

REPORT OF THE

# Auditor General of New Brunswick

Volume III  
Financial Audit

2022

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 2022 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.  
November 2022

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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 2022

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## What We Found

### 2022 Surplus

- 2022 annual surplus was \$777 million, \$1 billion better than budgeted and the fifth consecutive annual surplus
- Revenues increased by \$1 billion from 2021, mostly due to increases in provincial tax revenues, \$646 million of which relates to HST and personal and corporate incomes taxes
- Tax revenues for HST and personal and corporate incomes taxes are subject to a significant amount of uncertainty and may not be indicative of future results
- Expenses increased by \$704 million from 2021, \$600 million of which relates to increases in Health, Education and Training, and Social Development

### Net Debt

- Net Debt significantly decreased by \$1.1 billion to \$12.4 billion, the third consecutive annual decrease which was largely caused by the surplus
- Net Debt consists mostly of \$9.1 billion of tangible capital assets such as highways and hospitals and \$3.0 billion of accumulated previous deficits
- Net Debt-to-GDP ratio decreased 5.9% to 29.9%, the lowest the ratio has been over the past ten years
- Net Debt per capita saw a large reduction and decreased to \$15,700 per New Brunswicker
- Government's Net Debt reduction targets have been mostly met over the past five years

### State of the Province's Financial Condition

- Overall, the Province's financial condition has significantly improved from 2021
- Decrease in Net Debt and increases in GDP and provincial source revenues resulted in improvements in financial trends

### Results of our Audit of the Province of New Brunswick

- The Province started implementing a new system, Oracle Fusion, to replace certain out of date systems - a significant audit area which required a substantial amount of audit time
- Recommendations made regarding Fusion to address weaknesses in internal control and improve existing processes
- We remain concerned about NB Power's ability to self-sustain its operations
- Auditor General access to Vestcor remains unresolved

### Results of our Audit of Crown Agencies

- We found some Service New Brunswick payments made in duplicate or not properly authorized, which can lead to increased risk of fraud
- Opportunities New Brunswick (ONB) needs to improve its process for estimating loan provisions to reflect current repayment information
- Weaknesses were also noted in ONB's payment processes

# Financial Audit - Key Messages from the Auditor General

## Introduction

- 1.1** This Volume of the Report deals with matters arising from the Office’s financial audits of:
- the Province of New Brunswick for the year ended March 31, 2022; and
  - Crown agencies since our last report in February 2022.
- 1.2** I was appointed Auditor General effective January 1, 2022. Since I was responsible for the overall accounting of the Province for nine months of the March 31, 2022 fiscal year under audit, professional audit standards prevented me from participating in, or influencing the outcome of, these audits. Instead, the Deputy Auditor General, Janice Leahy, has overseen this work.
- 1.3** Except for this introductory chapter, I have not drafted or edited the chapters, or made any comments on the material. I acknowledge, however, as Auditor General, I am responsible to present this Report to the Legislative Assembly and, as Auditor General, I stand behind and fully support its contents.

## *Unqualified (clean) audit opinion issued on September 22, 2022*

- 1.4** On September 22, 2022, the Office completed the Province’s public accounts audit and issued an unqualified audit opinion on the Province’s 2022 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.

## *Significant signs of fiscal progress for year-ended March 31, 2022*

- 1.5** As discussed in Chapter 2, the Office is encouraged by the significant signs of fiscal progress for the year ended March 31, 2022 as the Province:
- recorded an annual surplus of \$777.3 million (the fifth consecutive surplus);
  - performed better than budget by \$1.0 billion;
  - decreased Net Debt by \$1.1 billion (the third consecutive decrease and the largest decrease in the last ten years); and
  - exceeded its Net Debt reduction target by \$1.3 billion.



- Fiscal progress this year was largely driven by fluctuations in tax revenues***     **1.6**     These results indicate the Province’s fiscal situation continues to improve; however, a note of caution is required as the annual surplus this year was largely driven by fluctuations (increases) in Harmonized Sales Tax, Personal Income Tax and Corporate Income Tax revenues, which may not recur in the future.
- 1.7**     In Chapter 3 we further discuss the state of New Brunswick’s financial condition. Overall, we note sustainability trends have remained mostly favourable in the short term and have improved to mixed from unfavourable in the long-term. This year, we have assessed vulnerability indicators as mixed in both the short-term and long term. Flexibility indicators, however, are assessed as unfavourable in both the short and long term.
- 1.8**     In our view, for the Province to continue to improve its fiscal situation independently, over the long term, it will need to continue to find ways to manage spending, consider revenue increases, or a combination of both in the future.
- \$18.4 billion in Funded Debt outstanding***     **1.9**     Despite significant fiscal progress, we are still concerned with the amount of Funded Debt outstanding, which remained at a record high of \$18.4 billion in 2022. 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 \$635 million in 2022. This debt figure does not include \$4.6 billion in NB Power borrowing, as well as just under \$1 billion in New Brunswick Municipal Finance Corporation borrowing relating to the financing needs of New Brunswick municipalities.
- New enterprise resource planning system was a significant area of the audit of public accounts***     **1.10**     In Chapter 4, we discuss the results of our audit of the Province’s financial statements. This year, the Province started using Oracle Fusion (Fusion) enterprise resource planning system to replace its outdated IT systems which are at risk of failure. Fusion was a significant area to audit for our public accounts work this year and required an extensive amount of audit time for our Office.

- Implementing our recommendations is important to address risks related to Fusion***
- 1.11** As part of our work over Fusion, we made recommendations to address weaknesses in internal control and to improve existing processes. In our view, given Fusion is still early in its life cycle, implementing our recommendations early is important to reduce risk as the Province continues to implement Fusion.
- 1.12** Chapter 4 further discusses our audit testing and findings regarding Fusion. It also provides an update on the progress and expected timeline to continue implementing this system.
- NB Power’s ability to self-sustain its operations requires ongoing review***
- 1.13** NB Power is another important area for our public accounts audit which we have reported on for a number of years. We remain concerned NB Power may not be able to self-sustain its operations over the long term. Items such as capital investments, debt load, environmental challenges and legislative changes impact the ongoing analysis of NB Power’s ability to self-sustain its operations. We will continue to monitor this situation closely for our public accounts audit.
- Auditor General access to Vestcor remains unresolved***
- 1.14** Another concern for the Office is our ongoing audit access to Vestcor. This year’s public accounts audit did not have the same audit risks regarding investment market changes (volatility) as in our 2020 audit. Although we did not require access to Vestcor this year to complete our work, the underlying issue of access to Vestcor remains unresolved. We were pleased though to note some transparency improvements regarding Vestcor’s activities. However, if extreme market volatility similar to March 2020 were to recur in the future around year-end, the issue regarding access to Vestcor would again be critical to our audit.
- Pervasiveness of accounting errors this year is concerning***
- 1.15** Each year as part of our work, we usually find accounting and year-end account reconciliation errors. This year, however, the number of errors we noted is concerning. We found errors were not as isolated as in previous years and this year, they were much more pervasive and appeared across multiple departments and Crown agencies during our work.
- 1.16** As a result of the pervasiveness of these errors, we made recommendations to the Office of the Comptroller along with government departments and Crown agencies. Many of our findings show the need to

provide additional support, training and review of key accounting processes. Chapter 4 discusses the concerns we noted as part of our public accounts audit and Chapter 5 discusses our findings in our Crown agency audits of Service New Brunswick, Opportunities New Brunswick, Provincial Holdings Ltd. and the New Brunswick Legal Aid Services Commission.

***Improvements still needed at SNB to validate property assessment data***

**1.17** For the past three years, we have reported the results of our public accounts audit relating to SNB's work on property assessments. Overall, while progress has been made, further improvements are needed in the area of validating assessment data. These findings and recommendations relating to property assessment are presented in Chapter 4.

**1.18** Key information presented in this book is summarized in Exhibit 1.1 (key findings and observations) and Exhibit 1.2 (recommendations and responses).

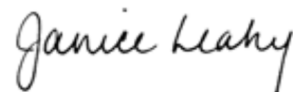
**Acknowledgements**

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

**1.20** I want to thank all the Office's staff for their commitment and dedication to fulfilling the mandate of the Office of the Auditor General of New Brunswick. This report reflects their hard work and professionalism.



Paul Martin, FCPA, FCA  
Auditor General



Janice Leahy, CPA, CA, CIA  
Deputy Auditor General

## Exhibit 1.1 - Key Findings and Observations Table

<b>Paragraph</b>	<b>Key Findings and Observations by Chapter</b>
<b>Chapter 2</b>	<b>Annual Surplus, Net Debt and Funded Debt</b>
2.1	<i>Province recorded an annual surplus of \$777 million – its fifth consecutive surplus</i>
2.3	<i>Increased surplus is mostly due to increased revenue</i>
2.5	<i>Harmonized Sales Tax (HST), Personal Income Tax (PIT), and Corporate Income Tax (CIT) account for 60% of provincial source revenue</i>
2.6, 2.11	<i>HST, PIT and CIT estimates are subject to a significant amount of uncertainty and impact of estimate uncertainty was evident in 2022</i>
2.12, 2.13	<i>HST, PIT and CIT revenues were \$662 million greater than budgeted in 2022 and were \$646 million greater than in 2021</i>
2.14	<i>Current year revenues may not be indicative of future results</i>
2.16	<i>\$1.1 billion decrease in Net Debt mostly caused by surplus</i>
2.20	<i>Net Debt is made up of mostly tangible capital assets and past deficits</i>
2.22	<i>Net Debt is \$1.4 billion higher than it was 10 years ago</i>
2.32, 2.37	<i>New Brunswick's Net Debt as a percentage of GDP and Net Debt per Capita are favourable among comparable provinces</i>
2.40	<i>Net Debt reduction targets have been mostly met for the past five years</i>
2.45	<i>Funded Debt remains at a historic high of over \$18 billion</i>
2.49	<i>\$4.6 billion of debt is due to be repaid over the next four years</i>
2.52	<i>Debt servicing costs were \$635 million during the year</i>
2.54	<i>Approximately \$24 billion in debt between the Province's Funded Debt, NB Power debt and NBMFC debt</i>
<b>Chapter 3</b>	<b>State of New Brunswick's Financial Condition</b>
3.1	<i>The Province's financial condition has improved from 2021</i>
Exhibit 3.4	<i>One short-term and four long-term trends improved while one short-term trend deteriorated</i>
<b>Chapter 4</b>	<b>Results of our Audit of the Province of New Brunswick's Financial Statements</b>
4.1	<i>Deputy Auditor General signed an unqualified (clean) audit opinion on the Province's consolidated financial statements for the year-ended March 31, 2022</i>

<b>Paragraph</b>	<b>Key Findings and Observations by Chapter</b>
4.8	<i>We have ongoing concerns regarding NB Power’s ability to self-sustain operations</i>
4.10, 4.11	<i>Accounting method for NB Power will change if it can no longer self-sustain its operations - Province’s financial results could change significantly as a result</i>
4.17, 4.24	<i>Auditor General access to Vestcor remains unresolved, however some transparency improvements were noted</i>
4.29, 4.33, 4.37	<i>Recommendations made to the Office of the Comptroller to update policies to support and authorize billions of dollars in payments, to work with departments to address accounting errors and to amend the Financial Administration Act</i>
4.46, 4.48	<i>Recommendations made to the Department of Health related to oversight of agreements with third parties who manage critical inventory and errors in year-end accounting processes</i>
4.54	<i>Errors found in property tax accounting related to recent government decisions</i>
4.58	<i>Department of Justice and Public Safety has \$110 million of uncollected Disaster Financial Assistance Receivables</i>
4.65, 4.66	<i>Some property assessment processes have improved, however we are still concerned with delays in validating property assessment data</i>
4.67	<i>Approximately 61,000 properties with Fast Track property assessment data are still not fully validated</i>
4.69	<i>Approximately 200,000 properties have not been visually re-inspected in more than ten years</i>
4.73, 4.74	<i>Oracle Fusion is a new enterprise resource planning system and was a significant risk for our audit this year</i>
4.78, 4.79	<i>Recommendations made to address internal control weaknesses in Fusion and to improve existing processes</i>
4.84	<i>No date for when Oracle Fusion implementation will be complete</i>
4.86	<i>We found IT weaknesses in four of our computer system audits and we are concerned with the nature, number and severity of the weaknesses</i>
<b>Chapter 5</b>	<b>Results of Crown Agency Financial Statement Audits</b>
5.1	<i>Unqualified audit opinions issued to all crown agencies we audited</i>
5.7	<i>Two recommendations made to Service New Brunswick to address risk of fraud when processing payments</i>
5.22, 5.26	<i>Recommendations made again this year to Opportunities New Brunswick to improve estimates of loan provisions and to address weaknesses when processing payments</i>
5.32	<i>Recommendations made to Provincial Holdings Ltd. to improve accounting estimates</i>
5.39	<i>Recommendation made to New Brunswick Legal Aid Services Commission to improve review of accounting and payroll processes</i>

## Exhibit 1.2 – Recommendations and Responses

Recommendation	Department's response	Target date for implementation
<p><b>4.15 We recommend the Office of the Comptroller continue to update and improve its accounting analysis for NB Power to include items such as:</b></p> <ul style="list-style-type: none"> <li>• <b>NB Power's forecasts of net earnings;</b></li> <li>• <b>estimated costs related to refurbishing the Mactaquac dam;</b></li> <li>• <b>the target date to meet the 80/20 debt-to-equity ratio required by the <i>Electricity Act</i>; and</b></li> <li>• <b>the impact of changes to the <i>Electricity Act</i>.</b></li> </ul>	<p><i>The Office of the Comptroller will update the accounting analysis for NB Power's classification as a Government Business Enterprise, as it has for the past five fiscal years. The analysis will continue to consider the characteristics of a Government Business Enterprise definition, as per Public Sector Accounting Standards PS1300 – Government Reporting Entity.</i></p>	<p><i>Spring 2023</i></p>
<p><b>4.23 We again recommend the Office of the Comptroller work with Vestcor to allow the Auditor General unrestricted access to pension plan information including access to Vestcor Investment Entities.</b></p>	<p><i>Through legislation, Vestcor is not an agent of the Crown and was established to operate independently of government. The Office of the Comptroller understands that there is no plan to change legislation to allow the Auditor General unrestricted access to Vestcor.</i></p>	<p><i>Not applicable</i></p>

Recommendation	Department's response	Target date for implementation
<p><b>4.26 We recommend the Office of the Comptroller review Vestcor's planned SOC 1 Type 2 report on controls covering the period of January 1, 2022 to December 31, 2022 before the 2022-2023 public accounts audit.</b></p> <p><b>4.27 We also recommend the Office of the Comptroller follow up on any exceptions or irregularities noted in the report, especially any found to relate to entities within the government reporting entity.</b></p>	<p><i>The Office of the Comptroller, in conjunction with its regular work completed in relation to service organizations, will review the SOC 1 Type 2 report provided by Vestcor.</i></p>	<p>Spring 2023</p>
<p><b>4.31 We recommend the Office of the Comptroller (in conjunction with the Department of Finance and Treasury Board) review, and update as necessary, Administration Manual Policies AD-6402 – Approval of Payments and AD-6405 – Purchase Card to reflect current processes and technology.</b></p> <p><b>4.32 We recommend the Office of the Comptroller educate departments on what is required under these updated policies, especially with regards to external payment systems.</b></p>	<p><i>These policies have been reviewed and updated to reflect processes occurring in the new ERP solution, Oracle Fusion. The policies, which have been shared with departments in draft form, will be added to the Administration Manual once they have received final approval.</i></p> <p><i>Training has been provided to Oracle Fusion users as part of the project implementation. The government intranet contains an Enterprise Resource Planning site which provides user guides, job aids and training videos explaining procedures and processes to be followed in the new Oracle Fusion systems, including those related to payments.</i></p>	<p>Spring 2023</p> <p>Ongoing</p>

Recommendation	Department's response	Target date for implementation
<p><b>4.36 We recommend the Office of the Comptroller, in conjunction with government departments, ensure transactions are properly accounted for and year-end account reconciliations are properly prepared.</b></p>	<p><i>The Office of the Comptroller recognizes there are areas for improvement in the preparation of account reconciliations and in accounting for unusual transactions. As noted by the Office of the Auditor General, while there were some issues with accounting for particular transactions this year, they did not result in material misstatements to the consolidated financial statements.</i></p> <p><i>The Office of the Comptroller will continue to work with departments, providing additional guidance and/or training where relevant and appropriate, with a focus toward continuous improvement.</i></p>	<p><i>Ongoing</i></p>
<p><b>4.39 We again recommend the Office of the Comptroller take the lead to amend the <i>Financial Administration Act</i> and develop a timeline to complete this work in 2023.</b></p>	<p><i>The Office of the Comptroller has assembled a project team with the objective of updating the Financial Administration Act.</i></p>	<p><i>Spring 2023</i></p>



Recommendation	Department's response	Target date for implementation
<p><b>4.47 We recommend the Department of Health review its agreement with the third party to ensure it complies with the terms of the agreement, especially with regards to reporting COVID-19 related inventory.</b></p>	<p><b><i>Year-end Cycle Counts:</i></b></p> <p><i>Consistent with the terms of the agreement between the third party and DH, year-end cycle counts for each warehouse will be performed by the third party in the two warehouses as follows:</i></p> <p><i>Warehouse 1 – completed and reported as of March 31<sup>st</sup>.</i></p> <p><i>Warehouse 2 – initially completed and reported as of February 28<sup>th</sup>, with subsequent and final reconciliation to be completed and reported as of March 31<sup>st</sup> by way of tracking and accounting for inventory level adjustments from March 1<sup>st</sup> to March 31<sup>st</sup>.</i></p> <p><i>The third party's cycle count process is one month in duration per warehouse.</i></p> <p><i>It should be noted that the third party had confirmed to the DH Health Emergency Management Branch in March 2022 that it would be unable to perform the year-end inventory count for the Warehouse 1 location due to the heavy service demands and impact on its human resources resulting from the COVID-19 pandemic.</i></p> <p><b><i>POCT (Rapid Test) Kits Storage Location Reporting:</i></b></p> <p><i>Consistent with the terms of the agreement between the third party and DH, all inventory (including POCT kits) is recorded and tracked in the third party's inventory system, which includes specifying the warehouse location where inventory is physically stored.</i></p>	<p><i>Immediately</i></p>

Recommendation	Department’s response (continued)	Target date for implementation
	<p><i>In terms of POCT kits (rapid tests), except for a portion of the inventory that’s physically transferred to Warehouse 2 each week in order to fill that week’s regular orders to clients, all POCT inventory is currently (since 2021) stored in Warehouse 1.</i></p> <p><i>This physical transfer and “pick” of POCT kits at Warehouse 2 are being done to save on additional labour and freight costs attributed to filling certain client orders for POCT kits and other products stored in Warehouse 2 under one shipment and invoice (as opposed to two separate “picks”, shipments, and invoices from two warehouses for one client order).</i></p> <p><i>The volume of POCT inventory being transferred each week from Warehouse 1 to Warehouse 2 is approximately 10-14 pallets/skids depending on the weekly demands. All POCT kits (including the weekly allotments of POCT kits transferred to Warehouse 2) are recorded as being in Warehouse 1 until they are shipped out to clients. This is necessary to ensure all inventory remains under the “FEFO” standard in the third party’s inventory system, i.e., to change the location in this instance from Warehouse 1 to Warehouse 2 would provoke the inventory system to record the transferred stock as a “new” shipment of stock, which would then undermine the “FEFO” provision by prompting the third party to pick from older stock at Warehouse 1 instead of the transferred inventory at Warehouse 2.</i></p> <p><i>POCT kits are the only inventory items in the stockpile that require a weekly transfer from one warehouse to the other.</i></p>	

Recommendation	Department’s response	Target date for implementation
<p><b>4.50 We recommend the Department of Health train staff on how to perform year-end accounting processes.</b></p> <p><b>4.51 We also recommend the Department of Health, as necessary, consult with the Office of the Comptroller when performing year-end accounting processes.</b></p>	<p><i>Dept of Health Finance has implemented a process to have senior finance staff do a review of all year end processes to ensure that appropriate level of detail is included. We will be retraining staff in account reconciliations and GNB requirements.</i></p> <p><i>We would like to note that there was only 1 account reconciliation that was identified as lacking in the year end process and although the complete listing was provided, it was not presented in a manner that was easy to validate. We do feel that some confusion relates to prior year being in EBS and reconciled to and including consolidation and the current year in FUSION was reconciled to adjust as departments no longer have access to the consolidation ledgers. This issue will not be present in future years.</i></p>	<p><i>Ongoing</i></p> <p><i>Not applicable</i></p>
<p><b>4.56 We recommend the Department (of Finance and Treasury Board) ensure an additional level of review is in place either internally or externally by Office of the Comptroller when accounting for new or unusual property tax transactions. Evidence of this review should be retained for audit purposes.</b></p>	<p><i>The Department agrees with this recommendation and will implement a process for having a review done by the Office of the Comptroller when unusual transactions take place to ensure they are being properly accounted for.</i></p>	<p><i>Fiscal 2022-2023</i></p>

Recommendation	Department's response	Target date for implementation
<p><b>4.61 We again recommend the Department of Justice and Public Safety improve its processes to have timelier cash receipts and receivables collection for disaster financial assistance receivables.</b></p>	<p><i>The delayed collection of the receivables and requested extensions has allowed GNB to complete all eligible construction projects to mitigate and repair damages from the various active DFA events. Without these extensions, GNB would forego the cost sharing opportunity offered by the federal government for any projects that are completed outside of the standard five year timeline to submit a final claim. The Department will continue to seek advances from the federal government, in an effort to reduce borrowing costs and working capital impacts on the Province.</i></p>	<p><i>Ongoing</i></p>
<p><b>4.70 We again recommend SNB proceed as quickly as possible to validate the assessment data of properties which were assessed using methodologies from the 2017 Fast Track initiative.</b></p> <p><b>4.71 We recommend SNB visually reinspect properties within an appropriate time period, such as the timeline suggested by best practices (every 4 to 6 years) or, at a minimum, the internal timeline set by SNB (every 10 years).</b></p>	<p><i>SNB recognizes the importance of validating the assessment data of properties that were assessed using the 2017 methodologies. SNB anticipates completing Data Validation this year.</i></p> <p><i>SNB recognizes the importance of re-inspecting properties. A plan to improve the re-inspection cycle has been developed which will be implemented and monitored subject to competing initiatives.</i></p>	<p><i>December 31, 2022</i></p> <p><i>Ongoing</i></p>



Recommendation	Department’s response	Target date for implementation
<p><b>5.9 We again recommend SNB implement a new accounting and payroll system. If SNB expects an extended timeframe for completing this project, and if it is cost effective, SNB should process transactions in one system reducing the risk of duplicate payments, fraud and staff inefficiencies.</b></p>	<p><i>The ERP planning project continues to move forward. SNB made the decision in 2015 to wait for this project as it was not cost effective to invest in the three existing systems. SNB has however put various mitigations in place in order to reduce the risk of duplicate payments, fraud and staff inefficiencies. We will continue to improve efforts to identify duplicate transactions in its multiple systems. SNB also wants to address the two observations:</i></p> <ul style="list-style-type: none"> <li>• <b>Duplicate Payments:</b> <i>As mentioned in the observation SNB has been very diligent in identifying and collecting on any duplicate payments made between financial systems. Based on the additional finding we will extend out efforts to test for duplicates within the same system.</i></li> <li>• <b>Data Transfer Errors:</b> <i>SNB has continued to perform interim reconciliations by account to ensure data integrity between systems, especially with the increased integration of the Fusion ERP. No data transfer errors were identified as part of the audit.</i></li> </ul>	<p><i>Multi-year ERP Project Dependent</i></p> <p><i>Ongoing quarterly</i></p> <p><i>Ongoing monthly</i></p>
<p><b>5.12 We recommend SNB train staff on how to prepare and review year-end account reconciliations and how to record transactions near year-end.</b></p>	<p><i>Management agrees with this recommendation. As more integration is made into the new Fusion Enterprise Resource Planning (ERP) system more training will be provided to key users in all areas including prepaid expenditures and stressing the importance of accounting for transactions in the proper fiscal year.</i></p>	<p><i>March 31, 2023</i></p> <p><i>Ongoing</i></p>

