

REPORT OF THE

Auditor General of New Brunswick

Volume III
Financial Audit

2023

AUDITOR GENERAL
OF NEW BRUNSWICK



VÉRIFICATEUR GÉNÉRAL
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 Office's 2023 Report to the Legislative Assembly.

Respectfully submitted,

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

Paul Martin, FCPA, FCA
Auditor General

Fredericton, N. B.
December 2023

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Chapter 1 - Auditor General's Comments

On September 21, 2023, the Office completed the annual audit of the Province's public accounts and issued an unqualified, or "clean" audit opinion.

We are encouraged by continued signs of fiscal progress for the Province. This year's surplus of \$1 billion was the Province's sixth consecutive surplus and net debt is at its lowest point in almost a decade. Overall, the Province's financial condition has improved since 2022.

In this report we describe issues arising from our work; the most notable being NB Power's ability to self-sustain its operations. We are concerned that NB Power will not be able to manage its debt without imposing significant rate increases, receiving funding from the Province, or reducing expenses.

The Province had almost \$3 billion in cash in its primary bank accounts at March 31, 2023 which is almost five times the balance in 2014. Given recent increases in interest rates, cost of borrowing, and inflation, documented policies are needed as soon as possible to ensure these balances are managed with a focus on balancing operational needs, maximizing interest earned on cash balances, and minimizing costs related to short-term debt.

This report also discusses the results of our audits of Crown agency financial statements. While we issued clean audit opinions in each of these audits, in almost every audit we have identified areas for improvement. This year, we completed 12 audits and issued a total of 32 recommendations.

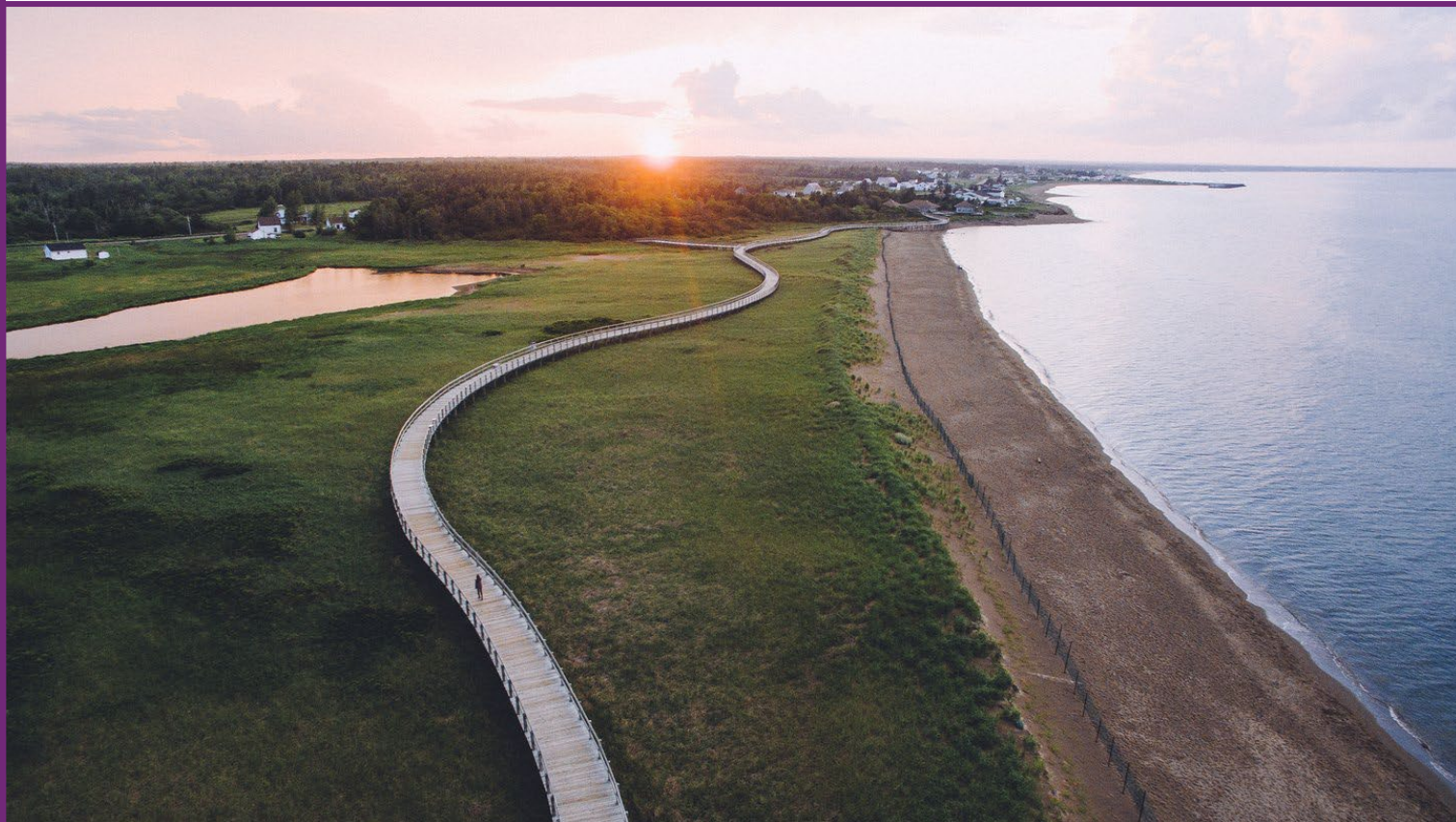
We are grateful for the continuing cooperation we receive from government departments and Crown agencies during our financial audit work.

I want to thank my audit team for their commitment to fulfilling the mandate of the Office of the Auditor General of New Brunswick. This report reflects their dedication and professionalism.



Paul Martin, FCPA, FCA
Auditor General

Annual Surplus, Net Debt and Funded Debt



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2023 Volume III

Chapter 2 Highlights

Annual surplus of \$1 billion was the Province's sixth consecutive surplus

Provincial tax revenues increased by almost \$1 billion from 2022

Net debt is at its lowest point since 2015

\$4 billion in debt is due to be repaid over the next four years

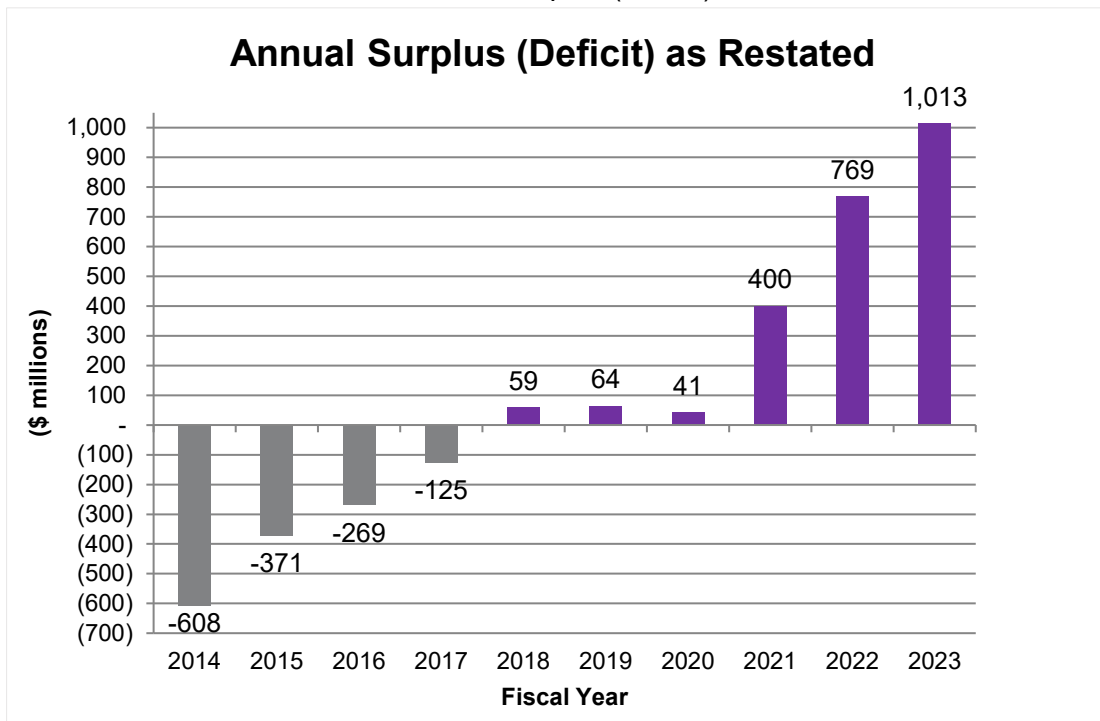
Annual Surplus

Sixth Consecutive Annual Surplus

2.1 For the sixth consecutive year, the Province of New Brunswick’s March 31, 2023 audited consolidated financial statements reports an annual surplus. Despite the budgeted surplus of \$35 million, the surplus at year end was over \$1 billion.

2.2 The ten year history for the annual surplus (deficit) is presented in Exhibit 2.1.





Exhibit 2.1 - Annual Surplus (Deficit) as Restated



Source: Prepared by AGNB from New Brunswick Public Accounts Volume I for year ended March 31, 2023

2.3 Exhibit 2.2 shows, at a summary level, the contributing factors for the increase in surplus from 2022 to 2023.

Exhibit 2.2 - Breakdown of Increase in 2023 Annual Surplus

What happened since last year?
<p>Provincial Tax Revenue</p> <p> <i>Increased \$975M from 2022</i></p>
<p>Revenue from the Federal Government</p> <p> <i>Increased \$90M from 2022</i></p>
<p>All Other Provincial Revenue Sources</p> <p> <i>Decreased \$4M from 2022</i></p>
<p>Provincial Expenses</p> <p> <i>Increased \$817M from 2022</i></p>

Source: Prepared by AGNB from New Brunswick Public Accounts Volume I for year ended March 31, 2023

Increases in Provincial Tax Revenues of Almost \$1 Billion

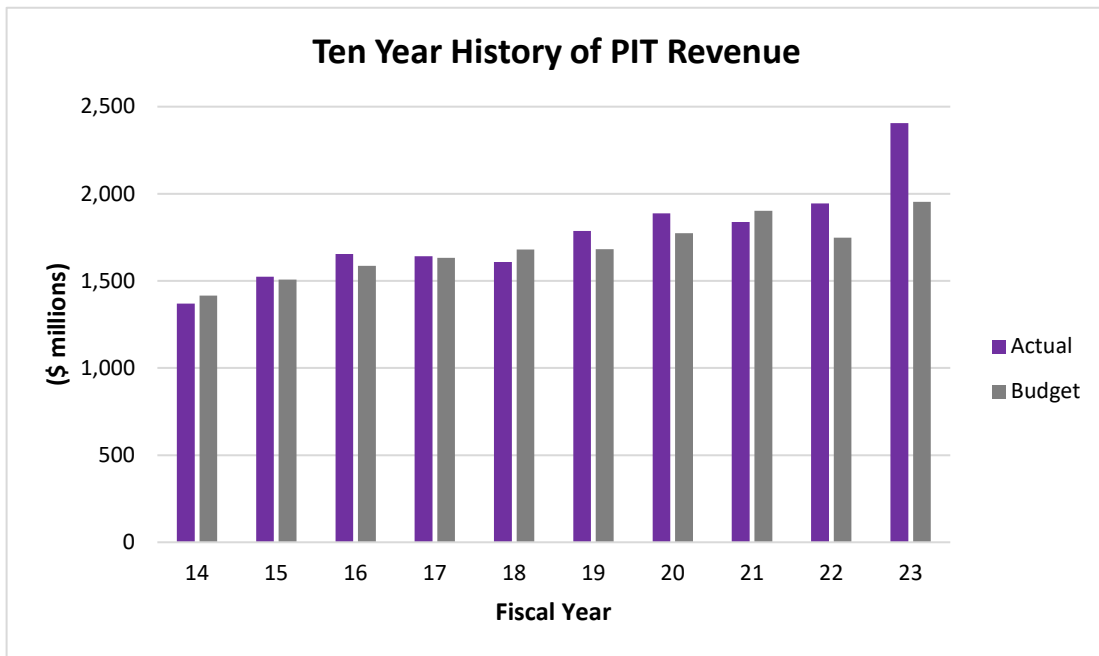
2.4 The increased surplus in 2023 was primarily attributable to increases in provincial tax revenues from the prior year including:

- personal income tax (\$461 million)
- corporate income tax (\$436 million)
- harmonized sales tax (\$80 million)

Personal Income Tax

2.5 Personal income tax (PIT) revenue estimates are based on information provided by Finance Canada and the Department of Finance and Treasury Board. The ten year history of actual and budgeted revenues for PIT is presented in Exhibit 2.3.

