported lost tangible public assets in the amount of $21,100 compared to a loss of $23,017 reported in 2014.

Appendix III - Significant Findings

6.77	Accounting for Nursing Homes

The 65 licensed nursing homes operating within the Province are currently not included within the Province's consolidated financial statements, as management deems the Province does not have control over them. Canadian Public Sector Accounting Standard 1300 requires the use of professional judgment in the determination of whether control exists and consolidation in the Government reporting entity is appropriate. To assist in applying professional judgment, this standard provides guidance and suggestions of persuasive indicators of whether or not control is in place. Control is defined as *the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities.*

We were provided an assessment of this standard and these persuasive indicators by management who concluded the Province does not control nursing homes. We note a number of new policies and initiatives in this sector are presently being considered. Some of these new initiatives may influence the accounting determination in a future year and lead us to conclude that the government controls these 65 licensed nursing homes. If this conclusion was reached, all of the homes financial results including the revenue, expenses, assets and liabilities would be consolidated in the Province's financial statements. We will continue to monitor and reassess this situation in future years.

Recommendation	Comments from Management
We recommend the Office of the Comptroller and the Department of Social Development perform a formal assessment of the substance of Provincial activity relating to nursing homes to determine if control exists under Canadian Public Sector Accounting Standards. This assessment should consider the substance of the nursing homes and government relationship and how it has evolved in recent years, as well as all contemplated and completed strategic reform or other initiatives. This may include consultations with professional accounting firms. This assessment should be performed (and provided to our office) no later than December 2015.	*The Office of the Comptroller performs an annual assessment of the relationship between the Province and nursing homes to determine if control exists under Canadian public sector accounting standard 1300. The 2015-16 assessment will consider the impact of strategic reform and/or other initiatives undertaken by government during the reporting period.*

6.78	Timeliness of Nursing Home Reconciliations

At the time of the audit, we noted employees at the Department of Social Development (SD) had finished the year-end reconciliations for each nursing home for the 2012-13 fiscal year.

Certain components of the funding provided by the Department to nursing homes are non – transferrable, meaning funding provided must be used specifically for the purpose it is provided. These categories include pension, debt payments, retirement allowance, and nurses’ retention premium.

The year-end reconciliation for nursing homes is a key control for financial reporting as it ensures the nursing homes are accurately reporting their revenue and that the non-transferrable funds were spent as approved.

Presently, the Department is two years behind in completing year end reconciliations. Timely completion of reconciliations helps reduce the risk the Department may have provided funding for non-transferrable costs for which the nursing homes did not incur and this over funding could go undetected and uncorrected for many years.

Recommendation	Comments from Management
We recommend the Department of Social Development complete the year-end nursing home reconciliations on a timely basis (fiscal year after) so that any over funding provided to the nursing homes for non–transferrable costs can be detected and corrected on a timely basis.	*The 2013-14 year end reconciliation was completed in August 2015. The 2014-15 reconciliation is in progress and will be completed within the fiscal year.*

6.79	**Estimates for Remediation of Contaminated Sites**

Estimates of $59.7 million for future remediation of certain sites in the Province were prepared by the Department of Energy and Mines and the Department of Transportation and Infrastructure. During our audit, we noted the following:

- the use of independent consultant reports dates back to 2011. These potentially outdated estimates have not been updated to reflect any possible changes in estimated remediation costs;
- use of independent consultant reports which were issued on an interim basis and not as a final report;
- estimates prepared using informal information provided by external sources; and
- estimates recorded at the low end of possible ranges provided by independent consultants without site visits being performed to support the estimate.

While we believe possible differences in these estimates do not represent a material misstatement, a current remediation analysis for these sites should be performed prior to the next year's financial statement audit.

We also noted a lack of consistent policy across departments for date of last observation and assessment of site contamination. This inconsistent practice may lead to a risk that determination of the accounting liability is inconsistent or outdated.

