

REPORT OF THE

Auditor General of New Brunswick

Volume IV

Financial Audit

2017

AUDITOR GENERAL
OF NEW BRUNSWICK



VÉRIFICATEUR GÉNÉRAL
DU NOUVEAU-BRUNSWICK

AUDITOR GENERAL
OF NEW BRUNSWICK



VÉRIFICATEUR GÉNÉRAL
DU NOUVEAU-BRUNSWICK

Speaker of the Legislative Assembly
Province of New Brunswick

Sir

As required under Section 15(1) of the *Auditor General Act* I am submitting Volume IV of my 2017 Report to the Legislative Assembly.

Respectfully submitted,

A handwritten signature in black ink that reads "Kim MacPherson". The signature is written in a cursive, flowing style.

Kim MacPherson, CPA, CA, ICD.D
Auditor General

Fredericton, N. B.
November 2017

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Chapter 1

Introductory Comments by the Auditor General

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Introductory Comments by the Auditor General

Volume IV Reports Our Financial Audit Work

*Province receives
clean audit opinion*

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

*Encouraging recent
progress, however,
action is still required*

- 1.1** This volume of our Report deals with matters arising from financial audits of the Province and its Crown agencies for the year ended March 31, 2017.
- 1.2** On August 22, 2017, I was pleased to issue an unqualified audit opinion on the 2017 consolidated financial statements of the Province of New Brunswick. An unqualified opinion also referred to as a “clean audit opinion” indicates the Province’s consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards.
- 1.3** I am encouraged by the signs of recent fiscal progress for the year ended March 31, 2017, including:
- significant improvements in the short-term sustainability indicators;
 - deficit was reduced from \$260.5 million in 2016 to \$118.9 million in 2017;
 - deficit in 2017 was lower than the 2017 budgeted deficit of \$246.1 million; and
 - year-over-year Net Debt increase went from \$541.4 million in 2016 to \$167.4 million in 2017.
- 1.4** Although we are encouraged by this recent progress, we remain concerned with the Province’s overall long-term fiscal situation. A note of caution is required as the reduction in the deficit is largely driven by increases in provincial tax revenue in a period when expenses also increased.
- 1.5** The Province’s March 31, 2017 financial statements represent the ninth consecutive annual deficit and deficits are forecasted by the government to continue until 2020-2021. To assist in financing these deficits, the Province has incurred additional debt. While the increase in the

Province's Net Debt (total liabilities less financial assets) from 2016 to 2017 was \$167.4 million, the increase in the Province's Funded Debt (actual debt obligations) during the same period was \$875.8 million.

1.6 In addition to addressing the annual deficit, we encourage the Province to set and achieve targets for debt control and reduction.

Presentation of Retirement Benefits in the Province's Consolidated Financial Statements

1.7 I remain concerned that detailed information for the Province's pension plans on a plan-by-plan basis was not included in the Province's financial statements. It had been past practice to include this information in the notes to the Province's financial statements in 2014 and prior years. We believe the pension information, as well as information for retirement allowances, should be included each and every year on a plan-by-plan basis to provide more detailed and transparent information to readers of the Province's financial statements.

1.8 As such, we have included this information in Chapter 2 to ensure the information is publicly available. We have also made a recommendation in Chapter 3 for this information to be presented in the Province's financial statements in future years. I am very pleased the Comptroller has committed to make this change in fiscal 2017-2018.

Importance of timely completion of financial audits and public annual reports

1.9 We noted again this year certain Crown agencies are not completing their public reporting in a timely manner. In the past we have commented on New Brunswick Lotteries and Gaming Corporation's lateness in reporting its annual results publicly. However, we are noticing certain other Crown agencies (those we audit annually or those we have examined recently on a rotational basis) have not yet reported their 2016 annual results or published their 2016 annual reports in a timely manner. We discuss this more in Chapters 3 and 4.

1.10 Producing financial statements and annual reports 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 annual financial reporting obligations.

AG encourages timely publication of Province’s audited financial statements prior to September 2018 election

1.11 Particularly important is the Province’s timely release of its public accounts next year as the provincial election approaches in September 2018. Audited financial statements are one of the key measures that allows the public to assess government’s performance with respect to fiscal management of public resources. Exhibit 1.1 provides details on past dates of audit completion and government public release of the audited financial statements. I would encourage timely publication of the Province’s 2017-2018 audited financial statements prior to the upcoming election in September 2018.

Exhibit 1.1 - PNB Audited Financial Statements - Past Dates of Audit Completion and Public Release by Minister of Finance

PNB Audited Financial Statements - Past Dates of Audit Completion and Public Release by Minister of Finance			
March 31	Date of Audit Opinion (Audit Completion)	Date of Government Public Release by Minister of Finance	Date of Provincial Election
2017	August 22, 2017	September 28, 2017	n/a
2016	September 27, 2016	September 30, 2016	n/a
2015	September 29, 2015	September 30, 2015	n/a
2014	July 17, 2014*	July 23, 2014*	September 22, 2014
2013	October 4, 2013	October 16, 2013	n/a
2012	August 9, 2012	August 14, 2012	n/a
2011	August 12, 2011	August 16, 2011	n/a
2010	July 30, 2010*	August 13, 2010*	September 27, 2010
2009	August 21, 2009	September 28, 2009	n/a
2008	August 14, 2008	September 26, 2008	n/a

Source: Chart created by AGNB

**election year (comparatively early release)*

Renewal of “mission critical systems”

1.12 In the course of our financial audit work, we examine certain of the Province’s information technology systems. The systems we examine tend to focus on “mission critical” aspects of financial data and information processing such as payroll processing, payment processing, financial reporting systems, etc.

1.13 Again this year, we would like to highlight the following observations:

- one system (for teachers and school district employee payroll) is outdated and may be at risk of failure;

- two systems (for the Province’s public servants’ payroll and for the Province’s vendor payments) are no longer fully supported;
- there are some redundant systems in SNB (three financial reporting systems and three payroll systems) causing inefficiencies in processing financial information; and
- funding for the Province’s new ERP (Enterprise Resource Planning) system was approved in the 2017-18 budget and the process of evaluating the RFP results is underway.

Current IT weaknesses may have significant consequences

1.14 These IT weaknesses may have significant consequences such as:

- timely processing of the Province’s payroll may be at risk if action is not taken to address these ongoing issues;
- a potential impact on service delivery may occur;
- the availability of financial information for decision making or other purposes may also be at risk; and
- unnecessary resources are being consumed in operating inefficient systems.

Government should prioritize replacement of aging and at risk IT infrastructure

1.15 In our view, government should prioritize replacement of aging and “at risk” IT infrastructure to ensure “mission critical” systems continue to operate ensuring delivery of essential services to the taxpayers of New Brunswick.

Acknowledgements

1.16 My Office is grateful for the continuing cooperation we receive from government departments and agencies during the course of our financial audit work.

1.17 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, ICD.D
Auditor General

Chapter 2

Comments on the Province's Financial Position

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Comments on the Province's Financial Position

Ninth Consecutive Annual Deficit

**2017 deficit was
smaller than recent
years**

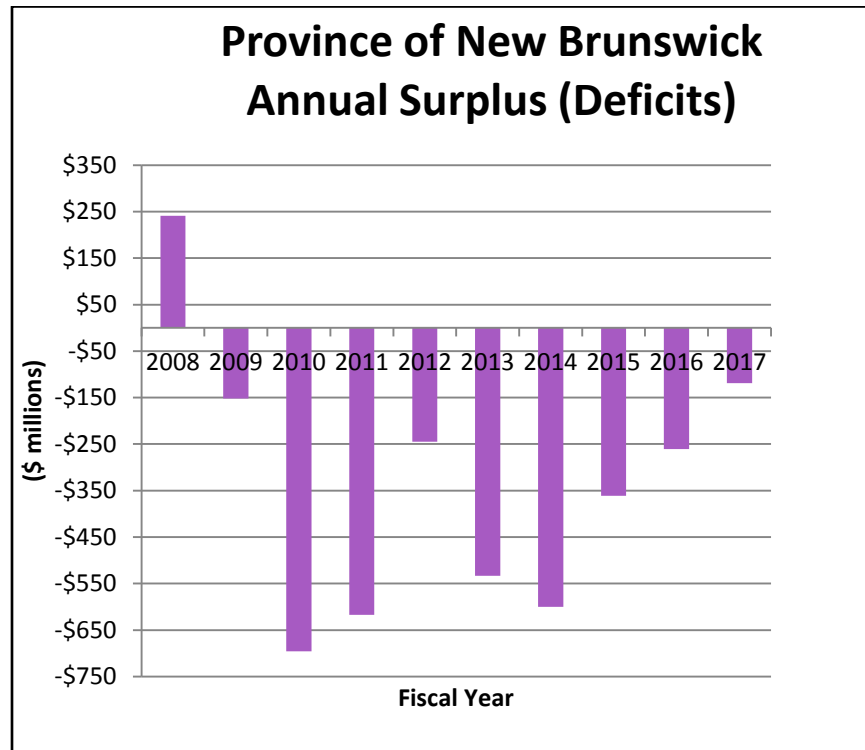
**Encouraging
progress, however,
action is still
required**

2.1 The Province's March 31, 2017 audited consolidated financial statements reported a deficit of \$118.9 million and an increase in Net Debt for the fiscal year of \$167.4 million. The Province now has a Net Debt of \$13.8 billion.

2.2 We are pleased that the \$118.9 million annual deficit was lower than the budgeted deficit of \$246.1 million and was lower than the prior year deficit of \$260.5 million. We are encouraged by recent signs of fiscal progress and hope this progress continues.

2.3 However, we remain concerned as this represents the ninth consecutive annual deficit. To assist in financing these deficits, the Province has incurred additional debt. Additional changes are required to improve the financial health of the Province.

Exhibit 2.1 - Annual Surplus (Deficits)



As restated – refer to Exhibit 2.2

Exhibit 2.2 - Annual Surplus (Deficits) Data

Annual Surplus (Deficits)										
(\$ millions)										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
As restated	241.1	(152.0)	(695.9)	(617.2)	(244.8)	(533.2)	(600.4)	(361.4)	n/a	n/a
As originally recorded	86.7	(192.3)	(737.9)	(633.0)	(260.6)	(507.7)	(498.7)	(388.6)	(260.5)	(118.9)

See paragraph 2.5 for further information on restatements of prior years.

2.4 Exhibits 2.1 and 2.2 show the surplus or deficit for the past ten years. The preceding years' amounts have been restated to comply with the requirements of adopting new accounting standards or to improve financial statement presentation. There were no restatements for the 2016 fiscal year.

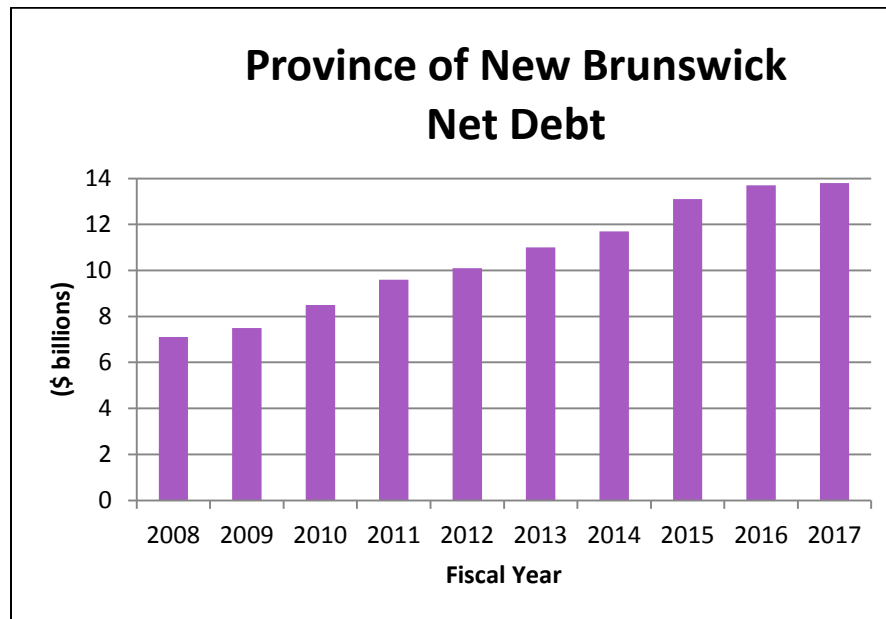
2.5 It is important to note the impacts of the 2016 nursing home consolidation has not been included in the restated amounts for the years prior to 2015 in the exhibits as this information is not available. Significant variances to data presented in this chapter may have occurred for 2014 and

earlier years as a result of this accounting change.

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



See paragraph 2.5 for further information on restatements of prior years.

Exhibit 2.4 - Net Debt Data

Net Debt (\$ billions)										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
As restated	7.1	7.5	8.5	9.6	10.1	11.0	11.7	13.1	n/a	n/a
As originally recorded	6.9	7.4	8.4	9.5	10.0	11.1	11.6	12.4	13.7	13.8
Growth Rate in Net Debt	6.0%	5.6%	13.3%	12.9%	5.2%	8.9%	6.4%	12.0%	4.6%	0.7%

See paragraph 2.5 for further information on restatements of prior years.

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

- For the year ended March 31, 2017 Net Debt increased by \$167.4 million to \$13.8 billion.
- In the ten years reported in Exhibit 2.4, Net Debt has increased \$6.7 billion (or has almost doubled).
- The 2017-2018 Main Estimates budgets for a deficit of \$191.9 million and an increase in Net Debt of \$362.1 million for the year ended March 31, 2018.
- Based on 2017-2018 Main Estimates, Net Debt of the Province could be in excess of \$14.4 billion for the year ended March 31, 2018.
- The cost of servicing the public debt for the year ended March 31, 2017 was \$673.3 million.

Net Debt growth through budgeted 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, deficits have been budgeted in the last five years which have contributed to Net Debt growth.

Exhibit 2.5 - Annual Budgeted Deficit

Annual Budgeted Deficit (\$ millions)					
	2013	2014	2015	2016	2017
Budgeted Deficit	(182.9)	(478.7)	(391.1)	(326.8)	(246.1)

Budget improvements required

2.9 The combination of annual budgeted deficits and overruns in budgeted expenses is contributing to the increase in Net Debt. 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.

Multi-Year budget plan forecasts future deficits until 2020-2021

2.10 In the prior year, the government announced in its 2016-2017 budget a multi-year plan to return to a balanced budget state in 2020-2021. Overall, we are pleased to note the plan appears on track with its targets. The release of the 2016-2017 Public Accounts showed a deficit of \$118.9 million compared to the budgeted deficit of \$246.1 million. We are encouraged by the progress made and hope this progress continues. We again note this plan includes annual revenue and expense targets, but lacks a Net Debt reduction target.

