

REPORT OF THE

Auditor General of New Brunswick

Volume III
Financial Audit

2021

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 2021 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.
February 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 2021

What We Found

2021 Surplus

- 2021 annual surplus was \$409 million, the fourth consecutive annual surplus
- Revenues increased by \$426 million mostly because of increased transfers from the Federal government, \$301 million of which was one-time Covid-19 related funding
- Expenses increased by \$67 million, mostly due to increased spending for COVID-19 of \$123 million which is offset by decreased spending for financial assistance of \$79 million
- Opportunity to improve disclosure, especially related to pandemic spending, in the Province's financial statement discussion and analysis

Net Debt

- Net Debt decreased by \$470 million to \$13.5 billion, the second consecutive annual decrease which was largely caused by the surplus
- Net Debt is \$3.4 billion higher than it was ten years ago mostly due to:
 - total annual deficits and surpluses of \$1.4 billion and
 - capital asset costs of \$1.6 billion
- Net Debt per capita decreased \$700 to \$17,200
- Government's multi-year Net Debt reduction targets remain in place, as recommended in previous Auditor General reports

Results of our Audit of the Province of New Brunswick

- Remain concerned about NB Power's ability to self-sustain its operations
- Many key IT systems are out of date but the Province has started implementing a new Oracle Fusion system to replace them
- Auditor General's past recommendations regarding access to Vestcor remain unresolved

State of the Province's Financial Condition

- Two long-term trends deteriorated – one changed from favourable to unfavourable and the other changed from favourable to neutral
- One long-term trend improved from unfavourable to neutral and the remaining long and short-term trends were unchanged
- Past deficits and Net Debt prevent improvements in long-term sustainability

Results of our Audit of Crown Agencies

- Service New Brunswick made \$6.8 million in payments without proof the goods were received – evidence of receipt for \$4.8 million of these payments was eventually provided by SNB during our audit
- Opportunities New Brunswick needs to improve its process for estimating loan provisions to reflect current repayment information

Financial Audit – Key Messages from the Auditor General

New Auditor General Appointed

1.1 I was appointed Auditor General effective January 1, 2022. Deputy Auditor General, Janice Leahy, was appointed Acting Auditor General effective May 3, 2021 to December 31, 2021, and oversaw the work of the Office during this interim period.

1.2 This volume of the Report deals with matters arising from the Office’s financial audits of the Province of New Brunswick and its Crown agencies which were conducted for the year ended March 31, 2021. During the conduct of these audits, I served as Comptroller of the Province and, in that role, I was responsible for, or to some extent involved with, much of the material that was being audited by the Office of the Auditor General. Hence, a number of the observations and recommendations in this Report were directed to me in my former position as the Comptroller.

1.3 The chapters in this volume of the Report were drafted prior to my arrival in the Office of the Auditor General. Except for this introductory chapter, I have not edited the chapters, or made any comments on the material since I became Auditor General. 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 16, 2021

1.4 On September 16, 2021, the Office completed the Province’s public accounts audit and issued an unqualified audit opinion on the Province’s 2021 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.

Further signs of fiscal progress for year-ended March 31, 2021

1.5 As discussed in Chapter 2, the Office is again encouraged by the signs of fiscal progress for the year ended March 31, 2021 as the Province:

- incurred an annual surplus of \$408.5 million, the fourth consecutive surplus;

- decreased Net Debt by \$469.9 million, the largest decrease in the last ten years; and
- exceeded its Net Debt reduction target by \$340.6 million, and exceeded its budgeted surplus by \$316.1 million.

Fiscal progress is largely driven by Federal transfers

1.6 These results indicate the Province's fiscal situation is improving; however, a note of caution is required as the annual surplus this year was largely driven by increases in Federal government transfers. Corresponding increases in expenses during the year prevented the Province from recording a larger annual surplus.

1.7 In our view, for the Province to significantly improve its fiscal situation independently, over the long term, it will need to find a way to restrain spending, consider revenue increases, or a combination of both in the future.

\$18.3 billion in Funded Debt outstanding

1.8 We are also still concerned with the amount of Funded Debt outstanding, which is still at a record high of \$18.3 billion in 2021. 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, is \$647 million. This debt figure does not include \$4.7 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.

NB Power's ability to self-sustain its operations requires ongoing review

1.9 We remain concerned NB Power may not be able to self-sustain its operations over the long term. New capital, debt, environmental challenges and legislative changes will also impact our 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. As well, we will review changes, if any, that may impact the independence in the electricity rate setting process.

Vestcor concerns remain, but different audit risks for 2021

1.10 Another concern for the Office is our ongoing audit access to and relationship with Vestcor. This year's public accounts audit did not have the same audit risks regarding investment market changes (volatility) as the prior year. As a result, we did not require the same level of audit evidence from Vestcor and access issues did not arise, unlike the prior year. Our access to Vestcor is further described in Chapter 4; however, we have not received any further response or an implementation timeline for our

recommendations made in the February 2021 chapter regarding access to Vestcor.

1.11 If investment market volatility recurs at future year ends, similar to March 31, 2020, our Vestcor access issues could reoccur. As a result, Vestcor's accountability to government, the Legislative Assembly and the public remains a significant concern for our Office. This is especially so considering the significant amount of funds from public sources Vestcor manages, as well as its extensive government-entity client base.

Aging IT systems still in operations

1.12 For the past nine years, we have reported on the Province's outdated IT systems and the risks associated with operating this old technology. If these critical aging government systems fail before a solution can be fully deployed there will be a significant impact on government operations, such as employee payroll.

New system being gradually deployed

1.13 The Province is in the process of deploying a new system called Oracle Fusion as part of the new ERP (Enterprise Resource Planning) Project to replace the outdated systems at risk of failure. The new system will be a major focus in our next year's public accounts audit. Chapter 4 further discusses IT risks and provides an update on the progress of the new system.

Crown agency financial audit findings

1.14 In Chapter 5 of this report, we report on our work in 14 Crown agency audits, as well as significant recommendations made to Crown agencies. Many of the findings we comment on in this chapter indicate a possible risk of fraud or misstatement if the underlying issue remains unaddressed.

1.15 Service New Brunswick, Opportunities New Brunswick, New Brunswick Lotteries and Gaming Corporation, as well as Cannabis Management Corporation all have findings from our financial statement audit work included in Chapter 5.

Improvements still needed in SNB property assessment processes

1.16 For the past two 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 areas of quality control, data integrity and review of assessors work. These findings and recommendations relating to property assessment are presented in Chapter 4.

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

Acknowledgements

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

1.19 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. The Report I am presenting here today 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

Paragraph	Key Findings and Observations by Chapter
Chapter 2	Annual Surplus, Net Debt and Funded Debt
2.1	<i>Province recorded an annual surplus of \$409 million</i>
2.3	<i>The COVID-19 pandemic along with the Province's response to the pandemic resulted in significant increases and decreases to both revenues and expenses</i>
2.4	<i>Surplus is mostly due to increased revenue</i>
2.10, 2.12	<i>We identified opportunities where public disclosure could be improved</i>
2.15	<i>2021 surplus may not represent a continued trend</i>
2.18	<i>Net Debt at March 31, 2021 was \$13.5 billion</i>
2.18	<i>\$470 million decrease in Net Debt was mostly caused by the surplus</i>
2.22	<i>Net Debt is \$3.4 billion higher than it was 10 years ago</i>
2.28, 2.33	<i>New Brunswick's Net Debt as a percentage of GDP and Net Debt per capita and are mid-range among comparable provinces</i>
2.38	<i>Province has set multi-year Net Debt reduction targets</i>
2.40	<i>Funded Debt remains at a historic high of over \$18 billion</i>
2.44	<i>Debt servicing costs were \$647 million during the year (this cost approximately \$1,231 per minute in 2021)</i>
2.46	<i>Approximately \$24 billion in debt between the Province's Funded Debt, NB Power debt and New Brunswick Municipal Finance Corporation debt</i>
Chapter 3	State of New Brunswick's Financial Condition
3.1	<i>Financial condition largely unchanged from 2020</i>
3.1	<i>Two long-term trends deteriorated while one long-term trend improved</i>
3.5	<i>Past deficits and Net Debt prevent improvements in long-term sustainability</i>
Chapter 4	Results of our Audit of the Province of New Brunswick's Financial Statements
4.1	<i>Acting Auditor General issued an unqualified (clean) audit opinion on the Province's consolidated financial statements for the year ended March 31, 2021</i>

Paragraph	Key Findings and Observations by Chapter
4.8	<i>We have on-going concerns regarding NB Power's ability to self-sustain operations</i>
4.11, 4.12	<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>
4.14	<i>We remain concerned because factors affecting NB Power's ability to self-sustain operations continue to worsen</i>
4.23	<i>A permanent solution is needed for Auditor General access to Vestcor as part of our audit of the Province's financial statements</i>
4.29	<i>Past recommendations regarding Vestcor access remain unresolved</i>
4.30	<i>Recommendations made to the Office of the Comptroller to address accounting errors, improve accounting estimates and to amend the Financial Administration Act</i>
4.43	<i>Some property assessment processes have improved, however, we are still concerned</i>
4.44	<i>Four recommendations made to Service New Brunswick regarding property assessment processes</i>
4.50, 4.51	<i>Province has many outdated IT systems which process the majority of the Province's employee payroll and its payments to suppliers, nursing homes, municipalities, etc.</i>
4.53	<i>Province has started implementing a new Oracle Fusion system to replace outdated systems</i>
4.57	<i>Oracle Fusion is expected to be completed by March 2025</i>
4.63	<i>We found IT system weaknesses in all seven of our computer system audits and we are concerned with the nature, number and severity of the weaknesses</i>
Chapter 5	Results of Crown Agency Financial Statement Audits
5.1	<i>Unqualified audit opinions issued to all but one Crown agency</i>
5.8	<i>Recommendations made again this year to address risk of fraud at Service New Brunswick</i>
5.25, 5.29	<i>Recommendations made to Opportunities New Brunswick to improve estimates of loan provisions and address weaknesses when paying financial assistance claims</i>
5.34	<i>Recommendation made to New Brunswick Lotteries and Gaming Corporation - \$14.7 million in overpayments to First Nations is still unresolved after five years</i>
5.39	<i>Recommendations made to Cannabis Management Corporation to improve oversight of Cannabis Education Awareness Fund</i>

Exhibit 1.2 - Recommendations and Responses

Recommendation	Department's response	Target date for implementation
<p>4.16 We recommend the Office of the Comptroller update and improve its accounting analysis for NB Power to include items such as:</p> <ul style="list-style-type: none"> • information reported in the 2020 Report of the Auditor General, Volume II, Chapter 3; • significant business and operations events in the year; • government involvement in NB Power's operations; and • activity and decisions from the EUB. 	<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 four fiscal years. The analysis will continue to consider the characteristics of a Government Business Enterprise definition, as per Public Sector Accounting Standards PS 1300 – Government Reporting Entity.</i></p>	<p><i>Spring 2022</i></p>
<p>4.25 We recommend the Office of the Comptroller obtain audit assurance on controls in place at Vestcor (such as a CSAE 3416 report) before the 2021-2022 public accounts audit</p>	<p><i>The Office of the Comptroller will work with Vestcor to obtain assurance on the controls it has in place in connection with the 2021-2022 public accounts audit.</i></p>	<p><i>Spring 2022 with respect to the 2021-2022 public accounts audit</i></p>
<p>4.26 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.</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>4.33 We recommend the Office of the Comptroller work with the Department of Social Development to ensure:</p> <ul style="list-style-type: none"> • revenue for the Healthy Seniors Pilot Project is recognized for accounting purposes only when the terms specified in the agreement with the Public Health Agency of Canada have been met; and • the deferred revenue balance for the Healthy Seniors Pilot Project is properly recorded. 	<p><i>The Department of Social Development is reviewing the agreement to ensure revenue with respect to this one-time funding is recognized in accordance with Public Sector Accounting Standards PS 3410 – Government Transfers.</i></p>	<p><i>Fall 2021</i></p>
<p>4.36 We recommend the Office of the Comptroller work with departments to improve the quality of estimates in the consolidated financial statements.</p> <p>We also recommend estimates, at a minimum, are supported by historical data and include review of results of previous periods where appropriate.</p>	<p><i>The Office of the Comptroller will continue to work with departments and to provide guidance with respect to the preparation of estimates used in the consolidated financial statements.</i></p> <p><i>As estimates are prepared in the future, departments and the Office of the Comptroller will continue to determine these amounts using relevant and reliable data that is available. Efforts will be made to improve the documentation of the information considered in preparing the estimates.</i></p>	<p><i>Spring 2022</i></p>
<p>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 2022.</p>	<p><i>The Office of the Comptroller has assembled a project team with the objective of updating the <i>Financial Administration Act</i>.</i></p>	<p><i>In Progress</i></p>