Exhibit 2.3 - Ten Year History of PIT Revenue

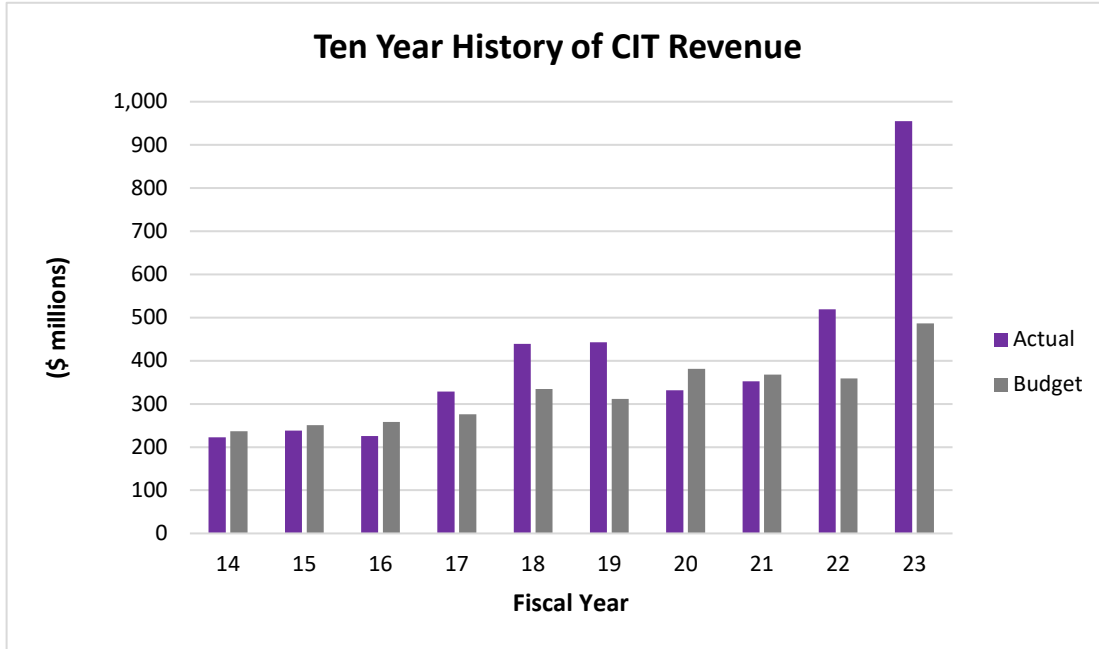


Source: Prepared by AGNB based on applicable year's Public Accounts

Corporate Income Tax

2.6 Corporate income tax (CIT) estimates are based on information provided by Finance Canada and the Department of Finance and Treasury Board. The ten year history of actual and budgeted revenues for CIT is presented in Exhibit 2.4.

Exhibit 2.4 - Ten Year History of CIT Revenue

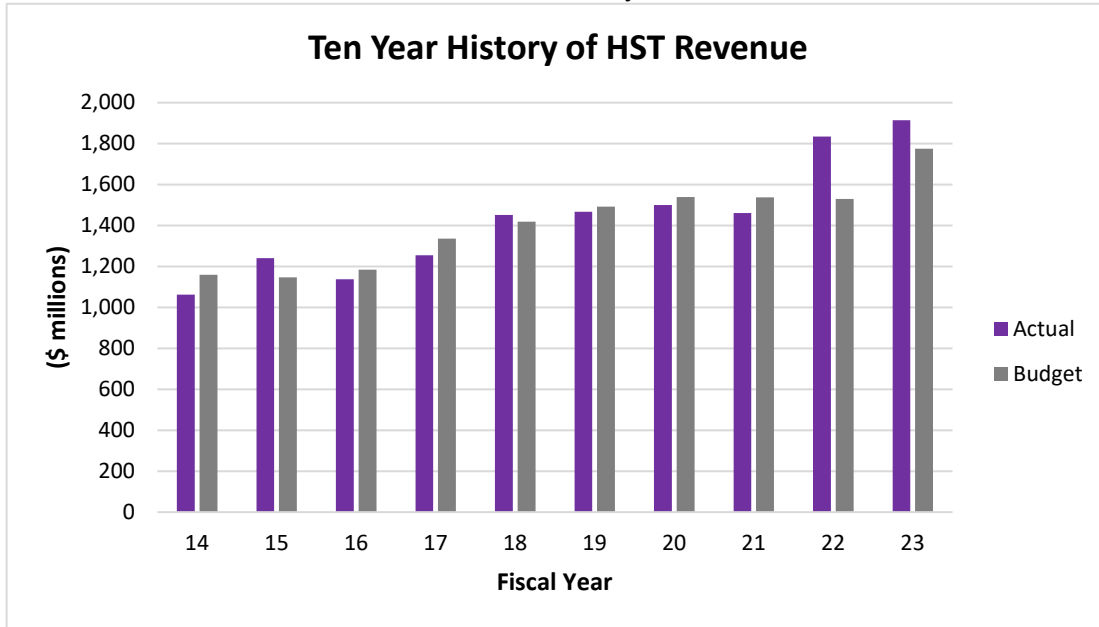


Source: Prepared by AGNB based on applicable year's Public Accounts

Harmonized Sales Tax

2.7 Harmonized sales tax (HST) revenue estimates are based on a formula which is part of an agreement the Province has with the Federal government. Each year, the Federal government estimates the Province’s HST entitlement according to the formula. The Federal government then makes payments to the Province based on these estimates. These estimates are subsequently revised according to a formal schedule as more economic and tax data become available. The ten year history of actual and budgeted revenues for HST is presented in Exhibit 2.5.

Exhibit 2.5 - Ten Year History of HST Revenue



Source: Prepared by AGNB based on applicable year’s Public Accounts

2.8 The challenges associated with estimating tax revenues, including timing delay of possible adjustments may contribute to budget variances.

Net Debt

Net Debt, Funded Debt and Interest Costs

2.9 Net debt and funded debt are two forms of debt presented in the Province's consolidated financial statements. The Province also records an expense to service (repay) its funded debt annually, primarily consisting of interest costs. See Exhibit 2.6 below for definitions for net debt, funded debt, and service of the public debt.

Exhibit 2.6 - Net Debt, Funded Debt and Service of the Public Debt Defined

Term	2023 Amount	Definition
Net Debt	\$12.4 billion	An accounting calculation presented as total liabilities <i>minus</i> financial assets.
Funded Debt	\$17.4 billion*	Total long-term debenture debt the Province has borrowed and is legally bound to repay. The Province's outstanding funded debt balance consists mostly of bonds issued in the financial market.
Service of the Public Debt	\$535 million	Annual cost of servicing funded debt** , consisting mostly of interest costs.

Source: Prepared by AGNB using 2023 Public Accounts

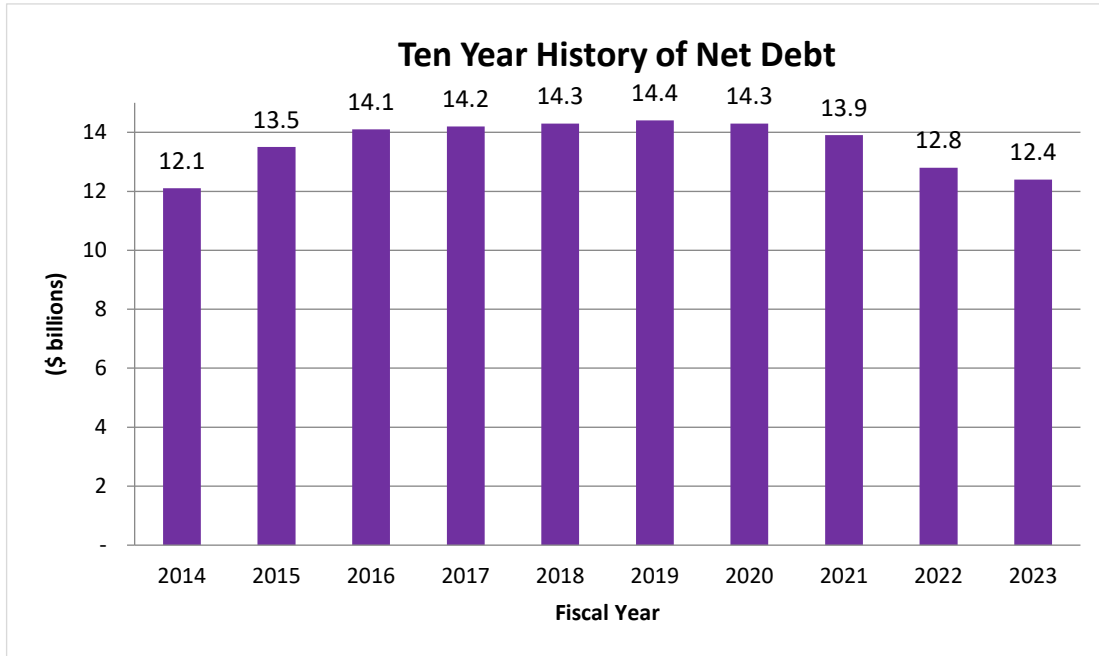
* Funded debt excludes \$5.1 billion borrowed on behalf of NB Power

**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

Fourth Consecutive Year Net Debt has Decreased

2.10 Net debt offers valuable insight into the financial health of the Province as it provides information about future revenues which will be needed to meet past spending. Net debt has consistently decreased for the past four years and is \$12.4 billion at year ended 2023. See Exhibit 2.7 below for ten year net debt amounts.

Exhibit 2.7 – Ten Year History of Net Debt



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

2.11 Factors contributing to the change in net debt from prior year are noted in Exhibit 2.8.

Exhibit 2.8 - Year-Over-Year Change in Net Debt

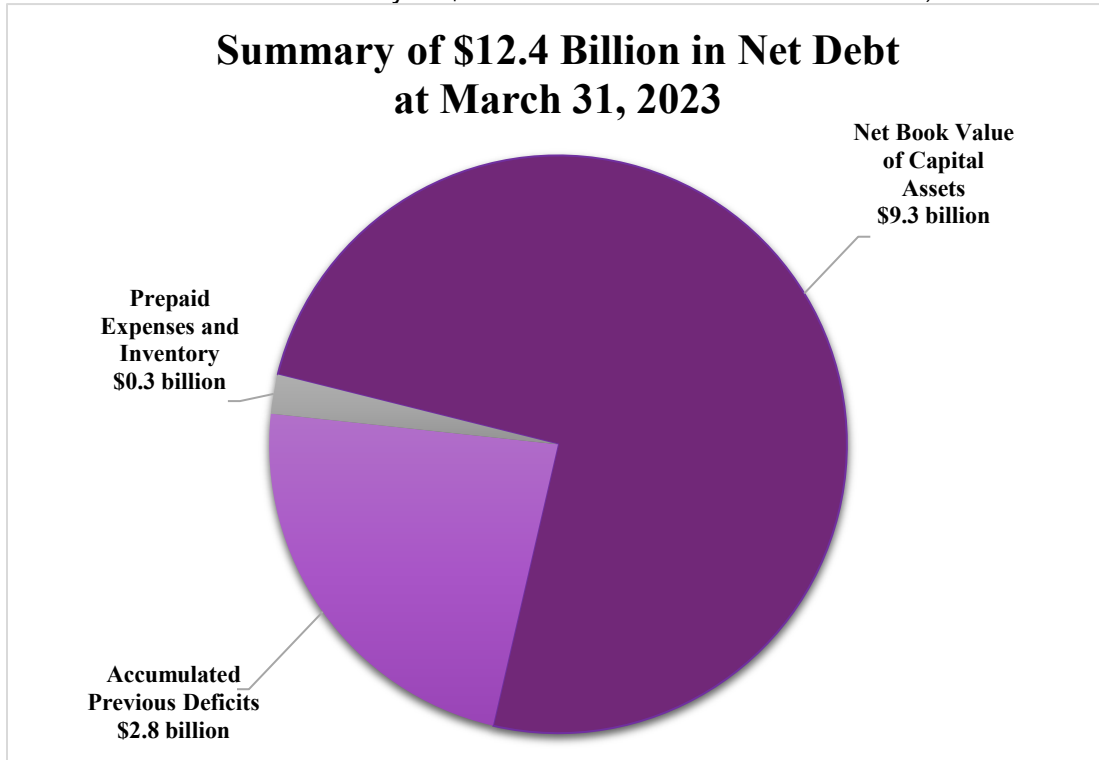


Source: Prepared by AGNB using 2023 Public Accounts

What Makes Up the \$12.4 Billion in Net Debt?

2.12 See Exhibit 2.9 for the net debt composition for fiscal year ended 2023.

Exhibit 2.9 - Summary of \$12.4 Billion in Net Debt at March 31, 2023



Source: Prepared by AGNB using 2023 Public Accounts

2.13 As noted above, tangible capital assets (capital assets) contribute to 75% of the net debt. Each year, the capital asset balance changes due to additions, disposals and amortization. The most significant capital assets are:

- roads, bridges and highways
- schools
- hospitals
- nursing homes
- other buildings owned by the Province

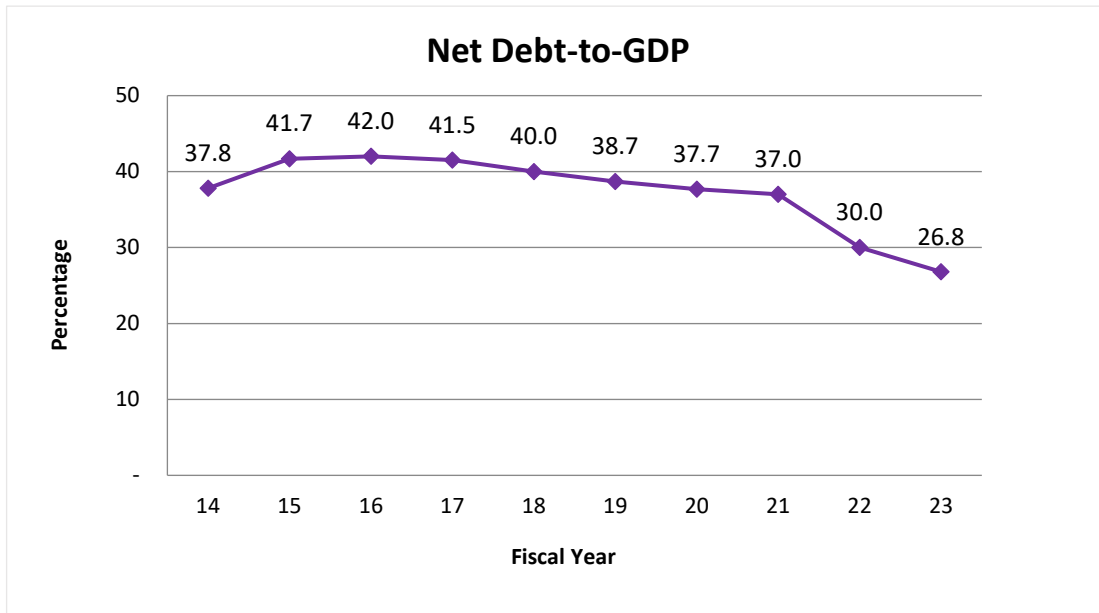
New Brunswick’s Net Debt-to-GDP Ratio

2.14 The net debt-to-gross domestic product (GDP)¹ ratio has become an important sustainability indicator for governments. The Province includes an analysis of this ratio in its annual Financial Statement and Disclosure Analysis.