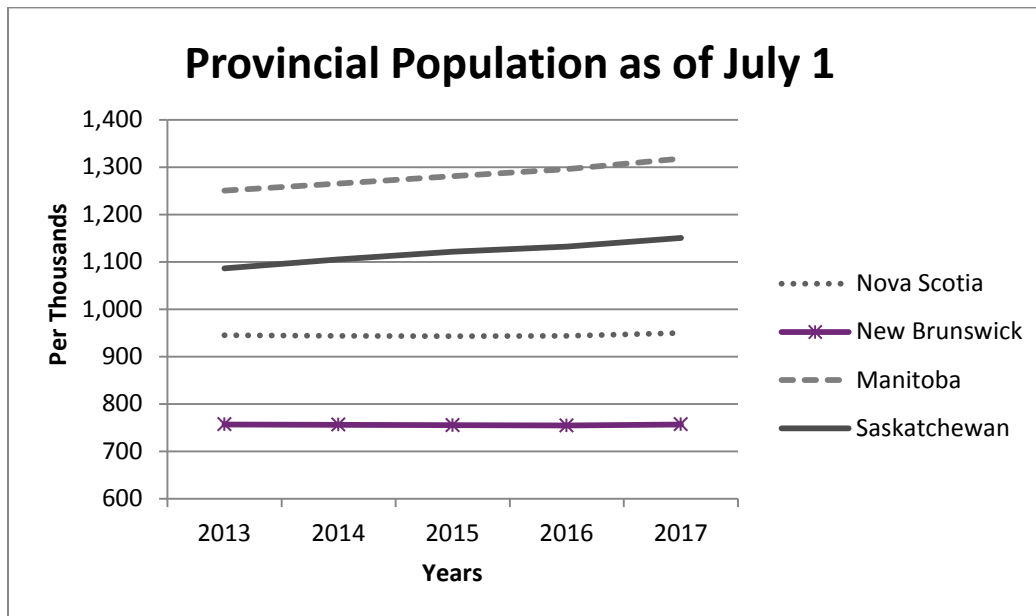
Comparison to other provinces

2.11 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, Nova Scotia, Manitoba and Saskatchewan. These provinces presented for comparison purposes were selected based on application of judgment where certain similarities in population or economic circumstances were considered. The provinces' application of accounting principles may differ upon comparing financial information, as circumstances may not be similar across provinces. Population data for provinces used in our comparison is found in Exhibits 2.6 and 2.7.

2.12 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

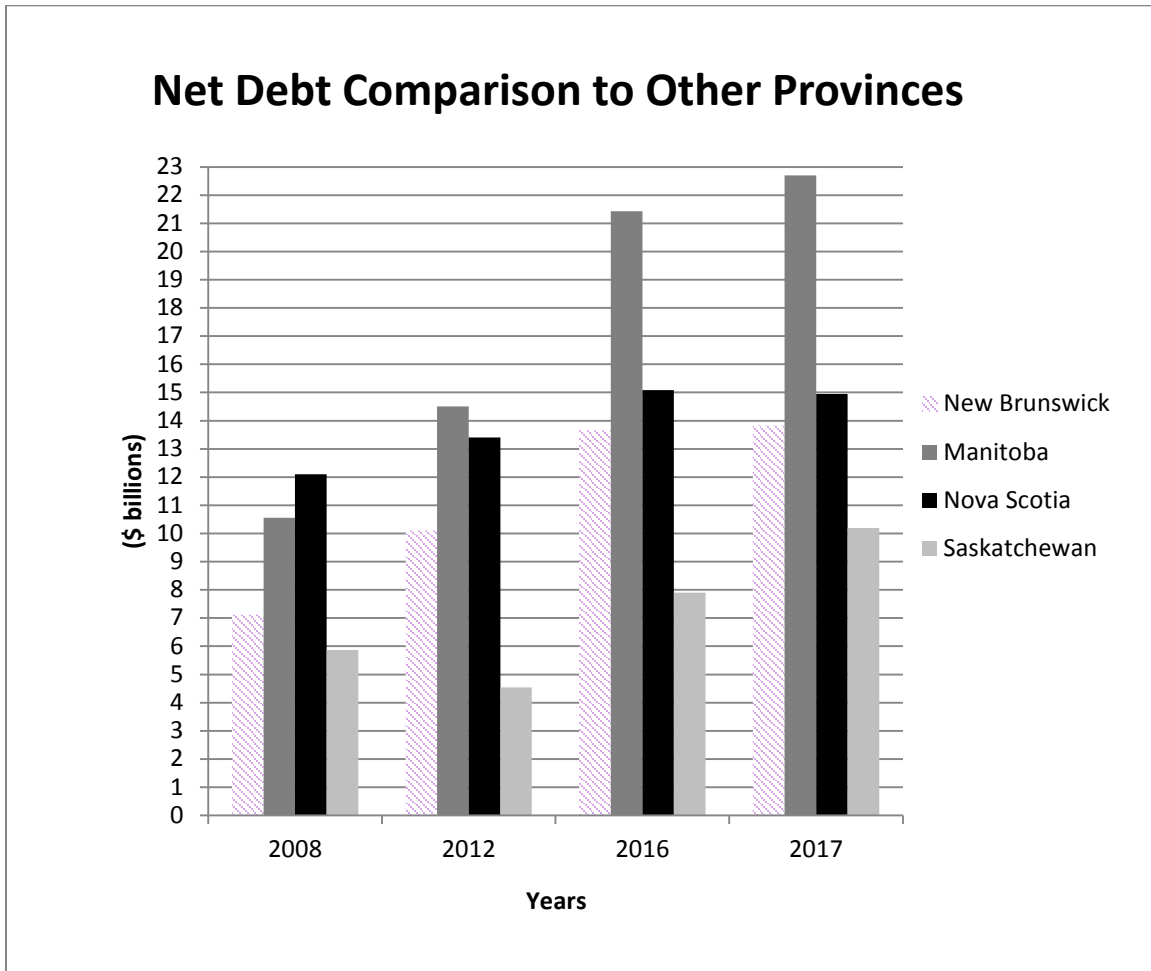


Source: Statistics Canada (filtered data) <http://www.statcan.gc.ca/tables-tableaux/sum-som/101/cst01/demo02a-eng.htm>

Exhibit 2.7 - Provincial Population as of July 1 Data

Provincial Population Data as of July 1					
Province	(thousands)				
	2013	2014	2015	2016	2017
New Brunswick	756.8	755.8	754.9	754.3	756.8
Nova Scotia	944.9	943.5	943.3	943.4	949.5
Saskatchewan	1,086.0	1,105.0	1,121.3	1,132.3	1,150.6
Manitoba	1,250.3	1,265.6	1,281.0	1,296.0	1,318.1

Exhibit 2.8 - Net Debt Comparison to Other Provinces



See paragraph 2.5 for further information on restatements of prior years.

Exhibit 2.9 - Net Debt Comparison to Other Provinces Data

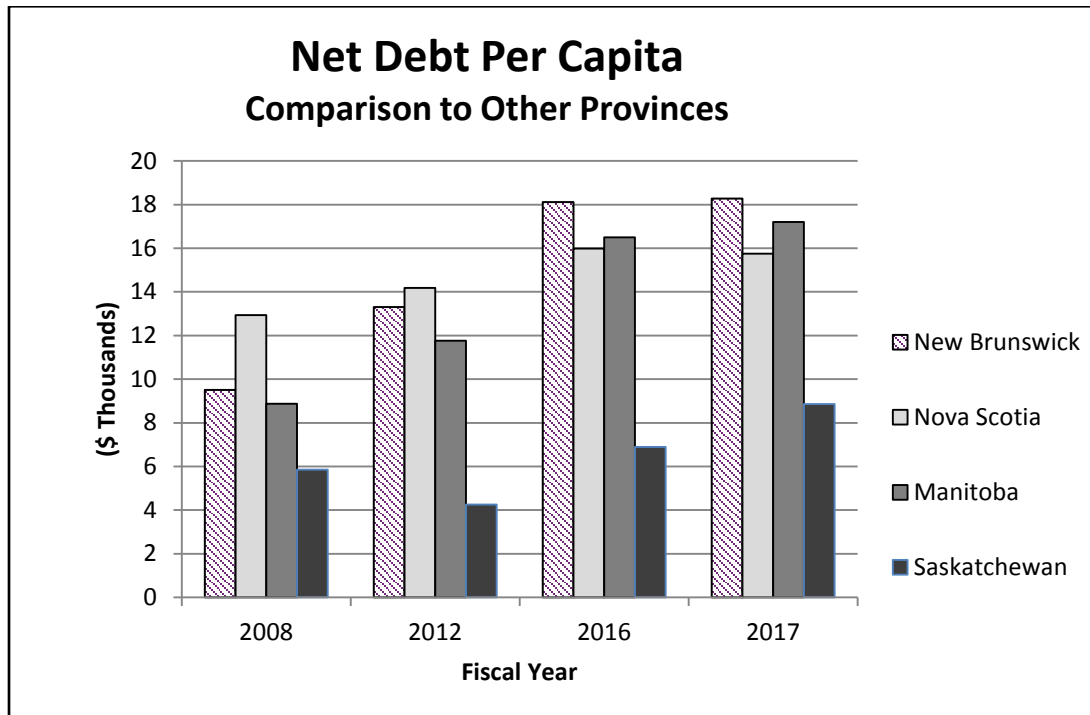
Net Debt Comparison to Other Provinces (\$ billions)					
Province	Increase 2008 to 2017	2008	2012	2016	2017
Manitoba	114.2 %	10.6	14.5	21.4	22.7
Nova Scotia	24.0%	12.1	13.4	15.1	15.0
New Brunswick	94.4%	7.1	10.1	13.7	13.8
Saskatchewan	72.9%	5.9	4.5	7.9	10.2

See paragraph 2.5 for further information on restatements of prior years.

**Net Debt increase
from 2016 to 2017
was less than 1%**

2.13 Exhibits 2.8 and 2.9 show that over the last ten years within this group, New Brunswick has had one of the highest increases in Net Debt. New Brunswick's Net Debt has increased by 94% over the last ten years (or has almost doubled). The magnitude of this increase over 10 years is significant. The 2017-2018 Main Estimates budgets an increase in Net Debt of approximately \$362.1 million. The continued increase in Net Debt causes concern for the long-term sustainability of the Province. However, we were very encouraged to note the increase in Net Debt from 2016 to 2017 was less than 1%. There is evidence of a change in the growth of Net Debt and we hope these efforts continue.

Exhibit 2.10 - Net Debt per Capita Comparison to Other Provinces



See paragraph 2.5 for further information on restatements of prior years.

Exhibit 2.11 - Net Debt per Capita Comparison to Other Provinces' Data

Net Debt Per Capita Comparison to Other Provinces*				
(\$ thousands)				
Province	2008	2012	2016	2017
New Brunswick	9.5	13.3	18.1	18.3
Manitoba	8.9	11.6	16.5	17.2
Nova Scotia	12.9	14.2	16.0	15.8
Saskatchewan	5.8	4.2	6.9	8.8

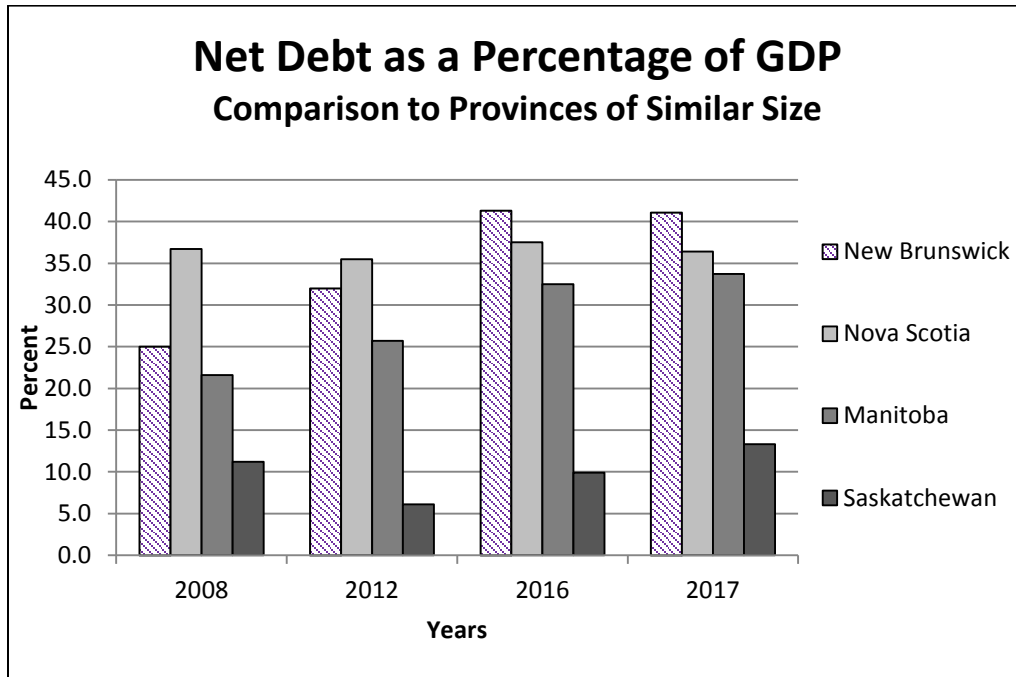
*Amounts from provinces' 2017 financial statement discussion and analysis where available. For those provinces where this indicator was not published in the same format, information was obtained on population from Statistics Canada as of July 1 within the fiscal year (i.e. 2017 was July 1, 2016 population). Numbers have been rounded for presentation purposes. See paragraph 2.5 for further information on restatements of prior years.

**New Brunswick
Net Debt per
capita in 2017 is
\$18,300**

2.14 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 approximately \$18,300. Again, this indicator

has increased significantly from 2008 at \$9,483 to 2017 at \$18,271 (a 92.7% increase in ten years or an average increase of 9.3% per year). We were pleased to note the increase in the Net Debt per capita for New Brunswick from 2016 to 2017 had slowed to 0.9%.

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



See paragraph 2.5 for further information on restatements of prior years.

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	2008	2012	2016	2017	% Increase (Decrease) from 2008 to 2017
New Brunswick	25.0	32.0	41.3	41.1	64.4%
Manitoba	21.6	25.7	32.5	33.7	56.0%
Saskatchewan	11.2	6.1	9.9	13.3	18.8%
Nova Scotia	36.7	35.5	37.5	36.4	(0.8%)

See paragraph 2.5 for further information on restatements of prior years.

2.15 As shown in Exhibits 2.12 and 2.13, New Brunswick had the highest increase of Net Debt as a percentage of GDP from 2008 to 2017, and the highest Net Debt as a percentage of GDP at 41.1% among comparable provinces for 2017.

The smaller deficit implies progress, however long-term Net Debt growth remains a significant sustainability concern

Comments on the Province's Financial Health

Assumptions Used

2.16 New Brunswick's Net Debt performance over time compared to other provinces remains a significant concern. While progress has been made this year with respect to the deficit, the progress was largely due to an increase in taxes. New Brunswick's increase in Net Debt since 2008 of \$6.7 billion indicates the need for continued efforts to address the level of Net Debt. This 10 year increase in Net Debt represents a very disturbing trend. An even higher demand will exist on future revenues to pay past expenses.

2.17 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.

2.18 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.

2.19 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.

2.20 We have not audited some of the numbers used in our indicator analysis; instead, we are using numbers the Province restated in 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 2008 to 2015. For the 2016 to 2017 numbers, we audited the numbers in conjunction with our annual audit work.

2.21 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 may not be available.