Recommendation	Department's response	Target date for implementation
<p>4.45 We again recommend SNB improve the quality control processes used to verify the accuracy of property assessment values in advance of next year's assessment cycle.</p>	<p><i>SNB continuously enhances its quality control program to improve the accuracy of property assessments using a risk-based approach. In 2021 SNB Automated elements of the QC process using existing tools and resources. In 2022, SNB will enhance the review of excluded property information.</i></p> <p><i>The current Computer Assisted Mass Appraisal system does not provide the functionality to perform an automated quality control process. As a result, SNB is required to perform its QC manually until such time that new technology can be introduced.</i></p>	<p>Ongoing</p>
<p>4.46 We again recommend SNB proceed as quickly as possible to validate the assessment data of properties assessed using methodologies from the 2017 Fast Track initiative.</p> <p>We again recommend SNB develop and implement a re-inspection cycle to ensure all properties in the province are visually re-inspected. We again recommend this information be used when creating annual assessor work plans.</p>	<p><i>SNB recognizes the importance of validating the assessment data of properties that were assessed using the 2017 methodologies. SNB has enhanced the Data Validation process for efficiency and was able to focus on this initiative in 2021. This will continue in 2022.</i></p> <p><i>SNB recognizes the importance of re-inspecting properties. A plan to improve the re-inspection cycle is being developed and will be implemented and monitored once defined.</i></p> <p><i>Priority has been placed on achieving progress with the initiatives.</i></p>	<p>Ongoing</p>
<p>4.47 We again recommend SNB strengthen its processes to verify property assessment values by using a risk-based approach to review the work of assessors and assessment staff.</p>	<p><i>SNB has introduced several enhancements and intends to introduce more to improve the overall control environment. SNB will continue to enhance the review of assessor and assessment staff work with an emphasis on a risk-based approach.</i></p> <p><i>SNB performs Quality Assurance activities that include the review of processes and assessor and assessment staff work.</i></p>	<p>September 2022</p>

Recommendation	Department’s response	Target date for implementation
<p>4.48 We again recommend SNB review and resolve system access control weaknesses for the property assessment system (EvAN) as soon as possible. These weaknesses relate to user access reviews and managing user access for the EvAN application, database and operating system.</p>	<p><i>SNB’s current Computer Assisted Mass Appraisal system does not provide the functionality to perform reviews of roles using system reporting. SNB has enhanced the existing review process to the extent possible through a manual semi-annual access review of EvAN and is currently developing an access policy.</i></p> <p><i>Formal processes will be implemented to address access reviews and managing user access for the database and operating system.</i></p>	<p><i>Ongoing</i></p>
<p>5.9 We again recommend SNB only pay for goods or services when evidence exists to support the goods have been received or the services have been provided. For example, SNB should only pay for goods if proof of receipt is attached to an invoice.</p>	<p><i>Management agrees that proof of receipt of goods and services needs to be present when authorizing payment. SNB’s direction to staff has however included having this proof available for the auditors when requested, as it is not always possible to attach the proof of receipt to the invoice. SNB has reiterated the responsibility of spending approvers in February 2020 and will continue to provide additional communication as well as targeted training to the appropriate parties.</i></p> <p><i>SNB Internal Audit will also develop an audit plan to review the spending authority exercise on a sample of paid invoices throughout the year. The results of this audit will be included in the Internal Audit reporting to the Audit and Finance Committee of the SNB Board.</i></p> <p><i>No issues related to the specific prior year overpayment issue were identified during the fiscal 2020-2021 audit based on efforts and improvement made to that process.</i></p>	<p><i>In Progress</i></p>

Recommendation	Department’s response	Target date for implementation
<p>5.10 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.</p>	<p><i>The Enterprise Resource Planning project has been approved and is moving 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 in 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"> • <i>Duplicate payments: A quarterly procedure continues to be in place to identify potential duplicates and ensure these instances are rectified. All of the duplicates identified through the audit were also identified through SNB’s review. SNB always follows up on duplicate payments and will seek to obtain full recovery, as it has in the past. SNB’s work to transfer more payments into one system provided a major decrease in the duplicate payments identified.</i> • <i>Data transfer errors: SNB has initiated a monthly reconciliation process by account to ensure that data has correctly transferred from one system to another and that all transfer errors are correctly identified and corrected. This reconciliation process allows SNB to detect significant errors and these are corrected in the next accounting period. This process is inefficient for staff but allows for a very low risk that an error would remain uncorrected in the financial statements.</i> 	<p><i>In Progress</i></p>

Recommendation	Department's response	Target date for implementation
<p>5.11 We recommend SNB investigate and correct any unreconciled cash amounts in its monthly bank reconciliations on a timely basis.</p>	<p><i>SNB recognizes the importance of bank reconciliations and timely adjustments. SNB made significant improvements to the bank reconciliation process in the past year and will continue to see progress on accuracy and timing as a result. The instance mentioned above has since been adjusted and Internal Audit continues its quarterly review and report on bank reconciliations.</i></p>	<p><i>In Progress</i></p>
<p>5.18 We recommend SNB review, and update as necessary:</p> <ul style="list-style-type: none"> • the useful life estimates of its Tangible Capital Assets; • its classes of Tangible Capital Assets (such as what is included in Major Equipment and if any new classes of Tangible Capital Assets are needed); and • its policies for Tangible Capital Assets. <p>We recommend this review be performed on a regular basis such as annually.</p>	<p><i>Management agrees with the recommendation. While some of the findings were isolated incidents SNB will undertake the following actions to mitigate future risk:</i></p> <ul style="list-style-type: none"> • <i>Complete a review of the TCA accounting process; including useful lives, asset classes, and policies.</i> • <i>Further training will be provided to asset owners.</i> • <i>A listing of TCA will be provided to asset owners during testing for impairment.</i> 	<p><i>In Progress</i></p>
<p>5.21 We recommend SNB refine and document its processes to identify and calculate contract amounts to be disclosed in its financial statements. We recommend evidence of this work be retained for audit purposes.</p>	<p><i>Management accepts this recommendation. SNB instituted a new contract disclosure threshold policy for fiscal 2020-21 and will make improvements to this process moving forward. One of these improvements involves documentation of the process to rectify issues identified above.</i></p>	<p><i>In Progress</i></p>

Recommendation	Department's response	Target date for implementation
<p>5.23 We again recommend SNB have signed service level agreements with all of its business partners.</p>	<p><i>Management accepts the recommendation and continues to work with the business partners mentioned above to sign new agreements. Regardless, work continues and SNB continues to be paid for all services rendered.</i></p> <p><i>For the Regional Health Authorities an extension was provided due to the pandemic.</i></p> <p><i>We would like to note that the Service Level Agreement for Justice and the Office of the Attorney General was signed in July.</i></p>	<p><i>In Progress</i></p>
<p>5.28 We recommend ONB review and update its process for estimating loan provisions to ensure loan repayment history is appropriately reflected in the estimate.</p>	<p><i>ONB has, and will continue to, keep the AG apprised (Last meeting March 2021) on considerations currently being assessed to amend the current Credit Model.</i></p> <p><i>Currently, loan repayment history has a 20% weighting in the overall Credit Model. This Credit Model assessment work is also being completed with other GNB departments including ECO DAAF & RDC. This is to ensure a model is used in a consistent approach across all government departments.</i></p> <p><i>Finally, ONB confirms that we do incorporate loan deferrals as an additional risk when considering overall provision assessment. In the future, this will be clearly outlined and mitigated in the overall risk assessment.</i></p> <p><i>As noted by the AG, FS has not been materially misstated using the current process however further clarity will be provided in future provision assessments.</i></p>	<p><i>Ongoing</i></p>
<p>5.31 We 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 agreements.</p>	<p><i>ONB has begun the process of implementing a full review of the current process in processing financial assistance claims, particularly as it related to claims processed by Business Growth.</i></p>	<p><i>Ongoing</i></p>

Recommendation	Department's response	Target date for implementation
5.32 We recommend ONB ensure financial assistance payments are appropriately reviewed and approved prior to payment.	<i>YTD September 2021, ONB internal audit team has completed procurement testing. In addition, 1,333 claims between 2019 and 2021 from Business Growth and Financial Assistance to Industry were reviewed for internal compliance.</i>	<i>Ongoing</i>
5.37 We again recommend the Department of Finance and Treasury Board and NBLGC resolve recovery of the unauthorized overpayments that were made to First Nations prior to January 1, 2016 as a result of an error in the calculation of gaming revenue.	<i>Direction has been provided from Government for the Department of Finance and Treasury Board to ensure the overpayment issue is considered as part of the larger First Nations strategy.</i>	<i>Q2 2021-22</i>
5.41 We recommend CMC develop and implement a process to verify the accuracy and completeness of Cannabis Education and Awareness Fund revenue. We recommend evidence of this work be retained for audit purposes.	<i>The CMC will work with its auditors to determine where the current process of verifying the accuracy and completeness of Cannabis Education and Awareness Fund Revenue falls short of their requirements and implement enhancements to the process if required.</i>	<i>Q4 2021-22</i>
5.43 We recommend CMC work with the Cannabis Education and Awareness Fund Advisory Committee to resume meetings as soon as possible to ensure there is active management and direction of the fund.	<i>Meetings to actively manage the fund resumed in Q3 of 2021-22.</i>	<i>Q3 2021-22</i>

Chapter 2

Annual Surplus, Net Debt and Funded Debt

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Annual Surplus, Net Debt and Funded Debt

Fourth Consecutive Annual Surplus

Province recorded an annual surplus of \$409 million

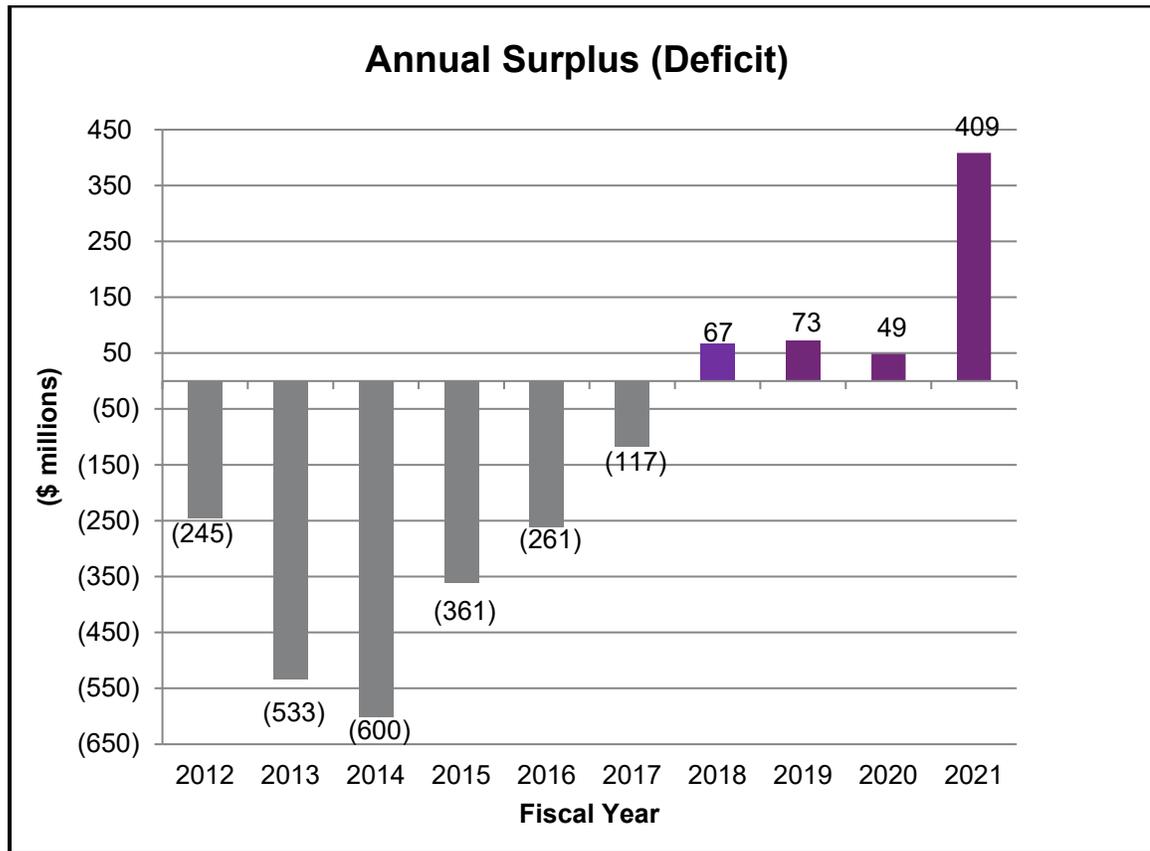
2.1 The Province of New Brunswick's March 31, 2021 audited consolidated financial statements reported an annual surplus of \$409 million. This surplus is:

- \$317 million more than the budgeted surplus of \$92 million; and
- \$360 million more than the surplus of \$49 million reported in 2020.

This is also the fourth consecutive year the Province recorded a surplus and is a significant increase from 2020.