Recommendation	Department's response	Target date for implementation
<p><b>5.15 We recommend SNB provide support for significant accounting estimates included in the financial statements.</b></p>	<p><i>Management accepts this recommendation. SNB received an acceptable amount of support from Finance and Treasury Board which was provided to the audit staff during the audit along with numerous conversations describing the process.</i></p>	<p><i>Completed</i></p>
<p><b>5.18 We recommend SNB review, update and document as necessary:</b></p> <ul style="list-style-type: none"> <li>• <b>the useful life estimates of its Tangible Capital Assets; and</b></li> <li>• <b>its policies for Tangible Capital Assets.</b></li> </ul> <p><b>We recommend this review be performed on a regular basis such as annually and be retained for audit purposes.</b></p>	<p><i>Management accepts this recommendation and will continue to review the useful life estimates of its tangible capital assets and associated policies. We are dedicated to improving the documentation of these reviews and discussions.</i></p>	<p><i>December 31, 2022</i></p>
<p><b>5.25 We again recommend ONB review and update its process for estimating loan provisions to ensure loan repayment history is appropriately reflected in the estimate.</b></p>	<p><i>ONB understands the background and reasoning for the above noted recommendation but would like to emphasize that the Auditor General does not believe the financial statements are misstated.</i></p> <p><i>Over the past several years, ONB has made key changes to its Credit Model and review process at the recommendation of the Auditor General. The above noted recommendation will be discussed by the Financial Assistance Division with recommended changes to be made to be presented to the Board (planned for FY23).</i></p>	<p><i>Fiscal Year 2023</i></p>

Recommendation	Department's response	Target date for implementation
<p><b>5.27 We again recommend ONB only pay financial assistance claims when sufficient and appropriate support is provided to show claims are valid and eligible under the terms of the financial assistance agreement.</b></p> <p><b>We recommend ONB ensure payments are appropriately reviewed and supported prior to payment.</b></p>	<p><i>ONB agrees with the recommendation and has implemented several key process changes to mitigate the risk of this happening. Specifically, ONB has implemented a checklist and year-end accrual process to ensure all due diligence and required documentation is complete prior to disbursement.</i></p> <p><i>ONB will continue to implement appropriate preventative controls going forward.</i></p>	<p><i>Ongoing</i></p>
<p><b>5.29 We recommend ONB prepare a detailed and itemized list of its tangible capital assets.</b></p>	<p><i>ONB has received a cost listing of all costs supporting the book value of the software. ONB received the software after it was already implemented and in use at PETL and was in year 3 of a 5-year amortization.</i></p> <p><i>For all future costs associated with the software; additions, disposals and write-downs will be incorporated in the continuity schedule.</i></p>	<p><i>Ongoing</i></p>



Recommendation	Department's response	Target date for implementation
<p><b>5.35 We recommend PHL obtain up-to-date engineering reports to support the estimate for environmental liabilities as soon as possible and, as a minimum, every five years or when conditions indicate an updated report is required.</b></p>	<p><i>On an annual basis, engineers from the department of Transportation and Infrastructure and the Regional Development Corporation evaluate the work that has been done and review the estimates to complete the outstanding work. The liability is then adjusted accordingly. As the revised estimates are based on professional assessments and tender results, we do not believe that obtaining up-to-date engineering reports would improve the accuracy of these amounts.</i></p>	<p><i>Not applicable</i></p>
<p><b>5.37 We recommend PHL develop and implement a formal policy for its tangible capital assets.</b></p> <p><b>We also recommend this policy be approved, and then regularly reviewed, by the Board of Directors.</b></p>	<p><i>PHL applies the provincial policy when accounting for and recording its tangible assets. As PHL is in the process of divesting of all its assets, we do not feel developing and implementing a formal policy is necessary at this time.</i></p>	<p><i>Not applicable</i></p>
<p><b>5.40 We recommend NBLASC develop and implement a procedure to review key accounting and payroll processes.</b></p> <p><b>We recommend evidence of this review be retained for audit purposes.</b></p>	<p><i>Agreed. The recommended actions outlined in the Sept 8/22 Payroll Guarantor Issue memo will be implemented. This will be done under the direction of the new Chief Financial Officer. Notes have been made in our audit folder with regards to the other issues listed above.</i></p>	<p><i>End of November 2022</i></p>

# Chapter 2

## Annual Surplus, Net Debt and Funded Debt

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## Annual Surplus, Net Debt and Funded Debt

### Fifth Consecutive Annual Surplus

***Province recorded an annual surplus of \$777 million – its fifth consecutive surplus***

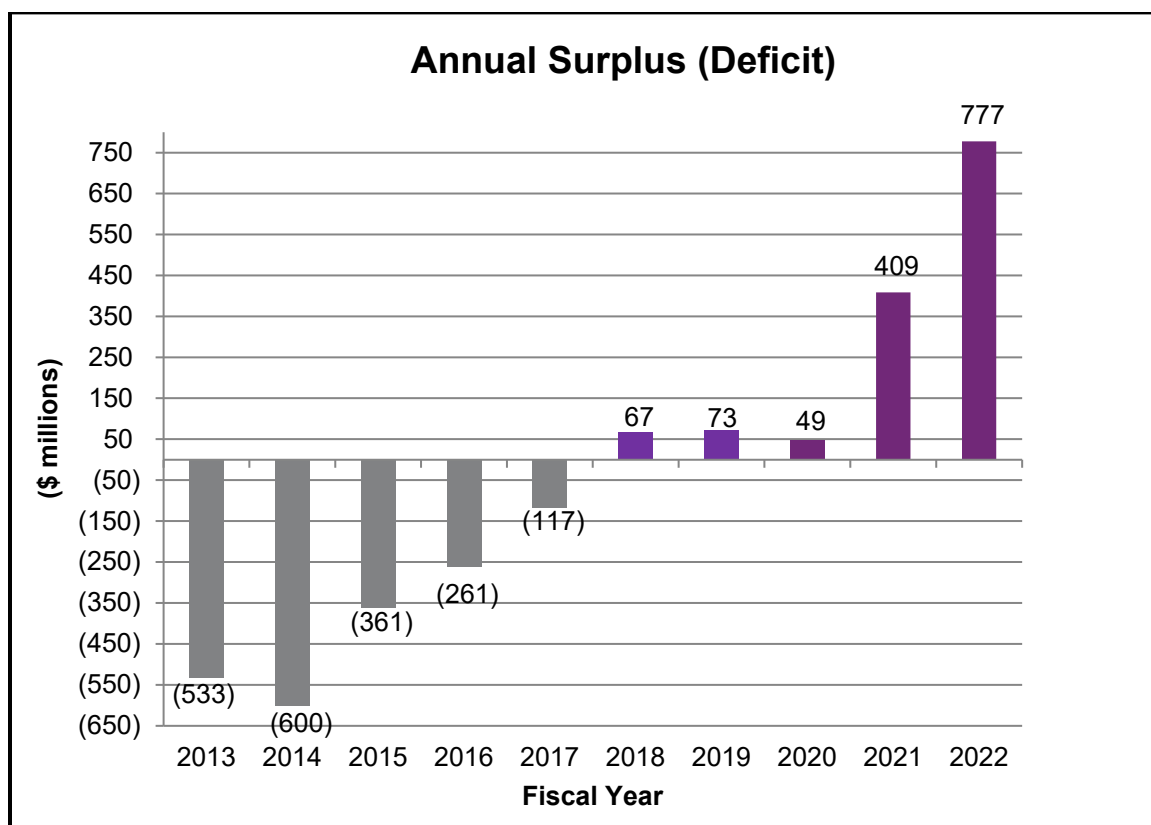
**2.1** The Province of New Brunswick’s March 31, 2022 audited consolidated financial statements reported an annual surplus of \$777 million. This surplus is:

- \$1 billion better result than budgeted (a deficit of \$245 million was budgeted for 2022); and
- \$368 million more than the surplus of \$409 million reported in 2021.

This is also the fifth consecutive year the Province recorded a surplus and is almost double the surplus recorded in 2021.

**2.2** The ten-year history for the annual surplus (deficit) and revenues and expenses are presented in Exhibits 2.1 and 2.2.

Exhibit 2.1 - Annual Surplus (Deficit)



With figures restated as per data below

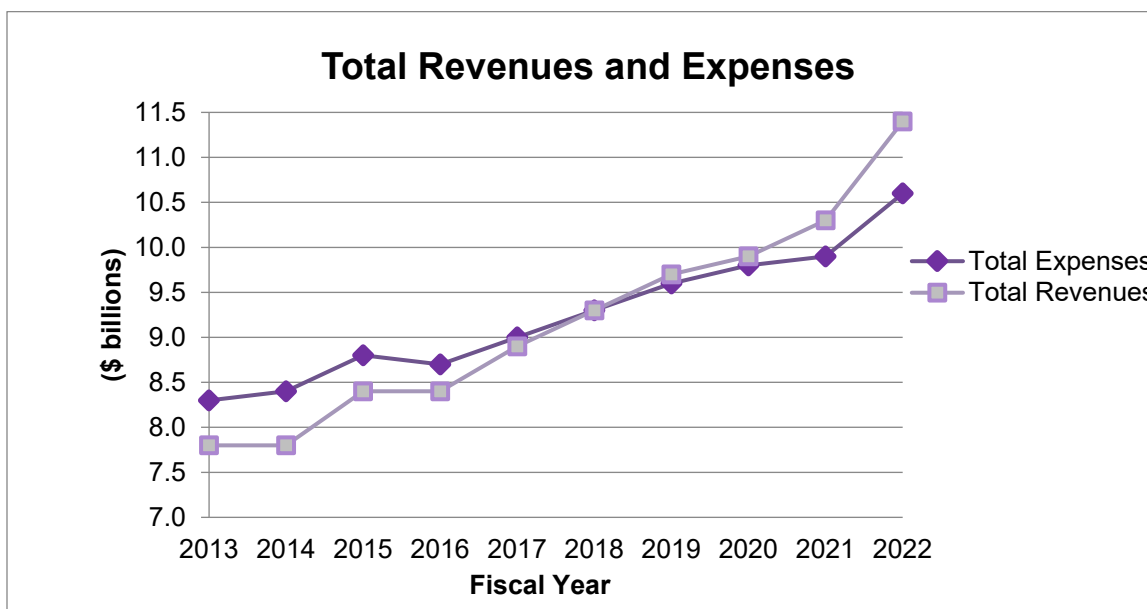
**Annual Surpluses (Deficits) (\$ millions)**

	Fiscal year									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
As Restated	(532.7)	(600.4)	(361.4)	(260.5)	(117.0)	67.0	72.6	48.7	408.5	N/A
Originally Recorded	(507.7)	(498.7)	(388.6)	(260.5)	(118.9)	67.0	72.6	48.7	408.5	777.3

*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.*

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

Exhibit 2.2 - Total Revenues and Expenses



With figures restated as per data below

**Total Revenues and Expenses (\$ billions)**

Fiscal year										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Revenues	7.8	7.8	8.4	8.4	8.9	9.3	9.7	9.9	10.3	11.4
Total Expenses	8.3	8.4	8.8	8.7	9.0	9.3	9.6	9.8	9.9	10.6

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

**\$726 Million Increase in Provincial Tax Revenues Impacted the Surplus**

*Increased surplus is mostly due to increased revenue*

**2.3** The 2022 surplus increase of \$368 million from 2021 was mostly due to increases in revenue. This included growth of \$726 million in provincial tax revenues over 2021 with significant increases in:

- Harmonized Sales Tax of \$373 million;
- Corporate Income Tax of \$167 million; and
- Personal Income Tax of \$106 million.

**2.4** Exhibit 2.3 shows, at a summary level, the reasons for the increase in surplus from 2021 to 2022, along with significant changes in revenues and expenses.

## Exhibit 2.3 - Breakdown of 2022 Annual Surplus

**Breakdown of 2022 Annual Surplus (\$ millions)**

<b>What Happened Since Last Year?</b>		<b>Significant Reasons</b>
<b>Fiscal 2021 Surplus</b>	\$409	
<b>Increase in provincial tax revenues</b>	+ \$726	<b>Increases in:</b> Harmonized Sales Tax (+373) Corporate Income Tax (+167) Personal Income Tax (+106) Carbon Emitting Tax (+51) <b>Offset by decreases in:</b> Tobacco Tax (-29)
<b>Increase in other provincial revenue sources</b>	+ \$251	<b>Increases in:</b> Income from NB Power (+83) Other Revenue (+58) <b>There were no significant decreases to offset increases</b>
<b>Increase in amounts from the Federal government</b>	+ \$95	<b>Increases in:</b> Canada Health Transfer (+112) Fiscal Equalization Payments (+64) Canada-New Brunswick Integrated Bilateral Agreement (+52) Canada Community-Building Fund (+30) <b>Offset by decreases in:</b> Safe Restart Agreement (-219)
<b>Increase in expense</b>	- \$704	<b>Expense increases in:</b> Health (+334) Education and Training (+155) Social Development (+111) Economic Development (+67) <b>Offset by expense decreases in:</b> Central Government (-59)
<b>Fiscal 2022 Surplus</b>	<b>\$777</b>	

Source: Prepared by AGNB from New Brunswick Public Accounts Volume I for year ended March 31, 2022

## Revenues Increased in 2022 for Harmonized Sales Tax, Personal Income Tax, and Corporate Income Tax

*Harmonized Sales Tax, Personal Income Tax, and Corporate Income Tax account for 60% of provincial source revenue*

*Tax estimates are subject to a significant amount of uncertainty*

*Adjustments are made to estimates*

*\$168 million in prior year HST adjustments recorded in 2022*

*\$39 million in prior year Personal Income Tax adjustments recorded in 2022*

**2.5** Harmonized Sales Tax (HST), Personal Income Tax (PIT), and Corporate Income Tax (CIT) are significant components of provincial revenue. In 2022, the combined total of these tax revenues was \$4.3 billion which represents 60% of all provincial source revenues.

**2.6** Each year, HST, PIT and CIT revenues are recorded in the consolidated financial statements based on estimates prepared by the Federal government and the Province's Department of Finance and Treasury Board (FTB). These estimates are, at times, subject to a significant amount of uncertainty as they involve estimating items such as tax filing data and economic results.

**2.7** Given the complex nature of this process, the timing of when final tax year numbers are available can be delayed. As time passes and more information (such as tax filings and tax audits) becomes available, current year and prior year tax estimates are revised. Any changes to the estimates are recorded as increases or decreases to revenue in the current year.

**2.8** 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. In 2022, for example, the Province received approximately \$168 million in adjustments (increase to revenue) for the entitlement years 2015 through 2021.

**2.9** PIT estimates are based on estimates of personal income by Finance Canada, as well as estimates prepared by FTB. For example, in January 2022, the Province received its initial estimate of 2022 revenue and in February 2022, it received notice of a prior-year adjustment (increase) for the 2020 tax year. Prior year

***\$18 million in prior year Corporate Income Tax adjustments recorded in 2022***

***Impact of estimate uncertainty was evident in 2022***

***HST, PIT and CIT revenues were \$662 million greater than budgeted in 2022***

***HST, PIT and CIT revenues were \$646 million greater than in 2021***

***Current year revenues may not be indicative of future results***

PIT adjustments for 2022 totalled an increase of approximately \$39 million.

**2.10** CIT estimates are based, in part, on Finance Canada's estimates of New Brunswick's share of national corporate taxable income. For example, Finance Canada revises these estimates throughout the year based on tax assessment data. In 2022, the Province received a prior-year adjustment related to the 2020 tax year which resulted in an adjustment (increase) to CIT revenue this year of approximately \$18 million.

**2.11** The uncertainty in estimating these tax revenues along with the timing delay of possible adjustments may result in significant variances from the amounts budgeted and the amounts recorded in the prior year. The impact of this uncertainty was evident in 2022 as all three of these tax revenues were:

- significantly greater than budgeted; and
- significantly greater than amounts recorded in fiscal 2021.

**2.12** Actual HST, PIT and CIT revenues are generally similar to amounts the Province budgets for each year. For the most part, actual results are within \$100 million of the budgeted amount. In 2022 however, the actual amounts for these tax revenues were a combined \$662 million greater than budget.

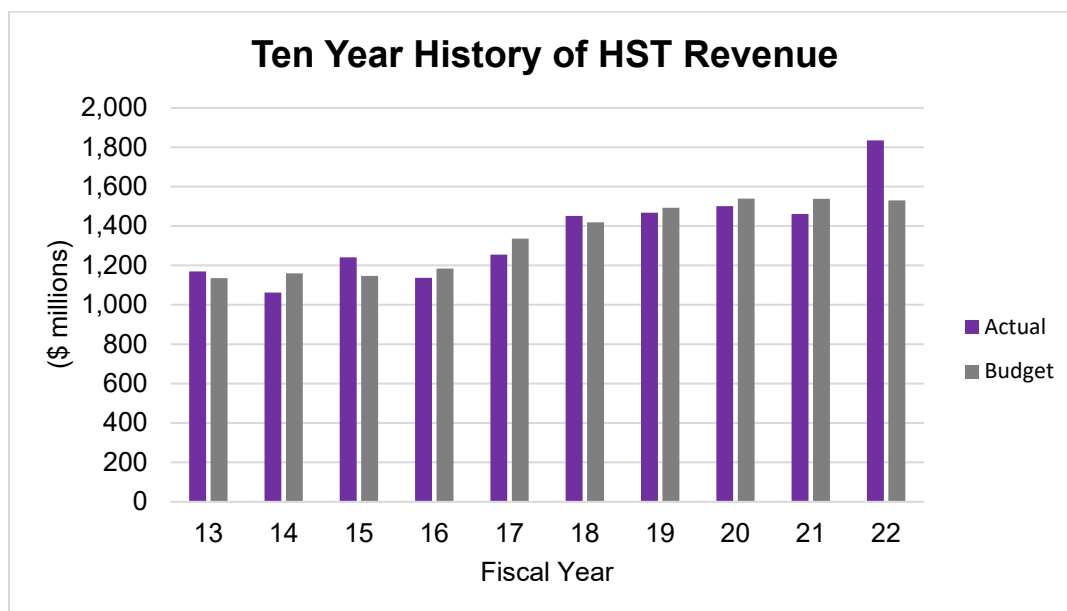
- HST was \$305 million greater than budget.
- PIT was \$196 million greater than budget.
- CIT was \$161 million greater than budget.

**2.13** As described in paragraph 2.3, actual revenues for these taxes were also a combined \$646 million greater than in 2021.

**2.14** In our view, given the significance of these estimates, along with uncertainty and prior year adjustments involved in HST, PIT and CIT revenues, the revenue recorded this year may not be indicative of future results. The ten year history of actual and budgeted revenues for HST, PIT and CIT are presented in Exhibits 2.4, 2.5 and 2.6.



Exhibit 2.4 - Ten Year History of HST Revenue

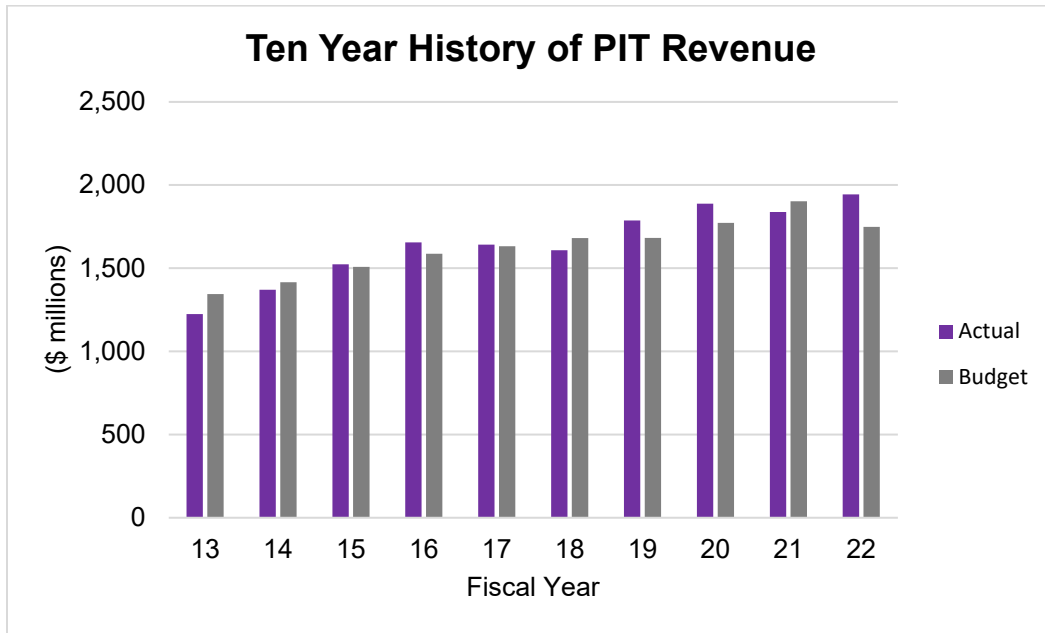


### Harmonized Sales Tax (HST) Revenue (\$ millions)

Fiscal year										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Actual	1,170	1,062	1,241	1,137	1,254	1,452	1,468	1,501	1,461	1,835
Budget	1,135	1,160	1,147	1,184	1,336	1,419	1,493	1,539	1,538	1,530
Difference	35	(98)	94	(47)	(82)	33	(25)	(38)	(77)	305

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

Exhibit 2.5 - Ten Year History of PIT Revenue

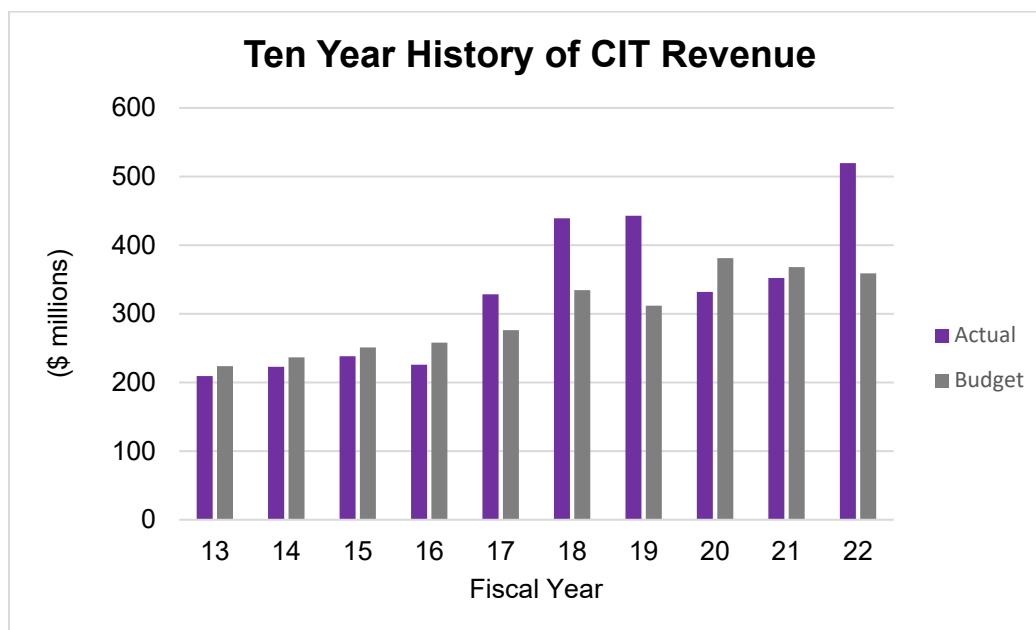


**Personal Income Tax (PIT) Revenue (\$ millions)**

Fiscal year										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Actual	1,224	1,370	1,524	1,655	1,642	1,608	1,787	1,888	1,838	1,944
Budget	1,344	1,416	1,508	1,587	1,632	1,681	1,682	1,773	1,902	1,748
Difference	(120)	(46)	16	68	10	(73)	105	115	(64)	196

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

Exhibit 2.6 - Ten Year History of CIT Revenue



**Corporate Income Tax (CIT) Revenue (\$ millions)**

Fiscal year										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Actual	209	223	238	226	328	439	443	332	352	519
Budget	224	236	251	258	276	334	312	381	368	359
Difference	(15)	(13)	(13)	(32)	52	105	131	(49)	(16)	160

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

## Net Debt, Funded Debt and Interest Costs Remain a Concern

### *Net Debt and Funded Debt are not the same*

**2.15** Net Debt and Funded Debt are two forms of debt presented in the Province's audited consolidated financial statements. The Province also records an expense to service (repay) its Funded Debt annually, mostly consisting of interest costs. Exhibit 2.7 explains, at a high level, the differences between these three items.

*Exhibit 2.7 - Net Debt, Funded Debt and Service of the Public Debt Defined*

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

Term	2022 Amount	Definition	Paragraph
<b>Net Debt</b>	\$12.4 billion	A mathematical <b>accounting calculation</b> presented as total liabilities <i>less</i> financial assets.	<b>2.16</b>
<b>Funded Debt</b>	\$18.4 billion*	Total long-term debenture debt the Province has borrowed and is legally bound to repay.	<b>2.45</b>
<b>Service of the Public Debt</b>	\$635 million	Annual cost of servicing <b>Funded Debt</b> <sup>1</sup> , consisting mostly of interest costs.	<b>2.52</b>

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

*Source: Prepared by AGNB using 2022 Public Accounts*

## Decrease in Net Debt Caused Mostly by Surplus

### *\$1.1 billion decrease in Net Debt mostly caused by surplus*

**2.16** Net Debt decreased by \$1.1 billion in 2022 to \$12.4 billion. This is an 8% decrease from last year and was mostly caused by the surplus of \$777 million. This is the third consecutive year Net Debt has decreased.