Recommendations	Comments from Management
We recommend the Office of the Comptroller direct the Department of Energy and Mines and the Department of Transportation and Infrastructure to obtain current remediation analysis for these sites as soon as possible. Interim reports used in determining a liability for accounting purposes should be obtained in final form. **We recommend the Office of the Comptroller ensure the Department of Energy and Mines obtain independent consultant reports in final form when such reports will be used in determining a liability for accounting purposes.** **We recommend the Office of the Comptroller direct the Department of Transportation and Infrastructure to perform site visits to support estimates when a range of possibilities has been provided by third parties.** **We also recommend a consistent policy be developed by the Office of the Comptroller in conjunction with departments, to address the date of last site visit that is acceptable for accounting purposes. Guidelines should be provided to the departments to avoid inconsistent or delayed timing in assessing contaminated sites.**	*Canadian public sector accounting standard 3260 allows for the use of alternate means of determining the cost of remediation when the cost of gathering and processing the information required is significant. The Office of the Comptroller, in conjunction with subject matter professionals from within departments, will assess the need for additional assessment activity based upon the specific circumstances surrounding each individual site.*

6.80	Liabilities for Contaminated Sites – Leased Land

The Department of Natural Resources (DNR) and the Department of Agriculture, Aquaculture and Fisheries (DAAF) both lease Crown land to third parties. During our audit, we noted DNR requires lessees to provide insurance for site contamination at the inception of the lease; however, we noted DNR does not monitor lessee insurance coverage for compliance after the first year of the lease. DAAF does not ask lessees for evidence of insurance for site contamination. With no insurance in place, there is risk the Province will be liable for any site contamination resulting from use by lessees.

Recommendation	Comments from Management
We recommend departments obtain evidence of insurance for contaminated sites at the inception of all leases, as well as for each subsequent year the leases are in effect. This should be documented for audit purposes.	*The Departments of Agriculture, Aquaculture and Fisheries and Natural Resources are currently undertaking initiatives to address the above noted risks.*

6.81	Accounting for the Province's Worksafe Liability

The Province has recorded a Worksafe liability of $134.9 million in its consolidated financial statements regarding self-insured claims of injured workers. During our work, we noted this liability is unfunded and the assumption used for the discount rate is not consistent with the calculation of the Province's other unfunded liabilities under Canadian Public Sector Accounting Standards (the Province's cost of borrowing).

Recommendation	Comments from Management
We recommend the Office of the Comptroller review the calculation of the Worksafe liability, including appropriateness of assumptions used, in advance of the next year's audit. Valuations for all unfunded liabilities should be performed using assumptions which are consistent with other unfunded liabilities.	*The Office of the Comptroller will review the assumptions used in the calculation of this liability.*

6.82	Contingent Liabilities

During our audit, we noted some instances where the Office of the Comptroller and certain departments recorded contingent liabilities despite evidence which suggested recognition criteria in Canadian Public Sector Accounting Standard 3300 had not been met. We also noted inconsistencies in the interpretation of the standard and the thresholds used for recognition purposes. While these contingent liabilities do not represent a material misstatement, interpretation of Canadian Public Sector Accounting Standard 3300 should be reviewed prior to the next year's financial statement audit.

Recommendation	Comments from Management
We recommend the Office of the Comptroller develop and implement consistent criteria and thresholds for recognition of all contingent liabilities under Canadian Public Sector Accounting Standard 3300.	*In accordance with Canadian public sector accounting standards, in the above noted instances, a decision was made by the Office of the Comptroller to forego an adjustment to the amounts in question, based on materiality. The Office of the Comptroller will continue to review departmental application of Canadian public sector accounting standard 3300.*

6.83	2008 Flood Claim

Although the Federal audit of the Province's 2008 flood claims receivable under the Disaster Financial Assistance program occurred in 2014, we noted the Department of Public Safety has not yet responded to all additional requests from the Federal auditors for further documentation to support the eligible expenditures. As a result, the Federal audit has been delayed which has delayed the payment of approximately $20.1 million to the Province. Delay of receipt of funds results in increased borrowing costs for the Province.

Recommendation	Comments from Management
We recommend the Department of Public Safety work towards completing all outstanding requests as soon as possible in order to ensure timely receipt of funding from the Federal government.	*The Department of Public Safety has provided the Federal auditors with all of the requested information and advised them of their desire to finalize the audit as quickly as possible. The Federal auditors are reviewing this information and have indicated additional information may be required, the details of which have not been provided to date.*

6.84	**Property Tax Receivables - Timeliness of Processing**

During our audit work, we noted significant delays in some of the processes performed by the Revenue and Taxation Division in the Department of Finance. In particular, we noted significant delays in the processing of payments on property tax accounts. There were $17 million in unapplied payments at March 31, 2015 and $51 million at July 10, 2015. We were informed these delays were mostly caused by lack of staff resources, errors in payment files submitted by mortgage companies, and certain issues relating to the property tax system processing payment files from Service New Brunswick. Significant delays in performing routine processes can result in inaccurate account balances and undetected errors.