2.15 Net debt-to-GDP shows the relationship between net debt and the activity in the economy.

2.16 Exhibit 2.10 shows the ten year history of the Net Debt-to-GDP ratio.

Exhibit 2.10 – Ten Year History of the Net Debt-to-GDP Ratio



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

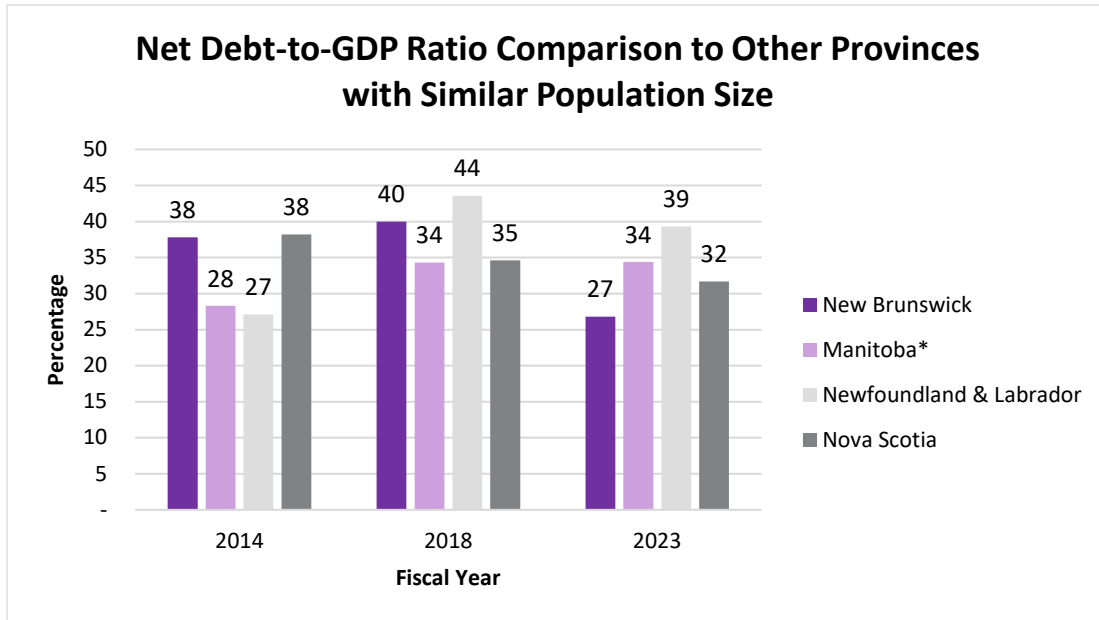
2.17 Net debt-to-GDP has consistently decreased since 2016 and is the lowest it has been in the past ten years. This indicates the growth of GDP continues to exceed the growth in net debt.

¹ Gross Domestic Product (GDP) measures the value of all final goods and services produced in an economy in a given period of time.

How Does New Brunswick’s Net Debt-to-GDP Ratio Compare to Other Provinces?

2.18 Exhibit 2.11 below shows New Brunswick’s net debt-to-GDP ratio relative to other comparable provinces. For fiscal year ended 2023, New Brunswick had the lowest net debt-to-GDP ratio.

Exhibit 2.11 - Net Debt-to-GDP Ratio Comparison to Other Provinces with Similar Population Size



Source: Prepared by AGNB as restated where available

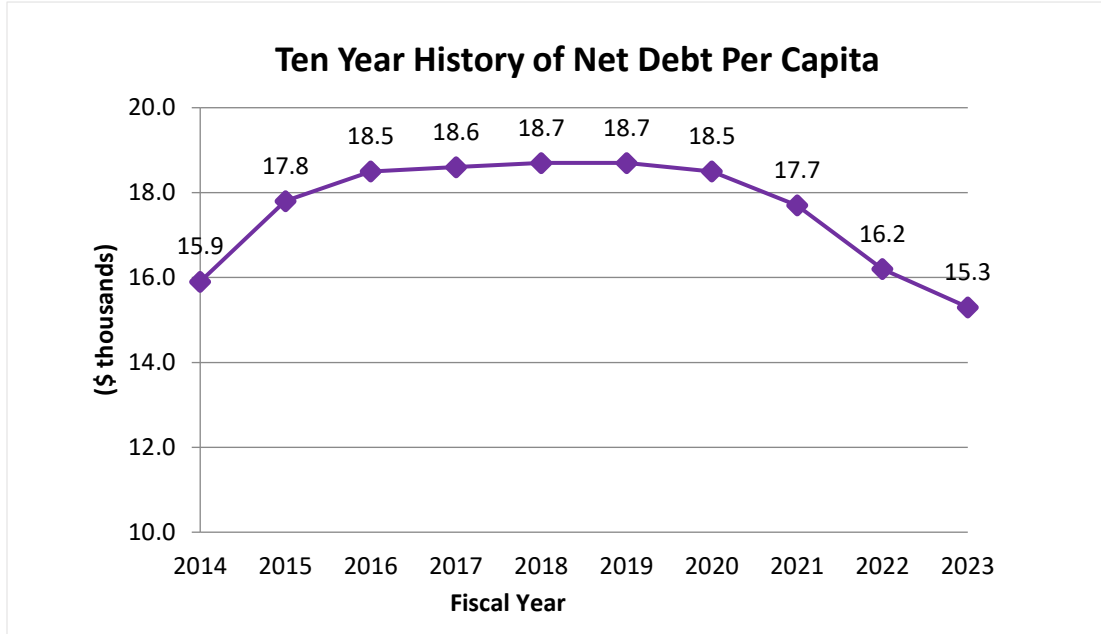
*2023 Public Accounts information used for Manitoba contained a qualified Independent Auditor’s Report

New Brunswick’s Net Debt per Capita

2.19 Another way to assess the significance of the size of New Brunswick’s net debt is to compare it to population size, also known as net debt per capita.

2.20 New Brunswick’s net debt per capita hit a high of \$18,700 in 2018 and 2019 but has since decreased to \$15,300 in 2023. Exhibit 2.12 shows the ten year history of net debt per capita, showing a continual improvement since 2019.

Exhibit 2.12 – Ten Year History of Net Debt Per Capita

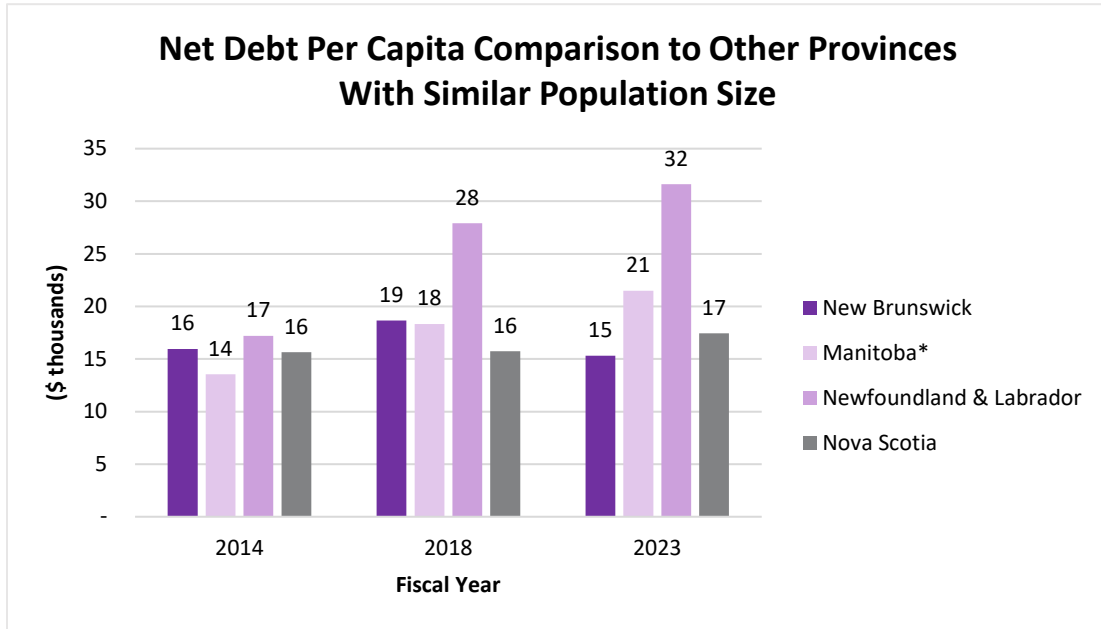


Source: Prepared by AGNB based on applicable year’s Public Accounts with restatements where applicable

How Does New Brunswick’s Net Debt per Capita Compare to Other Provinces?

2.21 Exhibit 2.13 below shows New Brunswick’s net debt per capita relative to other comparative provinces. For fiscal year ended 2023, New Brunswick had the lowest ratio.

Exhibit 2.13 - Net Debt Per Capita Comparison to Other Provinces



Source: Prepared by AGNB as restated where available

*2023 Public Accounts information used for Manitoba contained a qualified Independent Auditor's Report

Is New Brunswick Meeting its Targets?

Debt reduction targets

2.22 Exhibit 2.14 details the provincial established net debt reduction targets for the past five years. New Brunswick has met or exceeded its established targets for four of the past five years.

*Exhibit 2.14 - Five Year History of Net Debt Reduction Targets Compared to Actual
(as restated where applicable)*

(\$ millions)

Fiscal Year					
	2019	2020	2021	2022	2023
Target (Increase) Decrease	(372)	49	129	(241)	(15)
Actual (Increase) Decrease	(33)	37	470	1,088	359
Difference	339 (Actual Increase Lower than Projected)	(12) (Actual Decrease Lower than Projected)	341 (Actual Decrease Higher than Projected)	1,329 (Actual Decrease when an Increase was projected)	374 (Actual Decrease when an Increase was projected)
Target Met or Exceeded?	Yes	No	Yes	Yes	Yes

Source: Prepared by AGNB based on applicable year's Budgets and Public Accounts

Net debt-to-GDP targets

2.23 Exhibit 2.15 details the provincial established net debt-to-GDP targets for the past five years. New Brunswick has met or exceeded its established targets for three of the past five years.

Exhibit 2.15 - Five Year History of Net Debt-to-GDP Targets Compared to Actual (as originally recorded)

Fiscal Year					
	2019	2020	2021	2022	2023
Target	39.0%	37.0%	34.7%	36.4%	30.1%
Actual*	37.6%	36.6%	35.9%	29.0%	26.8%
Difference	(1.4)% (Actual Ratio Lower than Projected)	(0.4)% (Actual Ratio Lower than Projected)	1.2% (Actual Ratio Higher than Projected)	(7.4)% (Actual Ratio Lower than Projected)	(3.3)% (Actual Ratio Lower than Projected)
Target Met or Exceeded?	Yes	Yes	No	Yes	Yes

Source: Prepared by AGNB based on applicable year's Budgets and Public Accounts

** A Net Debt-to-GDP percentage that is decreasing indicates a positive trend as the growth in GDP exceeds the growth of Net Debt (liabilities less financial assets)*

Multi-year targets

2.24 We also remain pleased to see the Province continues to set multi-year net debt targets and net debt-to-GDP targets through fiscal 2026. The multi-year targets announced in the Province's 2023-2024 Main Estimates are presented in Exhibit 2.16.

Exhibit 2.16 - Government's Net Debt Reduction Targets

(\$ millions)

	2024 Budget	2025 Plan	2026 Plan
Annual (Increase) Decrease in Net Debt	(183)	(143)	(36)
Net Debt-to-GDP Ratio	24.9%	24.2%	23.4%

Source: <https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Budget/2023-2024/speech-2023-2024.pdf>

Funded Debt

\$17.4 Billion in Funded Debt

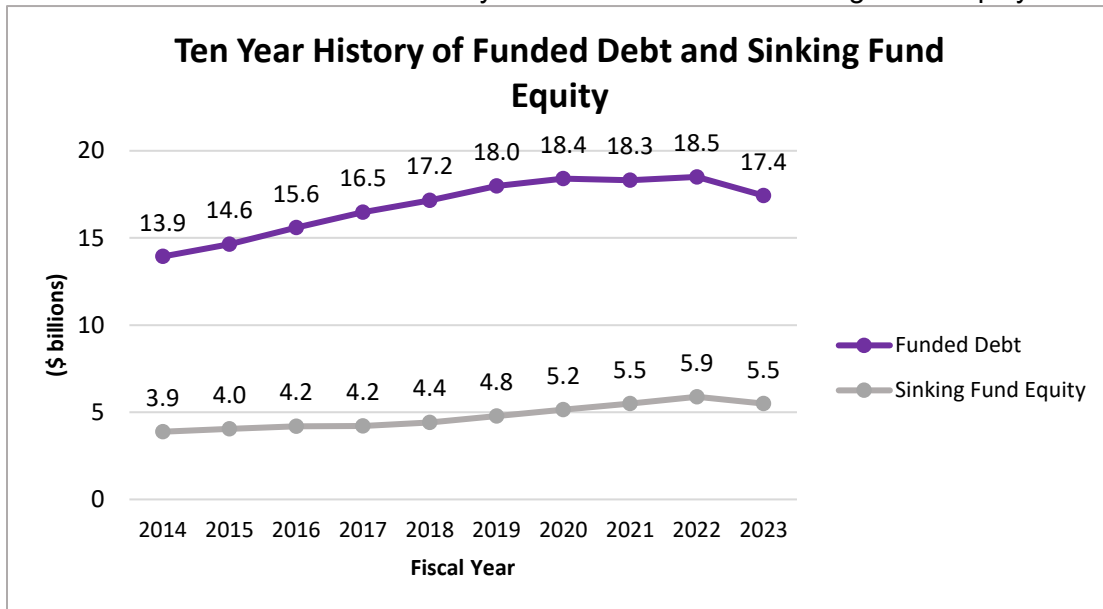
2.25 This year, funded debt was \$17.4 billion which is a decrease from the historic high of \$18.5 billion in 2022. It should be noted, this amount does not include:

- \$5.1 billion in NB Power debt
- \$845 million in New Brunswick Municipal Finance Corporation (MFC) debt

2.26 To assist with future repayments of provincial debt, the Province maintains a sinking fund. The *Provincial Loans Act* mandates that on or before the anniversary date of each issue of funded debt, not less than 1% of the outstanding principal amount of the issue shall be paid into the sinking fund. At March 31, 2023, the market value of the Province’s sinking fund equity was approximately \$5.5 billion.