<sup>1</sup> 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.

***Net Debt shows future revenue needed to meet past spending***

**2.17** Net Debt is a key performance indicator in the public sector because it offers insight into the financial health of the Province. It provides information about future revenues needed to meet past spending.

**2.18** While the decrease in Net Debt is mostly being caused by the annual surplus, there are other components which make up the change in Net Debt. These include items such as the purchase and depreciation of tangible capital assets (e.g. roads, buildings and equipment) and other smaller items.

**2.19** Exhibit 2.8 shows the year-over-year change in Net Debt.

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



*Source: Prepared by AGNB using 2022 Public Accounts. Refer to Exhibit 2.10 for detailed information.*

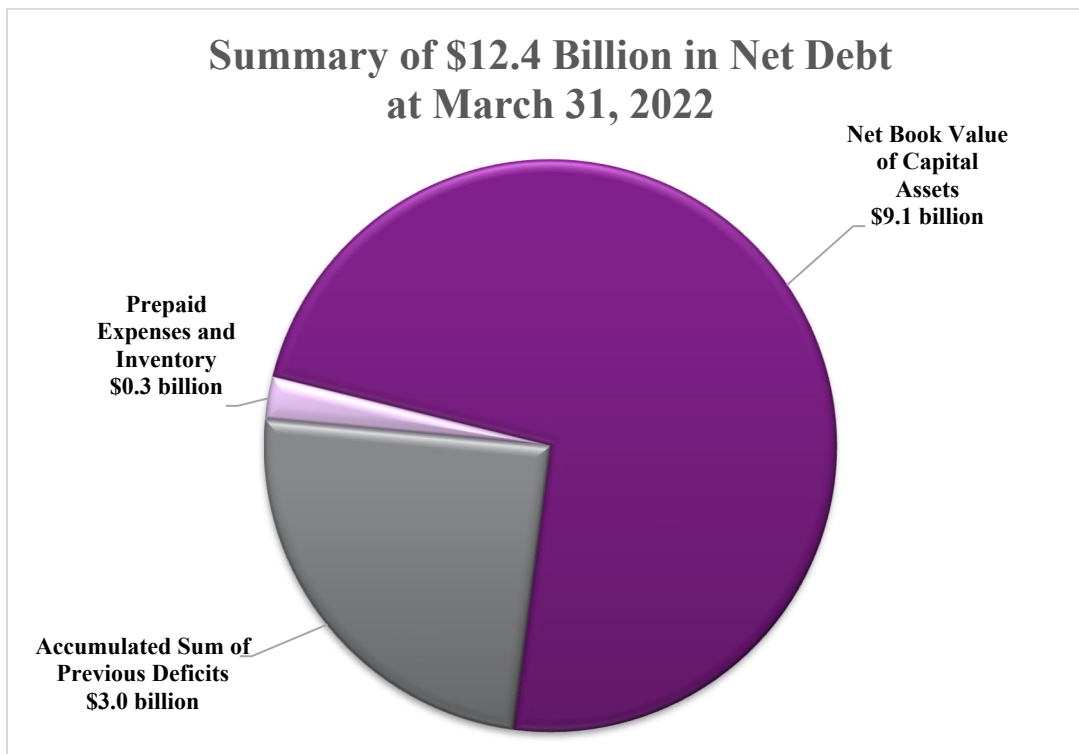
### What Makes up the \$12.4 Billion in Net Debt?

*Net Debt is made up of mostly tangible capital assets and past deficits*

**2.20** As described in Exhibit 2.7, Net Debt is the difference between the Province's total liabilities and its financial assets. As shown in Exhibit 2.9 the \$12.4 billion in Net Debt is made up of the following items:

- **\$9.1 billion in tangible capital assets** (such as roads, schools and hospitals). This amount represents the net book value (cost less amortization) of these assets at March 31, 2022.
- **\$3.0 billion in accumulated previous deficits.** This amount represents the sum of previous spending which has exceeded revenues.
- **\$0.3 billion in prepaid expenses and inventories** at March 31, 2022.

*Exhibit 2.9 - Summary of \$12.4 Billion in Net Debt at March 31, 2022*



*Source: Prepared by AGNB using 2022 Public Accounts*

***Most capital assets relate to items such as highways, schools, hospitals and nursing homes***

**2.21** As shown in Exhibit 2.9, tangible capital assets (capital assets) of \$9.1 billion are, by far, the most significant component of Net Debt. Each year, the capital asset balance changes based on items such as additions, disposals and amortization. In Exhibit 2.10, we present the net book value of the most significant capital assets which are included in the total of \$9.1 billion at March 31, 2022. These are items New Brunswickers use on a day-to-day basis and include things such as:

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

Exhibit 2.10 - Net Book Value of Significant Tangible Capital Assets  
at March 31, 2022

**Net Book Value of Significant Tangible Capital Assets  
at March 31, 2022 (\$ millions)**

<b>Capital Asset Category and Department/Entity</b>	<b>Total Cost</b>	<b>Total Accumulated Amortization</b>	<b>Net Book Value</b>
<b>Roads, Bridges and Highways: Department of Transportation and Infrastructure</b>	7,690.1	(4,208.3)	<b>3,481.8</b>
<b>Roads, Bridges and Highways: New Brunswick Highway Corporation</b>			
Fredericton-Moncton Highway	1,055.6	(416.9)	<b>638.7</b>
Trans-Canada Highway	936.4	(293.5)	<b>642.9</b>
Route 1 Gateway	703.7	(191.9)	<b>511.8</b>
<b>Buildings and Land Improvements: Department of Education and Early Childhood Development</b> (e.g. Schools)	2,028.1	(1,072.9)	<b>955.2</b>
<b>Buildings and Land Improvements: Regional Health Authorities*</b> (e.g. Hospitals)	1,661.5	(856.3)	<b>805.2</b>
<b>Buildings and Land Improvements: Department of Transportation and Infrastructure</b> (e.g. Other buildings owned by the Province)	1,022.0	(436.9)	<b>585.1</b>
<b>Buildings and Land Improvements: Nursing Homes</b>	664.3	(244.9)	<b>419.4</b>
<b>Other</b>	2,316.5	(1,269.1)	<b>1,047.4</b>
<b>Totals</b>	<b>18,078.2</b>	<b>(8,990.7)</b>	<b>9,087.5</b>

\* Regional Health Authorities include Horizon Health Network and Vitalité Health Network

Source: Prepared by AGNB using 2022 Public Accounts



**How Has Net Debt Changed Over the Past Decade?**

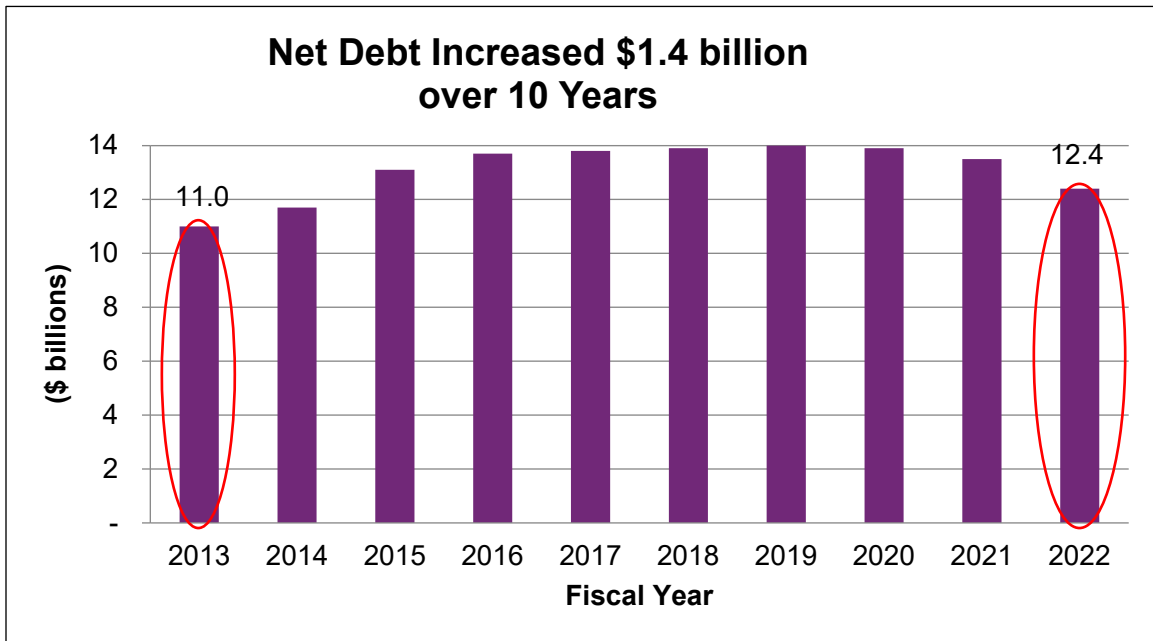
**Net Debt is \$1.4 billion higher than it was 10 years ago**

**2.22** Despite Net Debt significantly decreasing during 2022, it is still \$1.4 billion higher than it was ten years ago. The increase of \$1.4 billion over this period of time is mostly due to:

- net capital asset costs (purchases less amortization) which total an increase of approximately \$1.2 billion; and
- annual deficits and surpluses which total an increase of approximately \$500 million.

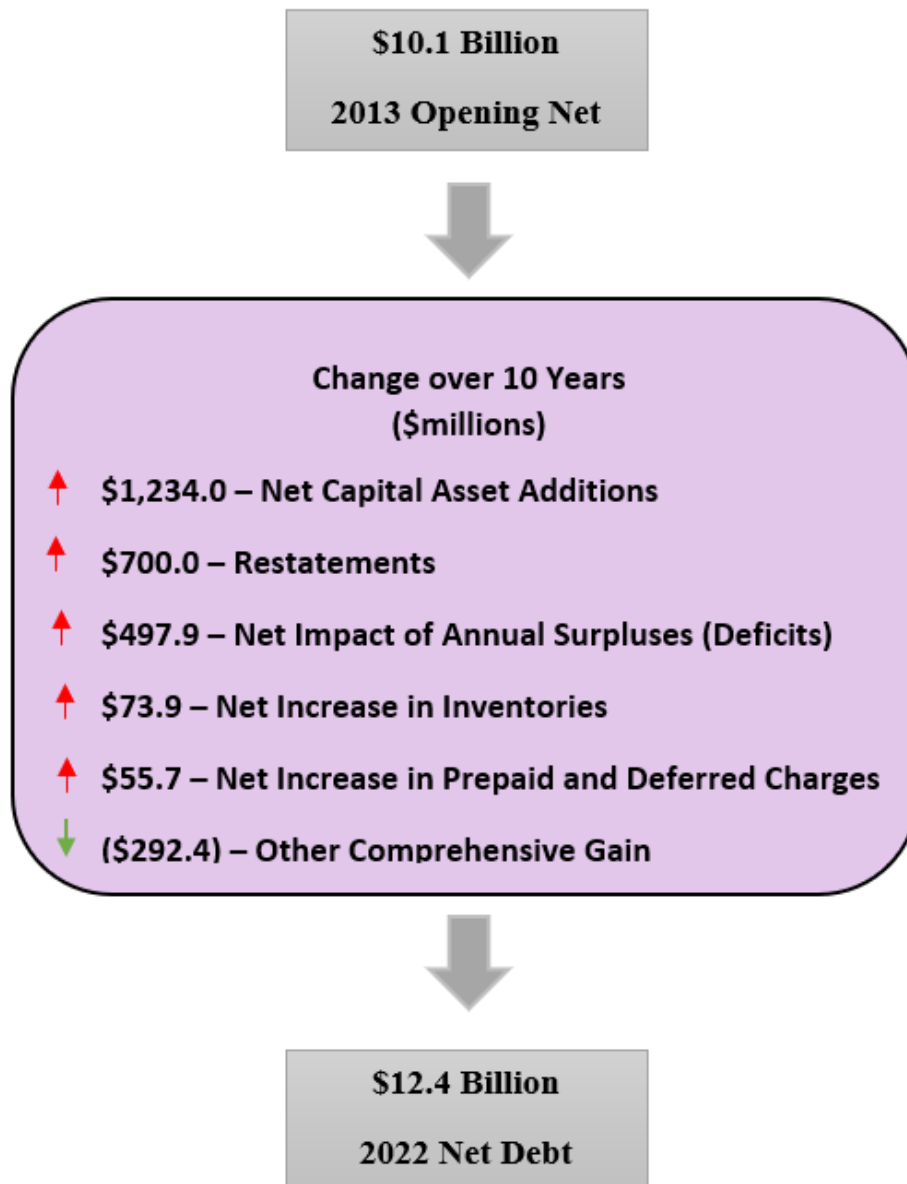
**2.23** Exhibits 2.11, 2.12 and 2.13 show the overall increase in Net Debt over the last ten years.

*Exhibit 2.11 - Net Debt Increased \$1.4 Billion over 10 Years*



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

Exhibit 2.12 - Ten Year Summary of Change in Net Debt



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

Exhibit 2.13 - Net Debt Increased \$1.4 Billion over 10 Years

**Net Debt Increase \$1.4 billion over 10 Years Data (\$ millions)**

	Fiscal Year										Total
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
Annual deficit / (surplus)	532.7	600.4	361.4	260.5	117.0	(67.0)	(72.6)	(48.7)	(408.5)	(777.3)	<b>497.9</b>
Purchase of capital assets	899.7	418.3	591.0	586.1	615.7	641.7	671.4	464.5	500.7	560.4	<b>5,949.5</b>
Amortization of capital assets	(349.9)	(373.2)	(406.0)	(426.8)	(463.5)	(473.5)	(496.1)	(508.6)	(514.8)	(539.1)	<b>(4,551.5)</b>
Other Misc.	(98.5)	(16.1)	156.7	121.6	(100.4)	4.7	(70.0)	56.0	(47.3)	(333.5)	<b>(326.8)</b>
<b>Net Debt As originally recorded (\$ billions)</b>	<b>11.1</b>	<b>11.6</b>	<b>12.4</b>	<b>13.7</b>	<b>13.8</b>	<b>13.9</b>	<b>14.0</b>	<b>13.9</b>	<b>13.5</b>	<b>12.4</b>	
<b>Net Debt As restated (\$ billions)</b>	<b>11.0</b>	<b>11.7</b>	<b>13.1</b>	<b>13.7</b>	<b>13.8</b>	<b>13.9</b>	<b>14.0</b>	<b>13.9</b>	<b>13.5</b>	N/A	
% Growth Rate in Net Debt from the prior year	8.9%	6.4%	12.0%	4.6%	0.7%	0.7%	0.7%	-0.7%	-2.9%	-8.1%	

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

**Capital assets are one significant part of Net Debt**

**2.24** As shown in Exhibits 2.12 and 2.13, capital assets are a significant component of changes in Net Debt over the past ten years. Some of the most significant capital assets recorded in the Province's financial statements which have contributed to Net Debt include:

- roads, bridges and highways; and
- buildings and land improvements

**2.25** Exhibit 2.14 shows the ten-year history of capital asset additions by asset type.

*Exhibit 2.14 - Ten-Year History of Capital Asset Additions by Type*

**Ten Year History of Capital Asset Additions by Type  
(\$ millions)**

Capital Asset Type	Total
Roads, Bridges and Highways: Excluding New Brunswick Highway Corporation	2,196.8
Roads, Bridges and Highways: New Brunswick Highway Corporation	1,015.1
Buildings and Land Improvements	1,848.1
Machinery and Equipment	412.6
Vehicles and Mobile Heavy Equipment	201.2
Computer Hardware and Software	162.9
Dams and Water Management Systems	43.8
Ferries and Landings	35.7
Land	33.3
<b>Total</b>	<b>5,949.5</b>

*Source: Prepared by AGNB based on Public Accounts (with restatements where identified)*

**Progress is being made, but significantly more time is needed to fully address Net Debt**

**2.26** Overall, there has been significant progress in addressing the Net Debt balance and paying down past deficits with the 2022 surplus. Also, as we discuss later in this chapter, progress has been made in reducing New Brunswick's Net Debt per capita which is now at its lowest point since 2014.

**2.27** Unfortunately, the issue of Net Debt growth has built over many years. It may take significantly more time to fully address these older balances.

### **New Brunswick's Net Debt-to-GDP Ratio**

*Net Debt-to-GDP is a critical sustainability indicator*

**2.28** The Net Debt-to-Gross Domestic Product (GDP)<sup>2</sup> 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. As well, media and other analysts may also refer to it in their reports. Sustainability indicators are further discussed in Chapter 3 of this Report.

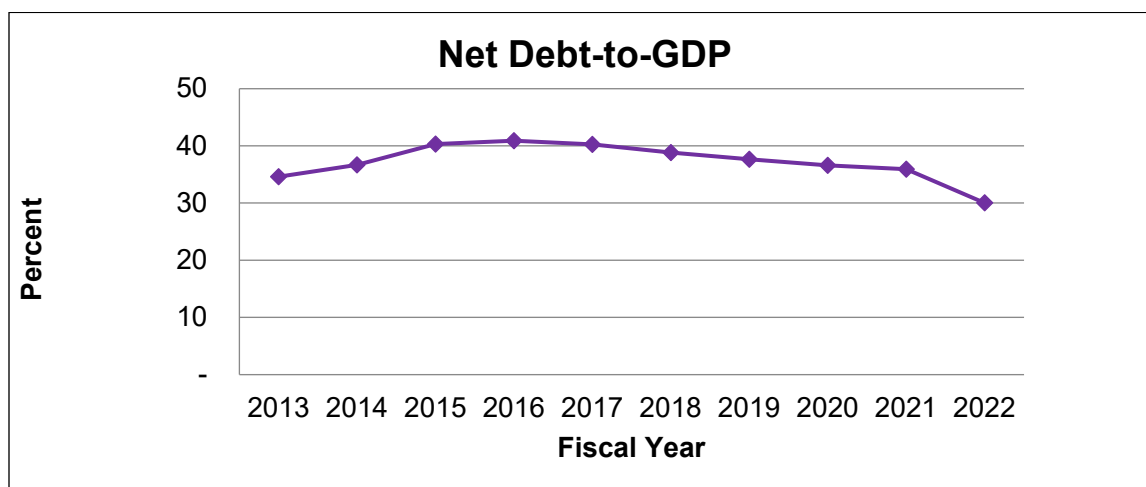
**2.29** Net Debt provides information about how future revenues will be required to meet past spending. GDP measures goods and services produced by an economy. Therefore, a low Net Debt-to-GDP ratio indicates an economy that is producing enough to service its Net Debt.

**2.30** Exhibit 2.15 shows the 10-year history of the Net Debt-to-GDP ratio.

---

<sup>2</sup> Gross Domestic Product (GDP) measures the value of all final goods and services produced in an economy in a given period of time.

Exhibit 2.15 - Ten-Year History of Net Debt-to-GDP Ratio



### Ten-Year History of Net Debt-to-GDP Ratio

	Fiscal year									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Net Debt (\$ billions)	11.0	11.7	13.1	13.7	13.8	13.9	14.0	13.9	13.5	12.4
GDP (\$ billion)	31.8	31.9	32.5	33.5	34.3	35.8	37.2	38.0	37.6	41.3
Net Debt-to-GDP	<b>34.7%</b>	<b>36.6%</b>	<b>40.4%</b>	<b>40.8%</b>	<b>40.3%</b>	<b>38.9%</b>	<b>37.6%</b>	<b>36.6%</b>	<b>35.8%</b>	<b>29.9%</b>

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

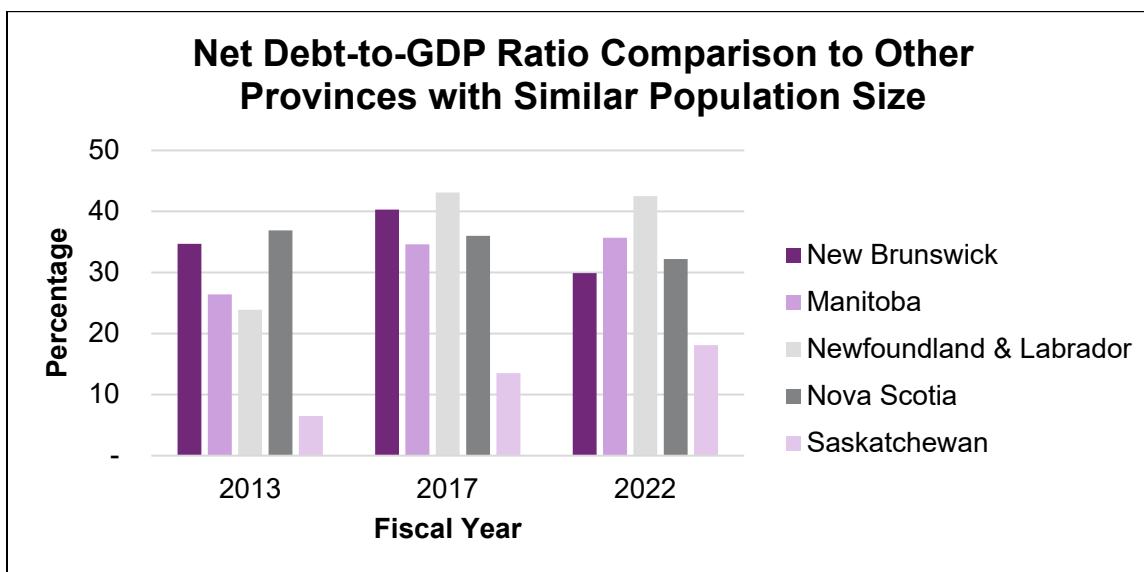
**Short-term Net Debt-to-GDP ratio is trending favourably**

**2.31** As shown in Exhibit 2.15, we note a negative trend from 2013 to 2016 because the Net Debt of the Province increased faster than the growth in the economy. From 2017 to 2022, we start to see this trend reverse and the growth in the economy was faster than growth in Net Debt. In 2022, the Province reported its lowest Net Debt-to GDP ratio over the past ten years.

**Net Debt-to-GDP ratio favourable compared to other provinces**

**2.32** A comparison of Net Debt-to-GDP for provinces who, in our view, have similar population size or economic characteristics is presented in Exhibit 2.16.

Exhibit 2.16 - Net Debt-to-GDP Ratio Comparison to Other Provinces with Similar Population Size



**Net Debt-to-GDP Ratio Comparison to Other Provinces with Similar Population Size Data (percent)**

Province	Fiscal Year			
	2013	2017	2022	% Increase 2013 to 2022
New Brunswick	34.7	40.3	29.9	-14%
Manitoba*	26.4	34.6	35.7	35%
Newfoundland & Labrador	23.9	43.1	42.5	78%
Nova Scotia	36.9	36.0	32.2	-13%
Saskatchewan	6.5	13.5	18.1	178%

\*2022 Public Accounts information used for Manitoba contained a qualified Independent Auditor's Report.

Source: Prepared by AGNB as restated where applicable

**2.33** New Brunswick's ratio of 29.9% was the second lowest Net Debt-to-GDP ratio amongst provinces with similar population size. Newfoundland & Labrador, Manitoba and Nova Scotia all had higher percentages at March 31, 2022.

**Net Debt-to-GDP has remained stable in other Provinces**

**2.34** While we note New Brunswick's ratio fluctuated since 2013, it did have one of the highest ratios in 2013 and 2017. This year, New Brunswick's improved position among similar provinces is largely due to ratios

in Newfoundland & Labrador, Manitoba, and Nova Scotia remaining stable as well as New Brunswick's large surplus in 2022 and corresponding reduced Net Debt.