Recommendation	**Comments from Management**
We recommend the Department of Finance review the processes performed by the Revenue and Taxation Division to determine which processes are not up-to-date and the cause of the delays. Once determined, the Department of Finance should put procedures in place to complete processes in a timely manner.	*The Department of Finance has made improvements to its processes and system functions to accelerate the posting of payments to individual accounts. Outside of the peak periods, payments are generally processed within one day.* *Management will continue to monitor delays during the peak periods in 2016 and improve its processes accordingly. The Department will work with financial institutions to reduce the number of discrepancies in the payment files received.*

6.85	Property Tax Accounts Receivable Balances

The percentage of property tax accounts in arrears for one year or more (excluding Federal properties) has been increasing for the past number of years.

	As at March 31 (in $millions)			
	2015	**2014**	**2013**	**2012**
Total receivable balance	$1,087	$1,028	$1,004	$965
Total in arrears 1 or more years	108	99	94	90
Percentage of arrears 1 or more years	9.9%	9.6%	9.4%	9.3%

	March 31 Listing			
	2015	**2014**	**2013**	**2012**
Total number of property accounts	391,944	382,206	383,672	372,402
Total with arrears 1 or more years	53,213	51,071	56,471	53,688
Percentage with arrears 1 or more years	13.6%	13.4%	14.7%	14.4%

We were informed the collection of aged accounts receivable is the responsibility of the new Service New Brunswick and that the Department of Finance monitors the collection process on a monthly basis. Increasing uncollected balances of this magnitude represent both increased borrowing costs and expenditures for the Province.

Recommendation	Comments from Management
We recommend the Department of Finance continue to monitor the aging of accounts receivable balances on a monthly basis and, in conjunction with Service New Brunswick, take action to improve the effectiveness of the collection process.	*The Department of Finance continues to monitor its receivable balances on a monthly basis and works with SNB on an on-going basis to improve the effectiveness of the collection process within the context of its Service Partnership Agreement.*

6.86	First Nations Receivables in Early Education and Childhood Development

In Volume II of the 2013 Auditor General Report, our Office published a chapter entitled Department of Finance Collection of Accounts Receivable. This report highlighted significant issues regarding receivables management and collections (AR and Loans) for the Province.

Our Office recommended in this Report: "Given the current five year Enhanced Agreements with First Nations are ending in 2013, we recommend the Aboriginal Affairs Secretariat and the Department of Education and Early Childhood Development (EECD) establish payment arrangements for all arrears owing prior to the signing of new Enhanced Agreements. Reinvestment of provincial funds (under the new Agreements) should not take place until payment arrangements have been negotiated."

EECD's response to this recommendation indicated the government would approve extensions to the enhanced agreements in place until such time as new agreements are negotiated and in place. EECD indicated the signing of extensions to the enhanced agreements will require that First Nations be in good standing with EECD.

During the Province's March 31, 2015 financial statement audit, we noted enhanced agreements were again granted an extension. First Nations who owed the Province $15.8 million were awarded these extensions without being in good standing, which is in contradiction to EECD's original statement regarding the requirements for awards of extensions. We noted the reasons outlining the rationale for the change in approach was not well documented by either EECD or the Office of the Comptroller (OOC).

Recommendation

We recommend the EECD, supported by the OOC, adopt a consistent, long-term approach to negotiations with debtors and when changes in application of prior policies are implemented there should be a well documented rationale to support the change.

Comments from Management

In May 2013, EECD and the Aboriginal Affairs Secretariat (AAS) requested a twelve month extension of the original 5-year Agreements. This was a result of a preliminary evaluation and concerns raised by First Nation communities, school districts and schools in terms of the impact of the Agreements on the success of First Nation students in public schools.

A committee comprised of First Nation community representatives, through a sub-committee of the Provincial Aboriginal Education Committee (PAEC), EECD representatives from the Office of First Nation Perspectives, AAS, Aboriginal Affairs and Northern Development Canada (AANDC) and the Department of Postsecondary Education, Training and Labour (PETL), have been engaged in work aimed at improving the outcomes for First Nation students in New Brunswick schools via the Agreements. This work indicated that the Agreement should include articulated accountability measures, further defining roles and responsibilities, establishing funding norms, and developing protocols for district-level committees, to name a few.

