

REPORT OF THE

Auditor General of New Brunswick

Volume III
Financial Audit

2019

AUDITOR GENERAL
OF NEW BRUNSWICK



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DU NOUVEAU-BRUNSWICK

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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 III of my 2019 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, FCPA, CA, ICD.D
Auditor General

Fredericton, N. B.
December 2019

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Chapter 1

Financial Audit – Key Messages from the Auditor General

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Financial Audit Volume

Report of the Auditor General – Volume III December 2019

What We Found

2019 Surplus, Net Debt, and State of the Province's Financial Condition

- 2019 surplus was \$73 million, Net Debt increased by \$33 million
- Net Debt is now \$14 billion
- **Government encouraged to set multi-year Net Debt reduction targets and/or Net Debt-to-GDP targets**

Results of our Audit of the Province of New Brunswick

- Concerned about NB Power's ability to self-sustain its operations
- Many key IT systems are out of date and Province is in process of replacing them

Future Financial Commitments

- \$5.5 billion in committed future spending
- The *Financial Administration Act* is out of date, long overdue for an update, and the Office of Comptroller should lead change

Transparency of Financial Information

- Over one billion dollars in annual tax expenditures not subject to routine scrutiny by legislators
- No policy for reviewing, approving, and reporting tax expenditure programs
- Non-descriptive categories such as "other" and "general" used in the Province's consolidated financial statements

Local Government Debt

- Local government debt now at \$950 million is also guaranteed by the Province

Property Assessments

- Concerned about continued weaknesses
- Eight recommendations to improve processes over quality control, mass appraisals, review of assessors' work, and review of system access

Contaminated Sites

- Outdated engineering reports used to support \$37 million of the \$44 million contaminated site liability
- Province may be required to clean up contaminates left behind by lessees if lessees do not have up-to-date insurance or financial security (collateral) in place

Financial Audit – Key Messages from the Auditor General

Introduction

1.1 This volume of my Report deals with matters arising from financial audits of the Province of New Brunswick (the Province) and its Crown agencies for the year ended March 31, 2019.

Unqualified (clean) opinion issued on September 12, 2019

1.2 On September 12, 2019, I was pleased to issue an unqualified audit opinion on the Province’s 2019 consolidated financial statements. 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.

AG encourages government to set Net Debt targets

1.3 I am again encouraged by the signs of fiscal progress for the year ended March 31, 2019 as the Province had:

- an annual surplus of \$73 million, the second consecutive surplus; and
- an increase in Net Debt of \$33 million.

1.4 I again encourage government to set multi-year Net Debt reduction targets and/or Net Debt-to-GDP targets, as Net Debt has reached \$14 billion in 2019.

Encouraging but surplus is small in comparison to revenues and expenses

1.5 These results are encouraging, however, a note of caution is required as the small annual surplus was largely driven by increases in tax revenue and transfers from the Federal Government. Corresponding increases in expenses during the year prevented the Province from recording a larger annual surplus.

1.6 In my view, for the Province to significantly improve its fiscal situation, it will need to find a way to restrain spending, consider revenue increases or a combination of both in the future.

\$18 billion in Funded Debt outstanding

1.7 I am also still concerned with the amount of Funded Debt outstanding, which reached a record high of \$18 billion in 2019. This is the long-term debt the Province is legally bound to pay in the future. The annual cost of servicing this debt, mostly consisting of interest costs, was \$648 million.

Local governments have large amount of debt

1.8 An increasing debt burden is not only a problem for the provincial government, but also a challenge for local governments, whose debts are guaranteed by the Province.

1.9 Of New Brunswick's cities, I note the City of Saint John has the highest level of debt at \$230 million, while Edmundston has the highest Debt per Capita at \$4,066 per person. I provide information on the amount of debt outstanding for local governments, and the Province's related obligations in Chapter 9.

Province is committed to \$5.5 billion in future spending

1.10 The Province has committed \$5.5 billion of future spending through existing agreements or contracts. Users of the consolidated financial statements often overlook the impact of this information when assessing the Province's financial condition. I discuss information relating to the Province's future commitments in Chapter 12.

Transparency needed for financial information

1.11 This year I reported on issues relating to transparency of financial information, including:

- Chapter 6 – Tax Expenditures; and
- Chapter 13 – Opportunities to Improve Transparency.

In my view, transparency of financial information is necessary for accurate decision making and for holding the government to account on its past performance. The Province should make every effort to provide transparent information to New Brunswickers.

\$1 billion in tax expenditures not subject to routine scrutiny

1.12 Tax expenditures (tax relief programs) cost close to \$1 billion annually. These programs are not subject to routine scrutiny through the annual budget process or by legislators. I find this very concerning and made two recommendations for the Department of Finance and Treasury Board to improve its processes.

Lack of transparency in the Province's consolidated financial statements

1.13 Another area where the Province has not been transparent is in its use of non-descriptive categories such as “Other” and “General” in its consolidated financial statements. These non-descriptive categories obscure the nature of transactions making financial information less useful and reduce accountability. I provide examples from the Province’s 2019 consolidated financial statements in Chapter 13.

No fraud or inappropriate expenses in audit of MLA expenses

1.14 I am pleased to report, I found no evidence of fraud or inappropriate expenses in my sample of Member of the Legislative Assembly (MLA) expenses. My staff examined 53 expenses during the 2019 fiscal year relating to both incoming and outgoing MLAs. This work is presented in Chapter 5.

Concerns over NB Power's ability to self-sustain its operations remain

1.15 I remain concerned the New Brunswick Power Corporation (NB Power) may not be able to self-sustain its operations in the long term. NB Power’s net income continues to remain at a break-even level (\$20 million in 2019) and it continues to carry a large debt load (\$4.6 billion). My 2019 update is included in Chapter 5. I will continue to monitor this situation in the future.

Aging IT systems still exist

1.16 For the past seven years, I have reported on the Province’s outdated IT systems and the risks associated with operating this old technology. The Province is still in the process of obtaining a new system to replace the outdated ones. I discuss IT risks and provide an update on the progress of the new system in Chapter 5.

Eight recommendations made to improve property assessment controls

1.17 I was surprised by the number of weaknesses still existing in property assessment processes since my 2017 special investigation. In Chapter 11, as part of my 2019 audit of the Province, I made eight recommendations to Service New Brunswick to improve processes over quality control, mass appraisal, review of assessors’ work and review of system access.

Some recommendations have already been addressed

1.18 Since issuing my recommendations, I was informed Service New Brunswick has implemented some of them. I am pleased with this progress, but I am still concerned with weaknesses in property assessment processes. I will follow up on these observations and recommendations in my 2020 audit of the Province’s consolidated financial statements.

Concerned with observations noted relating to contaminated sites

1.19 I am also concerned with my observations relating to contaminated sites which I have noted as part of the regular financial statement audit of the Province. This is an area in which I hope to focus resources in 2020. I discuss observations and recommendations on contaminated sites in chapter 7.

Financial Administration Act is out of date and does not align with current accounting standards or government best practices

1.20 As I have noted in two past reports, I am concerned with the Province's outdated *Financial Administration Act*. In my view, the Act is out of date and does not align with current accounting standards or government best practices, such as the Legislature approving an appropriation before the related spending happens. I have recommended the Office of the Comptroller take the lead in bringing forward/promoting this long overdue change. Further discussion can be found in Chapter 12.

1.21 A listing of findings, observations, and recommendations as presented in this financial audit volume is presented in Exhibits 1.1 and 1.2.

1.22 Detailed financial data for key aspects of the Province's financial reporting can be found in the appendices to this report.

Acknowledgements

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

1.24 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 reports I am presenting today reflects a team effort where each member of the staff has contributed greatly.



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

Exhibit 1.1 - Key Findings and Observations Table

Paragraph	Key Findings and Observations by Chapter
Chapter 2	Annual Surplus
2.1	<i>The Province recorded an annual surplus of \$73 million. This is the Province's second consecutive annual surplus.</i>
Exhibit 2.3	<i>Revenues increased since the prior period due to increases in provincial revenue and transfers from the Federal government. Expenses increased in larger departments, offset by reductions in others.</i>
Chapter 3	Debt
3.3, 3.4	<i>Net Debt increased \$33 million and is now \$14 billion. It has increased \$5.5 billion over the past 10 years.</i>
3.8, 3.11	<i>New Brunswick has the highest Net Debt per capita and Net Debt as a percentage of GDP among comparable provinces.</i>
3.16	<i>We encourage government to set multi-year Net Debt reduction targets and/or Net Debt-to-GDP targets.</i>
3.17	<i>Funded Debt reached a historic high of \$18 billion.</i>
3.20	<i>Debt servicing costs were \$648 million during the year.</i>
3.22	<i>One of the Province's three bond rating agencies improved its outlook on the Province's rating.</i>
Chapter 4	State of the Province's Financial Condition
4.1, 4.3	<i>Our assessment of two short-term and one-long term indicator trends changed since our last report. We concluded the financial condition of the Province improved slightly as a result of the small surplus realized by the Province in 2019.</i>
Chapter 5	Results of our Audit of the Province of New Brunswick's Financial Statements
5.1	<i>An unqualified (clean) audit opinion was issued by the Auditor General on September 12, 2019.</i>
5.8	<i>The Province does not have a formal policy to prevent fraud.</i>
5.14	<i>We found no evidence of fraud or inappropriate expenses in our sample of 53 MLA expenses.</i>
5.24	<i>We found variances between school bank accounts and accounting records which could not be supported.</i>
5.32	<i>We remain concerned on NB Power's ability to self-sustain its operations in the future.</i>
5.35, 5.36	<i>We found combined NB Liquor and Cannabis NB financial statements are not needed.</i>

5.41	<i>The Province has many outdated IT systems which process the majority of the Province's employee payroll and its payments to suppliers, nursing homes, municipalities, etc. Replacing these systems should be a key priority and the Province should proceed as quickly as possible to implement a new system.</i>
5.43, 5.47	<i>The Province plans to replace outdated IT systems. A timeline for implementing a new system has not been finalized.</i>
5.55	<i>We found IT system weaknesses in 6 of our 7 system audits. We are concerned with the nature, number and severity of the weaknesses.</i>
Chapter 6	Tax Expenditures
6.2	<i>The Province forgoes over \$1 billion dollars in tax revenue each year because of tax expenditures.</i>
6.14	<i>Tax expenditures are not subject to any form of routine scrutiny through the annual budget process or by legislators.</i>
6.16	<i>The Province does not have a tax expenditure policy for reviewing and approving tax expenditure programs.</i>
6.18	<i>We found no formal review and approval process exists for the annual review of tax expenditures.</i>
Chapter 7	Contaminated Sites
7.16, 7.17	<i>Outdated engineering reports are used to support \$37 million of the \$44 million liability recorded for contaminated sites.</i>
7.27	<i>Departments of Natural Resources and Energy Development and Agriculture, Aquaculture and Fisheries do not regularly monitor leased sites to confirm if insurance coverage is appropriate.</i>
7.28	<i>Province could be responsible to pay for any clean up of contaminates left behind by lessees.</i>
Exhibit 7.2 and 7.3	<i>The Province has 182 contaminated sites (excluding air borne contaminates) held within six departments and one Crown agency.</i>
Chapter 8	Accounts Receivable
8.1, 8.6	<i>The Province is owed \$2.8 billion in gross accounts receivable of which \$2.2 billion is deemed collectible.</i>
8.14	<i>Service New Brunswick needs to improve its processes for collecting overdue real property tax receivables.</i>
8.26	<i>Not all departments prepare a formal aging of their accounts receivable.</i>
8.49	<i>Treasury Board needs to improve its process for accounts receivable write-offs.</i>
Chapter 9	Local Government Debt
9.1	<i>Debt owing by New Brunswick local governments reached a historic high of \$950 million at December 31, 2018.</i>
9.9	<i>Despite debt increasing over the last 10 years, this has not translated into increased borrowing costs.</i>

Chapter 10	Results of Crown Agency Financial Statement Audits
10.1	<i>For all but one of the Crown agencies we audit, we issued unqualified (“clean”) audit opinions.</i>
10.2	<i>We made recommendations to 7 of 9 Crown agency audits we performed.</i>
Chapter 11	Property Assessments
11.5	<i>We were surprised by the number of weaknesses we are still observing in the property assessment processes at SNB.</i>
11.11	<i>We found weaknesses in the quality control processes SNB uses to verify the accuracy of property assessment values.</i>
11.16, 11.19	<i>We found weaknesses in the mass appraisal processes which are used by SNB each year to estimate a significant number of property assessment values.</i>
11.23	<i>We found much of the work property assessors perform is not reviewed.</i>
11.30	<i>We found weaknesses in the process to review system access for the property assessment system.</i>
Chapter 12	The Province’s Future Financial Commitments
12.1	<i>The Province has committed \$5.5 billion in future spending.</i>
12.12, 12.15	<i>The Financial Administration Act is out of date and, we recommended the Office of the Comptroller take the lead in promoting change.</i>
Chapter 13	Opportunities to Improve Transparency
13.1	<i>“Other and “General” lines in the Province’s consolidated financial statements are not transparent.</i>
13.10	<i>We recommend the Office of the Comptroller improve transparency within the Province’s consolidated financial statements.</i>

Exhibit 1.2 - Recommendations and Responses

Recommendation	Department's response	Target date for implementation
<p>5.12 We recommend the Office of the Comptroller (Internal Audit) develop a formal fraud policy, to include in the Province's Administration Manual.</p>	<p><i>The Office of the Comptroller (Internal Audit) will develop a formal fraud policy for inclusion in the Province's Administration Manual.</i></p>	<p><i>March 31, 2021</i></p>
<p>5.27 We recommend the Department of Education and Early Childhood Development review and improve the process for reconciling school cash amounts at year-end prior to the next reporting period. School cash reconciliations should be retained for audit purposes.</p>	<p><i>Under the Education Act, districts must follow EECD policies. Under the governance structure, the District Superintendent report to the DEC. Policy 101 states that the superintendent has the overall responsibility for ensuring minimum controls as provided in Appendix A are followed for school raised funds. Appendix A states that each bank account must be reconciled monthly. We will advise the districts in question of your observation and remind them of their responsibility. As well, this issue was discussed with the Director of Internal Audit at EECD and will be discussed at the December 2019 Audit Committee meeting. The Committee, which includes district staff, will determine whether or not further action is required.</i></p>	<p><i>December 2019</i></p>

Recommendations and Responses (Continued)

Recommendation	Department's response	Target date for implementation
<p>5.39 We recommend the Department of Finance and Treasury Board:</p> <ul style="list-style-type: none"> • evaluate the purpose and benefit of combining the financial statements of NB Liquor and Cannabis NB; and • amend the <i>New Brunswick Liquor Corporation Act</i> to remove the need for combining the financial statements if they have no purpose and benefit. 	<p><i>The Office of the Comptroller agrees that only the individual audited financial statements for NB Liquor and for Cannabis NB are required for preparation of the Province's annual consolidated financial statements. The Department of Finance and Treasury Board will review the Act and bring forward recommendations regarding the current requirement to produce a combined statement.</i></p>	<p><i>Q4 fiscal 2019-2020</i></p>
<p>6.11 We recommend the Department of Finance and Treasury Board publicly report each year the nature and amount of tax expenditures so that the Province is in line with most other Canadian provinces.</p>	<p><i>The Department will be releasing publicly its first annual Summary of New Brunswick Tax Expenditures in November 2019.</i></p>	<p><i>November 2019</i></p>
<p>6.19 We recommend the Department of Finance and Treasury Board develop a policy for reviewing tax expenditure programs. This policy will help to formalize the process for reviewing, approving and reporting tax expenditure programs for the Province.</p>	<p><i>The Department will develop a formal policy for tax expenditures including the review, approval and reporting processes for future releases of the Department's annual Summary of New Brunswick Tax Expenditures.</i></p>	<p><i>Fall 2020</i></p>

Recommendations and Responses (Continued)

Recommendation	Department's response	Target date for implementation
<p>7.22 We recommend the Department of Natural Resources and Energy Development obtain up-to-date engineering reports in advance of the next provincial audit to support contaminated site liabilities. We recommend the reports subsequently be obtained at least every five years or earlier, if conditions indicate an updated report is needed.</p>	<p><i>The Department has engaged consultants to do assessment work for the Nigadoo mine tailings storage facility (TSF) which will lead up to a pre-feasibility engineering report for TSF closure with updated costs expected in 2022. For Caribou mine, a consultant working for the mine owner is currently reviewing the site closure plan and an update is expected in 2020. DNRED will endeavor to get an initial assessment of liability for each of these two sites in advance of the next provincial audit.</i></p> <p><i>The Department will consider the recommendation around the timelines of updated engineering reports and determine an appropriate schedule. Important factors in our determination will include the cost-benefit of obtaining this information, as well as the complexity and amount of time involved in undertaking the external assessments for accurate reports to be produced. DNRED agrees that updated reports are necessary if conditions change that would have a material impact on the liability.</i></p>	2020-21
<p>7.30 We recommend the Department of Natural Resources and Energy Development obtain and maintain up-to-date proof of insurance or financial security as collateral for all property it leases to third parties.</p>	<p><i>The Department of Natural Resources and Energy Development will annually obtain and maintain up-to-date proof of insurance as collateral for all property it leases to third parties, where appropriate.</i></p>	2020-21

Recommendations and Responses (Continued)

Recommendation	Department's response	Target date for implementation
<p>7.31 We recommend the Department of Agriculture, Aquaculture and Fisheries obtain and maintain proof of insurance or financial security as collateral for all property it leases to third parties.</p>	<p><i>The Department of Agriculture, Aquaculture and Fisheries will implement a process to obtain and maintain proof of the general liability insurance requirements in our leases.</i></p>	<p>2020-21</p>
<p>8.15 We recommend SNB develop a strategy to collect overdue real property tax accounts with specified targets. This strategy should:</p> <ul style="list-style-type: none"> • provide measurable key performance indicators (such as the timeliness and quantity of property tax accounts returned to the Department of Finance and Treasury Board for tax sale purposes), • analyze the feasibility of registering overdue property tax accounts with the Canada Revenue Agency Refund Set-off Program, and • be agreed upon by both parties. 	<p><i>Both the Department of Finance and Treasury Board and SNB have agreed on performance measures including a scheduled reporting timeline.</i></p> <p><i>The feasibility of using CRA set off for property tax continues to be evaluated by the Department. SNB will continue to work collaboratively with the department.</i></p>	<p>Complete</p> <p>Timeline to be determined if deemed feasible</p>
<p>8.44 We again recommend the Department of Finance and Treasury Board and NBLGC resolve recovery of the unauthorized overpayments that were made to First Nations prior to January 1, 2016 as a result of an error in the calculation of gaming revenue.</p>	<p><i>NBLGC will again seek direction from government on this issue.</i></p>	<p>Q2 2019-20</p>

Recommendations and Responses (Continued)

Recommendation	Department’s response	Target date for implementation
<p>8.50 We recommend Treasury Board review requests from Departments, and write-off accounts receivable, in accordance with policy AD-6307 – Deletion of Debts. At a minimum, accounts receivable and loans receivable balances beyond the limitations specified in the <i>Limitations of Actions Act</i> should be written off.</p>	<p><i>The Office of the Comptroller will review guidance currently provided to departments to ensure that it is in accordance with policy AD-6307.</i></p>	<p><i>March 31, 2020</i></p>
<p>11.14 We recommend SNB improve the quality control processes used to verify the accuracy of property assessment values before next year’s billing cycle.</p>	<p><i>SNB has implemented several quality control initiatives over the past few years to ensure accuracy in our property assessments.</i></p> <p><i>Our current antiquated Computer Assisted Mass Appraisal system does not provide the functionality to perform an automated quality control process. As a result, SNB is required to perform its' QC manually (using spreadsheets) until such time that new technology can be introduced.</i></p> <p><i>SNB will take these recommendations under advisement in future QC initiatives while leveraging a risk-based approach.</i></p>	<p><i>Ongoing</i></p>

Recommendations and Responses (Continued)

Recommendation	Department's response	Target date for implementation
<p>11.15 We recommend SNB:</p> <ul style="list-style-type: none"> • include property assessment values used for billing in its quality control processes; and • include the impact of items such as market adjustment factors and new construction as part of quality control processes. 	<p><i>SNB has implemented several quality control initiatives over the past few years to ensure accuracy in our property assessments.</i></p> <p><i>Our current antiquated Computer Assisted Mass Appraisal system does not provide the functionality to perform an automated quality control process. As a result, SNB is required to perform its' QC manually (using spreadsheets) until such time that new technology can be introduced.</i></p> <p><i>SNB will take these recommendations under advisement in future QC initiatives while leveraging a risk-based approach.</i></p>	Ongoing
<p>11.21 We recommend SNB improve the market adjustment factor processes by reviewing the accuracy of market adjustment factors uploaded to the system, as well as any subsequent changes to approved market adjustment factors.</p>	<p><i>SNB has already updated its' QC measures to include enhancements to the MAF processes to ensure the accuracy of MAF uploads to the system.</i></p>	Completed
<p>11.22 We recommend SNB document and retain evidence of all market adjustment factors reviews for audit purposes. This includes the review and approval of market adjustment factors prior to upload.</p>	<p><i>SNB has already updated its QC measures to include enhancements to the MAF processes to ensure the accuracy of MAF uploads to the system.</i></p>	Completed

Recommendations and Responses (Continued)

Recommendation	Department's response	Target date for implementation
<p>11.29 We recommend SNB strengthen its processes to verify the quality of property tax assessment values by using a risk-based approach to review the work of assessors.</p>	<p><i>SNB is currently in the process of finalizing the hiring of a Quality Assurance team which will consist of a Quality Assurance Manager and two (2) Quality Assurance Auditors. This will promote and provide a much needed quality assurance framework for all property assessment data within the Province.</i></p>	<p><i>Ongoing</i></p>
<p>11.35 We recommend SNB include the appropriateness of user roles as part of its user access reviews of the property assessment system.</p>	<p><i>SNB's current antiquated Computer Assisted Mass does not provide the functionality to perform an automated review of roles and system access. With competing IT priorities, it is currently not practical to invest resources into defining additional user access listings.</i></p> <p><i>SNB will explore the potential of implementing guidelines for user access requests with the potential to generate listings to be used when performing access reviews.</i></p>	<p><i>Ongoing</i></p>

Recommendations and Responses (Continued)

Recommendation	Department's response	Target date for implementation
<p>11.36 We recommend SNB:</p> <ul style="list-style-type: none"> • document guidelines for assigning appropriate property assessment system roles to users; and • use these documented guidelines as part of regular user access reviews. 	<p><i>SNB's current antiquated Computer Assisted Mass does not provide the functionality to perform an automated review of roles and system access. With competing IT priorities, it is currently not practical to invest resources into defining additional user access listings.</i></p> <p><i>SNB will explore the potential of implementing guidelines for user access requests with the potential to generate listings to be used when performing access reviews.</i></p>	Ongoing
<p>11.37 We recommend SNB:</p> <ul style="list-style-type: none"> • generate user access listings directly from the property assessment system; and • use these user access listings when performing regular user access reviews. 	<p><i>SNB's current antiquated Computer Assisted Mass does not provide the functionality to perform an automated review of roles and system access. With competing IT priorities, it is currently not practical to invest resources into defining additional user access listings.</i></p> <p><i>SNB will explore the potential of implementing guidelines for user access requests with the potential to generate listings to be used when performing access reviews.</i></p>	Ongoing

Recommendations and Responses (Continued)

Recommendation	Department’s response	Target date for implementation
<p>12.16 We recommend the OOC take the lead in promoting change to the <i>Financial Administration Act</i>. We recommend in particular the OOC focus on changes recommended in past Auditor General reports and develop a timeline for completion.</p>	<p><i>The Office of the Comptroller will review the FAA and identify recommendations by the end of fiscal 2019-2020.</i></p>	<p><i>March 31, 2020</i></p>
<p>13.11 We recommend the Office of the Comptroller break out financial statement lines reported as “General” and “Other” to provide for more transparent and useful financial information to the reader.</p>	<p><i>The Office of the Comptroller will review the “General” and “Other” classifications to identify any balances that may be broken out to ensure comparability to budgeting and to increase transparency.</i></p>	<p><i>March 31, 2020</i></p>

Chapter 2

Annual Surplus

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Annual Surplus

Second Consecutive Surplus

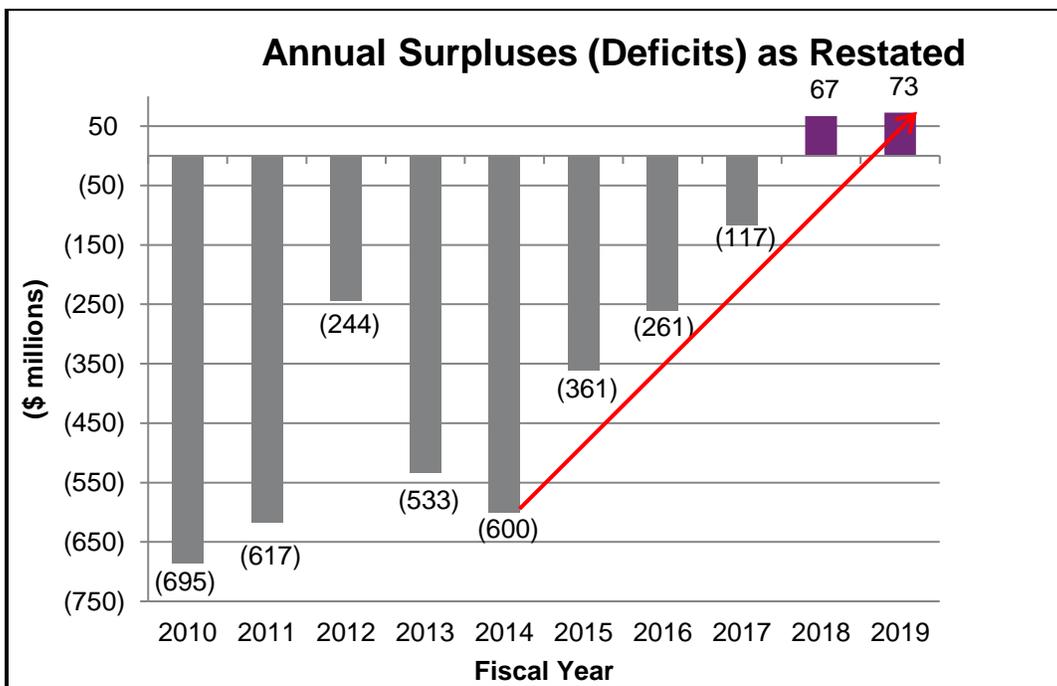
The Province recorded an annual surplus of \$73 million

2.1 For the second consecutive year in a row, the Province of New Brunswick recorded an annual surplus. The Province’s March 31, 2019 audited consolidated financial statements reported a surplus of \$73 million.

2.2 The annual surplus improved by \$262 million from the budgeted deficit of \$189 million originally forecasted. This was mostly due to increased tax revenue and transfers from the Federal Government.

2.3 Last year, we reported the Province recorded its first surplus in a decade. We are pleased to see that the trend move progressively from deficits to small surpluses towards spending less than revenue earned has continued. The ten-year annual surplus/deficit history is presented in Exhibit 2.1 below.

Exhibit 2.1 - Annual Surpluses (Deficits) as Restated

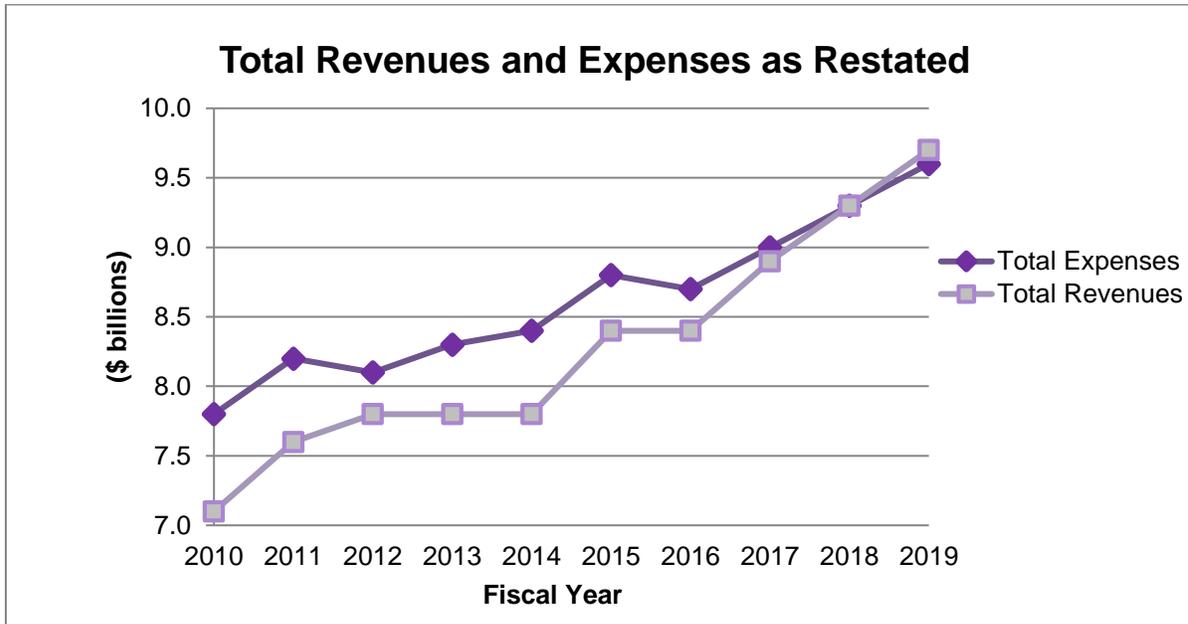


Source: Prepared by AGNB. As restated – refer to Appendix I for supporting information

Results encouraging, but small compared to expenses of \$9.6 billion

2.4 While these results are encouraging to the fiscal situation of the Province, the annual surplus is very small when compared to expenses of \$9.6 billion. As shown in Exhibit 2.2, revenues and expenses continued to grow in 2019.

Exhibit 2.2 - Total Revenues and Expenses as Restated



Source: Prepared by AGNB. As restated – refer to Appendix I for supporting information

2.5 During fiscal 2019, revenues grew \$358 million, slightly faster than expense growth of \$353 million. Each grew by approximately 4% since 2018.

Expenses continued to increase

2.6 While we are encouraged with a second consecutive surplus, expenses continued to increase. In our view, for the Province to significantly improve its fiscal situation, it will need to find a way to restrain spending, consider revenue increases, or a combination of both in the future.

Why Did the Surplus Change from Last Year?

2.7 Exhibit 2.3 shows at a summary level, the reasons for the change in revenues and expenses from March 31, 2018 to March 31, 2019.

Exhibit 2.3 - Analysis of 2019 Annual Surplus

Analysis of 2019 Annual Surplus (\$ millions)

What Happened Since Last Year?		Significant Reasons
Fiscal 2018 Surplus	\$67.0	
Increase in provincial revenue	+ \$166.2	Revenue increased in: Personal Income Tax (+179); Harmonized Sales Tax (+16); and Provincial Real Property Tax (+7). Offset by decreases in: Gasoline and Motive Fuels Tax (-35); and Tobacco Tax (-13).
Increase in transfers from Federal government	+\$191.9	Increases in: Fiscal Equalization Payments (+114); Unconditional Grants (+57); and Conditional Grants (+22).
Increase in expense	-\$352.5	Expenses increased in: Education and Training (+97); Health (+57); Social Development (+71); Protection Services (+68); Labour and Employment (+10); Transportation and Infrastructure (+69); and Central Government (+30). Offset by decreases in: Economic Development (-32); and Service of the Public Debt (-18).
Fiscal 2019 Surplus	\$72.6	

Source: Prepared by AGNB from New Brunswick Public Accounts Volume I for year ended March 31, 2019.

Chapter 3

Debt

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Debt

How do Net Debt and Funded Debt Differ?

3.1 Net Debt and Funded Debt are the two forms of debt presented in the Province's consolidated financial statements. The Province services Funded Debt annually, mostly consisting of interest costs. A table explaining the differences is presented in Exhibit 3.1.

Exhibit 3.1 - Net Debt, Funded Debt and Service of the Public Debt Defined

Net Debt, Funded Debt and Service of the Public Debt Defined

Debt Type	2019 Amount	Definition
Net Debt	\$14 billion	A mathematical accounting calculation presented as total liabilities <i>less</i> financial assets.
Funded Debt	\$18 billion*	Total long-term debenture debt the Province is legally bound to repay and has borrowed.
Service of the Public Debt	\$648 million	Annual cost of servicing Funded Debt ¹ , consisting mostly of interest costs.