### New Brunswick's Net Debt per Capita

*Net Debt per Capita  
another way to assess  
Net Debt*

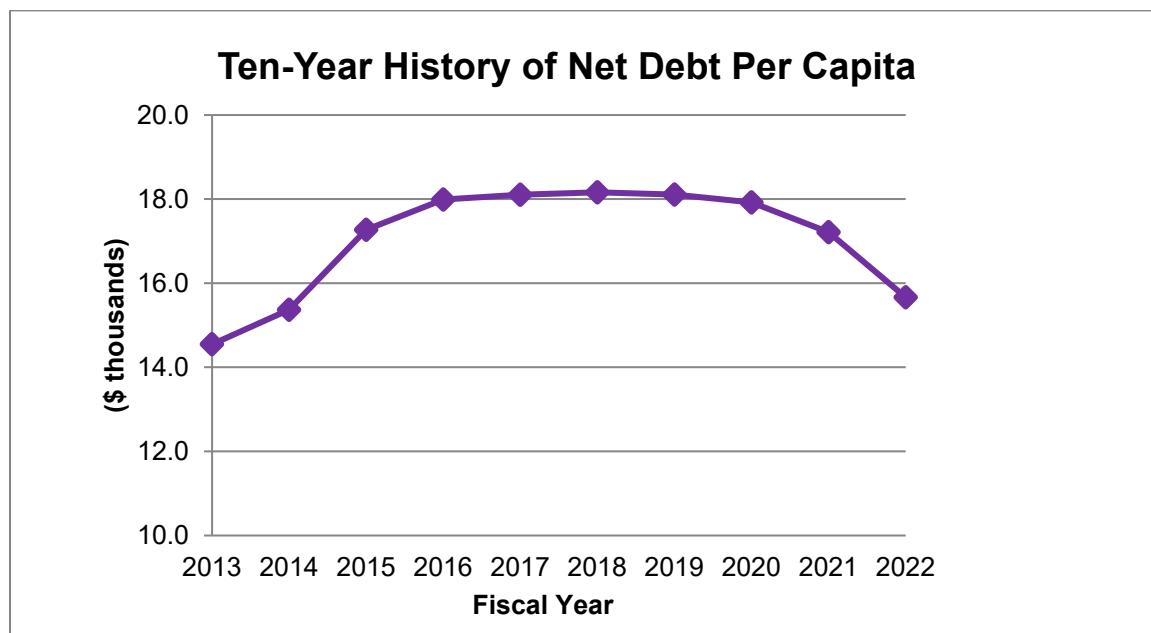
**2.35** Another way to assess the significance of the size of the New Brunswick's Net Debt is to compare it to its population size, also known as Net Debt per Capita (or per New Brunswicker).

*Net Debt is over \$15,000  
per New Brunswicker*

**2.36** New Brunswick's Net Debt per Capita hit a high of \$18,200 in 2018 but has since decreased to \$15,700 in 2022. Exhibit 2.17 shows the ten-year history of Net Debt per Capita.



Exhibit 2.17 - Ten-Year History of Net Debt per Capita



Ten-Year History of Net Debt per Capita

	Fiscal year									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Net Debt (\$ billions)	11.0	11.7	13.1	13.7	13.8	13.9	14.0	13.9	13.5	12.4
Population (thousands)	758.4	758.5	759.0	758.8	763.4	766.8	770.9	776.8	783.2	789.2
Net Debt per Capita (\$)	<b>14,500</b>	<b>15,400</b>	<b>17,300</b>	<b>18,000</b>	<b>18,100</b>	<b>18,200</b>	<b>18,100</b>	<b>17,900</b>	<b>17,200</b>	<b>15,700</b>

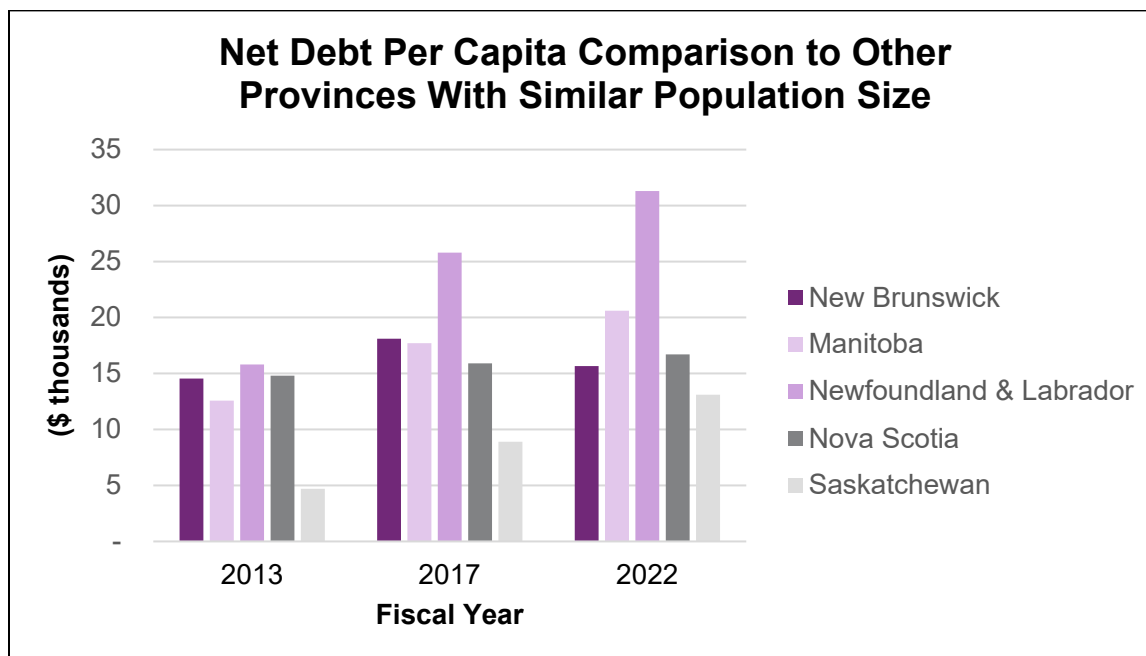
Source: Prepared by AGNB based on applicable year's Public Accounts with restatements where identified in Public Accounts

*Net Debt per capita compared favourably to other provinces with similar population size*

**2.37** The Net Debt per capita saw a large reduction in 2022 and compared favourably to other provinces with similar population size. Per capita includes all members of the population, such as adults and children.

**2.38** A comparison of Net Debt per capita to provinces of similar population size including Manitoba, Newfoundland & Labrador, Nova Scotia and Saskatchewan is presented in Exhibit 2.18 below.

Exhibit 2.18 - Net Debt per Capita Comparison to Other Provinces with Similar Population Size



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

Province	Fiscal Year			
	2013	2017	2022	% Increase 2013 to 2022
New Brunswick	14.5	18.1	15.7	8%
Manitoba*	12.6	17.7	20.6	64%
Newfoundland & Labrador	15.8	25.8	31.3	98%
Nova Scotia	14.8	15.9	16.7	13%
Saskatchewan	4.7	8.9	13.1	179%

\*2022 Public Accounts information used for Manitoba contained a qualified Independent Auditor's Report.

Source: Prepared by AGNB (as restated where applicable).

**2.39** New Brunswick's Net Debt per capita for 2022 decreased significantly to \$15,700 and was only \$1,200 higher than the \$14,500 reported in 2013. New Brunswick had the second lowest Net Debt per capita, with Newfoundland & Labrador, Manitoba and Nova Scotia all being higher at March 31, 2022.

## Did New Brunswick Meet its Net Debt Reduction Targets?

*Net Debt reduction targets have been mostly met for the past five years*

**2.40** In recent years, the Province has set targets for its Net Debt and its Net Debt-to-GDP ratio. The targets set are for future fiscal years and can represent either an increase or a decrease. For the past five years, we note, for the most part, Net Debt and Net Debt-to-GDP reduction targets were met or exceeded.

**2.41** Exhibit 2.19 shows the Province's annual Net Debt reduction targets along with actual Net Debt for the past five years.

**2.42** Exhibit 2.20 shows the Province's Net Debt-to-GDP targets along with actual results for the past five years.

*Exhibit 2.19 - Five Year History of Net Debt Reduction Targets Compared to Actual*

### 5 Year History of Net Debt Reduction Targets Compared to Actual (\$ millions)

Fiscal Year					
	2018	2019	2020	2021	2022
Target (Increase) Decrease	(362)	(372)	49	129	(241)
Actual (Increase) Decrease	(106)	(33)	37	470	1,090
<b>Difference</b>	256	339	(12)	341	1,331
	(Actual Increase Lower than Projected)	(Actual Increase Lower than Projected)	(Actual Decrease Lower than Projected)	(Actual Decrease Higher than Projected)	(Actual Decrease when an Increase was projected)
<b>Target Met or Exceeded?</b>	<b>Yes</b>	<b>Yes</b>	<b>No</b>	<b>Yes</b>	<b>Yes</b>

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

*Exhibit 2.20 - Five Year History of Net Debt-toGDP Targets Compared to Actual***5 Year History of Net Debt-to-GDP Targets Compared to Actual**

<b>Fiscal Year</b>					
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Target	40.1%	39.0%	37.0%	34.7%	36.4%
Actual*	38.9%	37.6%	36.6%	35.8%	29.9%
<b>Difference</b>	(1.2)% (Actual Ratio Lower than Projected)	(1.4)% (Actual Ratio Lower than Projected)	(0.4)% (Actual Ratio Lower than Projected)	1.1% (Actual Ratio Higher than Projected)	(6.5)% (Actual Ratio Lower than projected)
<b>Target Met or Exceeded?</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>No</b>	<b>Yes</b>

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

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

***Ability to continue to reduce Net Debt in the future remains challenging***

**2.43** Despite a reduction in Net Debt in 2022, New Brunswick's ability to reduce Net Debt in the future remains challenging due to an aging population, and increasing health costs. These challenges are not new and have existed in previous years. If increases to Net Debt were to return, this 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 could fall to future generations to pay for past expenses.

***Province continues to set multi-year Net Debt reduction targets***

**2.44** We remain pleased to see the Province continues to set multi-year Net Debt reduction targets and Net Debt-to-GDP targets through fiscal 2025. The multi-year targets announced in the Province’s 2022-2023 Main Estimates are presented in Exhibit 2.21.

*Exhibit 2.21 - Government’s Net Debt Reduction Targets*

**Government’s Net Debt Reduction Targets**

**(\$ millions)**

	<b>2023 Budget</b>	<b>2024 Plan</b>	<b>2025 Plan</b>
Annual (Increase) Decrease in Net Debt	(15)	(109)	36
Net Debt-to-GDP Ratio	30.1%	29.3%	28.2%

Source: <https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Budget/2022-2023/speech-2022-2023.pdf>

## Funded Debt Remains at Historic High

***Funded Debt remains at a historic high of over \$18 billion***

**2.45** While there has been significant progress in reducing New Brunswick's Net Debt, we caution that Funded Debt for provincial purposes remained at a historic high of \$18.4 billion at March 31, 2022. Funded debt has been approximately \$18.4 billion since 2020. The Province's outstanding Funded Debt balance consists mostly of bonds issued in the financial market.

**2.46** This debt figure does not include \$4.6 billion in NB Power debt, as well as just under \$1 billion in New Brunswick Municipal Finance Corporation (NBMFC) debt relating to the financing needs of New Brunswick municipalities.

***Sinking Fund is set aside to help repay debt***

**2.47** To assist with future repayments of this \$18 billion debt, the Province maintains a Sinking Fund. The Sinking Fund is required under the *Provincial Loans Act* and 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.

***Sinking Fund covers only one third of total Funded Debt***

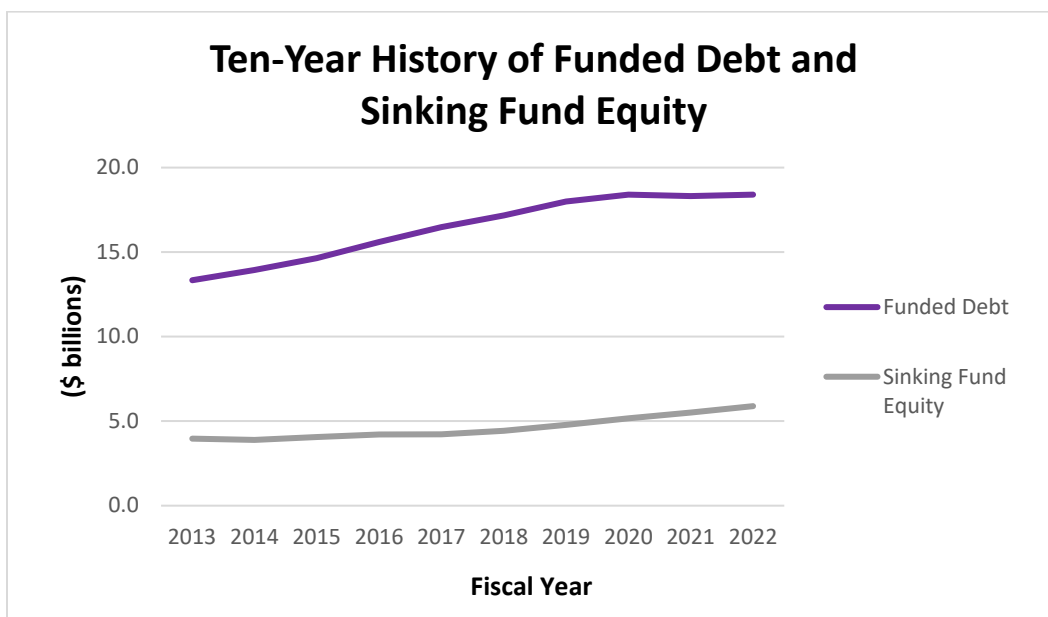
**2.48** At March 31, 2022, the market value of the Province's Sinking Fund Equity was approximately \$6 billion. As a result, significant additional cash outlays of approximately \$12 billion will be needed in the future to repay the total debt of \$18 billion.

***\$4.6 billion of debt is due to be repaid over the next four years***

**2.49** Over the next four years, approximately \$4.6 billion in Funded Debt is due to be repaid. As part of re-paying Funded Debt, the Province may either use the consolidated fund or re-finance it. For example, in 2022, \$706 million of debt matured (was repaid) while \$1.1 billion of new debt was issued.

**2.50** Exhibit 2.22 shows the ten-year history of the Province's Funded Debt and Sinking Fund Equity. Future cash requirements to repay debt in the next four years and beyond are outlined in Exhibit 2.23.

Exhibit 2.22 - Ten-Year History of Funded Debt and Sinking Fund Equity

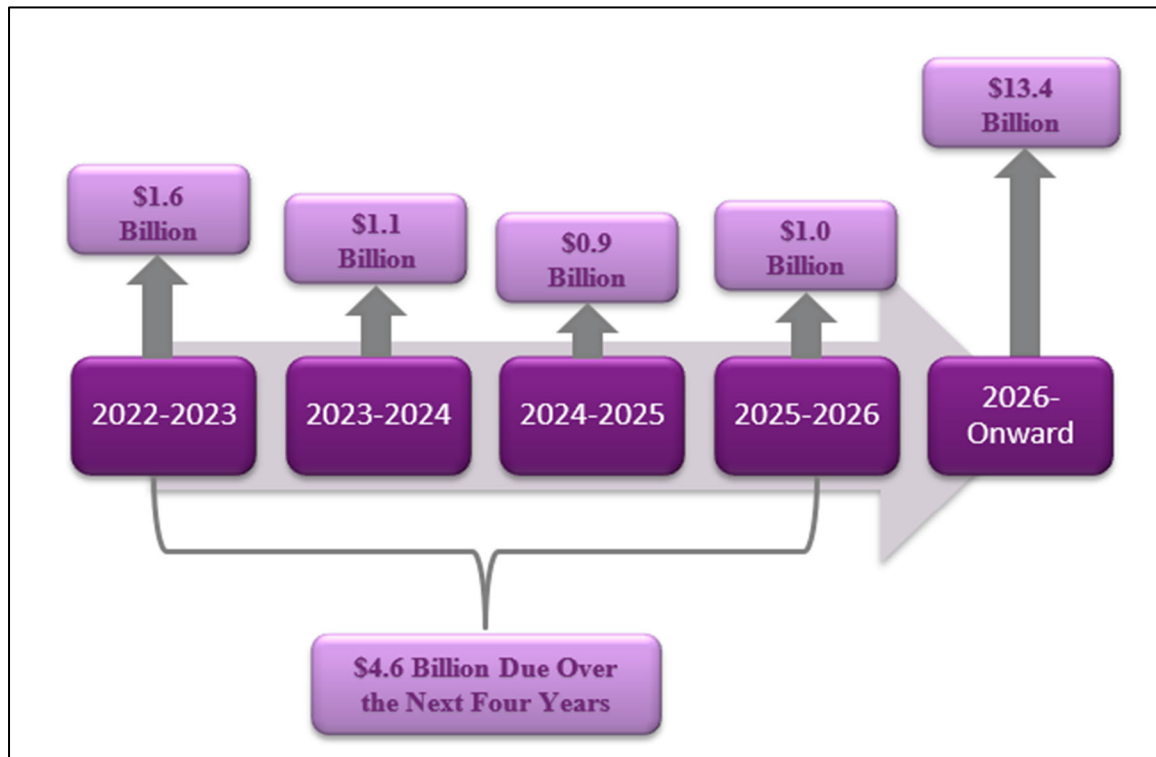


Ten-Year History of Funded Debt and Sinking Fund Equity (\$ billions)

Fiscal year										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Funded Debt	18.0	18.5	19.2	20.1	20.9	21.6	22.6	23.2	23.0	23.0
NB Power	(4.7)	(4.6)	(4.6)	(4.5)	(4.4)	(4.4)	(4.6)	(4.8)	(4.7)	(4.6)
<b>Funded Debt for Provincial Purposes</b>	13.3	13.9	14.6	15.6	16.5	17.2	18.0	18.4	18.3	18.4
<b>Sinking Fund Equity</b>	4.0	3.9	4.0	4.2	4.2	4.4	4.8	5.2	5.5	5.9

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

Exhibit 2.23 - Future Cash Requirements to Repay Funded Debt



Source: Prepared by AGNB based on 2022 Public Accounts

**2.51** In certain respects, Funded Debt could be compared to household debt, which many New Brunswickers have. The Province must make interest payments on its outstanding balance and repay principal as Funded Debt matures. To put the balance in simple terms, if the Province repaid \$100 million per year, it would take 184 years to repay the \$18.4 billion. This is presented in Exhibit 2.24. If we include NB Power's debt of \$4.6 billion, another 46 years are added for a total of 230 years to repay the debt at this rate.



Exhibit 2.24 - \$100 Million Debt Repayment Per Year



Source: Prepared by AGNB

**Service of the Public Debt cost \$1,208 per minute in 2022**

**2.52** In the last fiscal year, the service cost of this debt (excluding NB Power), consisting mostly of paying interest, was \$635 million. This is an annual cost and does not reduce the principal amount outstanding. In 2022, Service of the Public Debt cost approximately \$1,208 per minute. Exhibit 2.25 presents this cost by year, day, hour and minute.

Exhibit 2.25 - Service of Funded Debt by Year, Day, Hour, Minute in 2022

**Service of Funded Debt by Year, Day, Hour, Minute in 2022**

Per Year	Per Day	Per Hour	Per Minute
\$635 million	\$1.7 million	\$72 thousand	\$1,208

Source: Prepared by AGNB using 2022 Public Accounts

**Service of the Public Debt expense was larger than other areas such as Protection Services and Economic Development**

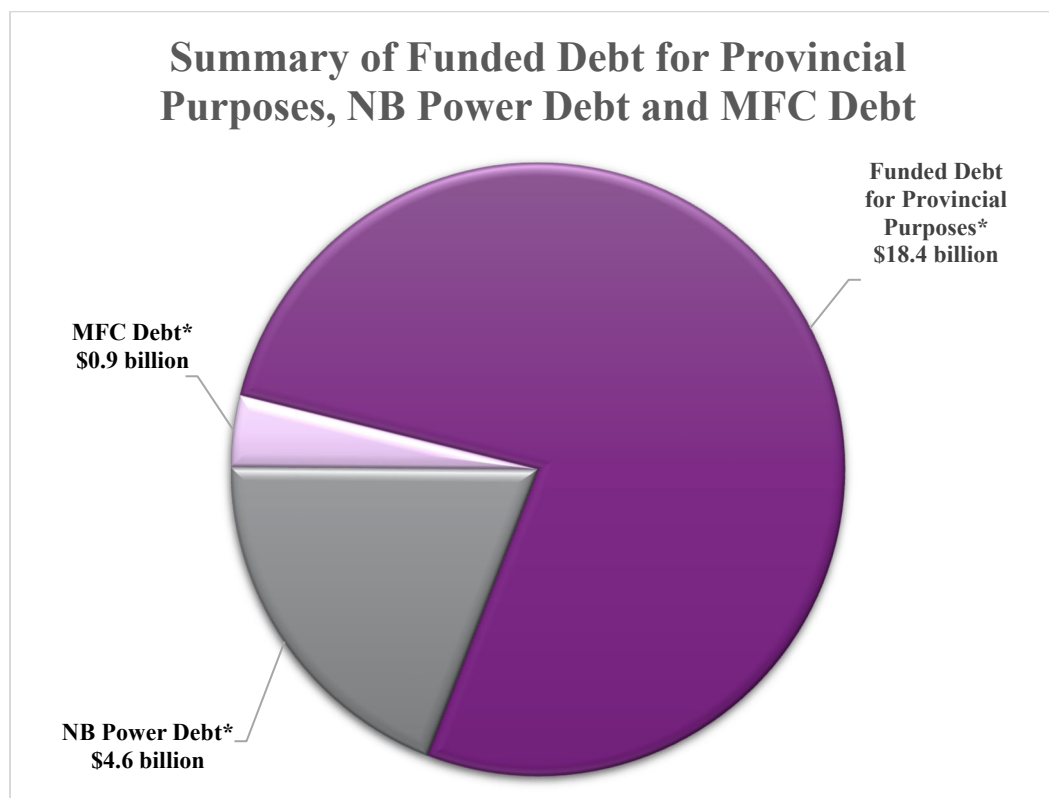
**2.53** Service of the Public Debt was 6% of all expenses for 2022. This was more than other expenses such as Protection Services, Economic Development, Labour and Employment, and Resources. While we have experienced a low interest rate environment in the last few years, interest rates have risen recently. As a result, provincial expenses to service the public debt may increase in future if this trend persists when re-financing occurs.

***Approximately \$24 billion in debt between the Province's Funded Debt, NB Power debt and MFC debt***

**2.54** As presented in paragraph 2.46, Funded Debt for provincial purposes does not include NB Power debt or NBMFC debt related to the financing needs of New Brunswick municipalities. In 2020 our Office published a chapter outlining our concerns with NB Power's debt challenges. In addition to these concerns, from a provincial perspective, we also note the Province guarantees all municipal debt issued through the New Brunswick Municipal Finance Corporation.

**2.55** These three items combined (the Province's debt for provincial purposes, NB Power's debt and municipal debt) represent approximately \$24 billion in debt owed ultimately by the Province. This information is summarized in Exhibit 2.26.

*Exhibit 2.26 - Summary of Funded Debt for Provincial Purposes, NB Power Debt and MFC Debt*



\* Funded Debt for provincial purposes and NB Power debt are as at March 31, 2022

\*\* MFC Debt as at December 31, 2021

Source: Prepared by AGNB

**2.56** In Exhibit 2.27, we provide details of NBMFC's debt relating to the financing needs of New Brunswick municipalities as at December 31, 2021. We present this information on a per municipality basis for debt greater than \$8 million.

*Exhibit 2.27 - Summary of NBMFC 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, 2021**

Municipality	Debt (\$ millions)
Bathurst	26.5
Caraquet	9.8
Dieppe	61.4
Edmundston	51.7
Fredericton	32.2
Grand-Sault/Grand Falls	9.5
Miramichi	26.4
Moncton	172.6
Quispamsis	20.8
Riverview	29.5
Rothsay	12.3
Sackville	10.3
Saint John	210.7
Shediac	14.8
Southeast Regional Service Commission	13.8
Tracadie	14.8
Other Municipalities	178.8
<b>TOTAL</b>	<b>\$895.9</b>

*Source: Prepared by AGNB*

**2.57** We remain concerned with the amount of debt the Province is ultimately responsible for and we will continue to report our concerns along with any significant findings from our work.

# Chapter 3

## State of New Brunswick's Financial Condition

### Contents

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## State of New Brunswick's Financial Condition

### What do the 2022 Financial Results Tell Us About the Province's Financial Condition?

*The Province's financial condition has improved from 2021*

- 3.1** This chapter presents our work in evaluating the state of the Province's financial condition. Overall, the Province's financial condition has improved from last year.
- 3.2** We reached our conclusion by analysing twelve financial indicators<sup>1</sup> used to assess a public sector entity's financial state; they provide a broader view of the Province's financial condition. See Exhibit 3.4 for a complete summary of all financial indicators which includes changes from our 2021 analyses.
- 3.3** Financial information presented in this chapter is up to March 31, 2022. A large annual surplus driven by increased provincial tax revenues impacted the Province's financial results this year. Refer to Chapter 2 in this Volume for more details regarding how increases in provincial tax revenues impacted this year's financial results.

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<sup>1</sup> 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?

### *Overall favourable short-term sustainability trends*

**3.4** The Province's ability in the short-term to sustain existing programs and services without increasing Net Debt was favourable in 2022, mainly as a result of the Province's annual surplus. We were, therefore, able to again assess five of the seven short-term sustainability indicators as favourable this year.