The work was not completed prior to the expiration of the one year extension (2013-2014). The original Agreements marked a positive and significant change in the relationship between First Nation Communities and the Province. In addition, governing systems in each community require that all amendments to the Agreement be supported by its membership. The approval process requires time for all 15 communities to consult with their stakeholders. As such, it is critical that discussions and decisions take this history into account during the negotiation of the new Agreement, which requires time, respect and diplomacy. In particular, the sub-committee believed the work pertaining to funding and allocation of resources and services required additional community input, which was not possible to obtain by the end of the school year (June 2014). An additional extension for the Agreement of one school year was requested and approved. Subsequently, government has approved the signing of the Enhanced First Nation Education Programs and Services Agreement (2015-16 to 2019-20). Payment arrangements for arrears owing have been established with all applicable First Nation communities.

6.87	**Lack of an Audit Committee**

Canadian auditing standards require auditors to communicate to those charged with governance of an entity (e.g. audit committees or boards of directors) certain matters that may assist them in their governance roles and in overseeing management's financial reporting and disclosure processes. Matters that require communication include but are not limited to:

- Disagreements with management;
- Significant difficulties encountered during the audit;
- Significant audit adjustments and/or deficiencies in financial statement disclosures;
- Significant weaknesses in internal control; and
- Significant issues discussed, or subject to correspondence, with management.

During our audit, we encountered some of these matters which included, but are not limited to, accounting for certain pension plans, school raised funds and nursing homes. As a result of disagreements we encountered with management in these areas, this year's audit was qualified. This may not have been necessary had an audit committee for the Province been in place.

Recommendation	**Comments from Management**
We again recommend the Department of Finance establish an audit committee for the Province of New Brunswick.	*We recognize that an audit committee may provide benefits to the audit process. However, given the demand for senior management time, it is important that the establishment of any committee be clear on its purpose, responsibilities, composition, and benefit to government.* *All concerns and matters brought forward by the Office of the Auditor General have and will always be duly considered. We disagree that an audit committee would have changed the final audit result.* *We will continue to discuss this recommendation and consider the cost/benefit of establishing an audit committee.*

6.88	Lack of an Internal Audit Plan
We noted the Audit and Consulting Services Branch of the Office of the Comptroller (OOC) did not have a formal internal audit work plan completed for the 2014-2015 year and also for the preceding year. Having an effective internal audit plan helps focus OOC resources on areas of risk, allows outcomes to be measured against targets and assists management and those charged with governance (audit committee) in their role of minimizing exposure to the Province.	
Recommendation	**Comments from Management**
We again recommend, on an annual basis, the Audit and Consulting Services branch of the Office of the Comptroller develop an internal audit plan and communicate the internal audit plan to the audit committee. The internal audit plan should detail the nature and timing of the projects to be completed in the upcoming year.	*The Internal Audit and Consulting Services branch of the Office of the Comptroller recognizes the importance of an internal audit plan. Completion of the 2015-16 internal audit plan is ongoing. While the audit plan is being finalized, the Internal Audit and Consulting Services branch remains focused on high risk and high priority audit areas.*

6.89	Need to Align Administration Manual Policy AD6402 – Approval of Payments
As noted in prior year, the process used by Service New Brunswick (the former New Brunswick Internal Services Agency) for making payments is not in alignment with administration manual policy AD6402 – approval of payments. This policy and respective processes used by the shared services environment, as well as other payment system interfaces used by various government departments, are not appropriately aligned.	
Recommendation	**Comments from Management**
We again recommend the OOC and Service New Brunswick work together to update administration manual policy AD6402 and align the policy and processes to reflect current payment approval requirements for processing government transactions.	*While there are inconsistencies between the current administrative policy and the payment approval process, given the extent of changes that have occurred recently with the creation of the new Service New Brunswick (SNB), the Office of the Comptroller and SNB have focused their efforts on assessing the adequacy of existing processes and controls in safeguarding the assets of the Province.*

6.90	Incomplete Purchase Card Policy

Again this year, we noted the Province does not have a policy in place regarding the use of purchase cards. A draft policy of 2005 does exist; however, it has never been finalized. Given the significant government spending completed by purchase cards of approximately $28 million, it is important that this policy be finalized to reduce the risk of fraud or inappropriate use.