2.27 Exhibit 2.17 shows the ten year history of the Province’s funded debt and sinking fund equity.

Exhibit 2.17 – Ten Year History of Funded Debt and Sinking Fund Equity



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

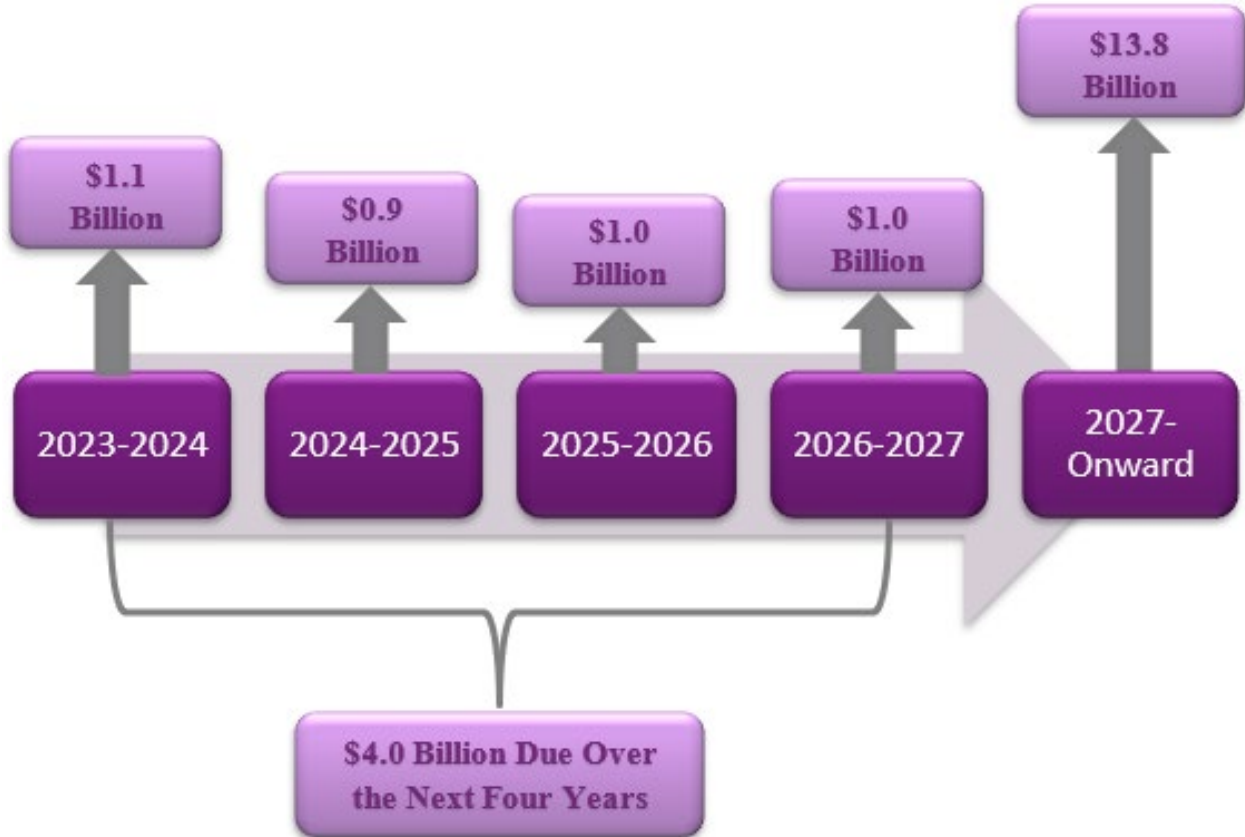
2.28 As noted above, funded debt is significantly more than the equity in the sinking fund. Additional cash outlays of approximately \$12 billion will be needed in the future to repay the total funded debt.

2.29 Over the next four years, approximately \$4.0 billion in funded debt is due to be repaid. The Province may either use consolidated fund monies or re-finance it. Some examples of debt activity in 2023 include:

- \$900 million (CAD) was repaid
- \$1.9 billion (CAD) of new debt was issued

2.30 Future cash requirements to repay debt in the next four years and beyond are outlined in Exhibit 2.18.

Exhibit 2.18 - Future Cash Requirements to Repay Funded Debt



Source: Prepared by AGNB based on 2023 Public Accounts

Interest Costs

- 2.31 In the fiscal year ended 2023, the service cost of this debt (excluding NB Power), was \$535 million. This is an annual cost and does not reduce the principal amount outstanding.
- 2.32 While the Province has experienced a low interest rate environment in the last few years, interest rates have risen recently. As a result, provincial expenses to service the public debt may increase in future if this trend persists when re-financing occurs.

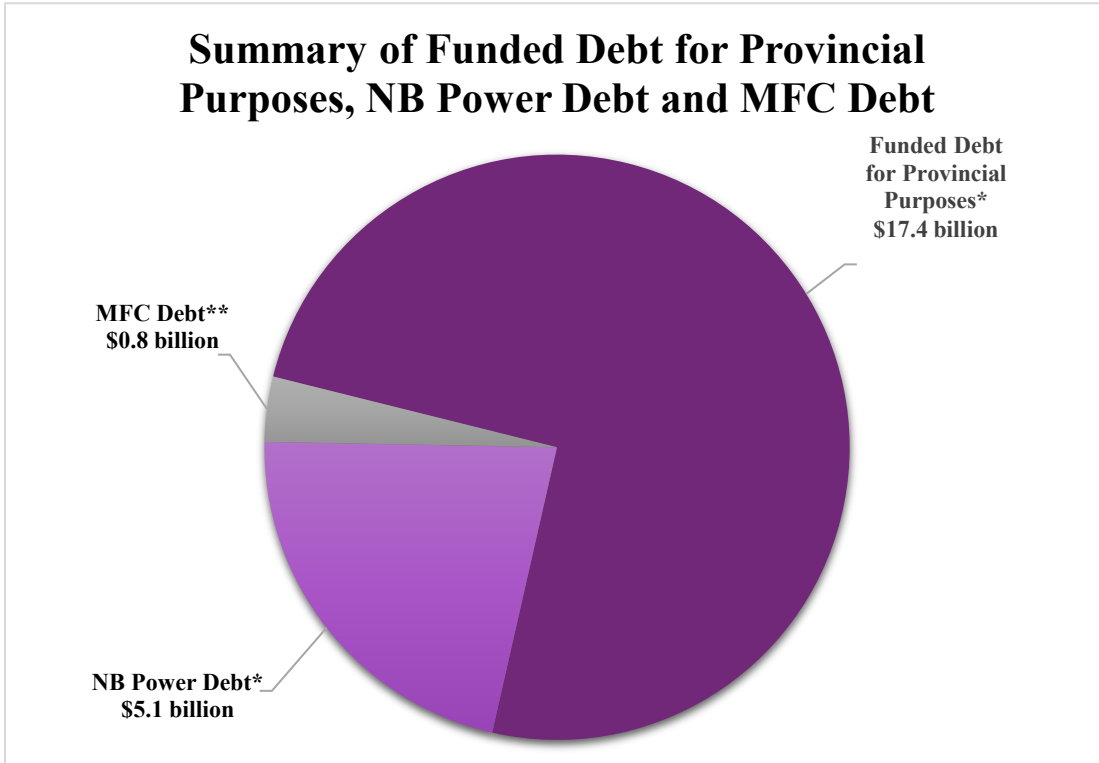
Provincial Debt

2.33 The amount recorded as provincial debt (\$17.4 billion) does not include:

- \$5.1 billion in NB Power debt
- \$845 million in New Brunswick Municipal Finance Corporation (MFC) guaranteed debt

2.34 Exhibit 2.19 below details \$23 billion in debt owed ultimately by the Province.

Exhibit 2.19 - Summary of Funded Debt for Provincial Purposes, NB Power Debt and MFC Debt



Source: Prepared by AGNB

*Funded Debt for Provincial Purposes and NB Power debt are as at March 31, 2023

** MFC Debt as at December 31, 2022

2.35 In Exhibit 2.20, we provide details of MFC’s debt relating to the financing needs of New Brunswick municipalities as at December 31, 2022. We present this information on a per municipality basis for debt greater than \$8 million.

Exhibit 2.20 - Summary of MFC Debt Relating to Financing Needs of New Brunswick Municipalities

**New Brunswick Municipal Finance Corporation
Debt Related to Financing Needs of Municipalities
as at December 31, 2022**

Municipality	Debt (\$ millions)
Saint John	194.6
Moncton	156.2
Dieppe	55.2
Edmundston	48.2
Riverview	30.3
Fredericton	29.2
Miramichi	27.4
Bathurst	24.7
Quispamsis	20.7
Tracadie	14.8
Grand-Sault/Grand Falls	14.4
Shediac	13.3
Southeast Regional Service Commission	11.7
Rothsay	11.2
Caraquet	10.4
Sackville	9.3
Other Municipalities	173.4
TOTAL	\$845.0

Source: Prepared by AGNB

Managing the Province’s Cash, Short-Term Investments and Short-Term Debt

2.36 As part of our work, we noted the Province held significant amounts of cash, short-term investments and short-term debt at March 31, 2023. A summary of these amounts is presented in Exhibit 2.21.

Exhibit 2.21 - Cash, Short-Term Investments and Short-Term Debt at March 31, 2023

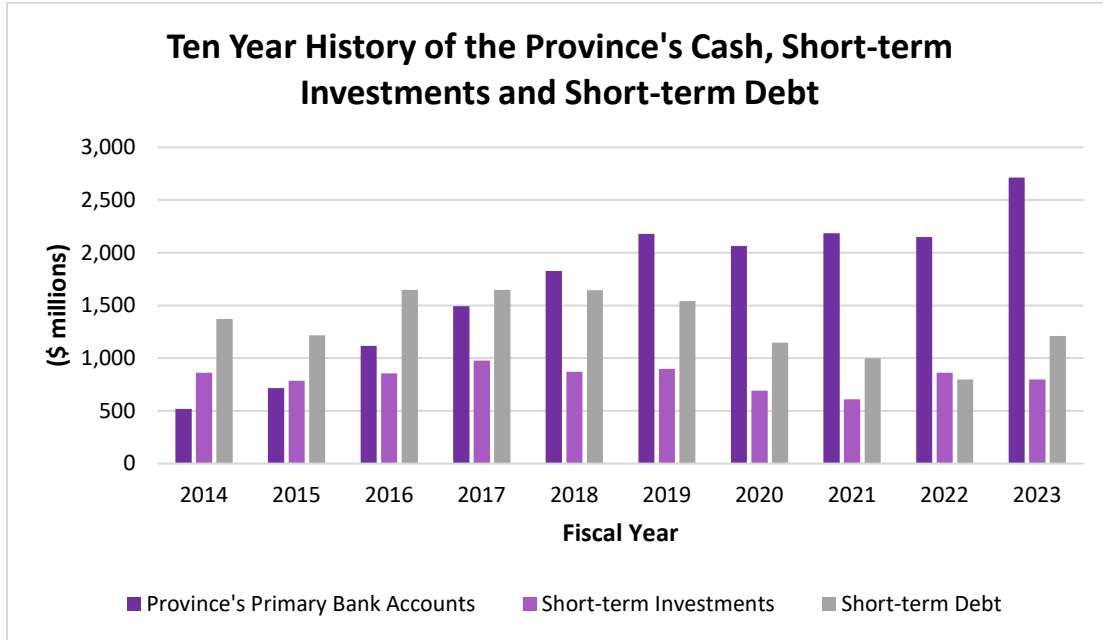
Cash and Short-term Investments (\$ millions)	
Province's primary bank accounts	\$2,712
Other provincial cash	\$124
Cash held at Crown agencies and other consolidated entities (e.g. Regional Health Authorities and Nursing Homes)	\$126
<i>Total cash</i>	<i>\$2,962</i>
Province’s short-term investments (investments in NB Power)	\$797
Other short-term investments and short-term investments held by Crown agencies and other consolidated entities	\$18
<i>Total short-term investments</i>	<i>\$815</i>
<i>Total cash and short-term investments</i>	<i>\$3,777</i>
Short-term Debt (\$ millions)	
<i>Total short-term debt</i>	<i>(\$1,213)</i>

Source: Prepared by AGNB from New Brunswick Public Accounts Volume I for year ended March 31, 2023

2.37 Given the significance of these amounts along with recent increases to interest rates, cost of borrowing, and inflation, we want to provide information regarding how the Province manages the cash in its primary bank accounts, its short-term investments in NB Power, and its short-term debt.