*Funded Debt excludes \$4.6 billion borrowed on behalf of NB Power

Source: Prepared by AGNB. Refer to Appendix I for supporting information

Why does Net Debt matter?

3.2 Net Debt is often seen as a key performance indicator in the public sector because it offers insight into the financial health of the Province. It provides information about future revenue requirements to meet past spending.²

¹ Service of the Funded Debt includes interest, interest on capital leases, and interest on short-term borrowing offset by short-term investment income, amortization of foreign exchange gains and losses and amortization of discounts and premiums which were incurred on the issuance of provincial debentures.

² <https://www.frascanada.ca/-/media/frascanada/psab/news/psab-statement-of-principles-a-revised-reporting-model-for-the-canadian-public-sector-may-2018-en.pdf?la=en&hash=D42895384A8D7F01CDB4FC0C7AF0EC7683ED62D>

Why did Net Debt Increase in a Surplus Year?

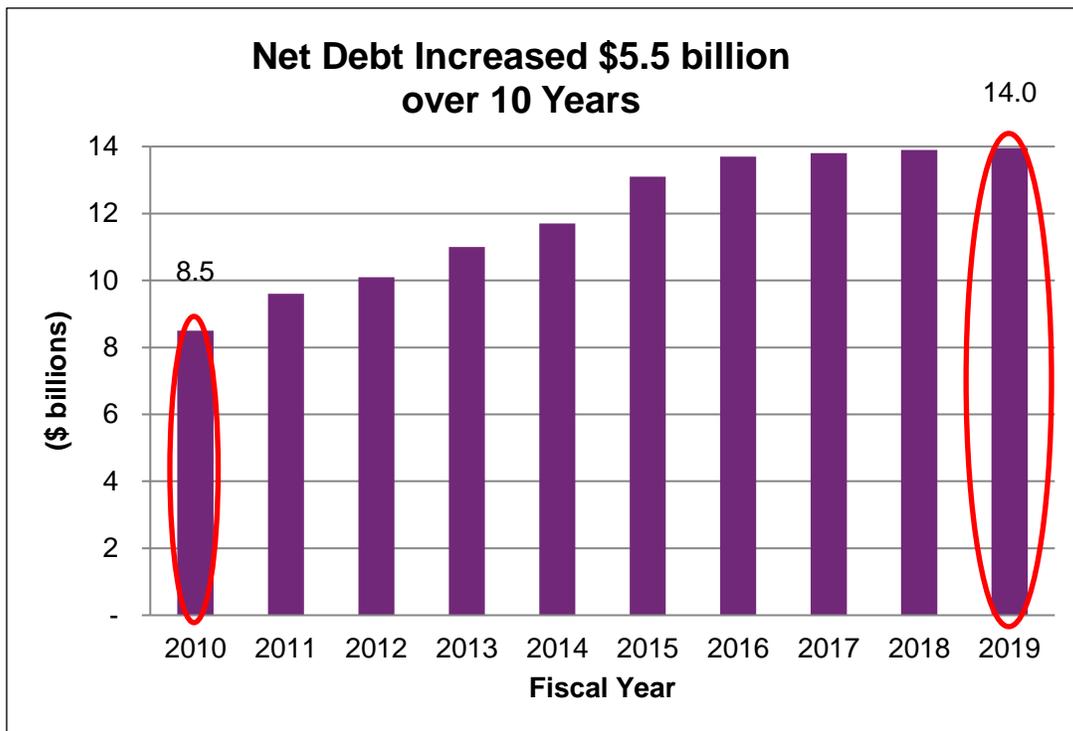
3.3 Net Debt increased by \$33 million in 2019. This is a 0.2% increase since last year and is the lowest year over year percentage increase since 2007.

Net Debt increased \$5.5 billion over 10 years

3.4 As of March 31, 2019, New Brunswick has \$14 billion in Net Debt. Over the past ten years, Net Debt has increased \$5.5 billion due to annual deficits and increases in capital assets.

3.5 Exhibit 3.2 shows the increase in Net Debt over the last ten years.

Exhibit 3.2 - Net Debt Increased \$5.5 billion over 10 Years



Source: Prepared by AGNB. As restated – refer to Appendix I for supporting information

Purchase of capital assets impact Net Debt

3.6 Annual surplus is just one component of the Net Debt calculation. Other components of the calculation are the purchase and depreciation of capital assets (e.g. roads, buildings and equipment) and other smaller items.

3.7 Exhibit 3.3 details amounts included in the calculation of Net Debt for the year ended March 31, 2019.

Exhibit 3.3 - Understanding the Net Debt Calculation



Source: Prepared by AGNB using 2019 Public Accounts

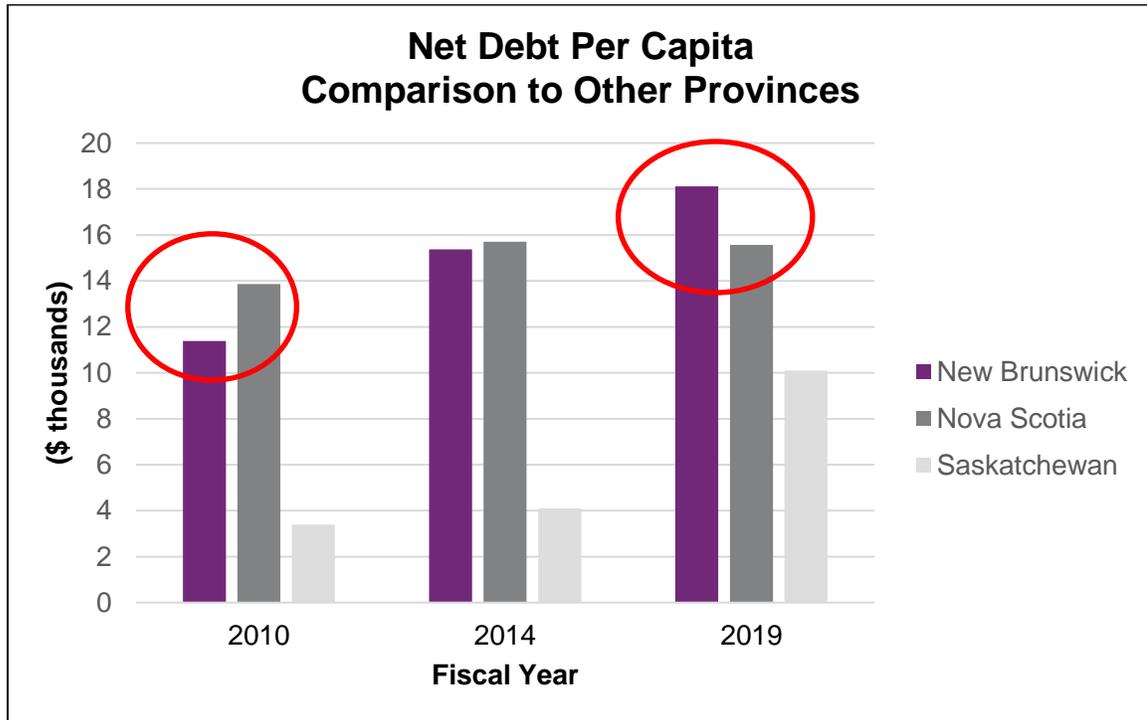
How Does New Brunswick Compare to Other Provinces?

Net Debt per capita higher than other provinces with similar populations

3.8 The Net Debt per capita (*per New Brunswicker*) is higher than other provinces with similar populations or economies. Per capita includes all members of the population such as adults and children.

3.9 A comparison of Net Debt per capita to Nova Scotia and Saskatchewan is presented in Exhibit 3.4 below.

Exhibit 3.4 - Net Debt per Capita Comparison to Other Provinces



Source: Prepared by AGNB. As restated – refer to Appendix I for supporting information.

3.10 Net Debt per capita at March 31, 2019 was \$18,100 and is \$6,700 higher than the \$11,400 reported in 2010. New Brunswick surpassed Nova Scotia during the ten-year period. Net Debt per capita is expected to decrease to \$18,000, based on the Government’s approved budget.

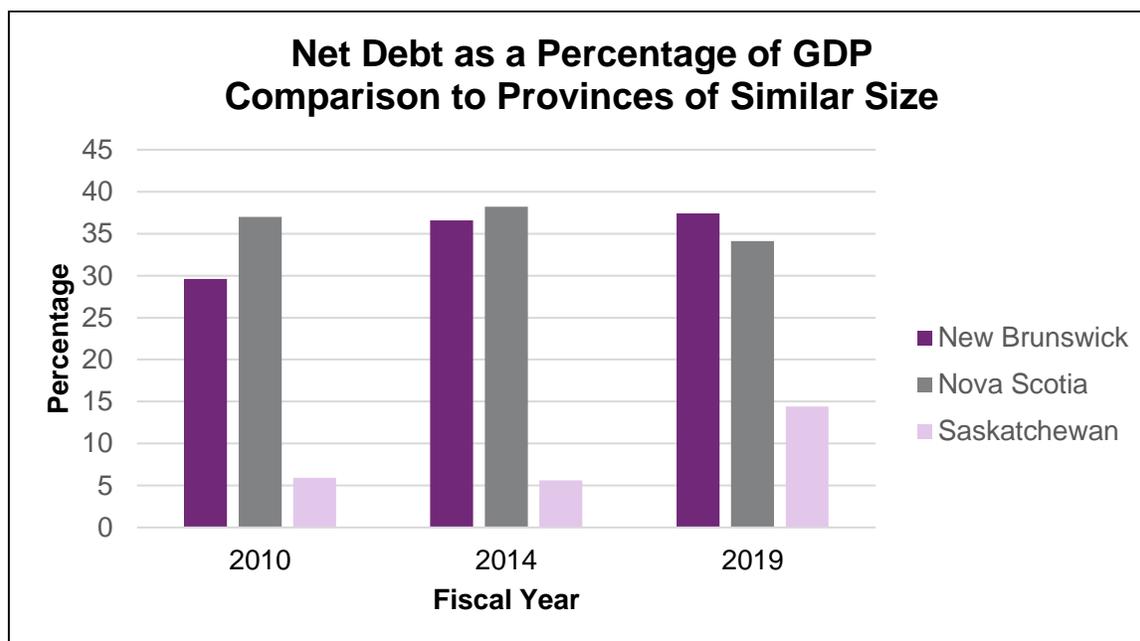
Net Debt as a percentage of GDP higher than other provinces with similar populations

3.11 New Brunswick also had the highest Net Debt as a percentage of Gross Domestic Product (GDP)³ among comparable provinces, which indicates higher Net Debt to economic activity.

3.12 A comparison of Net Debt as a percentage of GDP to Nova Scotia and Saskatchewan is presented in Exhibit 3.5.

³ Gross Domestic Product (GDP) measures the value of all final goods and services produced in an economy in a given period of time.

Exhibit 3.5 - Net Debt as a Percentage of GDP Compared to Provinces of Similar Size



Source: Prepared by AGNB. Refer to Appendix I for supporting information.

3.13 New Brunswick's Net Debt as a percentage of GDP has increased from 29.6% in 2010 to 37.4% in 2019. The percentage increase over the ten-year period was greater than Nova Scotia and less than Saskatchewan.

New Brunswick's ability to reduce Net Debt challenging

3.14 New Brunswick's ability to reduce Net Debt is challenging because of an aging population, an unemployment rate higher than the national average, and slow economic growth.

3.15 This elevated level of Net Debt could eventually lead to the government being unable to provide the same level of programs and services such as health care, education, roads, schools and hospitals. An even higher demand will exist on future generations to pay for past expenses.

Auditor General encourages government to set Net Debt targets

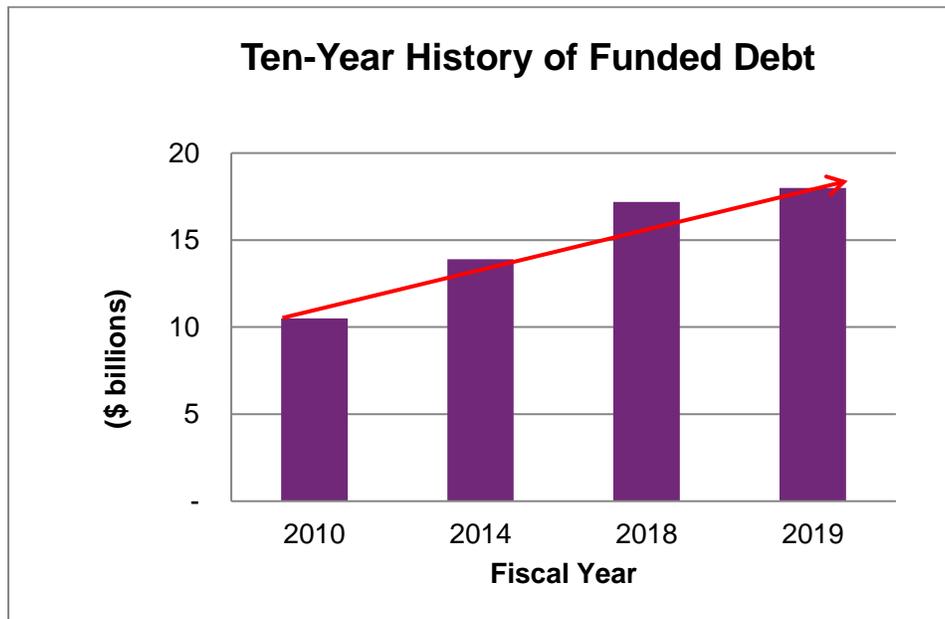
3.16 While we are pleased the increase in Net Debt has slowed, action is required to address this elevated level of Net Debt. We encourage the government to set multi-year Net Debt reduction targets and/or Net Debt-to-GDP targets.

These could be similar to the multi-year plan released for continued annual surpluses over the next four years (2020-23). At the time of writing this chapter (October 2019), no multi-year reduction targets for Net Debt and/or Net Debt-to-GDP have been publicly set.

Funded Debt Reaches New Historic High

3.17 New Brunswick’s Funded Debt for provincial purposes (“Funded Debt”) was \$18 billion at March 31, 2019, a new historic high. It has increased by \$800 million in the past year, and by \$7.5 billion in the past 10 years as shown in Exhibit 3.6.

Exhibit 3.6 - Ten-Year History of Funded Debt



Source: Prepared by AGNB. Refer to Appendix I for supporting information

Funded Debt consists mostly of bonds

3.18 Funded Debt is like household debt which many New Brunswickers have. The Province must make interest payments on its outstanding balance and repay principal as Funded Debt matures. The Province’s outstanding Funded Debt balance consists mostly of bonds issued in the financial market.



3.19 To put the balance in simple terms, if the Province repaid \$100 million per year, it would take 180 years to repay \$18 billion. If we include NB Power’s debt of \$4.6 billion, then we add another 46 years for a total of 226 years to repay the debt at this rate. Also, this does not include the annual cost of interest, also known as servicing the public debt.

Service of Funded Debt was \$648 million last fiscal year

3.20 In the last fiscal year, service of this debt, including paying interest, was \$648 million. This is an annual cost and does not reduce the principal amount outstanding.

Interest cost larger than Department of Public Safety

3.21 If this interest cost was a department, its budget would be larger than the Department of Public Safety.

Rating Agencies Respond to Province’s Fiscal Situation

Bond rating trend outlook improved from negative to stable

3.22 In April 2019, one of the Province’s three bond rating agencies improved its outlook on the Province’s bond rating. This was due to the rating agency’s improved confidence in the Province to deliver on its fiscal policy commitments to put finances on a sustainable long-term path.⁴

⁴ DBRS. (2019, April 18). *DBRS Changes Trend on New Brunswick to Stable from Negative, Confirms Ratings at A (high) and R-1 (middle)* [Press Release]. Retrieved from <https://www.dbrs.com/research/343853/dbrs-changes-trend-on-new-brunswick-to-stable-from-negative-confirms-ratings-at-a-high-and-r-1-middle>

3.23 The improved outlook could affect the Province’s ability to raise cash (issue bonds), as New Brunswick bonds may be more attractive to investors.

3.24 The Dominion Bond Rating Service (DBRS) upgraded the Province’s bond rating trend from negative to stable. In an April 2019 press release, DBRS stated it changed the trends “...because of the meaningful improvement in the Province’s fiscal and debt outlook.”⁵

Moody’s Investor Service did not change bond rating

3.25 Moody’s Investors Service did not change the Province’s bond rating trend, however, in April 2019 it stated its rating is based on “the expectation of the stabilization of the province’s debt burden alongside a return to balanced budgets after a lengthy period of consolidated deficits”.⁶

S&P Global Ratings did not change bond rating

3.26 S&P Global Ratings, the third bond rating agency, did not change its bond rating trend for the Province.

⁵ DBRS. (2019, April 18). *DBRS Changes Trend on New Brunswick to Stable from Negative, Confirms Ratings at A (high) and R-1 (middle)* [Press Release]. Retrieved from <https://www.dbrs.com/research/343853/dbrs-changes-trend-on-new-brunswick-to-stable-from-negative-confirms-ratings-at-a-high-and-r-1-middle>

⁶ Moody’s Investors Services. (2019, April 9). *Announcement of Periodic Review: Moody’s announces completion of a periodic review of ratings of New Brunswick, Province of* [Press Release]. Retrieved from https://www.moody.com/research/Moodys-announces-completion-of-a-periodic-review-of-ratings-of--PR_397212

Chapter 4

State of New Brunswick's Financial Condition

Contents

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State of New Brunswick's Financial Condition

What do the 2019 Financial Results Tell Us About the Province's Financial Condition?

Financial condition improved slightly in 2019

4.1 The Province of New Brunswick's (the Province) 2019 financial condition improved slightly from 2018. Short-term trends continue to improve as a result of the small surplus realized by the Province in 2019. To improve the financial health of the Province these positive trends need to continue in the future.

4.2 We reached this conclusion by analysing twelve financial indicators¹ used to assess a public sector entity's financial state; they provide a broader view of the Province's financial condition. See Exhibit 4.4 for a complete summary of all financial indicators.

Three changes trends since our 2018 report

4.3 Since our last report in 2018, we changed our assessment of:

- one sustainability long-term indicator trend changed from unfavourable to favourable (paragraph 4.40);
- one flexibility short-term indicator trend changed from unfavourable to neutral (paragraph 4.55); and
- one vulnerability short-term indicator trend changed from favourable to neutral (paragraph 4.61).

The small negative trend change of the vulnerability short-term indicator was not significant enough to affect our overall conclusion that the Province's financial condition improved slightly from 2018.

¹ 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.

Can the Province Sustain Its Existing Programs?

4.4 The Province's ability to sustain existing programs and services without significantly increasing Net Debt improved slightly during 2019 mainly as a result of the Province's 2019 surplus. We were, therefore, able to assess five of the seven short-term sustainability indicators as favourable again this year. Past deficits and the significant amount of Net Debt prevent us from assessing many long-term indicators as favourable. We have, however, changed our assessment for one long-term indicator, "total expenses-to-GDP" from unfavourable to favourable.

4.5 Exhibit 4.1 presents a summary of the Province's sustainability indicators. We have assessed sustainability as mostly favourable in the short term and as largely unfavourable in the long term.

Sustainability defined

4.6 Sustainability indicates if the Province can maintain programs and meet existing creditor payments without increasing the burden on the economy.

Exhibit 4.1 - Sustainability Indicator Trends

Sustainability Indicator Trends

Sustainability indicator	Short-term trend	Long-term trend
Assets-to-liabilities	Favourable	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	Favourable	Unfavourable
Accumulated deficit-to-GDP	Favourable	Unfavourable
Total expenses-to-GDP	Neutral	Favourable

Source: Prepared by AGNB.

Is the Province Flexible in Its Ability to Raise Taxes and Borrow?

Largely unfavourable trends

4.7 Despite a small improvement in one short-term indicator since 2018, in our view the Province's flexibility in its ability to raise taxes and borrow is still largely unfavourable in the long term because of:

- declining asset lives (such as schools, highways and bridges that will need to be replaced in the future); and
- increases in own source revenues (such as increases in HST and Corporate Income Taxes which reduce the ability to raise further in the future).

4.8 As summarized in Exhibit 4.2, we have assessed flexibility in both the short and long term as largely unfavourable.

Flexibility defined

4.9 Flexibility is the degree to which a government can change its debt or tax burden on the economy to maintain programs and meet existing creditor requirements. When flexibility decreases a government is less able to pay for its expenses with its internally generated revenue.

Exhibit 4.2 - 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	Neutral	Unfavourable

Source: Prepared by AGNB.

Is the Province Vulnerable from Relying on Outside Sources of Revenue?

Favourable trends overall

4.10 Despite a small negative change in one short-term indicator from favourable to neutral, in our view the Province is less vulnerable from outside revenue sources because of:

- increases in the Province's own source revenue;
- relying less on the Federal government to assist in funding major infrastructure projects in the long-term; and
- managing and controlling its exposure from changes in foreign currencies.

4.11 As summarized in Exhibit 4.3, we have largely assessed vulnerability in both the short and long term as favourable.

Vulnerability defined

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

Exhibit 4.3 - Vulnerability Indicator Trends

Vulnerability Indicator Trends

Vulnerability indicator	Short-term trend	Long-term trend
Government transfers-to-total revenue	Neutral	Favourable
Foreign currency debt-to-Net Debt	Favourable	Favourable

Source: Prepared by AGNB.

Summary of Financial Indicators

4.13 In Exhibit 4.4, we summarize our analysis of all the Province's financial indicators. In this exhibit we show:

- the indicators for each category (sustainability, flexibility, and vulnerability);
- the purpose of the indicator;
- the short-term (two year) and long-term (ten year) trends; and
- a reference within this chapter of where we discuss the indicator in more detail.

Exhibit 4.4 - Summary of Financial Indicators

	Indicator	Purpose	Short-Term Trend	Long-Term Trend	Change in Trends from Prior Year	Paragraph
Sustainability	Assets-to-liabilities	Measures extent that government finances its operations by issuing debt	Favourable	Unfavourable	No change	4.15
	Financial assets-to-liabilities	Measures whether future revenues will be needed to pay for past transactions	Favourable	Unfavourable	No change	4.19
	Net Debt-to-total annual revenue	Shows whether more time is needed to pay for past transactions	Favourable	Unfavourable	No change	4.23
	Expense by function-to-total expenses	Shows the trend of government spending over time	Neutral	Neutral	No change	4.27
	Net Debt-to-GDP	Shows the relationship between Net Debt and the activity in the economy	Favourable	Unfavourable	No change	4.33
	Accumulated deficit-to-GDP	Measures the sum of the current and all prior year operating results relative to the growth in the economy	Favourable	Unfavourable	No change	4.37
	Total expenses-to-GDP	Shows the trend of government spending over time in relation to the growth in the economy	Neutral	Favourable	Long-term Trend Change from Unfavourable	4.40
Flexibility	Public (Funded) debt charges-to-revenues	Measures extent that past borrowing decisions limits ability to meet current financial and service commitments	Favourable	Favourable	No change	4.47
	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	Unfavourable	No change	4.51
	Own source revenues-to-GDP	Measures extent income is taken out of the economy	Neutral	Unfavourable	Short-term Trend Change from Unfavourable	4.55
Vulnerability	Government transfers-to-total revenues	Measures the dependence on another level of government	Neutral	Favourable	Short-term Trend Change from Favourable	4.61
	Foreign currency debt-to-Net Debt	Measures the government's potential vulnerability to currency fluctuations	Favourable	Favourable	No change	4.66

Source: Prepared by AGNB.

Detailed Support for Sustainability Indicators

Sustainability defined **4.14** Sustainability indicates if the Province can maintain programs and meet existing creditor payments without increasing the Funded Debt on the economy.

Comparing Assets-to-Liabilities

No change from last year **4.15** We have assessed the short-term trend as favourable and the long-term trend as unfavourable.

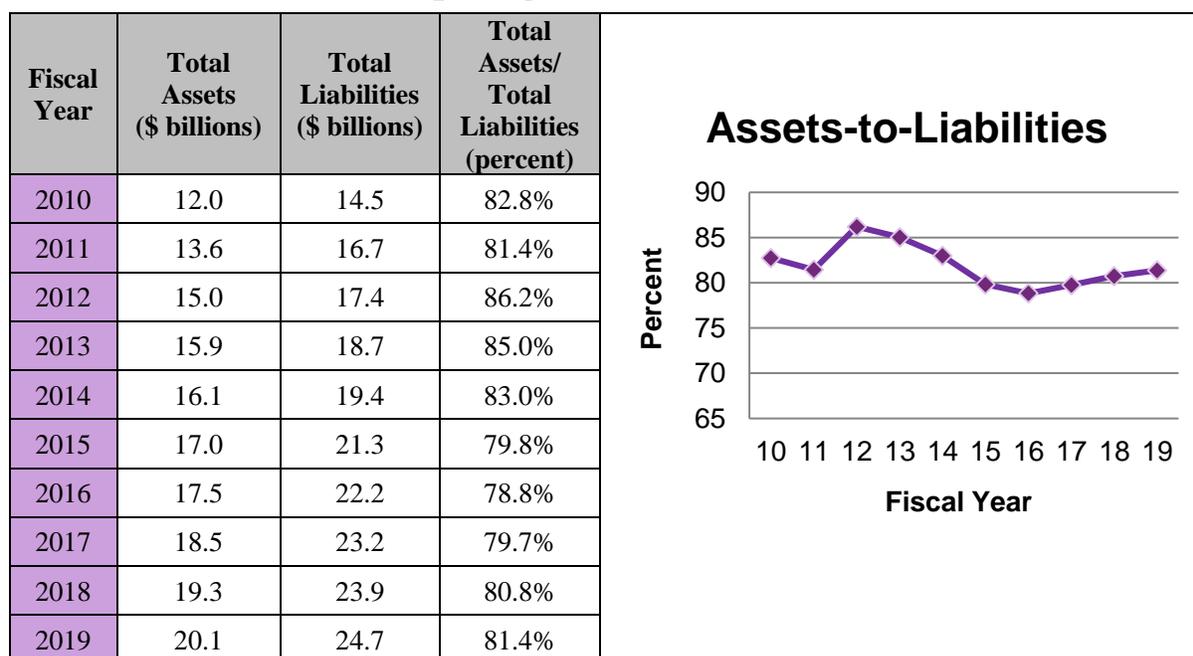
4.16 For the last three years, this indicator has improved slightly indicating a favourable trend in the short-term. For the past ten years, the Province's percentage has trended further below 100% indicating the Province has financed its operations by issuing Funded Debt. This is an unfavourable long-term trend which we would like to see reversed.

4.17 We present the assets-to-liabilities sustainability indicator in Exhibit 4.5.

How to read exhibit **4.18** An assets-to-liability percentage below 100% and decreasing indicates a negative trend as the Province has more liabilities than it has assets. This means the government has accumulated deficits and has been financing its operations by issuing Funded Debt.

Exhibit 4.5 - Comparing Assets-to-Liabilities

Comparing Assets-to-Liabilities



Source: Prepared by AGNB, based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Comparing Financial Assets-to-Liabilities

No change from last year

4.19 We have assessed the short-term trend as favourable and the long-term trend as unfavourable.

4.20 For the past four years, the Province's percentage for this indicator has improved slightly indicating a favourable trend in the short term. The percentage, however, has been below 100% over the past ten years meaning future revenues will be needed to pay for past transactions. As a result, we are still assessing the long-term trend as unfavourable.

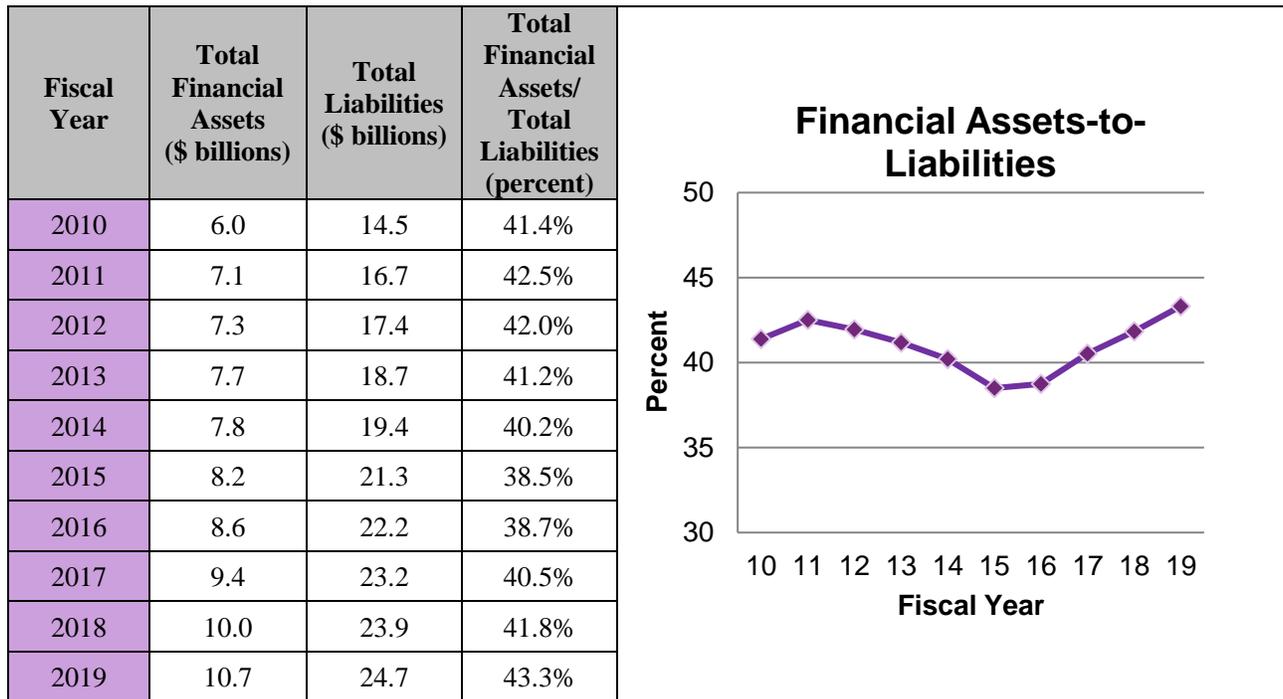
4.21 We present the financial assets-to-liabilities sustainability indicator in Exhibit 4.6.

How to read exhibit

4.22 A financial assets-to-liabilities percentage that is less than 100% implies that future surpluses will be required to pay for past transactions and events. A decreasing percentage indicates a negative trend.

Exhibit 4.6 - Comparing Financial Assets-to-Liabilities

Comparing Financial Assets-to-Liabilities



Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Comparing Net Debt-to-Total Annual Revenue

No change from last year

4.23 We have assessed the short-term trend as favourable and the long-term trend as unfavourable.

4.24 The Province's Net Debt-to-total annual revenue percentage increased from 2010 to 2016. In 2019, the percentage declined to 144.3% as Net Debt remained relatively consistent with the prior year, while total revenue increased.

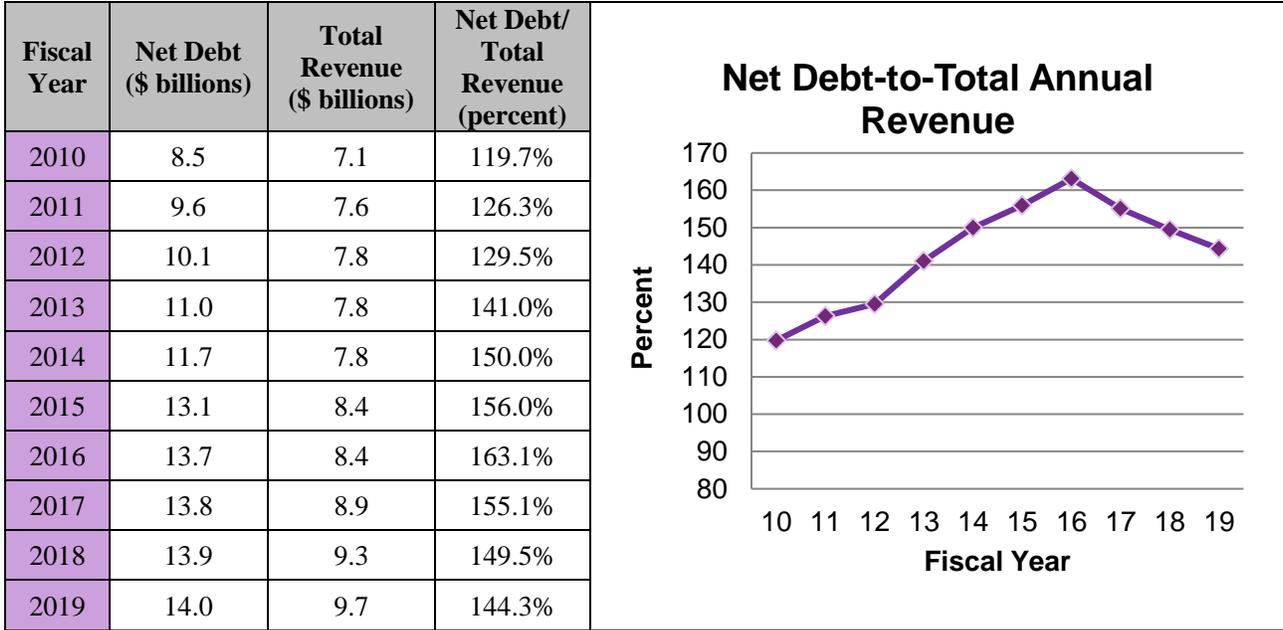
4.25 We present the Net Debt-to-total annual revenue sustainability indicator in Exhibit 4.7.