**Summary of the
Province's
Indicators of
Financial
Condition**

2.22 In Exhibit 2.14, we summarize our analysis of the Province's financial indicators. We show the indicators for each measure, 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	Change in trend from prior year	Term	Long-term Trend ¹	Paragraph
Sustainability	Assets-to-liabilities	Measures extent that government finances its operations by issuing debt	Neutral ²	✓	5 year	Unfavourable	2.27
	Financial assets-to-liabilities	Measures whether future revenues will be needed to pay for past transactions	Favourable³	✓	5 year	Unfavourable	2.29
	Net Debt-to-total annual revenue	Shows whether more time is needed to pay for past transactions	Favourable²	✓	10 year	Unfavourable	2.31
	Expense by function-to-total expenses	Shows the trend of government spending over time	Neutral	No change	5 year	Neutral	2.35
	Net Debt-to-GDP	Shows the relationship between Net Debt and the activity in the economy	Neutral ²	✓	10 year	Unfavourable	2.37
	Accumulated deficit-to-GDP	Measures the sum of the current and all prior year operating results relative to the growth in the economy	Neutral ²	✓	5 year	Unfavourable	2.39
	Total expenses-to-GDP	Shows the trend of government spending over time in relation to the growth in the economy	Neutral ⁵	X	10 year	Unfavourable	2.41
Flexibility	Public debt charges-to-revenues	Measures extent that past borrowing decisions limits ability to meet current financial and service commitments	Favourable³	✓	10 year	Favourable	2.48
	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	Unfavourable ³	X	5 year	Unfavourable	2.50
	Own source revenues-to-GDP	Measures extent income is taken out of the economy	Unfavourable ⁵	X	10 year	Unfavourable ³	2.52
Vulnerability	Government transfers-to-total revenues	Measures the dependence on another level of government	Favourable	No change	10 year	Favourable⁴	2.59
	Foreign currency debt-to-Net Debt	Measures the government's potential vulnerability to currency fluctuations	Favourable	No change	10 year	Favourable	2.62

✓ shows a positive change from prior year; X indicates a negative change from prior year

¹Long-term trend assessments unchanged in AGNB Annual Reports 2012-2017, except ratios in paragraph 2.50, 2.52, and 2.59.

²Last year was "Unfavourable"

³Last year was "Neutral"

⁴Last year was "Mixed"

⁵Last year was "Favourable"

Conclusion

2.23 We noted a significant improvement in the short-term sustainability indicators which resulted primarily as a result of a relatively stable Net Debt figure in 2017 compared to 2016. The Province's long-term and short-term vulnerability indicators are favourable. However, we noted relatively unfavourable flexibility indicators as declining asset values and increases in its own source revenues have impacted the Province's flexibility for future decision making. Overall, nine of twelve of the Province's long-term indicators of financial condition have remained unchanged since 2012. However, nine of twelve of the Province's short-term indicators of financial condition have changed since the prior year (six of the nine are due to improved fiscal performance in the short term).

2.24 We remain concerned about the long-term sustainability indicator trends. The level of Net Debt (now \$13.8 billion) has almost doubled since 2008. The long-term Net Debt growth is not sustainable, and continued 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.

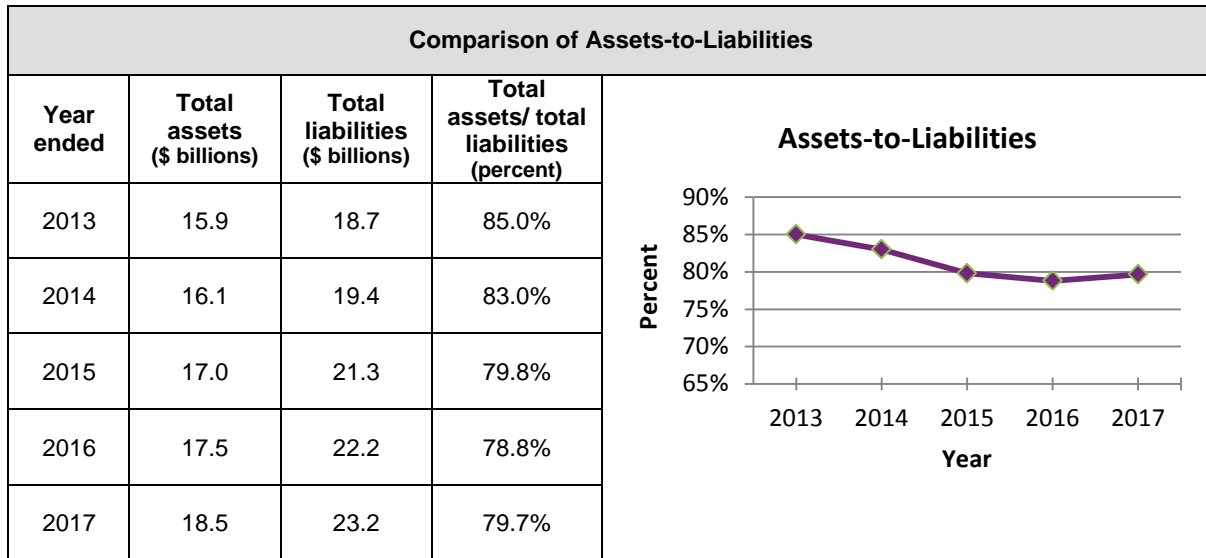
Sustainability Indicators

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

Assets-to-Liabilities

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

Exhibit 2.15 - Comparison of Assets-to-Liabilities



See paragraph 2.5 for further information on restatements of prior years.

Note: 2014 numbers present audited financial statement figures with no restatements from subsequent years.

2.27 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 the 2013-2016 decline in this ratio. We have assessed the long-term trend as unfavourable; however, due to improvements in 2016-2017, we are assessing the short-term trend as neutral.

Financial Assets-to-Liabilities

2.28 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 (\$ billions)	Total liabilities (\$ billions)	Total financial assets/ total liabilities (percent)	<p style="text-align: center;">Financial Assets-to-Liabilities</p>
2013	7.7	18.7	41.2%	
2014	7.8	19.4	40.2%	
2015	8.2	21.3	38.5%	
2016	8.6	22.2	38.7%	
2017	9.4	23.2	40.5%	

See paragraph 2.5 for further information on restatements of prior years.

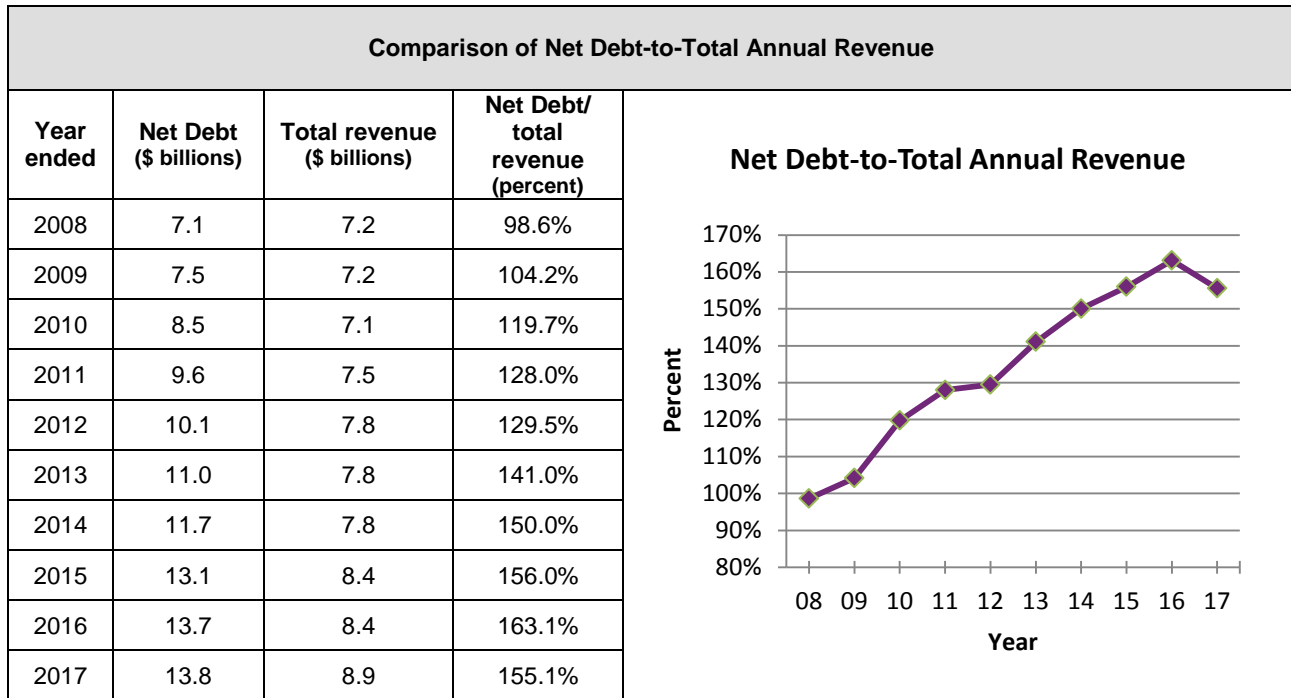
Note: 2014 numbers present audited financial statement figures with no restatements from subsequent years.

2.29 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 2013 to 2015 indicating liabilities are increasing more than assets. In 2017 the total financial assets to total liabilities as a percentage increased to 40.5%. We have assessed the short-term trend as favourable and the long-term trend as unfavourable.

Net Debt-to-Total Annual Revenue

2.30 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



See paragraph 2.5 for further information on restatements of prior years.

2.31 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 2008 and 2016. In 2017 the ratio declined to 155.1% as Net Debt remained relatively consistent with the prior year while total revenue increased. We have assessed the short-term trend as favourable, given the decline in the 2017 ratio. We have assessed the long-term trend as unfavourable.

Expense by Function-to-Total Expenses

2.32 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										
	2013		2014		2015		2016		2017	
	(\$ billions)	(%)	(\$ billions)	(%)	(\$ billions)	(%)	(\$ billions)	(%)	(\$ billions)	(%)
Health	2.8	33.8	2.9	34.5	2.9	33.0	2.9	33.7	2.9	32.3
Education and Training	1.8	21.7	1.8	21.4	2.1	23.8	1.8	20.9	1.9	21.1
Social Development	1.1	13.3	1.1	13.2	1.2	13.6	1.2	14.0	1.3	14.4
Service of the Public Debt	0.7	8.4	0.7	8.3	0.7	8.0	0.7	8.1	0.7	7.8
Transportation and Infrastructure	0.5	6.0	0.6	7.1	0.6	6.8	0.6	7.0	0.6	6.7
Central Government	0.6	7.2	0.6	7.1	0.5	5.7	0.6	7.0	0.7	7.8
Protection Services	0.2	2.4	0.2	2.4	0.3	3.4	0.3	3.5	0.3	3.3
Economic Development	0.3	3.6	0.2	2.4	0.2	2.3	0.2	2.3	0.3	3.3
Resources	0.2	2.4	0.2	2.4	0.2	2.3	0.2	2.3	0.2	2.2
Labour and Employment	0.1	1.2	0.1	1.2	0.1	1.1	0.1	1.2	0.1	1.1
Total	8.3	100	8.4	100	8.8	100	8.6	100	9.0	100

See paragraph 2.5 for further information on restatements of prior years.

2.33 The years ended March 31, 2013 to March 31, 2017 reported deficits. This means expenses have exceeded revenues generated in those years. Education and Training and Health's allocation of expenses consume 53.4% of the total expenses in 2017, trending downwards from prior years.

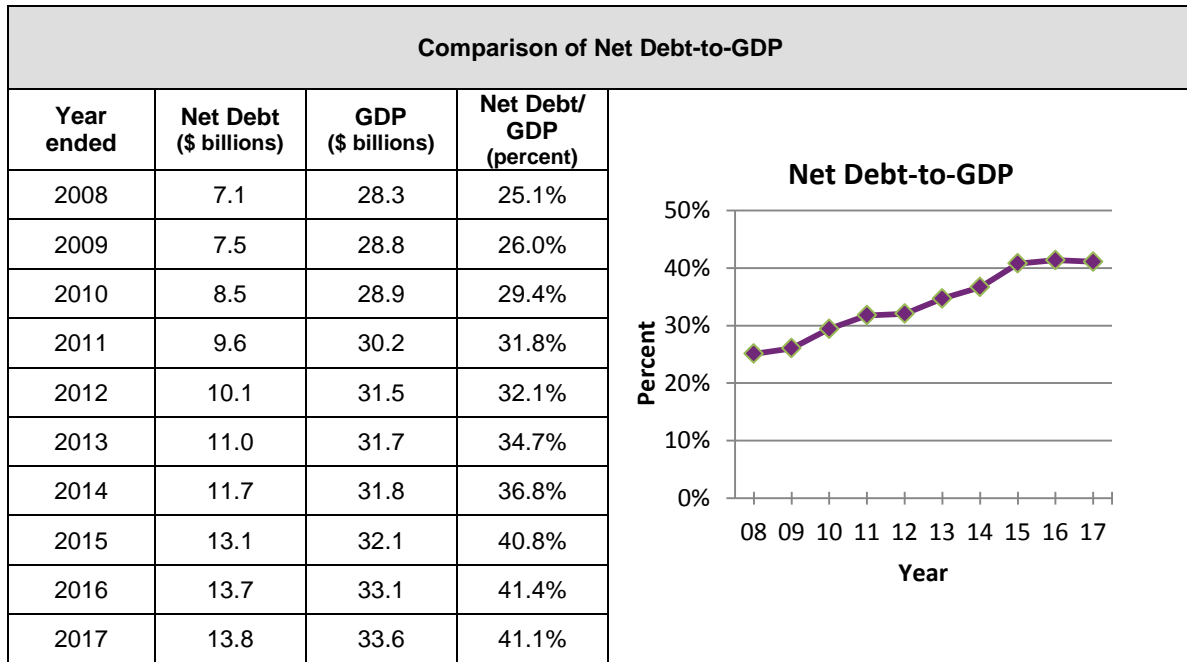
2.34 Also of note is that service of the public debt expenses are larger than transportation and infrastructure and protection services expenses in Exhibit 2.18.

2.35 The allocation of expenses to function when comparing 2017 to other years was relatively stable. The impact of continuing deficits and New Brunswick's growing Net Debt will need to be closely monitored in the future, however, as the related interest burden on the debt consumes resources that would otherwise be used to deliver services. We have assessed this trend as neutral.

Net Debt-to-GDP

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

Exhibit 2.19 - Comparison of Net Debt-to-GDP



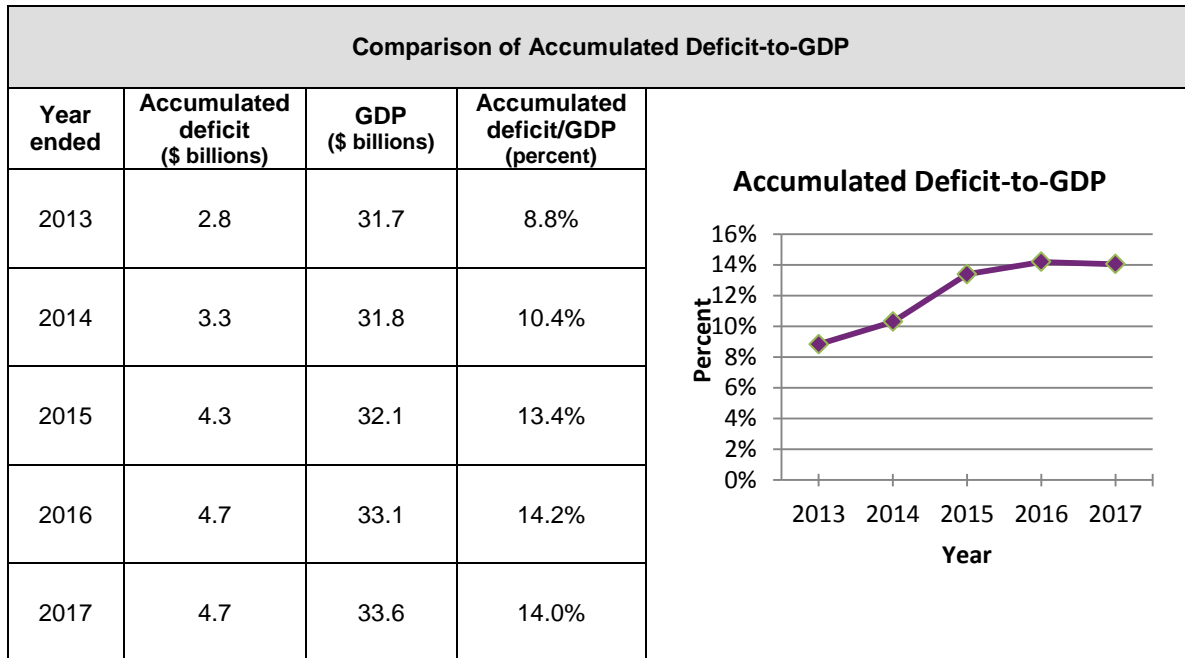
See paragraph 2.5 for further information on restatements of prior years.