2.38 Exhibit 2.22 summarizes the Province’s primary bank accounts, its short-term investments and short-term debt for the past ten years.

Exhibit 2.22 – Ten Year History of the Province’s Cash, Short-term Investments and Short-term Debt



Source: Prepared by AGNB based on applicable year’s Public Accounts

2.39 The balance in the Province’s primary bank accounts has significantly increased in 2023 with an increasing trend each year to hold more cash (eight of the past ten years have increases from the previous year cash). The Province has approximately five times as much cash now compared to 2014, while short-term investments and borrowing have not significantly increased.

2.40 The Department of Finance and Treasury Board (FTB) informed us of the complexities of managing cash, investment, and debt balances.

2.41 In our discussions with FTB, we were informed the cash management strategy is for the Province to have sufficient access to cash to meet its commitments. The Province also employs an active short-term borrowing (short-term debt) program to supplement cash needs when necessary. The Province’s short-term investments consist of funds invested in NB Power on a short-term basis (NB Power borrows from the Province to take advantage of the Province’s credit rating).

2.42 We found no documented policies are in place to manage balances in the Province’s primary bank accounts, the Province’s short-term investments, and the Province’s short-term debt. We were informed work is underway to develop policies for these items and is expected to be finished before the end of March 2024.

- 2.43 In our view, given the significance of these balances, documented policies are needed as soon as possible to ensure these balances are managed with a focus on balancing operational needs, maximizing interest earned on cash balances, and minimizing costs related to short-term debt.
- 2.44 We will continue to monitor FTB's process in developing these policies and how it manages the Province's cash positions. We will report any significant findings and recommendations in our future reports.

State of New Brunswick's Financial Condition



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2023 Volume III

Chapter 3 Highlights

Sustainability

**5/7 short-term
favourable trends**

**3/7 long-term
favourable trends**

Flexibility

**1/3 short-term
favourable trends**

**1/3 long-term
favourable trends**

Vulnerability

**1/2 short-term
favourable trends**

**1/2 long-term
favourable trends**

**Overall, the Province's financial condition has improved since
2022**

The Province’s Financial Condition

Financial Indicators

3.1 The Province’s financial condition has improved since 2022. We analyzed twelve financial indicators, as issued by the Public Sector Accounting Board (PSAB). For the purpose of our analysis, we have defined trends as follows:

- short term – the most recent two years
- long term – over a ten-year period

3.2 See Exhibit 3.1 for a complete summary of all financial indicators.



Sustainability

Sustainability indicates if the Province can maintain its current level of spending and meet debt obligations without increasing taxes or funded debt.



Flexibility

Flexibility is the degree to which the Province can react to unexpected or increased expenses, either by increasing taxes or increasing funded debt.



Vulnerability

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

Exhibit 3.1 - Summary of Financial Indicators

	Indicator	Purpose	Short-Term Trend	Long-Term Trend
Sustainability	Assets-to-liabilities	Measures extent that government finances its operations by issuing debt	Favourable	Unfavourable
	Financial assets-to-liabilities	Measures whether future revenues will be needed to pay for past transactions	Favourable	Unfavourable
	Net debt-to-total annual revenue	Shows whether more time is needed to pay for past transactions	Favourable	Favourable
	Expense by function-to-total expenses	Shows the trend of government spending over time	Neutral	Neutral
	Net debt-to-GDP	Shows the relationship between net debt and the activity in the economy	Favourable	Favourable
	Accumulated deficit-to-GDP	Measures the sum of the current and all prior year operating results relative to the growth in the economy	Favourable	Favourable
	Total expenses-to-GDP	Shows the trend of government spending over time in relation to the growth in the economy	Neutral	Neutral
Flexibility	Public (Funded) debt charges-to-revenues	Measures extent that past borrowing decisions limits ability to meet current financial and service commitments	Favourable	Favourable
	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
	Own source revenues-to-GDP	Measures extent income is taken out of the economy	Unfavourable	Neutral
Vulnerability	Government transfers-to-total revenue	Measures the dependence on another level of government	Neutral	Neutral
	Foreign currency debt-to-nNet debt	Measures the government’s potential vulnerability to currency fluctuations	Favourable	Favourable

Source: Prepared by AGNB

Sustainability Indicators

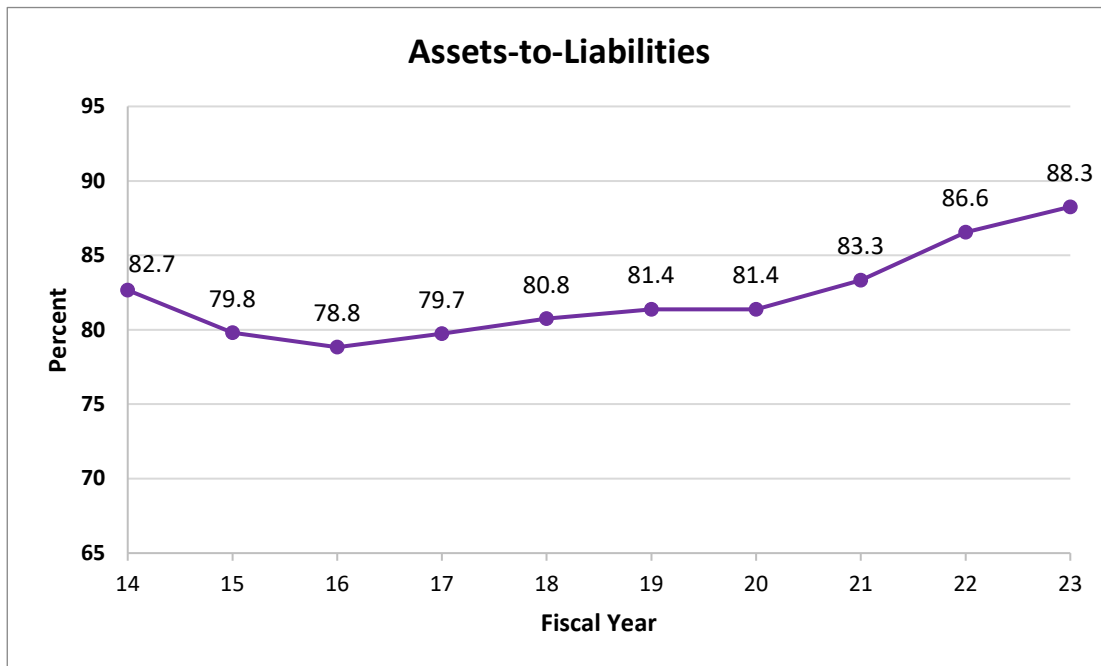
Assets-to-Liabilities

3.3 Assets-to-liabilities measures the extent government finances its operations by issuing debt. A percentage:

- below 100% indicates an unfavourable trend as the Province has more liabilities than it has assets
- that increases year over year indicates a favourable trend in the short-term

3.4 See Exhibit 3.2 below for assets-to-liabilities results from 2014-2023.

Exhibit 3.2 – Comparing Assets-to-Liabilities



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

3.5 The assets-to-liabilities ratio has remained below 100% for the past ten years. It has, however, increased during the past 3 years. We have assessed trends as:

- long term – unfavourable
- short term – favourable

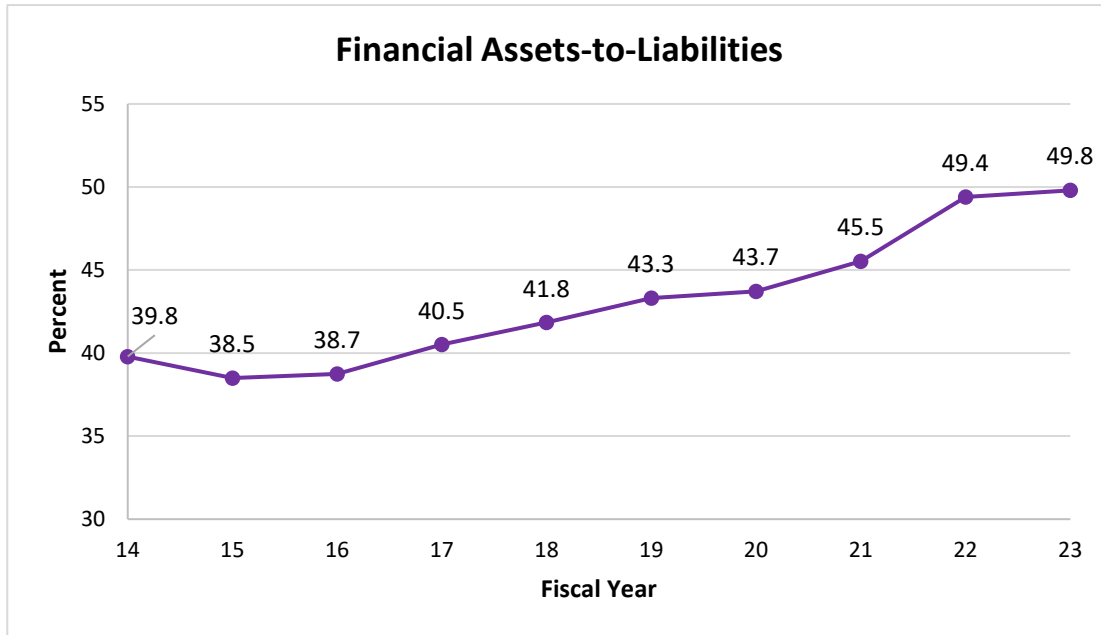
Financial Assets-to-Liabilities

3.6 Financial assets-to-liabilities measures the extent future revenues will be needed to pay for past transactions. Percentages that are:

- less than 100% is an unfavourable trend as it implies that future surpluses will be required to pay for past transactions
- increasing year over year is a favourable trend in the short-term

3.7 See Exhibit 3.3 below for financial assets-to-liabilities results from 2014-2023.

Exhibit 3.3 - Financial Assets-to-Liabilities



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

3.8 The financial assets-to-liabilities ratio has remained below 100% for the past 10 years. However, the percentage has consistently increased since 2015. We have assessed trends as:

- long term – unfavourable
- short term – favourable

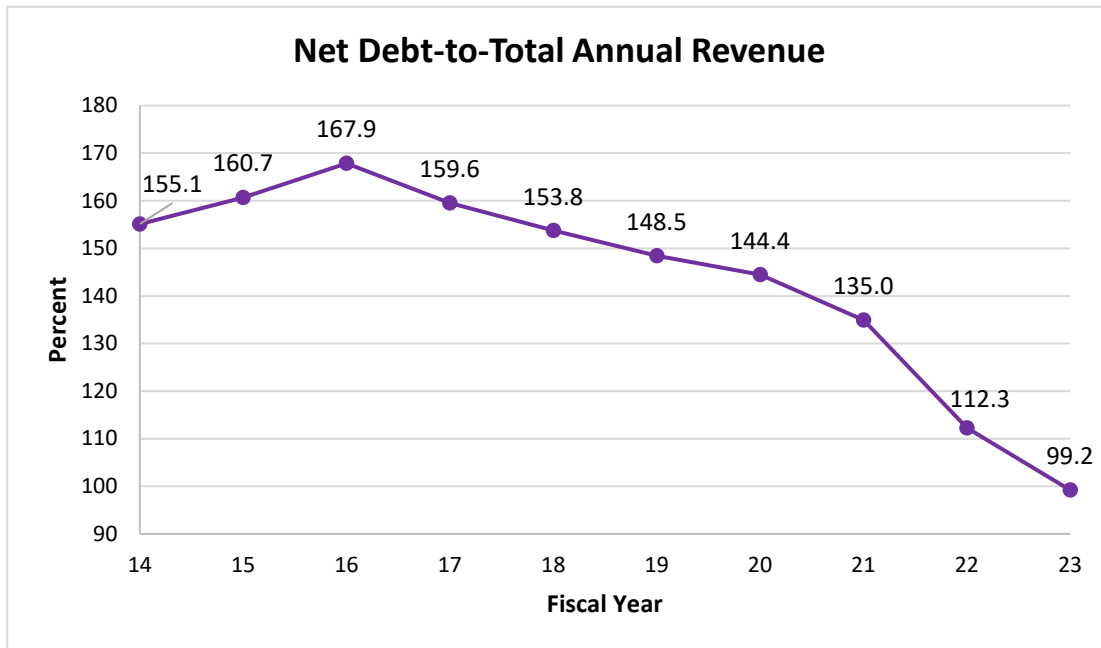
Net Debt-to-Total Annual Revenue

3.9 Net debt-to-total annual revenue shows if more time is needed to pay for past transactions. A percentage that is:

- decreasing indicates a positive trend as the Province will require less time to eliminate the net debt
- increasing indicates a negative trend as the Province will require more time to eliminate the net debt

3.10 See Exhibit 3.4 below for net debt-to-total annual revenue from 2014-2023.

Exhibit 3.4 - Net Debt-to-Total Annual Revenue



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

3.11 Net debt-to-total annual revenue has been consistently decreasing since 2016. We have assessed trends as:

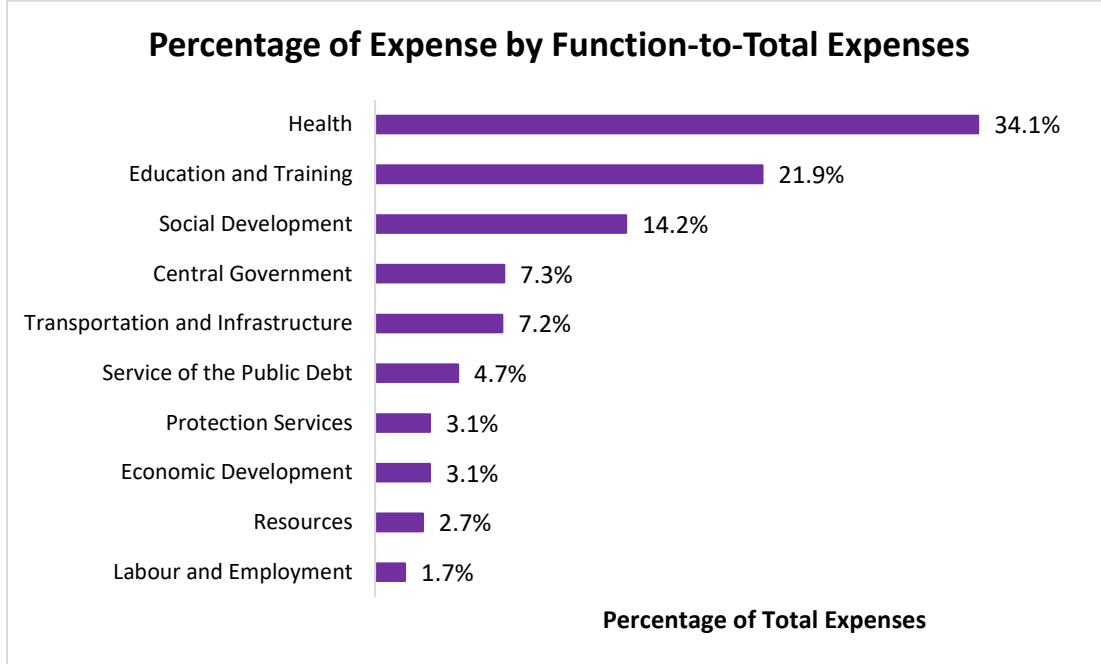
- long term – favourable
- short term – favourable

Expense by Function-to-Total Expenses

3.12 Expense by function-to-total expenses shows the trend of government spending over time. If the cost to servicing debt increases, there is less funding available to deliver services.