How to read exhibit

4.26 A Net Debt-to-total annual revenue percentage that is increasing indicates a negative trend as the Province will need more time to eliminate the Net Debt. Net Debt provides a measure of the future revenue required to pay for past transactions and events.

Exhibit 4.7 - Comparing Net Debt-to-Total Annual Revenue

Comparing Net Debt-to-Total Annual Revenue



Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Comparing Expense by Function-to-Total Expense

No change from last year

4.27 We have assessed both the short-term and long-term trend as neutral as there has been little change in how expenses are allocated to functions in the last ten years. The cost of servicing Funded Debt has remained relatively consistent over the last ten years.

4.28 The size of New Brunswick's Net Debt needs to be closely monitored in the future. The interest burden on the Funded Debt consumes resources that would otherwise be used to deliver services.

4.29 We present the expense by function-to-total expenses sustainability indicator in Exhibit 4.8 for 2019. Exhibit 4.8 shows the amount of expenses allocated to each expense function for the year.

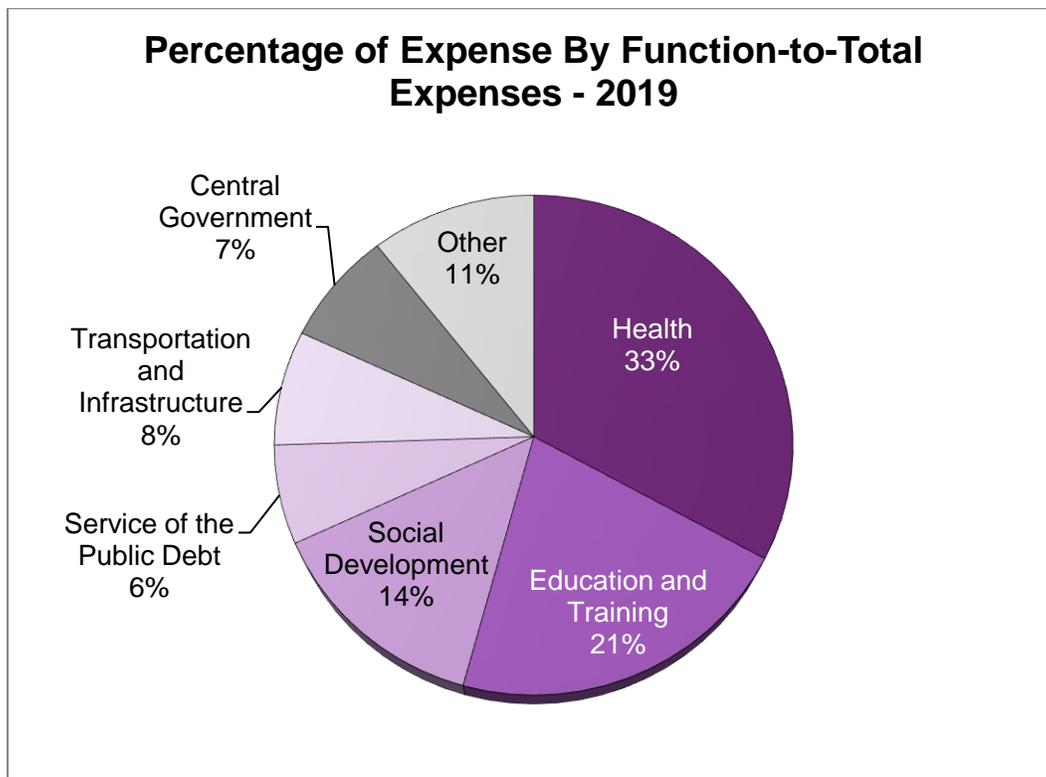
How to read exhibit

4.30 The two exhibits in this section can be read as follows:

- For Exhibit 4.8, each slice of pie represents the percentage of expenses allocated to each expense function for 2019.
- For Exhibit 4.9, each line in the chart represents an expense function. As the line progresses, it shows (by year) the percentage of expenses allocated to each function. As the line decreases, the Province is allocating less of its total expenses to a function. (i.e. the function is receiving a smaller slice of the pie.)

If the Province has allocated more to servicing Funded Debt, this represents a negative trend as it shows the cost to service the debt is increasing.

Exhibit 4.8 - Percentage of Expense By Function-to-Total Expenses – 2019



Source: Prepared by AGNB based on Public Accounts 2019

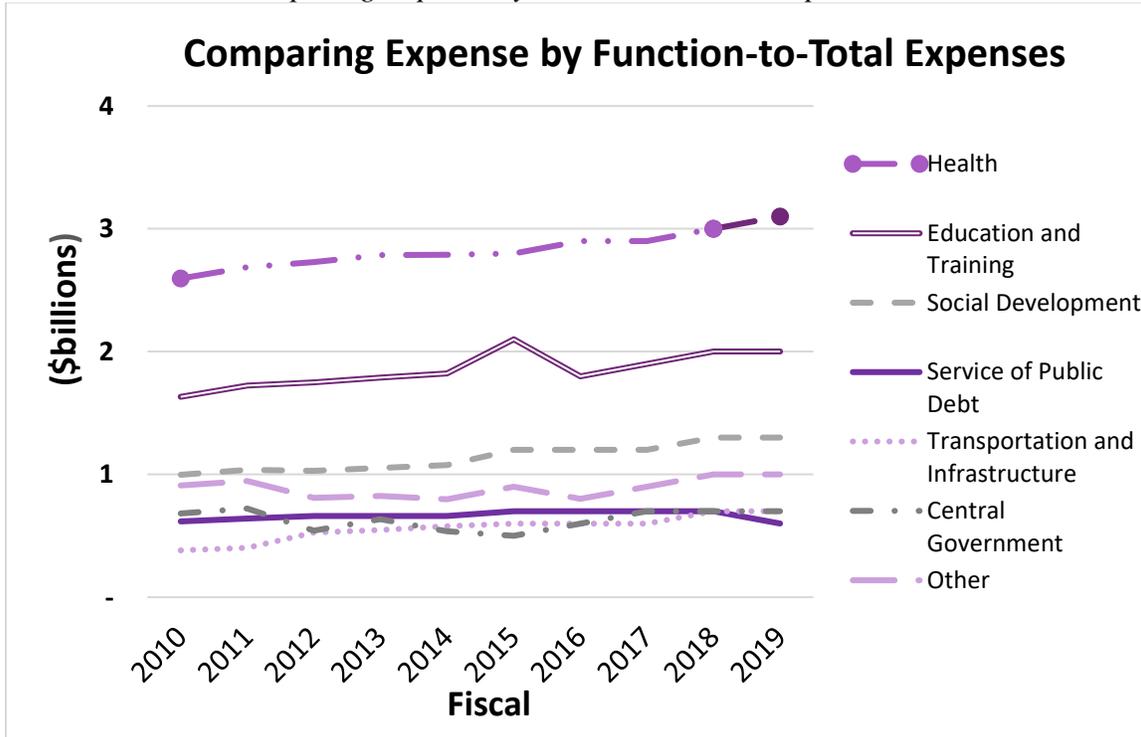
4.31 In Exhibit 4.8, we observed the following information.

- The expenses for Education and Training and Health consume 54% of the total expenses in 2019, remaining stable from 2018 of 54%.

- The expenses for service of the public debt are almost as large as expenses for Transportation and Infrastructure.

4.32 We present the expense by function-to-total expenses sustainability indicator in Exhibit 4.9 for the past ten years.

Exhibit 4.9 - Comparing Expense by Function-to-Total Expenses



Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.
 Other includes: Protection Services, Economic Development, Resources and Labour and Employment

Comparing Net Debt-to-GDP

No change from last year

4.33 We have assessed the short-term trend as favourable and the long-term trend as unfavourable.

4.34 We note a negative trend from 2010 to 2016 because the Net Debt of the Province increased faster than the growth in the economy. From 2017 to 2019, we start to see this trend reverse, the growth in the economy was faster than growth in Net Debt however, the percentage is still higher than it was in the first half of the decade. For these reasons, we have assessed the short-term trend as favourable. The long-term trend, however, remains unfavourable.

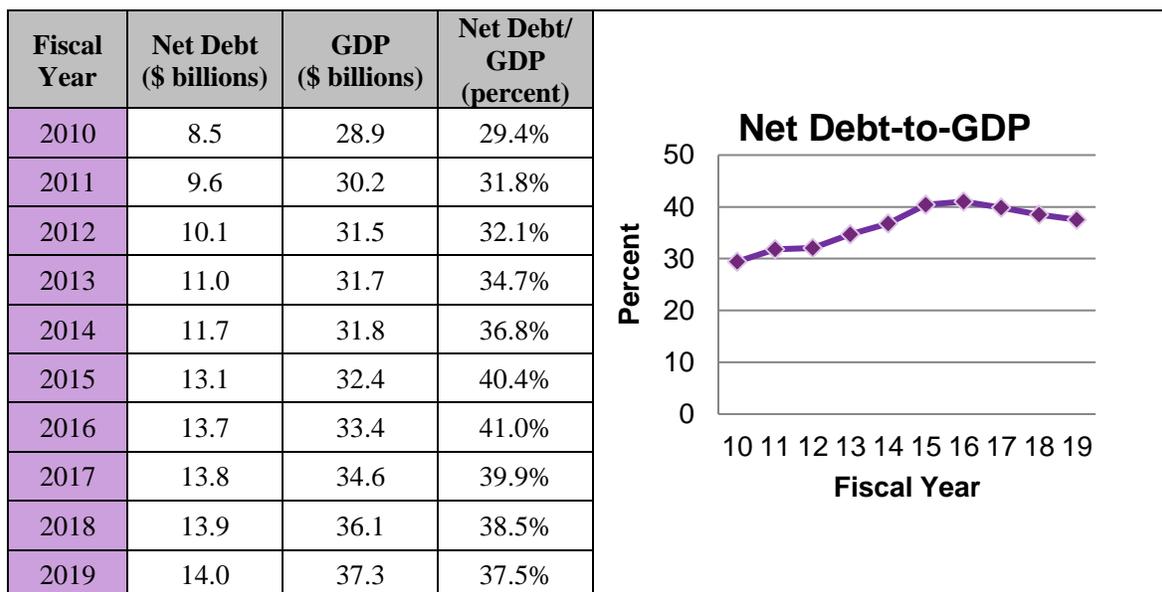
4.35 We present the Net Debt-to-GDP sustainability indicator, in Exhibit 4.10.

How to read exhibit

4.36 A Net Debt-to-GDP percentage that is increasing indicates a negative trend as the growth of Net Debt (liabilities less financial assets) exceeds the growth in GDP.

Exhibit 4.10 - Comparing Net Debt-to-GDP

Comparing Net Debt-to-GDP



Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Comparing Accumulated Deficit-to-GDP

No change from last year

4.37 We have assessed the short-term trend as favourable and the long-term trend as unfavourable.

4.38 Exhibit 4.11 shows a negative trend from 2010 to 2016 as the accumulated deficit has grown more than the economy. We see this negative trend start to decline from 2017 to 2019. In these years, the accumulated deficit has remained stable, but the economy has continued to grow.

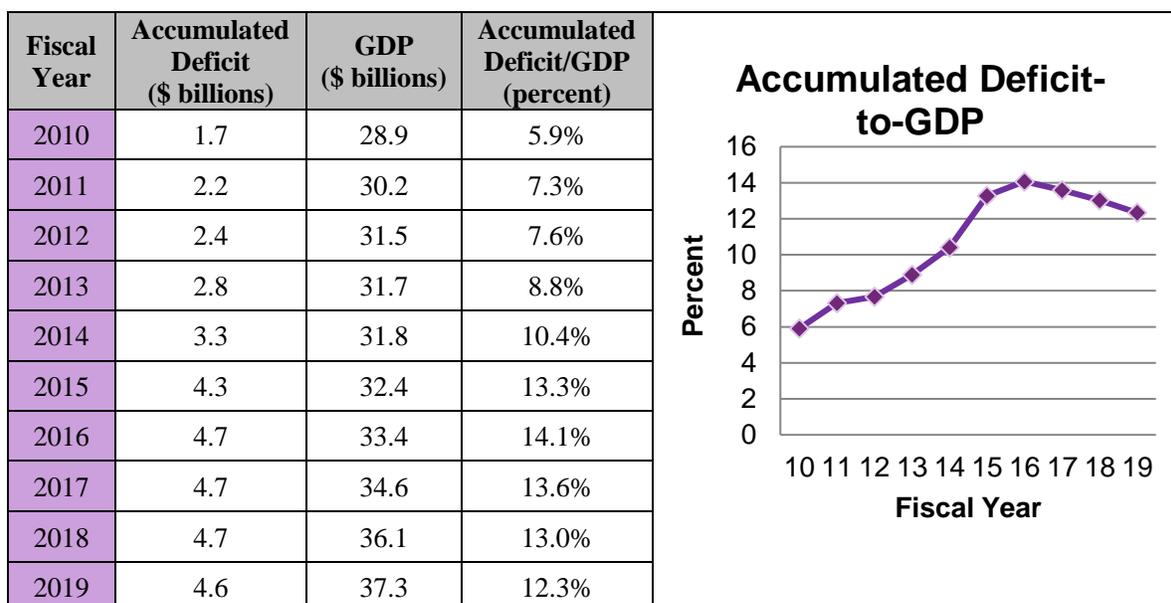
How to read exhibit

4.39 An accumulated deficit-to-GDP percentage that is increasing indicates a negative trend as the growth of the accumulated deficit is out pacing the growth in

GDP. (The accumulated deficit is the extent to which current and past annual revenues have been insufficient to cover the current and past annual costs of providing services.)

Exhibit 4.11 - Comparing Accumulated Deficit-to-GDP

Comparing Accumulated Deficit-to-GDP



Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Comparing Total Expenses-to-GDP

Long-term trend changed to favourable

4.40 We continue to assess the short-term trend as neutral but, we have changed our long-term trend assessment from unfavourable to favourable.

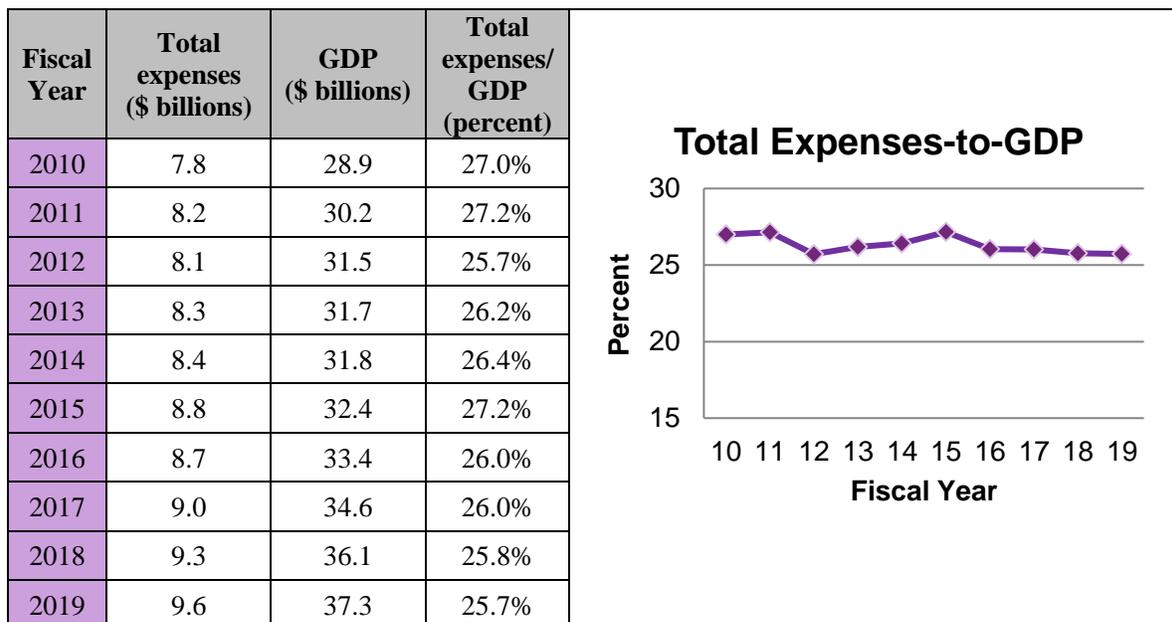
4.41 Exhibit 4.12 shows from 2010 to 2019 the increase in GDP outweighed the increase in expenses, resulting in the percentage decreasing from 27.0% to 25.7%. However, in the short-term, from 2017 to 2019, the percentage has remained relatively stable. Therefore we have assessed the short-term trend as neutral and the long-term trend as favourable.

4.42 We present the total expenses-to-GDP sustainability indicator in Exhibit 4.12.

How to read exhibit 4.43 A total expenses-to-GDP percentage that is increasing indicates a negative trend as the government expenses continue to grow faster than the economy.

Exhibit 4.12 - Comparing Total Expenses-to-GDP

Comparing Total Expenses-to-GDP



Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Detailed Support for Flexibility Indicators

- Flexibility defined**
- 4.44** 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.
 - 4.45** One of the most publicized factors which affect the flexibility of governments is the cost of servicing Funded Debt. This is an indicator of flexibility, since the government's first payment commitment is to service its Funded Debt, leaving no flexibility in the timing of these payments.
 - 4.46** The cost of debt servicing comprised mainly of:
 - interest on the Funded Debt of the Province as well as interest cost on capital leases;
 - amortization of foreign exchange gains and losses;

- amortization of discounts and premiums which were incurred on the issuance of provincial debentures; and
- interest on short-term borrowing offset by short-term investment income.

It does not include principal repayments on the Funded Debt of the Province.

Comparing Public (Funded) Debt Charges-to-Revenues

No change from last year

4.47 We have assessed both the short-term and long-term trend as favourable.

4.48 Exhibit 4.13 shows the cost of servicing the Funded Debt as a percentage of the Province's total revenues has decreased in 2019 compared to the previous nine fiscal years. This is a result of the Province's 2019 revenues increasing and the cost to service Funded Debt has remained relatively stable.

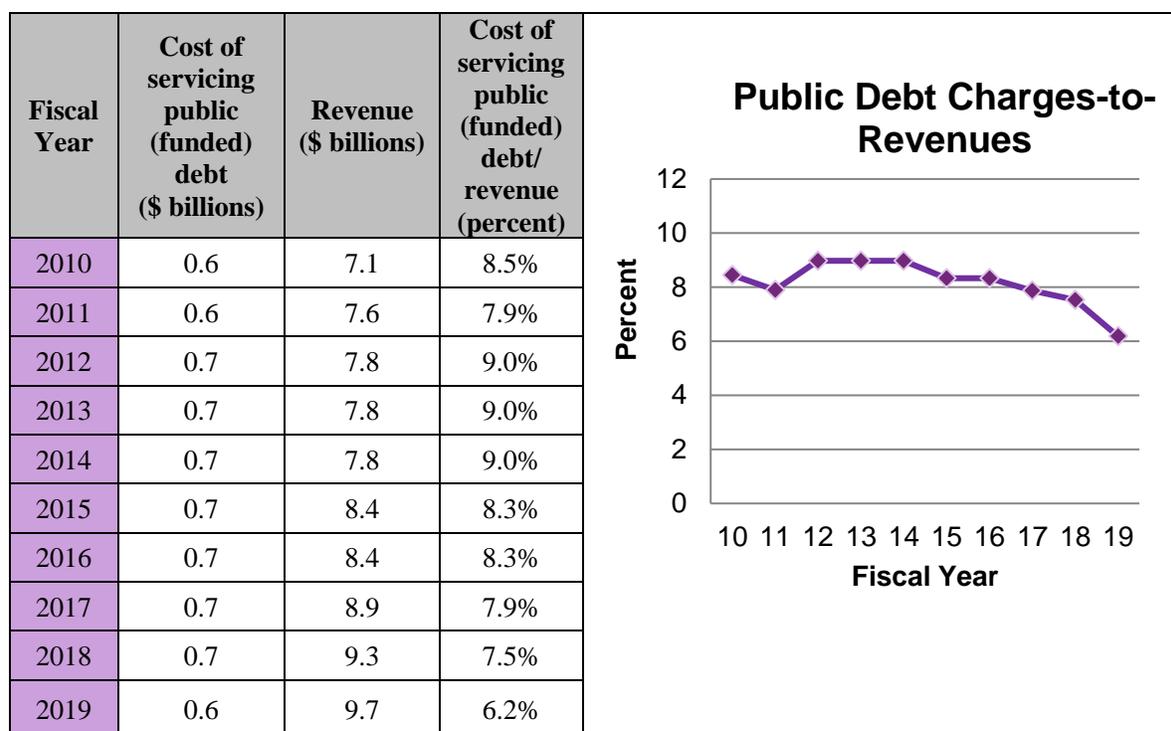
4.49 We present the public (Funded) debt charges-to-revenues flexibility indicator in Exhibit 4.13.

How to read exhibit

4.50 A public (Funded) debt charges-to-revenues percentage that is decreasing indicates a favourable trend, as proportionately less revenue is needed to service the Funded Debt.

Exhibit 4.13 - Comparing Public (Funded) Debt Charges-to-Revenues

Comparing the Public (Funded) Debt Charges-to-Revenues



Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

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

No change from last year

4.51 We have assessed both the short-term and long-term trend as unfavourable.

4.52 Exhibit 4.14 shows the Province's capital assets have approximately 54.8% of their average useful lives remaining. For example, this means, on average:

- an asset with a ten-year estimate of useful life will have approximately five years of useful life remaining; and
- an asset with a twenty-year estimate of useful life will have approximately ten years useful life remaining.

4.53 We present the net book value of capital assets-to-cost of capital assets flexibility indicator in the Exhibit 4.14.

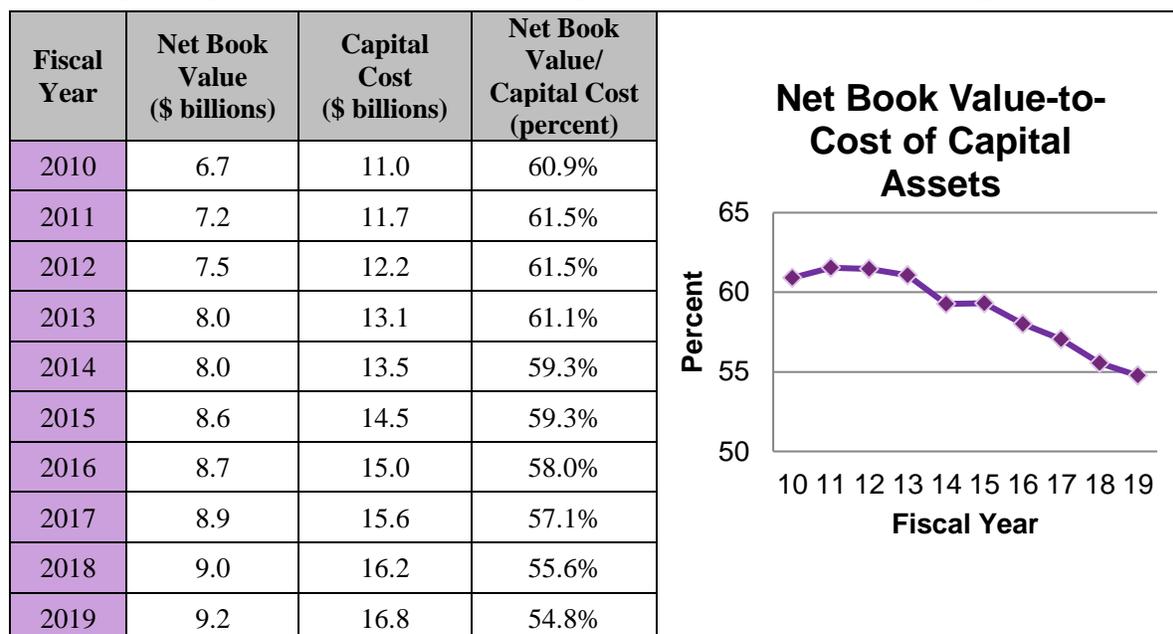
How to read exhibit

4.54 A net book value of capital assets-to-cost of capital assets percentage that is decreasing indicates a negative trend as assets are depreciating (being used) at a faster rate

than they are being replaced. We caution the reader on the use of this indicator. The indicator is based on an estimate of an asset's useful life.

Exhibit 4.14 - Comparing Net Book Value of Capital Assets-to-Cost of Capital Assets

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



Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Comparing Own Source Revenues-to-GDP

Change from unfavourable to neutral in short term

4.55 We have changed our assessment of the short-term trend from unfavourable to neutral. We continue to assess the long-term trend as unfavourable.

4.56 For the last three years, the percentage of own source revenue (such as taxes) compared to GDP has remained relatively stable indicating the Province's has not increased its revenue from taxing the provincial economy in the short-term. Therefore we assessed the short-term trend as neutral.

No change in unfavourable long-term trend

4.57 We still assess the long-term trend as unfavourable. From 2010 to 2019, the percentage of own source revenue compared to GDP has generally increased mostly a result of the government recording more revenue in Harmonized

Sales Tax (HST), Corporate Income Tax and Personal Income Tax.

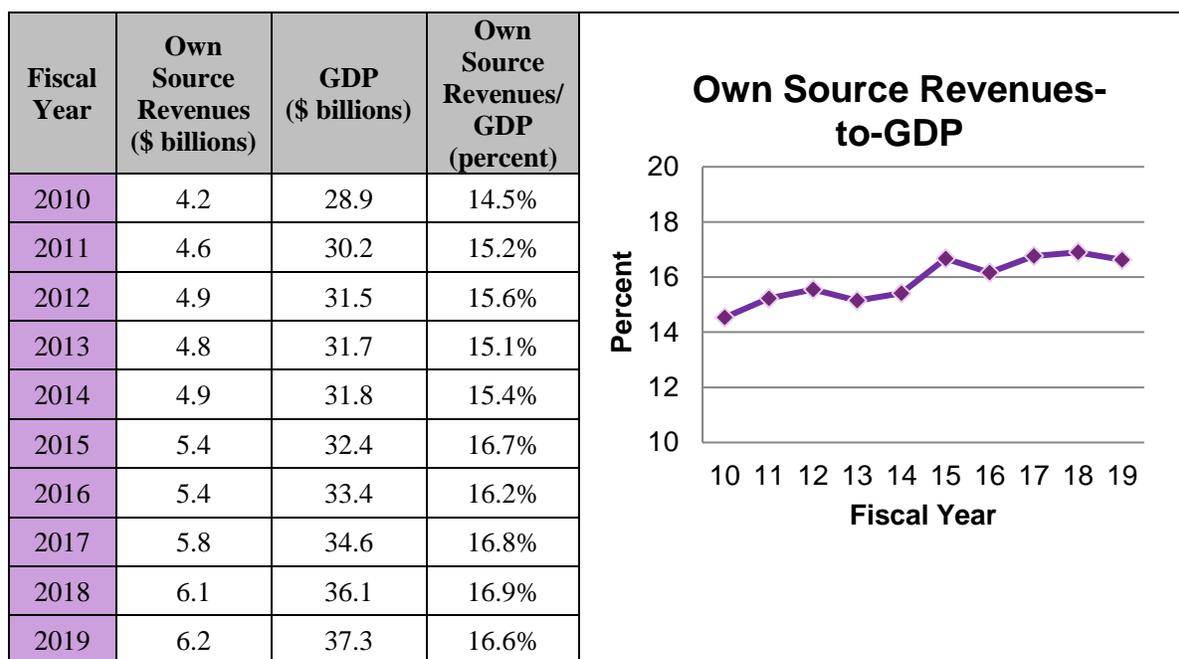
4.58 We present the own source revenues-to-GDP flexibility indicator in Exhibit 4.15.

How to read exhibit

4.59 An own source revenues-to-GDP percentage that is increasing indicates a negative trend as more of the Province's revenue is generated from the provincial economy. This limits the Province's ability to raise taxes in the future making the Province less flexible in how it can generate revenue.

Exhibit 4.15 - Comparing Own Source Revenues-to-GDP

Comparing Own Source Revenues-to-GDP



Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Detailed Support for Vulnerability Indicators

Vulnerability defined

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

Comparing Government Transfers-to-Total Revenues

Change to neutral in short-term

4.61 We have changed our assessment of the short-term trend from favourable to neutral. We continue to assess the long-term trend as favourable.

4.62 We note in 2019 approximately 1% more of the Province's total revenue was generated from Federal government transfers compared to 2018. This indicates in 2019 the Province was more dependent on the Federal government making the Province more vulnerable. As a result, we have changed our assessment of the short-term as neutral.

No change in favourable long-term trend

4.63 We still assess the long-term trend as favourable. We note the percentage has decreased from 2010 to 2019. This shows the Province was less dependent on the Federal government as a source of revenue in the long term.

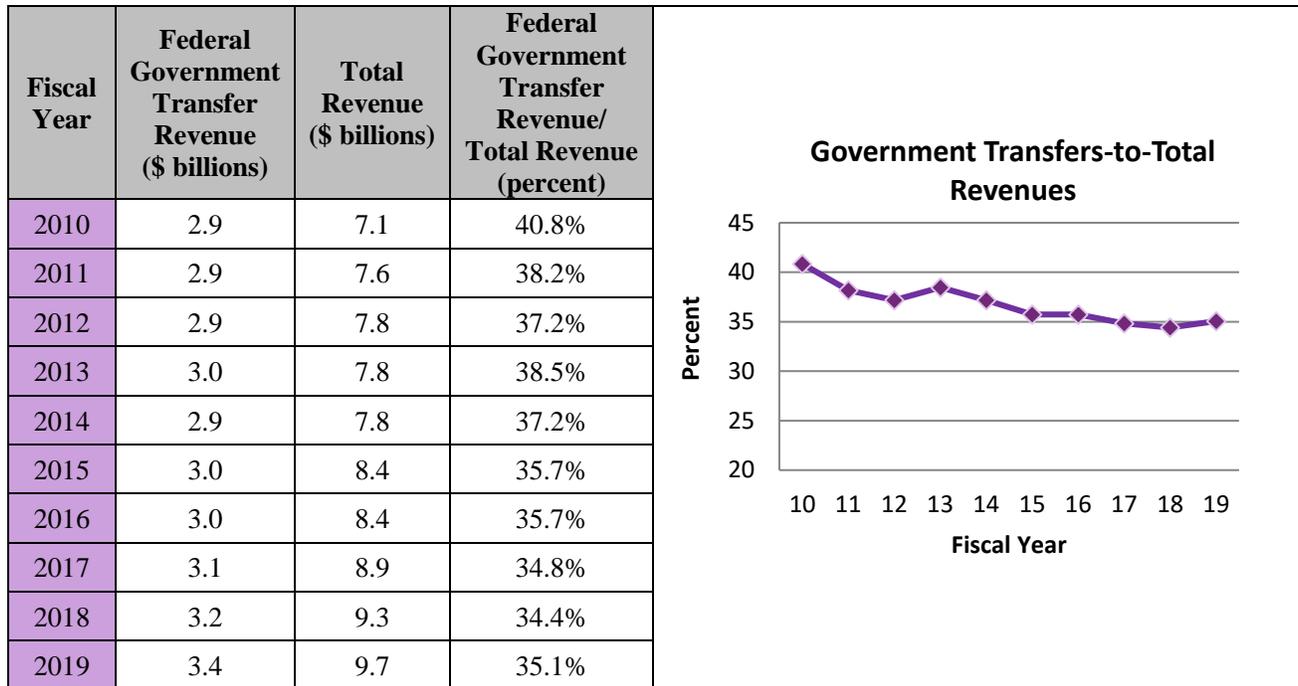
4.64 We present the government transfers-to-total revenues vulnerability indicator in Exhibit 4.16.

How to read exhibit

4.65 A government transfers-to-total revenues percentage that is decreasing indicates a positive trend as the Province is less dependent on outside sources (such as the Federal government) for revenue. If the percentage increases, the Province is more vulnerable to the Federal government funding decisions.