2.37 This indicator compares the Province's Net Debt, the difference between its liabilities and its financial assets, to its GDP. The ratio increased from 2008 to 2016 because the rate of growth of Net Debt exceeded the rate of growth in GDP over that time period. This means the Net Debt of the Province is increasing faster than the growth in the economy. In 2017, the ratio was starting to decline but was still at its second highest level in ten years. We have assessed the long-term trend as unfavourable and the short-term trend as neutral.

Accumulated Deficit-to-GDP

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

Exhibit 2.20 - Comparison of Accumulated Deficit-to-GDP



See paragraph 2.5 for further information on restatements of prior years.

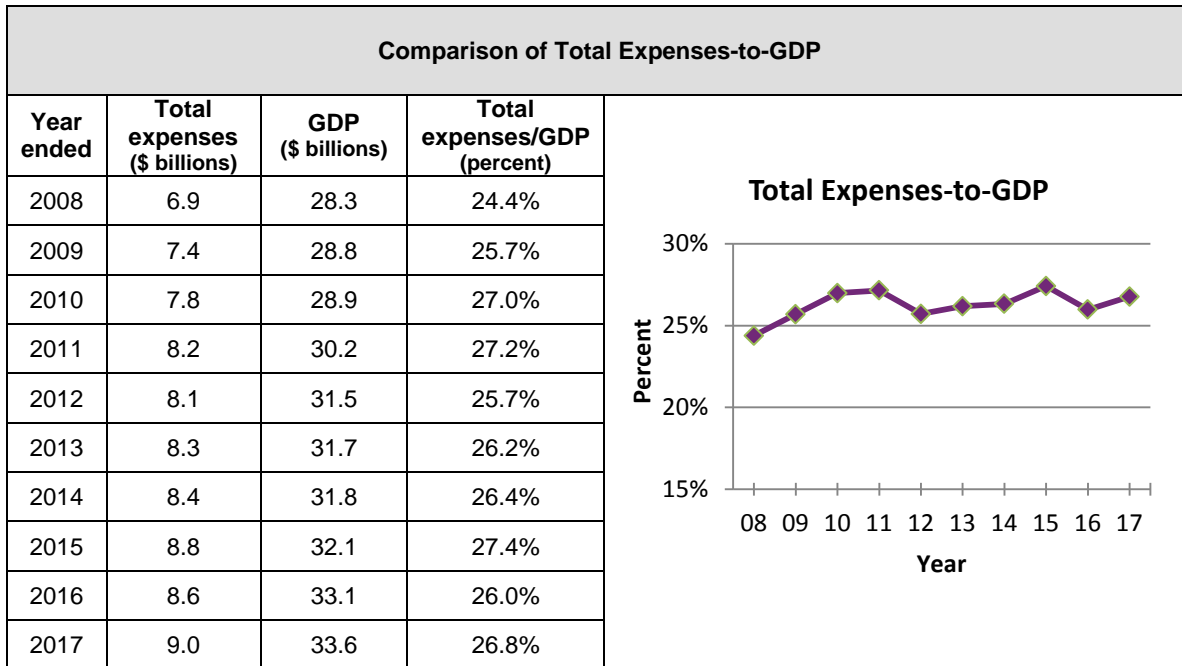
Note: 2014 numbers present audited financial statement figures with no restatements from subsequent years.

2.39 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 2013 to 2016, the accumulated deficit has increased faster than the growth of the economy. In 2017 however the ratio started to decline. We have assessed the short-term trend as neutral and the long term trend as unfavourable.

Total Expenses-to-GDP

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

Exhibit 2.21 - Comparison of Total Expenses-to-GDP



2.41 Exhibit 2.21 indicates that government expenses as a percentage of GDP have increased over time. In 2008 government expenses were 24.4% of GDP in contrast to 26.8% in 2017. We have assessed the long-term trend as unfavourable as expenses are growing faster than the economy is expanding. However, in 2016-17 the ratio has overall remained relatively stable. We have assessed the short-term trend as neutral.

Exhibit 2.22 - Sustainability Indicator Trends

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

Summary of Sustainability Indicators

Some progress on the deficit, however, revenue from taxes, total expenses and Funded Debt increased in 2016-2017

2.42 Exhibit 2.22 presents a summary of the Province's sustainability indicators. We noted a positive shift for the short-term sustainability indicators while the long-term trend remains largely unfavourable.

2.43 We noted a significant improvement in short-term sustainability indicators with none being assessed as unfavourable. In the prior year, four were assessed as unfavourable. This improvement is mostly due to a relatively stable Net Debt figure in 2017 compared to 2016, as well as a reduced annual deficit compared to prior year and budget. However, caution is required in interpreting these numbers as the results were achieved in a period where revenue from taxes as well as total expenses increased and the Province's total Funded Debt rose by approximately \$0.9 billion. Overall, we are encouraged by early indications of changes in the Province's financial health and hope to see this trend continue.

Flexibility Indicators

Public Debt Charges-to-Revenues

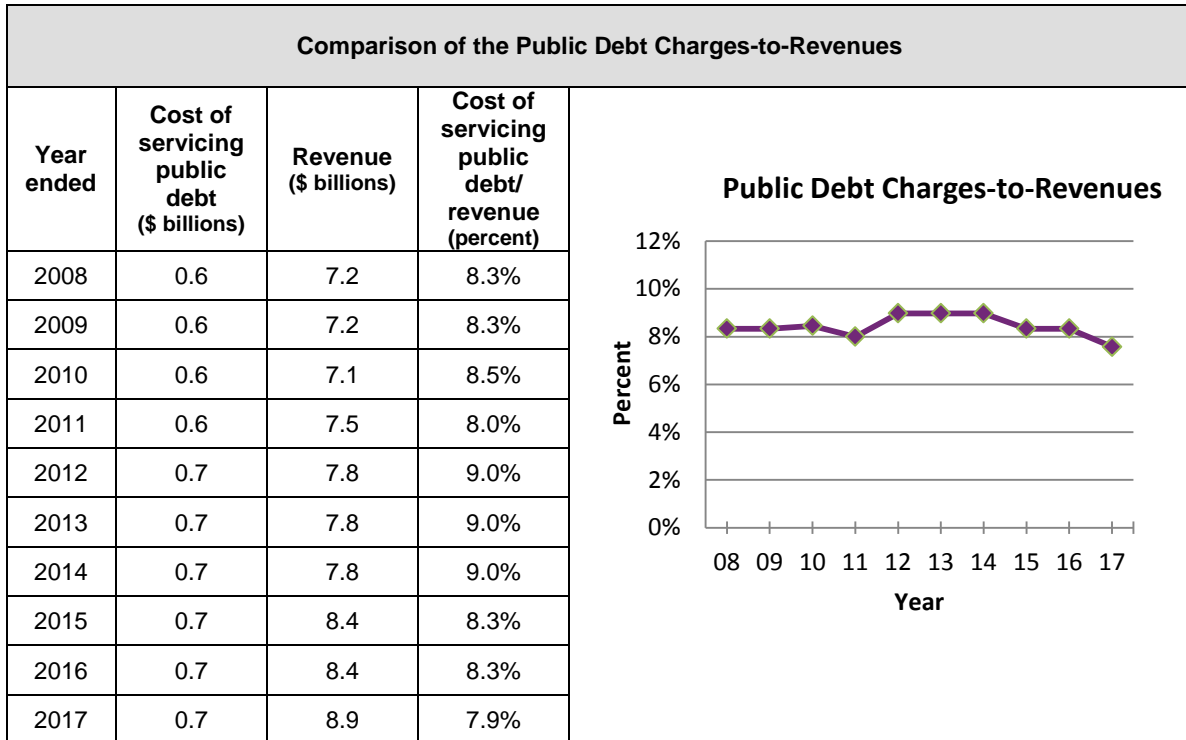
2.44 Flexibility is the degree to which the government can change its debt or tax burden on the economy to maintain programs and meet existing creditor requirements.

2.45 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 government's first payment commitment is to service its debt, leaving no flexibility in the timing of these payments.

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

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

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



See paragraph 2.5 for further information on restatements of prior years.

2.48 Exhibit 2.23 shows that the cost of servicing the public debt as a percentage of the Province’s total revenues is lower in the year ended March 31, 2017 than it was for the previous ten fiscal years. The change in ratio in 2017 results from an increase in the Province’s revenue (as cost to service public debt has remained stable). A decreasing ratio indicates a favourable trend, as proportionately less revenue is needed to service the public debt. We have assessed the short-term and long-term trend as favourable.

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

2.49 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 (\$ billions)	Capital cost (\$ billions)	Net book value/ capital cost (percent)
2013	8.0	13.1	61.1%
2014	8.0	13.5	59.3%
2015	8.6	14.5	59.3%
2016	8.7	15.0	58.0%
2017	8.9	15.6	57.1%

Year	Percent
2013	61.1%
2014	59.3%
2015	59.3%
2016	58.0%
2017	57.1%

See paragraph 2.5 for further information on restatements of prior years.

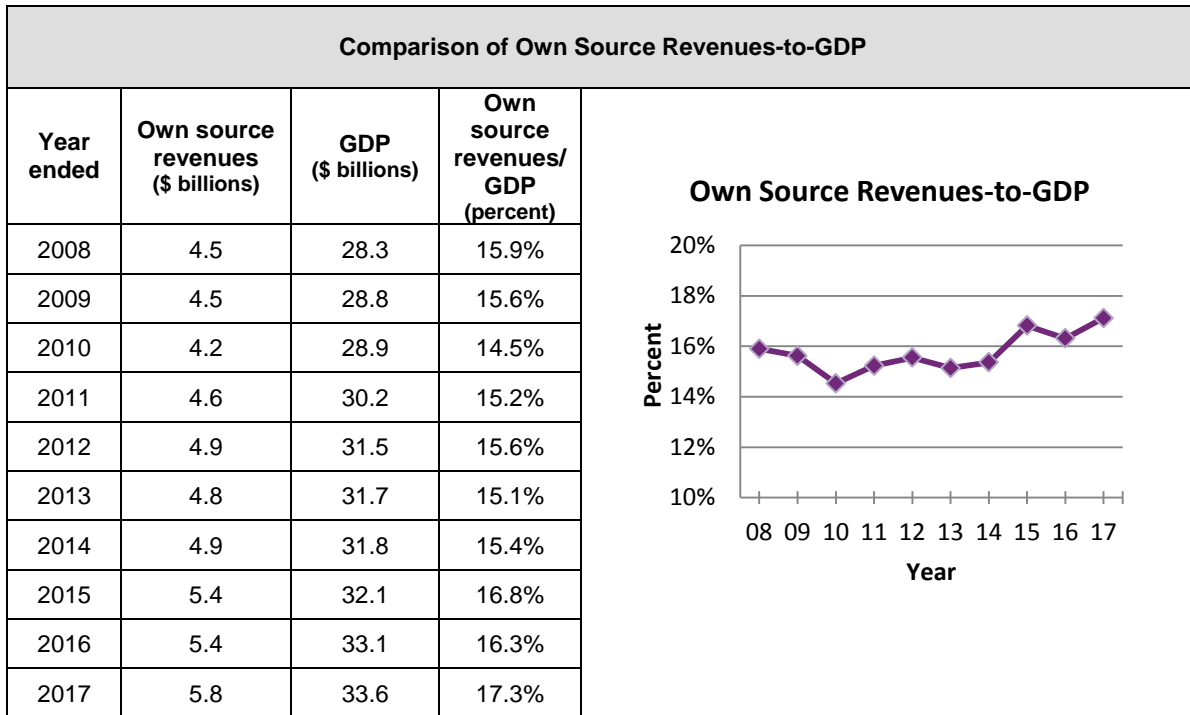
Note: 2014 numbers present audited financial statement figures with no restatements from subsequent years.

2.50 This data indicates that the Province's inventory of capital assets as at March 31, 2017 has 57.1% 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, 2017, and assets with original useful lives of twenty years were still considered useable for just under twelve years on average. As the ratios have declined, we are assessing the short-term trend and the long-term trend as unfavourable.

Own Source Revenues-to-GDP

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

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



See paragraph 2.5 for further information on restatements of prior years.

2.52 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 is increasing and we have assessed the short-term and long-term trend as unfavourable.

2.53 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.

Exhibit 2.26 - Flexibility Indicator Trends

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

Summary of Flexibility Indicators

2.54 As summarized in Exhibit 2.26, our overall assessment on flexibility in the short term and long term are largely unfavourable.

2.55 Although the Province has seen some positive improvements to its short-term sustainability indicator trends, the flexibility indicators have seen some unfavourable shifts. Declining asset lives and increases in own source revenues (e.g. increases to HST and Corporate Income Taxes) have impacted the Province's flexibility for future fiscal decision making.

Vulnerability Indicators

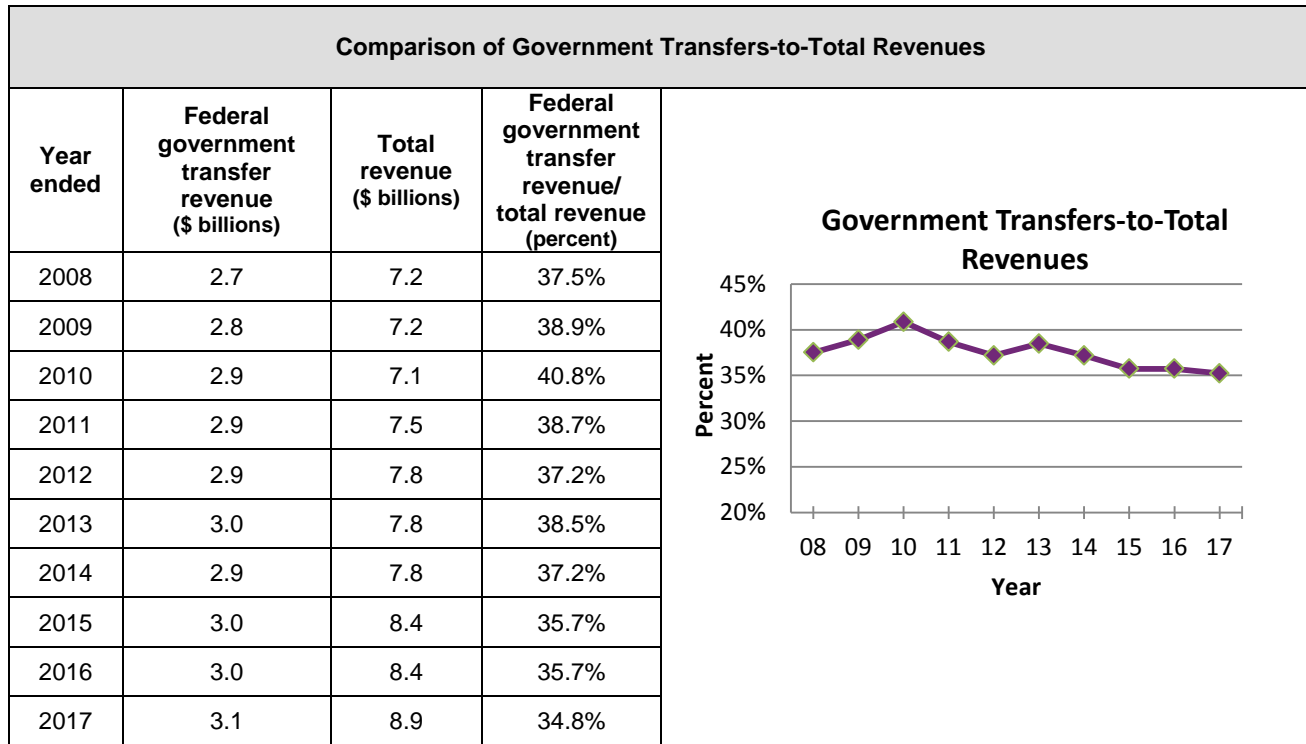
2.56 Vulnerability is the degree to which a government is dependent on sources of funding outside its control or influence.