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)



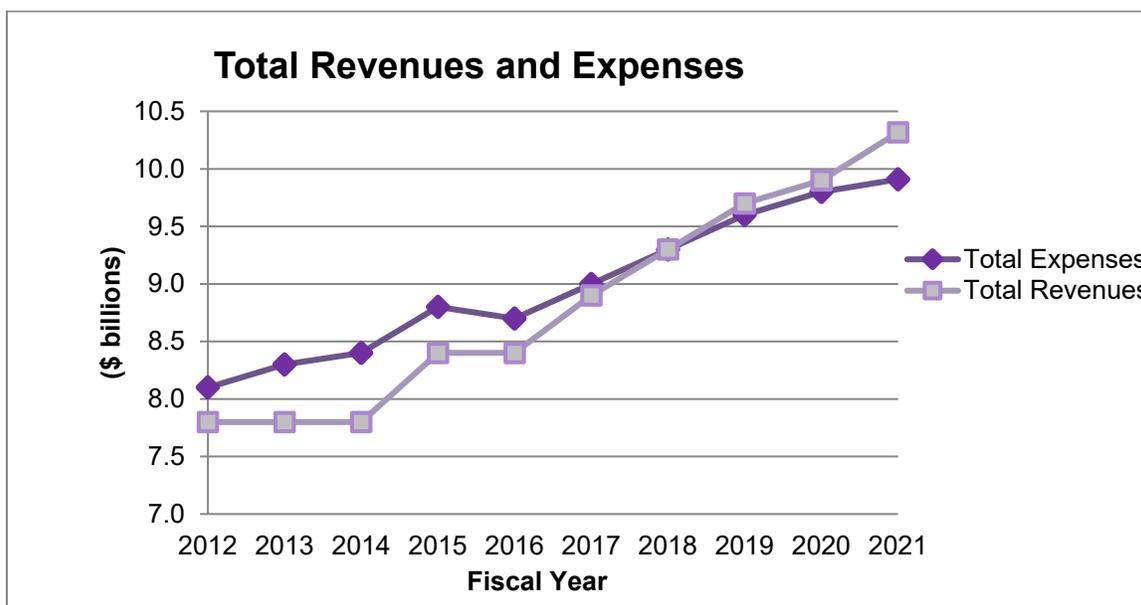
Annual Surplus (Deficit) (\$ millions)

	Fiscal year									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
As Restated	(245.3)	(532.7)	(600.4)	(361.4)	(260.5)	(117.0)	67.0	72.6	48.7	N/A
Originally Recorded	(260.6)	(507.7)	(498.7)	(388.6)	(260.5)	(118.9)	67.0	72.6	48.7	408.5

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



Total Revenues and Expenses (\$ billions)

		Fiscal year									
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Revenues		7.8	7.8	7.8	8.4	8.4	8.9	9.3	9.7	9.9	10.3
Total Expenses		8.1	8.3	8.4	8.8	8.7	9.0	9.3	9.6	9.8	9.9

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

Province’s Response to the COVID-19 Pandemic Impacted the Surplus

2.3 The COVID-19 pandemic along with the Province’s response to the pandemic resulted in significant increases and decreases to both revenues and expenses. In this Chapter we present some of our observations regarding the impact of the Province’s response to the pandemic on the surplus.

Increased surplus is mostly due to increased revenue

2.4 The increase in surplus of \$360 million for 2021 was mostly due to increases in revenue. This included \$301 million of one-time COVID-19 related funding from the Federal government. This funding was provided to assist the Province with its response to the pandemic. The remaining \$59 million increase in surplus is caused by

increases in other transfers from the Federal government, decreases in provincial revenue and increases in expenses.

2.5 Exhibit 2.3 shows, at a summary level, the reasons for the increase in surplus from 2020 to 2021, along with significant changes in revenues and expenses.

Exhibit 2.3 - Breakdown of 2021 Annual Surplus

Breakdown of 2021 Annual Surplus (\$ millions)

What Happened Since Last Year?		Significant Reasons
Fiscal 2020 Surplus	\$49	
One-time funding from the Federal Government (COVID-19)	+ \$301	One-Time Funding received for: Safe Restart Agreement (+219); Essential Workers Support (+42); and Safe Return to Class Fund (+40).
Increase in other amounts from the Federal Government	+ \$192	Increases in: Fiscal Equalization Payments (+187); Other (+28); and Canada Health Transfer (+15) Offset by decreases in: Building Canada Fund (-33)
Decrease in provincial revenue	- \$66	Revenue decreases in: Personal Income Tax (-50); Other Revenue (-44); Harmonized Sales Tax (-40); Lotteries and Gaming (-33). Offset by revenue increases in: Government Business Enterprises (+44); Tobacco Tax (+21); Corporate Income Tax (+20); and Provincial Real Property Tax (+16).
Increase in expense	- \$67	Expense increases in: Health (+93); Central Government (+64); Protection Services (+30); and Resources (+17). Offset by expense decreases in: Economic Development (-79); Labour and Employment (-39); and Education and Training (-21).
Fiscal 2021 Surplus	\$409	

Source: Prepared by AGNB from New Brunswick Public Accounts Volume I for year ended March 31, 2021

Opportunities to Improve Public Disclosure

Financial Statement Discussion and Analysis can increase transparency and accountability

Public disclosure regarding one-time funding of \$301 million

2.6 Each year, the Province publishes a Financial Statement Discussion and Analysis¹ (FSDA) as part of its Public Accounts. The FSDA provides supplementary information on the audited consolidated financial statements and includes commentary and explanations regarding items such as:

- New Brunswick’s financial results;
- differences from budgeted amounts for revenues and expenses; and
- changes (increases/decreases) from prior year amounts for revenues and expenses.

2.7 The Public Sector Accounting Board has issued *Public Sector Statements of Recommended Practice* with guidance for what type of information governments should include in their FSDA. In our view, the FSDA provides an opportunity for the Province to be transparent and accountable for its financial results.

2.8 As part of our work, we review the FSDA and consider if the material presented is consistent with our audit of the consolidated financial statements. While we believe the FSDA is not materially misstated, we identified opportunities for the Province to improve its disclosure regarding the surplus.

2.9 Given the significance of \$301 million of one-time Federal funding on the surplus, the Province could have included more detailed information in its FSDA regarding this funding. While we found the Province briefly discussed this funding, we noted detailed information was not provided.

2.10 Exhibit 2.4 shows a summary of the \$301 million of one-time Federal funding. This information was not included as part of the Province’s FSDA and provides an example of one opportunity where public disclosure could have been improved.

¹ www2.gnb.ca/content/dam/gnb/Departments/tb-ct/pdf/OC/pa-2021-v1-e.pdf

*Exhibit 2.4 - Summary of \$301 Million of One-Time Federal Funding***Summary of \$301 Million of One-Time Federal Funding (\$ millions)**

Program	Amount	Description of Funding*
Safe Restart Agreement		
Testing, Contract Tracing & Data Management	\$62	Increase capacity to conduct testing, perform contact tracing and share health data to help fight the pandemic.
Health Care System Capacity	\$25	Support health care services and mental health supports Canadians rely on.
Vulnerable Populations	\$15	Protection and support for seniors and health and social support to other vulnerable populations.
Municipalities and Transit	\$41	Cost-sharing agreement for municipal transit investments.
Personal Protective Equipment (PPE)	\$62	Support purchases of PPE.
Child Care for Returning Workers	\$14	Support operators offering childcare to New Brunswickers.
Total Safe Restart Agreement	\$219	
Essential Workers Support Fund	\$42	Cost-sharing agreement to provide temporary wage support for low-income essential workers.
Safe Return to Class Fund	\$40	Support efforts to re-open schools.
TOTAL	\$301	

* During our work, we noted the Federal Government does not require the Province to repay any funding.

Source: Prepared by AGNB

2.11 As previously shown in Exhibit 2.3, provincial expenses significantly changed this year. For example, on a net basis, total Health expenses increased by \$93 million.

Public disclosure regarding significant changes to programs or services

2.12 The changes to total expense consist of both significant increases and decreases in spending for different types of government programs and services. For example, Health spending related to laboratory costs and personal protective equipment may have increased while spending on surgical procedures may have decreased.

2.13 Quantifying the dollar amount of significant changes to spending on programs and services is another example where the Province could improve disclosure in its FSDA; especially with regards to significant changes in spending as result of the pandemic. We noted the Province did not quantify these amounts when discussing significant variances. While we audited total expenses as part of our work, we did not audit specific spending for individual programs and services.

We will continue to review the FSDA each year

2.14 We will continue to review the FSDA each year and inform the Province where we believe opportunities exist to improve public disclosure.

Surplus may not represent a continued trend

2.15 For the past three years, we have been somewhat encouraged by the small annual surpluses the Province has recorded. Given the unique circumstances surrounding the surplus this year, we are unable to determine if the Province is trending towards continued surpluses as a result of normal operations.

2.16 In our view, for the Province to significantly improve its historical fiscal situation, it will need to find a way to restrain spending, consider revenue increases, or a combination of both in the future. We will continue to monitor and report on the Province's annual surplus or deficit.

Net Debt, Funded Debt and Interest Costs Remain a Concern

Net Debt and Funded Debt are not the same

2.17 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 2.5 explains, at a high level, the differences between these three items.

Exhibit 2.5 - Net Debt, Funded Debt and Service of the Public Debt Defined

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

Term	2021 Amount	Definition	Paragraph
Net Debt	\$13.5 billion	A mathematical accounting calculation presented as total liabilities <i>less</i> financial assets.	2.18
Funded Debt	\$18.3 billion*	Total long-term debenture debt the Province has borrowed and is legally bound to repay.	2.42
Service of the Public Debt	\$647 million	Annual cost of servicing Funded Debt ² , consisting mostly of interest costs.	2.45

* Funded Debt excludes \$4.7 billion borrowed on behalf of NB Power

Source: Prepared by AGNB using 2021 Public Accounts

Decrease in Net Debt Caused Mostly by Surplus

\$470 million decrease in Net Debt mostly caused by surplus

2.18 Net Debt decreased by \$470 million in 2021 to \$13.5 billion. This is a 3% decrease from last year and was mostly caused by the surplus of \$409 million. This is the second consecutive year Net Debt has decreased.

Net Debt shows future revenue needed to meet past spending

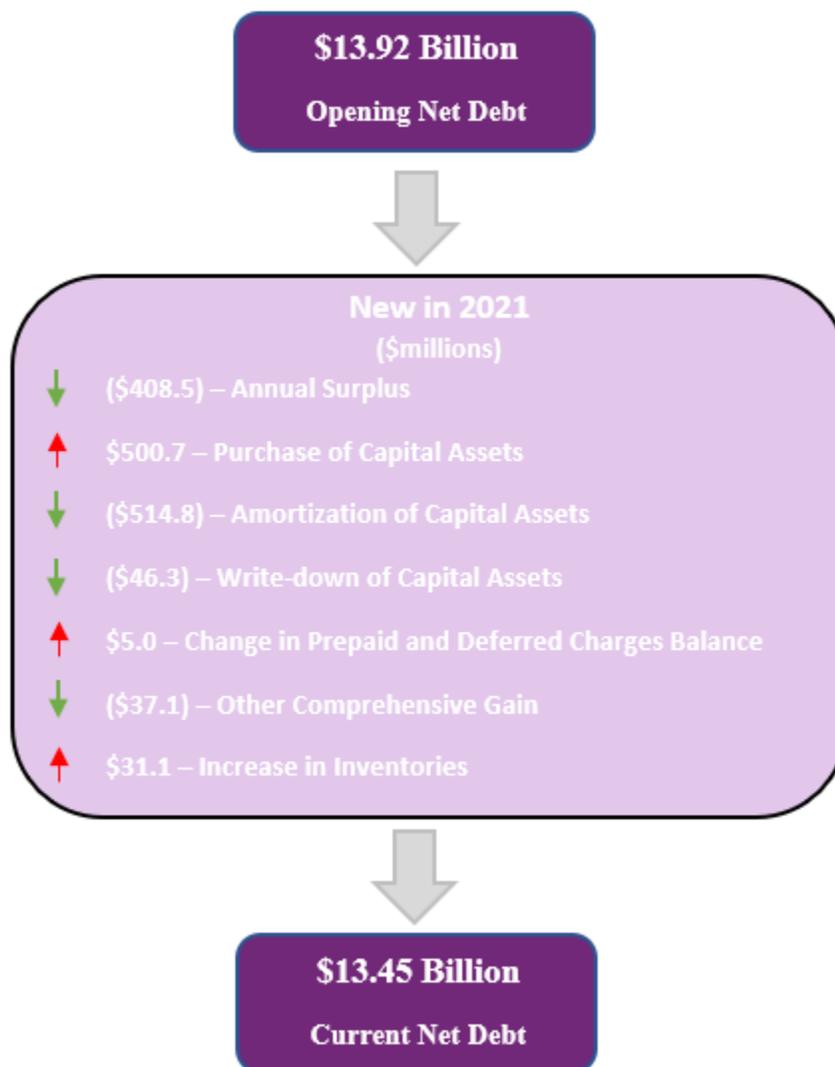
2.19 Net Debt is a key performance indicator in the public sector because it offers insight into the financial health of the Province. It provides information about future revenues needed to meet past spending.

2.20 Despite the decrease in Net Debt 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 capital assets (e.g. roads, buildings and equipment) and other smaller items.

2.21 Exhibit 2.6 shows the year-over-year change in Net Debt.

² 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.

Exhibit 2.6 - Year-Over-Year Change in Net Debt



Source: Prepared by AGNB using 2021 Public Accounts

Net Debt is \$3.4 billion higher than it was 10 years ago

2.22 Despite Net Debt decreasing during 2021, it is still \$3.4 billion higher than it was ten years ago. The increase of \$3.4 billion over this period of time is mostly due to:

- annual deficits and surpluses which total approximately \$1.4 billion; and
- net capital asset costs (purchases less amortization) of \$1.6 billion.