Exhibit 4.16 - Comparing Government Transfers-to-Total Revenues

Comparing Government Transfers-to-Total Revenues



Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Comparing Foreign Currency Debt-to-Net Debt

4.66 We have assessed both the short-term and long-term trend as favourable. The effectiveness of the Province’s hedging strategy has led us to assess this indicator as favourable.

4.67 The Province’s risk of exposure to foreign currency fluctuations has been mixed over time. The amount of Net Debt in foreign currency has increased in the last two years. The Province, however, offsets/reduces this risk by having an effective hedging strategy.

4.68 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 Funded 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).

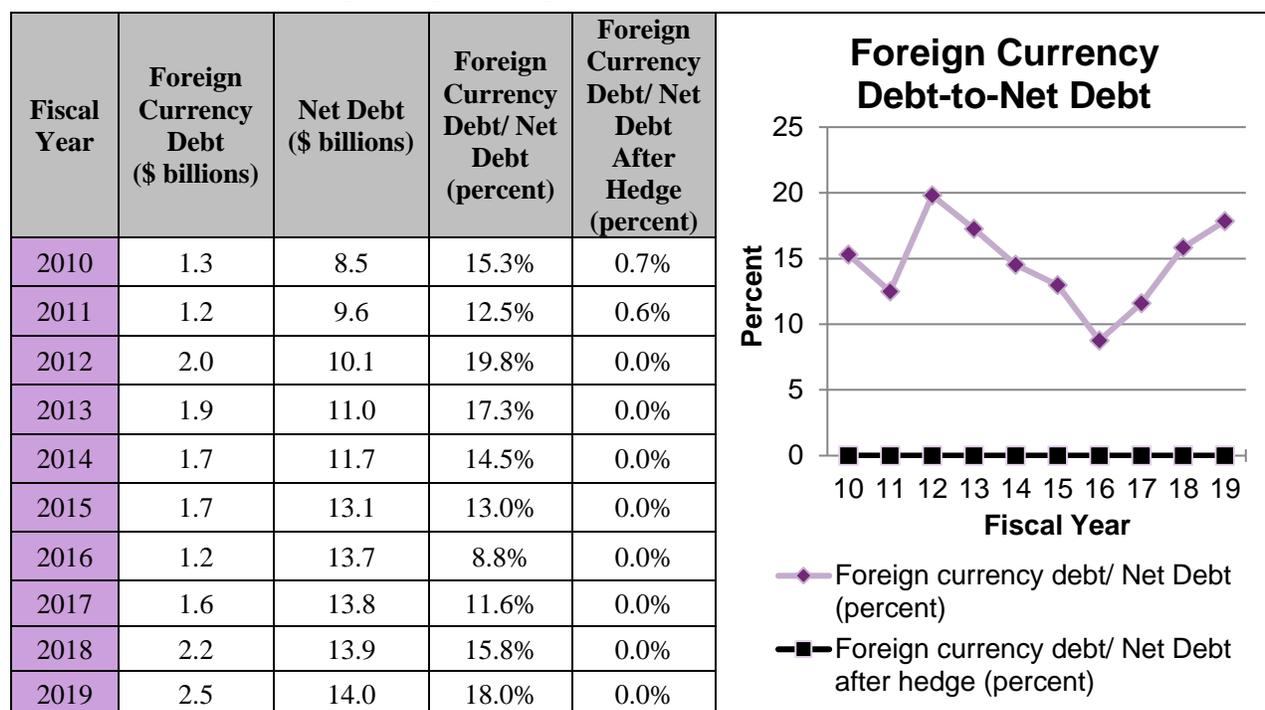
4.69 We present the foreign currency debt-to-net debt vulnerability indicator in Exhibit 4.17.

How to read exhibit

4.70 Exhibit 4.17 presents two percentages. The percentage after the hedge is the key percentage to analyze. If this percentage increases, then the Province is more at risk when exchange rates fluctuate which indicates a negative trend.

Exhibit 4.17 - Comparing Foreign Currency Debt-to-Net Debt

Comparing Foreign Currency Debt-to-Net Debt



Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Chapter 5

Results of our Audit of the Province of New Brunswick's Financial Statements

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Results of our Audit of the Province of New Brunswick's Financial Statements

Summary

Unqualified opinion

5.1 On September 12, 2019 the Auditor General signed an unqualified (“clean”) audit opinion on the consolidated financial statements of the Province of New Brunswick for the year ended March 31, 2019.

5.2 The opinion indicates the Province’s consolidated financial statements are presented in accordance with Public Sector Accounting Standards.

5.3 To reach an opinion on the consolidated financial statements, 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 expenses chosen from departments. We also examine internal controls of significant computer systems.

Recommendations made to Office of the Comptroller

5.4 In almost every audit, we have audit findings to discuss with management. For the 2019 provincial audit, we made fourteen recommendations to the Office of the Comptroller (“OOC”). We summarized these recommendations in a report to the Province’s audit committee.

5.5 Although, in our view, these recommendations were important to report to the Comptroller and the audit committee, the recommendations were not sufficiently large in dollar or qualitative terms to affect our opinion on the consolidated financial statements. We have reported any significant findings in this report.

5.6 While we have not noted any significant fraud, the existence of our findings may increase the risk of loss or error in the Province’s consolidated financial statements. These findings should be addressed prior to the next audit cycle.

5.7 In general, the OOC agreed with our recommendations and intend to address our concerns in the coming year.

No Formal Fraud Policy

No formal policy to prevent fraud

5.8 We found the Province does not have a formal fraud policy in its administration manual. Our inter-jurisdictional review found that other jurisdictions such as Newfoundland & Labrador, and Nova Scotia have a formal fraud policy.

5.9 Public sector fraud is concerning as it could result in the loss of public funds which would reduce the public's confidence in the Province's ability to safeguard assets.

A government-wide policy would reduce fraud risk

5.10 A policy helping departments and Crown agencies prevent and detect fraud would help reduce the risk of fraud. Some examples of what a policy could include are:

- documented fraud risks;
- documented procedures for preventing, detecting and reporting fraud; and
- the need for fraud awareness training and education.

5.11 We made a recommendation to the OOC to develop a formal fraud policy.

Recommendation

5.12 We recommend the Office of the Comptroller (Internal Audit) develop a formal fraud policy to include in the Province's Administration Manual.

MLA Expenses

MLAs should be held to a high level of accountability

5.13 As elected officials, Members of the Legislative Assembly (MLAs) should be held to a high level of accountability for expenses they incur to fulfil their mandate. This year as part of our audit procedures, we performed work to determine if MLAs are following policies and procedures with regards to their MLA related expenses.

No evidence of fraud found in a sample of MLA related expenses

5.14 During the audit of the Province's consolidated financial statements, we examined a sample of 53 MLA related expenses. We found no evidence of fraud in any of the items we examined.

5.15 Although we found no evidence of fraud in the items we examined, we did note some instances where the support for the expenses was not fully documented. For example, we found instances where the purpose of MLA expenses such as departmental business trips and business meetings

were not documented as required by policy. We were subsequently provided evidence to support all of these items.

We examined different types of expenses

5.16 We examined different types of expenses including:

- travel claims;
- business meetings;
- constituency office costs; and
- monthly allowances.

We considered the results of the 2018 election

5.17 Our work also considered the results of the September 2018 provincial general election. We examined expenses for outgoing, incoming, and re-elected MLAs. In total, we examined expenses for 45 of the 66 MLAs.

5.18 We examined expenses for:

- MLAs from each of the four elected parties;
- MLAs who were party leaders;
- MLAs who were appointed as a Minister; and
- MLAs who were not appointed as a Minister.

Policies and procedures exist for MLA expenses

5.19 We found policies and procedures exist which outline eligible expenses and the support required before an MLA expense can be approved.

5.20 Most of the expenses we examined were amounts paid to MLAs through either a claim or reimbursement process. These expenses were approved at either the Legislative Assembly or the department (for some Minister expenses). We found management at the Legislative Assembly and in each of the departments were knowledgeable in policies and procedures to approve MLA expenses.

2011 recommendation implemented

5.21 The Legislative Assembly informed us that as of April 2019, it has implemented the last of our 2011 recommendations from our audit on “Constituency Office Costs for Members of the Legislative Assembly and Executive Council”. We are pleased of this positive outcome and that these recommendations were implemented.¹

¹ We did not audit if the recommendation was implemented as the timeframe was outside the scope of our March 31, 2019 audit.

5.22 The final two recommendations that were outstanding from our 2011 audit were:

“We recommend all constituency office costs should be authorized, paid, recorded, monitored and reported through the Office of the Clerk of the Legislative Assembly. Appropriate revisions should be made by the Legislative Assembly and the Executive Council Office to existing guidelines to facilitate this change.” and

“To provide better accountability, the Legislative Assembly should publicly report total constituency office costs claimed by each Member, whether paid by the Clerk or a department.”

Improving School Cash Reconciliations

Variances between bank and accounting records

5.23 We found:

- in 16 of the 17 school bank accounts tested, a total variance of \$400,000 between the bank account balance and the accounting records; and
- in 6 of the 7 school districts tested, variances totalling \$2.4 million between the information we received from the districts and individual schools.

Schools and school districts could not provide support for variances

5.24 The schools and school districts could not provide support for these variances. We were informed the variances are due to timing of when cash moves between schools, school districts and the Department of Education and Early Childhood Development.

5.25 Although we saw no evidence of fraud, variances in cash reconciliations increase the risk of fraud or theft of cash in schools and school districts. The variances show a more robust process is needed to reconcile cash in schools and school districts at year-end.

5.26 We made a recommendation to the Department of Education and Early Childhood Development to improve the process.

Recommendation

5.27 **We recommend the Department of Education and Early Childhood Development:**

- **reconcile school cash amounts quarterly and at year-end prior to the next reporting period; and**
- **retain school cash reconciliations for audit purposes.**

NB Power's Ability to Self-Sustain its Operations

Recap of 2018 report – Concerns regarding NB Power's ability to self-sustain operations

5.28 We reported in the 2018 Auditor General's report – Volume III concerns NB Power may not be able to self-sustain its operations in the long-term due to an elevated debt level and nominal annual net earnings.

Recap of 2018 report – How NB Power is accounted for in the Province

5.29 We also included information on how NB Power is currently accounted for in the Province's consolidated financial statements as a Government Business Enterprise. This means only NB Power's earnings or losses are included in the Province's consolidated financial statements.

5.30 If NB Power was ever determined to no longer be self-sustaining through rate payers, and therefore no longer a Government Business Enterprise for accounting purposes, all debts, assets, liabilities, revenue and expenses would be included in the Province's consolidated financial statements.

NB Power can still self-sustain its operations

5.31 We reviewed the OOC's work regarding NB Power's ability to self-sustain its operations for the year ended March 31, 2019. We agreed NB Power can self-sustain its operations at that point in time.

We remain concerned because factors affecting ability to self-sustain operations continue to worsen

5.32 We remain concerned, however, regarding NB Power's ability to self-sustain its operations in the future because:

- net earnings (surplus) continues to remain at a break-even level (\$20 million net earnings in 2019);
- debt remains at an elevated level (\$4.6 billion in 2019);
- again this year, NB Power did not meet its requirement under the *Electricity Act* for an 80/20 debt/equity ratio. NB Power's long-term plan indicates it does not expect to meet this requirement until 2029;
- significant investment remains on the horizon for assets such as the Mactaquac Generating Station (dam);
- NB Power's attempt to create new regulatory deferral accounts to allow costs to be moved to future periods was denied by the Energy and Utilities Board.
- significant future operating and financial challenges on the horizon such as carbon tax.

Continue to monitor NB Power and report next year

5.33 We will request the Office of the Comptroller to prepare an analysis on NB Power's ability to self-sustain its operations again next year. If NB Power was determined to no longer be self-sustaining, there would be a significant impact on how the Province accounts for NB Power in its financial statements.

5.34 Further information on how the Province accounts for NB Power and the potential impact of a change can be found in the 2018 Auditor General's report (Volume III – Chapter 3).

**Combined NB Liquor and Cannabis NB
Financial Statements Not Needed**

NB Liquor and Cannabis NB are required to be combined by the Act

5.35 The *New Brunswick Liquor Corporation Act* requires the financial information of New Brunswick Liquor Corporation (NB Liquor) and Cannabis NB to be combined annually and audited at a cost to the organizations.

5.36 We found, however, this financial information is not used for accounting purposes by Province, as the financial statements from the two organizations are presented in the Province's consolidated financial statements separately:

- NB Liquor is presented as an "Investment in Government Business Enterprises" (Note 6); and
- Cannabis NB is presented as an "Other Investment" (Schedule 6).

Purpose and benefit of combined statements unclear

5.37 The purpose and benefit of combining the financial statements of NB Liquor and Cannabis NB is not clear, other than as a legislative requirement. The exercise of combining the financial statements and receiving an external audit is an unnecessary cost to the organizations.

5.38 We made a recommendation to the Department of Finance and Treasury Board to consider if there is a purpose for combining the two sets of financial statements and propose changes to legislation if needed.

Recommendation

5.39 We recommend the Department of Finance and Treasury Board:

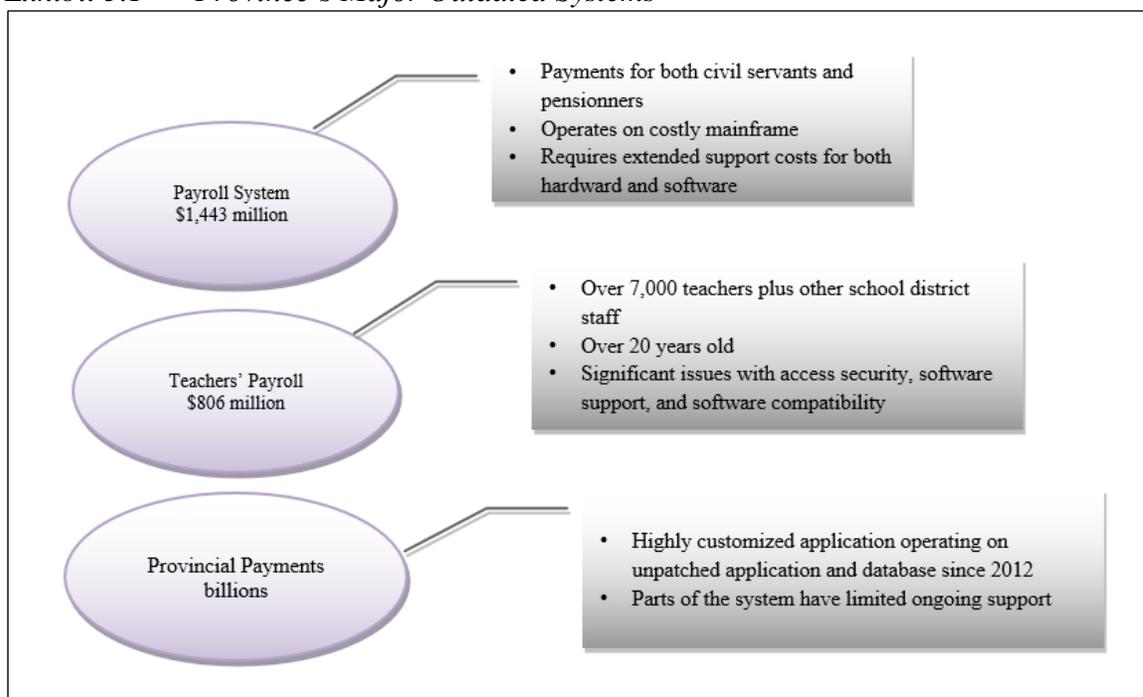
- **evaluate the purpose and benefit of combining the financial statements of NB Liquor and Cannabis NB; and**

- **amend the *New Brunswick Liquor Corporation Act* to remove the need for combining the financial statements if they have no purpose and benefit.**

The Province Has Major Outdated IT Systems

Major systems are out of date **5.40** A failure of the Province's major IT systems would affect the majority of New Brunswickers. For the past seven years, we reported the Province has many outdated IT systems. Exhibit 5.1 shows the Province's major out dated systems, dollars processed, and associated risks.

Exhibit 5.1 - Province's Major Outdated Systems



Source: Prepared by AGNB from information provided by SNB and Department of Education and Early Childhood Development (unaudited).

5.41 These outdated systems process the majority of the Province's employee payroll and its payments to suppliers, nursing homes, municipalities, etc. Replacing these systems should be a key priority and the Province should proceed as quickly as possible to implement a new system.

Multiple duplicate systems can result in duplicate payments and efforts

5.42 Operating multiple duplicate systems results in wasted time for employees and can result in duplicate payments to employees and suppliers. We noted SNB (Service New Brunswick) is operating three separate payroll and

payments systems. We also found SNB made duplicate payroll and supplier payments as a result of operating multiple systems.

What Is the Province Doing About Its Outdated IT Systems?

New ERP system on the horizon

5.43 The Province plans to replace the outdated and duplicate systems with a new ERP (Enterprise Resource Planning) system. The scope of the new ERP project is massive and needs to be properly managed by the Province to ensure success and to prevent a system implementation failure.

5.44 Three benefits from implementing a new ERP are as follows.

- It will be more efficient as it will replace many of the Province's outdated systems.
- It will prevent system failures from outdated systems as the new ERP will run on up-to-date software and hardware.
- It will provide timely and better information for decision makers.

System's scope is massive

5.45 The new ERP system will be used by Part 1 (departments and some Crown agencies), Part 2 (school districts), the Regional Health Authorities, and the Community Colleges. The system will cover many areas such as:

- Payroll and human resource management;
- Procurement (purchasing);
- Finance (payments, general ledger, fixed assets, cash management, etc.);
- Grant management; and
- Other areas such as residential tenancies.

5.46 From our interviews, we were informed SNB and the Department of Finance and Treasury Board are taking steps to ensure a strong project management framework is in place to oversee and monitor this major system change.

No date for when ERP will be complete

5.47 A timeline for implementing the new ERP has not been finalized. The Province is in the process of contracting with a vendor to help implement the new ERP. Once this contract is awarded, the team will set a timeline for implementation.

Contract signed for cloud-based software

5.48 In May 2019, the Province signed a contract for cloud-based “Software as a Service” which will provide access to the technology solution that will support the new ERP. This was a significant milestone in the project.

Total system cost unknown

5.49 We are unable to determine the total cost of the new ERP system. The project is still in its early stage.

What is the Auditor General Doing to Audit the New ERP System?***AG will continue to report***

5.50 We consider the ERP system implementation a significant risk to the Province. Management has indicated it is monitoring, assessing and managing this risk. We will continue, however, to report on the ERP system implementation in future reports.

5.51 Until the ERP system is complete, we will continue to audit the existing outdated systems.

IT Computer Systems Audited During the Provincial Financial Statement Audit

5.52 During the audit of the Province’s consolidated financial statements, we perform work on various computer systems. In Exhibit 5.2, we provide information on the computer systems audited and if recommendations were made to each responsible department or Crown agency.

5.53 In this report, we have noted any findings we believe to be significant in nature from our computer systems work.

Exhibit 5.2 - List of IT Systems/Areas Audited by AGNB in 2018-2019 and if Recommendations were Issued to Management of the Department or Crown Agency

Department/Agency	IT System/Area	Recommendations Issued
Education and Early Childhood Development	Teachers' payroll system	Yes
Finance and Treasury Board	Property tax system	Yes
Service New Brunswick	Employee payroll system (HRIS)	Yes
	Oracle input system (IPM)	Yes
	IT Infrastructure	Yes
	Property assessment system	Yes
Office of the Comptroller	Oracle financials	*

Source: Prepared by AGNB.

**This audit was being finalized at the time of writing this chapter.*

Some findings are sensitive

5.54 We are not publishing the details of all our IT system work given the technical nature of many of our findings, and the risk of possible loss of government assets if the details of such findings are reported. Instead, we are summarizing our observations and providing an overview of the most significant findings.

Multiple Weaknesses in IT System

Concerned with the nature, number and severity of system weakness

5.55 In 6 of the 7 computer system audits presented in Exhibit 5.2, we found multiple IT weaknesses. We are concerned with the nature, number and severity of the weaknesses given the significance of the systems examined. We are not reporting the details of our observations as it could compromise the security of the various systems.

Strong controls needed to protect data

5.56 Strong system controls are needed to protect data confidentiality and integrity. Without strong controls the risk increases of fraud, error or unintended exposure of confidential information.

Inappropriate segregation of duties

5.57 We found two case where risk exists relating to segregation of duties. Users had access to perform key functions without knowledge or approval of another person.

- Excessive system rights*** **5.58** We found one case where users had access beyond what was needed for their job responsibilities. This case gave users access to alter confidential scanned images.
- Weaknesses with maintenance of system accounts*** **5.59** We found weaknesses relating to how system accounts are maintained. These weaknesses related to both user accounts, as well as system administrator accounts.
- Poor building access controls*** **5.60** We found one case where the process for granting access to a secure building housing sensitive data and equipment was ad-hoc and did not follow a formal approval process.

Chapter 6

Tax Expenditures

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Tax Expenditures

What Are Tax Expenditures?

Tax expenditures defined

6.1 Tax expenditures are tax relief programs the Province offers to individuals and organizations in the form of tax exemptions, tax deferrals, tax deductions, tax rebates and tax credits.

Tax revenue is reduced by over \$1 billion

6.2 Tax expenditures reduce the amount of tax revenue the Province would otherwise have collected. The Province forgoes over \$1 billion in tax revenue each year because of tax expenditures.

Are Tax Expenditures Accounted for Properly in the Province?

Proper accounting treatment is to net tax expenditures against gross revenue

6.3 Public sector accounting standards require revenues to be disclosed on a gross basis. One exception to this relates to tax expenditures. The accounting standards require tax expenditures be netted against gross revenue.

Tax expenditures reduce reported revenue

6.4 The Province reports revenues in its financial statements net of tax expenditures. This means revenue is reduced for all tax expenditures approved by the Province.

Tax expenditures reported in accordance with accounting standards

6.5 The Province is properly following Public sector accounting standards in reducing revenue by the amount of tax expenditures.

How Are Tax Expenditures Reported to the Public?

No requirement to report tax expenditures

6.6 In New Brunswick, there are no legislative requirements or accounting standards which require the Province to disclose tax expenditures in its budget or financial statements.

Public reporting increases transparency

6.7 In our view, publicly reporting the nature and cost of tax expenditures improves the transparency of financial information which supports better decision making by the legislators. Publicly reporting tax expenditures provides a

better understanding of total government spending to achieve program objectives.

Informs taxpayers of tax benefits

6.8 Reporting tax expenditures publicly also informs taxpayers about the tax benefits available to them.

Many other provinces report tax expenditures

6.9 The provinces below publicly report tax expenditures in their annual budget or as a stand-alone tax expenditure report.

Provinces that report tax expenditures in annual budget:

- Newfoundland & Labrador
- Nova Scotia
- Manitoba
- Saskatchewan
- British Columbia
- Alberta

Provinces that report tax expenditures in a stand-alone report:

- Ontario – Taxation Transparency Report
- Quebec – Tax Expenditures Report

6.10 The comprehensiveness of tax expenditure reporting varies for each province. See Exhibit 6.4 at the end of this chapter for examples of tax expenditure reporting by other provinces.

Recommendation

6.11 We recommend the Department of Finance and Treasury Board publicly report each year the nature and amount of tax expenditures so that the Province is in line with most other Canadian provinces.

Information recently released publicly for the first time

6.12 In November 2019, at the time of writing this report, the Province released tax expenditure information publicly for the first time.

Most Canadian provinces publicly reported tax expenditures

6.13 Prior to this, the Province of New Brunswick was one of few provinces that did not publicly report tax expenditures in any of its public documents. As a result, we were concerned legislators and the public were unaware of the amount of foregone revenue resulting from tax expenditure programs.

Not subject to routine scrutiny

6.14 Unlike other expenditure programs, tax expenditures were not subject to any form of routine scrutiny through the annual budget process or by legislators.

Province presents its tax expenditures differently than this chapter does

6.15 We reviewed the information published by the Province and found it to be similar to the information included in this chapter. We did note, however, some differences relating to how the Province categorizes the information.

Does the Province Have a Tax Expenditures Policy?

A tax expenditure policy does not exist

6.16 The Province does not have a tax expenditure policy for the Department of Finance and Treasury Board when reviewing and approving tax expenditure programs. A policy would outline items such as:

- the timeline for public reporting tax expenditures; and
- the process, level of approval and documentation required for the annual review of tax expenditure programs.

Tax expenditures created by legislation

6.17 We found most of New Brunswick's tax expenditure programs are long-standing. A new tax expenditure program is created by passing legislation in the Legislative Assembly.

No formal documented review and approval of current tax expenditures

6.18 We also noted tax expenditures in New Brunswick are reviewed annually by the Department of Finance and Treasury and updated as required for any policy changes, recent developments and updated financial estimates. We examined this process and found no formal review and approval process exists for the annual review of tax expenditures.

Recommendation

6.19 We recommend the Department of Finance and Treasury Board develop a policy for reviewing tax expenditure programs. This policy will help to formalize the process for reviewing, approving and reporting tax expenditure programs for the Province.

What Types of Tax Expenditures Exist?

Three types of tax programs: Tax expenditures, tax spending programs, and residential property tax credit

6.20 There are 48 different tax expenditure programs in New Brunswick. See Exhibit 6.5 at the end of this chapter for a detailed listing of these tax expenditure programs. In addition, there are six other tax credit programs, five of which are considered spending programs. The remaining tax credit relates to the residential property tax credit. This tax credit is neither a tax expenditure nor a spending program. It is a means to implement a provincial tax rate of zero on owner-occupied properties.

Only tax expenditures are in scope for this chapter

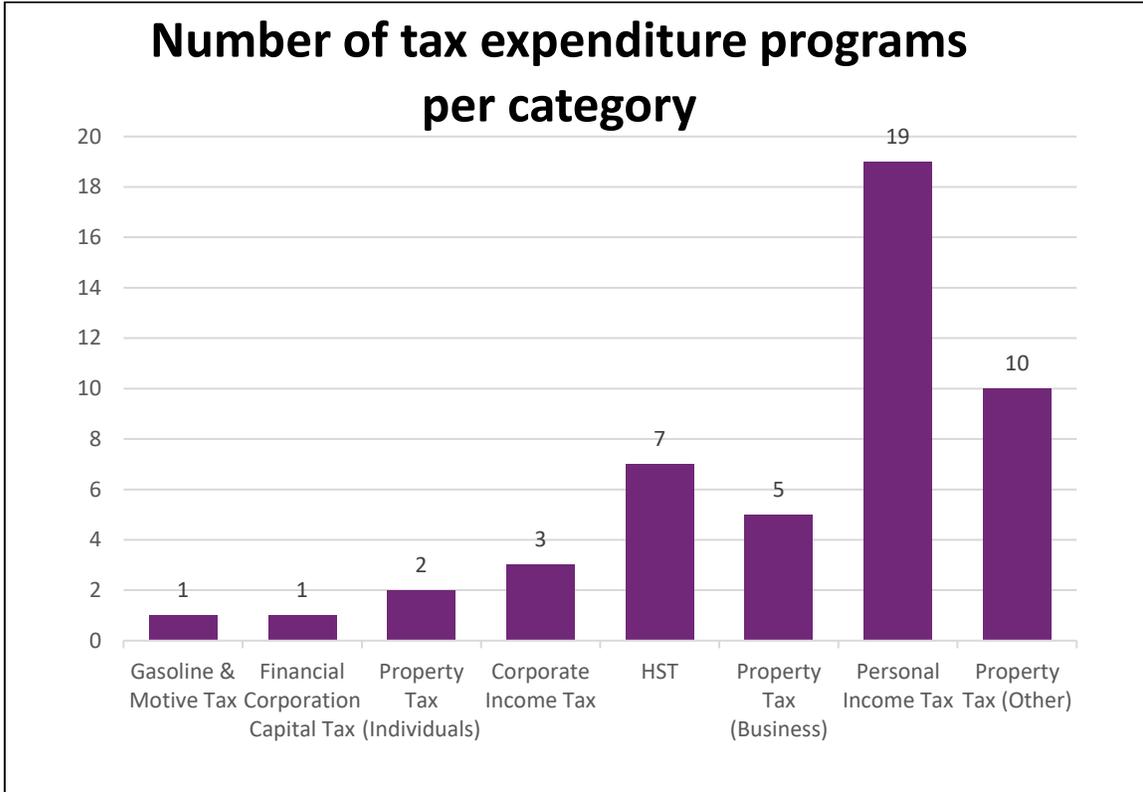
6.21 We have excluded the six tax credit programs as part of our work as they are not netted against gross revenue. See Exhibit 6.5 for more information on the excluded tax credits.

Tax expenditures can be grouped into eight categories

6.22 Exhibit 6.1 breaks down the 48 different tax expenditure programs available in New Brunswick by category. The categories are:

- Personal income tax
- Corporate income tax
- Property tax (individuals)
- Property tax (businesses)
- Property tax (other)
- Sales tax (HST)
- Gasoline & motive tax
- Financial corporation capital tax

Exhibit 6.1 - Number of Tax Expenditure Programs by Category



Source: Prepared by AGNB based on information provided by Department of Finance and Treasury Board (unaudited)

Example of a tax expenditure available in New Brunswick

6.23 The “Low-Income Property Tax Allowance” is an example of a tax expenditure program which provides property tax relief to low-income homeowners on their principal residence. This tax expenditure is grouped in the “Property Tax (Individuals)” category.

What is the Cost of Tax Expenditures for the Province?

How much has the Province recorded for tax expenditures?

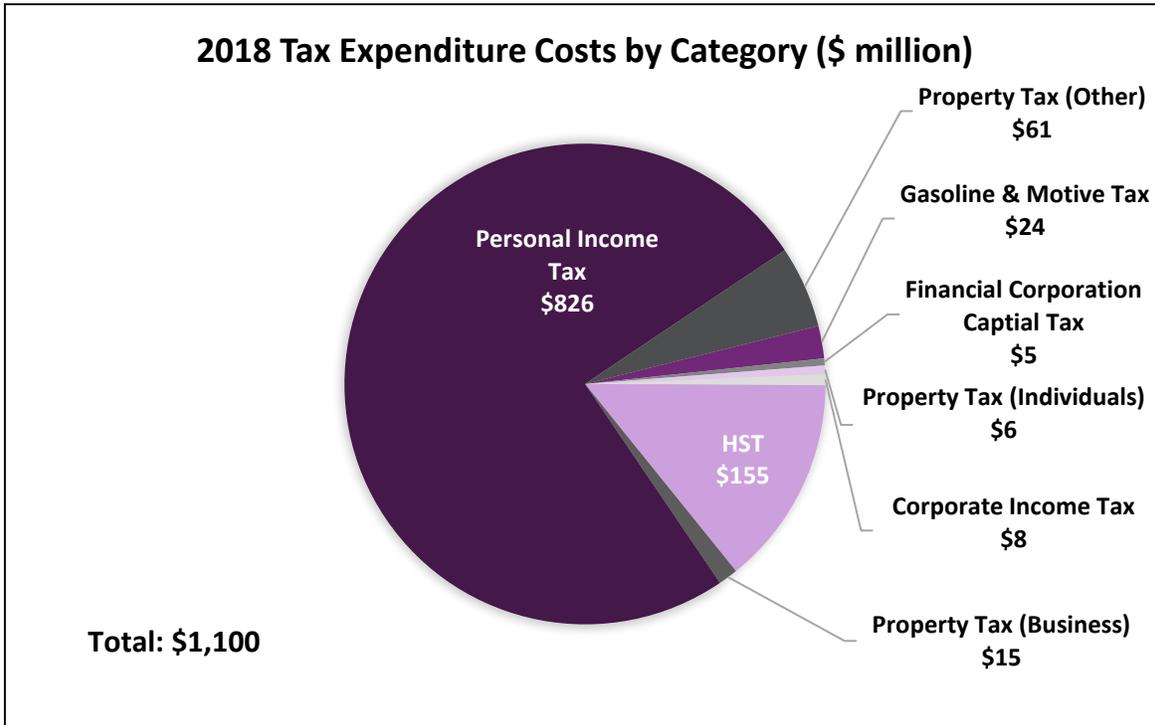
6.24 In recent years, the Province has recorded approximately \$1.1 billion in annual tax expenditures, which are netted against revenue.

What programs have the largest tax expenditure costs?

- 6.25** The largest tax expenditure program costs are:
- Basic Personal Amount (\$477 million)
 - New Brunswick HST Credit (\$100 million)
 - Dividend Tax Credit (\$68 million)
 - CPP Contributions (\$57 million)
 - Low-Income Tax Reduction (\$45 million)

6.26 Exhibit 6.2 shows the tax expenditure costs by the eight categories. For example, tax expenditure programs in the Personal Income Tax category represent 75% (\$826 million) of total tax expenditure costs in 2018.