Government Transfers-to-Total Revenues

2.57 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.

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

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



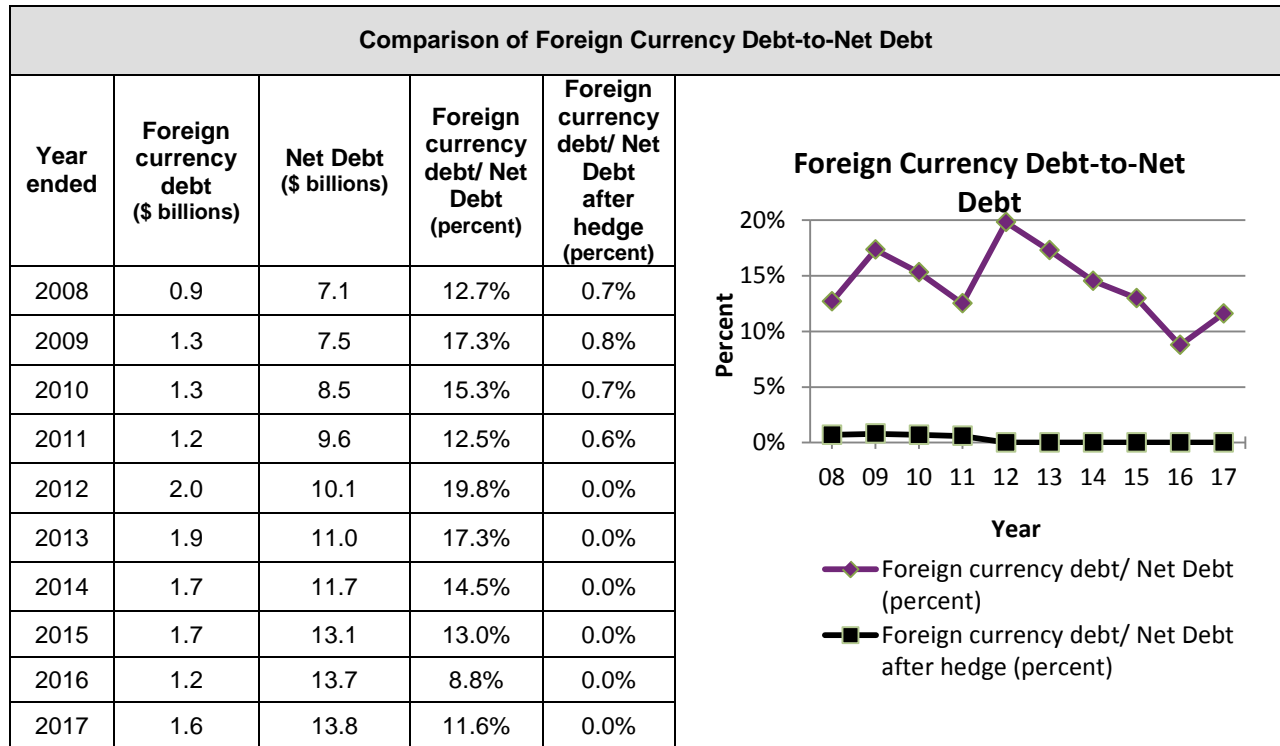
See paragraph 2.5 for further information on restatements of prior years.

2.59 Exhibit 2.27 shows the Province’s reliance on Federal government transfers has been decreasing from 2013. The reliance on federal transfers decreased slightly in 2017 and has remained relatively consistent with prior years. Thus we are assessing the short-term trend and long-term trend as favourable.

Foreign Currency Debt-to-Net Debt

2.60 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



See paragraph 2.5 for further information on restatements of prior years.

2.61 Exhibit 2.28 shows that the Province's foreign currency debt increased from 2008 to 2012 and decreased between 2013 and 2016. In 2017 the Province's foreign current debt increased from 1.2 to 1.6 billion. 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:

- entering into swap agreements which allows repayment of the debt and interest payments in Canadian dollars; and
- entering into forward contracts (which allows the Province to purchase foreign currency at a stipulated price on a specified future date).

2.62 From Exhibit 2.28, we see the risk of exposure to foreign currency fluctuations has been mixed 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	Favourable
Foreign currency debt-to-net debt	Favourable	Favourable

Summary of Vulnerability Indicators

2.63 As summarized in Exhibit 2.29, the Province's vulnerability indicator trends are favourable. In years when New Brunswick Electric Finance Corporation (now amalgamated with NB Power) generated income through its investment in NB Power, the Province's reliance on Federal revenue lessened and this indicator improved. As well, there is reliance on the Federal government in certain years to assist in funding major infrastructure projects, however; this has lessened in recent years given increases in the Province's own source revenues. 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

2.64 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.

2.65 For the year ended March 31, 2017, the Province reported a deficit of \$118.9 million. This is a decrease of \$141.6 million from the \$260.5 million deficit reported for the year ended March 31, 2016.

Deficit

2.66 Exhibit 2.30 shows, at a high level, the reasons for the change in the deficit from March 31, 2016 to March 31, 2017.

Exhibit 2.30 - Analysis of Deficit Decrease

Analysis of Deficit Decrease	
	(millions)
2016 Deficit	\$(260.5)
Increase in provincial source revenue	326.8
Increase in federal source revenue	177.2
Increase in expense	(362.4)
2017 Deficit	\$ (118.9)

2.67 The increase in provincial source revenue of \$326.8 million over the previous fiscal year includes increases in provincial tax revenues of \$261.6 million and increases in other provincial revenue of \$59.5 million.

Provincial tax revenue increased in 2016-2017

2.68 The increase in provincial tax of \$261.6 million was primarily as a result of increases in Harmonized Sales Tax of \$117.5 million reflecting the rate increase to 15% from 13% offset by the new HST credit introduced in July 2016 as well as an increase in Corporate Income Tax of \$102.5 million due to an increase in the general rate as well as prior year adjustments.

2.69 Federal source revenues increased \$177.2 million over the prior year comprising of \$97.4 million increase in Conditional Grants, \$40.4 million higher Fiscal Equalization Payments, and \$39.4 million increase in Unconditional Grants.

Expenses

2.70 Total expenses have increased by \$362.4 million. The most significant increases in expenses were in \$128.5 million in Economic Development followed by a \$112.7 million increase in Central Government. We note that had the magnitude of expense increases been less, the Province may have achieved a surplus this year with the revenue increases achieved.

2.71 Exhibit 2.31 shows the one year and total annual growth rates in expenses between 2015 and 2017.

Exhibit 2.31 - Expense Trends by Function

Expense Trends by Function							
Function	(\$ millions)			(% percentages)			
	2015 Expenses	2016 Expenses	2017 Expenses	2015 Growth Rate	2016 Growth Rate	2017 Growth Rate	Growth Rate 2015-2017
Education and Training	2,083.7	1,846.3	1,886.9	13.5	(11.4)	2.2	(9.4)
Health	2,830.9	2,899.0	2,936.7	1.6	2.4	1.3	3.7
Service of the Public Debt	677.2	678.1	673.3	2.3	0.1	(0.7)	(0.6)
Social Development	1,182.3	1,196.4	1,249.6	9.8	1.2	4.4	5.7
Transportation and Infrastructure	649.7	636.0	632.5	12.4	(2.1)	(0.6)	(2.6)
Protection Services	268.7	281.3	271.5	14.2	4.7	(3.5)	1.0
Resources	197.3	185.3	189.5	(7.8)	(6.1)	2.3	(4.0)
Central Government	540.6	585.3	698.0	(15.1)	8.3	19.3	29.1
Labour and Employment	122.6	135.0	138.6	3.6	10.1	2.7	13.1
Economic Development	247.6	204.0	332.5	7.0	(17.6)	63.0	34.3
Total	8,800.6	8,646.7	9,009.1				
Total Annual Growth Rate				5.1	(1.7)	4.2	2.4

See paragraph 2.5 for further information on restatements of prior years.

2.72 Exhibit 2.31 shows the Province's 2017 one-year expense growth rate is 4.2% compared to the 2016 growth rate (1.7) %. In fiscal 2017, seven out of ten functions showed an increase in the one-year growth rate which implies cost reductions were not realized. Three of ten function areas show a negative growth in 2017 which implies cost reductions were realized. The total expense growth rate between 2015 and 2017 was 2.4% indicating expenses overall are increasing over time.

2.73 We noted the largest increase in 2017 expense growth rate occurred in Economic Development increasing by 63.0% or \$128.5 million. This was due to the timing of several multi-year Regional Development Corporation projects and for Opportunities New Brunswick an increase in provision for loss.

2.74 Central Government experienced the second highest growth rate increase. Central Government expenses were \$112.7 million higher than the previous year mainly due to an increase in the liability for injured workers of \$82.9 million

due to a change in the actuarial valuation. This valuation increased due to increased claim payment trends and claims remaining open longer than in the past.

Revenue

2.75 Exhibit 2.32 shows the one-year growth rate and the total annual growth rate of revenue between 2015-2017.

2.76 Total revenues have increased from 2015 by \$451.0 million. This is attributable to increased provincial source taxes of \$308.2 million and increased revenue from Federal sources of \$120.1 million.

Exhibit 2.32 - Revenue Trends by Source

Revenue Trends by Source							
Source	(\$ millions)			(% percentages)			
	2015 Revenue Amount	2016 Revenue Amount	2017 Revenue Amount	2015 Growth Rate	2016 Growth Rate	2017 Growth Rate	Growth Rate 2015-2017
Provincial Source Revenue							
Taxes	3,983.1	4,029.7	4,291.3	10.8	1.2	6.5	7.7
Licenses and Permits	149.4	153.8	158.7	0.5	2.9	3.2	6.2
Royalties	97.5	89.3	79.5	7.3	(8.4)	(11.0)	(18.5)
Other Provincial Revenue	1,003.5	966.6	1,038.0	16.6	(3.7)	7.4	3.4
Sinking Fund Earnings	195.9	194.1	192.8	(4.2)	(0.9)	(0.7)	(1.6)
Federal Source Revenue							
Fiscal Equalization Payments	1,666.0	1,668.0	1,708.4	6.7	0.1	2.4	2.5
Unconditional Grants	955.8	994.7	1,034.1	0.7	4.1	4.0	8.2
Conditional Grants	388.0	290.0	387.4	5.7	(25.3)	33.6	(0.2)
Total	8,439.2	8,386.2	8,890.2				
Total Annual Growth Rate				8.6	(0.6)	6.0	5.3

As restated – refer to Exhibit 2.2

2.77 Exhibit 2.32 shows the Province's 2017 revenue growth rate was 6.0% compared to 2016 (0.6) %. From 2015-2017 the Province had a revenue growth rate of 5.3%, which implies overall growth during this time period.

Other Provinces – Revenue and Expense Comparison – **2.78** 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			
	2015	2016	2017	Growth Rate 2015-2017	2015	2016	2017	Growth Rate 2015-2017
New Brunswick	8,439.2	8,386.2	8,890.2	5.3%	8,800.6	8,646.7	9,009.1	2.4%
Nova Scotia	10,661.9	10,937.6	11,228.3	5.3%	10,805.6	10,950.8	11,078.7	2.5%
Saskatchewan	14,058.7	13,633.7	13,626.1	(3.1%)	13,996.8	15,153.2	14,844.3	6.1%
Manitoba	14,963.0	15,054.0	15,723.0	5.1%	15,393.0	15,893.0	16,487.0	7.1%

2.79 Exhibit 2.33 shows New Brunswick's 2015-2017 revenue growth rate was 5.3%. Exhibit 2.33 also shows New Brunswick's 2015-2017 expense growth rate was 2.4%.

Exhibit 2.34 - Comparison to Other Provinces – Deficit

Comparison to Other Provinces (Deficit) (\$ millions)			
	2015	2016	2017
New Brunswick	(361.4)	(260.5)	(118.9)
Nova Scotia	(143.7)	(13.2)	149.6
Saskatchewan	61.9	(1,519.5)	(1,218.1)
Manitoba	(430.0)	(839.0)	(764.0)

2.80 As shown in Exhibit 2.34 New Brunswick's deficit has declined 67.1% from \$361.4 million in 2015 to \$118.9 million in 2017. Nova Scotia, which had previously had deficits in 2015 and 2016, had a surplus in 2017.

2.81 While much has been done to address government expense growth, action is needed still to address New Brunswick's remaining deficit and Net Debt. Overall, New Brunswick's revenues continue to fall short of its expenses for the ninth consecutive year.

Continued Growth in Funded Debt

2.82 One area of the Province's consolidated financial statements we continue to remain concerned about is the Province's overall level of debt (Funded Debt). Funded Debt is the total amount the Province is legally bound to repay and has borrowed to fund the Province's obligations. This differs from Net Debt, which is a mathematical accounting calculation presented as total liabilities less financial assets (often seen as a key performance indicator in the public sector). Liabilities include funded debt and interest is paid to creditors on the outstanding balance.

2.83 As shown in Exhibit 2.35 and 2.36, New Brunswick's Funded Debt has increased over \$7.0 billion (74.1%) over the last ten years. Although the increase in the Province's Net Debt from 2016 to 2017 was \$167.4 million, the increase in the Province's funded debt during the same period was \$875.8 million. This increasing trend in Funded Debt is concerning as there is no action plan to address the level of funded debt (or Net Debt as discussed previously).