Recommendation	Comments from Management
We again recommend the Office of the Comptroller finalize the purchase card policy in fiscal 2016.	*The Office of the Comptroller continues to work with stakeholders in the development of this policy. While the policy is being developed, processes and controls are in place to monitor the use of purchase cards. In addition, the responsibilities of cardholders are set out in the cardholder agreement, which must be signed prior to the issuance of a purchase card.*

6.91	Write off of Accounts and Loans Receivable

We noted during our audit, write-offs for accounts and loans receivable are not completed in a timely manner. The policy indicates Board of Management is required to approve receivable write-offs before they can occur. This results in the gross accounts receivable and the allowance for doubtful accounts balances being overstated in the Province's consolidated financial statement note disclosures.

Recommendation	Comments from Management
We again recommend the Office of the Comptroller amend the write-off policy to ensure write-offs and their respective accounting occur in a timelier manner.	*Implementation of this recommendation will have no impact on the net debt or deficit of the Province. As a result of the same finding in the prior year, the presentation of accounts receivable and allowance for doubtful accounts was enhanced to increase the disclosure surrounding these account balances.* *The deletion of assets from the accounts of the Province is the responsibility of Board of Management, as prescribed in section 29 of the Financial Administration Act. Administration Manual policy AD 6307, referenced in the Auditor General's finding, is a policy of Board of Management, prescribed by section 5 (1) (c) of the same Act. While it is possible for the Office of the Comptroller to recommend changes to policies, the authority to amend a policy lies solely with Board of Management.*

Chapter 7
Matters Arising from our Audits of Crown Agencies and Federal Claims

Contents

Matters Arising from our Audits of Crown Agencies and Federal Claims

Introduction

7.1 In this chapter we discuss our significant findings and recommendations relating to our audits of Crown agencies' financial statements and Federal claims.

7.2 We perform an annual financial statement audit for the following Crown corporations, Boards, Commissions, Councils and other agencies:

- Centre communautaire Sainte-Anne (CCSA)
- Collège communautaire du Nouveau-Brunswick (CCNB)
- Invest New Brunswick (INB)
- Kings Landing Corporation (KLC)
- New Brunswick Agricultural Insurance Commission (NBAIC)
- New Brunswick Community College (NBCC)
- New Brunswick Highway Corporation (NBHC)
- New Brunswick Immigrant Investor Fund (2009) Ltd. (NBIIF)
- New Brunswick Internal Services Agency (NBISA) (SNB)
- New Brunswick Legal Aid Services Commission (LA)
- New Brunswick Lotteries and Gaming Corporation (NBLGC)
- New Brunswick Municipal Finance Corporation (NBMFC)
- Premier's Council on the Status of Disabled Persons (PCSDP)
- Public Trustee - Trusts administered (OPT)
- Regional Development Corporation (RDC)

7.3 We also audit the following Federal claims:

- Agreement on the Transfer of Federal Gas Tax

Revenues

- Agreement Respecting Legal Aid and Court-Ordered Counsel
- Building Canada Fund– Communities Agreement
- Building Canada Infrastructure Plan – Base Funding Agreement.

7.4 To reach an opinion on the Crown agencies' financial statements and Federal claims, we carry out audit work on the major programs and activities in Crown agencies and/or departments. In addition, we audit major transactions and account balances, and examine internal controls of significant computerized systems.

7.5 In almost every audit, matters arise that need to be discussed with management. Except in cases where an audit opinion is qualified, these matters, although significant, are not sufficiently large in dollar or qualitative terms to affect our opinion on the financial statements. Our practice is to report these matters to senior officials of the agencies/departments concerned, and to ask for a response. Some of these findings may not be included in this Report, because we do not consider them to be of sufficient importance to bring to the attention of the Legislative Assembly, or because public attention to internal control weaknesses, before they are corrected, could possibly result in loss of government assets. For further background on our audit objectives refer to Appendix I.

7.6 We are reporting significant audit findings from our past year's audit work. Our findings reported in this chapter depend upon the completion of our audit work relative to the printing of our annual report. Exhibit 7.1 presents the Crown agency financial statement and Federal claims audits reported in this chapter.