### *Improvements in long-term sustainability trends*

**3.5** In 2022, three of seven long-term trend indicators are now assessed as favourable from unfavourable or neutral in the prior year. Two other sustainability indicator trends remain neutral and a further two remain unfavourable in 2022.

**3.6** Exhibit 3.1 presents a summary of the Province's sustainability indicators. We have assessed sustainability as mostly favourable in the short-term and as mixed in the long-term. This is an improvement from the prior year where the long-term sustainability indicator trends were mostly unfavourable.

### *Sustainability defined*

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

*Exhibit 3.1 - 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	Favourable
Expense by function-to-total expenses	Neutral	Neutral
Net Debt-to-GDP	Favourable	Favourable
Accumulated deficit-to-GDP	Favourable	Favourable
Total expenses-to-GDP	Neutral	Neutral

*Source: Prepared by AGNB.*

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

### *Mostly unfavourable flexibility trends*

- 3.8** In our view, the Province's flexibility in its ability to raise taxes and borrow is mostly 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
  - the percentage of own source revenue compared to GDP has generally increased over the past ten years (more own source revenue compared to GDP may limit future ability to raise taxes if needed to fund operations).

- 3.9** As summarized in Exhibit 3.2, we have assessed flexibility indicator trends in the short-term and in the long-term as mostly unfavourable.

### *Flexibility defined*

- 3.10** 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 3.2 - 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	Unfavourable	Unfavourable

*Source: Prepared by AGNB.*

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

### *Positive trends but vulnerability remains*

**3.11** This year, we have changed the short-term and long-term indicators for government transfers-to-total revenue from unfavourable to neutral. In our view, although this indicator has a more positive result this year, the Province remains vulnerable to changes in transfers from the Federal government.

**3.12** As summarized in Exhibit 3.3, we have assessed vulnerability in both the short-term and long-term as mixed.

### *Vulnerability defined*

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

*Exhibit 3.3 - Vulnerability Indicator Trends*

### Vulnerability Indicator Trends

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

*Source: Prepared by AGNB.*

## Summary of Financial Indicators

- 3.14** In Exhibit 3.4, 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 3.4 - Summary of Financial Indicators

	Indicator	Purpose	Short-Term Trend	Long-Term Trend	Change in Trends from Prior Year	Paragraph
<b>Sustainability</b>	Assets-to-liabilities	Measures extent that government finances its operations by issuing debt	Favourable	Unfavourable	No change	3.16
	Financial assets-to-liabilities	Measures whether future revenues will be needed to pay for past transactions	Favourable	Unfavourable	No change	3.20
	Net Debt-to-total annual revenue	Shows whether more time is needed to pay for past transactions	Favourable	<b>Favourable</b>	<b>Long-Term Trend Changed from Neutral</b>	3.24
	Expense by function-to-total expenses	Shows the trend of government spending over time	Neutral	Neutral	No change	3.28
	Net Debt-to-GDP	Shows the relationship between Net Debt and the activity in the economy	Favourable	<b>Favourable</b>	<b>Long-Term Trend Changed from Unfavourable</b>	3.34
	Accumulated deficit-to-GDP	Measures the sum of the current and all prior year operating results relative to the growth in the economy	Favourable	<b>Favourable</b>	<b>Long-Term Trend Changed from Unfavourable</b>	3.38
	Total expenses-to-GDP	Shows the trend of government spending over time in relation to the growth in the economy	Neutral	Neutral	No change	3.41
<b>Flexibility</b>	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	3.48
	Net book value of capital assets-to-cost of capital assets	Measures the estimated useful lives of tangible capital assets available to provide products /services	Unfavourable	Unfavourable	No change	3.52
	Own source revenues-to-GDP	Measures extent income is taken out of the economy	<b>Unfavourable</b>	Unfavourable	<b>Short-Term Trend Changed from Neutral</b>	3.56
<b>Vulnerability</b>	Government transfers-to-total revenues	Measures the dependence on another level of government	<b>Neutral</b>	<b>Neutral</b>	<b>Short-Term and Long-Term Trends Changed from Unfavourable</b>	3.62
	Foreign currency debt-to-Net Debt	Measures the government's potential vulnerability to currency fluctuations	Favourable	Favourable	No change	3.67

Source: Prepared by AGNB.

## Detailed Support for Sustainability Indicators

***Sustainability defined***      **3.15**      Sustainability indicates if the Province can maintain programs and meet existing creditor payments without increasing the Funded Debt.

### Comparing Assets-to-Liabilities

***Positive trend changes, however, Province continues to borrow to fund operations***      **3.16**      We have again assessed the short-term trend as favourable and the long-term trend as unfavourable.

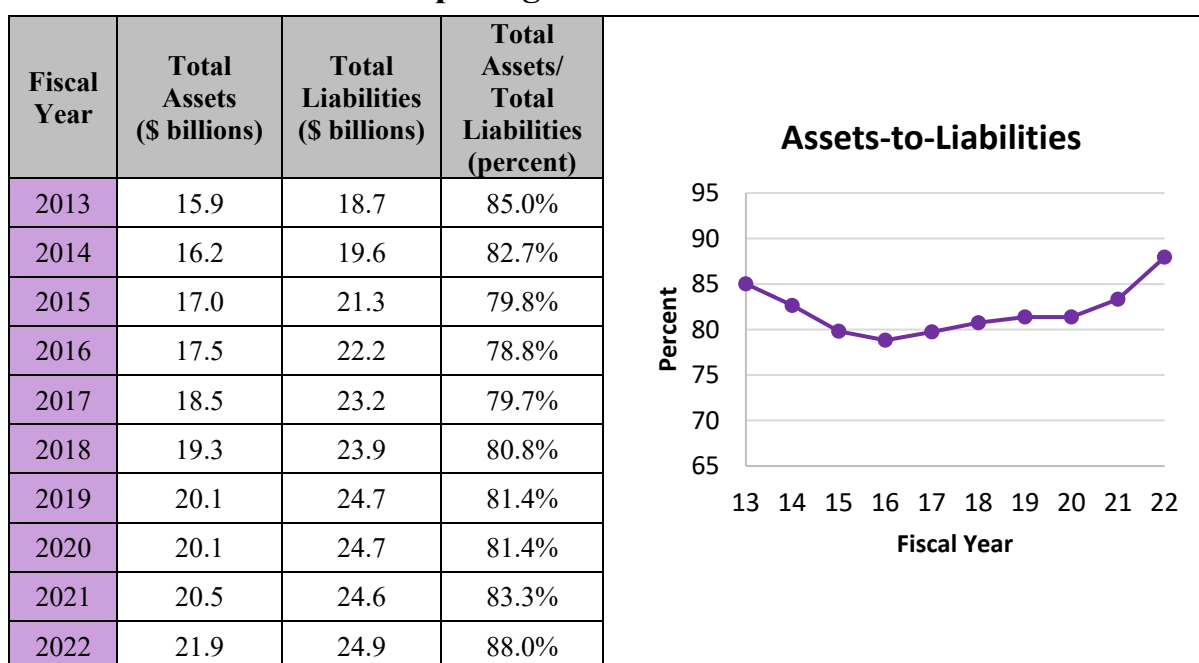
**3.17**      For the last six years, this indicator has improved indicating a favourable trend in the short-term. For the past ten years, the Province's percentage has remained below 100% indicating the Province has financed its operations by issuing Funded Debt. While positive trend changes have occurred in recent years and the percentage has improved, overall, this is an unfavourable long-term indicator trend.

**3.18**      We present the assets-to-liabilities sustainability indicator in Exhibit 3.5.

***How to read exhibit***      **3.19**      An assets-to-liability percentage below 100% 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 3.5 - 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.

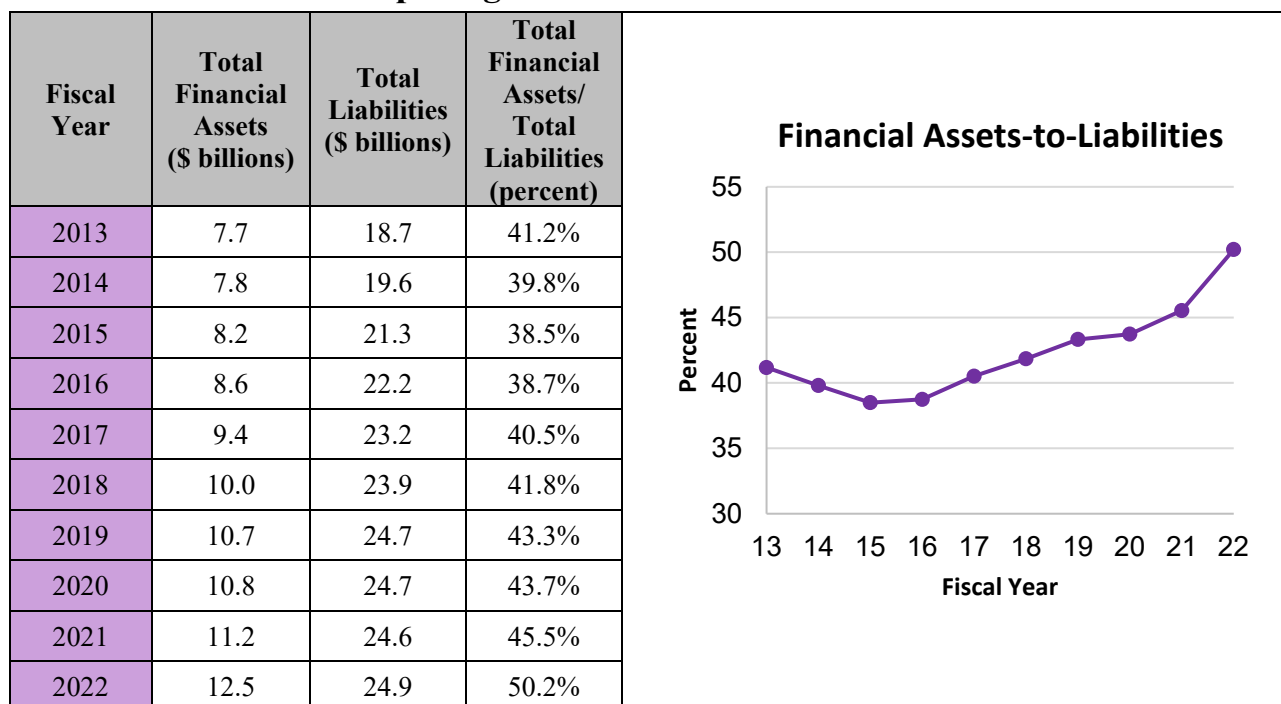
### Comparing Financial Assets-to-Liabilities

- Positive trend changes, however, future revenue still needed to pay for past transactions**
- 3.20** We have assessed the short-term trend as favourable and the long-term trend as unfavourable.
- 3.21** While the percentage has been improving over the past seven years, it is still below 100%, meaning future revenues will be needed to pay for past transactions. As a result, we are still assessing the long-term trend as unfavourable. In recent years the Province's percentage for this indicator has improved, which is a positive change and indicates a favourable trend in the short-term.
- 3.22** We present the financial assets-to-liabilities sustainability indicator in Exhibit 3.6.
- How to read exhibit**
- 3.23** 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 and is

an unfavourable trend. An increasing percentage indicates a favourable trend in the short-term.

Exhibit 3.6 - 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

**Positive change in long-term trend**

**3.24** In 2022 we have again assessed the short-term trend as favourable, and we have changed our assessment of the long-term trend from neutral to favourable.

**3.25** The Province's Net Debt-to-total annual revenue percentage increased from 2013 to 2016, which indicates the Province would need more time to eliminate Net Debt. However, each year since 2016 the percentage has decreased which is a positive trend. The percentage for 2022 is now lower than at any point in the last decade. In 2022 the percentage declined to 108.8%, as Net Debt decreased while total revenue increased. As a result, the short-term and long-term trends were assessed as favourable. However, we urge caution in interpreting this indicator as the positive trend was achieved in part through

Federal transfers and increases in provincial tax revenues, which may not be of a recurring nature.

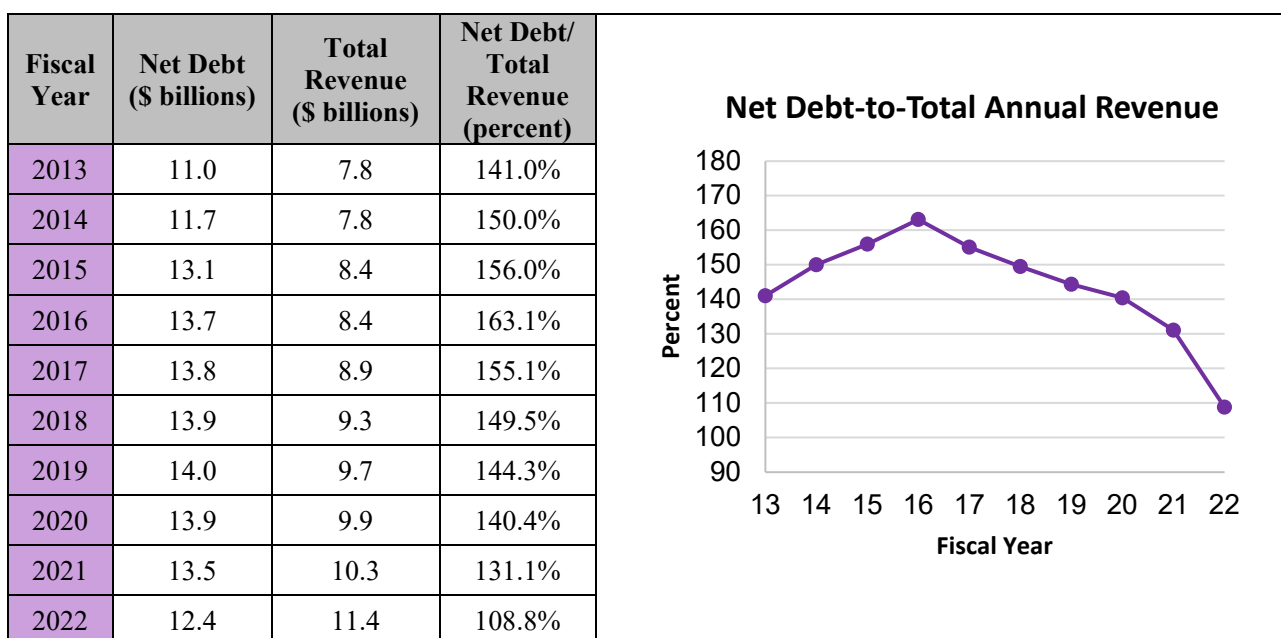
**3.26** We present the Net Debt-to-total annual revenue sustainability indicator in Exhibit 3.7.

**How to read exhibit**

**3.27** 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 3.7 - 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**

**3.28** 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 during the last ten years. The cost of servicing Funded Debt has remained relatively consistent over the last ten years.

**3.29** 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.

**3.30** We present the expense by function-to-total expenses sustainability indicator in Exhibit 3.8 for 2022. Exhibit 3.8 shows the amount of expenses allocated to each expense function for the year.

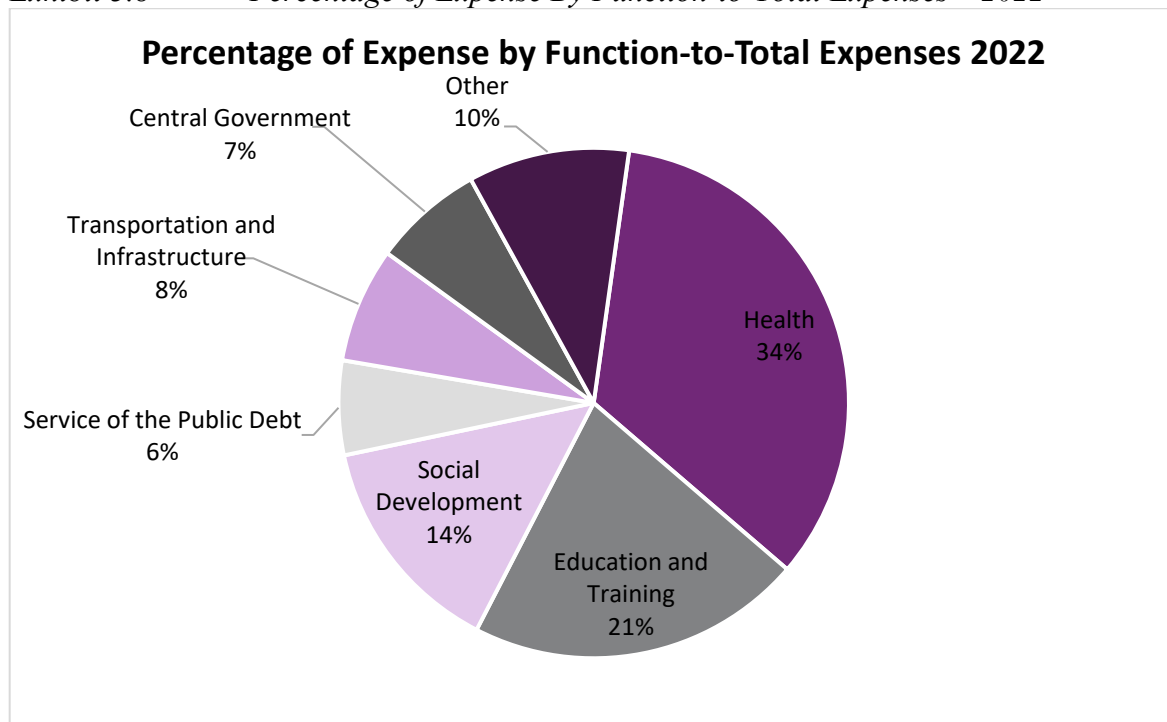
**How to read exhibit**

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

- For Exhibit 3.8, each slice of pie represents the percentage of expenses allocated to each expense function for 2022.
- For Exhibit 3.9, each line in the chart represents an expense function. As the line progresses, it shows (by year) the amount of expenses allocated to each function. As the line decreases, the Province is allocating less 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 3.8 - Percentage of Expense By Function-to-Total Expenses – 2022*



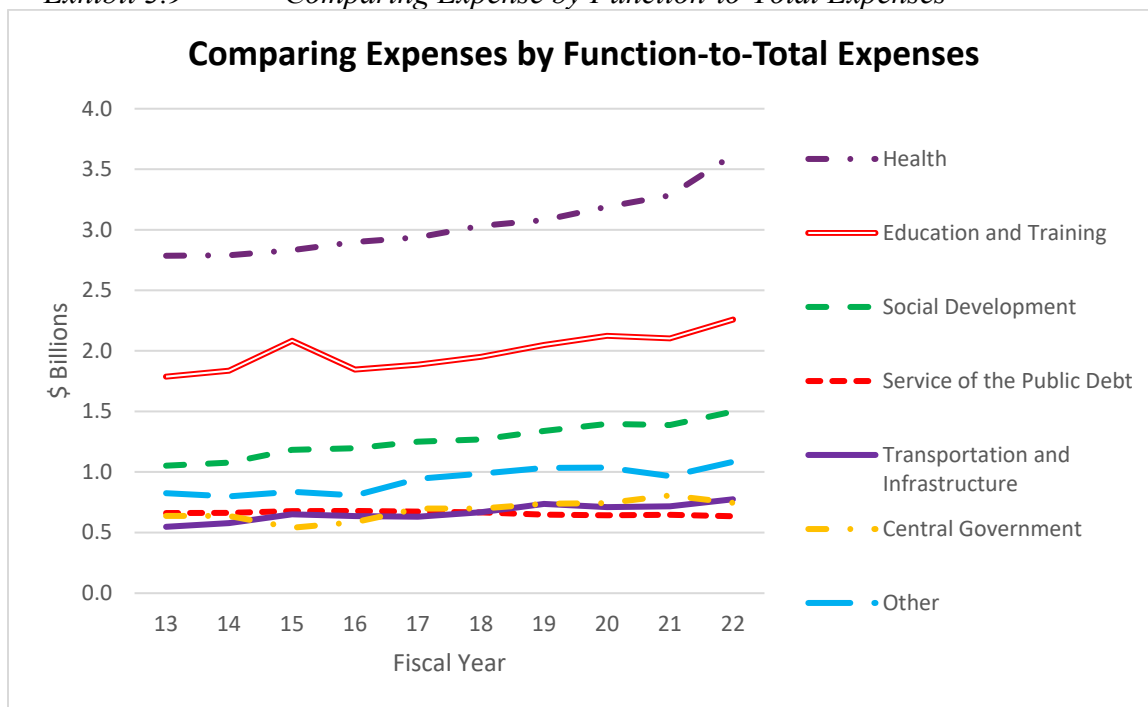
*Source: Prepared by AGNB based on Public Accounts 2022  
Other includes: Protection Services, Economic Development, Resources and Labour and Employment*

**3.32** In Exhibit 3.8, we observed the following information.

- The expenses for Education and Training and Health consume 55% of the total expenses in 2022, remaining stable from 2021 of 54%.
- The expenses for service of the public debt (\$635 million) are larger than expenses for items such as Protection Services (\$349 million) and Economic Development (\$347 million).

**3.33** We present the expense by function-to-total expenses sustainability indicator in Exhibit 3.9 for the past ten years.

*Exhibit 3.9 - 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**

**Positive change in long-term trend**

**3.34** We have assessed the short-term trend as favourable and we have changed our assessment of the long-term trend from unfavourable to favourable.

**3.35** We note a negative trend from 2013 to 2016 because the Net Debt of the Province increased faster than the growth in the economy. From 2017 to 2022, we start to see this trend reverse, the growth in the economy was faster than growth in Net Debt. The percentage for 2022 is now lower than at any point in the past decade. For these reasons, we have assessed the short-term and long-term trends as favourable. While the result is favourable, we urge caution in interpreting this indicator, as the positive trend was achieved in part through Federal transfers and increases in provincial tax revenues, which may not be of a recurring nature. As a result, the related Net Debt reduction may also not be of a recurring nature.

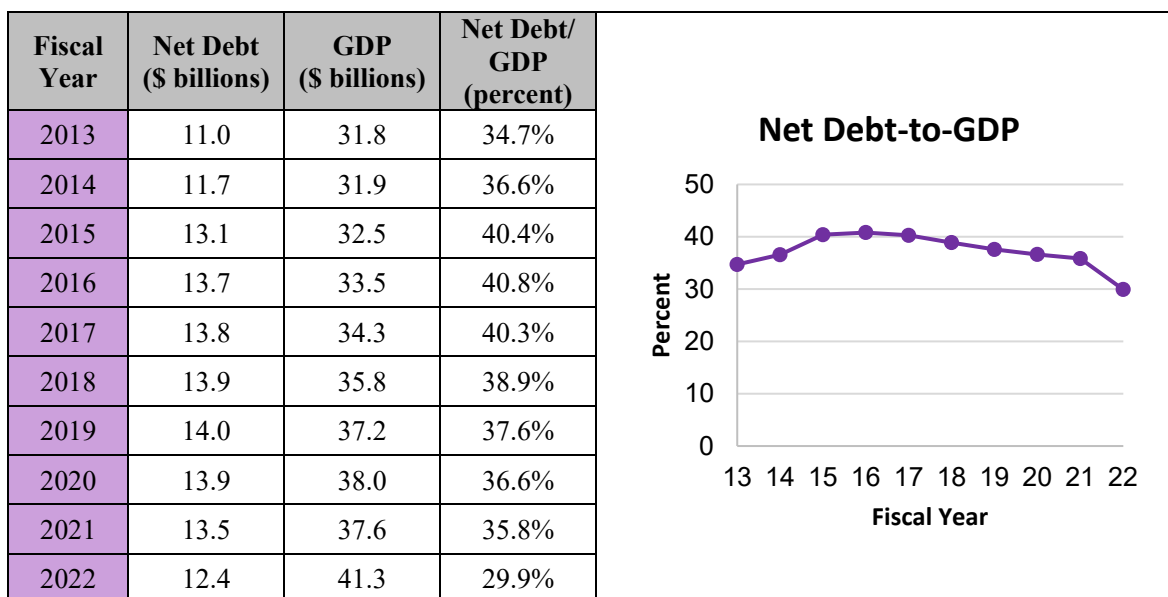
**3.36** We present the Net Debt-to-GDP sustainability indicator, in Exhibit 3.10.