Exhibit 2.35 - Province of New Brunswick Funded Debt for Provincial Purposes

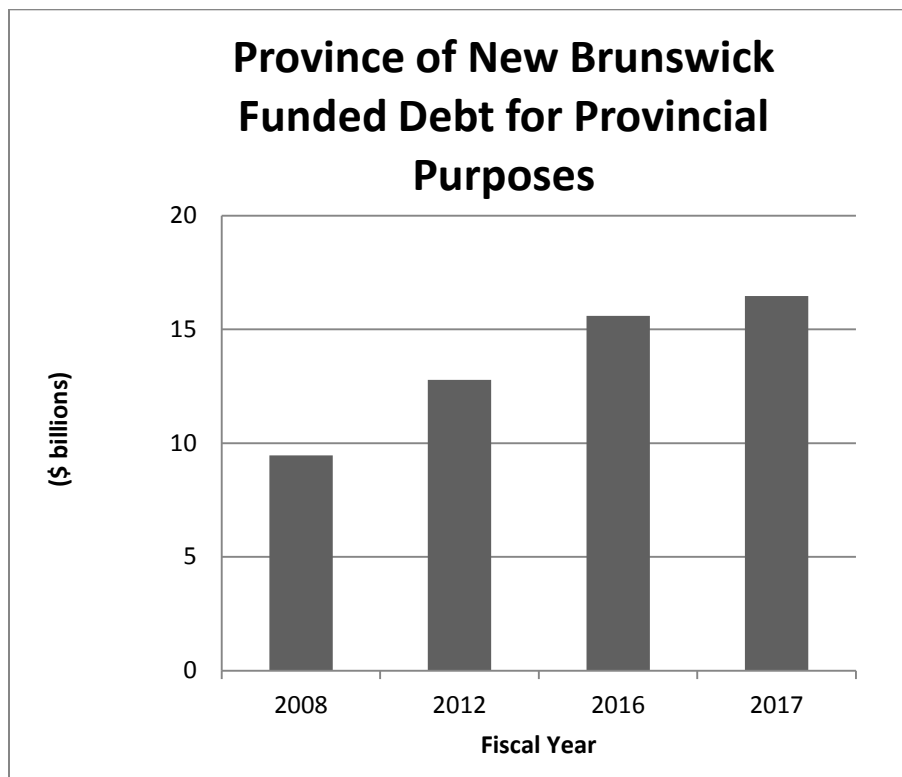


Exhibit 2.36 - Province of New Brunswick Funded Debt Data

Province of New Brunswick Funded Debt (\$ millions)					
	2008	2012	2016	2017	% Increase 2008-2017
Funded Debt	13,064.3	17,440.6	20,107.1	20,891.3	59.9%
NB Power (NB Electric Finance Corporation)	(3,602.6)	(4,654.6)	(4,514.3)	(4,422.7)	22.8%
Funded Debt for Provincial Purposes	9,461.7	12,786.0	15,592.8	16,468.6	74.1%
Year over year increase	n/a	3,324.3	2,806.8	875.8	n/a
Sinking Fund Equity	4,161.9	4,237.0	4,201.3	4,212.7	1.2%
Year over year increase	n/a	75.1	(35.7)	11.4	n/a

2.84 The increase of \$875.8 million in Funded Debt is much less than prior years' increases. However, it is of note that in a year where progress has been achieved in reducing the deficit and limiting the increase in Net Debt, Funded Debt has still experienced a significant increase.

2.85 We note the increase in Funded Debt and Net Debt are not expected to match annually. Funded Debt is the total amount the Province is legally bound to repay, whereas Net Debt is a calculated accounting number (financial assets less liabilities – which include Funded Debt). Funded Debt is the portion on which the Province pays interest. It is important to note the increase in Funded Debt, because if interest rates rise, debt service costs may increase.

Provincial Pension Plans

Pension plan information

2.86 As the accounting for pension plans is material to the Province's consolidated financial statements and involves complex accounting issues, we have presented our observations below.

2.87 Exhibit 2.37 provides a summary of pension plan assets, liabilities and expenses for the significant provincial pension plans. This information was not included in the Province's financial statements. It had been previously included in the notes to the Province's financial statements in 2014 and prior years. We believe the information in Exhibit 2.37 should be included each and every year to provide more detailed and transparent information to readers of the

Province's financial statements. For this year, we have decided to publish the information in our Report to ensure the information is publicly available. Refer to Appendix I for definitions of abbreviations used in Exhibit 2.37.

2.88 We were pleased to note the Comptroller has committed to providing this information in the 2017-2018 audited financial statements.

Exhibit 2.37 - Summary of Significant Pension Plans

Summary of Pension Plan Assets, Liabilities and Expenses (2017)														
in \$ millions														
	NB PSPP	NBTPP	H CUPE	H CBE	NH-N&P	NH-G&S	NH-MGMT	Judges	Members	Sch-Mgmt	Sch-GLTS	Sch-2745	SERP	Total
Province's Share (per public accounts)	100%	50%	50%	50%	100%	50%	100%	100%	100%	100%	100%	100%	100%	
Plan Assets	7,385.9	2,804.8	396.0	961.2	141.6	236.0	92.2	46.6	-	5.7	367.5	89.3	16.9	12,543.7
Accrued Benefit Obligation	7,446.0	2,589.6	550.9	1,057.1	136.3	267.6	86.4	82.2	62.6	18.6	426.4	115.7	303.8	13,143.2
Unamortized Adjustments	(288.7)	(33.2)	(5.2)	(17.3)	0.5	(7.5)	(0.1)	2.4	0.4	-	(21.3)	(16.0)	(24.0)	(410.0)
Valuation Adjustment	228.6	248.4	-	-	4.8	-	5.8	-	-	-	-	-	-	487.6
Net Benefit Liability	-	-	149.7	78.6	-	24.1	(0.1)	38.0	63.0	12.9	37.6	10.4	262.9	677.1

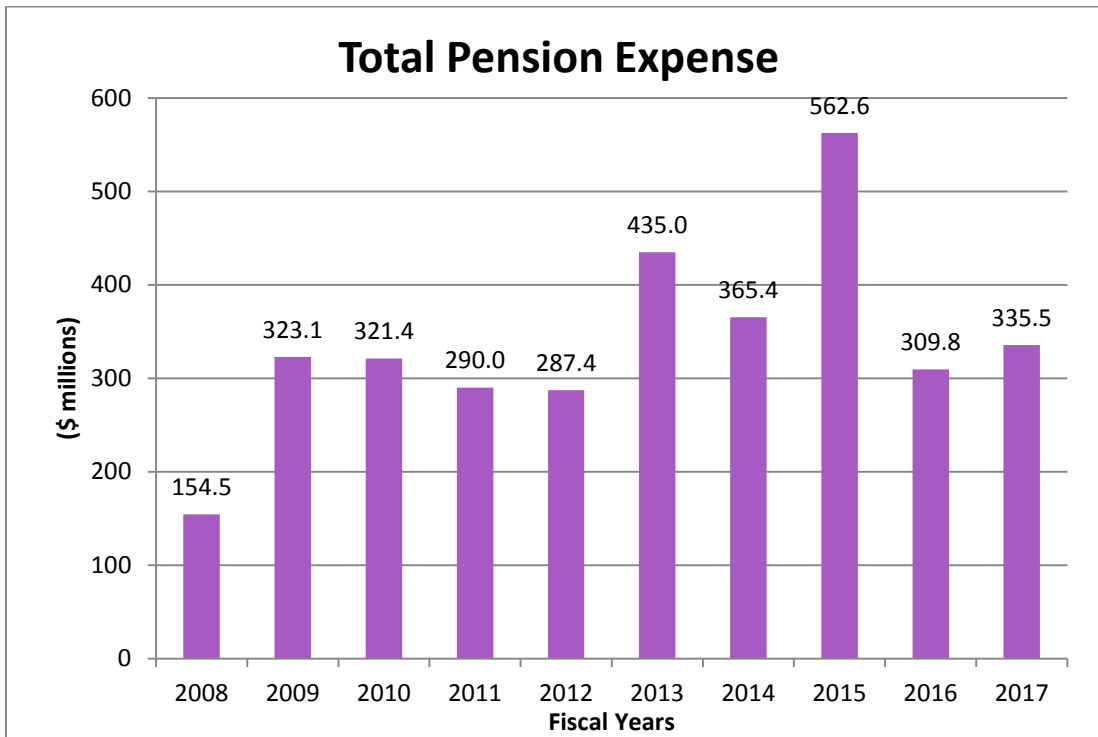
Summary of Pension Plan Expenses (2017)														
in \$ millions														
	NB PSPP	NBTPP	H CUPE	H CBE	NH-N&P	NH-G&S	NH-MGMT	Judges	Members	Sch-Mgmt	Sch-GLTS	Sch-2745	SERP	Total
Employers' Share of Benefits Earned	27.1	54.5	24.5	39.1	4.4	11.0	2.4	3.1	-	-	7.5	2.5	6.0	182.1
Net Interest	12.4	(9.2)	9.1	5.3	0.1	2.3	(0.1)	0.9	2.0	0.7	3.8	1.1	9.8	38.2
Amortization of Adjustments	31.8	2.1	1.3	1.3	0.7	1.2	0.5	0.8	(0.2)	0.5	7.5	3.0	2.3	52.8
Change in Valuation Adjustment	25.9	24.4	-	-	4.8	-	4.0	-	-	-	-	-	-	59.1
Total Retirement Benefit Expense	97.2	71.8	34.9	45.7	10.0	14.5	6.8	4.8	1.8	1.2	18.8	6.6	18.1	332.2

Exhibit 2.38 - Components of Pension Expense (Ten Year Period)

Components of Pension Expense										
(\$ millions)										
	2008	2009	2010	2011	2012	2013	2014	2015*	2016	2017
Employer's share of pension benefits earned	133.8	146.1	131.6	137.4	148.9	177.4	196.0	161.3	176.6	185.4
Net interest expense (revenue)	(9.1)	20.6	118.2	52.9	32.0	62.7	70.4	38.2	5.4	38.2
Plan amendments	-	-	-	-	-	-	(11.2)	(183.2)	-	-
Adjustments recognized due to plan amendment	-	-	-	-	-	-	-	130.9	-	-
Amortization of adjustments	30.3	159.7	87.1	99.7	106.5	194.9	132.1	53.4	60.3	52.8
Change in valuation adjustment	(0.5)	(3.3)	(15.5)	-	-	-	-	247.0	67.5	59.1
Plan settlements (<i>recorded in year as a result of conversion to new pension plan structure</i>)	-	-	-	-	-	-	(21.9)	115.0	-	-
Total pension expense	154.5	323.1	321.4	290.0	287.4	435.0	365.4	562.6	309.8	335.5

*As restated

Exhibit 2.39 - Total Pension Expense



Pension Expense volatility

2.89 Exhibits 2.38 and 2.39 highlight the significant volatility in the annual pension expense over the ten-year period. Pension expense was lowest in 2008 at \$154.5 million and highest in 2015 at \$562.6 million for an increase of \$408.1 million over this period.

Plan settlement pension expenses

2.90 The pension expense for the year ended March 31, 2015 was \$562.6 million, which included a one-time plan settlement expense of \$115 million because of the Province's decision to account for the NBTPP using joint defined benefit accounting.

Exhibit 2.40 - Components of the Pension Balance for Accounting Purposes (Ten Year Period)

Components of the Pension Balance for Accounting Purposes										
(\$ billions)										
	2008	2009	2010	2011	2012	2013	2014	2015*	2016	2017
Estimated accrued benefit obligations	8.3	8.6	8.6	8.9	9.3	10.1	12.3	12.1	12.6	13.1
Value of plan assets	8.0	6.5	7.7	8.4	8.7	9.3	11.5	11.7	11.7	12.5
Pension position before accounting adjustments	0.3	2.1	0.9	0.5	0.6	0.8	0.8	0.4	0.9	0.6
Accounting adjustments	(0.5)	(2.3)	(1.1)	(0.7)	(0.9)	(1.0)	(0.8)	0.2	(0.3)	0.1
Pension balance for accounting purposes	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)	(0.2)	0.0	0.6	0.6	0.7

Note: 2014 numbers present audited financial statement figures with no restatements from subsequent years

**As restated*

Details of the Province's pension balance

2.91 Exhibit 2.40 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 2.40, the pension balance for accounting purposes is the amount that appears on the statement of financial position (or balance sheet) of the Province.

Pension contribution volatility

2.92 Exhibit 2.41 compares the annual pension expense to the amount of contributions made by the Province to the various pension plans.

Exhibit 2.41 - Pension Expense and Contributions

Pension Expense and Contributions										
(\$ millions)										
	2008	2009	2010	2011	2012	2013	2014	2015*	2016	2017
Pension expense	154.5	323.1	321.4	290.0	287.4	435.0	365.4	562.6	309.8	335.5
Employer contributions	272.8	288.6	307.8	313.3	327.0	350.8	216.5	260.9	257.2	259.7
Excess (deficiency) of employer contributions over pension expense	118.3	(34.5)	(13.6)	23.3	39.6	(84.2)	(148.9)	(301.7)	(52.6)	(75.8)

Note: 2014 numbers present audited financial statement figures with no restatements from subsequent years

* Restated

2.93 Exhibit 2.41 shows that for seven of the past ten years, the Province's contributions to its various pension plans have been less than the annual pension expense, whereas three 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 \$530.1 million less than the pension expense.

2.94 The significant increase in the deficiency of employer contributions compared to pension expense in 2015 (\$301.7 million) relates in part to a one time "plan settlement" expense for the NBTPP of \$115 million as a result of the Province's decision to apply joint defined benefit accounting.

Pension contributions for the Province's two largest plans

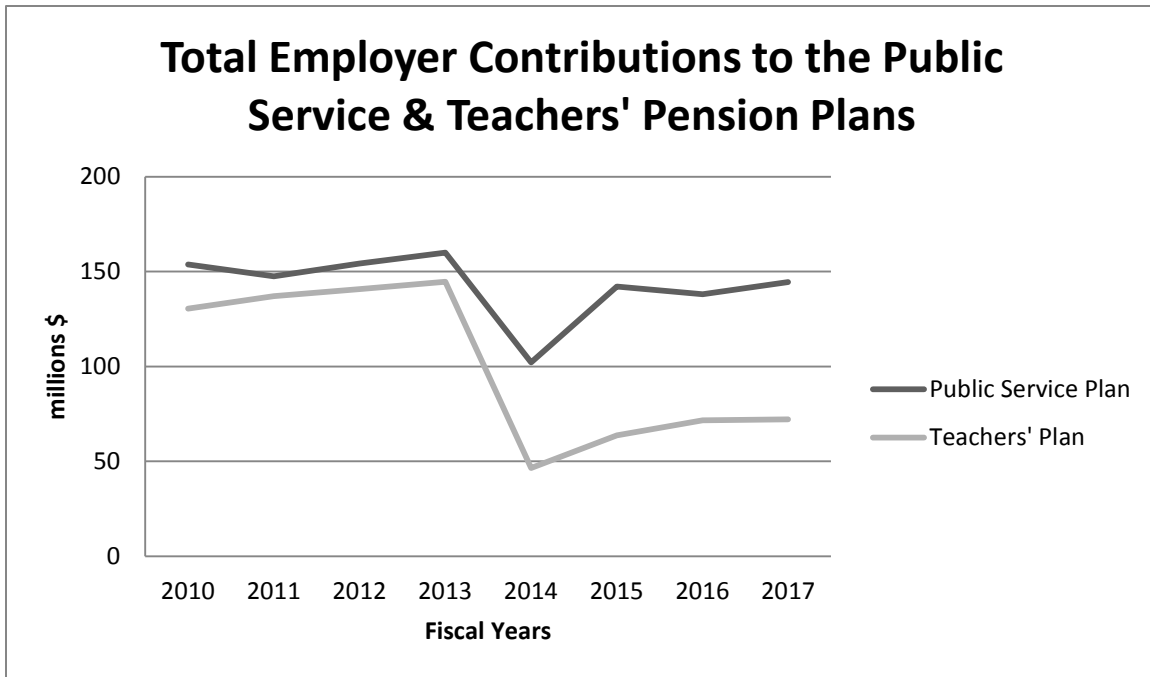
2.95 Further details on pension contributions from 2010 to 2017 for the Province's two largest plans, the New Brunswick Public Service Pension Plan (formerly PSSRP/PSSA), now the NBPSPP and the New Brunswick Teachers' Pension Plan (formerly TPA), now the NBTPP are found in Exhibit 2.42 and 2.43.

