

Chapter 1

Introductory Comments by the Auditor General

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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

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

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

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.



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