2.23 Exhibit 2.7 shows the overall increase in Net Debt over the last ten years.

Exhibit 2.7 - Net Debt Increased \$3.4 Billion over 10 Years

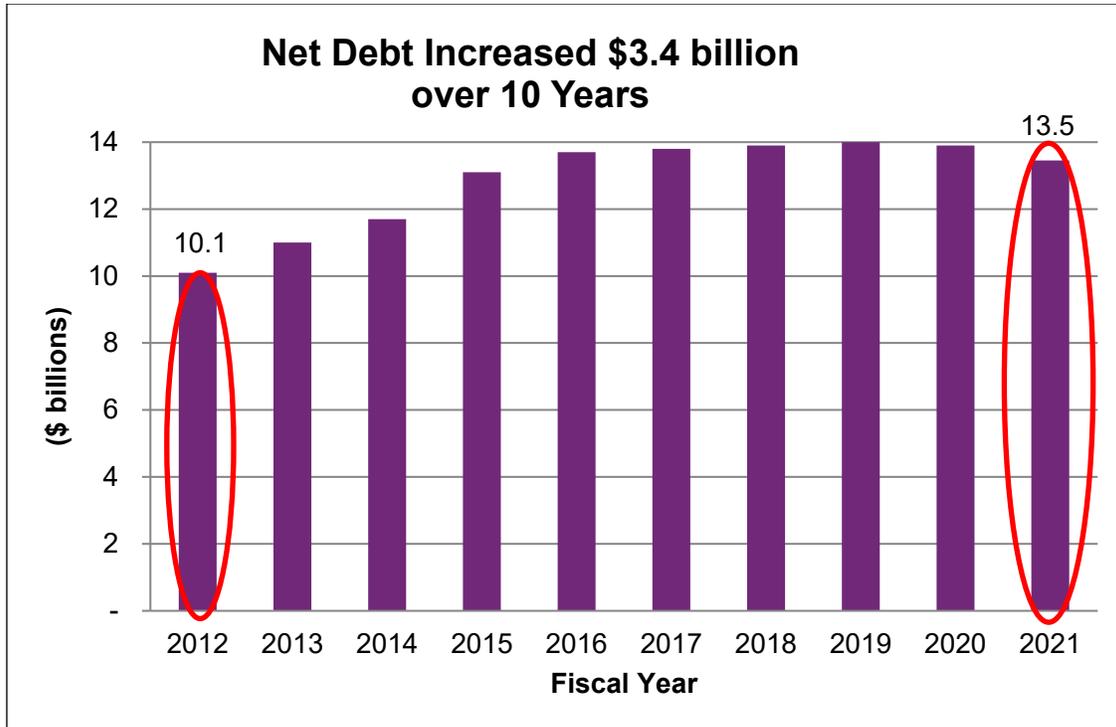


Exhibit 2.7 - Net Debt Increased \$3.4 Billion over 10 Years (continued)

Net Debt Increase \$3.4 billion over 10 Years Data (\$ billions)

	Fiscal Year										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Annual deficit/ (surplus)	245.3	507.5	600.4	361.4	260.5	117.0	(67.0)	(72.6)	(48.7)	(408.5)	1,495.3
Purchase of capital assets	525.9	899.7	418.3	591.0	586.1	615.7	641.7	671.4	464.5	500.7	5,915.0
Amortization of capital assets	(327.3)	(349.9)	(373.2)	(406.0)	(426.8)	(463.5)	(473.5)	(496.1)	(508.6)	(514.8)	(4,339.7)
Other Misc.	(19.2)	(98.5)	(16.1)	156.7	121.6	(100.4)	4.7	(70.0)	56.0	(47.3)	(12.5)
Net Debt As originally recorded	10.0	11.1	11.6	12.4	13.7	13.8	13.9	14.0	13.9	13.5	
Net Debt As restated	10.1	11.0	11.7	13.1	13.7	13.8	13.9	14.0	13.9	n/a	
% Growth Rate in Net Debt from the prior year	5.2%	8.9%	6.4%	12.0%	4.6%	0.7%	0.7%	0.7%	-0.7%	-2.9%	

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

New Brunswick's Net Debt-to-GDP Ratio

Net Debt-to-GDP is a critical sustainability indicator

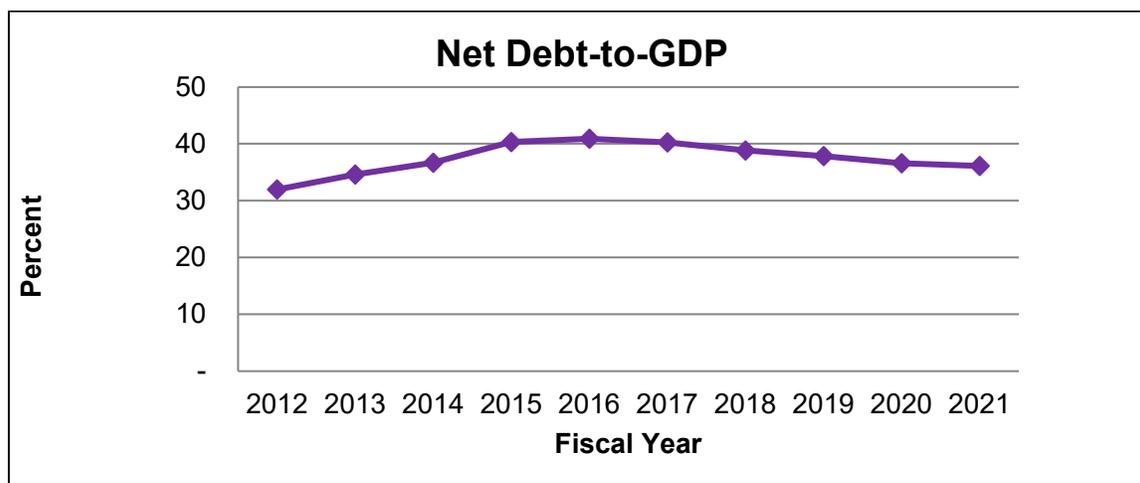
2.24 The Net Debt-to-Gross Domestic Product (GDP)³ ratio has become an important sustainability indicator for governments. The Province includes an analysis of this ratio in its annual FSDA. The media and other analysts may also refer to it in their reports. Sustainability indicators are further discussed in Chapter 3 of this Report.

2.25 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.

2.26 Exhibit 2.8 shows the 10-year history of the Net Debt-to-GDP ratio.

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

Exhibit 2.8 - Ten-Year History of Net Debt-to-GDP Ratio



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

	Fiscal year									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Net Debt (\$ billions)	10.1	11.0	11.7	13.1	13.7	13.8	13.9	14.0	13.9	13.5
GDP (\$ billion)	31.6	31.8	31.9	32.5	33.5	34.3	35.8	37.0	38.0	37.4
Net Debt-to-GDP	32.0%	34.6%	36.7%	40.3%	40.9%	40.2%	38.8%	37.8%	36.6%	36.1%

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

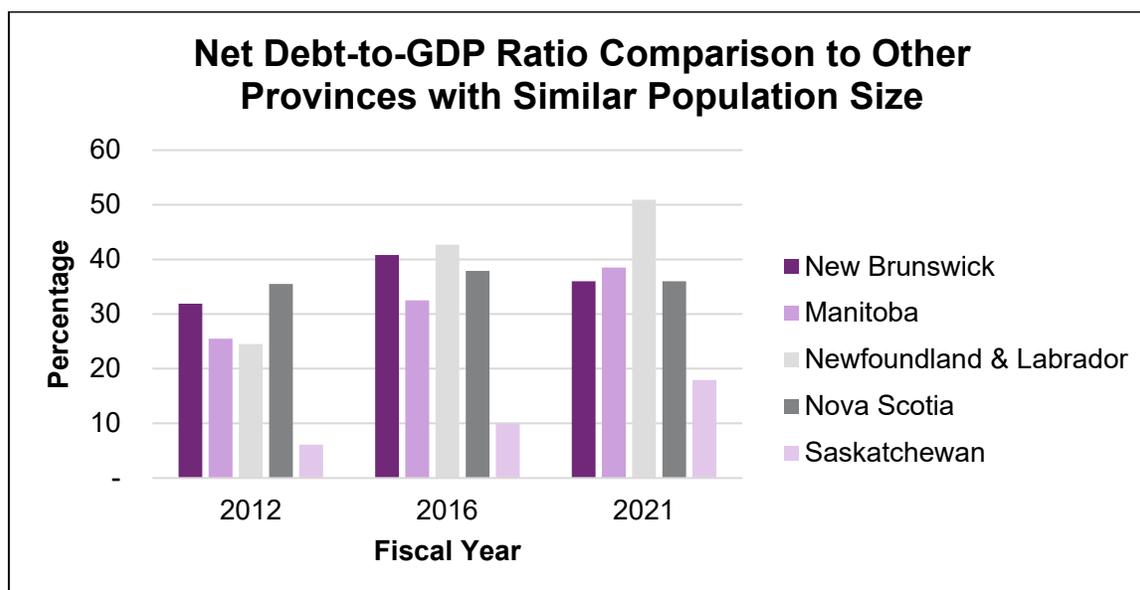
Short-term Net Debt-to-GDP ratio is trending favourably

2.27 As shown in Exhibit 2.8, we note a negative trend from 2012 to 2016 because the Net Debt of the Province increased faster than the growth in the economy. From 2017 to 2021, we start to see this trend reverse and the growth in the economy was faster than growth in Net Debt. However, this percentage is still higher than it was in the first half of the decade and as discussed in paragraph 2.15, this year's significant surplus may not represent a trend. For these reasons, we have assessed the short-term trend as favourable and the long-term trend as unfavourable.

Net Debt-to-GDP ratio compared to other provinces

2.28 A comparison of Net Debt-to-GDP for provinces who, in our view, have similar population size or economic characteristics is presented in Exhibit 2.9.

Exhibit 2.9 - 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			
	2012	2016	2021	% Increase 2012 to 2021
New Brunswick	31.9	40.8	36.0	13%
Manitoba*	25.5	32.5	38.5	51%
Newfoundland & Labrador	24.5	42.7	50.9	108%
Nova Scotia	35.5	37.9	36.0	1%
Saskatchewan	6.1	9.9	17.9	193%

*2021 public accounts information used for Manitoba contained a qualified Independent Auditor's Report.

Source: Prepared by AGNB.

2.29 New Brunswick's ratio of 36.0% was tied with Nova Scotia for the third highest Net Debt-to-GDP ratios amongst provinces with similar population size. Newfoundland & Labrador and Manitoba both had higher percentages at March 31, 2021.

Net Debt-to-GDP has increased significantly in other Provinces

2.30 While we note New Brunswick's ratio has remained relatively consistent since 2012, it did have one of the highest ratios in 2012 and 2016. This year, New Brunswick's position among similar provinces is largely

due to increases in the ratios in Manitoba, Newfoundland & Labrador, and Saskatchewan.

New Brunswick's Net Debt per Capita

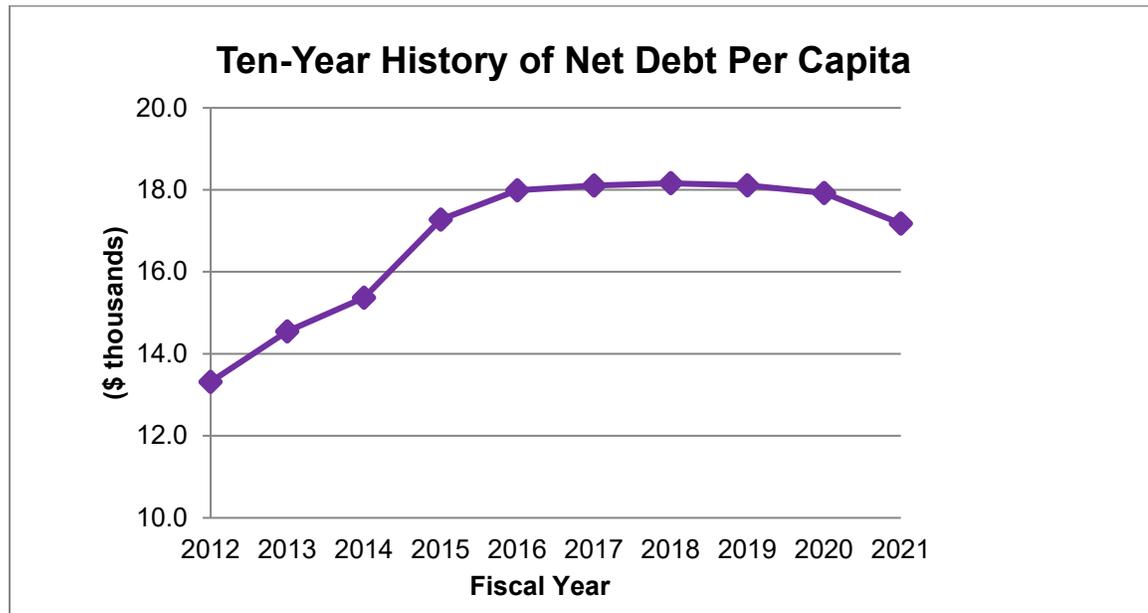
***Net Debt per Capita
another way to assess
Net Debt***

2.31 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 \$17,000
per New Brunswicker***

2.32 New Brunswick's Net Debt per Capita hit a high of \$18,200 in 2018 but has since decreased to \$17,200 in 2021. Exhibit 2.10 shows the ten-year history of Net Debt per Capita.