3.13 See Exhibit 3.5 below for percentage of expense by function-to-total expenses for fiscal year ended March 31, 2023.

Exhibit 3.5 - Percentage of Expense by Function-to-Total Expenses at March 31, 2023

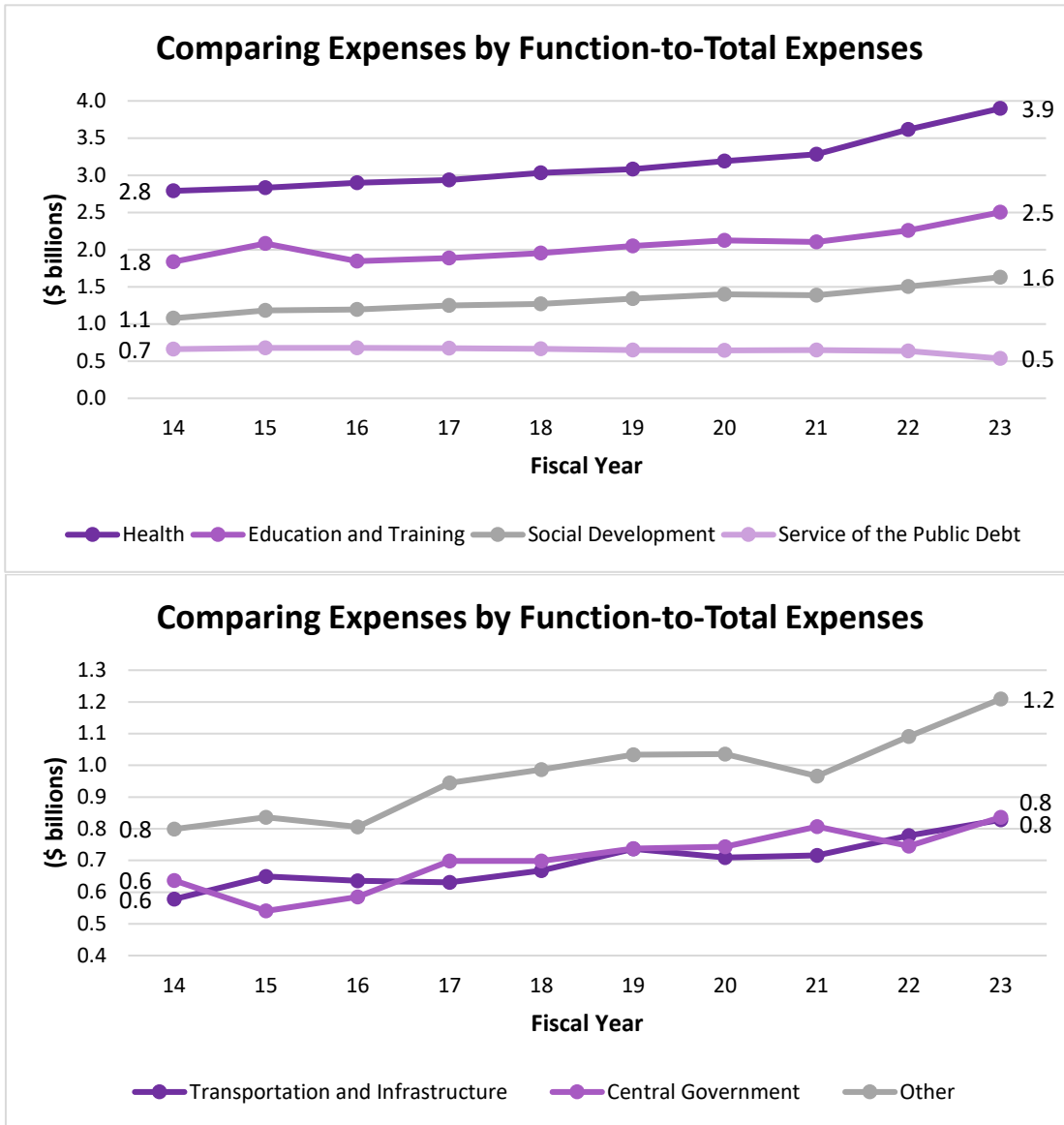


Source: Prepared by AGNB based on Public Accounts 2023.

3.14 The following exhibit details expense by function-to-total expenses for 2014-2023:

- Health, Education and Training, Social Development, Service of the Public Debt
- Transportation and Infrastructure, Central Government, Other

Exhibit 3.6 - 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 Economic Development, Labour and Employment, Protection Services, and Resources

3.15 There has been little change in expense allocation during the past ten years.

We have assessed trends as:

- long term – neutral
- short term – neutral

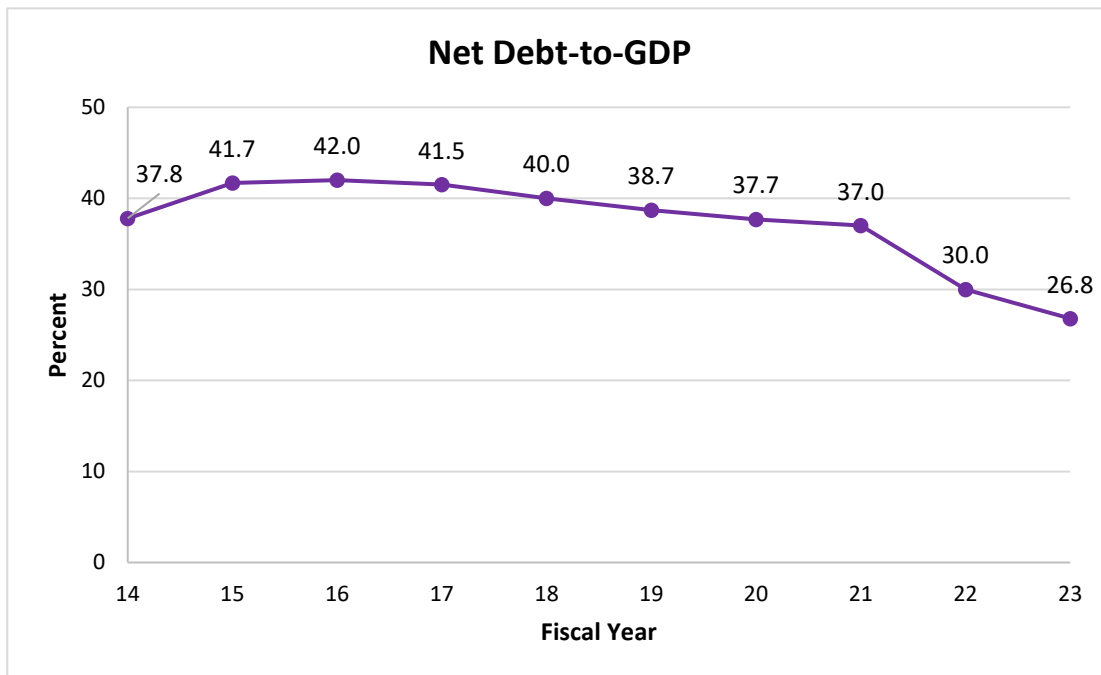
Net Debt-to-GDP

3.16 Net debt-to-GDP shows the relationship between net debt and the activity in the economy. A percentage that is:

- decreasing indicates a positive trend as the growth of GDP exceeds the growth in net debt
- increasing would be negative, as it indicates the growth in net debt exceeds that of GDP

3.17 See Exhibit 3.7 below for net debt-to-GDP results from 2014-2023.

Exhibit 3.7 – Net Debt-to-GDP



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

3.18 Net debt-to-GDP has consistently decreased since 2016. We have assessed trends as:

- long term – favourable
- short term – favourable

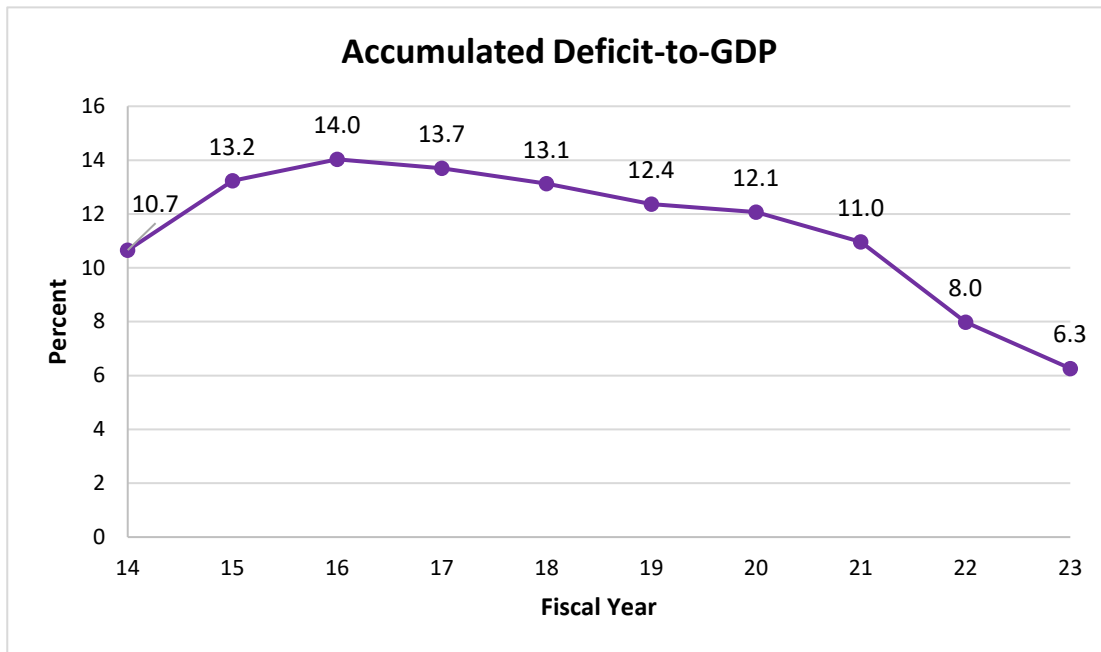
Accumulated Deficit-to-GDP

3.19 Accumulated deficit-to-GDP shows the trend of government spending over time in relation to the growth in the economy. 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. An accumulated deficit-to-GDP percentage that is:

- decreasing indicates a positive trend as the growth of GDP is outpacing the growth in the accumulated deficit
- increasing indicates a negative trend as the accumulated deficit is outpacing the growth of GDP

3.20 See Exhibit 3.8 below for accumulated deficit-to-GDP results from 2014-2023.

Exhibit 3.8 - Accumulated Deficit-to-GDP



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

3.21 Accumulated deficit-to-GDP has consistently decreased since 2016. We have assessed trends as:

- long term – favourable
- short term – favourable

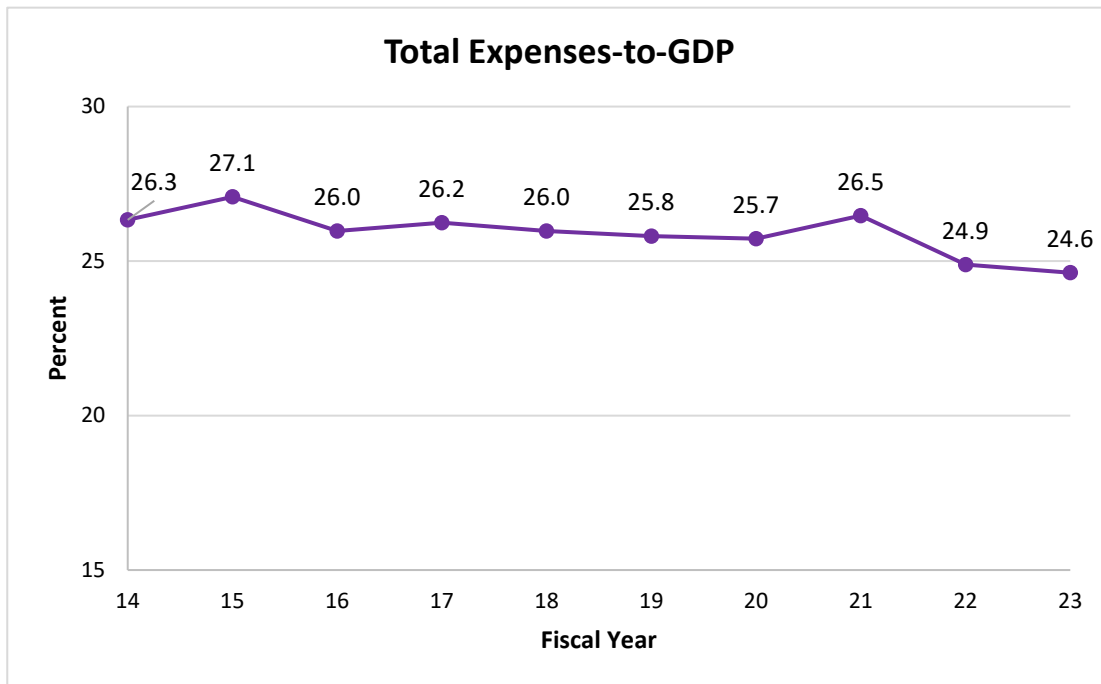
Total Expenses-to-GDP

3.22 Total expenses-to-GDP shows the trend of government spending over time in relation to the growth in the economy. A percentage that is:

