



# City of Fredericton

2025 audit results



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# Executive summary

## AUDIT STRATEGY

We determined materiality to be \$6.9M (2024 - \$6.8M) for the purpose of our audit of the consolidated financial statements prepared in accordance with Canadian Public Sector Accounting Standards.

Our audit strategy involves reliance on management's internal controls for the following classes of transactions:

- Purchases, payables and cash disbursement
- Water and sewer revenue to cash receipts

## AREAS OF EMPHASIS

- Revenue recognition
- Risk of Management override of controls
- Pensions
- Financial Statement Discussion & Analysis (FSDA)
- Budget Information
- Restatement of 2024 financial information

## AUDIT RESULTS AND STATUS

Reasonable judgments and consistency in methodology have been used by management to account for sensitive accounting estimates.

The total impact of the unadjusted audit differences identified during the audit resulted in an overstatement of the annual surplus of \$441k.

We identified disclosure deficiencies associated with the Shared Risk Pension plans which are further described in the Areas of emphasis section.

Our procedures related to planned reliance on internal controls supported the planned reliance.

**Status of the audit** - Upon completion of our remaining audit procedures, we expect to issue an unqualified opinion on the City's financial statements for the year ended December 31, 2025.

- Journal entry testing
- Completion of executive level review
- Completion of subsequent event procedures
- Final review of the consolidated financial statements
- Receipt of the letter of representation from management
- Inquiries

# Areas of emphasis

Topic	Considerations
<p><b>Revenue recognition</b></p> <ul style="list-style-type: none"> <li>▪ Evaluation and testing of controls over water and sewer revenue</li> <li>▪ Recognition of taxation revenues</li> <li>▪ Occurrence of grant and services revenues</li> </ul>	<p>We performed a walkthrough of the revenue classes of transactions and evaluated the design of controls in these areas.</p> <p>We tested relevant controls over the identified risks for water and sewer revenue to cash receipts.</p> <p>We performed substantive audit procedures, which included detailed testing of significant revenue transactions during the year by agreeing to support evidence and cash receipts.</p> <p>We performed substantive analytics over recognized taxation revenues based on confirmations obtained from the Province of New Brunswick and based on municipal tax rates approved by City Council.</p> <p>We validated the occurrence of government grant and service revenues by confirming significant government grants and service revenues recognized during the year.</p> <p>Based on the procedures performed, no issues were identified.</p>
<p><b>Management override of controls<sup>1</sup></b></p> <ul style="list-style-type: none"> <li>▪ Professional standards require that we consider the risk of management override of controls to be a fraud risk on all audits. There were no risk considerations related to the City of Fredericton that increased the presumed fraud risk that is present for all audits.</li> </ul>	<p>Our audit procedures, including our journal entry testing, are designed to be responsive to this risk. To address the risk, we performed the following procedures:</p> <p>We used our GL Analyzer tool to identify potentially risky or unusual journal entries based on the nature of the journal entry, its description, its source code, who posted the journal entry, and the timing of when it was posted.</p> <p>We tested the journal entries identified to ensure they were appropriately supported and approved.</p> <p>When performing procedures over the City's accounting estimates, we reviewed and evaluated those estimates for evidence of management bias.</p> <p>We did not identify any significant unusual transactions.</p> <p>Based on the procedures performed, no issues were noted.</p>

<sup>1</sup> Accounts or transactions identified as having significant or fraud risks, which are risks with both a higher likelihood of occurrence and a higher magnitude of effect that require special audit considerations.

# Areas of emphasis

Topic	Considerations
<p><b>Pensions<sup>1</sup></b></p> <ul style="list-style-type: none"> <li>▪ In accordance with the New Brunswick Pension Benefits Act, the City maintains certain pension benefit plans for its employees, mainly The City of Fredericton Shared Risk Plan (“COF SRP”) and The City of Fredericton Police &amp; Fire Shared Risk Plan (“P&amp;F SRP”) (together, the “SRPs”).</li> <li>▪ Effective January 1, 2025, The Superannuation Pension Plan was converted to the P&amp;F SRP. The impact of the conversion was accounted for through annual surplus and resulted in a loss of \$7.7M in 2025.</li> </ul>	<p>We have performed the following procedures with respect to each plan:</p> <ul style="list-style-type: none"> <li>▪ Given the complexity and subjectivity of pensions, we engaged our actuaries to review the valuation of the plans. The review included estimating the balance sheet based on a possible approach to valuing the SRPs that considers the specific risk sharing arrangements and attributes of the SRPs.</li> <li>▪ We have confirmed plan assets and have agreed, on a sample basis, the asset fair values to external pricing data.</li> </ul> <p>See additional discussion regarding the SRPs on the next page. Other than the matter discussed on the following page, no issues were identified.</p>

<sup>1</sup> Accounts or transactions identified as having a significant risk, which are risks with both a higher likelihood of occurrence and a higher magnitude of effect that require special audit considerations. The pension risk is associated with historical differences with management’s accounting policy and the associated complexity of the estimates involved.