Exhibit 2.10 - Ten-Year History of Net Debt per Capita



Ten-Year History of Net Debt per Capita

Fiscal year										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Net Debt (\$ millions)	10,063	11,033	11,657	13,109	13,651	13,820	13,926	13,959	13,922	13,452
Population (thousands)	755.7	758.4	758.5	759.0	758.8	763.4	766.8	770.9	776.8	783.2
Net Debt per Capita (\$)	13,316	14,548	15,368	17,272	17,990	18,105	18,162	18,107	17,922	17,175

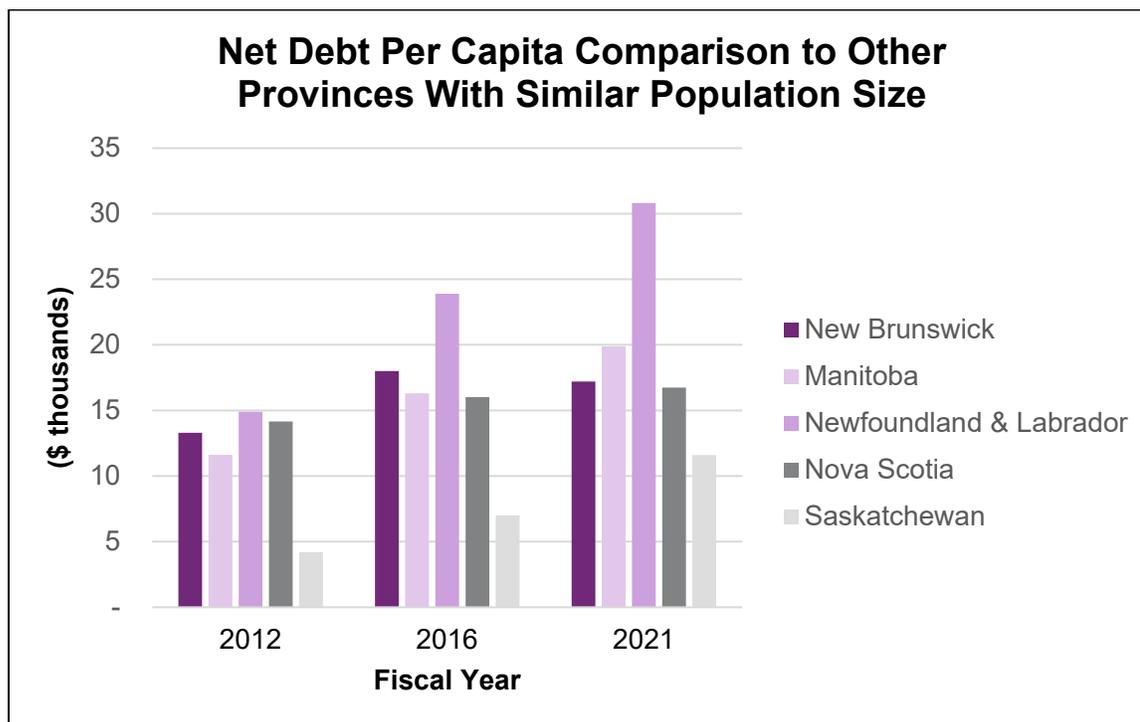
Source: Prepared by AGNB based on applicable year's Public Accounts with restatements where identified in public accounts

Net Debt per capita is mid-range when compared to other provinces with similar population size

2.33 The Net Debt per capita is mid-range when comparing to other provinces with similar size population. Per capita includes all members of the population, such as adults and children.

2.34 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 2.11.

Exhibit 2.11 - 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			
	2012	2016	2021	% Increase 2011 to 2020
New Brunswick	13.3	18.0	17.2	29%
Manitoba*	11.6	16.3	19.9	71%
Newfoundland & Labrador	14.9	23.9	30.8	107%
Nova Scotia	14.2	16.0	16.7	18%
Saskatchewan	4.2	7.0	11.6	176%

*2021 public accounts information used for Manitoba contained a qualified Independent Auditor's Report.

Source: Prepared by AGNB.

2.35 Net Debt per capita at March 31, 2021 was \$17,200 and is \$3,900 higher than the \$13,300 reported in 2012. New Brunswick surpassed Nova Scotia (\$16,700) during the ten-year period, however, it is less than Manitoba (\$19,900), and Newfoundland & Labrador (\$30,800) at March 31, 2021.

What is New Brunswick's Plan to Reduce Net Debt?

New Brunswick's ability to reduce Net Debt challenging

2.36 Despite a reduction in Net Debt in 2021, New Brunswick's ability to reduce Net Debt in the future remains challenging due to an aging population and an unemployment rate higher than the national average. These challenges are not new and have existed in previous years.

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

Province set multi-year Net Debt reduction targets

2.38 We remain pleased to see the Province continued to set multi-year Net Debt reduction targets and Net Debt-to-GDP targets through fiscal 2024. We have recommended targets be set in previous reports of the Auditor General. For fiscal 2021, the Province met its target to reduce Net Debt by \$129 million. The 2021 target for the Net-Debt-to-GDP ratio of 34.7%, however, was not met. We will continue to monitor the Province's targets for Net Debt.

2.39 The multi-year targets are presented in Exhibit 2.12. We caution however, these multi-year targets were set during the COVID-19 global pandemic and the future financial and economic impact of the pandemic is unknown. For example, changes to Federal funding or changes to government programs and services could impact these targets.

Exhibit 2.12 - Government's Net Debt Reduction Targets

Government's Net Debt Reduction Targets

(\$ millions)

	2022 Budget	2023 Plan	2024 Plan
Annual Decrease in Net Debt	241	235	163
Net Debt-to-GDP Ratio	36.4%	35.9%	35.4%

Source: www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Budget/2021-2022/speech-2021-2022.pdf

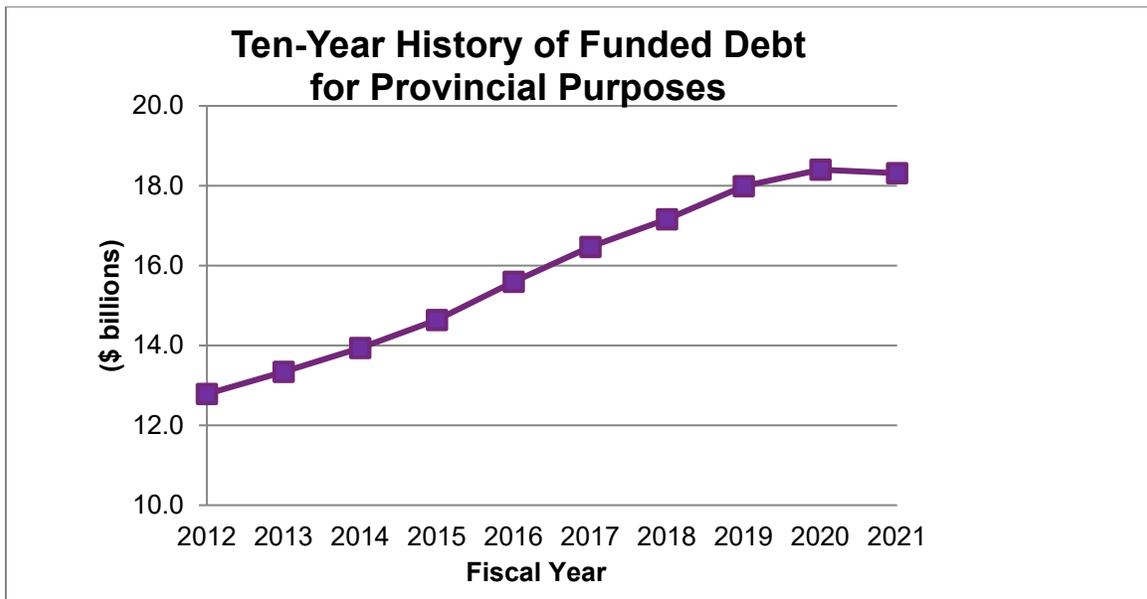
Funded Debt Remains at Historic High

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

2.40 New Brunswick’s Funded Debt for provincial purposes was \$18.3 billion at March 31, 2021. This amount is \$0.1 billion lower than 2020 when Funded Debt reached a historic high of \$18.4 billion. This debt figure does not include \$4.7 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.

2.41 Funded Debt for provincial purposes has increased by \$5.5 billion in the past 10 years as shown in Exhibit 2.13

Exhibit 2.13 - Ten-Year History of Funded Debt for Provincial Purposes



Ten-Year History of Funded Debt for Provincial Purposes (\$ billions)

	Fiscal year										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Funded Debt	17.4	18.0	18.5	19.2	20.1	20.9	21.6	22.6	23.2	23.0	
NB Power (NB Electric Finance Corporation)	(4.7)	(4.7)	(4.6)	(4.6)	(4.5)	(4.4)	(4.4)	(4.6)	(4.8)	(4.7)	
Funded Debt for Provincial Purposes	12.8	13.3	13.9	14.6	15.6	16.5	17.2	18.0	18.4	18.3	

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

Funded Debt consists mostly of bonds issued

2.42 Funded Debt is similar 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. The Province’s outstanding Funded Debt balance consists mostly of bonds issued in the financial market.

2.43 To put the balance in simple terms, if the Province repaid \$100 million per year, it would take 183 years to repay \$18.3 billion. This is presented in Exhibit 2.14. If we include NB Power’s debt of \$4.7 billion, another 47 years are added for a total of 230 years to repay the debt at this rate. This does not include the annual cost of interest, also known as servicing the public debt.

Exhibit 2.14 - \$100 Million Debt Repayment Per Year



Source: Prepared by AGNB

Service of Public Debt cost \$1,231 per minute in 2021

2.44 In the last fiscal year, the service cost of this debt (excluding NB Power), consisting mostly of paying interest, was \$647 million. This is an annual cost and does not reduce the principal amount outstanding. In 2021, Service of the Public Debt cost approximately \$1,231 per minute. Exhibit 2.15 presents this cost by year, day, hour and minute.

Exhibit 2.15 - Service of Funded Debt by Year, Day, Hour, Minute in 2021

Service of Funded Debt by Year, Day, Hour, Minute in 2021

Per Year	Per Day	Per Hour	Per Minute
\$647 million	\$1.8 million	\$74 thousand	\$1,231

Source: Prepared by AGNB using Public Accounts

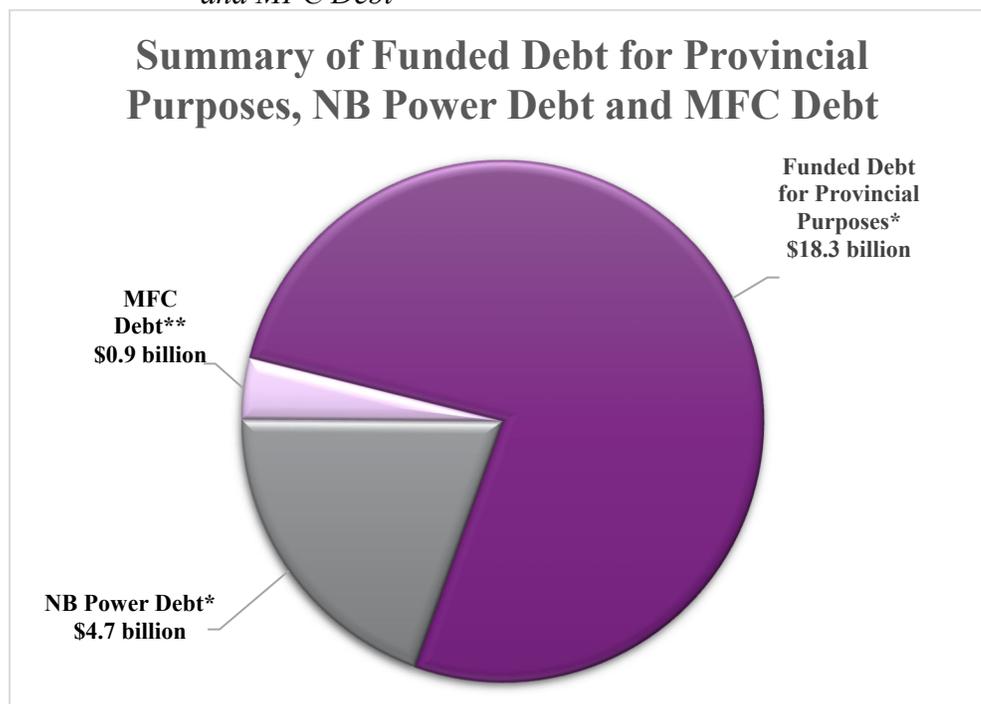
Service of Public Debt expense was larger than other areas such as Protection Services and Economic Development

2.45 Service of the Public Debt was 7% of all expenses for 2021. This was more than other expenses such as Protection Services, Economic Development, Labour and Employment, and Resources.