Exhibit 6.2 - 2018 Tax Expenditure Costs by Category



*Source: Prepared by AGNB based on information provided by Department of Finance and Treasury Board (unaudited). See Exhibit 6.5 for details.
 **Caution should be used when totalling tax expenditures due to interaction between programs (elimination of one program could increase or decrease the cost of other programs).*

Who Benefits from Tax Expenditures?

Individuals, businesses, and other entities benefit

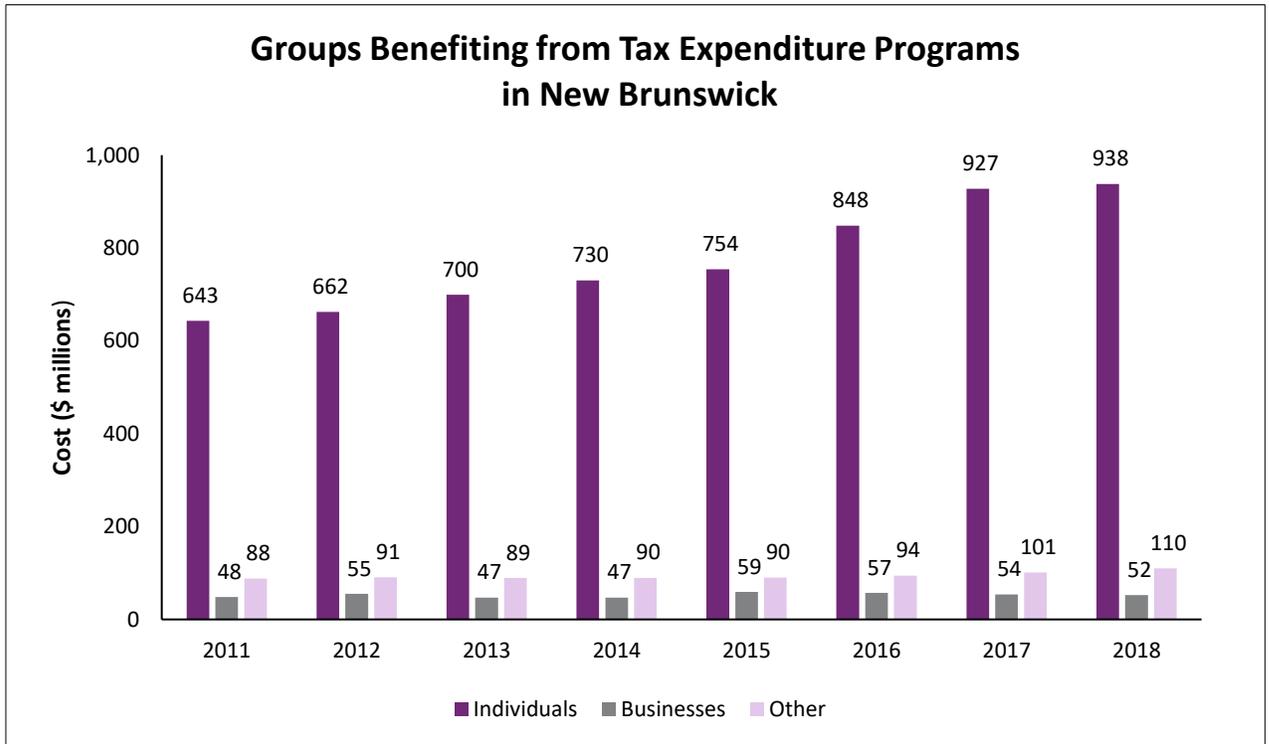
6.27 Tax expenditure programs in New Brunswick provide tax relief benefits to individuals, businesses, and other entities.

6.28 The other entities benefiting from tax expenditures include municipalities, universities, charities and not-for-profit organizations, churches and other.

Individuals received over \$900 million in benefits in 2018

6.29 Individuals in the province receive the largest benefit from tax expenditures. As noted in Exhibit 6.3, individuals received over \$900 million in benefits from tax expenditures in 2018.

Exhibit 6.3 - Groups Benefiting from Tax Expenditure Programs in NB



Source: Prepared by AGNB based on information provided by Department of Finance and Treasury Board (unaudited)

Exhibit 6.4 - Examples of Tax Expenditure Reporting by Other Provinces

Examples of Tax Expenditure Reporting by Other Provinces

Province	Categories of Tax Expenditures Reported	What Periods are Reported?	Other Information Provided
Nova Scotia	<ul style="list-style-type: none"> - Personal Income Tax - Corporate Income Tax - Harmonized Sales Tax 	<ul style="list-style-type: none"> - 2018-2019 Estimate - 2018-2019 Forecast - 2019-2020 Estimate 	<ul style="list-style-type: none"> - Information regarding changes from 2018-2019 regarding the Basic Personal Amount - New tax credits that have been introduced or will soon be introduced, and credits that will be phased out
Newfoundland & Labrador	<ul style="list-style-type: none"> - Personal Income Tax - Corporate Income Tax - Sales Tax - Fuel Tax - Carbon Tax - Tobacco Tax 	<ul style="list-style-type: none"> - 2018-2019 Budget - 2018-2019 Revised - 2019-2020 Estimate 	<ul style="list-style-type: none"> - Definition of tax expenditures
Quebec	<ul style="list-style-type: none"> - Personal Income Tax - Corporate Income Tax - Consumption Tax 	<ul style="list-style-type: none"> - 2013-2019 Estimate 	<ul style="list-style-type: none"> - Detailed and comprehensive report - Analyzes year over year cost variances for each category - Detailed explanation of methodology used to calculate tax expenditure estimates
Ontario	<ul style="list-style-type: none"> - Personal Income Tax - Corporate Income Tax - Sales Tax - Education Property Tax - Employer Health Tax - Mining Tax - Estate Administration Tax - Gross Revenue Charge 	<ul style="list-style-type: none"> - 2018 Estimate 	<ul style="list-style-type: none"> - Describes legislated requirement to publicly disclose tax expenditures - Outlines the scope and methods used to determine the tax expenditure estimates - No reporting for estimates less than \$1 million
Manitoba	<ul style="list-style-type: none"> - Retail Sales Tax - Business Tax - Business Tax Credit Extensions - On-going Personal Tax Measures 	<ul style="list-style-type: none"> - 2019-2020 Estimate 	<ul style="list-style-type: none"> - Only tax expenditures that are new for 2019-2020 or have changed from previous year are reported
Saskatchewan	<ul style="list-style-type: none"> - Personal Income Tax - Corporation Income Tax - Provincial Sales Tax - Fuel Tax 	<ul style="list-style-type: none"> - 2016, 2017, 2018 Revised - 2019 Estimate 	<ul style="list-style-type: none"> - Comprehensive explanation and rationale for tax expenditures - Brief explanation of how tax expenditures are estimated
Alberta	<ul style="list-style-type: none"> - Personal Income Tax - Corporate Income Tax - Fuel Tax - Transfers Through the Tax System 	<ul style="list-style-type: none"> - 2018 Estimate 	<ul style="list-style-type: none"> - No additional information provided
British Columbia	<ul style="list-style-type: none"> - Personal Income Tax - Corporate Income Tax - Property Tax - Consumption Tax 	<ul style="list-style-type: none"> - 2018-2019 Estimate 	<ul style="list-style-type: none"> - Detailed explanation of province's tax expenditures - Only includes programs that are close equivalents to spending programs - Does not include tax expenditures less than \$2 million annually

Source: Prepared by AGNB with publicly available information

Exhibit 6.5 - New Brunswick Tax Expenditure Programs and Costs

Tax Expenditure Programs and Costs (\$ millions)

Tax Expenditure	Year	
	2018	2017
Personal Income Tax		
Low-Income Tax Reduction	44.6	45.3
Foreign Tax Credit*	4.7	4.7
Political Contributions Tax Credit (Individual)*	0.4	0.4
Small Business Investor Tax Credit (Individuals)* **	17.9	17.9
Labour Sponsored Venture Capital*	0.0	0.0
Dividend Tax Credit	67.6	65.8
Basic Personal Amount	477.0	467.1
Age Amount	37.7	38.5
Spouse or Common-Law Partner Amount	11.1	12.3
Amount for Eligible Dependent	8.7	8.2
Amount for Infirm Dependents Age 18 or Older	0.2	0.1
CPP Contributions	56.8	54.3
EI Premiums	19.7	18.7
Pension Income Amount	12.5	12.0
Caregiver Amount	1.2	1.5
Disability Amount	15.5	13.4
Interest Paid on Student Loans	1.2	1.3
Medical Expenses	26.5	23.6
Donations and Gifts	23.2	30.7
Total Personal Income Tax	826.5	815.8
Corporate Income Tax		
Small Business Investor Tax Credit (Corporations)*	0.1	0.1
Research and Development Tax Credit*	8.1	8.1
Political Contributions Tax Credit (Corporation)*	0.0	0.0
Total Corporate Income Tax	8.2	8.2
Financial Corporation Capital Tax		
Financial Corporation Capital Tax Employment Tax Credit*	5.2	5.2

Exhibit 6.5 – New Brunswick Tax Expenditure Programs and Costs (Continued)

Tax Expenditure	Year	
	2018	2017
Sales Tax		
Research and Development Credit for Universities	0.4	0.4
HST Rebate for Specially Equipped Vehicles for the Disabled	0.1	0.1
HST Rebate for Municipalities	36.5	29.9
HST Rebate for Charitable Organizations	11.3	9.7
HST Rebate for Qualifying Non-Profit Organizations	1.9	1.9
HST Rebate on Books	5.1	4.8
New Brunswick HST Credit	99.9	100.1
Total Sales Tax	155.2	146.9
Fuel Tax		
Fuel Tax Exemption Program	24.1	24.8
Property Tax (Individuals)		
Low-Income Property Tax Allowance	6.3	6.5
Property Tax Deferral for Seniors	0.0	0.0
Total Property Tax (Individuals)	6.3	6.5
Property Tax (Business)		
Farmland Identification Program	7.5	7.4
Heritage Property Tax Abatement Program	0.0	0.0
Real Property Tax Exemptions: Fishing Harbours	0.1	0.1
Real Property Tax Exemptions: Crude Oil Storage Tanks and Pipelines	0.7	0.7
Real Property Tax Exemptions: Rail Right-of-Way, Major Cargo Ports and Airport	6.3	6.9
Total Property Tax (Business)	14.6	15.1
Property Tax (Other)		
Assessment Reduction Program	5.0	4.8
Real Property Tax Exemptions: Churches	18.2	18.7
Real Property Tax Exemptions: Universities	26.6	26.3
Real Property Tax Exemptions: Arenas	5.0	4.4
Real Property Tax Exemptions: Not-for-Profit, Low Rental Housing Accommodations	2.9	2.9
Real Property Tax Exemptions: Literary, Art, Science and Historical Societies	1.2	1.1
Real Property Tax Exemptions: Voluntary Fire Associations	0.4	0.3
Property Tax Exemptions: Parks	0.0	0.0

Exhibit 6.5 – New Brunswick Tax Expenditure Programs and Costs (Continued)

Tax Expenditure	Year	
	2018	2017
Real Property Tax Exemptions: Agricultural Societies or Agricultural Fair Associations	0.3	0.2
Real Property Tax Exemptions: Public Libraries	1.0	1.0
Total Property Tax (Other)	60.6	59.7
Total Tax Expenditures	1,100.7	1,082.2
Tax Spending Programs and Other	Year	
	2018	2017
Residential Property Tax Credit***	377.2	375.1
New Brunswick Child Tax Benefit and Working Income Supplement	9.0	9.2
School Supplement Program	1.4	1.5
Low-Income Seniors' Benefit	17.3	17.3
Seniors' Home Renovation Tax Credit*	0.2	0.2
Home Energy Assistance Program (HEAP)	4.3	5.1
Total Tax Spending Programs and Other	409.4	408.4
Grand Total Tax Expenditures and Other Tax Programs	1,510.1	1,490.6

Source: Prepared by AGNB based on information provided by the Department of Finance and Treasury Board (unaudited)

* 2018 costs were not available, 2017 costs have been used.

** The Province publicly reports this item as a tax expenditure for businesses. The Province's rationale is: Even though the original benefit is given to individuals, businesses are the ones who ultimately benefit.

*** The residential property tax credit is a means to implement a provincial tax rate of zero on owner occupied residential properties, as specified in legislation. It is not considered a tax expenditure. We are referring to it as an other tax amount.

Chapter 7

Contaminated Sites

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Contaminated Sites

Why Report on Contaminated Sites?

7.1 The purpose of this chapter is to inform the Legislative Assembly of the results of our work regarding contaminated sites. We perform work on contaminated sites each year as part of the audit of the Province's consolidated financial statements. It is important to note that our work on contaminated sites does not include airborne contaminants, such as asbestos.

The Province may be responsible for many contaminated sites

7.2 As part of our audit work this year, we noted 182 sites with known or possible contaminants which the Province may be responsible to remediate (clean up).

Observations are concerning

7.3 We are concerned with the observations noted as a result of our regular financial statement audit of the Province. The recommendations in this chapter do not reflect issues which may be identified through a more extensive examination such as a performance audit. We have included contaminated sites on our list of potential performance audits to consider in the future.

What is a Contaminated Site?

What is a contaminated site?

7.4 The Department of Environment and Local Government (DELG) defines a contaminated site as:

A property or collection of properties where the concentration of specified chemicals in air, soil, or groundwater exceed levels considered acceptable by the Department of Environment and Local Government...¹

How do sites become contaminated?

7.5 A site may become contaminated for many different reasons. Some examples include:

¹ Source: "Guideline for the Management of Contaminated Sites, Version 2 – Definitions, 2003" prepared by the Department of Environment and Local Government

- fuel storage and distribution;
- mining activity;
- waste disposal; and
- marine activity (such as port facilities).

Who Monitors Contaminated Sites?

The Department of Environment and Local Government records manages, and monitors all contaminated sites in the Province

7.6 DELG is responsible for recording, managing, and monitoring all contaminated sites in the Province. This includes privately owned sites, as well as public sites. Public sites include sites owned by the Province or sites where the Province has assumed responsibility. Site holders are required to notify DELG when they are aware a site is contaminated.

How Are Contaminated Sites Presented in the Province's Financial Statements?

Accounting standards require certain contaminated sites to be recorded as liabilities

7.7 Public sector accounting standards require the Province to record a liability for the estimated costs to remediate contaminated sites only if they meet specific criteria. In 2019, the Province was required to record a liability of \$44 million for 79 of its 182 contaminated sites.

7.8 A liability for a contaminated site can only be recorded if the following conditions are met:

- an environmental standard exists;
- the contamination exceeds the environmental standard;
- the government is directly responsible or accepts responsibility for the contaminated site;
- the government plans to remediate or remove the contaminate; and
- a reasonable estimate of the cost of remediating the contaminated sites can be made.

Other examples of what is not included in the liability for contaminated sites

7.9 Other examples of contaminated sites that the Province is not required to record a liability for include:

- privately owned sites; and
- public contaminated sites which the Province has leased to a third-party and the third party is responsible for clean up.

Properties still in productive use are considered environmental liabilities by the Province

7.10 In some instances, the Province has chosen to record an environmental liability (instead of a contaminated site liability) for properties which are still in productive use. For example, the Province recorded a separate environmental liability of \$28 million in 2019 for the areas of the Caribou mine which are currently in productive use.

How is the liability for contaminated sites calculated?

7.11 The liability for a contaminated site is calculated based on an estimate of the costs to remediate or remove the contaminate(s) from the site to meet environmental standards. These cost estimates are based mostly on engineering reports prepared by engineers or other experts who possess the necessary experience and expertise.

7.12 Departments and Crown agencies are responsible for estimating the total cost to remediate their contaminated sites.

How Much is the Liability for Contaminated Sites?

The Province has recorded a liability of \$44 million

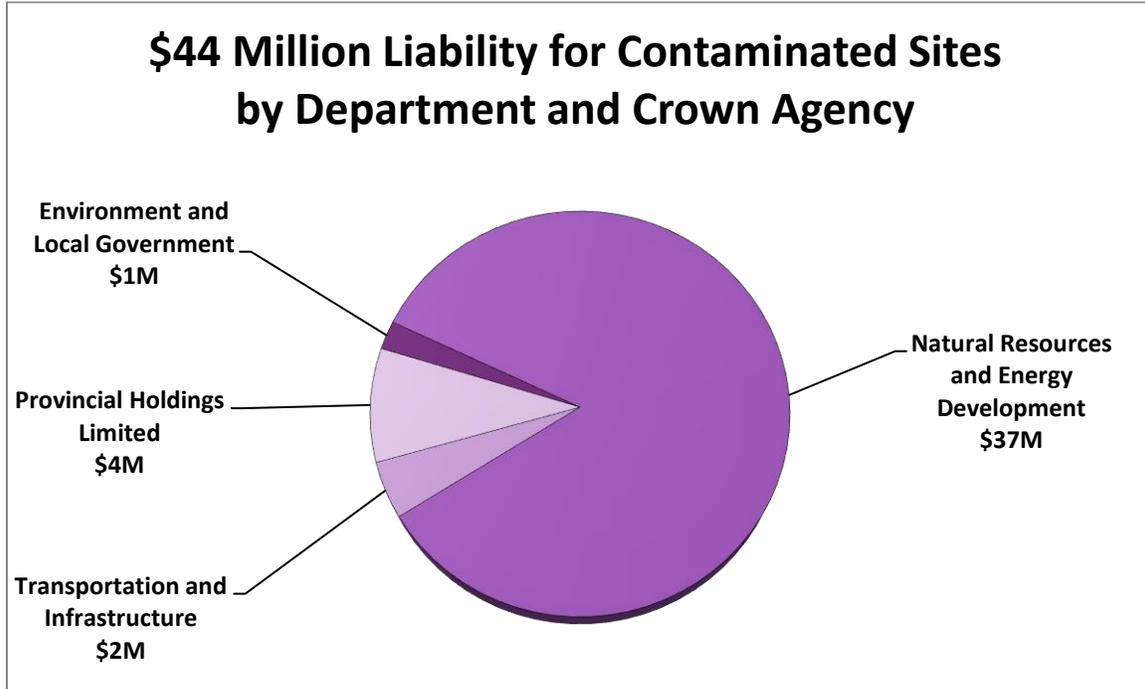
7.13 The Province recorded a liability (the amount it expects to spend in the future) of \$44 million for the remediation of 79 contaminated sites in 2019. The Province reports information relating to contaminated sites in Note 1(f), and Note 13(b) of the consolidated financial statements.

New Brunswick Power Corporation environmental liability is not included

7.14 The New Brunswick Power Corporation (NB Power) has recorded an environmental liability of \$11 million. This amount is not included as part of the Province's \$44 million liability.

7.15 Exhibit 7.1 summarizes the \$44 million liability by department and Crown agency. Most of the liability (\$37 million) relates to three mines in the Department of Natural Resources and Energy Development (DNRED).

Exhibit 7.1 - Liability for Contaminated Sites by Department and Crown Agency



Source: Prepared by AGNB

Department of Natural Resources and Energy Development Engineering Reports are Outdated

Department of Natural Resource and Energy Development has the largest liability

7.16 As noted in Exhibit 7.1, \$37 million of the Province's \$44 million liability for contaminated sites relates to three items at DNRED.

7.17 Each of the three mines have outdated engineering reports which are used to estimate the liabilities to remediate them. Costs from each of these outdated reports are adjusted for inflation each year to estimate the liabilities.

2010 report was used to estimate a \$23 million liability

7.18 The liability to remediate the Nigadoo mine is \$23 million and we found the liability was estimated using costs from an engineering report dated in 2010. This mine represents over half of the Province's \$44 million liability for contaminated sites.

Other outdated reports

7.19 We also found the liability to remediate the area of the Caribou mine which is not in productive use is \$6 million and was estimated using costs from a 2012 report. The

liability to remediate the Restigouche mine is \$8 million and used costs from a 2015 report.

DNRED visits sites annually but does not update costs to remediate

7.20 We were informed DNRED performs site visits every year to assess these mines, but it does not update the estimated costs to remediate them. Using outdated reports increases the risk liabilities for these mines are misstated due to changes in environmental standards or expected costs to remediate.

7.21 In our view, even though these estimates are not materially misstated, obtaining up-to-date engineering reports on a regular basis would improve the accuracy of these estimates. We were informed DNRED is considering receiving updated reports, but no definitive plan has been set.

Recommendation

7.22 We recommend the Department of Natural Resources and Energy Development obtain up-to-date engineering reports in advance of the next provincial audit to support contaminated site liabilities. We recommend the reports subsequently be obtained at least every five years or earlier, if conditions indicate an updated report is needed.

The Province May Become Responsible for Sites Contaminated by Others

The Province is exposed to risk

7.23 In some cases, the Province leases property it owns to individuals or businesses (lessees) for purposes such as mining or aquaculture. These leases result in a significant risk for the Province if the property becomes contaminated while being leased to a third party.

7.24 The Province has identified 57 properties it leases that have possibly become contaminated by lessees.

The Province is supposed to take steps to mitigate risk

7.25 To reduce the risk of the Province being responsible for cleaning up the leased sites once the leases expire, the Province requires lessees to purchase and maintain insurance on the property while it is being leased or provide financial security as collateral.

Three of ten properties sampled have been leased without proof of insurance

7.26 During our work, we examined a sample of ten leased sites and found instances where steps were not taken to mitigate this risk. We found:

- two instances where DNRED has not obtained proof of insurance from the lessee; and
- one instance where the Department of Agriculture, Aquaculture and Fisheries (DAAF) has not obtained proof of insurance from the lessee.

7.27 We also found DNRED and DAAF do not regularly monitor leased sites to confirm if insurance covers site contaminates based on how the site is being used and if insurance coverage is maintained by the lessee. For example, we noted one instance where DNRED has not obtained updated proof of insurance since 2013.

Province could be responsible to pay for any clean up

7.28 If up-to-date insurance or financial security (collateral) is not in place, the Province could be responsible to pay for the clean up of any contaminates caused by the lessee.

7.29 In our view, the Province is exposed to greater risk if up-to-date insurance or financial security is not in place for property it leases to third parties.

Recommendations

7.30 We recommend the Department of Natural Resources and Energy Development obtain and maintain up-to-date proof of insurance or financial security as collateral for all property it leases to third parties.

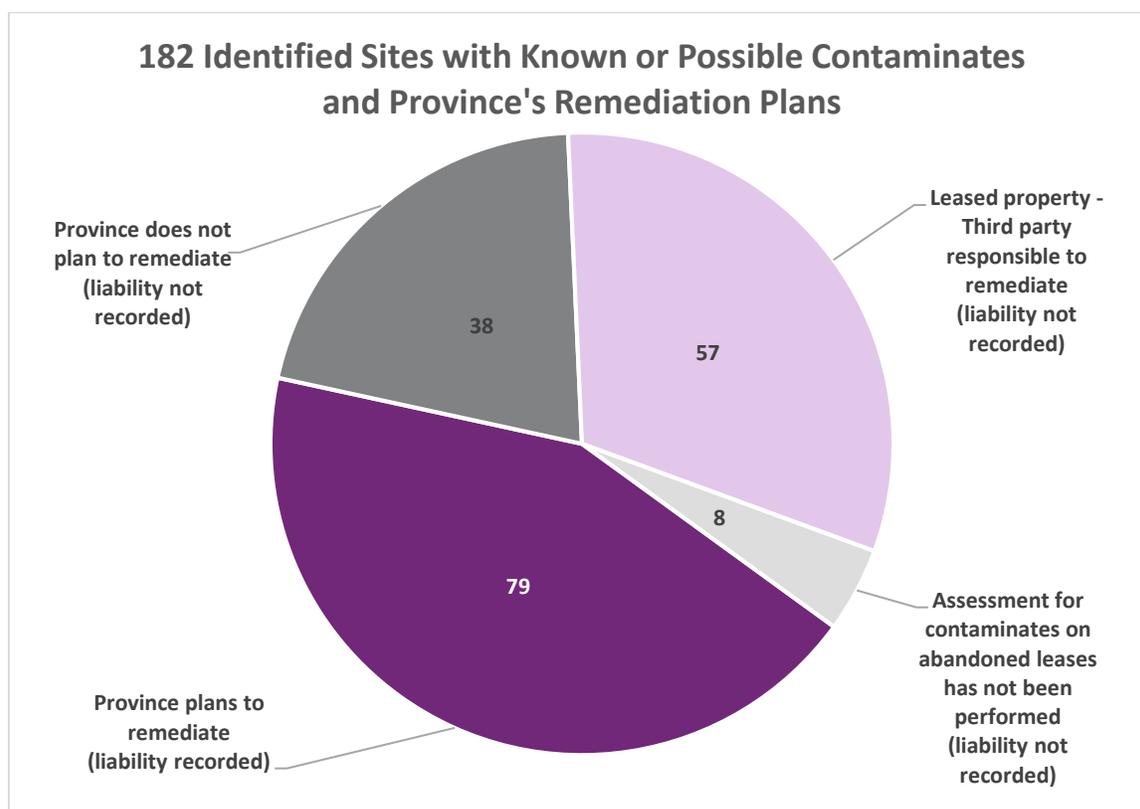
7.31 We recommend the Department of Agriculture, Aquaculture and Fisheries obtain and maintain proof of insurance or financial security as collateral for all property it leases to third parties.

What is Planned for the 182 Sites?

Not all sites are expected to be cleaned up

7.32 Exhibit 7.2 provides a summary of the planned treatment of sites with known or potential contaminates (excluding airborne contaminates) which the Province may be responsible to remediate.

Exhibit 7.2 - 182 Identified Sites with Known or Possible Contaminates and Province's Remediation Plans



Source: Prepared by AGNB based on information provided by departments and Crown agencies (unaudited)

The Province does not plan to remediate at least 38 sites

7.33 We note in Exhibit 7.2, the Province does not plan to remediate 38 contaminated sites even though in most cases environmental standards have been exceeded. During our work, we were informed the clean up of certain sites may not be cost-effective for the Province. In some cases the Province has found an alternative to remediation.

7.34 We also note in Exhibit 7.2:

- 57 sites are leased to third parties and remediation is the responsibility of the lessee.
- The Province intends to remediate 79 sites for which it has recorded a contaminated site liability.
- Eight sites have been abandoned by lessees and assessments for contaminants have not been performed.

Who is Responsible for the 182 Contaminated Sites?

Six departments and one Crown agency have contaminated sites

7.35 There are six departments and one Crown agency with contaminated sites. Exhibit 7.3 shows the number of contaminated sites by department and Crown agency for the last three years.

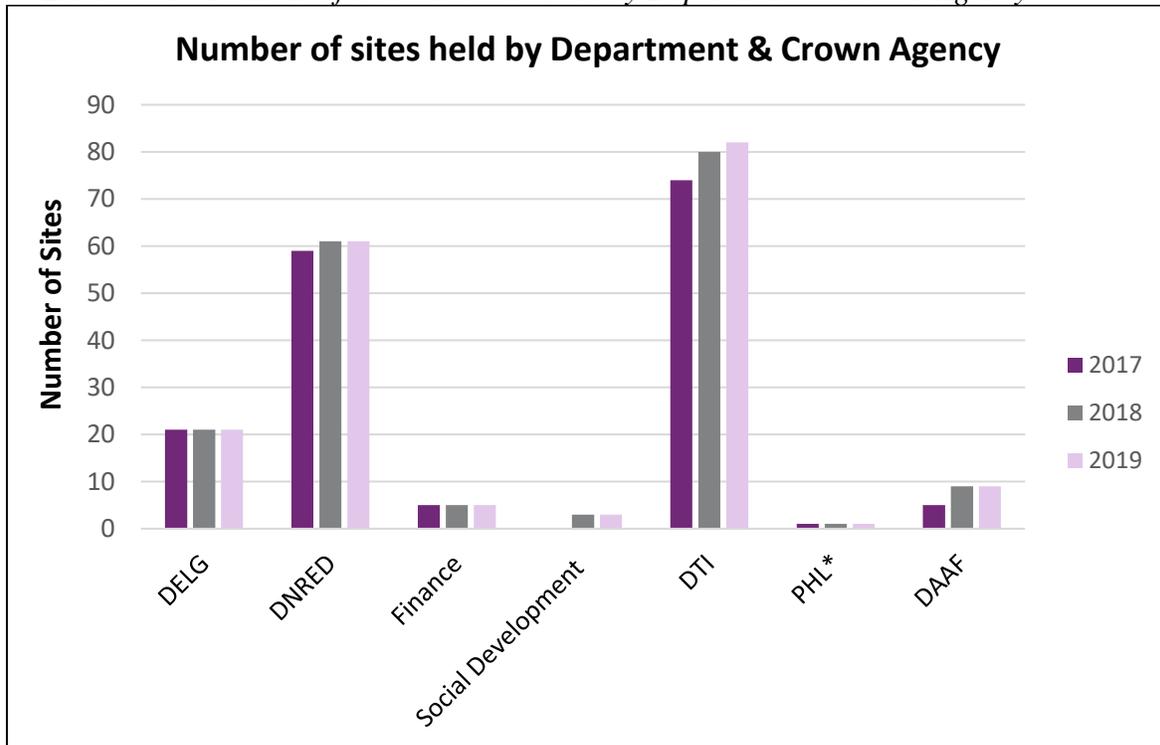
DTI is responsible for fuel contaminates

7.36 The Department of Transportation and Infrastructure (DTI) is responsible for 82 contaminated sites. Contaminates at these sites relate mostly to fuel related activities from maintenance depots and district garages.

DNRED is responsible for mines

7.37 DNRED is responsible for 61 contaminated sites, many of which are mines. Of the 37 mines held by the Province, most are either active or under lease where lessee is responsible for remediation.

Exhibit 7.3 - Number of Contaminated Sites by Department & Crown Agency



Source: Prepared by AGNB based on information provided by departments and Crown agencies (unaudited)

**PHL=Provincial Holdings Ltd.*

Some Contaminated Sites Have Existed for Over 20 Years

7.38 Exhibit 7.4 presents an aging analysis of the Province's 182 contaminated sites.

Exhibit 7.4 - Aging of 182 Contaminated Sites in the Province



Source: Prepared by AGNB based on information provided by departments and Crown agencies (unaudited)

7.39 We note in Exhibit 7.4, 50 sites have been contaminated for more than 20 years with no full remediation.

7.40 We will continue to monitor how the Province manages remediation of its contaminated sites in our future audit work.

Chapter 8

Accounts Receivable

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Accounts Receivable

How Much Money is the Province Owed?

*The Province is owed
\$2.8 billion*

8.1 The Province is owed \$2.8 billion in gross accounts receivable. In Volume III of our 2018 report, we published a chapter where we emphasized the need to centralize accounts receivable collection.

8.2 The purpose of this year's chapter is to supplement our past reporting to inform the Legislative Assembly of detail regarding this significant amount and some of the unique circumstances regarding collections. We have included information as obtained during our March 31, 2019 audit of the Province's consolidated financial statements.

8.3 Some key terms used throughout this topic are explained below:

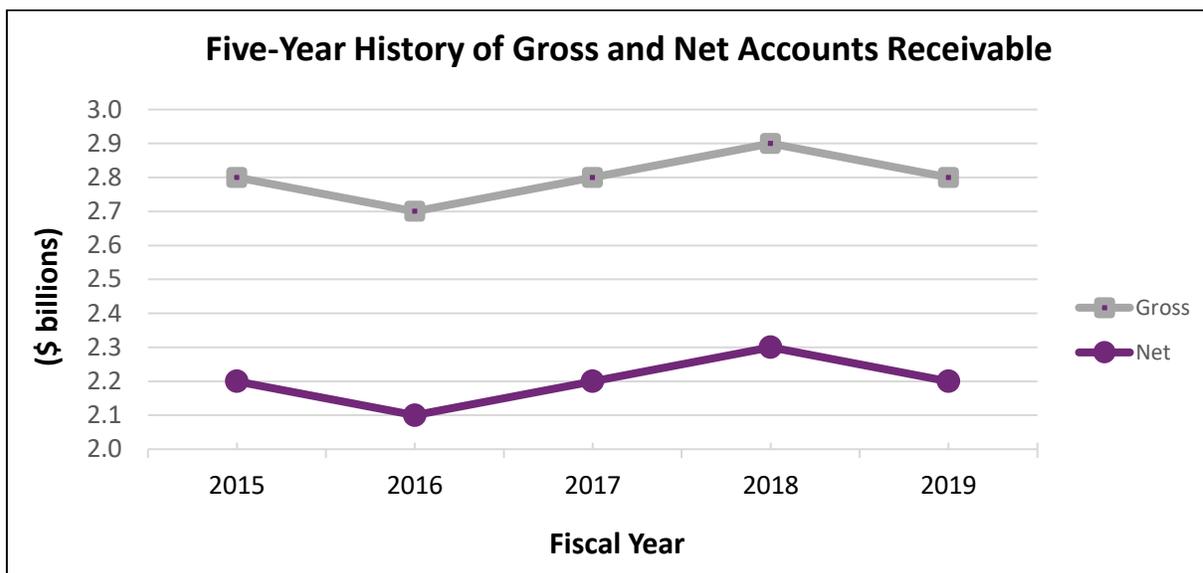
Gross accounts receivable is the total amount owed before the application of a valuation allowance.