**How to read exhibit**

**3.37** 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 3.10 - 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.*

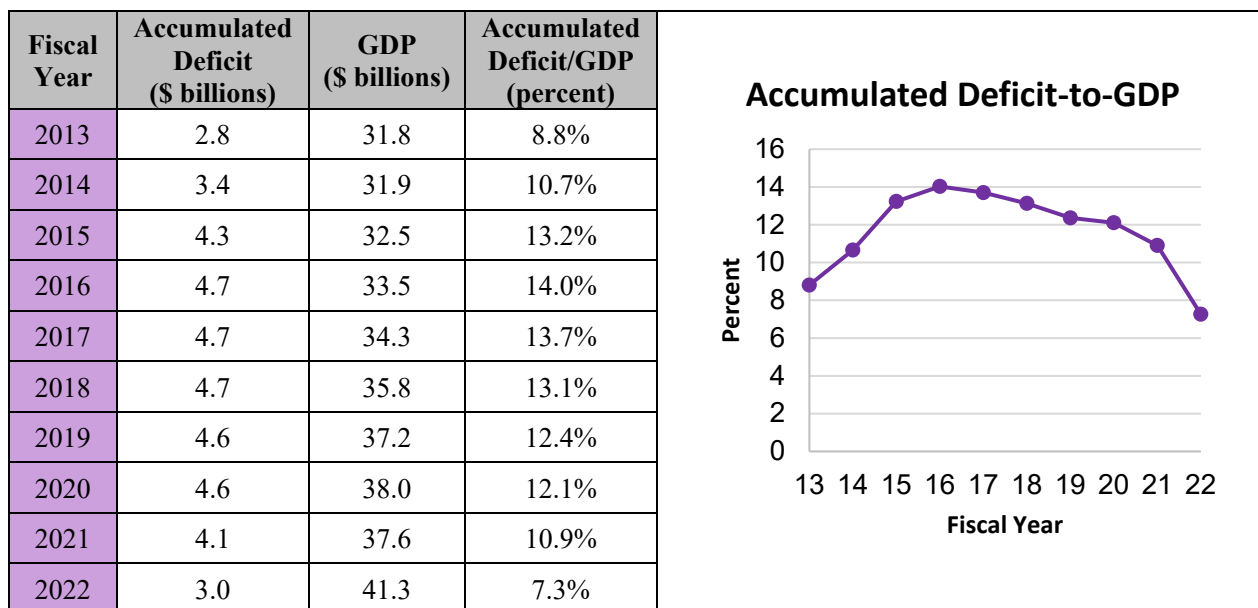


## Comparing Accumulated Deficit-to-GDP

- Positive change in long-term trend***      **3.38**      We have assessed the short-term trend as favourable and we have changed our assessment of the long-term trend from unfavourable to favourable.
- 3.39**      Exhibit 3.11 shows a negative trend from 2013 to 2016 as the accumulated deficit has grown more than the economy. We see this negative trend decrease from 2017 to 2022, as the accumulated deficit has decreased while the economy has grown. The percentage for 2022 is now lower than at any point in the past decade. While the short-term and long-term trends are favourable, we urge caution in interpreting this indicator, as the positive trend was achieved in part through Federal transfers and increases in provincial tax revenues, which may not be of a recurring nature. As a result, the related accumulated deficit reduction that may not be of a recurring nature.
- How to read exhibit***      **3.40**      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 increasing indicates a negative trend as the growth of the accumulated deficit is outpacing the growth in GDP.

Exhibit 3.11 - 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

**3.41** We have again assessed both the short-term and long-term trends as neutral.

**3.42** Exhibit 3.12 shows between 2013 to 2022, the ratio of total expenses-to-GDP has remained relatively consistent and ranged from 25.7% to 26.3%. The only exception is 2015 when the ratio was 27.1%. Therefore, we have assessed the short-term trend as neutral and the long-term trend as neutral. We caution that while the trends are neutral, provincial expenses have increased during the ten year period.

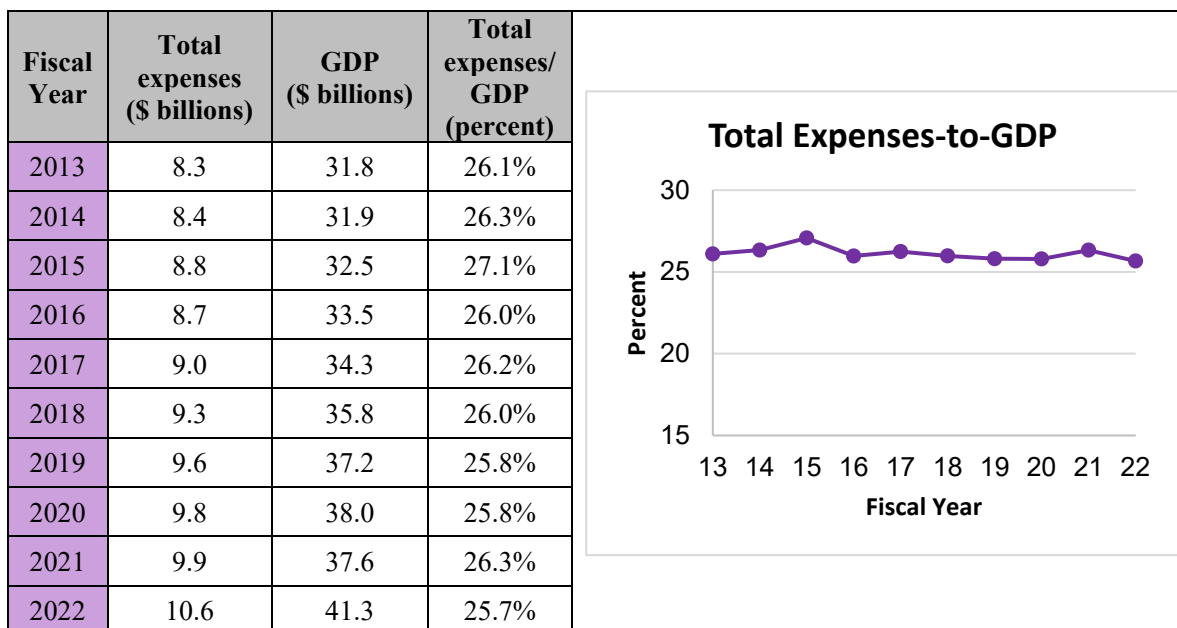
**3.43** We present the total expenses-to-GDP sustainability indicator in Exhibit 3.12.

**How to read exhibit**

**3.44** 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 3.12 - 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**

- 3.45** 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.
- 3.46** 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.
- 3.47** 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.

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

**3.48** We have again assessed both the short-term and long-term trend as favourable.

**3.49** Exhibit 3.13 shows the cost of servicing the Funded Debt as a percentage of the Province's total revenues has decreased to its lowest point in the past decade. This is a result of the Province's 2022 revenues increasing while the cost to service Funded Debt has remained relatively stable.

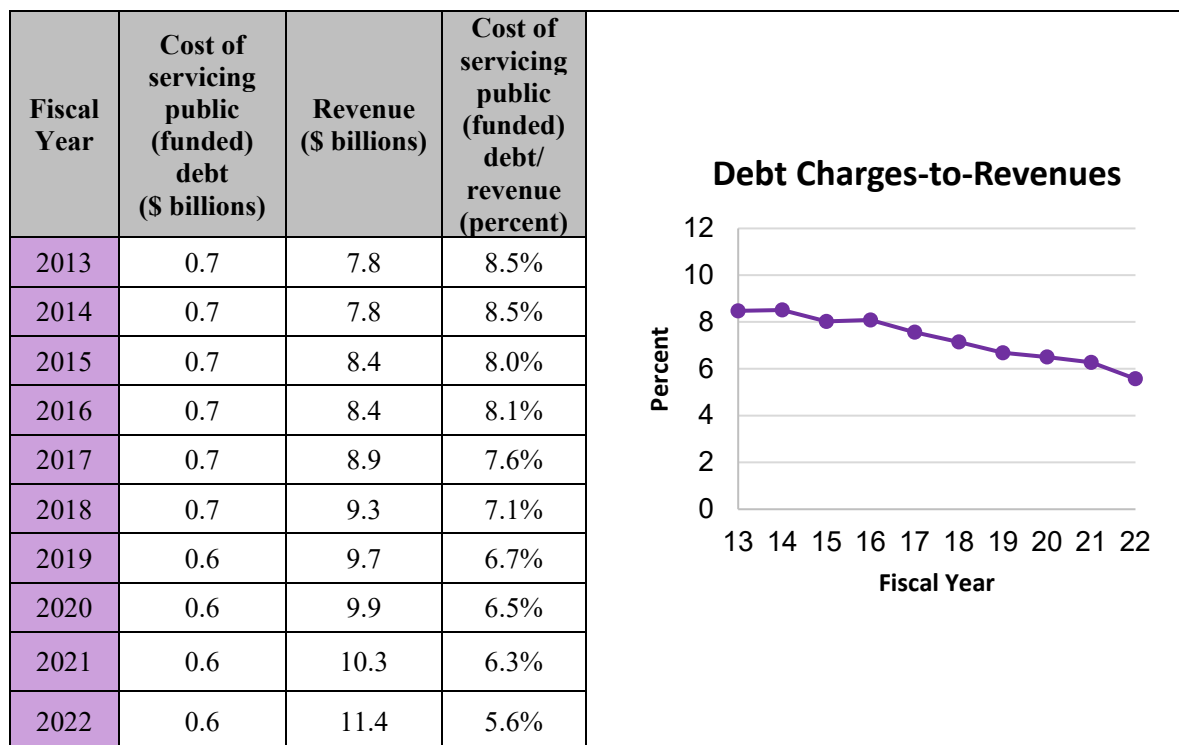
**3.50** We present the public (Funded) debt charges-to-revenues flexibility indicator in Exhibit 3.13.

***How to read exhibit***

**3.51** 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 3.13 - 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

**3.52** We have again assessed both the short-term and long-term trend as unfavourable.

**3.53** Exhibit 3.14 shows the Province's capital assets have approximately 50.3% 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.

**3.54** We present the net book value of capital assets-to-cost of capital assets flexibility indicator in the Exhibit 3.14.

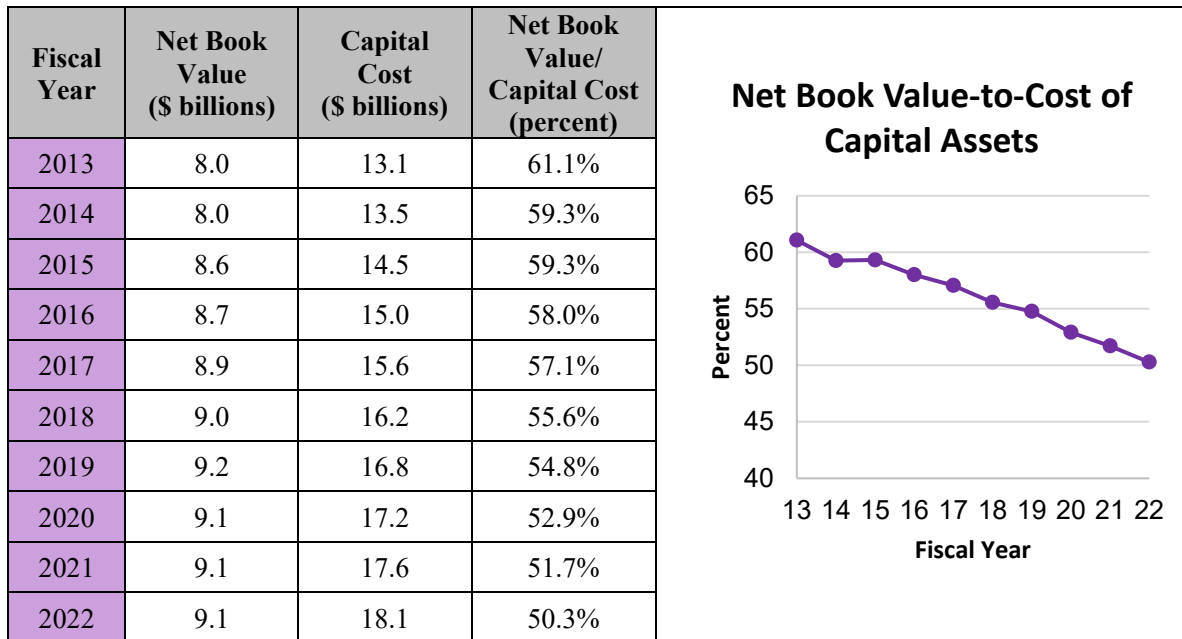
*How to read exhibit*

**3.55** 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 3.14 - 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 in short-term trend to unfavourable*

**3.56** We have assessed the short-term and long-term trends as unfavourable. The short-term trend was assessed as neutral in the prior year.

**3.57** In the short-term, the percentage of own source revenue (such as taxes) compared to GDP has increased indicating the Province has increased its revenue from taxing the provincial economy in the short-term. Therefore, we assessed the short-term trend as unfavourable.

**3.58** We also assess the long-term trend as unfavourable. From 2013 to 2022, the percentage of own source revenue compared to GDP has generally increased.

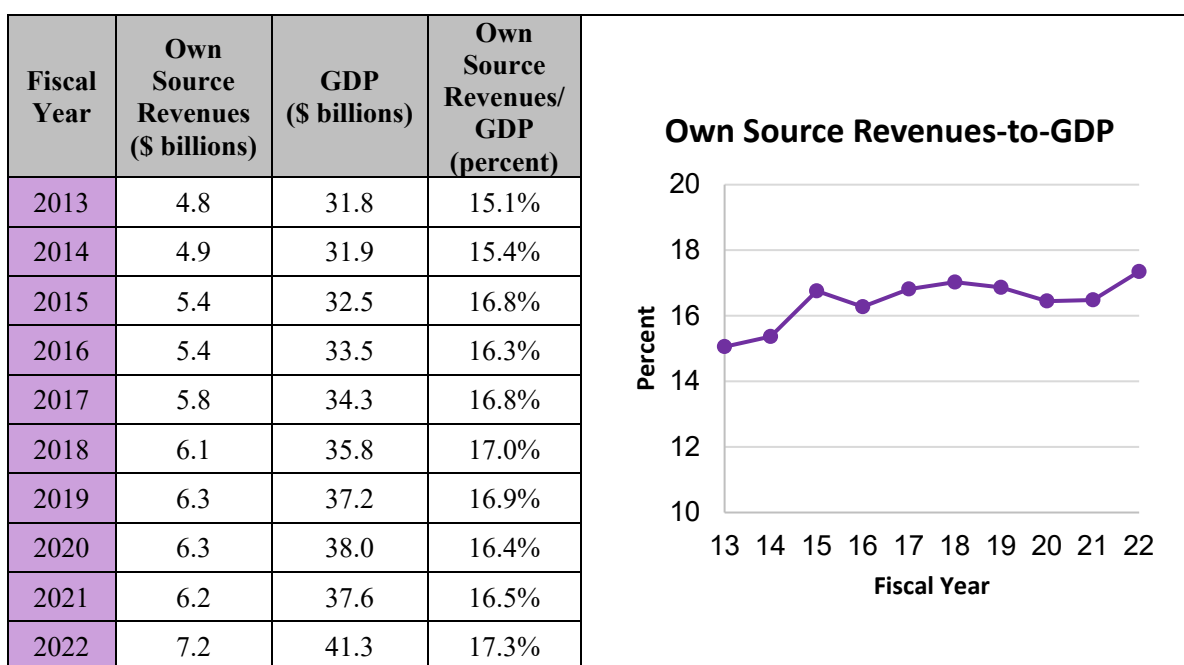
**3.59** We present the own source revenues-to-GDP flexibility indicator in Exhibit 3.15.

**How to read exhibit**

**3.60** 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 3.15 - 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***      **3.61**      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

***Positive change in short-term and long-term trends***      **3.62**      For 2022 our assessments of the short-term and long-term trends have changed from unfavourable to neutral.

**3.63**      We note in 2022 approximately 37.0% of the Province's total revenue was generated from Federal government transfers, a decrease from 40.0% in 2021. This indicates the Province was less dependent on the Federal government. As a result, we have changed our assessment of the short-term trend to neutral from unfavourable.

**3.64**      Our long-term assessment has also changed from unfavourable to neutral. Exhibit 3.16 shows between 2013 and 2022 the ratio of government transfers-to-total revenues has remained relatively consistent and ranged from 35.2% in 2016 and 2017 to 38.5% in 2013. The only exceptions are 2018 when the ratio was 34.7% and 2021 when the ratio was 40.0%.

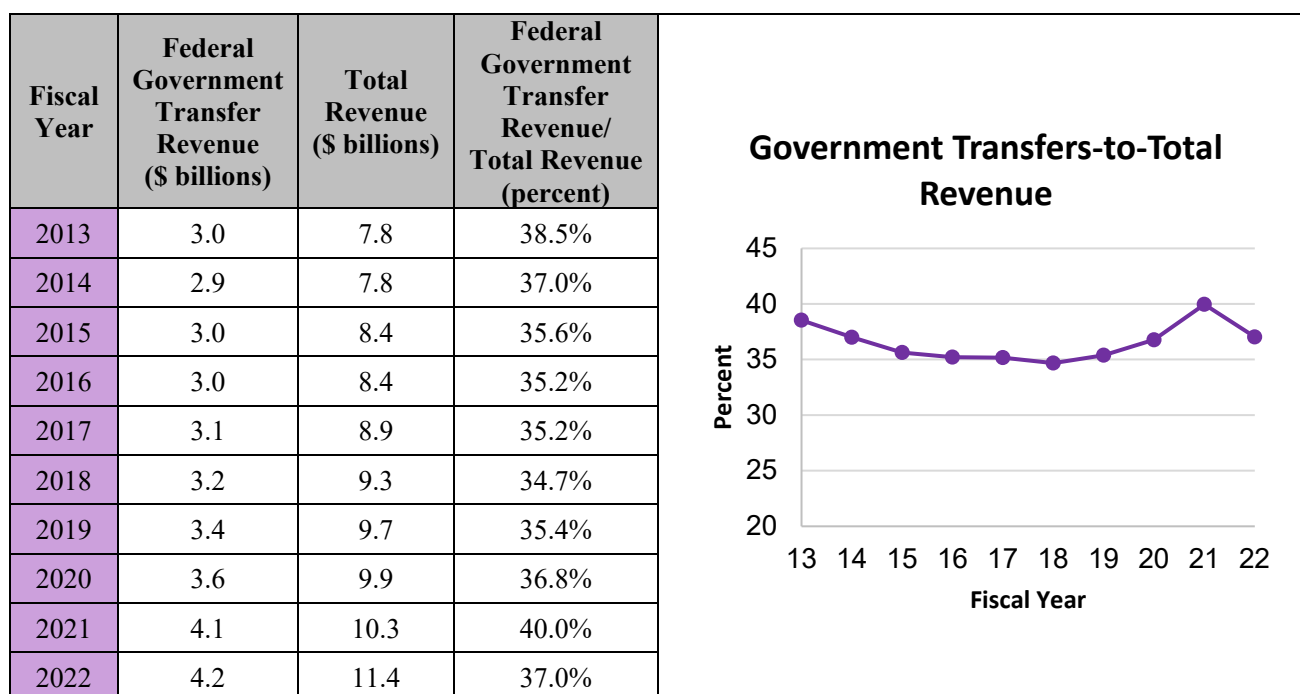
**3.65**      We present the government transfers-to-total revenues vulnerability indicator in Exhibit 3.16.

***How to read exhibit***      **3.66**      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 3.16 - 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

- 3.67** 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.
- 3.68** The Province's risk of exposure to foreign currency fluctuations has been mixed over time. The amount of Net Debt in foreign currency has remained at \$2.8 billion over the last three years. The Province, however, offsets/reduces this risk by having an effective hedging strategy.
- 3.69** The Province uses several alternatives to hedge (reduce) risk associated with debt repayable in foreign currencies such as:
- 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).

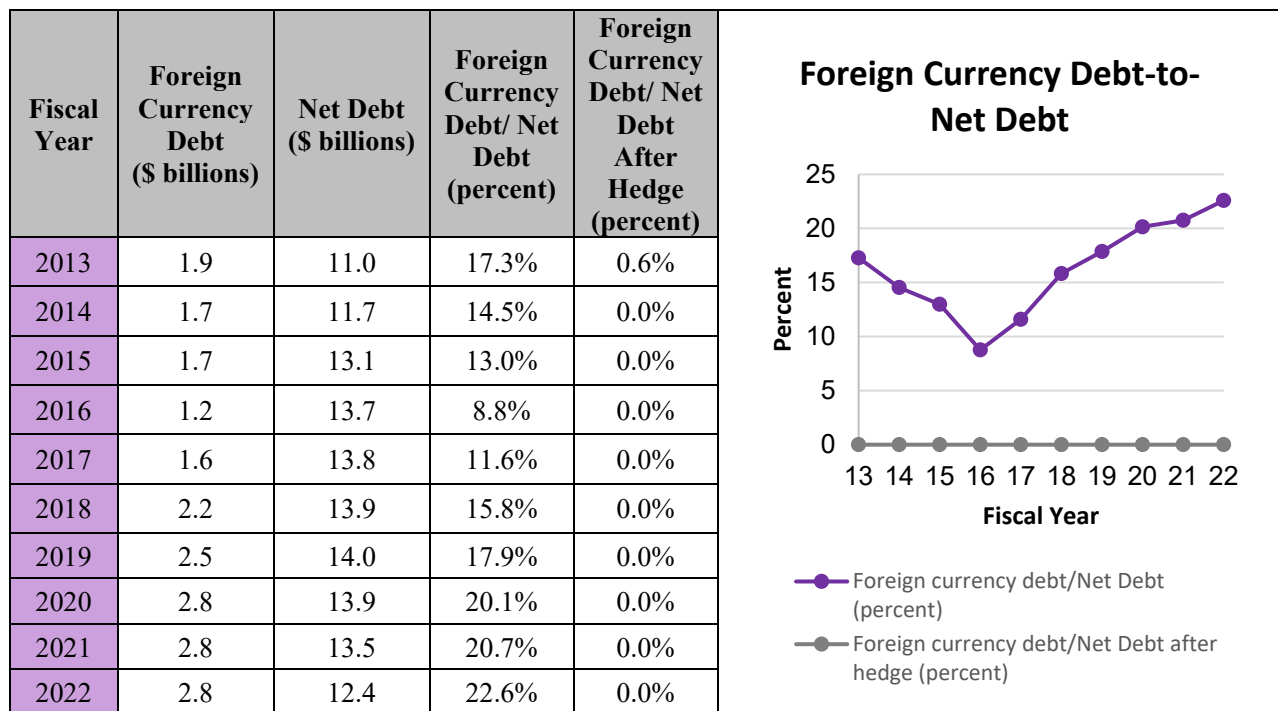
**3.70** We present the foreign currency debt-to-net debt vulnerability indicator in Exhibit 3.17.

**How to read exhibit**

**3.71** Exhibit 3.17 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 3.17 - 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 4

## 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

## Introduction

- Deputy Auditor General signed unqualified audit opinion***      **4.1**      On September 22, 2022 the Deputy 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, 2022. This opinion indicates the Province’s consolidated financial statements are presented fairly in accordance with Public Sector Accounting Standards.
- 4.2**      To reach an opinion on the consolidated financial statements, we:
- perform audit work on the major programs and activities in government departments and Crown agencies;
  - audit significant revenue items;
  - audit a sample of expenses; and
  - examine internal controls of significant computer systems.
- Recommendations made to the Office of the Comptroller, government departments and Service New Brunswick***      **4.3**      In this Chapter, we present our significant findings and recommendations we made during our audit of the Province’s public accounts. We made recommendations to:
- the Office of the Comptroller;
  - the Department of Health;
  - the Department of Finance and Treasury Board;
  - the Department of Justice and Public Safety; and
  - Service New Brunswick.
- Recommendations made related to IT systems***      **4.4**      We also present our findings regarding Oracle Fusion and the Province’s major outdated information technology systems. Oracle Fusion is the new enterprise resource planning system the Province started using this year to replace some of the outdated systems.
- 4.5**      In our view, while all of our recommendations were important to report to the Comptroller, government departments and Service New Brunswick, they were

not, however, sufficiently large in monetary or qualitative terms to affect our opinion on the consolidated financial statements.

- 4.6** 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.
- 4.7** NB Power's ability to self-sustain its operations, the Auditor General's access to Vestcor and certain aspects of the Province's conversion to a new ERP system were among the most significant areas of concern we found in our audit. These items as well as others were included in a presentation we made to the Province's audit committee at the end of our audit.

### **NB Power's Ability to Self-Sustain its Operations Remain a Concern**

***Ongoing concerns regarding NB Power's ability to self-sustain operations***

- 4.8** For several years, we have reported our concerns that NB Power may not be able to self-sustain its operations in the long-term without involvement or assistance from the Province. Our concerns are due to continued elevated debt levels, nominal annual net earnings, new operating challenges and significant capital investments which will be required in the future. Appendix I provides a summary of our recent reports regarding these concerns.
- 4.9** NB Power is 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.