Exhibit 7.1 – Crown Agency with Audit Work in the Last Year Where Findings Were Noted

Crown Agency / Federal Claim with Audit Work in the Last Year Where Findings Were Noted	Abbreviation	Financial Statement Year End(s) Completed
Agreement on the Transfer of Federal Gas Tax Revenues	Gas Tax	March 31, 2014
Centre Communautaire Sainte-Anne	CCSA	March 31, 2014
Collège Communautaire Nouveau - Brunswick	CCNB	March 31, 2015
Invest New Brunswick	INB	March 31, 2015
Kings Landing Corporation	KLC	March 31, 2014
New Brunswick Agricultural Insurance Corporation	NBAIC	March 31, 2014
New Brunswick Community College	NBCC	March 31, 2015
New Brunswick Highway Corporation	NBHC	March 31, 2014
New Brunswick Immigrant Investor Fund (2009) Ltd.	NBIIF	March 31, 2014
New Brunswick Internal Services Agency	NBISA	March 31, 2015
New Brunswick Legal Aid Services Commission	LA	March 31, 2015
New Brunswick Lotteries and Gaming Corporation	NBLGC	March 31, 2013
New Brunswick Research and Productivity Council	RPC	March 31, 2014
Premier's Council on the Status of Disabled Persons	PCSDP	March 31, 2014 and 2015
Public Trustee - Trusts administered	OPT	March 31, 2013 and 2014
Regional Development Corporation	RDC	March 31, 2014

7.7 We had several findings from our audits of Crown agencies' financial statements and Federal claims. We review the findings identified to determine which findings from our work are significant. When considering which findings are significant we assess:

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

Highlights and Recurring Themes

7.8 Highlights and recurring themes of our significant findings are presented in Exhibit 7.2.

Exhibit 7.2 - Highlights and Recurring Themes

	Crown Agency/ Federal Claim	Concerns in this area noted for 2015 AG Report	Concerns in this area also noted in 2014 AG Report	Concerns in this area also noted in 2013 AG Report
Accounting Concerns	CCNB	Yes	Yes	Yes
	Gas Tax	Yes		Yes
	INB	Yes	Yes	
	KLC	Yes	Yes	
	LA	Yes	Yes	
	NBAIC	Yes	Yes	
	NBCC	Yes	Yes	Yes
	NBHC	Improvement	Yes	
	NBIIF	Yes	Yes	
	NBISA	Yes	Yes	
	NBLGC	Yes		
	OPT	Yes		Yes
	PCSDP	Yes		Yes
	RPC	Yes		
	RDC	Yes	Yes	
Lack of Segregation of Duties	CCNB	Yes	Yes	Yes
	CCSA	Yes		Yes
	INB	Improvement	Yes	Yes
	KLC	Yes	Yes	
	LA	Yes	Yes	Yes
	NBAIC	Improvement	Yes	Yes
	NBCC	Yes	Yes	Yes
	NBIIF	Yes	Yes	
	NBISA	Yes	Yes	
	NBLGC	Improvement		Yes
	OPT	Yes		Yes
	PCSDP	Yes		
	RPC	Yes		Yes
	RDC	Improvement	Yes	

Shaded Crown entities indicate a concern in this area was also noted in the 2014 or 2013 AG Reports
Continued on following page

Exhibit 7.2 - Highlights and Recurring Themes (continued)

	Crown Agency/ Federal Claim	Concerns in this area noted for 2015 AG Report	Concerns in this area also noted in 2014 AG Report	Concern in this area also noted in 2013 AG Report
Oversight/Governance Concerns	CCNB	Yes	Yes	
	INB	Improvement	Yes	Yes
	LA	Improvement	Yes	
	NBAIC	Yes	Yes	Yes
	NBIIF	Yes	Yes	
	NBISA	To be amalgamated[1]	Yes	Yes
	NBHC	Yes		
	NBLGC	Yes		Yes
	OPT	Yes		Yes
	PCSDP	Yes		Yes
	RPC	Yes		Yes
	RDC	Improvement	Yes	
Accounting/Documentation Concerns With Estimates	CCNB	Yes	Yes	Yes
	NBAIC	Yes	Yes	
	NBCC	Improvement	Yes	Yes
	NBHC	Yes	Yes	
	RDC	Yes	Yes	
	RPC	Improvement		Yes
Management of Agreements or Third Party Arrangements	CCNB	Yes	Yes	
	NBAIC	Yes		
	NBCC	Yes	Yes	
	NBLGC	Yes		Yes
Recommendations for New Crown Agencies upon Restructuring	NBISA	Yes[1]		
	INB	Yes		

Shaded Crown entities indicate a concern in this area was also noted in the 2014 or 2013 AG Reports
[1]NBISA was amalgamated October 1, 2015 with Service New Brunswick, FacilicorpNB and the Department of Government Services. Due to the upcoming known changes to the governance structure, oversight/governance concerns were instead reported as recommendations for the new corporation.