# Areas of emphasis

Topic	Considerations
<p><b>Pensions</b></p> <ul style="list-style-type: none"> <li>▪ Given the absence of specific guidance in PS 3250 for the accounting of SRPs, considerable professional judgment is required to determine the percentage of risk (if any) assumed by the City under the SRPs and how to measure any related obligation.</li> <li>▪ The City considers the SRPs to be defined contribution plans as management believes the sole obligation for the City is for the contributions defined by the SRPs.</li> <li>▪ Other than the impact of the conversion of the Superannuation Plan to the P&amp;F SRP, The City has expensed the contributions it has paid into the SRPs.</li> <li>▪ From management's perspective, the City's sole risk under the COF SRP is resulting from the possible trigger of increased contribution rates, subject to a maximum of 2.25%, should the funding level fall below a certain threshold for two consecutive years. Similar increased contribution requirements exist under the P&amp;F SRP.</li> </ul>	<p>From EY's perspective, the risk associated with the potential increases or decreases in contribution rates result in SRPs meeting the definition of a defined benefit plan rather than a defined contribution plan. In that respect, an asset or liability should be reported on the City's Statement of Financial Position with appropriate disclosure in the notes to the financial statements.</p> <p>Based on the current overfunded status of the SRPs, including unamortized losses in the P&amp;F SRP, and the low likelihood of the City obtaining future expected benefit from a funding surplus, we have determined that it is acceptable not to recognize a pension asset in the City's financial statements. This results in pension expenses being materially consistent under both defined benefit and defined contribution accounting. Therefore, we have no differences to report in respect of the accounting for the SRPs.</p> <p>While there is no material difference with respect to the accounting, certain disclosure deficiencies exist with respect to the funded status of the SRPs, such as a continuity of the funded status of the SRPs, assumptions used in the actuarial valuations and plan descriptions. However, the City has provided certain relevant information in the notes to the financial statements which do provide users with some information in respect of the SRPs. Management has concluded, and we agree, that these are not material disclosure deficiencies.</p> <p>It should be noted that the pension asset/liability determined for accounting purposes does not change the contributions required from the City for funding purposes and, therefore, has no impact on the annual municipal budget and tax rates.</p> <p>EY and management will monitor the accounting treatment of the SRPs annually and as new guidance emerges (including section PS3251 which is in exposure draft currently and expected to be effective in 2029).</p>

# Areas of emphasis

Topic	Considerations
<p><b>Financial Statement Discussion and Analysis (FSDA)</b></p> <ul style="list-style-type: none"> <li>The City includes its consolidated financial statements in its annual report, including the FSDA which is in the scope of CAS 720, Auditor's responsibilities relating to other information.</li> </ul>	<p>Management is responsible for the other information contained within the FSDA. The auditor's responsibility is to read the other information to determine whether the other information contained within the FSDA is materially consistent with the audited financial statements.</p> <p>The auditor's opinion does not cover other information, and the auditor has no specific responsibility for determining whether other information is properly stated.</p>
<p><b>Budget Information</b></p> <ul style="list-style-type: none"> <li>PSAS requires the presentation of planned results and planned amounts to be included in the financial statements.</li> </ul>	<p>CAS 700, Forming an Opinion and Reporting on Financial Statements, requires that the auditor's opinion cover the complete set of financial statements as defined by the applicable financial reporting framework. Accordingly, the auditor's opinion covers comparisons of actual and planned results or planned amounts included in the statement of operations and accumulated surplus and the statement of changes in net debt.</p> <p>We have tied the budgeted amounts to the approvals received from the Council and published on the official website</p> <p>We have noted no issues with the financial information disclosed within the budgeted amounts on the financial statements.</p>