Exhibit 2.42 - Pension Contributions for the NBPSPP/PSSRP/PSSA and NBTPP/TPA Plans

Pension Contributions for NBPSPP/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		
2017	NBPSPP	95.8	144.5	-	144.5	240.3	1.51
	NBTPP	63.9	72.1	-	72.1	136.0	1.13
2016	PSSRP	93.4	138.0	-	138.0	231.4	1.53
	NBTPP	59.2	71.7	-	71.7	130.9	1.28
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	175.2	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	144.7	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	140.8	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	153.8	223.4	2.21
	TPA	45.9	41.9	88.6	130.5	176.4	2.84
Total 2010-2017	NBPSPP	646.7	885.3	257.0	1,142.3	1,789.0	1.77
	NBTPP	415.7	433.6	373.5	807.1	1,222.8	1.94

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

Exhibit 2.43 - Total Employer Contributions to the Public Service & Teachers' Pension Plans



2.96 We noted in Exhibit 2.42, the total employer contributions increased by \$6.5 million for the NBPSPP (PSSRP) and the NBTPP employer contributions increased by \$0.4 million in fiscal 2017 compared to fiscal 2016. It is important to note that no special payments were made for the NBPSPP or the NBTPP in fiscal 2017, 2016, 2015 or 2014.

Appendix I – Pension Plan Information

Pension Plan Name Abbreviation	Pension Plan Name	Pension obligations and assets noted in the chapter are measured as at
NBPSPP	New Brunswick Public Service Pension Plan	March 31
NBTPP	New Brunswick Teachers' Pension Plan	March 31
H-CUPE	Shared Risk Plan for Canadian Union of Public Employees of NB Hospitals	December 31
H-CBE	Shared Risk Plan for Certain Bargaining Employees of NB Hospitals	December 31
NH-N&P	Pension Plan for Nursing and Paramedical Employees of New Brunswick Nursing Homes	March 31
NH-G&S	Pension Plan for General and Service Employees of New Brunswick Nursing Homes	March 31
NH-Mgmt	Pension Plan for Management Employees of New Brunswick Nursing Homes	March 31
Judges	Provincial Court Act and Provincial Court Judges' Pension Act	March 31
Members	Members' Superannuation Act and Members' Pension Act	March 31
Sch-Mgmt	Pension Plan for Management Employees of New Brunswick School Districts	December 31
Sch-GLTS	Pension Plan for General Labour, Trades and Services Employees of New Brunswick School Districts	December 31
Sch-2745	Pension Plan for Full-Time CUPE 2745 Employees of New Brunswick School Districts	December 31
SERP	Supplementary Retirement Plan	March 31

Chapter 3

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

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

Province Receives Clean Audit Opinion in 2017

- 3.1** On August 22, 2017 the Auditor General signed an unqualified audit opinion on the consolidated financial statements of the Province of New Brunswick for the year ended March 31, 2017.
- 3.2** The opinion indicates the Province's consolidated financial statements are presented in accordance with Public Sector Accounting Standards. We are very pleased to be able to issue an unqualified audit opinion this year.
- 3.3** 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 and Crown agencies. In addition, we audit major revenue items and a sample of expenditures chosen from departments. We also examine internal controls of significant computerized systems.

Audit Findings

- 3.4** In almost every audit, there are audit findings to be discussed with management. The findings from our March 31, 2017 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 are presented in a letter to the provincial Comptroller. They are also summarized in a report to the Province's audit committee. We have selected the most important of our significant findings to be highlighted in this chapter.
- 3.5** It should be noted, though, not all findings are included in this 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.

3.6 We had several findings from the March 31, 2017 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.

Significant Findings During the Year

3.7 Highlights of our significant audit findings are presented in Exhibit 3.1. Overall, we are pleased at the number of prior year audit recommendations being implemented in 2017. We hope all remaining audit findings are corrected in advance of the next year's audit cycle

Exhibit 3.1 - Highlights and Recurring Themes

Theme	Finding	Finding addressed to	Concern in this area noted for 2017 AG Report	Concern in this area also noted for 2016 AG Report	Concern in this area also noted for 2015 AG Report	Paragraph Number
Accounting Concerns	Presentation of Pension Information	OOC ¹	Yes	Yes	No	3.44
	Unsigned Service Level Agreements with Vestcor	OCHRO ²	Yes	No	No	3.45
	Timely Completion of Crown Corporations and other Government Entity Audits	OOC ³	Yes	Yes	Yes	3.46
	NB Power Classification as a Government Business Enterprise	OOC ¹	Yes	No	No	3.47

Shaded findings indicate a concern in this area was also noted in the 2016 or 2015 AG Reports

¹Office of the Comptroller, Department of Treasury Board

²Treasury Board – Office of the Chief Human Resources Officer

³Findings not addressed to OOC prior to 2017

3.8 In general, departments' responses indicated they agreed with our recommendations and they intend to address our concerns in the coming year.

3.9 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 3.1 may increase 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**

3.10 Our detailed observations, recommendations and departmental responses to the significant findings highlighted in this chapter are presented in Appendix III.

**Additional
Discussion**

3.11 During our 2017 audit of the Province's consolidated financial statements, we noted significant accounting concerns. We also had findings related to accounting concerns in our 2016 and 2015 Annual Reports.

**Accounting
concerns**

3.12 In general, the findings regarding accounting concerns related mostly to appropriate application of accounting standards or other accounting concerns.

3.13 The theme of accounting concerns was notably the area where we saw the greatest implementation of our prior year audit recommendations including: presentation of budget numbers, accounting for school raised funds and netting of assets and liabilities.

3.14 Prior year accounting concerns continue in the areas of presentation of pension information and timely completion of Crown Corporations and other government entity audits (as reported in our prior years' Crown agencies chapter). Also, new in 2017, we had audit findings in areas such as: unsigned service level agreements with Vestcor and NB Power classification as a government business enterprise. Given the significance of these findings, we hope they are addressed before the next audit.

Information Technology Findings

Auditing the Province's systems and information technology

3.15 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 3.2 lists IT systems we examined in the past year.

Exhibit 3.2 - IT work conducted in the past year

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

*** - Work on this system was performed during our special examination of property assessments. Our findings are reported in Volume III Chapter 2.

Key themes

3.16 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 3.3.

Exhibit 3.3 - Information Technology Findings – Key Themes

Theme	Finding	Finding addressed to
System replacement	Teachers' payroll system	EECD
	HRIS payroll system	SNB (HRIS)
	Oracle invoice input	SNB (IPM)
Segregation of duties	Property tax system	Finance (Ptax)
	Access to supplier information	SNB (IPM)
	Review of summer pay accrual	EECD
IT security	Excessive permissions	OOO (Oracle), SNB (IPM) Finance (Ptax)
	Disabling access	SNB (IT Infrastructure), SNB (IPM)
	Account management	SNB (IPM)
	Security of data	SNB (IPM)
	Monitoring – Super user access	SNB (HRIS)
	Management of network access	SNB (IT Infrastructure)
Data integrity/accuracy/ completeness	Quality of sick leave data	EECD
Non-compliance with policies/standards/guidelines	Annual client reviews	SD (NBFamilies)
Other observations from our IT work	Business continuity/disaster recovery plan	SNB (HRIS), OOC (Oracle)

3.17 We are not aware of any significant loss of government assets or errors which resulted from the findings noted in Exhibit 3.3, 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 3.3 we are also concerned for the potential of loss of confidentiality and privacy inherent in the findings if they remain uncorrected.

3.18 Of particular interest again this year is the number of IT systems needing replacing or modernizing. We continue to be concerned about the timeline for replacing these older systems. We understand all three of these outdated systems will be replaced with a new enterprise-wide system for government which will encompass the procurement/supply chain, human resource, financial resource and customer relationship management. We will continue to monitor and report on the progress of the system implementation in

future reports.

3.19 It should be noted, our 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.

System replacement

3.20 As mentioned earlier, this year we found three IT systems need to be replaced or modernized. Similar to prior year, the EECD teachers' payroll system is still at risk of failure, the SNB (HRIS) payroll system will no longer be supported after 2017 and the IPM system (which is used to enter vendor invoices for payment) is no longer fully supported by the supplier. We did note SNB has developed alternative procedures for processing payments should the IPM system fail.

3.21 As mentioned in paragraph 3.18, all three of these systems will be replaced by one new government-wide system which SNB and Treasury Board have joint responsibility for procurement. The project is now in the middle of the procurement process. A request for proposal was issued in September and the project team is in the process of evaluating the responses.

3.22 As we have mentioned in the past, replacing these outdated systems is critical. For example, the teachers' payroll system 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. This year we recommended the EECD update its risk assessments for this system and in particular develop monitoring procedures to prevent/detect fraud in payroll.

Segregation of duties

3.23 This year we had three findings relating to segregation of duties. Maintaining proper segregation of duties helps to reduce the risk of fraud and/or error in financial processes and is necessary for a strong control environment. While our three findings were all different in nature, they ultimately result in risks for the organizations (Finance, SNB, EECD).

3.24 We found:

- banking information could be entered or changed without approval or review from another individual;

- system access allowed users to select and approve items for write-off ;
- roles and responsibilities that establish segregation of duties for a system have yet to be reviewed and approved; and
- information required for preparing significant financial estimates was not reviewed by a second individual.

IT security - Excessive permissions

3.25 We had two findings relating to excessive system access.

- For two systems, we found access to sensitive files such as payment files, images and audit trails was not restricted to only those individuals who require access. The files were stored in a shared location on the network increasing the risk of data manipulation or disclosure of potentially confidential information.
- For another system, we noted progress in monitoring the access of the IT support/development team. Additional procedures are required, however, to reduce the risk of inappropriate and unauthorized transactions and/or system changes.

IT security - Disabling access

3.26 We noted findings in two of our SNB audits relating to disabling system access. We found instances where users' access was not disabled in a timely manner, database accounts were not disabled when access was no longer required, and employees had system access that was no longer required to perform their job responsibilities.

3.27 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 – Account management

3.28 In our SNB (IPM) audit, we noted the passwords for two accounts, which were shared between two individuals, had not been changed since 2010. Not changing passwords on a regular basis increases the risk of fraud or error through unauthorized access to data. Sharing system accounts impacts accountability making it difficult to determine who is responsible for changes.

IT security - Monitoring super user access

3.29 In our SNB HRIS audit, we found an issue with the approval and monitoring of the super user account. Super user accounts have powerful system access and require proper monitoring controls to reduce the risk of

unauthorized changes or updates to the system and data.

***Data integrity/
accuracy/
completeness***

3.30 In our EECD audit, we had one finding relating to the integrity, accuracy and completeness of data. The finding related to the quality of sick leave data for teachers. We found errors in the information provided to actuaries which is used to estimate the sick leave liability for the Province. Providing inaccurate information to the actuaries affects the precision of the estimate which ultimately affects the financial results of the Province.

***Non-compliance with
policies/standards
/guidelines***

3.31 In our SD (NBFamilies) work, we found three cases in 15 items tested where clients' annual case reviews were not up-to-date as required by departmental guidelines. Regular case reviews and client contact helps reduce the risk of clients receiving inappropriate levels of care to meet their needs.

***Other observations –
Disaster recovery and
business continuity
planning***

3.32 In two audits, we noted issues relating to disaster recovery and business continuity planning. In one case, the plan was out of date and in the other case the plan had not been tested in over three years. Having a documented and tested disaster recovery plan helps ensure systems can be recovered in the event of a disaster.

Appendix I - Audit Objectives

3.33 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.

3.34 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.

3.35 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.

3.36 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

3.37 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 (PSAS). 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).

3.38 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

3.39 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.

3.40 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 Energy and Resource Development Missing equipment from various regions	\$ 6,950
Department of Education and Early Childhood Development Missing equipment	\$ 3,883
Department of Transportation and Infrastructure Missing equipment	\$ 16,154
Department of Tourism, Heritage and Culture Missing equipment	\$ 3,500
Department of Justice and Public Safety Missing cash and equipment	\$ 3,054
Department of Environment and Local Government Missing equipment	\$ 140
Department of Post-Secondary Education, Training & Labour Missing cash	\$ 125

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

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

3.43 In 2017, the Province reported lost tangible public assets in the amount of \$33,806 compared to a loss of \$259,700 reported for 2016.

Appendix III - Significant Findings

3.44	Presentation of Pension Information	
<p>We again noted detailed information for \$13 billion in pension plans was not included on a plan by plan basis in the Province's financial statements. It had been past practice to include this information in the notes to the Province's financial statements in 2014 and prior years even though it was not required by Canadian public sector accounting standards (PSAS). We believe the pension information, as well as information for retirement allowances, should be included each and every year on a plan by plan basis to provide more detailed and transparent information to readers of the Province's financial statements. We note at the Audit Committee meeting on August 17, 2017 OOC has agreed to make these disclosures next year.</p>		
Recommendation		Comments from Management
<p>We recommend the Office of the Comptroller disclose on a plan-by-plan basis, pension and retirement allowance information in the financial statements.</p>		<p><i>On a go forward basis, the Office of the Comptroller has committed to disclosing pension and retirement allowance information on a plan by plan basis in the consolidated financial statements.</i></p>
<p>Timeline for Implementation: <i>Implemented by March 31, 2018</i></p>		

3.45	Unsigned Service Level Agreements with Vestcor	
<p>We noted the Treasury Board – Office of the Human Resources Officer (OCHRO) did not have signed service level agreements with Vestcor (the plan administrator of the Province's employee benefit programs) for the day-to-day administration services for certain provincially governed employee benefit programs. Without signed agreements with Vestcor, the Province is exposed to risk that it may not agree with charges or the services provided.</p>		
Recommendation	Comments from Management	
<p>We recommend the Treasury Board – Office of the Human Resources Officer sign service level agreements with Vestcor for the administration of the Province's employee benefit programs.</p>	<p><i>There is representation from Treasury Board on the Governing Committees for the Employee Benefit Programs and Pension Plans. The Governing Committees are responsible for the plan budget, monitoring and oversight of plan administration costs, KPI's, service standards, and risk management.</i></p> <p><i>Treasury Board is currently working on two service level agreements (SLA); one for the plan administration of employee benefits and one for the plan administration of government sponsored pension plans.</i></p>	
<p>Timeline for Implementation: <i>Implemented by March 31, 2018</i></p>		

3.46	Timely Completion of Crown Corporations and Other Government Entity Audits	
<p>Consolidation is the process of combining all the financial statements of Crown corporations and other government entities ('components') into the financial statements of the Government Reporting Entity (GRE). As the auditor of the GRE, we are required to assess the work of external component auditors in order to support our audit work.</p> <p>In our selection of component auditors to review for the 2017 audit, we noted three instances where audits were either not started, or completed at the end of July, the end of our fieldwork. We also noted for other component auditors selected, we were unable to review the audit files until late in our audit fieldwork.</p> <p>To satisfy audit requirements, we performed alternate procedures by auditing significant balances and transactions, and adjusted our internal timelines in order to meet audit deadlines as agreed with the Office of Comptroller. It is essential we review component auditor files in a timelier manner in future periods to ensure these deadlines are respected.</p>		
Recommendations		Comments from Management
<p>We recommend the Office of the Comptroller communicate strict audit completion deadlines to Crown corporations and other government entities in advance of next year's audit.</p>		<p><i>The Office of the Comptroller will communicate audit completion deadlines to crown corporations and other government entities in advance of next year's audit.</i></p>
<p>Timeline for Implementation: <i>Implemented by March 31, 2018</i></p>		