7.9 The data in Exhibit 7.2 does not include Crown agencies or Federal claims we have audited in the past three years, where the Crown agency has now been wound up (Energy Efficiency and Conservation Agency of New Brunswick) or for where we no longer perform the financial statement audit or Federal claims audit (e.g. Provincial Holdings Ltd. and the Financial and Consumer Services Commission). We no longer audit the Research and Productivity Council and this will be the last year of findings reported for this Crown agency.

7.10 We are concerned that a number of these findings in Exhibit 7.2 were observed across different agencies/departments. As a result of the same issue arising in different entities, we saw recurring themes emerge over the course of our work. Exhibit 7.2 shows the agencies/departments where we noted these recurring themes. Due to the significance of the issues and/or the number of instances observed, we have chosen to highlight these recurring themes in this chapter.

Accounting concerns

7.11 There were several accounting concerns noted in our Crown agency audits for 2015 involving 13 Crown agencies. Eleven of these 13 Crown agencies also had a finding regarding accounting concerns in either of our 2014 or 2013 Reports. We are pleased to note improvements in one Crown agency where accounting concerns were noted in past.

7.12 Accounting concerns should be resolved in advance of our year end audit to ensure the Board or oversight body of the Crown agency receives accurate and complete financial information during the year.

7.13 We noted accounting concerns most often related to inadequate approvals for payments, deficiencies with Crown agencies internal accounting policies or processes, as well as management not being aware of changes to accounting standards or not applying new accounting standards properly. We also noted instances where Crown agency accounting staff did not consider if the item being processed complied with relevant agreements, prior to processing transactions and disbursing funds.

7.14 It is our view that Crown agencies should have sufficient knowledgeable resources available to ensure the accounting standards are appropriately followed and payments are appropriately processed.

7.15 The accounting concerns noted in Exhibit 7.2 related to issues observed during our audit, that required our Office's time to address or resolve prior to issuing our audit opinion. The occurrence of the annual financial statement audit does not fulfil the board or management's responsibility to ensure adequate financial accounting expertise has been applied in the Crown agency's financial reporting.

Lack of segregation of duties

7.16 This year, we observed ten Crown agencies where we had concerns regarding proper segregation of duties. Of these ten Crown agencies, nine also had a segregation of duties finding in our 2014 or 2013 Reports. We are pleased to note four Crown agencies had improvements in this area compared to our 2014 findings.

7.17 Proper segregation of duties ensures the preparer and reviewer functions are performed by different people to eliminate the possibility of accounting work not being reviewed or being reviewed by the person who prepared it. Sometimes this also involves ensuring an appropriate segregation of duties in the accounting software or ensuring appropriate policies are in place to separate preparer and approval roles. Proper segregation of duties is also important to prevent loss or misappropriation of assets or occurrences of fraud or error.

7.18 When we note a lack of segregation of duties, our auditors normally perform extra procedures to mitigate against the risk of fraud or error in the financial statements. We encourage Crown agencies to review their financial processes to ensure these processes are appropriately structured and appropriate approval processes are present.

7.19 We also encourage Crown agencies to be alert to potential segregation of duties concerns during agency restructurings or staff reorganizations. Safeguards should be in place so that separation of key accounting duties is maintained before and after any reorganization/restructuring activity.

Oversight/ governance concerns

7.20 There were eight Crown agencies noted in our audits where we had concerns regarding oversight or governance processes. These concerns varied by entity and included items such as: lack of regular board meetings, delay in publishing annual reports, lack of risk management or internal control oversight, lack of oversight or monitoring of significant agreements, weaknesses in conflict of interest disclosures and other oversight/governance weaknesses.

7.21 We noted seven of these Crown agencies also had oversight/governance concerns reported in either of our 2014 or 2013 Reports. We were pleased to note three Crown agencies with improvements regarding their governance/oversight processes.

7.22 Effective oversight or "tone at the top", as well as Board commitment to transparency and public accountability, are important to building a strong internal control and risk management foundation for any Crown agency. We encourage Crown agencies to address governance or oversight findings provided to them during our audit.

Accounting/ documentation concerns with estimates

7.23 We noted concerns with the accounting and documentation process for estimates in four Crown agency financial statement audits. Of these four, all had an issue noted in either of our 2014 or 2013 Reports regarding estimates. We are pleased to note two Crown agencies where improvement was noted regarding estimate processes.

7.24 In three of the four Crown agencies where we noted concerns this year, the primary aspect of concern related to estimates supporting receivables balances (either accounts receivable or loans receivable), however, concerns regarding estimates were also noted for tangible capital asset values.