# Areas of Emphasis

Topic	Considerations
<p><b>Restatement of 2024 financial information</b></p> <ul style="list-style-type: none"> <li>A material misstatement was identified in the prior period (2024) financial information. In accordance with PSAS PS 2120, the error has been corrected through a restatement of the 2024 financial information which is presented as comparatives in the 2025 financial statements.</li> <li>The misstatement arose as a result of unusual circumstances associated with the ownership of the new Performing Arts Centre ("PAC"). During 2024, the City entered into certain agreements with the Fredericton Playhouse Inc. (the "Playhouse") which outlined that the Playhouse would own the PAC rather than the City. As a result, any costs capitalized prior to 2024 and any 2024 grants provided to the Playhouse in relation to the PAC should have been recognized as expenses in 2024 rather than being capitalized as tangible capital assets. The total amount of the Tangible Capital Asset at December 31, 2024 related to the PAC was \$10.6M.</li> </ul>	<p>We have reviewed the agreements entered into between the City and the Playhouse in 2024 and have evaluated the accounting impact of those agreements which has resulted in the conclusion that the previously capitalized expenditures related to the PAC as well as future PAC expenditures should be recognized as expenses in the period incurred.</p> <p>We agreed the restated 2024 amounts to our prior year documentation and have recalculated the impact of the restatement recorded.</p> <p>We have reviewed the note disclosure made by management associated with the restatement.</p> <p>We have considered whether any control deficiencies exist within management's internal control framework. Currently the initial assessment of whether council resolutions have financial impact is performed by the functional area management team responsible for recommending the resolution. In this instance, due to the unique nature of the agreement, the financial impact was not identified or provided to the finance team. In response to this, Finance will implement a control involving review of all meetings and content of council to determine if there are accounting implications. Further to this control, we recommend that management consider implementing a control that involves the finance team in the initial assessment of the potential for council resolutions to have financial impact. This could be in the form of a documented meeting with Finance for all recommended resolutions or a council resolution checklist that requires review by Finance.</p> <p>We have involved our Profession Practice group in the completion of these procedures due to the technical nature and risk associated with the subject matter.</p>

# Required communications

Topic	Comments
Auditor's responsibility under Canadian GAAS, including discussion of the type of opinion we are issuing	Refer to the auditor's report attached.
Changes to the planned audit strategy, timing of the audit and significant risks initially identified	Our audit strategy is consistent with our audit plan.
Matters relevant to our evaluation of the entity's ability to continue as a going concern	No relevant matters were identified.
Significant accounting policies and accounting estimates, including qualitative aspects, our assessment of management's disclosures and our conclusion regarding appropriateness	We have reviewed and evaluated significant accounting policies and sensitive estimates as outlined in the draft financial statements and consider these policies appropriate. Refer to the "Areas of emphasis" section where we have discussed our conclusions and observations over such matters we determined most critical to our audit.
Our responsibility, any procedures performed and the results relating to other information in documents containing audited financial statements	Refer to areas of emphasis section relating to FSDA.
Corrected misstatements, related to accounts and disclosures	Refer to the "Restatement of 2024 financial information" section of our areas of emphasis.
Uncorrected misstatements, related to accounts and disclosures, considered by management to be immaterial	We have identified a \$441,059 overstatement of the annual surplus resulting from depreciation expense not being recorded on additions and disposals of tangible capital assets during the year. Refer to the pensions area of emphasis for a description of disclosure deficiencies identified. Management has concluded, and we agree, that these misstatements are immaterial.
Representations we are requesting from management	Management representation letter has been provided separately.
Other material written communications with management	None.
New accounting pronouncements	We have not identified issues regarding management's planned application of new accounting pronouncements.
Independence matters	No independence matters were identified.
Obtaining information relevant to the audit	No issues were identified.

# Inquiries

We made inquiries of you related to fraud and other matters, that helped inform our audit strategy and the execution of our audit procedures. As part of our upcoming meeting, we will update our inquiries of you to understand any other matters of which you believe we should be aware, including, but not limited to the following:

- Your views about the risks of material misstatements due to fraud, including the risks of management override of controls
- Your knowledge of any actual, alleged or suspected fraud
- Your awareness of tips or complaints regarding the City's financial reporting (including those received through the City's own "whistleblower" program), other matters relevant to the audit (such as violations or possible violations of laws or regulations) or any significant unusual transactions
- How you exercise oversight over the City's assessment of fraud risks and the establishment of controls to address these risks
- Your understanding of the City's relationships and transactions with related parties that are significant to the City and any concerns related to those relationships or transactions
- Whether the entity has identified a cyber breach as part of its own process or has been notified of a cyber breach by third parties (including regulatory agencies, law enforcement agencies, security consultants and electronically connected vendors and service organizations)
- About matters relevant to the entity's compliance with laws and regulations affecting the financial statements, including their knowledge of non-compliance with such laws or regulations
- Any matter of litigation that would be considered to have an impact on the financial reporting of this audit period



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# Future of Audit. Now.