- increasing indicates a negative trend as the government expenses continue to grow faster than the economy
- decreasing indicates a positive trend as the economy continues to grow faster than government expenses

3.23 See Exhibit 3.9 below for total expenses-to-GDP results from 2014-2023.

Exhibit 3.9 - Total Expenses-to-GDP



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

3.24 There has been little change during the past ten years. We have assessed trends as:

- long term – neutral
- short term – neutral

Flexibility Indicators

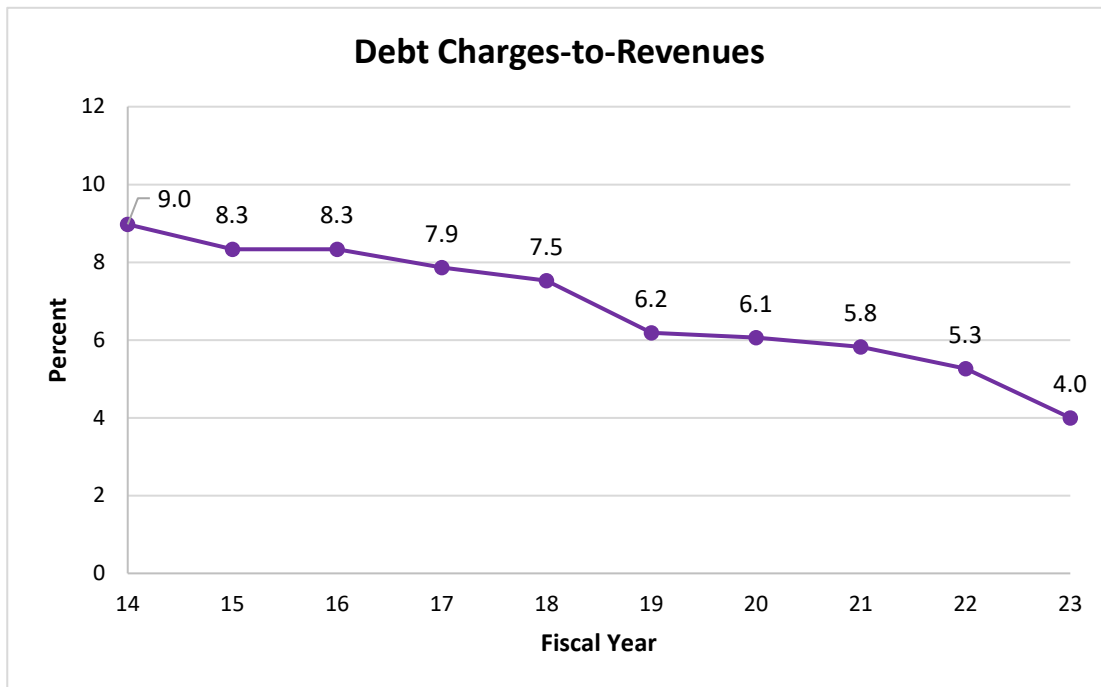
Debt Charges-to-Revenues

3.25 Debt charges-to-revenues measures the extent that past borrowing decisions limit ability to meet current financial and service commitments. A percentage that is:

- decreasing indicates a favourable trend, as proportionately less revenue is needed to service the funded debt
- increasing indicates an unfavourable trend, as proportionately more revenue is needed to service the funded debt

3.26 See Exhibit 3.10 below for debt charges-to-revenues from 2014-2023.

Exhibit 3.10 - Public (Funded) Debt Charges-to-Revenues



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

3.27 Debt charges-to-revenues has consistently decreased in the past 10 years.

We have assessed trends as:

- long term – favourable
- short term – favourable

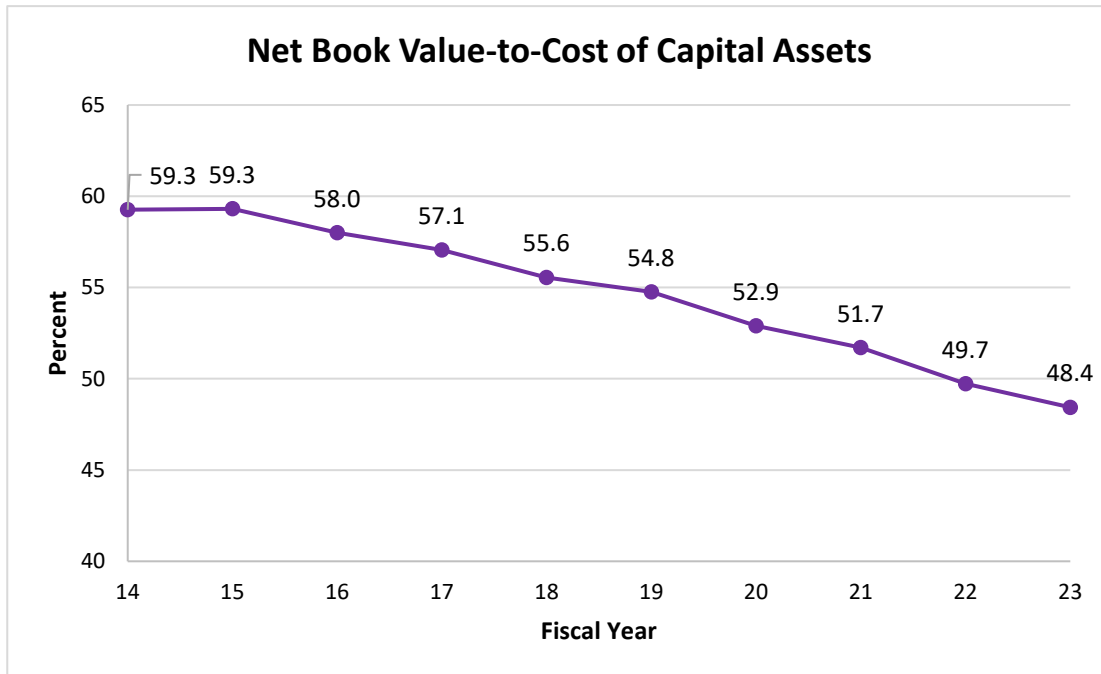
Net Book Value of Capital Assets-to-Cost of Capital Assets

3.28 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. A percentage that is:

- decreasing indicates a negative trend as assets are depreciating (being used) at a faster rate than they are being replaced
- increasing indicates a positive trend as assets are being replaced at a faster rate than they are depreciating (being used)

3.29 See Exhibit 3.11 below for net book value of capital assets-to-cost of capital assets from 2014-2023.

Exhibit 3.11 - 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.

3.30 Net book value of capital assets-to-cost of capital assets has consistently decreased since 2015. We have assessed trends as:

- long term – unfavourable
- short term – unfavourable

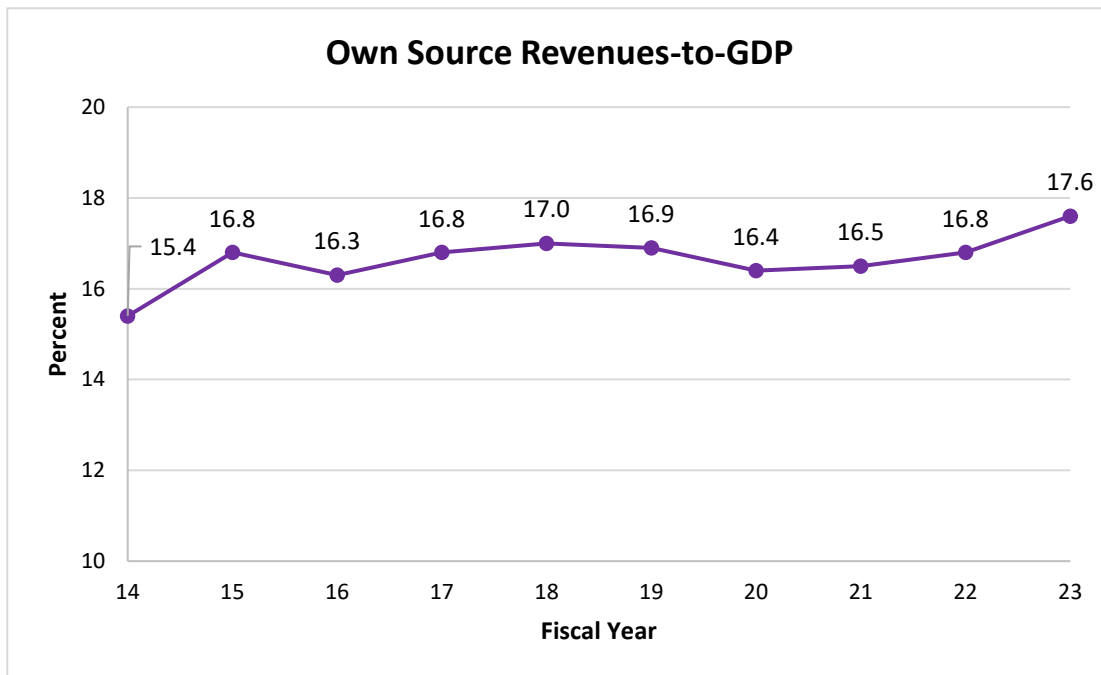
Own Source Revenues-to-GDP

3.31 Own source revenues-to-GDP measures the extent income is taken out of the economy. A percentage that is:

- increasing indicates a negative trend as it makes the Province less flexible in how it can generate revenue
- decreasing indicates a positive trend as it makes the Province more flexible in how it can generate revenue

3.32 See Exhibit 3.12 below for own source revenues-to-GDP for 2014-2023.

Exhibit 3.12 - Own Source Revenues-to-GDP



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

3.33 Own source revenues-to-GDP has remained relatively stable since 2015. However, as it has increased since 2020, we have assessed trends as:

- long term – neutral
- short term – unfavorable

Vulnerability Indicators

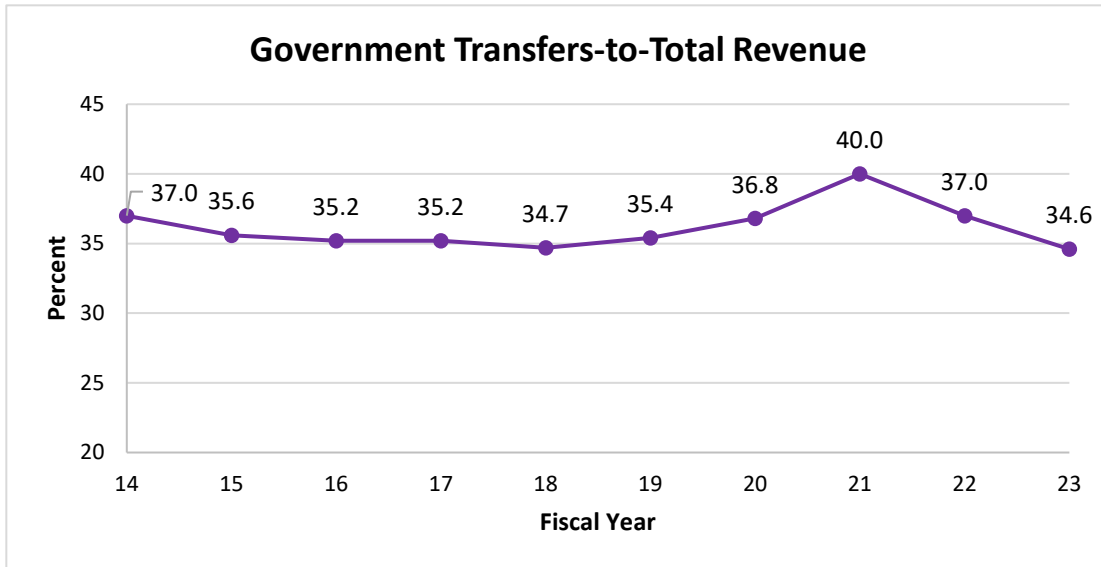
Government Transfers-to-Total Revenue

3.34 Government transfers-to-total revenue measures the dependence on another level of government. A percentage that is:

- decreasing indicates a positive trend as the Province is less dependent on government transfers for revenue
- increasing indicates a negative trend as the Province is more dependent on government transfers for revenue

3.35 See Exhibit 3.13 below for government transfers-to-total revenue for 2014-2023.

Exhibit 3.13 - Government Transfers-to-Total Revenue



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

3.36 Government transfers-to-total revenue has remained relatively stable over the past ten years. There was a noted increase in government transfers in 2021, due to COVID funding. When removed from the analysis as an extraordinary item, we have assessed trends as:

- long term – neutral
- short term – neutral

Comparing Foreign Currency Debt-to-Net Debt

3.37 Foreign currency debt-to-net debt measures government's potential vulnerability to currency fluctuations. As the Province has hedged 100% of its foreign currency, we have assessed trends as:

- long term – favourable
- short term – favourable

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



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2023 Volume III

Chapter 4 Highlights

NB Power's ability to self-sustain its operations remains a concern

Asset retirement obligations: new accounting standard had a material impact on the Province's financial statements

The Auditor General issued an unqualified audit opinion on the consolidated financial statements of the Province of New Brunswick for the year ended March 31, 2023

Audit of the Province’s Financial Statements

Auditor General Signed Unqualified Audit Opinion

4.1 On September 21, 2023 the Auditor General issued an unqualified (“clean”) audit opinion on the consolidated financial statements of the Province of New Brunswick for the year ended March 31, 2023. This opinion indicates the Province’s consolidated financial statements are presented fairly in accordance with Canadian public sector accounting standards.