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

2.46 As presented in paragraph 2.40, Funded Debt for provincial purposes does not include NB Power debt or NBMFC debt related to the financing needs of New Brunswick municipalities. These three items combined represent approximately \$24 billion in debt owed by the Province and these two entities. This information is summarized in Exhibit 2.16.

Exhibit 2.16 - 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, 2021

** MFC Debt as at December 31, 2020

Source: Prepared by AGNB

2.47 In Exhibit 2.17, we provide details of NBMFC’s debt relating to the financing needs of New Brunswick municipalities as at December 31, 2020. We present this information on a per municipality basis for debt greater than \$8 million.

Exhibit 2.17 - 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, 2020**

Municipality	Debt (\$ millions)
Bathurst	28.5
Campbellton	8.4
Caraquet	9.3
Commission de services régionaux Chaleur	8.2
Dieppe	69.0
Edmundston	59.1
Fredericton	29.0
Grand-Sault/Grand Falls	9.1
Memramcook	8.3
Miramichi	25.3
Moncton	186.4
Quispamsis	22.2
Riverview	28.7
Rothsay	13.5
Sackville	11.2
Saint John	228.4
Shediac	14.0
Southeast Regional Service Commission	14.7
Tracadie	14.5
Other Municipalities	158.1
TOTAL	\$945.8

Source: Prepared by AGNB

Chapter 3

State of New Brunswick's Financial Condition

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State of New Brunswick's Financial Condition

What do the 2021 Financial Results Tell Us About the Province's Financial Condition?

Financial condition largely unchanged from 2020

3.1 This chapter presents our work in evaluating the state of the Province's financial condition. Overall, the Province's financial condition is largely unchanged from last year. One of the Province of New Brunswick's (the Province) long-term trends changed from favourable to unfavourable during 2021, one change from favourable to neutral and one changed from unfavourable to neutral, with other trends remaining consistent with 2020.

3.2 We reached our conclusion by analysing twelve financial indicators¹ used to assess a public sector entity's financial state; they provide a broader view of the Province's financial condition. See Exhibit 3.4 for a complete summary of all financial indicators.

Our analyses have not been adjusted to reflect the impact of the COVID-19 pandemic

3.3 Financial information presented in this chapter is up to March 31, 2021. The Province's response to the COVID-19 global pandemic impacted the Province's financial results this year. The pandemic also had an impact on Gross Domestic Product (GDP), a key input in many of the financial indicators presented in this chapter. No adjustments as a result of these impacts have been made in our analysis. Refer to Chapter 2 in this Volume for more details regarding how the Province's response to the pandemic impacted this year's financial results.

¹ We report on twelve indicators of financial condition identified by the Public Sector Accounting Board (PSAB) in a Statement of Recommended Practice (SORP). This analysis is intended to give a broader view of the financial health of the Province as the analysis shows trends. The analysis expands on the information reported in the audited consolidated financial statements which only reflect the Province's fiscal status at a point in time.

Can the Province Sustain Its Existing Programs?

- Small steps of progress in the short-term*** **3.4** The Province's ability in the short-term to sustain existing programs and services without significantly increasing Net Debt remained consistent with 2020, mainly as a result of the Province's 2021 annual surplus. We were, therefore, able to again assess five of the seven short-term sustainability indicators as favourable this year.
- Past deficits and Net Debt prevent improvements in long-term sustainability*** **3.5** Past deficits and the significant amount of Net Debt prevent us from assessing many long-term indicators as favourable, we therefore assess four of the seven long-term sustainability indicators as unfavourable again this year. This year, we have also changed two long-term indicators. (Total expenses-to-GDP from favourable to neutral and Net Debt-to-Total Annual Revenue from unfavourable to neutral).
- 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 largely unfavourable in the long term.
- 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	Neutral
Expense by function-to-total expenses	Neutral	Neutral
Net Debt-to-GDP	Favourable	Unfavourable
Accumulated deficit-to-GDP	Favourable	Unfavourable
Total expenses-to-GDP	Neutral	Neutral

Source: Prepared by AGNB.

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

Mostly unfavourable 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.

- 3.9** As summarized in Exhibit 3.2, we have assessed flexibility in the short term as mixed 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	Neutral	Unfavourable

Source: Prepared by AGNB.

Exhibit 3.4 - Summary of Financial Indicators

	Indicator	Purpose	Short-Term Trend	Long-Term Trend	Change in Trends from Prior Year	Paragraph
Sustainability	Assets-to-liabilities	Measures extent that government finances its operations by issuing debt	Favourable	Unfavourable	No change	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	Neutral	Long-term Trend Changed from Unfavourable	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	Unfavourable	No change	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	Unfavourable	No change	3.38
	Total expenses-to-GDP	Shows the trend of government spending over time in relation to the growth in the economy	Neutral	Neutral	Long-term Trend Changed from Favourable	3.41
Flexibility	Public (Funded) debt charges-to-revenues	Measures extent that past borrowing decisions limits ability to meet current financial and service commitments	Favourable	Favourable	No change	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	Neutral	Unfavourable	No change	3.56
Vulnerability	Government transfers-to-total revenues	Measures the dependence on another level of government	Unfavourable	Unfavourable	Long-term Trend Changed from Favourable	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

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

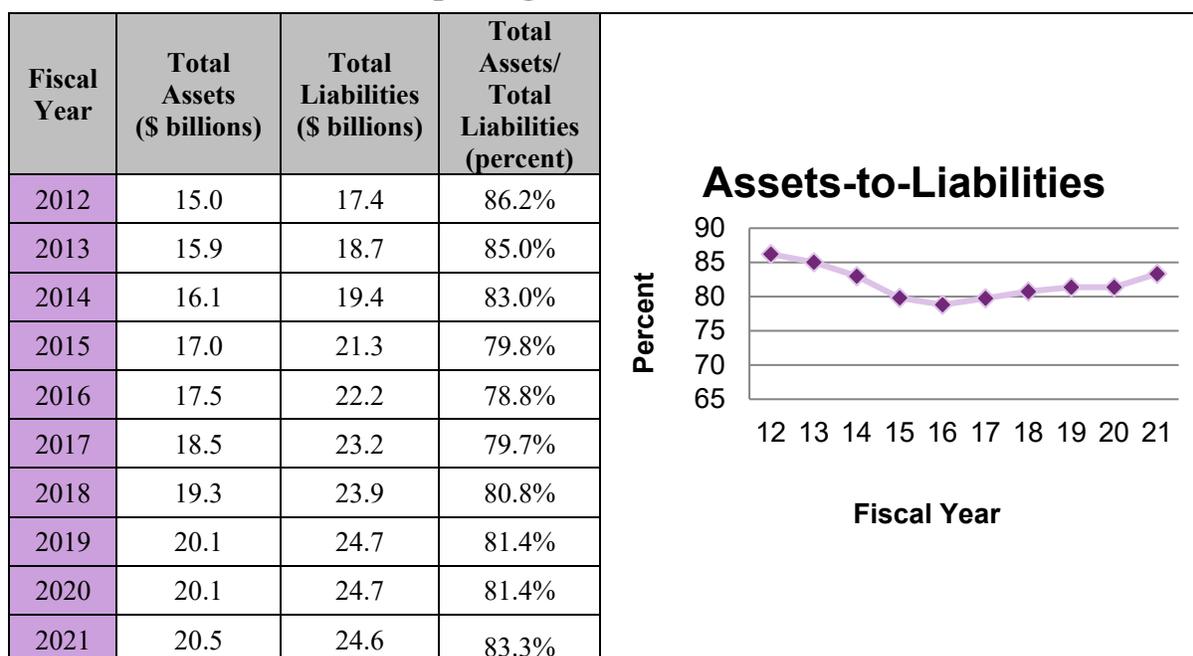
3.17 For the last five years, this indicator has improved slightly indicating a favourable trend in the short-term. For the past ten years, the Province's percentage has remained below 100% indicating the Province has financed its operations by issuing Funded Debt. While improvements have been made in recent years, this is an unfavourable long-term trend which we would like to see reversed.

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.

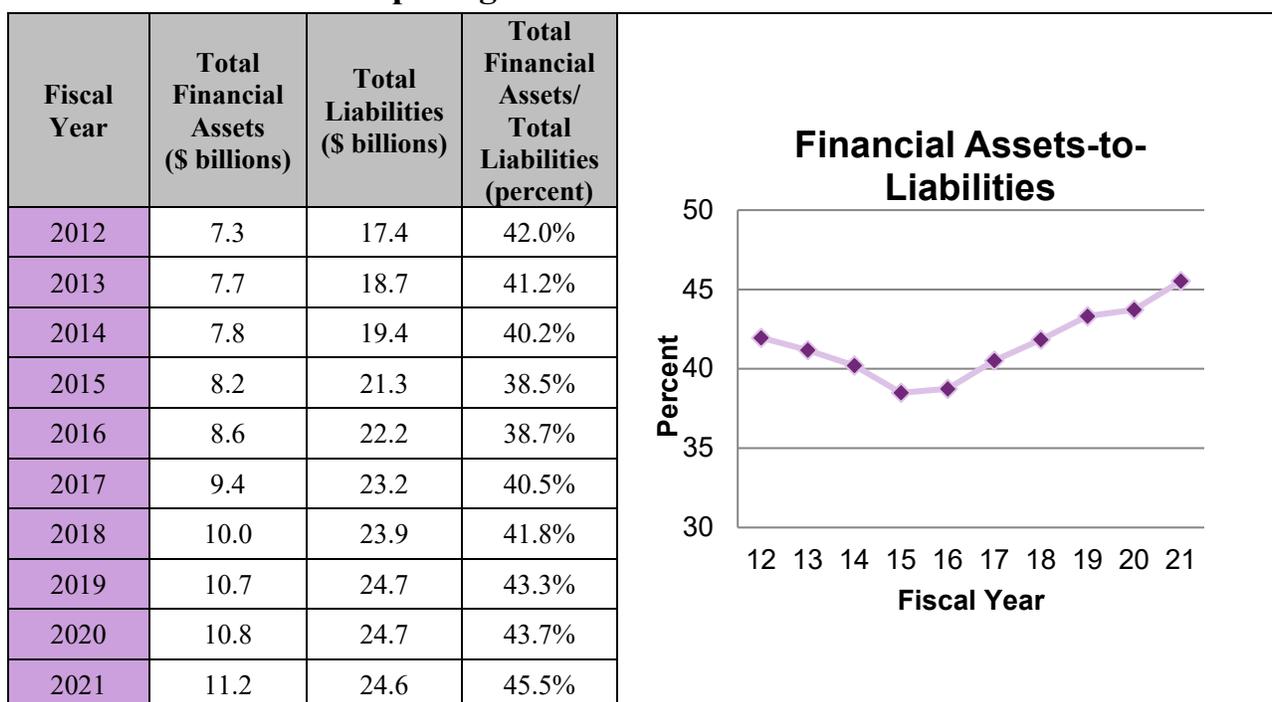
Comparing Financial Assets-to-Liabilities

- 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 ten 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. For the past five years, the Province's percentage for this indicator has improved slightly, indicating a favourable trend in the short-term.
- 3.22** We present the financial assets-to-liabilities sustainability indicator in Exhibit 3.6.
- 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.

How to read exhibit

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

3.24 We have assessed the short-term trend as favourable and the long-term trend as neutral.

3.25 The Province's Net Debt-to-total annual revenue percentage increased from 2012 to 2016, which indicates the Province would need more time to eliminate Net Debt. In 2021 however, the percentage declined to 131.1%, as Net Debt decreased while total revenue increased. While the short-term increase is favourable, we urge caution in interpreting this indicator, as the positive trend was achieved in part through Federal transfers that may not be of a recurring nature.

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

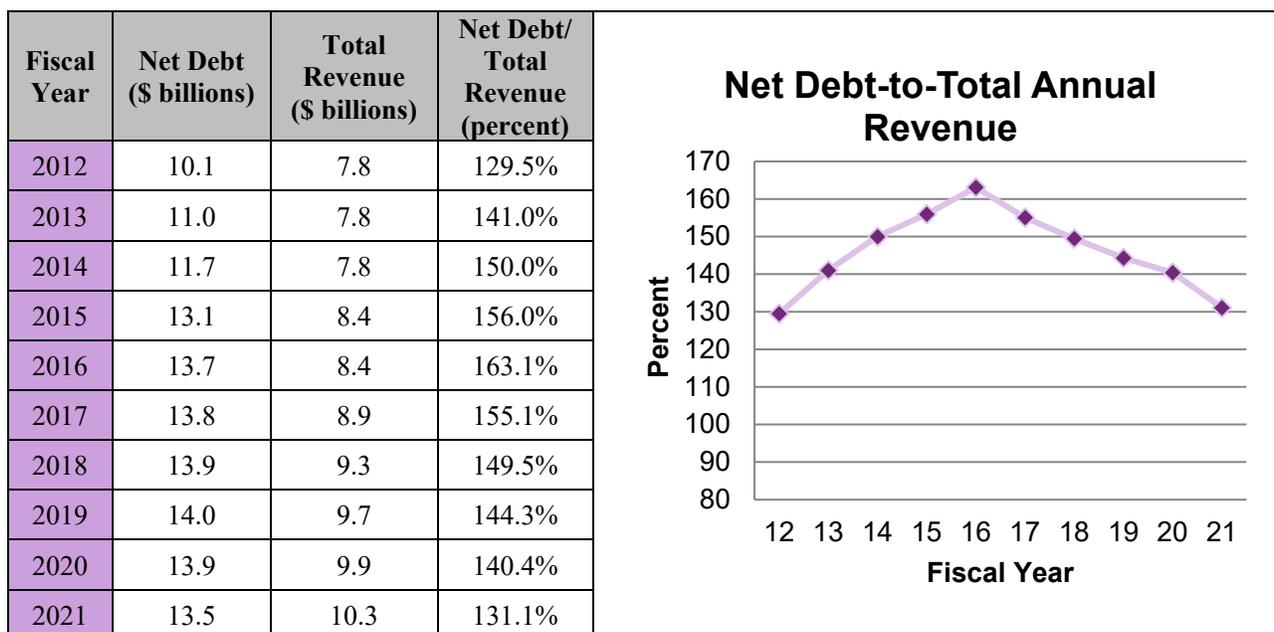
How to read exhibit

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 2021. Exhibit 3.8 shows the amount of expenses allocated to each expense function for the year.