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The EY audit transformation addresses the opportunities and risks presented by today's changing business environment and comprises **three interconnected pillars**.



The EY Assurance technology investment is an ongoing US\$1b globally coordinated investment program, to **integrate and transform** EY Assurance technology into an **AI-powered platform** to deliver greater value for our clients and audit teams.

## Modern approach

Providing clear audit methodology and effective enablement

## Streamlined process

Embedding specialized teams to facilitate knowledge and smart delivery

## AI-powered platform

Helps in enabling guided workflows, advanced analytics and the accelerated use of AI at scale

# Future of Audit. Now.

## Driving forces

### Complexity

- Expansion of **risks** and response
- **Regulatory** impact and navigation
- **Fraud** and **going concern**

### Shifting expectations

- **Deeper insights** and **benchmarking**
- Accelerated **pace of change**
- **Competition for talent** and **evolving expectations**

### Technology transformation

- **Artificial intelligence** and **automation**
- Use of **technology**
- **Workflow** and **collaboration**
- **Data** and **analytics**



## Value and outcomes

### Confidence

- Drives **confidence** for our clients and their **stakeholders**
- Facilitated through **high quality, risk-focused audits** by EY teams and supported by EY technology

### Experience

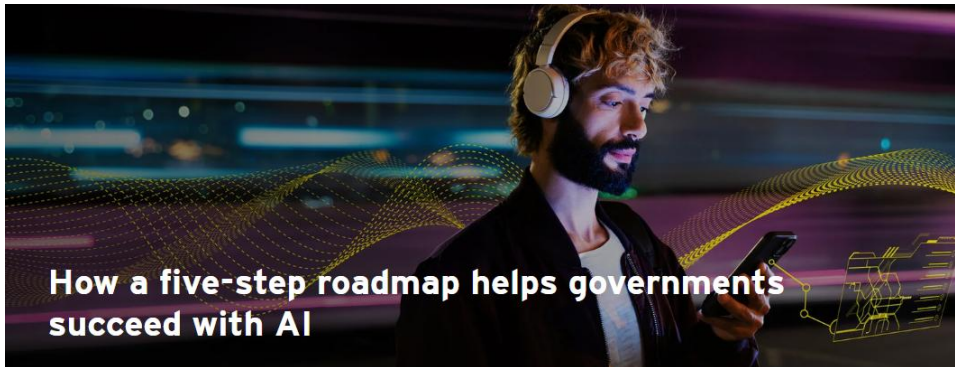
- **Enhances the audit experience** through a technology-enabled approach
- Improves the **experience for our clients** using advanced technology, streamlined processes allowing a greater focus on **the key risks**

### Perspective

- Supports the **sharing of insights**, including benchmarks and industry knowledge
- Facilitated through an **AI-powered platform**, leveraging the knowledge and experience of **EY teams**

# Insights and Updates

Please see below for links to current business insights and other articles that you may find useful.



## SUMMARY

- Many governments struggle to scale AI beyond pilots due to deployment challenges, cost overruns driven by inadequate planning, and integration complexities.
- A disciplined five-step roadmap helps organizations move from ideas to measurable impact, guiding responsible AI implementation and overcoming scaling barriers.



## SUMMARY

- At EY Canada, we're bringing our bold vision for the future of audit to life now, with quality at the centre.
- The EY audit promotes confidence in financial reporting. With audit quality, independence, accountability and integrity as our foundation, we'll continue to evolve how we work and shape the future of the EY audit. We are anticipating the needs of tomorrow and leading the way with confidence.

## EY | Building a better working world

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multidisciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.

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Our assurance services help our clients meet their reporting requirements by providing an objective and independent examination of the financial statements that are provided to investors and other stakeholders. Throughout the audit process, our teams provide a timely and constructive challenge to management on accounting and reporting matters and a robust and clear perspective to audit committees charged with oversight.

The quality of our audits starts with our 90,000 assurance professionals, who have the breadth of experience and ongoing professional development that come from auditing many of the world's leading companies.

For every client, we assemble the right multidisciplinary team with the sector knowledge and subject matter knowledge to address your specific issues. All teams use our Global Audit Methodology and latest audit tools to deliver consistent audits worldwide.

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