***Accounting method for NB Power will change if it can no longer self-sustain its operations***

- 4.10** If NB Power was ever determined to no longer be self-sustaining (e.g. through rate payers), it would no longer be considered a Government Business Enterprise for accounting purposes. If this were to occur, the Province's consolidated financial statements would be required to include NB Power's:
- \$7.9 billion in assets and regulatory balances;
  - \$7.2 billion in debt and liabilities;
  - \$2.2 billion in revenues; and

***Province's financial results could change significantly***

- \$1.9 billion in expenses.

- 4.11** Including these balances in the financial statements could cause significant changes to the Province's financial results. This could impact items such as:
- the Province's annual surplus and net debt (the importance of these items is included in Chapter 2 of this Volume);
  - the indicators of the Province's sustainability, vulnerability and flexibility (see Chapter 3 of this Volume for more information on the indicators); and
  - the Province's credit rating.
- 4.12** This would also result in a much more complicated process to account for NB Power in the consolidated financial statements and significantly increase the risk in our audit work.

***Factors affecting ability to self-sustain operations face significant challenges in the future***

- 4.13** We noted again this year NB Power's ability to self-sustain its operations will continue to face important challenges in the future. During our audit this year, we noted the following areas of significant concern:
- Significant investments will be required in the future for items such as refurbishing the Mactaquac dam which has an estimated cost of over \$3 billion.
  - NB Power's debt load is approximately \$5 billion and NB Power is still not meeting the 80/20 debt-to-equity ratio required by the *Electricity Act*. The current debt to equity ratio is approximately 87/13 and NB Power's long-term plan indicates they do not expect to meet this ratio until 2027.
  - Investing in new generating and transmitting infrastructure and implementing changes to the *Electricity Act* may also have an impact on future operations.
  - This year, NB Power had net earnings of \$80 million. We noted if unrealized investment income (mark-to-market) of \$46 million is removed, this is the first year NB Power has made a profit on its own operations since 2016.

- We monitor NB Power every year***      **4.14**      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, 2022, we noted a more robust analysis (which includes realistic and specific plans on how NB Power will be financially self-sufficient in the future) is needed for the next fiscal year. Given the challenges identified above, the situation remains very concerning.
- Recommendation***      **4.15**      **We recommend the Office of the Comptroller continue to update and improve its accounting analysis for NB Power to include items such as:**
- **NB Power's forecasts of net earnings;**
  - **estimated costs related to refurbishing the Mactaquac dam;**
  - **the target date to meet the 80/20 debt-to-equity ratio required by the *Electricity Act*; and**
  - **the impact of changes to the *Electricity Act*.**
- 4.16**      We will continue to monitor the accounting for NB Power in the Province's financial statements and report our concerns regarding its ability to self-sustain its operations, as well as concerns, if any, related to an independent rate setting process being maintained.

### Auditor General Access to Vestcor Remains Unresolved

- Auditor General access to Vestcor remains unresolved***      **4.17**      For the past two years, we have reported on how Auditor General access to Vestcor remains unresolved. This situation occurred in 2020 when Vestcor denied the Auditor General unrestricted access to view the Vestcor Investment Entities' (VIE) external audit files as part of our audit of the Province's 2020 financial statements. In our view, this access was necessary given the volatility in financial markets between December 31, 2019 and March 31, 2020.
- Vestcor manages over \$ 15 billion in pension plan assets for the public service and teachers***      **4.18**      The VIE manage over \$15 billion in public sector pension plan assets of the New Brunswick Public Service and Teachers' Pension Plans (NBPSPP and NBTPP).

- 4.19** For the past two years, we have also reported how we were able to work co-operatively with the OOC to have the VIE auditor provide information needed for our work.
- 4.20** During our work each year, we design audit procedures to respond to areas of audit risk and our procedures will change from year to year as audit risks change. While there was some volatility in the financial markets between December 2021 and March 2022, it was significantly less than the volatility which occurred between December 31, 2019 and March 31, 2020. As a result, we did not require access to review the VIE external auditor files this year.
- Access to Vestcor could become critical to our audit** **4.21** While the circumstances of our audit risk may change from year to year, the underlying issue of access to Vestcor remains unresolved. If extreme market volatility similar to March 2020 were to recur in the future around year-end, the issue regarding access to Vestcor would again be critical to our audit. We would again require more audit assurance in this situation to address the underlying investment audit risks.
- A permanent solution is needed** **4.22** While we have been able to work cooperatively with the OOC, in our view, a permanent solution is still needed for our audit of the Province's financial statements.
- Recommendation** **4.23** **We again recommend the Office of the Comptroller work with Vestcor to allow the Auditor General unrestricted access to pension plan information including access to Vestcor Investment Entities.**
- Transparency improvements – Vestcor report on controls provided for the first time, but a more extensive report is needed** **4.24** This year, for the first time, Vestcor provided a SOC 1 Type 1 external auditor's report on the description of its investment management and pension and benefits administration system and on the suitability of the design of its controls. Although we were pleased to see some transparency improvements with this new report, the report was dated as at December 31, 2021 and we would typically see this report cover a larger period of time such as in a SOC 1 Type 2 (Type 2) report.
- 4.25** We were informed Vestcor plans to expand this report in the future with a Type 2 Report covering the period of January 1, 2022 to December 31, 2022. In our view,



obtaining a Type 2 report is needed given Vestcor's stated role as an external services provider to the Province.

**Recommendations**

- 4.26 We recommend the Office of the Comptroller review Vestcor's planned SOC 1 Type 2 report on controls covering the period of January 1, 2022 to December 31, 2022 before the 2022-2023 public accounts audit.**
- 4.27 We also recommend the Office of the Comptroller follow up on any exceptions or irregularities noted in the report, especially any found to relate to entities within the government reporting entity.**

**Updates Needed to Policies/Legislation and Other Accounting Issues**

***Policies need to be updated to support and authorize billions of dollars in payments***

- 4.28** As part of our work, we made other recommendations to the OOC, the Department of Health (DOH), the Department of Finance and Treasury Board (FTB), the Department of Justice and Public Safety (JPS) and Service New Brunswick (SNB). These recommendations are summarized in the sections below.
- 4.29** This year, the Province started replacing some of its outdated IT systems with a new Enterprise Resource Planning (ERP) system called Oracle Fusion (Fusion). The new Fusion system processed approximately \$6 billion in payments in 2022 and we found key policies to support and authorize these payments have not been updated or put in place.
- 4.30** In our view, not having updated policies for approval of payments increases risk of fraud or error. Updating these policies is necessary under the *Financial Administration Act* and is also necessary to reflect current processes and terminology as a result of converting to Fusion. Educating and training departmental staff will be a critical piece of these policy updates.

- Recommendations**
- 4.31** We recommend the Office of the Comptroller (in conjunction with the Department of Finance and Treasury Board) review, and update as necessary, Administration Manual Policies AD-6402 – Approval of Payments and AD-6405 – Purchase Card to reflect current processes and technology.
- 4.32** We recommend the Office of the Comptroller educate departments on what is required under these updated policies, especially with regards to external payment systems.
- Errors in accounting and year-end account reconciliations**
- 4.33** During our work, we found numerous issues relating to how transactions were accounted for and how year-end reconciliations were prepared. Some examples of issues we found include the following:
- We found issues where bank reconciliations and cash on hand reconciliations were either not prepared or contained errors.
  - Transactions were recorded in the wrong account on the financial statements.
  - The Department of Transportation and Infrastructure (DTI) does not review the estimate of the useful lives of its tangible capital assets on an annual basis. These amounts are used to estimate amortization expense and should be reviewed yearly to ensure useful lives of assets are still appropriate. DTI amortization expense this year was approximately \$345 million. We were informed DTI only performs this review periodically.
- 4.34** We also noted the recurrence of prior year misstatements which include items such as the following:
- Statute barred or very old receivables still need to be written-off. We found departments have not yet requested to write off these amounts as required by the *Financial Administration Act*.
  - Certain entities are still accounted for using the transaction method of accounting instead of the consolidation method. We found these amounts continue to grow each year.

- 4.35 Although the OOC provides departments with accounting support, the issues we found demonstrate training is required on how to account for transactions and how to prepare year-end balance sheet and income statement account reconciliations. In our view, Section 14 of the *Financial Administration Act* - Duties of the Comptroller indicates the OOC would be a leader in addressing these issues and additional support, training or review for departments may be required.
- Recommendation** 4.36 **We recommend the Office of the Comptroller, in conjunction with government departments, ensure transactions are properly accounted for and year-end account reconciliations are properly prepared.**
- Financial Administration Act needs to be amended** 4.37 For the past four years, we have made multiple recommendations to the Executive Council Office, the Department of Finance and Treasury Board, and the OOC regarding the need for the *Financial Administration Act* (FAA) to be updated. The FAA remains out of date and does not align with current accounting standards or governance best practices.
- 4.38 Although we were pleased to see the OOC has assembled a project team with the objective of updating the FAA, we noted the FAA was not amended during fiscal 2022.
- Recommendation** 4.39 **We again recommend the Office of the Comptroller take the lead to amend the *Financial Administration Act* and develop a timeline to complete this work in 2023.**
- 4.40 In general, the OOC agreed with our recommendations and intends to address our concerns in the coming year.

## Inventory and Accounting Issues - Department of Health

*Millions of dollars in inventory received to help respond to the COVID-19 pandemic*

- 4.41** This year, we made recommendations to the Department of Health (DOH) as a result of our audit. Health-related items are a significant component of the consolidated financial statements. For example, in 2022, health expenditures totaled \$3.6 billion which represents 34% of all expenditures in the Province.
- 4.42** This year, to assist with the response to the COVID-19 pandemic, the Federal government donated point-of-care tests and personal protective equipment to the Province. These donated items were recorded in the consolidated financial statements by DOH. This year, DOH recorded approximately \$91 million in revenue related to this inventory and, at year-end, approximately \$39 million remained in inventory.
- 4.43** We found the Department has contracted daily management and shipping logistics of this donated inventory to an external third party. The third party is responsible to receive the goods at its two warehouses located in the province.
- 4.44** As part of our work, we found the following issues in how the third party fulfills its duties under the contract with DOH.
- A physical year-end inventory count was only performed at one warehouse. Under the terms of the contract, we would expect this to include a physical count of all inventory on hand at year-end. At the time of our work, we were informed accounting staff of DOH were not aware these counts had not been performed.
  - Inventories of rapid tests were recorded in the opposite warehouse from where they were physically stored. The terms of the contract require DOH be provided with bi-weekly inventory reports. In our view, recording inventory in an opposite location increases the risk of error in these reports.
- 4.45** We also found DOH made errors when accounting for this inventory. As a result of our work, DOH recorded an adjustment to increase revenue and expenses each by \$16 million.

<b><i>Oversight of agreements with third parties who manage critical inventory needs improvement</i></b>	<b>4.46</b>	While, in our view, these issues did not result in a material misstatement, they demonstrate increased diligence is needed by DOH to monitor and manage the terms of the contract with the third party.
<b><i>Recommendation</i></b>	<b>4.47</b>	<b>We recommend the Department of Health review its agreement with the third party to ensure it complies with the terms of the agreement, especially with regards to reporting COVID-19 related inventory.</b>
<b><i>Errors in year-end accounting processes</i></b>	<b>4.48</b>	We made other recommendations for DOH to improve its year-end accounting processes. The issues we found include the following. <ul style="list-style-type: none"> <li>• DOH was not able to provide a detailed listing to support an accrued expenditure balance of \$66 million.</li> <li>• DOH could not explain a decrease of approximately \$20 million in this same account balance from 2021.</li> <li>• DOH was not able to identify certain payments to Regional Health Authorities. These payments are required to be identified (and eliminated) as part of consolidating the Province's financial statements.</li> </ul>
	<b>4.49</b>	Although we were informed these items were partially caused by lack of human resources within DOH, investigating these issues required a significant amount of unplanned time for audit staff and staff of DOH. In our view, these issues demonstrate increased diligence is needed when performing year-end accounting processes.
<b><i>Recommendations</i></b>	<b>4.50</b>	<b>We recommend the Department of Health train staff on how to perform year-end accounting processes.</b>
	<b>4.51</b>	<b>We also recommend the Department of Health, as necessary, consult with the Office of the Comptroller when performing year-end accounting processes.</b>

- 4.52 Overall, the Department of Health accepted our recommendations and intends to address our concerns in the coming year.

**Property Tax Accounting Issues –  
Department of Finance and Treasury Board**

- 4.53 This year, we made a recommendation to the Department of Finance and Treasury Board (FTB) related to accounting for property taxes. FTB processes over \$1.4 billion in property taxes receivable, \$560 million in revenue and \$440 million in deferred revenue.
- Errors found in property tax accounting related to recent government decisions*
- 4.54 During our audit, we found issues related to year-end accounting for property taxes. Many of these issues occurred because FTB staff did not properly account for the impact of recent government decisions. We found the following items were not accounted for properly:
- a new tax relief program (approximately \$12 million);
  - a credit balance (approximately \$28 million) which occurred as a result of the delay in tax billing; and
  - a variance (approximately \$10 million) in one account related to clearing revenues and expenses.
- 4.55 In our view, these issues show increased diligence is needed by staff when preparing year-end accounting entries and additional review is needed when accounting for new or unusual property tax transactions. We also believe Department staff should consult with the Office of the Comptroller when accounting for new or unusual property tax transactions.
- Recommendation*
- 4.56 **We recommend the Department ensure an additional level of review is in place either internally or externally by Office of the Comptroller when accounting for new or unusual property tax transactions. Evidence of this review should be retained for audit purposes.**

- 4.57 The Department of Finance and Treasury Board agreed with our recommendation and intends to address our concerns in the coming year.

**Collection of Disaster Financial Assistance Receivable -  
Department of Justice and Public Safety**

*Department of Justice and Public Safety - \$110 million of uncollected disaster financial assistance receivables*

- 4.58 The Department of Justice and Public Safety (JPS) has approximately \$110 million of uncollected disaster financial assistance receivables from the Federal Government. Some of these receivables are from disaster events as far back as 2014 and include items such as:

- tropical storm Arthur in 2014 (\$10 million); and
- various heavy rain and flooding events between 2014 and 2019 (\$97 million).

We are concerned with the length of time taken to collect these receivables.

*Some money may not be collected until 10 years after a disaster occurs*

- 4.59 To receive this money, JPS must submit claims for disaster assistance to the Federal government. Normally, JPS has up to five years after the Governor General in Council has authorized a disaster event to submit a claim. We found the Federal government has approved JPS's requests to extend some of these claims beyond five years. For example, we noted approximately \$41 million of uncollected receivables from 2014 and 2015 have been extended to deadlines in May and June 2024.

- 4.60 Although the Federal government provides some advance payments and has approved JPS's requests to extend these deadlines, in our view, timelier cash receipts and receivables collection could help reduce the cost of borrowing for the Province.

*Recommendation*

- 4.61 **We again recommend the Department of Justice and Public Safety improve its processes to have timelier cash receipts and receivables collection for disaster financial assistance receivables.**

- 4.62 The Department of Justice and Public Safety agreed with our recommendation and intend to address our concerns in the coming year.

## Improvements are Still Needed in SNB's Property Assessment Processes

	<b>4.63</b>	For the past three years, we have reported 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.
<i>Property assessment values are a critical component in calculating provincial revenue</i>	<b>4.64</b>	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 480,000 properties which generate approximately \$76 billion in tax assessment base for the Province and municipalities.
<i>Some processes have improved</i>	<b>4.65</b>	During our audit this year, we found SNB continues to respond to our past recommendations and has improved some of its property assessment processes. This includes creating a Quality Assurance unit and improving the accuracy of some property assessment data.
<i>We are still concerned with delays in validating property assessment data</i>	<b>4.66</b>	We remain concerned, however, with continued delays in validating property assessment data from the Fast Track initiative and the timeline for when properties are visually re-inspected. We noted these delays during previous years, and in our view, they increase the risk of error in property assessment values.
<i>Approximately 61,000 properties with Fast Track assessment data are still not fully validated</i>	<b>4.67</b>	<p>Fast Track property data refers to properties which were assessed in 2017 as part of the Fast Track initiative. This initiative used certain methodologies which resulted in numerous errors in property assessment data. At the time of our work in 2022, we were informed that of the approximately 78,500 properties from this initiative:</p> <ul style="list-style-type: none"> <li>• SNB has not yet started to validate data on approximately 14,000 properties (18% of total).</li> <li>• SNB has started, but not yet completed, the process of validating data for approximately 47,000 properties (60% of total).</li> <li>• SNB has fully validated approximately 17,500 properties (22% of total).</li> </ul>



<b><i>No change in number of Fast Track properties fully validated</i></b>	<b>4.68</b>	Although SNB made some progress this year in the number of properties it has started to validate, we noted, however, the total of 17,500 properties with fully validated data is unchanged from last year.
<b><i>Approximately 200,000 properties have not been visually re-inspected in more than ten years</i></b>	<b>4.69</b>	<p>During our work, we also found SNB has not visually re-inspected many properties within established timelines. SNB has an internal timeline to visually re-inspect all properties in the province every ten years. We found, however, the following properties have not been visually re-inspected within SNB's timeline of ten years.</p> <ul style="list-style-type: none"> <li>• Approximately 197,000, or 52%, of all residential properties. Residential properties include items such as homes.</li> <li>• Approximately 5,800, or 18% of all non-residential properties. Non-residential properties include items such as shopping centres and gas stations.</li> </ul> <p>We also noted the International Association of Assessing Officers recommend properties be re-inspected, as a best practice, every 4 to 6 years.</p>
<b><i>Recommendations</i></b>	<b>4.70</b>	<b>We again recommend SNB proceed as quickly as possible to validate the assessment data of properties which were assessed using methodologies from the 2017 Fast Track initiative.</b>
	<b>4.71</b>	<b>We recommend SNB visually reinspect properties within an appropriate time period, such as the timeline suggested by best practices (every 4 to 6 years) or, at a minimum, the internal timeline set by SNB (every 10 years).</b>
	<b>4.72</b>	Overall, SNB agreed with our recommendations and intends to continue its work in the coming year to improve property assessment processes and address our concerns.

## Oracle Fusion System – AGNB Audit Testing and Findings

<b><i>Fusion is the Province's new enterprise resource planning system</i></b>	<b>4.73</b>	<p>This year, the Province started using the Oracle Fusion (Fusion) enterprise resource planning system to replace some of its outdated systems. For the first time, transactions such as payments, payroll, and journal entries were processed by Fusion and recorded in the Province's consolidated financial statements. Fusion also introduced a new chart of accounts and was used as the book of record (general ledger) for the first time this year.</p>
<b><i>Fusion was a significant risk for our audit this year</i></b>	<b>4.74</b>	<p>Given the substantial size and breadth of implementing the Fusion system, we considered it a significant risk for our 2022 audit. This is because Fusion is a new, complex IT system and issues may arise when:</p> <ul style="list-style-type: none"> <li>• converting legacy data;</li> <li>• processing transactions; and</li> <li>• ensuring data integrity remains in place.</li> </ul>
	<b>4.75</b>	<p>To address this significant audit risk, we performed detailed testing on the Fusion system. These procedures were also designed to ensure amounts recorded and processed by Fusion are materially complete and accurate.</p>
<b><i>Auditing Fusion requires a significant amount of audit time</i></b>	<b>4.76</b>	<p>A significant amount of extra audit time was, and will continue to be, required for our Office to respond to this risk and audit the Fusion system. For example, transactions are processed either in Fusion or the legacy enterprise resource planning system and we performed testing to address the risk of duplicate transactions. We also found, as a result of a new chart of accounts, departments often initially recorded transactions incorrectly and made many adjustments throughout the year. This resulted in an extra layer of data for us to audit.</p>
	<b>4.77</b>	<p>As part of our work over Fusion this year, we:</p> <ul style="list-style-type: none"> <li>• performed audit procedures to verify opening balances in the Fusion system were transferred correctly;</li> <li>• obtained an understanding of significant system controls and processes;</li> </ul>

		<ul style="list-style-type: none"> <li>• verified amounts processed and recorded were accurate and complete; and</li> <li>• audited relevant control activities and processes used by the Office of the Comptroller to prepare financial statements and disclosures using information from multiple systems.</li> </ul>
<b><i>Recommendations made to address internal control weaknesses in Fusion</i></b>	<b>4.78</b>	<p>As a result of our work, we identified weaknesses related to the Fusion system and made recommendations to the Department of Finance and Treasury Board, the Office of the Comptroller and Service New Brunswick. We found weaknesses in:</p> <ul style="list-style-type: none"> <li>• payments to vendors;</li> <li>• journal entries;</li> <li>• employee payroll;</li> <li>• monitoring certain aspects of Fusion; and</li> <li>• correcting variances or errors.</li> </ul>
<b><i>Recommendations made to improve existing processes</i></b>	<b>4.79</b>	<p>As part of our work, we also made recommendations to improve existing processes in place such as:</p> <ul style="list-style-type: none"> <li>• reporting capabilities in Fusion; and</li> <li>• how successful data conversions are documented.</li> </ul>
<b><i>Implementing our recommendations is important to address risks</i></b>	<b>4.80</b>	<p>In our view, given Fusion is still early in its life cycle, early implementation of our recommendations is important to reduce risks or exposure regarding the control weaknesses we found.</p>
<b><i>Some findings are sensitive</i></b>	<b>4.81</b>	<p>We are not publishing the details of our work over Fusion or other IT systems. This is due to the specific 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 have summarized our observations and provided a brief overview of the most significant findings.</p>
<b><i>Fusion's scope is extensive</i></b>	<b>4.82</b>	<p>The scope of the Oracle Fusion Enterprise Resource Planning project is extensive and will require multiple years to fully implement. Fusion will be used by Part I (departments and some Crown agencies), Part II (school districts), and the Community Colleges. The system will cover many areas such as:</p> <ul style="list-style-type: none"> <li>• payroll and human resource management;</li> <li>• procurement (purchasing);</li> </ul>

- finance (payments, general ledger, fixed assets, cash management, etc.);
- grant management; and
- other areas such as residential tenancies.

***More audit work will be required in the future as Fusion continues to be implemented***

**4.83**

Given certain modules in Fusion were only in place for part of the fiscal year, or have not been implemented yet, we will perform additional audit work in the upcoming fiscal year and may have additional findings.

***No date for when Oracle Fusion will be complete***

**4.84**

The Department of Finance and Treasury Board does not have a date for when Fusion will be completely implemented. Exhibit 4.1, shows progress to date and a tentative timeline for continued progress. These dates are subject to change depending on actual progress. As the team responsible for Fusion works through the different stages of implementation, the schedule is revised. Since a date for system completion has not been set, we are unable to comment on if the system implementation is on schedule.