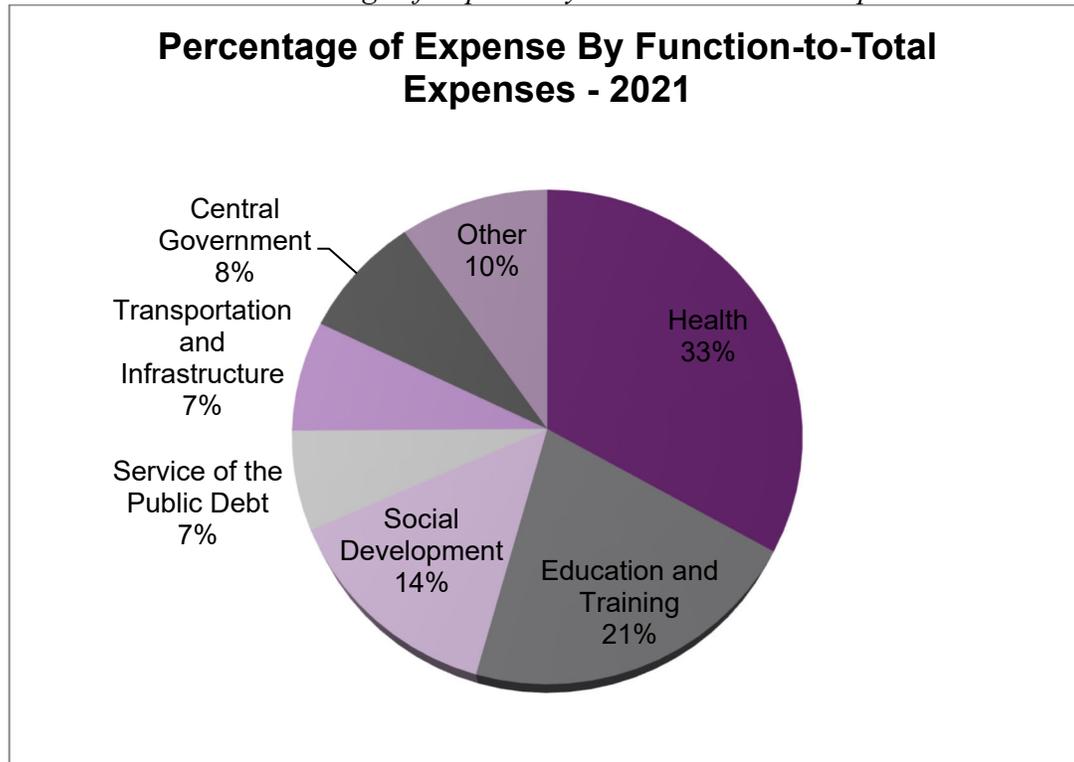
How to read exhibit

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 2021.
- 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 – 2021



Source: Prepared by AGNB based on Public Accounts 2021

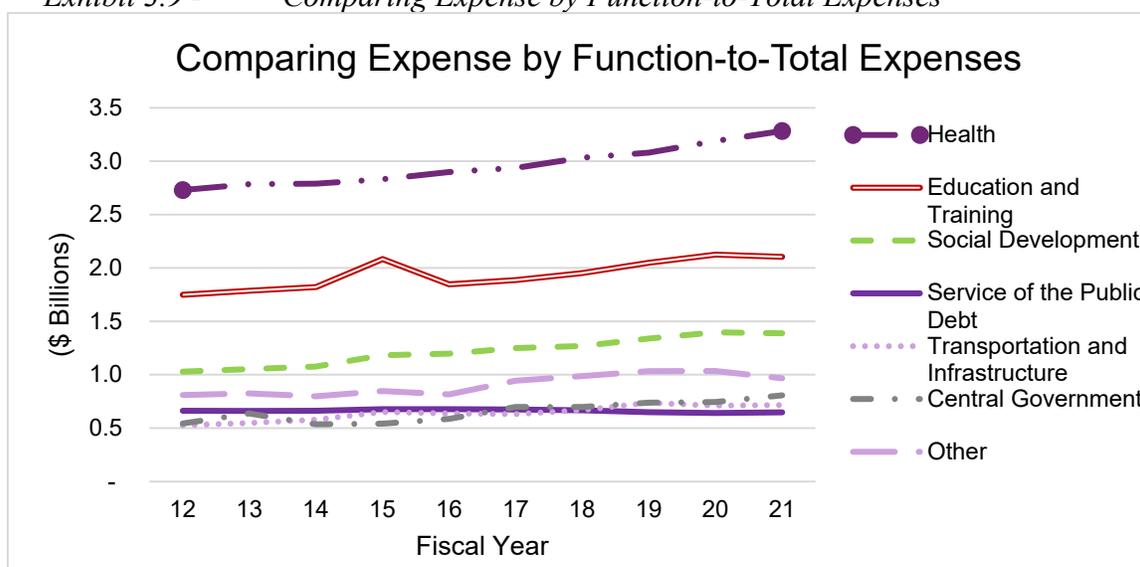
Other includes: Protection Services, Economic Development, Resources and Labour and Employment

3.32 In Exhibit 3.8, we observed the following information.

- The expenses for Education and Training and Health consume 54% of the total expenses in 2021, remaining stable from 2020 of 54%.
- The expenses for service of the public debt (\$647 million) are almost as large as expenses for Transportation and Infrastructure (\$716 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

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

3.35 We note a negative trend from 2012 to 2016 because the Net Debt of the Province increased faster than the growth in the economy. From 2017 to 2021, we start to see this trend reverse, the growth in the economy was faster than growth in Net Debt. However, this percentage is still higher than it was in the first half of

the decade. For these reasons, we have assessed the short-term trend as favourable and the long-term trend as unfavourable. While the short-term trend is favourable, we urge caution in interpreting this indicator, as the positive trend was achieved in part through Federal revenue transfers and related Net Debt reduction that may not be of a recurring nature.

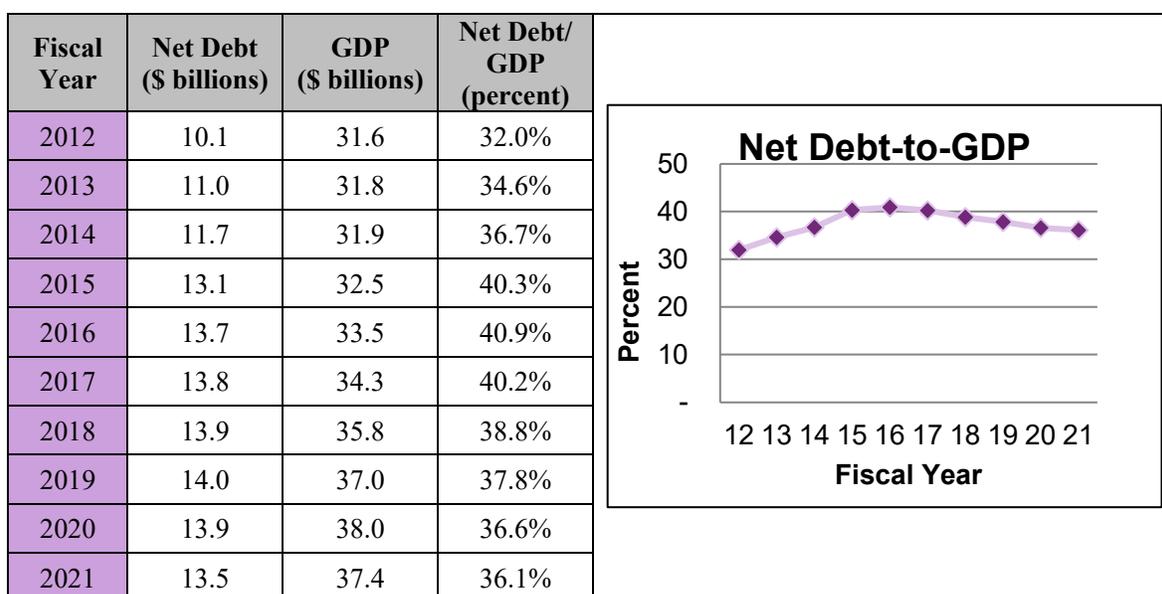
3.36 We present the Net Debt-to-GDP sustainability indicator, in Exhibit 3.10.

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

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

3.39 Exhibit 3.11 shows a negative trend from 2012 to 2016 as the accumulated deficit has grown

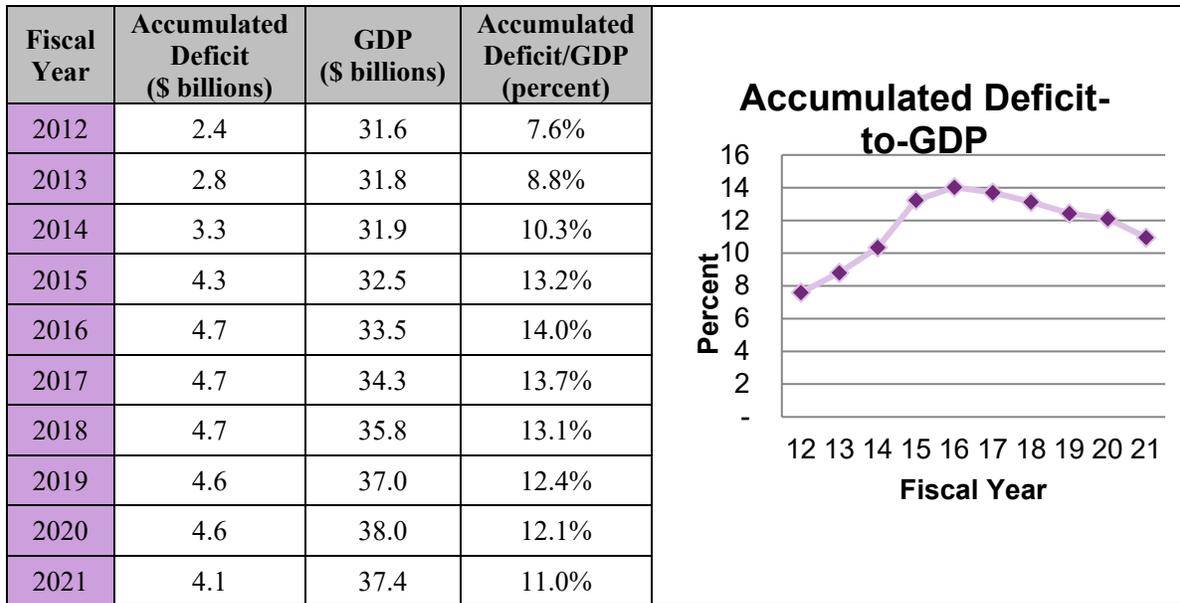
more than the economy. We see this negative trend start to decline from 2017 to 2021. In these years, the accumulated deficit has remained stable, but the economy has continued to grow. While the short-term trend is favourable, we urge caution in interpreting this indicator, as the positive trend was achieved in part through Federal revenue transfers and 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



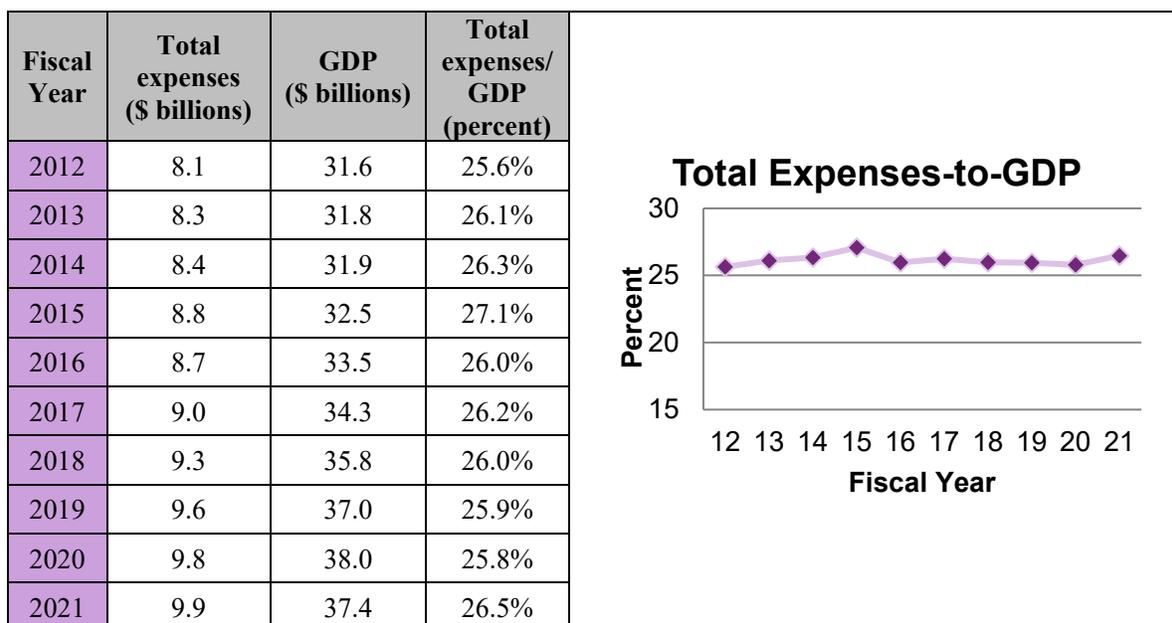
Source: Prepared by AGNB based on applicable years Public Accounts data with restatements where identified in Public Accounts.