3.47	NB Power Classification as a Government Business Enterprise	
<p>NB Power is classified as a Government Business Enterprise (GBE) within the Government Reporting Entity (GRE). This requires the Province to record its investment in NB Power using the modified equity method – a method that does not combine all balances into the GRE. In order to continue this classification, NB Power must meet certain accounting criteria, including the ability to self-sustain its operations without assistance from the Province.</p> <p>In recent years, NB Power’s ability to self-sustain its operations has been called into question as:</p> <ul style="list-style-type: none"> • There is a \$1 billion deferred regulatory asset for the Pt. LePreau refurbishment which is supported by a forecasted reasonability model (which is not being fully realized as expected); • While debt is slowly decreasing, net earnings (2017- \$27M, 2016 - \$12M) continue to be nominal for an entity with a significant debt burden (2017 – \$4.9B, 2016 - \$4.2B); and • Significant expenditures are expected in the future for the refurbishment of the Mactaquac dam, which will put burden on cash flow. <p>During our audit, we performed an assessment to confirm the entity continues to meet accounting criteria, and thus can continue its classification as a GBE. However, this assessment should be prepared by the Office of the Comptroller annually, in coordination with NB Power.</p>		
<p>Recommendation</p> <p>We recommend the Office of the Comptroller perform an accounting assessment of NB Power’s classification as a Government Business Enterprise on an annual basis. This assessment should be retained for audit purposes, and be available in advance of next year’s audit. The analysis should include a discussion of accounting criteria, and updated model calculations for the reasonability model on an annual basis to ensure the deferred regulatory asset remains collectible.</p>	<p>Comments from Management</p> <p><i>The Office of the Comptroller will perform the accounting assessment in accordance with the recommendation.</i></p>	
<p>Timeline for Implementation: <i>Implemented by March 31, 2018</i></p>		

Chapter 4

Matters Arising from our Audits of Crown Agencies and Federal Claims

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Matters Arising from our Audits of Crown Agencies and Federal Claims

Introduction

- 4.1** In this chapter we discuss our significant findings and recommendations relating to our audits of Crown agencies' financial statements and Federal claims.
- 4.2** 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)
 - Kings Landing Corporation (KLC)
 - New Brunswick Agricultural Insurance Commission (NBAIC)
 - New Brunswick Combat Sport Commission (note: notice to reader, not an audit)
 - New Brunswick Community College (NBCC)
 - New Brunswick Highway Corporation (NBHC)
 - New Brunswick Legal Aid Services Commission (LA)
 - New Brunswick Lotteries and Gaming Corporation (NBLGC)
 - New Brunswick Municipal Finance Corporation (NBMFC)
 - Opportunities New Brunswick (ONB)
 - Premier's Council on Disabilities (PCD)
 - Public Trustee - Trusts administered (OPT)
 - Regional Development Corporation (RDC)
 - Service New Brunswick (SNB)
- 4.3** We also audit the following Federal claim:
- Agreement Respecting Legal Aid and Court-Ordered Counsel (Legal Aid Claim)

4.4 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.

4.5 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.

4.6 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 4.1 presents the Crown agency financial statement audit work in the last year where findings were noted.

Exhibit 4.1 – Crown Agency with Audit Work in the Last Year Where Findings Were Noted

Crown Agency with Audit Work in the Last Year Where Findings Were Noted	Abbreviation	Financial Statement Year End(s) Completed
Centre Communautaire Sainte-Anne	CCSA	March 31, 2016
Collège Communautaire Nouveau - Brunswick	CCNB	March 31, 2017
Kings Landing Corporation	KLC	March 31, 2016
Legal Aid Services Commission	LA	March 31, 2017
Legal Aid Services Commission - Claim	LA	March 31, 2017
New Brunswick Agricultural Insurance Corporation	NBAIC	March 31, 2016
New Brunswick Highway Corporation	NBHC	March 31, 2016
New Brunswick Lotteries and Gaming Corporation	NBLGC	March 31, 2015 & 2016
Opportunities New Brunswick	ONB	March 31, 2016 & 2017
Premier's Council on Disabilities	PCD	March 31, 2016
Public Trustee - Trusts administered	OPT	March 31, 2016
Regional Development Corporation	RDC	March 31, 2016
Service New Brunswick	SNB	March 31, 2017

4.7 We had several findings from our audits of Crown agencies' 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 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

4.8 Highlights and recurring themes of our significant findings are presented in Exhibit 4.2.

Exhibit 4.2 - Highlights and Recurring Themes

	Crown Agency/ Federal Claim	Concerns in this area noted for 2017 AG Report	Concerns in this area also noted for 2016 AG Report	Concerns in this area also noted in 2015 AG Report
Accounting Concerns	CCNB	Yes	Yes	Yes
	CCSA	Implemented	Yes	No
	KLC	Yes	Yes	Yes
	LA	Yes	Yes	Yes
	NBAIC	Yes	Yes	Yes
	NBLGC	Yes	Yes	Yes
	ONB	Yes	*	N/A
	OPT	Yes	Yes	Yes
	PCD	Yes	*	Yes
	RDC	Implemented	Yes	Yes
	SNB	Yes	Yes	N/A
Lack of Segregation of Duties	CCSA	Implemented	Yes	Yes
	KLC	Yes	Yes	Yes
	NBAIC	Yes	Yes	No
	OPT	Yes	Yes	Yes
	ONB	Yes	*	N/A
	PCD	Yes	*	Yes
	SNB	Yes	Yes	N/A

Shaded Crown agencies indicate a concern in this area was also noted in the 2016 or 2015 AG Reports

Continued on following page

**Audit was not completed in time for publication of results in 2016 AG Report*

Exhibit 4.2 - Highlights and Recurring Themes (continued)

	Crown Agency/ Federal Claim	Concerns in this area noted for 2017 AG Report	Concerns in this area also noted for 2016 AG Report	Concerns in this area also noted in 2015 AG Report
<i>Oversight/Governance Concerns</i>	LA	Yes	No	No
	NBAIC	Yes	Yes	Yes
	NBHC	Yes	Yes	Yes
	NBLGC	Yes	Yes	Yes
	ONB	Yes	*	N/A
	PCD	Yes	*	Yes
	RDC	Yes	Yes	No
	SNB	Yes	Yes	N/A
<i>Financial Management/Cash Concerns</i>	CCNB	Implemented	Yes	**
	CCSA	Yes	Yes	**
	KLC	Yes	Yes	**
	LA	Yes	Yes	**
	LA-Claim	Yes	No	**
	NBAIC	Implemented	Yes	**
	NBHC	Implemented	Yes	**
	ONB	Yes	*	**
	PCD	Yes	*	**
	RDC	No	Yes	**
	SNB	Yes	Yes	**
<i>Accounting/Documentation Concerns With Estimates</i>	CCSA	Yes	Yes	No
	NBHC	Yes	Yes	Yes
	RDC	Implemented	Yes	Yes
	SNB	Yes	Yes	N/A
<i>Management of Agreements or Third Party Arrangements</i>	CCNB	Implemented	Yes	Yes
	NBAIC	Implemented	Yes	Yes
	NBCC	Implemented	Yes	Yes
	SNB	Yes	Yes	N/A

Shaded Crown agencies indicate a concern in this area was also noted in the 2016 or 2015 AG Reports

*Audit was not completed in time for publication of results in 2016 AG Report

**New theme in 2016 AG Report.

4.9 The data in Exhibit 4.2 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 (Invest New Brunswick and the New Brunswick Internal Services Agency) or for where we no longer perform the financial

statement audit or Federal claims audit (e.g. New Brunswick Immigrant Investor Fund (2009) Ltd., Agreement on the Transfer of Federal Gas Tax Revenues).

4.10 We are concerned that a number of these findings in Exhibit 4.2 were observed across different agencies. As a result of the same issue arising in different entities, we saw recurring themes emerge over the course of our work. Exhibit 4.2 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***

4.11 There were several accounting concerns noted in our Crown agency audits for 2017 involving nine Crown agencies. Eight of these nine Crown agencies also had a finding regarding accounting concerns in either of our 2016 or 2015 Reports. We are pleased our recommendations were implemented in two Crown agencies (CCSA, RDC) where accounting concerns were noted in past.

4.12 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.

4.13 We noted accounting concerns most often related to:

- inadequate support for accounting balances and reconciliations;
- deficiencies with Crown agencies internal accounting policies or processes;
- management not being aware of changes to accounting standards or not applying new accounting standards properly;
- inconsistent accounting policies for different internal units; and
- inefficient systems and processes for financial statement preparation.

4.14 It is our view that Crown agencies should have sufficient knowledgeable resources available to ensure the accounting standards are appropriately followed and consistently applied.

4.15 Some of the accounting concerns noted in Exhibit 4.2 related to issues observed during our audits, 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

4.16 This year, we observed six Crown agencies where we had concerns regarding proper segregation of duties. Of these six Crown agencies, five also had a segregation of duties finding in our 2016 or 2015 Reports. We are pleased to note one Crown agency (CCSA) implemented our prior year recommendation.

4.17 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.

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

4.19 Given past Crown agency reorganizations, we 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***

4.20 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;
- lack of oversight of key decisions;
- lack of risk management or internal control oversight;
- weaknesses in conflict of interest disclosures; and
- other oversight/governance weaknesses.

4.21 We noted six of these Crown agencies also had oversight/governance concerns reported in either of our 2016 or 2015 Reports.

4.22 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 before our next audit.

***Financial
management/cash
concerns***

4.23 We noted concerns with financial management/cash in seven Crown agencies. Four of these seven Crown agencies also had a finding regarding financial management/cash concerns in either of our 2016 or 2015 Reports. We are pleased to note three Crown agencies (CCNB, NBAIC, NBHC,) where prior year audit recommendations have been implemented.

4.24 The concerns noted include:

- cash management;
- accumulated surplus management;
- disbursement of funds contrary to policies or lack of clarification on appropriateness of expense when policies are silent;
- risk of fraud;
- including insurance proceeds in claim reimbursement; and
- lack of appropriate documentation for asset disposals.

4.25 We are concerned at the nature of these findings as they directly relate to potential loss of assets, expending of public resources and appropriate asset management. They also indicate a greater level of due care is required with public resources to ensure assets are appropriately managed and protected and that proper budgeting practices and approvals are respected. We encourage all Crown agency boards of directors and management to ensure appropriate financial management/cash processes are operating effectively in each of their Crown agencies.

*Accounting/
documentation
concerns with
estimates*

4.26 We noted concerns with the accounting and documentation process for estimates in three Crown agency financial statement audits. Of these three, all had an issue noted in either of our 2016 or 2015 Reports regarding estimates.

4.27 Concerns regarding estimates were noted for significant tangible capital asset values, actuarially determined balances, as well as valuation of receivables. We are pleased to note one Crown agency (RDC) had implemented a prior recommendation regarding estimate processes.

4.28 Estimates involve applying 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.

*Management of
agreements or
third-party
arrangements*

4.29 This year we noted concerns with oversight and management of agreements or third-party arrangements in one Crown agency (SNB) which also had a concern reported in our 2016 Report.

4.30 Specifically, we noted at the time of our 2017 audit that SNB did not have signed agreement with the two Regional Health Authorities (RHAs) and the Department of Social Development for nursing home laundry services. We were informed agreements have been drafted (dated 2015) but both RHAs nor SD have signed them.

4.31 We noted three Crown agencies (CCNB, NBCC, NBAIC) where prior year recommendations were implemented regarding management of agreements or third

party arrangements.

4.32 Our concern regarding management of agreements or third party arrangements may also be present for other Crown agencies we do not audit. We encourage all Crown agencies to ensure there is a clearly documented understanding of the responsibilities/rights/obligations to support significant accounting decisions contained in the Crown agency financial statements.

Applicability to other Crown agencies

4.33 We note a number of these themes from Crown agency audits 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.

Ongoing concerns with IT systems from SNB Amalgamation

4.34 We noted again this year in our audit of SNB that it is operating three separate financial reporting systems and three separate payroll systems. This structure presents significant risk of error or duplication and creates numerous inefficiencies when processing transactions and preparing financial reports.

4.35 While work on a new system is underway, we understand it could still be three to five years before a solution is implemented. We are troubled at the ongoing exposure to risk of error, duplication and general inefficiencies over this time period. Further, we are very concerned it will be difficult for the amalgamated SNB to achieve significant synergies until such internal changes are made.

4.36 We have recommended SNB proceed as quickly as possible in implementing new accounting and payroll systems while still maintaining proper project management processes. If an extended timeframe for completing these projects is expected, SNB should consider combining systems and transactions into one system in the short term.

Importance of timely completion of financial audits and public annual reports

4.37 We noted again this year certain Crown agencies are not completing their public reporting in a timely manner. In the past we have commented on NBLGC's lateness in reporting its annual results publicly. However, we are noticing certain other Crown agencies (those we audit annually or those we have examined recently on a rotational basis) have not yet reported their 2016 annual results or published their 2016 annual reports in a timely manner. Exhibit 4.3 provides

further details on the timeliness of certain Crown agencies annual report publication.

4.38 Producing financial statements and annual reports 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 annual financial reporting obligations.

Conclusion

4.39 While we have not noted any significant fraud, theft or error, the existence of the findings noted in Exhibit 4.2, increases the risk of loss or mistake in agencies' financial reporting. We encourage Crown agencies to address our findings prior to the next audit cycle.

Exhibit 4.3 – Crown Agency Annual Reports

Crown Agency Annual Reports	
Name of Crown Agency	Annual Report for 2016 Publicly Available
Ambulance New Brunswick Inc.	Yes
Collège communautaire du Nouveau-Brunswick	Yes
Financial and Consumer Services Commission	Yes
Horizon Health Network	Yes
Kings Landing Corporation	No
New Brunswick Community College	Yes
New Brunswick Agricultural Insurance Commission	Yes
New Brunswick Credit Union Deposit Insurance Commission	Yes
New Brunswick Highway Corporation	No
New Brunswick Immigrant Investor Fund (2009) Ltd.	No
New Brunswick Legal Aid Services Commission	Yes
New Brunswick Lotteries and Gaming Corporation	No
Office of the Public Trustee	Yes
Opportunities New Brunswick	Yes
Provincial Holdings Ltd.	No
Regional Development Corporation	Yes
Service New Brunswick	Yes
Vitalité Health Network	Yes
New Brunswick Liquor Corporation	Yes
New Brunswick Municipal Finance Corporation	Yes
New Brunswick Power Corporation	Yes
Premier's Council on the Status of Disabled Persons (Premier's Council on Disabilities)	Yes

Source: Chart compiled by AGNB. Data is current as of October 10, 2017 and considers Crown agencies AGNB audits annually or those Crown agencies AGNB has examined recently on a rotational basis.

Appendix I - Audit Objectives

4.40 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.

4.41 We obtain reasonable assurance on the financial statement figures because it would not be cost effective to obtain absolute assurance (our auditors would be required to test every transaction).

4.42 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.

4.43 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

4.44 The Crown agencies 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

4.45 Our Office is responsible for auditing the financial statements or claims listed in paragraphs 4.2 and 4.3. 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.