4.2 Our audit work included analysis of:

- major programs and activities in government departments and Crown agencies
- significant revenue items
- various expense items
- internal controls of significant computer systems

4.3 In this chapter we present significant findings from our work, including any recommendations for improvements. We did not note any significant fraud or loss of assets during our audit.

NB Power’s Self-Sustainability

NB Power’s Ability to Self-Sustain its Operations Remains a Concern

4.4 We note the following concerns pertaining to NB Power’s ability to self-sustain its operations.

Elevated Debt Levels

4.5 We are uncertain how NB Power will continue to manage its debt without imposing significant rate increases, receiving funding from the Province and/or significantly reducing expenditures.

4.6 NB Power:

- debt is over \$5 billion
- is still not meeting the 80/20 debt-to-equity ratio required by the *Electricity Act*
- debt-to-equity ratio of 94/6 has deteriorated from the more favourable ratio of 87/13 in the prior year

Lack of Profitability

4.7 NB Power's history of non-profitability will impact its ability to support future operations. NB Power has:

- incurred a net loss of \$43 million for fiscal year end 2023
- had a net loss for six of the past seven years (after unrealized investment income has been removed)

Operating Challenges

4.8 NB Power asked for the largest rate hike in 15 years of 8.9%. The Energy and Utilities Board only approved a rate increase of 4.8%.

Future Capital Investments

4.9 Significant capital investments will be required in the future such as:

- Mactaquac refurbishment (cost estimated at more than \$3 billion)
- Belledune Generating Station (decommissioning use of coal by 2030)

NB Power’s Strategic Plan Outlines Many Challenges

4.10 NB Power’s strategic plan:

- describes similar challenges and concerns to those noted above
- recognizes short and long-term challenges

4.11 Excerpts from NB Power’s strategic plan are noted below:

“While NB Power maintains robust transmission and distribution grids, significant upgrades are required to our aging infrastructure to ensure the system can handle near- and long-term requirements.”

“For the last 10 to 15 years, we have been providing a high level of service across all areas of the business, while only maintaining minimal cost recovery. We have acquired significant debt.”

“Hydroelectricity is our dominant source of renewable energy and the Mactaquac Generating Station is a critical piece of our infrastructure.”

“... NB Power will not be able to achieve financial sustainability through our current cost of service model.”

“To date, NB Power lags behind other Canadian utilities in areas such as smart meters and advanced distribution management infrastructure needed to advance customer offerings.”

“we know that customer expectations will continue to grow beyond the current essentials of affordability and reliability. We also know that achieving financial health will require more than managing rates, improving asset reliability and cost management.”

Source: NB Power’s Strategic Plan “ENERGIZING OUR FUTURE Strategic Plan 2023-2035”

NB Power Annual Accounting Analysis

4.12 Each year, we request the Office of the Comptroller (OOC) prepare an accounting analysis regarding NB Power's ability to self-sustain its operations. Although we accepted the OOC's analysis that NB Power can self-sustain its operations as at March 31, 2023, we have recommended the OOC expand their analysis to address our noted concerns.

4.13 In response, the Office of the Comptroller has indicated it will continue to update its accounting analysis for NB Power on an annual basis.

Asset Retirement Obligations

New Accounting Standard had a Material Impact on the Province’s Consolidated Financial Statements

- 4.14 This year, the Province was required to adopt Canadian public sector accounting standard PS 3280 – Asset Retirement Obligations. This new standard established how to account for, and disclose, liabilities for asset retirement obligations (ARO). ARO are legal obligations associated with the retirement of tangible capital assets (TCA). One example of a common ARO is remediating asbestos.
- 4.15 Estimating liabilities for ARO is a complex process involving significant uncertainty and, as a result, requires a significant amount of professional judgment. The Province engaged an expert to assist with preparing these estimates. At March 31, 2023, the total ARO liability for government departments’ TCA was \$384 million.
- 4.16 As part of our work, we engaged an auditor’s expert to assess the reasonableness of key assumptions and judgments used in the determination of the ARO liability. While we accepted these assumptions and judgments, we found areas where the processes to prepare the estimates for ARO liabilities could be improved.
- 4.17 We have made recommendations to the Office of the Comptroller to update and refine its estimate of liabilities for Asset Retirement Obligations as soon as reasonably possible.
- 4.18 In response, the Office of the Comptroller has indicated it will continue to review and refine these estimates, as necessary, on an annual basis.

Government IT Systems

Oracle Fusion System

4.19 The scope of the Oracle Fusion Enterprise Resource Planning project is extensive and will require multiple years to fully implement. Fiscal 2023 was the second full year the Province used Fusion. The system has several functionalities including:

- payroll and human resource management
- procurement (purchasing)
- finance (payments, general ledger, fixed assets, cash management, etc.)

4.20 Fusion will be used by:

- Part I (departments)
- Part II (school districts)
- Community Colleges

Internal Control and Accounting Processes

4.21 To address the risks associated with a complex new IT system, we performed detailed testing on the Fusion system. Testing procedures were designed to ensure amounts recorded and processed by Fusion are materially complete and accurate.

4.22 While we found no issues of a material nature, we did note the following areas for internal control process improvements:

- user access
- segregation of duties
- override ability

4.23 We also noted improvements can be made to ensuring adequate support is obtained for transactions recorded in the general ledger.

Other IT Systems

4.24 In addition to Fusion, we performed work on the following government IT systems:

- Oracle Financials (EBS) - Finance and Treasury Board
- Teachers' Payroll - Early Childhood and Education
- Employee Payroll (HRIS) - Service New Brunswick
- IT Infrastructure - Service New Brunswick, Finance and Treasury Board
- Property Tax - Finance and Treasury Board
- Property Assessments - Service New Brunswick

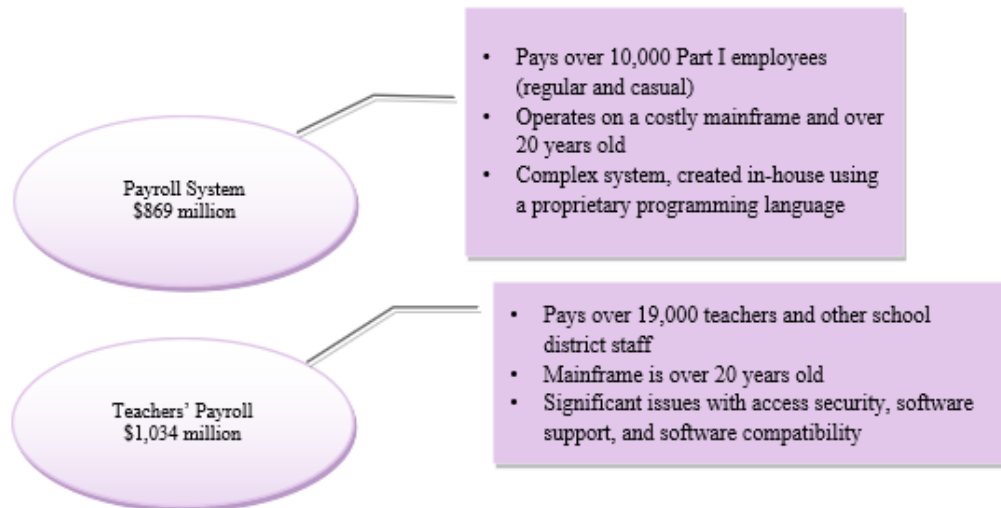
4.25 We noted recommendations for all IT systems except EBS. Common themes in improvements required related to:

- segregation of duties
- appropriate user access
- reconciliation processes in the payroll systems

IT Systems with Noted Risks

4.26 The Province continues to use IT systems with noted risks. Exhibit 4.1 shows some of the major systems still in place as at March 31, 2023.

Exhibit 4.1 - Major systems with noted risks at March 31, 2023



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

Results of Crown Agency Financial Statement Audits



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2023 Volume III Chapter 5 Highlights

Our Office has completed ten audits of Crown agencies and two Federal claim audits – we issued unqualified “clean” audit opinions for each one

We issued recommendations to Crown agencies to improve accounting processes, accounting estimates, and Board governance and oversight

Audits of Crown Agency Financial Statements

What We Found

5.1 Since our last report in November 2022, we have completed the financial statement audits of ten Crown agencies and two Federal claim audits. As a result of our work, we issued unqualified (“clean”) audit opinions to each Crown agency. In almost every audit, we also have audit findings and recommendations we issue to management and the Board of Directors. Exhibit 5.1 provides a summary of the audits we have completed since our last report.

Exhibit 5.1 - Summary of Crown Agency Financial Statement Audits Performed Between November 2022 and October 2023

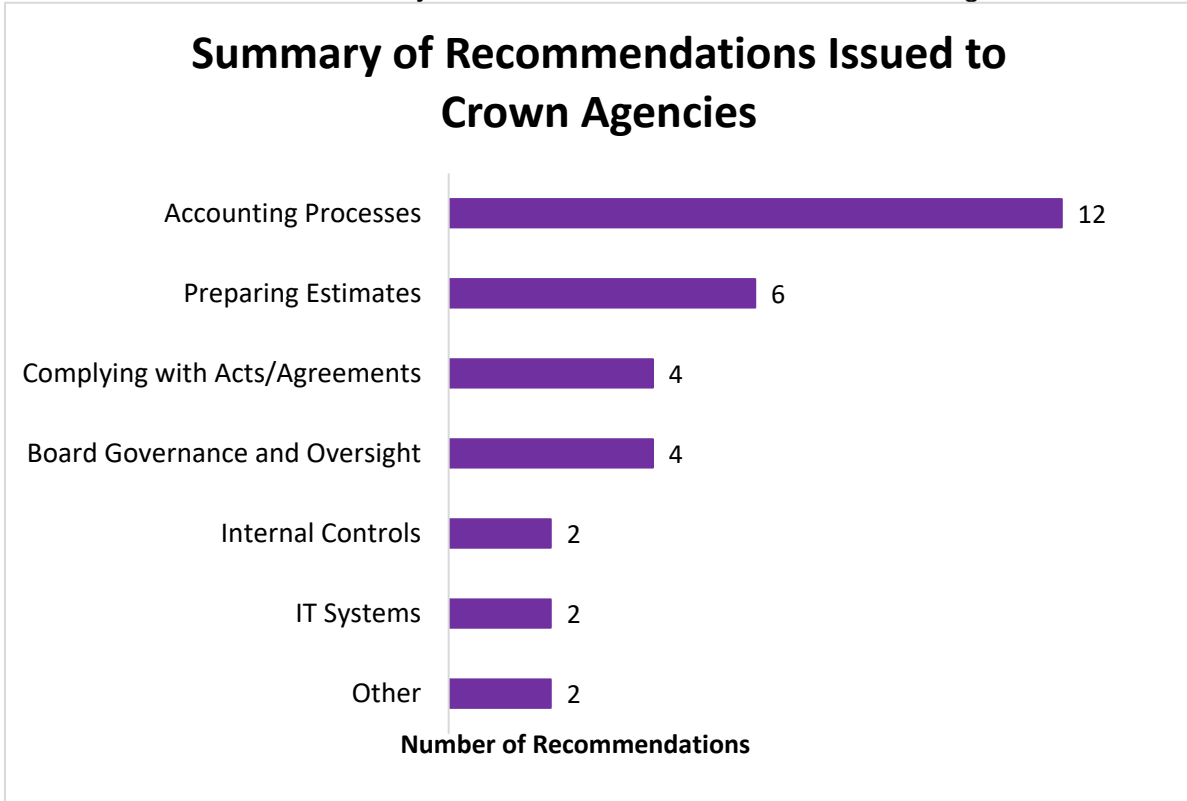
Crown Agency
March 31, 2023 Year End Audits
Opportunities New Brunswick
Service New Brunswick
New Brunswick Legal Aid Services Commission
Agreement Respecting Criminal Legal Aid (Federal claim)
December 31, 2022 Year End Audits
New Brunswick Municipal Finance Corporation
March 31, 2022 Year End Audits
Agreement Respecting Criminal Legal Aid (Federal claim)
Cannabis Management Corporation
New Brunswick Lotteries and Gaming Corporation
Regional Development Corporation
December 31, 2021 Year End Audits
New Brunswick Municipal Finance Corporation
March 31, 2021 Year End Audits
New Brunswick Highway Corporation
Regional Development Corporation

Source: Prepared by AGNB

Summary of Recommendations

5.2 We have issued a total of 32 recommendations to Crown agencies. Exhibit 5.2 summarizes, by theme, areas where we found opportunities for improvements.

Exhibit 5.2 - Summary of Recommendations Issued to Crown Agencies



Source: Prepared by AGNB.

5.3 While we did not find evidence of significant fraud or theft, our recommendations indicate improvement areas in internal controls and/or oversight. Key areas we have noted for improvement include accounting processes, estimate preparation and board governance.

5.4 For the most part, Crown agencies accepted our recommendations and have agreed to implement them. We will follow up with Crown agencies next year to determine if areas of most concern to us were addressed.