## Exhibit 4.1 - Fusion Implementation: Progress To Date and Tentative Timeline

Release	Description	To Replace	Comments
<b>Releases Completed by end of Fiscal 2022</b>			
1	Fusion General Ledger (GL) goes live	Existing Oracle General Ledger (GL) for Part 1, Part 2 and CCNB/NBCC Government	<ul style="list-style-type: none"> <li>Existing Oracle GL is still operating and transactions are transferred to the Fusion GL regularly.</li> <li>Existing Oracle GL and Fusion GL reconcile.</li> <li>Existing Oracle GL is the official book of record.</li> </ul>
2	Fusion Payables Module goes live	Existing system to input invoices (IPM)/ Oracle for Part 1 Government	<ul style="list-style-type: none"> <li>Existing IPM system is still operating but in very limited circumstances.</li> <li>Existing Oracle GL is still operating and transactions are transferred to the Fusion GL.</li> <li><b>Official book of record is now the Fusion GL.</b></li> </ul>
3	Fusion Human Resources*, Payroll and Expenses Modules goes live	Existing payroll system – HRIS and existing expense system iExpense for SNB, FTB, and organizations whose payroll is processed by FTB.	<ul style="list-style-type: none"> <li>First wave of Fusion payroll module.</li> </ul>
<b>Releases to be Completed in Fiscal 2023</b>			
4	Planning and Budgeting Capital and Operating Budgets	Existing budgeting systems for Part 1, Part 2 and CCNB/NBCC	<ul style="list-style-type: none"> <li>Budget processes will be migrated to Fusion.</li> </ul>
5	Fusion Payables	Existing system to input invoices (IPM)/ Oracle and other legacy systems for NBCC/CCNB and LEG	<ul style="list-style-type: none"> <li>Existing IPM system is still operating but in very limited circumstances.</li> <li>Existing Oracle GL is still operating and transactions are transferred to the Fusion GL.</li> </ul>
6A	Project Costing	Existing project costing systems for ELG.	<ul style="list-style-type: none"> <li>Project costing processes will be switched to Fusion.</li> <li>At end of Fiscal 2022 this migration had started.</li> </ul>
6B	Fixed Assets	Existing fixed asset systems for Part 1 government and NBCC/CCNB.	<ul style="list-style-type: none"> <li>Fixed Asset processes will be switched in Fusion.</li> <li>At end of Fiscal 2022 this migration had started.</li> </ul>

\*Includes Core Human Resources functions, Time and Labour, Absence, Benefits and Recruitment

Exhibit 4.1 -Fusion Implementation: Progress To Date and Tentative Timeline (continued)

Release	Description	To Replace	Comments
<b>Releases to be Commenced in Fiscal 2023</b>			
7	Fusion Human Resources, Payroll and Expenses Modules	Existing payroll system - JD Edwards used by SNB and Kings Landing	<ul style="list-style-type: none"> <li>Employees who are paid by JD Edwards system will be transferred over to Fusion Payroll.</li> <li>Kings Landing will not use Employee or Manager Self Service or Recruitment.</li> </ul>
8	Fusion Human Resources, Payroll, Expenses and Project Costing Modules	Existing payroll system and expense system for DTI	<ul style="list-style-type: none"> <li>Employees in the Department of Transportation and Infrastructure will be paid out of Fusion Payroll and submit expenses in Fusion Expenses.</li> </ul>
9	Fusion Human Resources and Expenses Payroll Module	Existing Teachers' Payroll System and HRIS for ASD-E and DSF-NO	<ul style="list-style-type: none"> <li>Employees in the school districts will be transferred to Fusion Payroll.</li> </ul>
<b>Release Dates yet to be Determined</b>			
TBD	Accounts Receivable	Existing accounts receivable systems for Part 1, Part 2 and CCNB/NBCC	<ul style="list-style-type: none"> <li>Move Accounts Receivable processes into Fusion from legacy systems.</li> </ul>
TBD	Procurement	Existing procurement systems for Part 1, Part 2 and CCNB/NBCC	<ul style="list-style-type: none"> <li>Move procurement processes to Fusion.</li> </ul>
TBD	Fusion Human Resources, Payroll and Expenses	Existing payroll and expense systems for rest of Part 1 (HRIS), SNB (Meditech), rest of Part 2 (Gestion) and CCNB/NBCC (HRIS)	<ul style="list-style-type: none"> <li>Remaining employees to transfer to Fusion Payroll.</li> </ul>
TBD	Project Costing	Existing project costing systems	<ul style="list-style-type: none"> <li>Remaining departments will be switched over to project costing in Fusion.</li> </ul>
TBD	Talent Management and Learning	No existing talent management and learning systems	<ul style="list-style-type: none"> <li>Move talent management and learning processes to Fusion for Part 1, Part 2 and CCNB/NBCC</li> </ul>

Source: ERP Planned Deployment Schedule with comments from AGNB.

### IT Computer Systems Audited During the Provincial Financial Statement Audit

**4.85** During the audit of the Province's consolidated financial statements, we perform work on various computer systems other than Fusion. In Exhibit 4.2, we provide information on the other computer systems audited and if recommendations were made to each responsible department or Crown agency.

*Exhibit 4.2 - List of IT Systems/Areas Audited by AGNB in 2022 and if  
Recommendations were Issued to Management of the Department or  
Crown Agency*

IT System/Area	Department/Agency	Recommendations Issued Related to IT Systems*
Oracle Fusion	Finance and Treasury Board Service New Brunswick	<b>Yes</b>
Oracle financials (EBS)	Office of the Comptroller	<b>No</b>
Oracle input (IPM)	Service New Brunswick	<b>No</b>
Teachers' payroll	Education and Early Childhood Development	<b>Yes</b>
Employee payroll (HRIS)	Service New Brunswick	<b>Yes</b>
Property tax	Finance and Treasury Board	<b>No</b>
Property assessments	Service New Brunswick	<b>Yes</b>

*\* In this Exhibit, we only include recommendations which directly impact an IT system*

*Source: Prepared by AGNB.*

### Multiple Weaknesses in IT System

<b><i>Concerns with the nature, number and severity of system weakness</i></b>	<b>4.86</b>	In four of the seven computer system audits presented in Exhibit 4.2, we found multiple IT weaknesses. We are concerned with the nature, number and severity of the weaknesses given the significance of the systems examined.
	<b>4.87</b>	We made 12 recommendations relating to controls to reduce the risk of unauthorized access to systems. We found weaknesses in areas such as user access to data, security weaknesses in accessing systems, and lack of review of configuration changes.
<b><i>Strong controls needed to protect data</i></b>	<b>4.88</b>	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 increases.
<b><i>Inappropriate segregation of duties</i></b>	<b>4.89</b>	We found cases where risk exists relating to segregation of duties. Users had access to perform key functions without knowledge or approval of another person.
<b><i>Weaknesses with maintenance of system accounts</i></b>	<b>4.90</b>	We found weaknesses relating to how system accounts are maintained. These weaknesses related to both user accounts, as well as system administrator accounts.

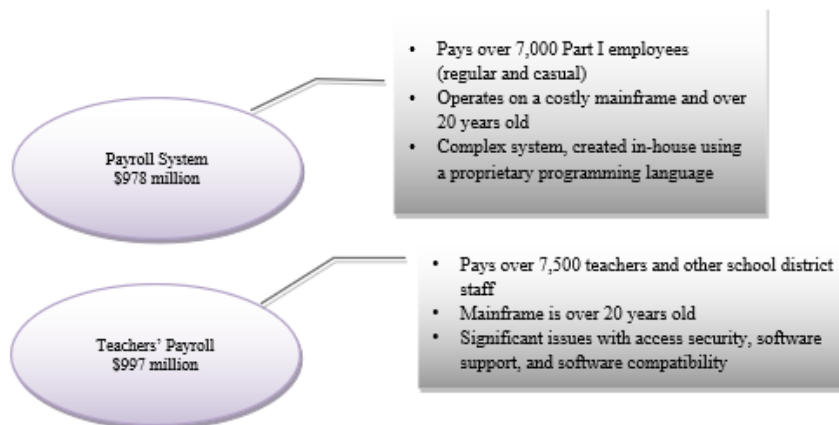


## Province Still has Major Outdated IT Systems

***Despite Fusion being implemented, major systems remain out of date***

**4.91** Despite Fusion being implemented this year, the Province continues to use major systems which are out of date. Exhibit 4.3 shows the Province's major outdated systems at March 31, 2022, dollars processed, and associated risks.

*Exhibit 4.3 - Province's Major Outdated Systems at March 31, 2022*



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

**4.92** These outdated systems process the majority of the Province's employee payroll and a failure of these IT systems would affect many civil servants. Replacing these systems should be a key priority and we are pleased to see the Province started replacing them.

***Some outdated systems still in use even after Fusion was implemented***

**4.93** This year, the Province started using Fusion to process provincial payments to vendors. In 2022, the Fusion payables module was implemented and processed over \$6 billion in payments. The legacy, outdated system, however, will remain in use to process certain payments. We found the legacy system processed approximately \$450 million in payments after the Fusion payables module was implemented.

***We will continue to audit the existing outdated systems***

**4.94** We will continue to audit existing outdated systems as long as they are still in use and still process a significant dollar value of transactions.

# Chapter 5

## Results of Crown Agency Financial Statement Audits

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# Results of Crown Agency Financial Statement Audits

## What We Found: Audits of Crown Agency Financial Statements

### *Unqualified audit opinions issued to all Crown agencies we audited*

**5.1** Each year, our Office conducts audits of Crown agency financial statements. Since our last report in February 2022, we completed not only the audit of the Province of New Brunswick’s financial statements, but also the financial statement audits of two large Crown agencies and two smaller Crown agencies. Of note, the two large Crown agency audits had added layers of complexity this year due to the implementation the new ERP Oracle Fusion software which required additional audit time and testing. As a result of our work, we issued unqualified (“clean”) audit opinions to each Crown agency we audited.

### *Recommendations related to payments, accounting estimates, and payroll are concerning*

**5.2** In almost every audit, we have audit findings and recommendations we present to management and the Board of Directors. This year, we made recommendations during all of our audits. Some of our recommendations were made to address weaknesses we found in:

- processing payments;
- preparing accounting estimates; and
- preparing and reviewing accounting and payroll transactions.

We are concerned with the number of weaknesses observed in these areas and that the same weaknesses appear across the different Crown agencies we audited.

**5.3** Exhibit 5.1 provides information on:

- the Crown agencies where we have completed audits since our last report (March-September 2022);
- the fiscal year-end completed;
- if we issued an unqualified audit opinion; and
- if recommendations were issued to the Crown agencies.

*Exhibit 5.1 - Summary of Crown Agency Financial Statement Audits Performed  
Between March 2022 and September 2022*

**Summary of Crown Agency Financial Statement Audits Performed  
Between March 2022 and September 2022**

<b>Crown Agency</b>	<b>Unqualified Audit Opinion Issued</b>	<b>Recommendations Issued</b>
<b>March 31, 2022 Year End Audits</b>		
Service New Brunswick	Yes	<b>Yes</b>
Opportunities New Brunswick	Yes	<b>Yes</b>
New Brunswick Legal Aid Services Commission	Yes	<b>Yes</b>
<b>March 31, 2020 Year End Audits</b>		
Provincial Holdings Ltd.	Yes	<b>Yes</b>

*Source: Prepared by AGNB.*

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

**5.4** While we did not find evidence that significant fraud or theft 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.

**5.5** In this chapter, we do not specifically discuss the results of all of our work over Crown agencies' financial statements. In the sections that follow, we present our significant concerns found during our audits of Crown agencies.

## Recommendations Made to Service New Brunswick

*Service New Brunswick is a large and complex audit*

**5.6** The financial statement audit of Service New Brunswick (SNB) is the largest and most complex Crown agency audit performed by our Office. SNB is a common services organization and provides essential services to both government and the taxpayers of New Brunswick. In 2022, SNB had revenues of approximately \$304 million and expenses of approximately \$297 million.

*Two recommendations made to Service New Brunswick to address risk of fraud when processing payments*

**5.7** This year, during our audit of SNB, we found two areas where weaknesses in internal control processes increased the risk of fraud when processing payments to vendors.

### **Payments Not Properly Authorized**

This year, we found 11 instances totalling approximately \$4.6 million where invoices were approved for payment which exceeded an individual's authorized spending limit.

In our view, approving payments above authorized spending limits increases the risk expenses were not incurred for government business, do not comply with legislative and government policy, and increases the risk goods or services have not been provided.

### **Duplicate Payments Made to Vendors**

This year, we found 26 instances where SNB made duplicate payments to vendors for the same invoices totalling \$239,000. SNB uses more than one accounting and payment processing system and, as a result, duplicate payments occur when SNB uses two different systems to pay the same invoice.

In our view, operating multiple accounting and payment systems increases the risk of fraudulent payments to vendors. At the time of our work, we found SNB had been refunded for ten of these instances totalling \$210,000.

We also have noted this item in prior year audits and we are concerned this weakness remains unresolved.

***Recommendations***

**5.8 We recommend SNB educate its staff on the authorized policies and processes in place when approving payments.**

**5.9 We again recommend SNB implement a new accounting and payroll system. If SNB expects an extended timeframe for completing this project, and if it is cost effective, SNB should process transactions in one system reducing the risk of duplicate payments, fraud and staff inefficiencies.**

***Three recommendations made to improve accounting processes***

**5.10 This year, we also made three recommendations for SNB to improve its accounting processes.**

***Errors in year-end accounting processes***

**5.11 One recommendation was for SNB to improve its year-end accounting processes. We found errors in year-end account reconciliations where:**

- reconciliations were not complete (items were missing);
- transactions were recorded to the wrong account;
- revenue reconciliations contained errors; and
- transactions were recorded in the wrong fiscal year.

In our view, these items show staff awareness and increased diligence is needed by SNB when preparing and reviewing year-end account reconciliations.

***Recommendation***

**5.12 We recommend SNB train staff on how to prepare and review year-end account reconciliations and how to record transactions near year-end.**

***Significant accounting estimates were not supported***

**5.13 Another recommendation was for SNB to provide support for significant accounting estimates included in the financial statements. We found SNB did not provide support for the estimate for retro-active salary payments to employees of approximately \$9 million which had not been paid at year-end.**

**5.14 We found this estimate was prepared by the Department of Finance and Treasury Board (FTB) and provided to SNB to include in its financial statements. In our view, given the significance of the estimate in SNB's financial statements, SNB should have taken steps to validate and provide support for the amount. Unfortunately, our Office was required to spend a significant amount of unplanned audit time to obtain support and information from FTB and**

then to audit the reasonableness and accuracy of the estimate.

***Recommendation***

**5.15 We recommend SNB provide support for significant accounting estimates included in the financial statements.**

***Process to estimate the useful lives of tangible capital assets needs to be improved***

**5.16** In addition, one recommendation was for SNB to improve its estimates of the useful lives of tangible capital assets. For example, we found instances where SNB could not provide evidence it had assessed the estimated remaining useful life of its capital assets and if all capital assets were included as part of this review. These items show the need for SNB to review, update and document as necessary, its estimates for useful lives and its policies for capital assets.

**5.17** SNB has over \$150 million in tangible capital assets, most of which are computer software and hardware, databases and systems and major equipment. This year, SNB recorded an amortization expense of almost \$9 million. Rapid changes in technology may cause assets to become obsolete faster than expected while other capital assets may continue to be in use after their useful life has passed.

***Recommendations***

**5.18 We recommend SNB review, update and document as necessary:**

- **the useful life estimates of its Tangible Capital Assets; and**
- **its policies for Tangible Capital Assets.**

**We recommend this review be performed on a regular basis such as annually and be retained for audit purposes.**

***Recommendation to improve internal control processes***

**5.19** Lastly, we recommended SNB improve its internal controls. We found 13 weaknesses in different areas such as payroll, payments to vendors and access to information technology systems. Ten of these 13 items were noted in prior years and again this year. We are concerned these weaknesses have not been corrected.

**5.20** We made a recommendation to SNB to review and resolve the weaknesses in internal control as soon as possible.

## Recommendations Made to Opportunities New Brunswick

*Opportunities New Brunswick is another large and complex audit*

**5.21** The financial statement audit of Opportunities New Brunswick (ONB) is another large and complex Crown agency audit performed by our Office. ONB promotes economic development in the province and provides loans and financial assistance to businesses. At March 31, 2022, ONB had approximately \$170 million in loans receivable and during 2022, ONB made approximately \$23 million in financial assistance payments.

*Recommendation made again this year to improve estimates of loan provisions*

**5.22** We made a recommendation again this year for ONB to improve its processes to estimate provisions on its loans. These provisions are amounts ONB estimates it will not be able to recover from loan recipients (i.e. defaulted loans).

*Loan provisions are a significant audit risk*

**5.23** The process to estimate the provisions for these loans is highly judgmental resulting in a risk of material error. As a result, these estimates are a significant audit risk for our Office and require a great deal of scrutiny.

**5.24** In our sample of 21 loans, we found 12 instances where ONB's estimates needed to be improved. For example, we found instances again this year where ONB assessed repayment history as being current and up-to-date when repayments:

- were being deferred (as authorized by ONB) due to poor financial health of the entity; and
- were not yet required under the terms of the loan agreement.

Although we believe ONB's financial statements are not materially misstated, in our view, using a process that assesses loans as current and up-to-date when re-payments are not actually required to be made increases the risk loan provisions will be materially understated. We were informed ONB plans to introduce a new process to estimate loan provisions in the upcoming year which is expected to address this weakness.

*Recommendation*

**5.25** We again recommend ONB review and update its process for estimating loan provisions to ensure loan repayment history is appropriately reflected in the estimate.



***Recommendations made again this year to address weaknesses when processing payments***

**5.26** We made recommendations for ONB to address processing payments weaknesses. During our work we found instances where ONB:

- paid a claim for financial assistance before the funding recipient was eligible to receive the payment (we also noted this item in prior year); and
- made a duplicate payment in error related to compensation.

In our view, these items all show staff awareness and increased diligence is needed by ONB when processing payments.

***Recommendations***

**5.27** We again recommend ONB only pay financial assistance claims when sufficient and appropriate support is provided to show claims are valid and eligible under the terms of financial assistance agreement.

**We recommend ONB ensure payments are appropriately reviewed and supported prior to payment.**

***Detailed listing of tangible capital assets is needed***

**5.28** Another recommendation was for ONB to prepare a detailed listing of its tangible capital assets. Fiscal 2022 was the first year ONB recorded tangible capital assets in its financial statements and we found ONB did not have a detailed listing of these items. ONB recorded the following capital assets this year.

- Software with a net book value of approximately \$630,000 was received from the Department of Post-Secondary Education, Training and Labour (PETL) as part of a restructuring transaction for the Population Growth Division.
- Land was recorded with an approximate value of \$390,000.

In our view, not having a detailed list of tangible capital assets increases the risk of error when calculating amortization expense and assessing if assets are to be impaired.

***Recommendation***

**5.29** We recommend ONB prepare a detailed and itemized list of its tangible capital assets.

## Recommendations Made to Provincial Holdings Ltd.

**5.30** Provincial Holdings Ltd. (PHL) is responsible for administering industrial development project investments for the Province. Significant events in recent years for PHL include the following items:

- Construction was completed on a floating dry dock worth approximately \$7 million. PHL is responsible to manage the dry dock and has leased it to a private company.
- PHL is also responsible to manage properties at a former mill site in Miramichi and a shipyard located in Bas-Caraquet.

**5.31** We understand PHL is in the process of working toward divesting its assets. Overall, we are pleased to see this moving forward. This is consistent with the spirit of our 2015 recommendation in our *Financial Assistance to Atcon Holding Inc and Industry* chapter, that the number of provincial entities which provide financial assistance to industry be rationalized, as an efficiency measure and to streamline administration.

***Recommendations made to improve accounting estimates***

**5.32** At March 31, 2020, PHL recorded approximately \$3.6 million in environmental liabilities and \$13.8 million in tangible capital assets. As part of our audit of PHL, we made two recommendations to improve accounting estimates for these items.

**5.33** One recommendation was to update the estimates for environmental liabilities. These liabilities relate to properties owned by PHL which are required to be remediated under environmental standards (such as landfills and lagoons). These estimates are highly judgmental and often require the use of an expert, such as an engineering firm.

***Out-of-date information used to estimate environmental liabilities***

**5.34** During our work, we found PHL used expert reports dating back to 2015 to prepare the estimate for environmental liabilities. We also found PHL had not considered the impact of inflation as part of the estimates. While we believe the estimates were not materially misstated, in our view, obtaining up-to-date engineering reports and reviewing these liabilities on a regular basis would improve the accuracy of these amounts.

***Recommendation***

**5.35 We recommend PHL obtain up-to-date engineering reports to support the estimate for environmental liabilities as soon as possible and, as a minimum, every five years or when conditions indicate an updated report is required.**

***Formal tangible capital asset policy is needed***

**5.36** Another recommendation related to PHL developing and implementing a formal policy for its tangible capital assets. We found PHL had no such policy and instead considered the Province's policy when accounting for and recording its capital assets. In our view, a formal tangible capital asset policy is needed to include items such as:

- cost thresholds for items to be capitalized, and
- estimates of the useful lives for calculating amortization expense.

While we believe the balances for tangible capital assets were not materially misstated, in our view, not having a formal policy increases the risk of error in the financial statements.

***Recommendations***

**5.37 We recommend PHL develop and implement a formal policy for its tangible capital assets.**

**We also recommend this policy be approved, and then regularly reviewed, by the Board of Directors.**

## Recommendation Made to New Brunswick Legal Aid Services Commission

*NBLASC provides legal services to eligible New Brunswickers*

**5.38** The New Brunswick Legal Aid Services Commission (NBLASC) provides criminal and family legal services for eligible residents of the Province. These services are funded primarily by the Department of Justice and Public Safety.

*Review of accounting and payroll processes needs to be improved*

**5.39** As part of our NBLASC audit this year, we made a recommendation to improve the review of accounting and payroll processes. Some of the issues we found in these review processes during our work included the following:

- Senior management did not review severance payments made to employees;
- Bi-weekly employee payroll registers were not always reviewed;
- Year-end account reconciliations were not reviewed; and
- There was no documented evidence the useful lives of tangible capital assets were reviewed.

Although, in our view, these items do not materially misstate the financial statements, not reviewing these key processes increases the risk of error in NBLASC's financial reporting.

*Recommendations*

**5.40** We recommend NBLASC develop and implement a procedure to review key accounting and payroll processes.

**We recommend evidence of this review be retained for audit purposes.**

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### Appendix I – Summary of Recent Concerns Raised by the Auditor General Regarding NB Power

Year, Volume and Chapter	Key Areas of Concern
<p><b>2018 Auditor General Report</b> <b>Volume III, Chapter 3</b></p>	<p><b>Government Interference</b></p> <ul style="list-style-type: none"> <li>• Future government interference in NB Power’s rate setting process may jeopardize the accounting method used to record NB Power in the Province’s consolidated financial statements. NB Power must be independent and self-sustaining to continue with current accounting treatment. The more governments interfere in NB Power’s business, the less independent NB Power is from government.</li> <li>• Respect for the independent rate setting regulatory process must exist in substance and form.</li> <li>• If NB Power was no longer classified as a Government Business Enterprise for accounting purposes, all debts, assets, liabilities, revenue and expenses would be included in the Province’s consolidated financial statements.</li> </ul>
<p><b>2019 Auditor General Report</b> <b>Volume III, Chapter 5</b></p>	<p><b>Ability to Self-Sustain Operations</b></p> <ul style="list-style-type: none"> <li>• Net earnings (surplus) continues to remain at a break-even level and debt remains at an elevated level</li> <li>• NB Power did not meet its requirement under the <i>Electricity Act</i> for an 80-to-20 debt-to-equity ratio again this year and does not expect to meet this requirement until 2029</li> <li>• Significant investment remains on the horizon for assets such as the Mactaquac Generating Station</li> <li>• 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</li> <li>• Significant future operating and financial challenges on the horizon such as carbon tax.</li> </ul>

## Appendix I – Summary of Recent Concerns Raised by the Auditor General Regarding NB Power (continued)

Date, Volume and Chapter	Key Areas of Concern
<p><b>2020 Auditor General Report</b></p> <p><b>Volume II, Chapter 3</b></p>	<p><b>NB Power’s Debt</b></p> <ul style="list-style-type: none"> <li>• NB Power has the highest debt to equity ratio at 94% compared to peer utilities in Canada.</li> <li>• Rating agencies signal NB Power is the Province’s largest contingent risk and debt to equity remains very high in relation to other provincial utilities.</li> <li>• Debt reduction is not a top priority</li> <li>• 10 Year Plans constantly move the debt-to-equity target date into the future.</li> <li>• Optimistic forecast leads to inaccurate projected net income and lack of debt reduction.</li> </ul>
<p><b>2020 Auditor General Report</b></p> <p><b>Volume III, Chapter 5</b></p>	<p><b>Ability to Self-Sustain Operations</b></p> <ul style="list-style-type: none"> <li>• NB Power’s ability to self-sustain its operations appears to be deteriorating from year to year and our concerns are increasing.</li> <li>• NB Power had a net loss of \$16 million in 2020 and it continues to carry a large debt load (\$4.8 billion).</li> <li>• A recent decision by NB Power to defer its approved 1.9% rate increase that would have been effective April 1, 2020 will further limit NB Power’s ability to repay debt in the future.</li> </ul>
<p><b>2021 Auditor General Report</b></p> <p><b>Volume III, Chapter 4</b></p>	<p><b>Ability to Self-Sustain Operations</b></p> <ul style="list-style-type: none"> <li>• We noted again this year NB Power’s ability to self-sustain its operations continues to worsen.</li> <li>• Income remains at break-even levels. If mark-to-market income is removed, NB Power has not made a profit since 2016.</li> <li>• NB Power did not meet its requirement under the <i>Electricity Act</i> for an 80-to-20 debt-to-equity ratio. Their long-term plan indicates they do not expect to meet this requirement until 2027.</li> <li>• Significant capital investments remain on the horizon for NB Power. NB Power’s regulator, the Energy and Utilities Board (EUB) has not always approved rate increases requested by NB Power.</li> </ul>



## Appendix II – 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 our work we became aware of the following losses. Our work is not intended to identify all instances where losses may have occurred and it would be inappropriate to conclude that all losses have been identified.

Department	Fiscal Year 2022 Amount of Loss
<b>Agriculture, Aquaculture and Fisheries</b> Stolen equipment	\$15,500
<b>Education and Early Childhood Development</b> Stolen property and equipment	\$50,866
<b>Justice and Public Safety</b> Stolen equipment	\$3,000
<b>Legislative Assembly</b> Phishing e-mail	\$500
<b>Natural Resources and Energy Development</b> Stolen and missing equipment	\$9,260
<b>Transportation and Infrastructure</b> Stolen property and equipment	\$197,920
<b>Total</b>	<b>\$277,046</b>

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