7.25 Estimates involve the application of judgment to quantify unknown or uncertain amounts. Current auditing standards require that we examine estimates with more rigor, including reviewing the estimate's accuracy by comparing the estimate to current known outcomes and past accuracy history. This is an important process to ensure estimates are as accurate as possible.

7.26 In our audits, we also noted a lack of appropriate support for management estimates. Management should document and support significant estimates used in preparing the financial statements. Support for significant estimates should also be reviewed by a second person other than the preparer.

Management of agreements or third party arrangements

7.27 We noted concerns with oversight and management of agreements or third party arrangements in four Crown agencies. Of these four, three were reported as concerns in either our 2014 or 2013 Reports.

7.28 Specifically, we noted in both provincial community colleges concerns regarding agreements with the Province. Key aspects of the operating arrangements such as accounting for improvements to buildings and accounting for certain employee benefits have not been clearly documented.

7.29 While we have observed satisfactory information to form our audit opinion, the colleges and the Province need to document these arrangements to ensure a common, clear understanding and to provide enhanced support for the current accounting treatment. Although progress on this matter has been made since we reported this finding in the prior year, the issues are not yet addressed and resolved.

7.30 Further, our concern regarding management of agreements or third party arrangements may also be present for any other Crown agencies we do not audit. In addition to the two provincial community colleges, two other Crown agencies experienced issues in this area. We encourage all Crown agencies to ensure there is a clearly documented understanding of the responsibilities/rights/obligations of the Crown agency and the Province to support significant accounting decisions contained in the Crown agency financial statements.

Recommendations for new Crown agencies upon restructuring

7.31 We noted in our audits two Crown agencies (New Brunswick Internal Services Agency and Invest New Brunswick) where a significant restructuring transaction would occur after the Crown agency's fiscal year end. We provided recommendations to each Crown agency to consider and address in its restructuring processes (given past audit findings and known audit challenges).

7.32 These recommendations included items such as clarifying ownership of assets and liabilities upon transfer to the new corporation, clarifying who will be responsible for the employer portion of employee benefit costs, as well as clarifying the terms and conditions in future funding agreements of the new organization.

7.33 As these restructurings will bring significant changes and involve large transactions and balances, we encourage the Crown agencies to address these recommendations in a timely manner and prior to the next audit cycle.

Applicability to other Crown agencies

7.34 We note a number of these themes from Crown agency comments have occurred in our prior years Reports. We encourage management of all Crown agencies to review these highlights and themes to consider if further improvements or adjustments are needed in their own organizations.

Significant concerns regarding NBLGC

7.35 In our financial statement audit of NBLGC, we noted several significant concerns. Due to the large number of issues, we have described our findings in a separate chapter in this Report (Chapter 5).

7.36 We further note NBLGC's ongoing lateness in completion of the normal year end accounting and auditing exercise. At the time of writing, in autumn 2015, the last fiscal year audited for NBLGC was March 31, 2013. We find this ongoing delay extremely unusual and unacceptable given NBLGC's public reporting responsibilities.

Importance of timely completion of financial audits and public reporting

7.37 Producing financial statements with such a delay after the fiscal year end is still necessary, but the exercise holds much less value to the public and other users of this information if the reporting is not performed in a more timely manner. We strongly encourage all Crown agencies to promptly complete their financial reporting obligations.

Conclusion

7.38 While we have not noted any significant fraud, theft or error, the existence of the findings noted in Exhibit 7.2, increases the risk of loss or mistake in the agency's/department's financial reporting. We encourage Crown agencies/departments to address our findings prior to the next audit cycle.

Appendix I - Audit Objectives

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

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

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

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

Responsibilities of Crown Agencies and Departments

7.43 The Crown agencies or departments are responsible for the preparation and the content of the financial statements or claims in accordance with the applicable accounting framework. When preparing the financial statements or claims, significant estimates may be made by the auditee, as not all information is available or determinable at the time of finalizing the statements.

Responsibilities of the Auditor General of New Brunswick

7.44 Our Office is responsible for auditing the financial statements or claims listed in paragraphs 7.2 and 7.3. An audit provides reasonable, but not absolute, assurance that the financial statement(s) or claim(s) are free of material misstatement or are in compliance with the relevant agreement. Material misstatement refers to an item or group of items that, if omitted or misstated, would alter the decisions of reasonably knowledgeable financial statement users. The tolerable level of error or misstatement is a matter of judgment.