Valuation Allowance, sometimes referred to as a "provision" or "allowance for doubtful accounts", refers to the amount management has deemed unlikely to be collected.

Net accounts receivable, sometimes referred to as "net recoverable value", is the gross amount less the valuation allowance. This is the amount management believes it is likely to collect in the future.

8.4 Exhibit 8.1 summarizes the Province's gross versus net receivables balances for the past five years.

Exhibit 8.1 - Five-year History of Gross and Net Accounts Receivable



Source: Prepared by AGNB using information from New Brunswick Public Accounts with restatements where identified in Public Accounts.

8.5 The gross and net accounts receivable balances have been relatively consistent over the past five years.

8.6 On a net basis, after subtracting the valuation allowance, the Province reported approximately \$2.2 billion as net receivable in its consolidated financial statements at March 31, 2019.

8.7 A summary of accounts receivable by significant grouping is presented in Exhibit 8.2.

Exhibit 8.2 - Accounts Receivable Detail by Significant Grouping

Accounts Receivable Detail by Significant Grouping (\$ millions)

Fiscal Year 2019				
Accounts Receivable Category	Gross	Valuation Allowance	Net	% Deemed Not Collectible
Taxes Receivable	1,288	(33)	1,255	3%
Loans Receivable	863	(295)	568	34%
General Receivables of Government Departments	238	(108)	130	45%
Due from Federal Government	175	-	175	0%
Guarantee Payouts	127	(126)	1	99%
General Receivables of Government Entities	83	(3)	80	4%
Interest Receivable	59	(45)	14	76%
Advances	11	(4)	7	36%
Total	2,844	(614)	2,230	22%

Source: Prepared by AGNB using information from New Brunswick Public Accounts Volume I for year ended March 31, 2019

8.8 In this chapter we provide more detailed information on the three largest accounts receivable balances:

- taxes receivable;
- loans receivable; and
- general receivables of government departments.

We also provide details on the write-off process.

Taxes Receivable: Real Property Tax

8.9 Taxes receivable detail is presented by type in Exhibit 8.3.

Exhibit 8.3 - Taxes Receivable by Type

Taxes Receivable by Type (\$ millions)

Category	Fiscal Year 2019
	Amount
Real Property Tax	1,219
Gas and Motive Fuel Tax	26
Royalties and Stumpage on Timber	25
Other	18
Total Gross	1,288
Less: Valuation Allowance	(33)
Net	1,255

Source: Prepared by AGNB using information from New Brunswick Public Accounts Volume I for year ended March 31, 2019

Significant property taxes owed

8.10 Real property taxes of \$1.2 billion is the Province's largest accounts receivable balance at March 31, 2019. The six-year history of the balance is presented in Exhibit 8.4.

Exhibit 8.4 - History of Real Property Tax Accounts Receivable

History of Real Property Tax Accounts Receivable* (\$ millions)

Amount	Fiscal Year							
	2014	2015	2016	2017	2018	2019	5-year Change	% 5-year Change
Total Property Tax Receivable*	1,028	1,087	1,089	1,089	1,115	1,157	129	13%
Property Tax overdue for 1 year or more	99	108	107	106	109	116	17	17%
Percentage overdue 1 year or more	9.6%	9.9%	9.8%	9.7%	9.7%	10.0%	n/a	n/a

Source: Prepared by AGNB

**Total property tax receivable relates to amounts collectible by Service New Brunswick. It does not include Federal properties or certain utilities which are generally collected each year by the Department of Finance and Treasury Board.*

8.11 As presented in the Exhibit 8.4, gross real property tax receivables have grown \$129 million, or 13%, over the past five years.

8.12 Real property tax receivables that are outstanding for over one year have increased \$17 million, or 17%, over the past five years. This is troublesome as the longer receivables are outstanding, it is less likely the Province will collect.

8.13 During our 2019 audit of real property tax receivable, which includes auditing the work of Service New Brunswick and the Department of Finance and Treasury Board, we noted the following weaknesses in the collection process:

- formal, documented collection strategies and key performance indicators have not been developed and agreed upon; and
- overdue property tax accounts are not being set up with the Canada Revenue Agency Refund Set-off Program.

8.14 We made a recommendation to Service New Brunswick (“SNB”) to improve its processes for collecting overdue real property tax receivables.

Recommendation

8.15 We again recommend SNB develop a strategy to collect overdue property tax accounts with specified targets. This strategy should:

- provide measurable key performance indicators (such as the timeliness and quantity of property accounts returned to the Department of Finance and Treasury Board for tax sale purposes),
- analyze the feasibility of registering overdue property tax accounts with the Canada Revenue Agency Refund Set-off Program, and
- be agreed upon by both parties.

Loans Receivable

8.16 Loans receivable detail is presented by type in Exhibit 8.5 below.

Exhibit 8.5 - Loans Receivable by Type

Loans Receivable by Type (\$ millions)

Fiscal Year 2019				
Loans Receivable Categories	Gross	Valuation Allowance	Net	% Deemed Not Collectible
Loans to Students	522	(120)	402	23%
Opportunities New Brunswick	228	(126)	102	55%
<i>New Brunswick Housing Act</i>	61	(11)	50	18%
<i>Fisheries and Aquaculture Development Act</i>	22	(18)	4	82%
<i>Motor Vehicle Act</i>	9	(9)	-	100%
<i>Agricultural Development Act</i>	6	(3)	3	50%
Fundy Trail Endowment Fund	5	-	5	0%
Other	10	(8)	2	80%
Total	863	(295)	568	34%

Source: Prepared by AGNB from the Province's audited March 31, 2019 consolidated financial statements.

8.17 As presented in Exhibit 8.5, the net loans receivable balance is \$568 million, calculated as the gross accounts receivable amount of \$863 million less the valuation allowance of \$295 million.

8.18 The two highest amounts within the loans receivable balance are loans to students and Opportunities New Brunswick, consisting of loans to industry.

8.19 Of \$522 million in loans to students, management has estimated that 23% are not collectible.

8.20 Of \$228 million in loans to industry made by Opportunities New Brunswick, or its predecessor entities, management has estimated that 55% is not collectible.

General Receivables of Government Departments

8.21 Details of General Receivables of Government Departments are presented by department in Exhibit 8.6.

Exhibit 8.6 - General Receivables of Government Departments by Department

**General Receivables of Government Departments
by Department (\$ millions)**

Fiscal Year 2019				
Department	Gross	Valuation Allowance	Net	% Deemed Not Collectible
Social Development	56	(48)	8	86%
Justice and Public Safety	45	(28)	17	62%
Finance	38	(15)	23	39%
Health	37	-	37	0%
Post Secondary Education, Training and Labour	19	(7)	12	37%
Education and Early Childhood Development	17	(7)	10	41%
Transportation and Infrastructure	12	(1)	11	8%
Environment & Local Government	4	-	4	0%
Other*	10	(2)	8	20%
Total	238	(108)	130	45%

Source: Prepared by AGNB

*Other includes Agriculture, Aquaculture, and Fisheries; Tourism, Heritage & Culture Executive Council Office; General Government; Natural Resources and Energy Development; Service of Public Debt; Finance and Treasury Board; Legislative Assembly; and Attorney General

General accounts receivable is a “catch all”

8.22 General Receivables of Government Departments consists of monies owed to the Province for services and goods rendered by government departments. These accounts are also considered a “catch all” for remaining accounts receivable that do not fit into other groupings.

8.23 This differs from other types such as real property tax and loans receivable which are specific types of receivables. Therefore, we have taken a closer look at these accounts to provide more information to the Legislative Assembly.

Collection of General Receivables of Government Departments

8.24 To determine how quickly departments are collecting on the general receivables owed to government, our office investigated the aging analyses prepared by departments.

8.25 An aging analysis presents how long an accounts receivable has been outstanding. Generally, the longer an accounts receivable balance is outstanding, the less likely the amount will be collected.

What we found

8.26 We found:

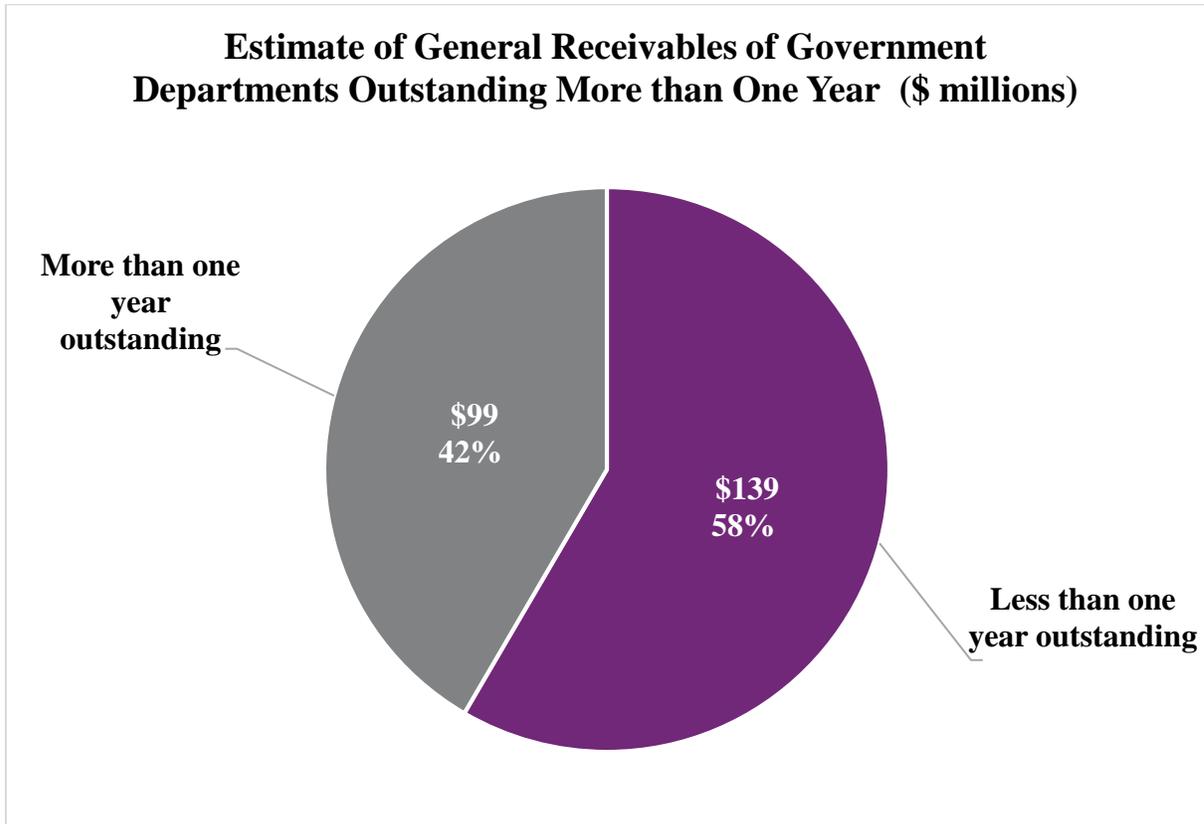
- many departments do not prepare a formal aging of their accounts receivable; and
- of the information we did obtain, 42% of the gross balance consists of receivables outstanding for over one year.

8.27 When we requested an aging analysis from departments, we received varying information. Some departments prepared an analysis on a periodic basis, some prepared a variation of an aging analysis, and some prepared no analysis at all. The Province's current accounting system is not utilized to be able to provide an aging analysis for audit purposes.

\$99 million of General Receivables of Government Departments older than one year

8.28 Based on the information gathered from the departments, we estimate \$99 million (42%) of the \$238 million General Receivables of Government Departments consist of amounts outstanding for over one year. We present this finding in Exhibit 8.7.

Exhibit 8.7 - Estimate of General Receivables of Government Departments Outstanding More than One Year



Source: Prepared by AGNB

8.29 We selected specific accounts receivable balances from two different departments to provide more information for the Legislative Assembly:

- Social Development – social assistance overpayments;
- Finance and Treasury Board – Lotteries and Gaming Corporation overpayments to First Nations.

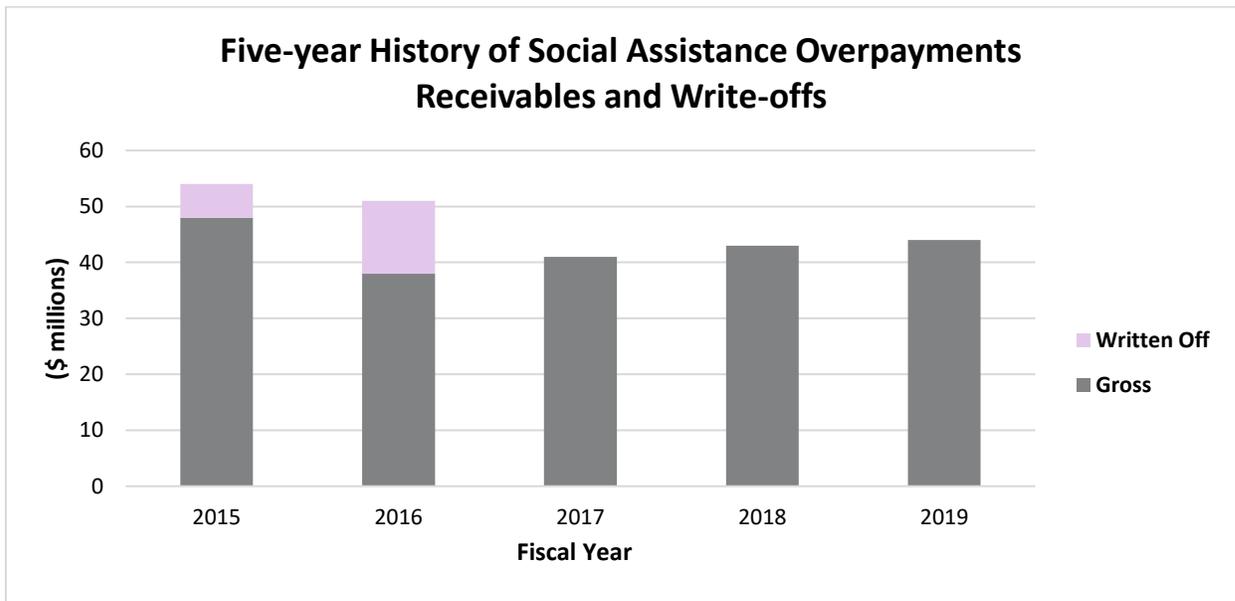
Social Development – Social Assistance Overpayments

\$44 million owing in social assistance overpayments

8.30 Of the Department of Social Development’s \$56 million balance in general receivables, it is owed \$44 million because of overpayments made to social assistance recipients.

8.31 Exhibit 8.8 presents the gross social assistance overpayments receivables, and debt write offs performed in a year. Debt write-offs occur when Treasury Board approves the deletion of the gross accounts receivable from a department’s accounting records. More information regarding this can be found later in this chapter.

Exhibit 8.8 - Five-year History of Social Assistance Overpayments Receivables and Write-offs

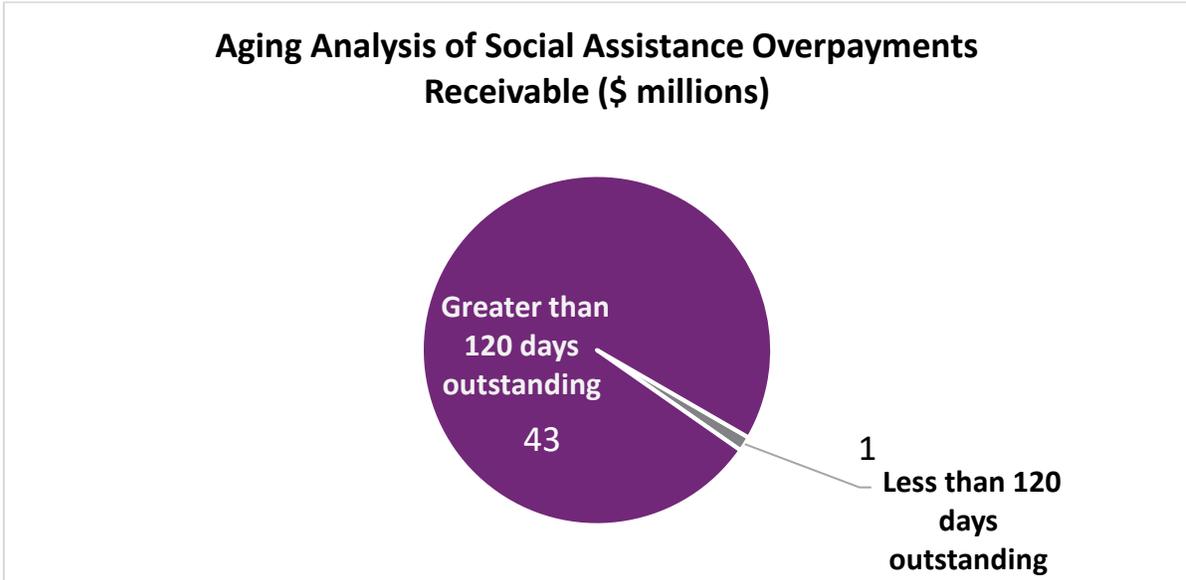


Source: Prepared by AGNB

8.32 Exhibit 8.8 shows that social assistance receivables have reduced \$4 million since 2015, mainly due to write-offs.

8.33 An aging of social assistance overpayments receivable is presented in Exhibit 8.9. The amount outstanding for greater than 120 days has been presented as information to show amounts older than one year has not been provided during our audit.

Exhibit 8.9 - Aging Analysis of Social Assistance Overpayments Receivable



Source: Prepared by AGNB

8.34 Exhibit 8.9 shows \$43 million of these overpayments is greater than 120 days old. Due to age and nature of these payments, the expectation of recovery of these funds is low.

Claims have limitation periods

8.35 Legislation is in place which sets a time limit on bringing legal claims against those indebted to the Province. Currently the limit, as found in the *Limitation of Actions Act*, is July 2021. Once the limitation period expires, the accounts receivable becomes “statute-barred”, meaning there is no ability for the Province to collect.

8.36 The Province changed the legislation in 2011 to allow time to develop a plan enabling the Province to collect receivables that would have been legally uncollectible due to the length of time outstanding. This “standstill provision” was then extended to 2021. We were informed by the Department of Social Development it intends to develop a plan of action to prevent these overpayments from becoming statute-barred.

No debt written off in the past three years

8.37 As at March 31, 2019, the Treasury Board had not approved the write-off of any social assistance overpayments receivable since fiscal year 2016. Since that time the balance has continued to grow between 2016 and 2019 as presented in Exhibit 8.8.

8.38 We note the Department of Social Development informed us it has registered outstanding debtors with the Canada Revenue Agency to offset their personal tax refunds to collect amounts owing. The Department of Social Development informed us it has collected \$7.7 million through this process since 2012. As recipients of the overpayments were low-income individuals, the likelihood of collection is considered low.

**Department of Finance and Treasury Board – Lotteries and Gaming Corporation:
Overpayments to First Nations**

Lotteries and Gaming Corporation made \$15 million in overpayments to First Nations

8.39 As presented in the Auditor General Report – Volume III – 2015, we highlighted overpayments made by the New Brunswick Lotteries and Gaming Corporation (NBLGC) to First Nations.

8.40 At March 31, 2019, NBLGC had \$15 million in gross accounts receivable for First Nations overpayments. These overpayments were as the result of a calculation error in the formula used to determine the amount remittable for VLTs located on First Nations. Overpayments were made between 2003 and 2016.

8.41 We found the NBLGC has estimated a full valuation allowance on the gross accounts receivable, resulting in a net account receivable of zero as presented in the Corporation’s financial statements.

8.42 We found this valuation allowance was applied despite:

- the *Financial Administration Act* permitting set offs of future payments of gaming net profits or other revenue sharing items such as fuel tax; and
- the amount has not been statute-barred under the *Limitation of Actions Act*.

8.43 Our discussions with NBLGC indicate Treasury Board has not yet decided on collection of this amount. We made a recommendation to the Department of Finance and Treasury Board, and the NBLGC to resolve the recovery of this amount.

Recommendation

8.44 We again recommend the Department of Finance and Treasury Board and NBLGC resolve recovery of the unauthorized overpayments made to First Nations prior to January 1, 2016 as a result of an error in the calculation of gaming revenue.

Write-off of Accounts Receivable

Write-offs are not being completed in a timely manner

8.45 We found write-offs for accounts receivable are not being completed in a timely manner. This finding was as a result of our audit of the Province's consolidated financial statements for the year ended March 31, 2019.

8.46 Not writing off these balances results in an overstatement of gross accounts receivable and valuation allowance balances presented in the Province's consolidated financial statement schedules.

The Financial Administration Act governs write-offs

8.47 The *Financial Administration Act* and the Administration manual policy AD-6307 – Deletion of Debts, require either the Treasury Board or Cabinet to approve loan and receivable write-offs.

Known uncollectible receivables are not being written-off

8.48 We found accounts receivable dating beyond the limitations specified in the *Limitation of Actions Act* which the Province would not be able to collect as they are statute-barred. We also found examples of accounts receivable where all efforts to collect have been fully exhausted.

The write-off process is not working

8.49 This indicates the write-off process outlined in the *Financial Administration Act* is not operating effectively to remove uncollectible balances. We made a recommendation to Treasury Board to improve its process for accounts receivable write-offs.

Recommendation

8.50 We recommend Treasury Board review requests from Departments, and write-off accounts receivable, in accordance with policy AD-6307 – Deletion of Debts. At a minimum, accounts receivable and loans receivable balances beyond the limitations specified in the *Limitation of Actions Act* should be written off.

Chapter 9

Local Government Debt

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Local Government Debt

Local Government Debt Reaches Historic High

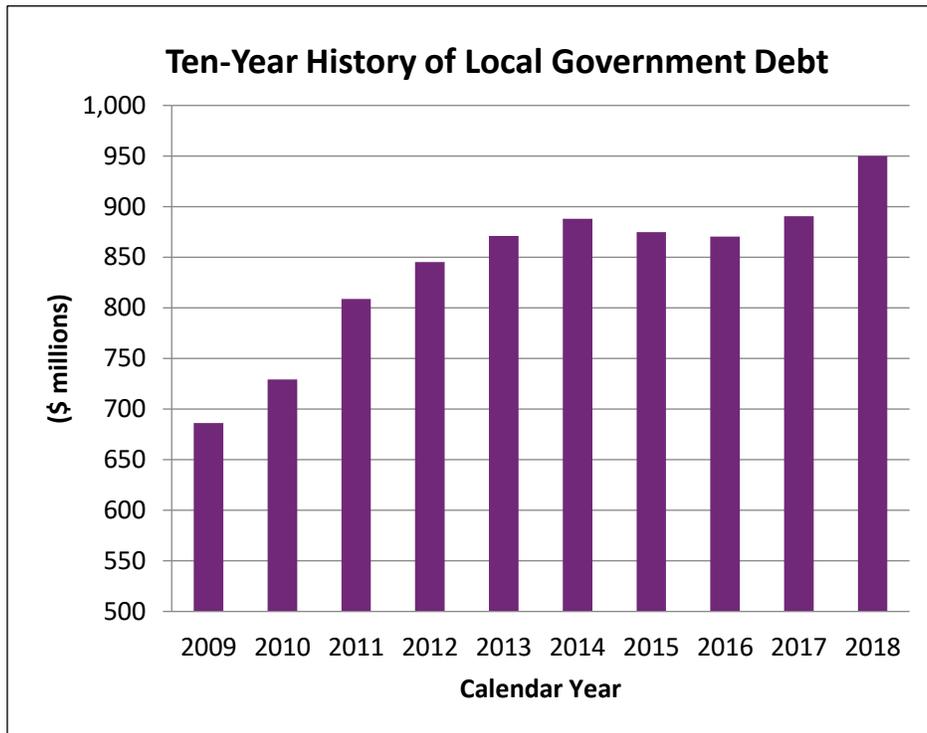
Local government debt reaches historic high of \$950 million

9.1 Debt owing by New Brunswick local governments reached a historic high of \$950 million at December 31, 2018. Local governments include municipalities, regional municipalities, rural communities, municipal enterprises and regional service commissions.

9.2 To inform the Legislative Assembly of this situation, we have included information below obtained during our most recent audit of the Municipal Finance Corporation.

9.3 The ten-year history of debt owed by local governments to the Province is presented in Exhibit 9.1 below.

Exhibit 9.1 - Ten-Year History of Local Government Debt

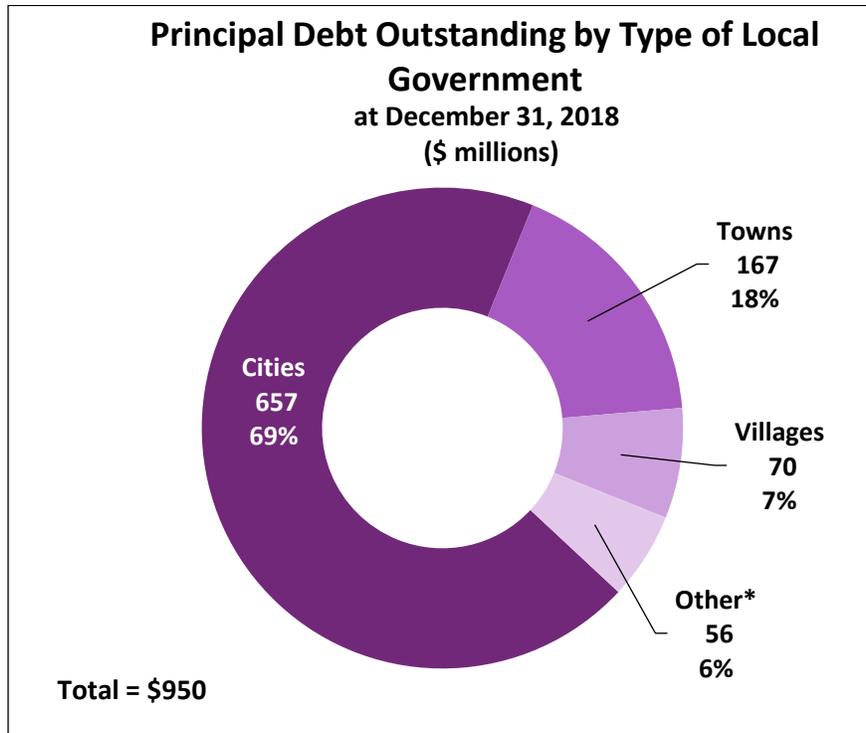


Source: Prepared by AGNB. Refer to Appendix I for supporting information.

Cities hold the highest share of debt

9.4 Cities hold the largest share of local government debt, followed by towns, villages and other types. Exhibit 9.2 presents a breakdown of debt by type of local government at December 31, 2018 in dollars and percentage share.

Exhibit 9.2 - Principal Debt Outstanding by Type of Local Government at December 31, 2018



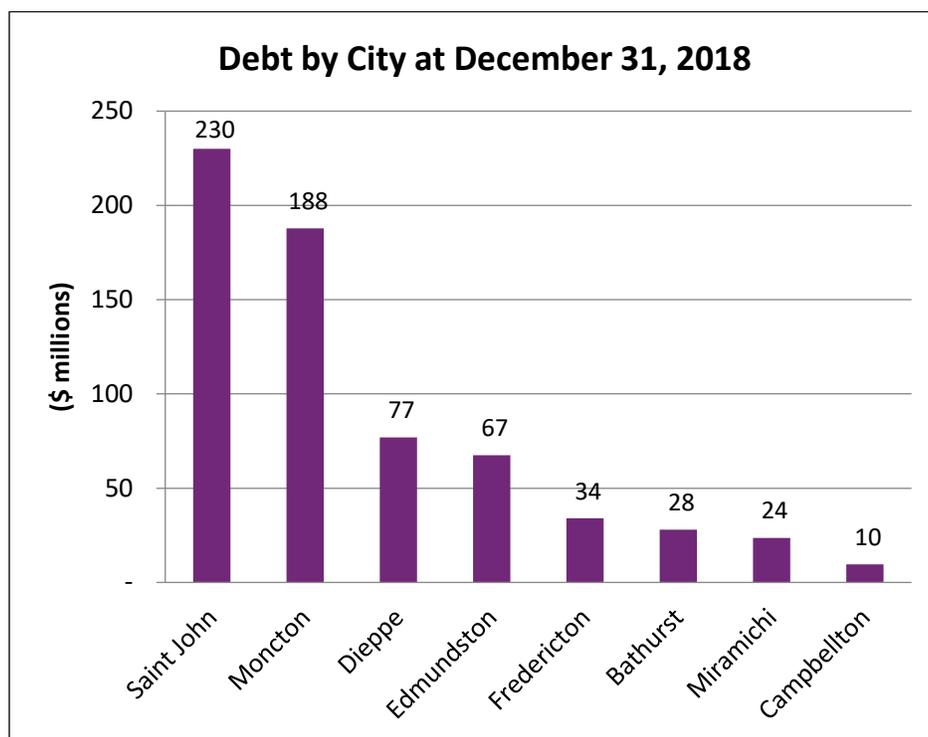
**Other includes regional municipalities, rural communities, municipal enterprises and regional service commissions.*

Source: Prepared by AGNB. Refer to Appendix I for supporting information.

Saint John has the highest debt of cities

9.5 Of the eight municipalities deemed a “city”, Saint John has the highest debt, followed by Moncton and Dieppe. Exhibit 9.3 presents debt by city for the 2018 calendar year.

Exhibit 9.3 - Debt by City at December 31, 2018

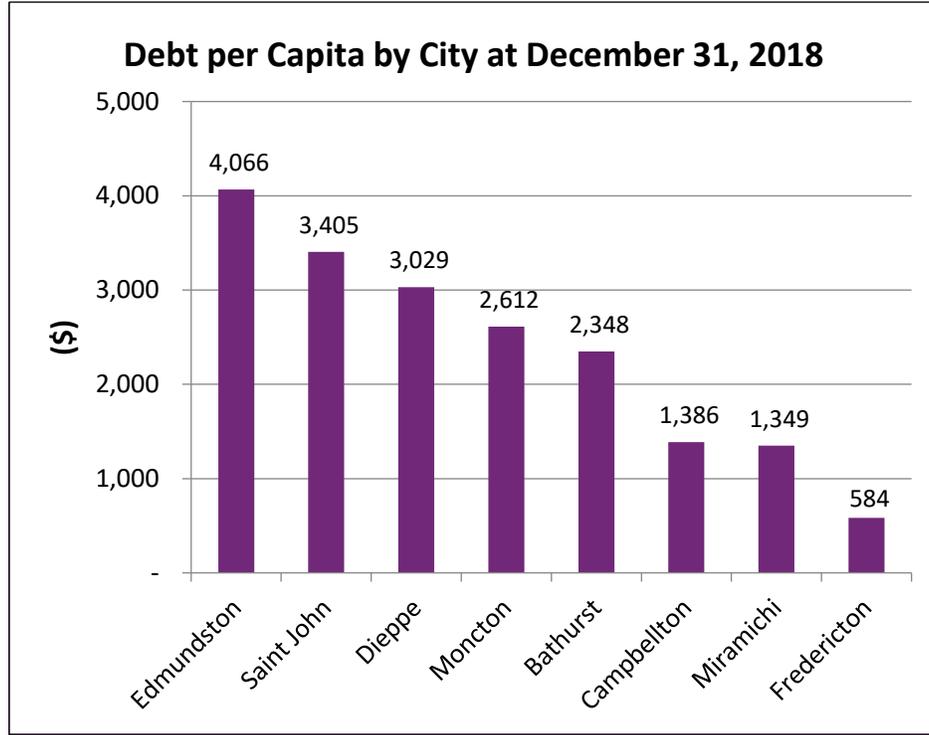


Source: Prepared by AGNB. Refer to Appendix I for supporting information.

Edmundston has highest debt per capita

9.6 When comparing, however, debt per resident, known as “debt per capita”, Edmundston has the highest debt per capita followed by Saint John and Dieppe. Edmundston has a high level of debt due to borrowing for its electrical utility, which operates two hydro generating stations. Exhibit 9.4 shows debt per capita (per resident) by city for the 2018 calendar year.

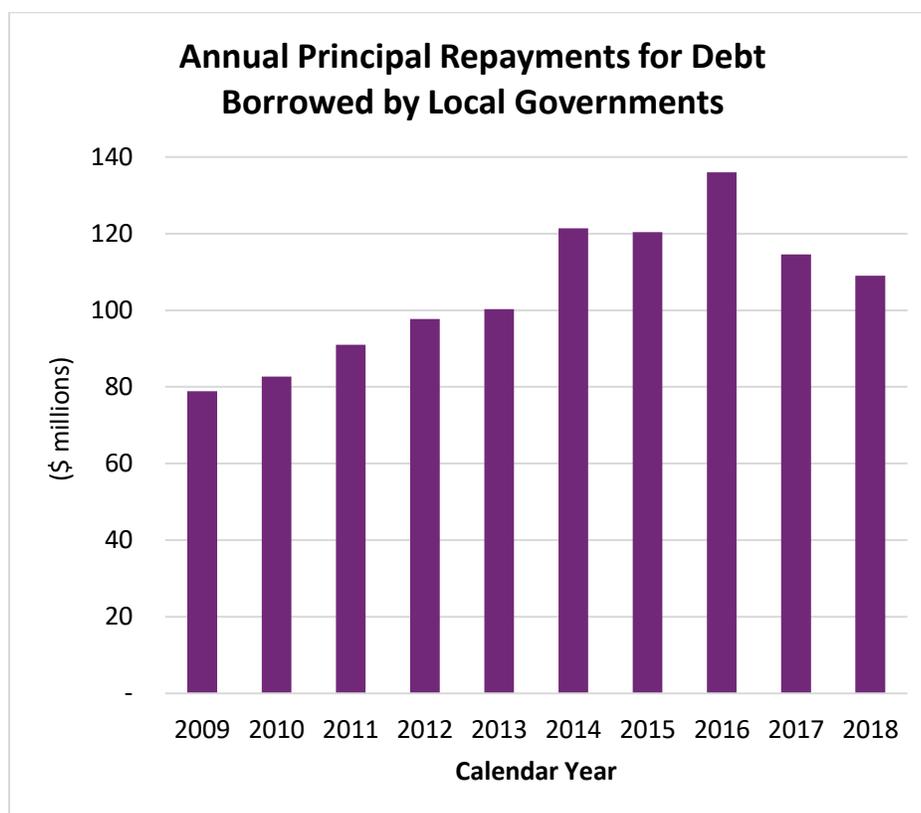
Exhibit 9.4 - Debt per Capita by City at December 31, 2018



Source: Prepared by AGNB. Refer to Appendix I for supporting information.

9.7 Local government debt is structured so that a portion is repaid in principal installments each year to the Municipal Finance Corporation. The ten-year history of principal payments by local governments is presented in Exhibit 9.5. See paragraph 9.15 for information on the role of the Municipal Finance Corporation. We found no local governments defaulted on their debt repayments in 2018.

Exhibit 9.5 - Annual Principal Repayments for Debt Borrowed by Local Governments



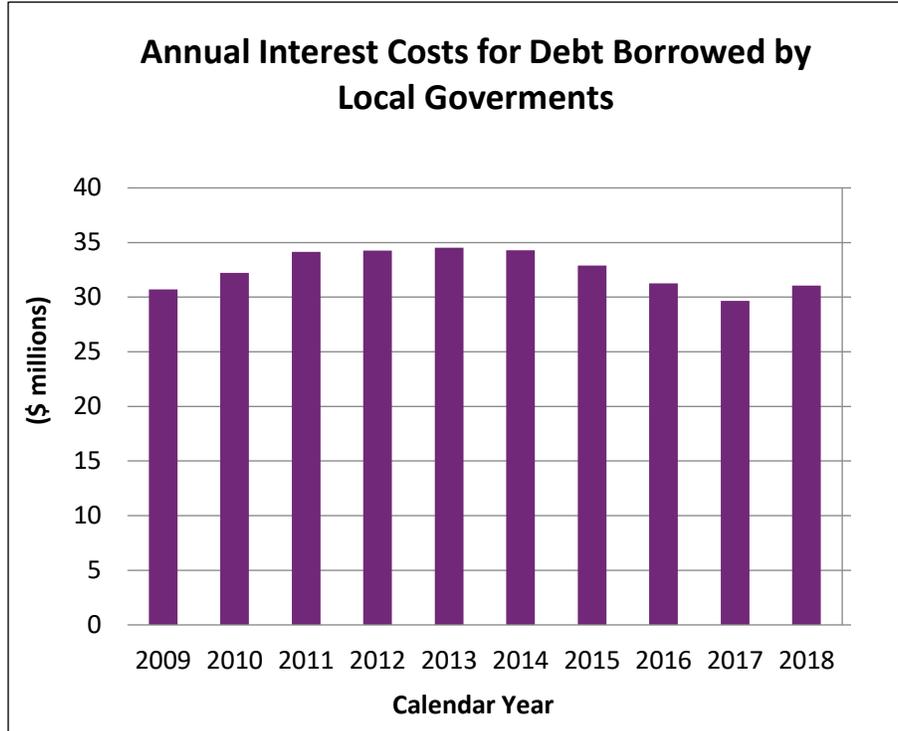
Source: Prepared by AGNB. Refer to Appendix I for supporting information.

9.8 In addition to annual principal repayments, local governments have annual borrowing costs consisting mostly of interest expense. In 2018, borrowing costs for local governments were \$31 million.

Borrowing costs have fluctuated overtime

9.9 Despite the increase in debt over the past ten years as depicted in Exhibit 9.1, this has not translated into increased borrowing costs. This is due to lower interest rates in recent years, and annual repayments each year, which have decreased the overall cost of borrowing. Exhibit 9.6 presents the borrowing cost trend over the past ten years.

Exhibit 9.6 - Annual Interest Costs for Debt Borrowed by Local Governments



Source: Prepared by AGNB. Refer to Appendix I for supporting information.

9.10 The full list of local government debt can be found in Appendix I. Additionally, further information is available in the Municipal Finance Corporation’s annual report, available on the Government of New Brunswick web site.

How Does a Local Government Borrow Money?

Applications are made to the Municipal Capital Borrowing Board to borrow money

9.11 If a local government wishes to borrow money for a capital expense, either by loan or by the issue of debentures, it must make an application to the Municipal Capital Borrowing Board (the “Board”) in accordance with the *Municipal Capital Borrowing Act*. The Board is appointed by the Lieutenant-Governor in Council and at the time of writing this report, consists of five public servants.

Municipal council must approve application

9.12 The application must first be approved by the municipality’s council before proceeding to the Board. The only exception under the *Act* is the City of Saint John, which is not required to make an application to the Board.

- Public hearings are held** **9.13** The Board will evaluate the application made by the municipal council and hold public hearings. Limits on borrowing by a local government are established in the *Local Government Act*.
- Minister of Environment and Local Government approves application** **9.14** Once approved by the Board, the Minister of Environment and Local Government (the “Minister”) must approve the application before a local government can proceed with its project.
- Municipal Finance Corporation provides long-term financing** **9.15** Long-term financing is provided by the Municipal Finance Corporation (the “Corporation”) as established by the *New Brunswick Municipal Finance Corporation Act*. This includes financing for the City of Saint John, which is not excluded from the Act.
- Role of Municipal Finance Corporation** **9.16** The Corporation provides protection for investors as the Lieutenant-Governor in Council, guarantees the principal and interest issued by the Corporation. If a local government defaults on its payments, the Minister is obligated to pay the Corporation for the amount. The Minister has other mechanisms at his/her disposal to collect the outstanding payments from a local government such as offsetting the unconditional municipal grant.
- 9.17** This guarantee to the Corporation by the Minister is disclosed in 2019 Volume I – Public Accounts Note 8.
- 9.18** See Exhibit 9.7 for the process municipalities follow when requesting additional debt.

Exhibit 9.7 - Process Municipalities Follow When Requesting Debt



Source: Prepared by AGNB using source:

https://www2.gnb.ca/content/gnb/en/services/services_renderer.13936.Municipal_Capital_Borrowing.html

Chapter 10

Results of Crown Agency Financial Statement Audits

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Results of Crown Agency Financial Statement Audits

What We Found in Our Crown Agency Audits

***Unqualified audit
opinions issued***

10.1 For all but one of the Crown agencies we audit, we issued unqualified (“clean”) audit opinions. We issued a qualified audit opinion for the audit of the Office of Public Trustee. In common with many trusts, we were unable to verify the completeness of assets and our work was limited to the amounts recorded in the records. During the year, we completed nine audits of Crown agencies’ financial statements, one claim audit, and one notice to reader engagement.

***Recommendations made
to Crown agencies***

10.2 We made recommendations in seven of our nine Crown agency financial statement audits, as noted in Exhibit 10.1. We made these recommendations to each agency’s board of directors. Our recommendations were in the areas of: board governance, accounting concerns, internal control weaknesses, and cash management.

***Significant findings are
incorporated into our
observations throughout
the volume***

10.3 We have not specifically discussed the results of our Crown agency work in this chapter. Throughout this volume, however, we have incorporated our significant Crown agency findings into our observations. For example, in Chapter 5, we discuss findings relating to our Service New Brunswick audit, and in Chapter 8 we discuss findings relating to our audit of New Brunswick Lotteries and Gaming Corporation.

***Crown agencies should
implement our
recommendations
before the next audit
cycle***

10.4 While we did not find evidence that any significant fraud, theft or error occurred, our recommendations indicate deficiencies in internal control or mistakes in financial reporting. We encourage Crown agencies to implement our recommendations prior to the next audit cycle.

Crown Agencies Audited During the Year

10.5 Exhibit 10.1 provides information on the Crown agencies we audited over the past year (October 2018 – October 2019), the fiscal year-end completed, and if recommendations were made to the Crown agencies. We also present information on one Crown agency where we performed a notice to reader engagement.

Exhibit 10.1 - List of Crown Agency Audits and Notice to Reader Engagement Performed by AGNB and if Recommendations were issued to the Board of Directors of the Crown Agency

Crown Agency	Recommendations Issued
March 31, 2019 Year End Audits	
Opportunities New Brunswick	Yes
Service New Brunswick	Yes
New Brunswick Legal Aid Services Commission	Yes
New Brunswick Legal Aid Services Commission – Federal Claim	Yes
March 31, 2019 Notice to Reader	
New Brunswick Combat Sport Commission	N/A – Not an Audit
December 31, 2018 Year End Audits	
New Brunswick Municipal Finance Corporation	No
March 31, 2018 Year End Audits	
Kings Landing Corporation	Yes
New Brunswick Agricultural Insurance Commission	Yes
New Brunswick Lotteries and Gaming Corporation	Yes
New Brunswick Legal Aid Services Commission – Trusts under the Administration of the Public Trustee	Yes
Regional Development Corporation	No

Source: Prepared by AGNB.

10.6 In general, Crown agencies indicated they agreed with our recommendations and they intend to address our concerns in the coming year.

Chapter 11

Service New Brunswick Property Assessments

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Service New Brunswick Property Assessments

Why Are We Reporting on Property Assessments?

Property assessments result in over \$1 billion of transactions

11.1 Property assessment values are a critical component in calculating revenue and accounts receivable amounts for the Province. Each year, Service New Brunswick (SNB) is mandated to assess approximately 500,000 properties which generate over \$1 billion in property tax transactions for the Province and municipalities.

Significant issues were identified in 2017

11.2 In November 2017, we issued a special report to the Legislative Assembly describing many weaknesses in property assessment processes. In that report, we made many recommendations on how SNB could improve its property assessment processes.

Not follow up of 2017 special report – findings are from our 2019 financial audit of the Province

11.3 The purpose of this chapter is to inform the Legislative Assembly of the results of our work regarding SNB's property assessment processes which we perform each year as part of the audit of the Province's consolidated financial statements. This chapter does not follow up on our 2017 special report. It deals with the findings from our 2019 financial audit work.

11.4 We made three new recommendations in 2019 on system access. The remaining five recommendations are similar to those we made in 2017 and still show the need for SNB to improve data integrity, identify errors and enhance quality control.

Weaknesses Found in 2019 Audit Work

Number of weaknesses still existing is surprising

11.5 We are surprised by the number of weaknesses we are still observing in property assessment processes at SNB. Many of these weaknesses relate to lack of review in different phases of property assessment processes.

Eight recommendations made this year to address weaknesses

11.6 We have made eight recommendations to SNB this year. Our recommendations address the weaknesses we found in four key risk areas. We found risks in:

- quality control processes;

- mass appraisal processes;
- the review of assessor work; and
- property system access reviews.

Assessment data may be compromised

11.7 In our view, these weaknesses may result in SNB issuing incorrect tax notices to taxpayers and should be of concern to the Legislative Assembly and taxpayers of New Brunswick. We were informed SNB is already taking steps to address some of these weaknesses.

Tax notices were mailed again in 2019 with errors

11.8 One example of where a weakness resulted in an error this year was in March when annual tax notices were mailed. Some property assessment values in the Marysville area of Fredericton contained errors because of weaknesses in the design of internal control processes at SNB.

11.9 We found these errors in the Marysville property assessments were due to a clerical error. The errors resulted in 94 property assessments increasing by 48.1% instead of an approved increase of 2.8%. We found SNB has since corrected these errors.

11.10 Our recommendations noted within this chapter address the weaknesses which lead to the 94 tax notices with errors being mailed.

Improvements Needed in Quality Control Processes

Quality control processes need to be improved

11.11 We found SNB has many quality control processes to review property assessment values before tax notices are issued in March of each year. Even though these processes are in place, we found weaknesses and areas where SNB still needs to improve processes.

11.12 Some examples of weaknesses we found in SNB's quality control processes include instances where:

- the property assessment value reviewed by SNB was not the same value used on the tax notice (the impact of market adjustment factors and new construction amounts were not included in the review); and
- changes could still be made to a property assessment value after it had been reviewed.

We also found the process SNB uses to track its quality control work is manually intensive, prone to error and not reviewed.

- 11.13** We made recommendations to SNB to improve its quality control processes for property assessment values.
- Recommendations*
- 11.14** We recommend SNB improve the quality control processes used to verify the accuracy of property assessment values before next year's billing cycle.
- 11.15** We recommend SNB:
- include property assessment values used for billing in its quality control processes; and
 - include the impact of items such as market adjustment factors and new construction as part of quality control processes.

Improvements Needed in Mass Appraisal Processes

- SNB uses mass appraisal processes*
- 11.16** It is not possible for SNB to physically inspect each property in the Province every year. For properties that do not receive a physical inspection, SNB uses mass appraisal techniques (also known as market adjustment factors) to estimate property values. SNB estimates a significant number of property assessment values each year using this method.
- 11.17** When performing mass appraisals, SNB estimates property assessment values based on recent sales data for similar properties within defined neighbourhoods of the Province.
- Mass appraisals adjust last year's assessment values*
- 11.18** Each defined neighbourhood is assigned a market adjustment factor. This factor is applied to last year's property assessment value and can result in an increase, a decrease or no change to property assessment values. The adjusted amount is used for the tax notices issued in March of each year.
- Weaknesses in mass appraisals*
- 11.19** We found weaknesses in SNB mass appraisal processes related to market adjustment factors including:
- the review process had weaknesses, such as lack of quality control;
 - too many staff had access to change market adjustment factors; and
 - changes could be made to market adjustment factors without proper approval.

Recommendations

11.20 We made recommendations to SNB to improve its mass appraisal processes.

11.21 We recommend SNB improve the market adjustment factor processes by reviewing the accuracy of market adjustment factors uploaded to the system, as well as any subsequent changes to approved market adjustment factors.

11.22 We recommend SNB document and retain evidence of all market adjustment factor reviews for audit purposes. This includes the review and approval of market adjustment factors prior to upload.

Improvement Needed in Review of Assessor Work

Assessors work is not always reviewed

11.23 We found much of the work of property assessors perform is not reviewed. Property assessors perform work such as measuring and recording the physical characteristics of properties and then entering this information into the system which then calculates property assessment values.

Assessing property assessment values is complex

11.24 Assessing property assessment values is a complex process which requires specialized training, complex calculations and significant use of judgment. In our view, because assessors work mostly independently, the risk of undetected errors in property assessment values is high if the work is not reviewed.

We noted areas where review of assessor work would improve the quality of assessment data

11.25 During our work, we examined support for assessment data for 62 properties with the assistance of SNB property assessors. We noted several weaknesses which demonstrate the need for increased review of the work performed by SNB property assessors. These include instances where:

- properties were not measured correctly which resulted in errors in property assessment values; and
- data used to generate assessment values did not agree to support we were provided.

11.26 We also noted properties may not be physically inspected for periods of up to ten years and possibly longer. These properties may be significantly under assessed if improvements or changes to the properties are not identified by SNB.

11.27 While, in our view, it may not be practical for SNB to review all the work performed by its assessors, the items above demonstrate the need for increased review of assessor work to improve the quality of assessment data. One option could be for SNB to create a team and dedicate resources to reviewing assessor work using a risk-based approach.

11.28 We made recommendations to SNB to improve the review of assessor work.

Recommendation

11.29 We recommend SNB strengthen its processes to verify the quality of property tax assessment values by using a risk-based approach to review the work of assessors.

Improvement Needed in System Access Reviews

System access reviews need improvement

11.30 We found SNB has processes in place to periodically review the appropriateness of user access to the property assessment system. Even though these reviews are in place, we found weaknesses and areas where SNB can improve them.

Users had access they did not need

11.31 We found instances where, even after review, users had access to perform functions that were not required to fulfil their job responsibilities. This was because system access reviews did not thoroughly assess user access needs.

Review process is prone to errors

11.32 We also found user access is tracked manually and the review process is manually intensive which is prone to error.

11.33 In our view, inappropriate system access can impact the integrity of property assessment data as it increases the risk of error or unauthorized changes.

11.34 We made recommendations to SNB to improve its system access reviews.

Recommendations

11.35 We recommend SNB include the appropriateness of user roles as part of its user access reviews of the property assessment system.

11.36 We recommend SNB:

- **document guidelines for assigning appropriate property assessment system roles to users; and**
- **use these documented guidelines as part of regular user access reviews.**

11.37 We recommend SNB:

- **generate user access listings directly from the property assessment system; and**
- **use these user access listings when performing regular user access reviews.**

Chapter 12

The Province's Future Financial Commitments

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The Province's Future Financial Commitments

How Much Has Government Committed to Future Spending?

\$5.5 billion of committed spending in the future

12.1 The Province's consolidated financial statements state it has committed \$5.5 billion in future spending. This is the result of commitments by past and present governments where agreements or contracts have been signed.

12.2 This means the Province will be spending these amounts over future years. This \$5.5 billion had no impact on the 2019 annual surplus.

12.3 Future government commitments are reflected in the *notes* to the financial statements and are *not* recorded as expenses in the financial statements.

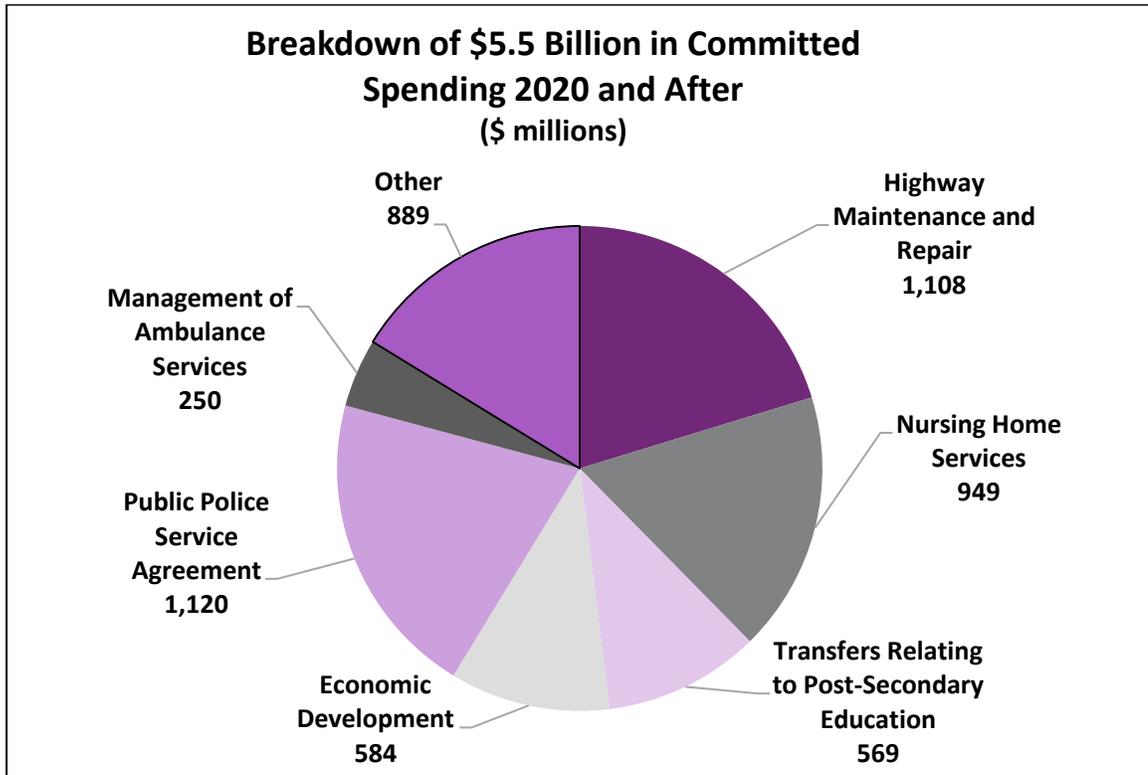
Users should consult "Commitments" note in financial statements

12.4 Users should refer to the "Commitments" financial statement note presenting future spending contractual obligations. This note is often overlooked, but it is a very important part of the picture of the Province's financial situation.

Examples of committed spending

12.5 Exhibit 12.1 provides a breakdown of committed spending in the future.

Exhibit 12.1 - Breakdown of \$5.5 Billion in Committed Spending 2020 and After



Source: Prepared by AGNB from Note 14 (b) in the Province of New Brunswick Volume 1 Consolidated Financial Statements for the fiscal year 2019.

Highway Maintenance and Repair In-depth

\$1.1 billion in future maintenance and highway commitments

12.6 The Province is committed to \$1.1 billion in future highway maintenance relating to three highways constructed using a public-private partnership model, also known as a “P3”. This is for the maintenance and repair (sometimes referred to as “rehabilitation”) of three highways:

- Fredericton-Moncton Highway (“F-MH”);
- Trans-Canada Highway from the Quebec border to Longs Creek (“TCH”); and
- Route 1 Gateway (“R1G”).

12.7 Exhibit 12.2 shows the total future commitments for each highway, as well as the amount of payments made during the 2019 fiscal year.

Exhibit 12.2 - P3 Highway Maintenance and Repair Breakdown at March 31, 2019

**P3 Highway Maintenance and Repair
Breakdown (\$ millions)**

Highway	Service Provider	Future Commitments		Fiscal Year 2019 Payment Breakdown		
		Agreement Length	Total Remaining Balance	Maintenance	Repair	Total
Fredericton-Moncton Highway	MRDC Operations Corporation	1998-2028	96	5	6	11
Trans-Canada Highway from the Quebec border to Longs Creek	Brun-Way Highways Operations Inc.	2005-2033	401	7	17	24
Route 1 Gateway	Transfield Dexter Gateway Services Limited	2010-2040	611	8	15	23
Total			1,108	20	38	58

Source: Prepared by AGNB

Future Fredericton-Moncton Highway costs uncertain

12.8 A 30-year agreement was established in 1998 for the operation, management and maintenance of the F-MH. A fixed price for payments was established for the first 20 years. This fixed payment element of the agreement expired in January 2018, and currently the Province is negotiating the remaining 10 years.

12.9 The financial statement impact of this is undeterminable, as the outcome of these ongoing negotiations is unknown.

12.10 The amount currently disclosed as the future commitment for the remaining life of the contract in Exhibit 12.2 is the amount paid in the final year of the first 20-years of the 30-year agreement. This amount will continue to be paid to MRDC Operations Corporation until an agreement on the remaining 10 years is reached, and a revised amount is known.

Outdated *Financial Administration Act*

Past recommendations made to update the Financial Administration Act **12.11** Over the past two years, we have made multiple recommendations to the Executive Council, the Department of Finance and Treasury Board, and the OOC on the need for the *Financial Administration Act* (FAA) to be updated.

The FAA is out of date **12.12** The FAA is out-of-date and does not align with current accounting standards or governance best practices, such as the Legislature approving an appropriation before the contract is signed. This includes appropriations for multi-year contracts, such as those included in the \$5.5 billion commitments amount.

Past recommendations **12.13** A summary of past recommendations is included below.

June 2018 – Chapter 4:

4.33 We recommend Treasury Board prepare and submit Supplementary Estimates or Special Warrants before departments overspend their approved budgets.

4.34 We recommend Treasury Board pursue legislative amendments to the *Financial Administration Act* to align with current accounting practices.

June 2019 – Chapter 5:

5.54 We recommend the Executive Council Office/Treasury Board Secretariat ensures the need for an appropriation in advance of expending provincial funds as per the *Financial Administration Act*

5.85 We recommend Treasury Board Secretariat/provincial Comptroller review and update the *Financial Administration Act* to:

- modernize the Act with respect to payments, accruals and conformance with Public Sector Accounting Standards;
- increase clarity for key financial officers processing payments throughout government to know if proper budget authority exists; and
- provide budget appropriations for multi-year agreements at the time in which funds are legally committed.

- No detailed timeline for implementation*** **12.14** In general, the Executive Council, Department of Finance and Treasury Board and OOC agreed with the recommendations.
- OOC should take the lead*** **12.15** In our view, the OOC should take the lead in bringing forward/promoting these legislation changes to the Executive Council and Treasury Board and develop a detailed timeline for implementation.
- Recommendation*** **12.16** **We recommend the OOC take the lead in promoting change to the *Financial Administration Act*. We recommend in particular the OOC focus on changes recommended in past Auditor General reports and develop a timeline for completion.**

Chapter 13

**Opportunities to Improve
Transparency**

Contents

Transparency of “Other” and “General” Amounts..... 155

Opportunities to Improve Transparency

Transparency of “Other” and “General” Amounts

“Other” and “General” expense lines are not transparent

13.1 During our audit of the Province’s consolidated financial statements, we found opportunities to improve transparency in the financial statements by breaking out significant amounts reported as “General” and “Other”.

13.2 Some examples of schedules in the consolidated financial statements where an amount is reported as “general” or “other” are:

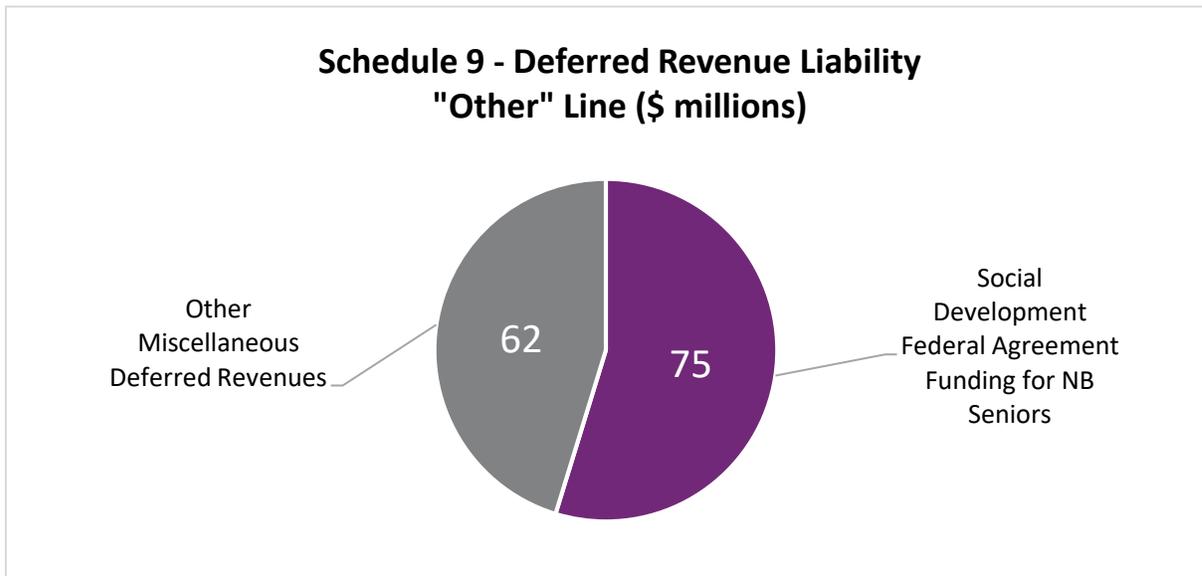
- deferred revenue liability - \$137 million in “other” (schedule 9);
- other provincial revenue - \$189 million in “other revenue” (schedule 18); and
- central government expense - \$184 million in “general government” (schedule 29).

We have provided additional details on these line items in Exhibit 13.1, Exhibit 13.2, and Exhibit 13.3.

Deferred revenue presents \$137 million in “other”

13.3 The Deferred Revenue Liability schedule contains an “other” line item of \$137 million. We found in this amount \$75 million relating to a Department of Social Development federal funding agreement for NB Seniors. This is presented in Exhibit 13.1 below. This amount could be disclosed as a separate line item within the schedule to provide better transparency to a reader.

Exhibit 13.1 - Schedule 9 – Deferred Revenue Liability “Other” Line



Source: Prepared by AGNB

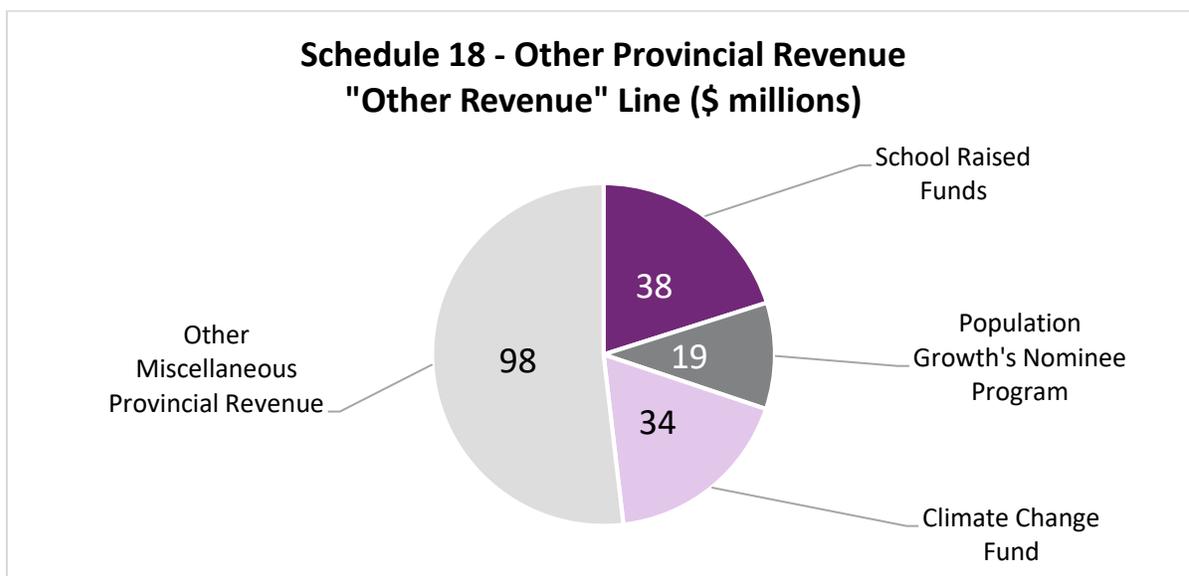
Other Provincial Revenue presents \$189 million in “other revenue”

13.4 The Other Provincial Revenue schedule contains an “other revenue” line item of \$189 million. A breakdown is presented in Exhibit 13.2.

13.5 We found within this amount, \$91 million, or almost half, related to three categories of revenue that could be presented as separate line items within the schedule. This would provide better transparency to readers. The three categories are:

- school raised funds (funds raised to support student activities);
- population growth’s nominee program (provincial immigration program which offers economic immigrants an expedient pathway to permanent residency); and
- climate change fund (transfers from gasoline tax and the diesel fuel tax to fund climate change initiatives).

Exhibit 13.2 - Schedule 18 – Other Provincial Revenue “Other Revenue” Line



Source: Prepared by AGNB

Central Government presents \$184 million in “general government”

13.6 The Central Government schedule contains a “general government” line item of \$184 million. A breakdown is presented in Exhibit 13.3.

Almost the entire general government amount can be broken out

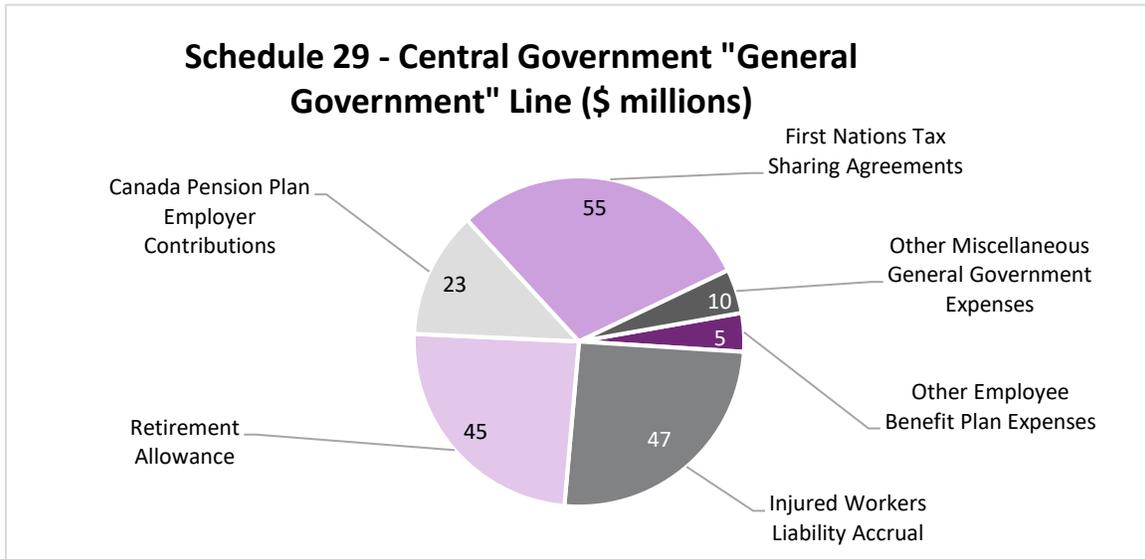
13.7 We found within the \$184 million, only \$10 million pertains to general and miscellaneous amounts. Almost the entire line amount could be presented as separate line items within the schedule.

Inequitable treatment within the schedule

13.8 We also found inequitable treatment within the schedule itself between line items. For example, smaller line items such as “Jobs Board Secretariat” of \$800,000 are presented separately, yet First Nations Tax Sharing Agreements of \$55 million have been included in the “general government” line.

13.9 A break out of information contained within the “general government” line would provide better transparency to financial statement readers.

Exhibit 13.3 - Schedule 29 – Central Government “General Government” Line



Source: Prepared by AGNB

13.10 As part of our audit of the Province’s consolidated financial statements (Chapter 5 of this volume), we made a recommendation to the Office of the Comptroller to improve transparency in the financial statements.

Recommendation

13.11 We recommend the Office of the Comptroller break out financial statement lines reported as “General” and “Other” to provide for more transparent and useful financial information to the reader.

Appendix I – Appendices to Volume

This appendix contains supporting data for exhibits presented in the Volume.

Chapter 2 – Annual Surplus

Exhibit A.1 - Annual Surpluses (Deficits)

Annual Surpluses (Deficits) (\$ millions)

Fiscal year										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
As restated	(695.2)	(617.0)	(244.3)	(532.7)	(600.3)	(361.4)	(260.5)	(117.0)	67.0	72.6
As originally recorded	(737.9)	(633.0)	(260.6)	(507.7)	(498.7)	(388.6)	(260.5)	(118.9)	67.0	72.6

Source: Prepared by AGNB based on applicable years' Public Accounts with restatements where identified in Public Accounts

Note: Prior years' amounts have been restated to comply with the requirements of adopting new accounting standards or to improve financial statement presentation. The impacts of the 2016 consolidation of nursing home financial results into the Province's financial statements 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.

Exhibit A.2 - Total Revenues and Expenses as Restated

Total Revenues and Expenses as Restated (\$ billions)

Fiscal year										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Revenues	7.1	7.6	7.8	7.8	7.8	8.4	8.4	8.9	9.3	9.7
Total Expenses	7.8	8.2	8.1	8.3	8.4	8.8	8.7	9.0	9.3	9.6

Source: Prepared by AGNB based on applicable years' Public Accounts with restatements where identified in Public Accounts

Chapter 3 - Debt

Exhibit A.3 - Net Debt Data

Net Debt Data (\$ billions)

	Fiscal Year									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
As restated	8.5	9.6	10.1	11.0	11.7	13.1	13.7	13.8	13.9	n/a
As originally recorded	8.4	9.5	10.0	11.1	11.6	12.4	13.7	13.8	13.9	14.0
% Growth Rate in Net Debt from the Prior Year	13.3%	12.9%	5.2%	8.9%	6.4%	12.0%	4.6%	0.7%	0.7%	0.7%

Source: Prepared by AGNB based on applicable year's Public Accounts with restatements where identified in public accounts

Exhibit A.4 - Net Debt per Capita Comparison to Other Provinces' Data

Net Debt per Capita Comparison to Other Provinces Data (\$ Thousands)

Province	Fiscal Year			
	2010	2014	2019	% Increase 2010 to 2019
New Brunswick	11.4	15.4	18.1	59%
Nova Scotia	13.8	15.7	15.6	13%
Saskatchewan	3.4	4.2	10.1	197%

Source: Amounts from Provinces' published Financial Statement discussion and analysis

Exhibit A.5 - Net Debt Comparison to Other Provinces

Net Debt Comparison to Other Provinces (\$ billions)

Province	Fiscal Year			
	2010	2014	2019	% Increase 2010 to 2019
New Brunswick	8.5	11.7	14.0	65%
Nova Scotia	13.0	14.8	15.0	15%
Saskatchewan	3.6	4.6	11.8	228%

Source: Amounts from Provinces' published Financial Statement discussion and analysis

Exhibit A.6 - Provincial Population Data as of July 1

**Provincial Population Data
as of July 1 (\$ thousands)**

Province	Fiscal Year				
	2015	2016	2017	2018	2019
New Brunswick	759.0	758.8	763.4	766.9	770.6
Nova Scotia	938.5	936.5	942.8	950.7	959.9
Saskatchewan	1,113.0	1,121.0	1,136.0	1,150.8	1,162.1

Source: Statistics Canada Table 17-10-0005-01 Population estimates on July 1st, by age and sex

Exhibit A.7 - Net Debt as a Percentage of GDP Compared to Other Provinces Data

**Net Debt as a Percentage of GDP Compared to Other
Provinces Data (percent)**

Province	Fiscal Year			
	2010	2014	2019	% Increase (Decrease) from 2010 to 2019
New Brunswick	29.6	36.6	37.4	26.4%
Nova Scotia	37.0	38.2	34.1	(7.8%)
Saskatchewan	5.9	5.6	14.4	144.1%

Source: Amounts from Provinces' published Financial Statement discussion and analysis

Note: Provinces used in our comparison include Nova Scotia 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 Exhibit A.6.

In the previous three 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 A.8 - Funded Debt Data

Funded Debt Data (\$ billions)

	Fiscal Year				
	2010	2014	2018	2019	% Increase 2010-2019
Funded Debt	14.7	18.5	21.6	22.6	54%
NB Power (NB Electric Finance Corporation)	(4.2)	(4.6)	(4.4)	(4.6)	10%
Funded Debt for Provincial Purposes	10.5	13.9	17.2	18.0	71%
Year over year increase	n/a	3.4	3.3	0.8	n/a

Source: Prepared by AGNB based on applicable years' Public Accounts with restatements where identified in Public Accounts

Chapter 9 – Local Government Debt

Exhibit A.9 - Ten Year History of Local Government Debt

Ten Year History of Local Government Debt (\$ millions)

	Calendar Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Principal amount of Debt	686	729	809	845	871	888	875	870	891	950

Source : Prepared by AGNB.

Exhibit A.10 - Principal Debt Outstanding by Type of Local Government

**Principal Debt Outstanding by Type of
Local Government (\$ thousands)**

Local Government	Calendar Year	Local Government	Calendar Year
	2018		2018
Cities:		Villages:	
Bathurst	27,932	Alma	1,167
Campbellton	9,543	Atholville	2,263
Dieppe	76,888	Balmoral	2,817
Edmundston	67,419	Bas-Caraquet	268
Fredericton	33,994	Bath	639
Miramichi	23,666	Belledune	789
Moncton	187,753	Bertrand	939
Saint John	230,079	Blacks Harbour	515
Total Cities	657,274	Blackville	2,086
Towns:		Cambridge-Narrows	-
Beresford	5,334	Canterbury	27
Bouc-touche	4,998	Cap-Pelé	4,682
Caraquet	8,253	Centreville	372
Dalhousie	2,328	Charlo	1,265
Florenceville-Bristol	529	Chipman	638
Grand Bay-Westfield	2,347	Doaktown	1,777
Grand-Sault/Grand Falls	11,262	Dorchester	453
Hampton	4,224	Drummond	743
Hartland	835	Eel River Crossing	152
Lamèque	5,579	Fredericton Junction	2,114
Nackawic	621	Gagetown	383
Oromocto	1,701	Grand Manan	975
Quispamsis	24,523	Grande-Anse	88
Richibucto	1,034	Harvey	129
Riverview	23,666	Hillsborough	1,752
Rothesay	13,789	Lac Baker	377
Sackville	13,195	Le Goulet	138
Saint Andrews	4,324	Maisonnette	94
Saint-Léonard	3,528	McAdam	266
Saint-Quentin	1,466	Meductic	84
Shediac	15,178	Memramcook	8,329

Local Government	Calendar Year	Local Government	Calendar Year
	2018		2018
Shippagan	4,418	Millville	345
St. George	2,062	Minto	1,613
St. Stephen	6,750	New Maryland	6,083
Sussex	1,620	Nigadoo	118
Woodstock	2,953	Norton	346
Total Towns	166,517	Néguac	3,115
<u>Regional Municipalities:</u>		Paquetville	699
Tracadie	10,937	Petit-Rocher	1,127
Total Regional Municipalities	10,937	Petitcodiac	1,452
<u>Rural Communities:</u>		Plaster Rock	1,701
Beaubassin-est	640	Pointe-Verte	261
Hanwell	1,100	Port Elgin	1,160
Haut-Madawaska	5,723	Rexton	2,026
Kedgwick	1,707	Riverside-Albert	1,118
Saint-André	2,191	Rivière-Verte	941
Upper Miramichi	506	Rogersville	1,646
Total Rural Communities	11,867	Saint-Antoine	5,240
<u>Municipal Enterprises:</u>		Saint-Isidore	838
Apohaqui Sewerage Commission	-	Saint-Louis-de-Kent	1,018
Comité Mixte de Service de Police B.N.P.P.	-	Saint-Léolin	53
Commission des égouts d'Allardville	-	Sainte-Anne-de-Madawaska	371
Fredericton Area Pollution Control Commission	-	Sainte-Marie-Saint-Raphaël	372
Greater Shediac Sewerage Commission	4,913	Salisbury	988
Kennebecasis Regional Joint Board of Police Commissioners	949	St. Martins	210
La Commission des Égouts Michaud Inc.	-	Stanley	242
La Commission des Égouts Val D'Amours	-	Sussex Corner	487
Total Municipal Enterprises	5,862	Tide Head	523
		Total Villages	70,414

Local Government	Calendar Year
	2018
Regional Service Commissions :	
Chaleur Regional Service Commission #3	9,011
Northwest Regional Service Commission #1	608
Acadian Peninsula Regional Service Commission #4	1,658
Fundy Regional Service Commission #9	108
Greater Miramichi Regional Service Commission #5	369
Regional Service Commission #11	4,160
Restigouche Regional Service Commission #2	69
Southeast Regional Service Commission #7	10,681
Western Valley Regional Service Commission #12	450
Total Regional Service Commissions	27,114

Source: Prepared by AGNB

Exhibit A.11 - Debt per Capita by City

Debt per Capita by City

Local Government	Calendar Year		
	Outstanding Principal 2018 (\$ thousands)	Census Population 2016	Debt per Capita (\$)
Campbellton	9,543	6,883	1,386
Bathurst	27,932	11,897	2,348
Dieppe	76,888	25,384	3,029
Edmundston	67,419	16,580	4,066
Fredericton	33,994	58,220	584
Miramichi	23,666	17,537	1,349
Moncton	187,753	71,889	2,612
Saint John	230,079	67,575	3,405

Source: Prepared by AGNB, using Statistics Canada's 2016 Census of Population Information

Exhibit A.12 - Annual Interest Costs for Debt Borrowed by Local Governments

**Annual Interest Costs
for Debt Borrowed
by Local Governments
(\$ millions)**

Calendar Year	Amount
2018	31.1
2017	29.6
2016	31.3
2015	32.9
2014	34.3
2013	34.5
2012	34.3
2011	34.1
2010	32.2
2009	30.7

Source : Prepared by AGNB.

Exhibit A.13 - Annual Principal Repayments for Debt Borrowed by Local Governments (\$ millions)

**Annual Principal Repayments
for Debt Borrowed by Local
Governments (\$ millions)**

Calendar Year	Amount
2018	109.0
2017	114.6
2016	136.0
2015	120.4
2014	121.4
2013	100.3
2012	97.7
2011	91.0
2010	82.7
2009	78.9

Source: Prepared by AGNB

Appendix II – Appendices to Volume Supplemental Pension and Retirement Benefit Information

Information on pension plans and retirement allowances

1.1 In this appendix we present information on the Province's significant pension plans and retirement allowances. This information is meant to supplement information available in Volume I – Public Accounts for the year ended March 31, 2019, as published by the Department of Finance and Treasury Board.

Exhibit A2.1 - Pension Plan Definitions and Abbreviations

Pension Plan Definitions and Abbreviations

Pension Plan Name Abbreviation	Pension Plan Name	Pension Obligations and Assets Noted in the Appendix 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

Source: Prepared by AGNB

**Assets and/or benefits administered by Vestcor on behalf of the Province*

Exhibit A2.2 - Components of the Pension Balance for Accounting Purposes for Significant Pension Plans

**Components of the Pension Balance for Accounting Purposes
for Significant Pension Plans (\$ millions)**

2019 Fiscal Year														
	NBPSPP	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	8,004.5	3,015.7	448.5	1,080.7	161.2	255.6	100.8	52.0	-	3.5	371.1	88.4	30.4	13,612.4
Accrued Benefit Obligation	7,948.8	2,713.3	602.2	1,170.7	151.3	290.2	93.4	94.8	61.0	22.0	475.5	136.5	326.5	14,086.2
Unamortized Adjustments	(205.5)	(6.9)	(7.3)	(10.5)	2.5	(11.6)	0.2	1.4	(0.9)	-	(52.7)	(24.6)	(28.1)	(344.0)
Valuation Adjustment*	261.2	309.3	-	-	7.4	-	7.2	-	-	-	-	-	-	585.1
Net Benefit Liability	-	-	146.4	79.5	-	23.0	-	44.2	60.1	18.5	51.7	23.5	268.0	714.9

Source: Prepared by AGNB

* The Province has no claim or legal right to these pension plan assets or surpluses. A valuation allowance is applied to remove any remaining assets for these plans. This accounting treatment is consistent with treatment in 2016, 2017 and 2018, as well as with Public Sector Accounting Standards.

Exhibit A2.3 - Components of the Pension Balance for Accounting Purposes for Significant Pension Plans

**Components of the Pension Balance
for Accounting Purposes (\$ billions)**

	Fiscal Year									
	2010	2011	2012	2013	2014	2015*	2016	2017	2018	2019
Estimated accrued benefit obligations	8.6	8.9	9.3	10.1	12.3	12.1	12.6	13.1	13.5	14.1
Value of plan assets	7.7	8.4	8.7	9.3	11.5	11.7	11.7	12.5	13.0	13.6
Pension position before accounting adjustments	0.9	0.5	0.6	0.8	0.8	0.4	0.9	0.6	0.5	0.5
Accounting adjustments	(1.1)	(0.7)	(0.9)	(1.0)	(0.8)	0.2	(0.3)	0.1	0.2	0.2
Pension balance for accounting purposes	(0.2)	(0.2)	(0.3)	(0.2)	0.0	0.6	0.6	0.7	0.7	0.7

Source: Prepared by AGNB

*As restated

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

Exhibit A2.4 - Pension Plan Contributions and Benefit Payments – Public Service Plan

**Pension Contributions and Benefit Payments -
Public Service Plan (\$ millions)**

Fiscal Year	Benefit Payments	Employee Contributions	Province Contributions ¹			Total Employee and Province Contributions	Ratio of Province to Employee Contributions
			Normal	Special Payments	Total Province Contributions		
2010	176.2	69.6	92.8	61.0	153.8	223.4	2.21
2011	193.4	71.2	84.3	63.2	147.5	218.7	2.07
2012	207.9	71.5	89.4	64.9	154.3	225.8	2.16
2013	227.8	70.9	92.1	67.9	160.0	230.9	2.26
2014	264.5	73.1	102.1	0.0	102.1	175.2	1.40
2015*	335.8	101.2	142.1	0.0	142.1	243.3	1.40
2016	350.7	93.4	138.0	0.0	138.0	231.4	1.48
2017	369.3	95.8	144.5	0.0	144.5	240.3	1.51
2018	381.8	97.3	147.7	0.0	147.7	245.0	1.52
2019	395.1	101.1	149.4	0.0	149.4	250.5	1.48
Total	2,902.5	845.1	1,182.4	257.0	1,439.4	2,284.5	1.70

Source: Prepared by AGNB

¹ Public Service Plan Province contributions include contributions from the Province, Crown Corporations and other participants.

*Contributions to the plan increased after the plan converted to a target benefit plan in 2014. This increase was also as a result of NB Power contributions now being included after conversion. Numbers prior to January 1, 2014 have not been updated for the impact of NB Power.

Exhibit A2.5 - Pension Plan Contributions and Benefit Payments – Teachers' Plan

**Pension Plan Contributions and Benefit Payments –
Teachers' Plan (\$ millions)**

Fiscal Year	Benefit Payments	Employee Contributions	Province Contributions			Total Employee and Province Contributions	Ratio of Province to Employee Contributions
			Normal	Special Payments	Total Province Contributions		
2010	240.8	45.9	41.9	88.6	130.5	176.4	2.84
2011	247.2	47.3	45.1	91.9	137.0	184.3	2.90
2012	253.7	47.8	46.4	94.4	140.8	188.6	2.95
2013	263.6	47.9	46.1	98.6	144.7	192.6	3.02
2014	269.3	47.7	46.5	0.0	46.5	94.2	0.97
2015	272.7	56.0	63.8	0.0	63.8	119.8	1.14
2016	273.0	59.2	71.7	0.0	71.7	130.9	1.21
2017	284.2	63.9	72.1	0.0	72.1	136.0	1.13
2018	288.8	63.6	73.6	0.0	73.6	137.2	1.16
2019	294.2	65.8	75.4	0.0	75.4	141.2	1.15
Total	2,687.5	545.1	582.6	373.5	956.1	1,501.2	1.75

Source: Prepared by AGNB

Exhibit A2.6 - Summary of Pension Plan Contributions Rates – Public Service Plan and Teachers’ Plan

**Summary of Pension Plan Contribution Rates –
Public Service Plan and Teachers’ Plan**

Plan	Dates In Effect	Employee Rates (Below and Above YMPE)*	Province Rates (Below and Above YMPE)*
Public Service Plan	April 1, 2014 to December 31, 2018	7.5% and 10.7%	12.5% and 12.5% (includes temporary contribution of 1.25%)
	January 1, 2019 to December 31, 2023	7.5% and 10.7%	12.0% and 12.0%
	January 1, 2024 to December 31, 2028	7.5% and 10.7%	11.25% and 11.25%
	January 1, 2029	Effective January 1, 2029, Province and employee contribution rates will be re-determined and will become equal.	
Teachers’ Plan	July 1, 2017 to June 30, 2018	10.0% and 11.7%	11.5% and 13.2%
	July 1, 2018 to June 30, 2019	10.0% and 11.7%	11.5% and 13.2%
	July 1, 2019 to June 30, 2024	10.0% and 11.7%	10.75% and 12.45%
	July 1, 2024 to June 30, 2029	10.0% and 11.7%	10.0% and 11.7%
	July 1, 2029	9.25% and 10.95%	9.25% and 10.95%

Source: Prepared by AGNB

*YMPE = Year’s Maximum Pensionable Earnings (Canada Revenue Agency maximum amount of earnings on which contributions to the Canada Pension Plan are based).

Exhibit A2.7 - Summary of Pension Plan Elements – Public Service Plan and Teachers' Plan

Summary of Pension Plan Elements – Public Service Plan and Teachers' Plan

Scenario	Public Service Plan	Teachers' Plan
Current Employee Contribution Rates	7.5% up to YMPE* 10.7% above YPME*	10.0% up to YMPE* 11.7% above YPME*
Current Province Contribution Rates	12% (includes temporary contribution of 0.75%)	11.5% up to YMPE* 13.2% above YPME*
Current Elements (After Plan Conversion)		
Retirement Age (No Penalty/Reduction)	Age 65	35 years of pensionable service or Age + service index equal to at least 91 or Age 62 with 20 or more years of pensionable service or Age 65 with less than 20 years of pensionable service
Earliest Retirement Age (with Penalty/ Reduction)	Age 55	Age + service index equal to at least 84 or Age 55
Reduction Factor	5% per year	2.5% or 5.0% Depending on combinations of age and years of pensionable service
Pension Calculation	Enhanced career average of salary	Enhanced career average of salary
Plan Elements Before Conversion		
Date of Conversion	January 1, 2014	July 1, 2014
Retirement Age (No Penalty/Reduction)	Age 60	35 years of pensionable service or Age + service index equal to at least 87 or Age 60 with 20 or more years of pensionable service or Age 65 with less than 20 years of pensionable service
Earliest Retirement Age (with Penalty/ Reduction)	Age 55	Age + service index equal to at least 80 or Age 55
Reduction factor	3% per year	2.5% or 5.0% Depending on combinations+ of age and years of pensionable service
Pension Calculation	Average of best 5 years of salary	Average of best 5 years of salary
Plan Membership (2019)		
Participants	18,010 active contributors and 16,099 pensioners	9,852 active contributors and 9,357 pensioners

Source: Prepared by AGNB

**YMPE = Year's Maximum Pensionable Earnings (Canada Revenue Agency maximum amount of earnings on which contributions to the Canada Pension Plan are based).*

Exhibit A2.8 - Components of Pension Expense For All Pension Plans

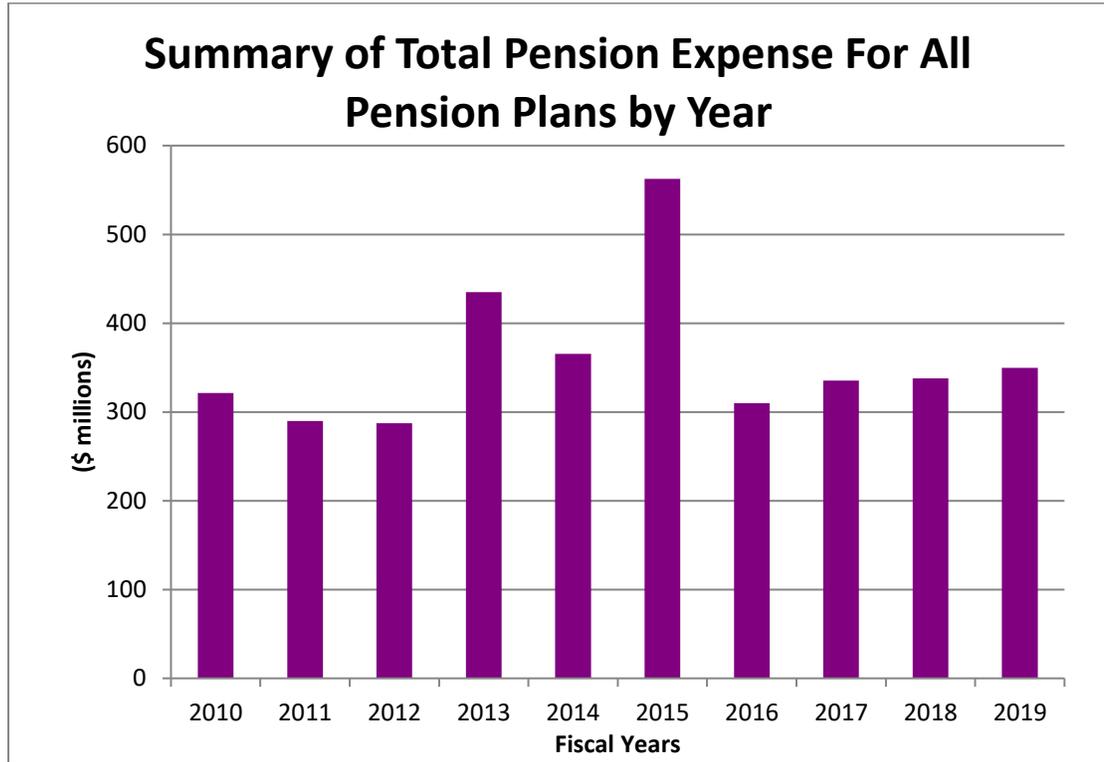
**Components of Pension Expense For
All Pension Plans (\$ millions)**

	Fiscal Year									
	2010	2011	2012	2013	2014	2015*	2016	2017	2018	2019
Province’s share of pension benefits earned	131.6	137.4	148.9	177.4	196.0	161.3	176.6	185.4	204.9	210.8
Net interest expense (revenue)	118.2	52.9	32.0	62.7	70.4	38.2	5.4	38.2	21.8	14.6
Plan amendments	-	-	-	-	(11.2)	(183.2)	-	-	-	-
Adjustments recognized due to plan amendment	-	-	-	-	-	130.9	-	-	-	-
Amortization of adjustments	87.1	99.7	106.5	194.9	132.1	53.4	60.3	52.8	41.8	96.0
Change in valuation adjustment	(15.5)	-	-	-	-	247.0	67.5	59.1	69.2	28.3
Plan settlements (recorded in year as a result of conversion to new pension plan structure)	-	-	-	-	(21.9)	115.0	-	-	-	-
Total Pension Expense	321.4	290.0	287.4	435.0	365.4	562.6	309.8	335.5	337.7	349.7

Source: Prepared by AGNB

*As restated

Exhibit A2.9 - Summary of Total Pension Expense for All Pension Plans by Year



Source: Prepared by AGNB. Refer to Appendix II – Exhibit A2.8 for detailed information.

2013 and 2015 pension expenses

1.2 Items to note from Exhibit A2.9:

- the pension expense for fiscal year 2013 increased primarily from a change in actuarial assumptions for mortality rates; and
- the pension expense for fiscal year 2015 included a one-time plan settlement expense of \$115 million resulting from the Teachers' Plan converting to a target benefit plan.

Exhibit A2.10 - Summary of Pension Plan Expense for Significant Pension Plans

Summary of Pension Plan Expense for Significant Pension Plans (\$ millions)

Fiscal Year 2019														
	NBPSPP	NBTPP	H CUPE	H CBE	NH- N&P	NH- G&S	NH- MGMT	Judges	Members	Sch- Mgmt	Sch- GLTS	Sch- 2745	SERP	Total
Provinces' Share of Benefits Earned	43.3	57.5	24.7	40.5	4.9	12.5	2.5	3.6	-	-	8.2	2.7	7.9	208.3
Net Interest	(0.8)	(15.0)	6.9	3.4	(0.5)	1.7	(0.4)	1.2	1.9	0.8	3.3	1.9	10.2	14.6
Amortization of Adjustments	71.5	0.5	0.9	0.9	(0.2)	0.9	(0.2)	-	(0.1)	2.6	11.7	4.5	3.0	96.0
Change in Valuation Adjustment	(6.5)	32.4	-	-	1.6	-	0.8	-	-	-	-	-	-	28.3
Total Pension Expense	107.5	75.4	32.5	44.8	5.8	15.1	2.7	4.8	1.8	3.4	23.2	9.1	21.1	347.2

Source: Prepared by AGNB. See Appendix II – Exhibit A2.1 for plan name abbreviations.

Exhibit A2.11 - Summary of Pension Expense and Contributions

Summary of Pension Expense and Contributions (\$ millions)

	Fiscal Year									
	2010	2011	2012	2013	2014	2015*	2016	2017	2018	2019
Pension expense	321.4	290.0	287.4	435.0	365.4	562.6	309.8	335.5	337.7	349.7
Province contributions **	307.8	313.3	327.0	350.8	216.5	260.9	257.2	259.7	281.2	273.8
Excess (deficiency) of Province contributions over pension expense	(13.6)	23.3	39.6	(84.2)	(148.9)	(301.7)	(52.6)	(75.8)	(56.5)	(75.9)

Source: Prepared by AGNB using information provided by the Province. Numbers prior to January 1, 2014 have not been updated for the impact of NB Power.

**As restated*

*** For plans accounted for as joint-defined benefit, only half of the total employer contributions are presented*

Exhibit A2.12 - Summary of Groups Earning Retirement Allowances (Unaudited)

Summary of Groups Earning Retirement Allowances (Unaudited)

Group	Number of Employees	Date of Mandatory Discontinuance of Retirement Allowance
Hospital Support Workers (CUPE 1252)	9,335	N/A
Teachers	7,544	N/A
Nurses	6,000	Voluntary discontinuance*
Educational Assistants (CUPE 2745)	2,550	N/A
School Bus Drivers and Custodians (CUPE 1253)	1,700	N/A
Highway Workers (CUPE 1190)	1,500	N/A
Social Workers (CUPE 1418)	1,100	N/A
Nurse Managers and Supervisors	202	Voluntary discontinuance*
Court Stenographers (CUPE 1840)	70	N/A
Specialized Health Care Professionals (NBU)	2,400	March 31, 2019
Medical Science Professionals (NBU)	1,600	March 31, 2019
Instructional (NBU)	29	June 30, 2020
<i>Correctional Officers (CUPE 1251)</i>	<i>707</i>	<i>Currently under negotiation</i>
Total	34,737	

Source: Prepared by AGNB using information provided by the Province.

* Employees with a voluntary discontinuance will continue to earn retirement allowance unless they choose to discontinue and receive a payment.

Exhibit A2.13 - Summary of Groups No Longer Earning Retirement Allowance Credits (Unaudited)

Summary of Groups Earning No Longer Retirement Allowance Credits (Unaudited)

Group	Number of Employees	Date of Mandatory Discontinuance of Retirement Allowance
Non – Bargaining	4,389	March 31, 2013
Administrative Services (NBU)	1,550	March 31, 2016
Professional Support in Schools (NBU)	190	March 31, 2016
Non-Instructional (NBU)	30	March 31, 2016
Engineers, Vets and Agriculturists (PIPSC)	260	March 31, 2016
Highway Supervisors (NBU)	75	March 31, 2016
Engineering and Field (NBU)	332	March 31, 2016
ITCO (NBU)	17	December 31, 2016
Tech Inspection, Lab and Medical (NBU)	238	March 31, 2016
Crown Counsel (PIPSC)	49	June 30, 2016
School Business Officials (PSAC)	252	March 31, 2016 (discontinued before unionization)
Resource Services (NBU)	250	April 15, 2018
Crown Prosecutors (PIPSC)	60	September 30, 2018
Total	7,692	

Source: Prepared by AGNB using information provided by the Province

Exhibit A2.14 - Summary of Retirement Allowance Payments and Net Benefit Liability

Summary of Retirement Allowance Payments and Net Benefit Liability (\$ millions)

Year	Payments	Net Benefit Liability
2014	108.9	397.0
2015	40.2	451.4
2016	52.9	468.8
2017	110.5	407.6
2018	47.8	407.5
2019	46.2	410.3
Total	406.5	n/a

Source: Prepared by AGNB

Appendix III – Appendices to Volume Loss Through Fraud, Default, or Mistake

1.1 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.

1.2 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	Fiscal 2019 Amount of Loss
Energy and Resource Development Missing equipment from various regions	\$7,400
Transportation and Infrastructure Missing equipment	\$2,900
Public Safety Missing cash	\$2,845
Post-Secondary Education, Training and Labour Stolen equipment	\$741
Education and Early Childhood Development Damaged equipment	\$285
Total	\$14,171

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

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

1.5 In 2019, the Province reported lost tangible public assets in the amount of \$14,171 compared to a loss of \$33,858 reported for 2018 and a loss of \$33,806 reported for 2017.

Glossary

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