Comparing Total Expenses-to-GDP

- Change to neutral in long-term** **3.41** We continue to assess the short-term trend as neutral and we have changed our assessment of the long-term trend from favourable to neutral.
- 3.42** Exhibit 3.12 shows between 2012 to 2021, the ratio of total expenses-to-GDP has remained relatively consistent and ranged from 25.6% in 2012 to 26.5% in 2021. 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 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

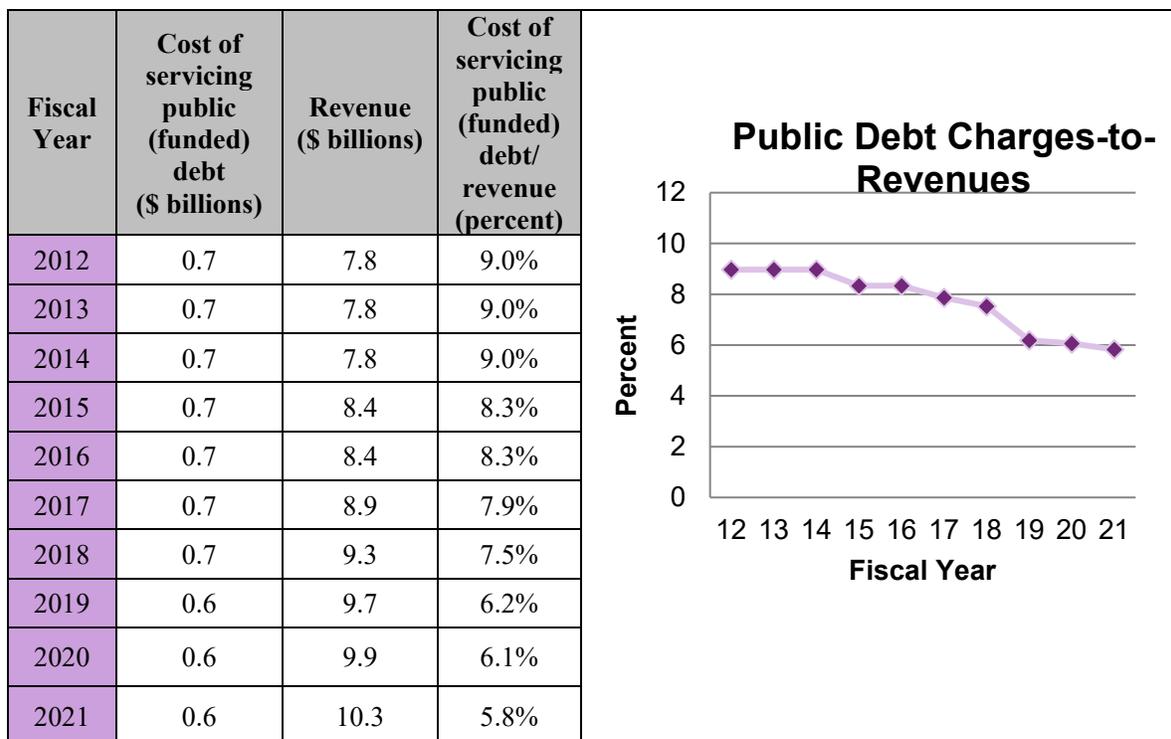
- Flexibility defined***
- 3.45** Flexibility is the degree to which the government can change its debt or tax burden on the economy to maintain programs and meet existing creditor requirements.
- 3.46** One of the most publicized factors which affect the flexibility of governments is the cost of servicing 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 is comprised mainly of:
- interest on the Funded Debt of the Province as well as interest cost on capital leases;
 - amortization of foreign exchange gains and losses;
 - amortization of discounts and premiums which were incurred on the issuance of provincial debentures; and
 - interest on short-term borrowing offset by short-term investment income.
- It does not include principal repayments on the Funded Debt of the Province.

Comparing Public (Funded) Debt Charges-to-Revenues

- 3.48** We have 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 in 2021 compared to the previous nine fiscal years. This is a result of the Province's 2021 revenues increasing and 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 assessed both the short-term and long-term trend as unfavourable.

3.53 Exhibit 3.14 shows the Province’s capital assets have approximately 51.7% of their average useful lives remaining. For example, this means, on average:

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

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

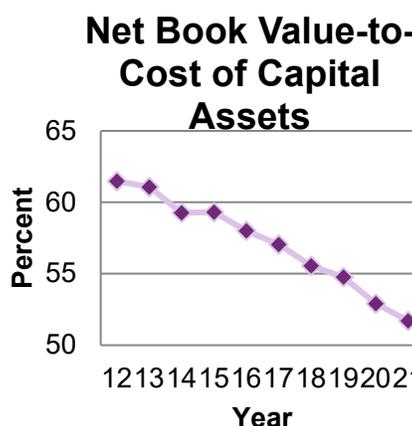
3.55 A net book value of capital assets-to-cost of capital assets percentage that is decreasing indicates a

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

Fiscal Year	Net Book Value (\$ billions)	Capital Cost (\$ billions)	Net Book Value/ Capital Cost (percent)
2012	7.5	12.2	61.5%
2013	8.0	13.1	61.1%
2014	8.0	13.5	59.3%
2015	8.6	14.5	59.3%
2016	8.7	15.0	58.0%
2017	8.9	15.6	57.1%
2018	9.0	16.2	55.6%
2019	9.2	16.8	54.8%
2020	9.1	17.2	52.9%
2021	9.1	17.6	51.7%



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

Comparing Own Source Revenues-to-GDP

- 3.56** We have assessed the short-term trend as neutral and the long-term trend as unfavourable.
- 3.57** In the short-term, the percentage of own source revenue (such as taxes) compared to GDP has remained relatively stable indicating the Province has not increased its revenue from taxing the provincial economy in the short-term. Therefore, we continued to assess the short-term trend as neutral.
- 3.58** We still assess the long-term trend as unfavourable. From 2012 to 2021, the percentage of own source revenue compared to GDP has generally increased.

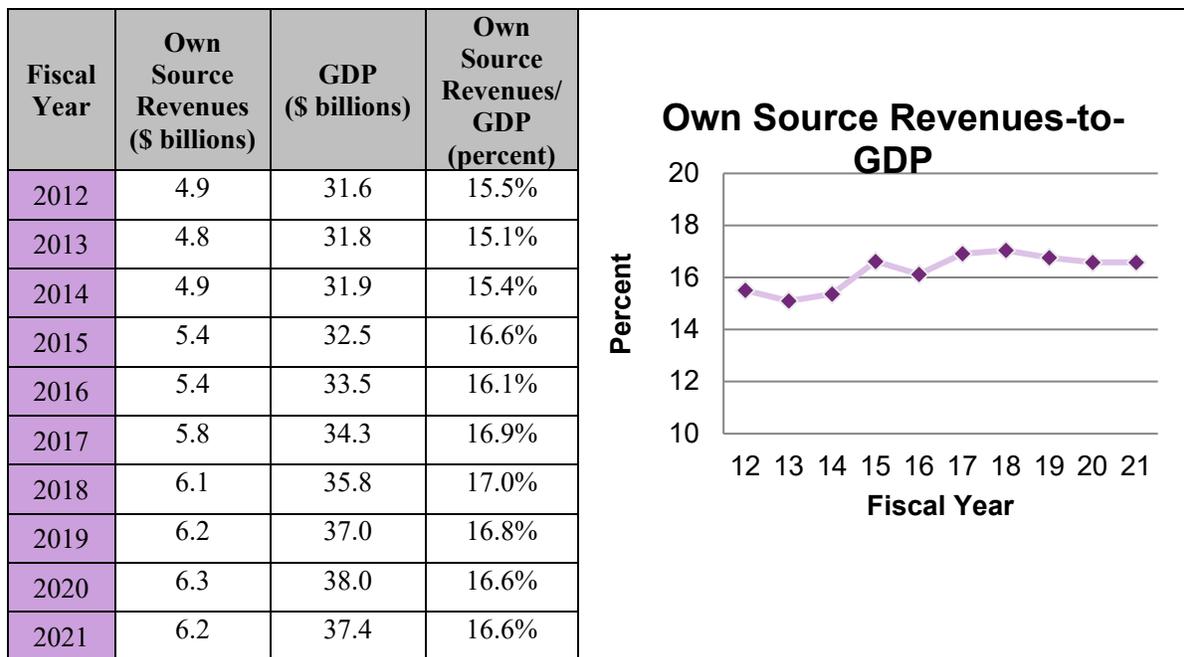
3.59 We present the own source revenues-to-GDP flexibility indicator in Exhibit 3.15.

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

Change to unfavourable in long-term **3.62** We have assessed both the short-term and long-term trends as unfavourable.

3.63 We note in 2021 approximately 3.4%, or \$460 million, more of the Province's total revenue was generated from Federal government transfers compared to 2020. This indicates in 2021, the Province was more dependent on the Federal government resulting in the Province being more vulnerable. As a result, we have maintained our assessment of the short-term as unfavourable.

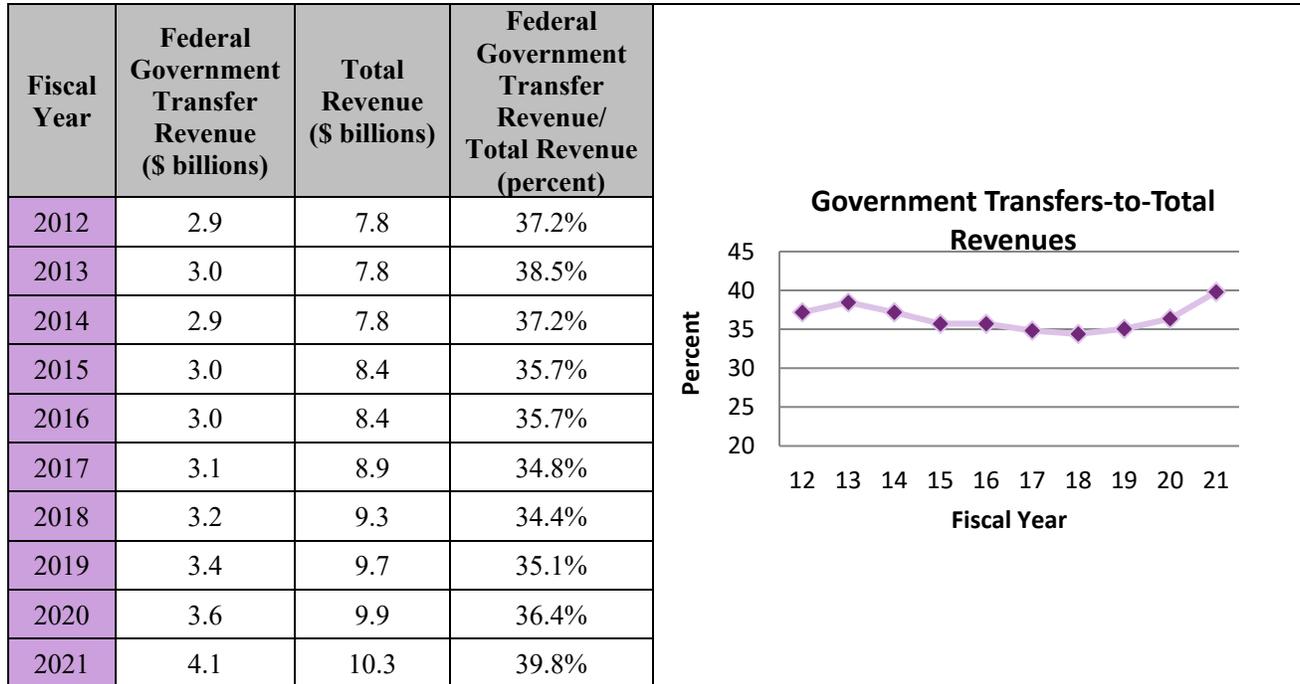
3.64 Our long-term assessment has changed from favourable to unfavourable. We note the percentage has fluctuated from 37.2% in 2012 to a high of 39.8% in 2021. This shows, overall, the Province was more dependent on the Federal government as a source of revenue in the long term.

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 increased in 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:

- 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).

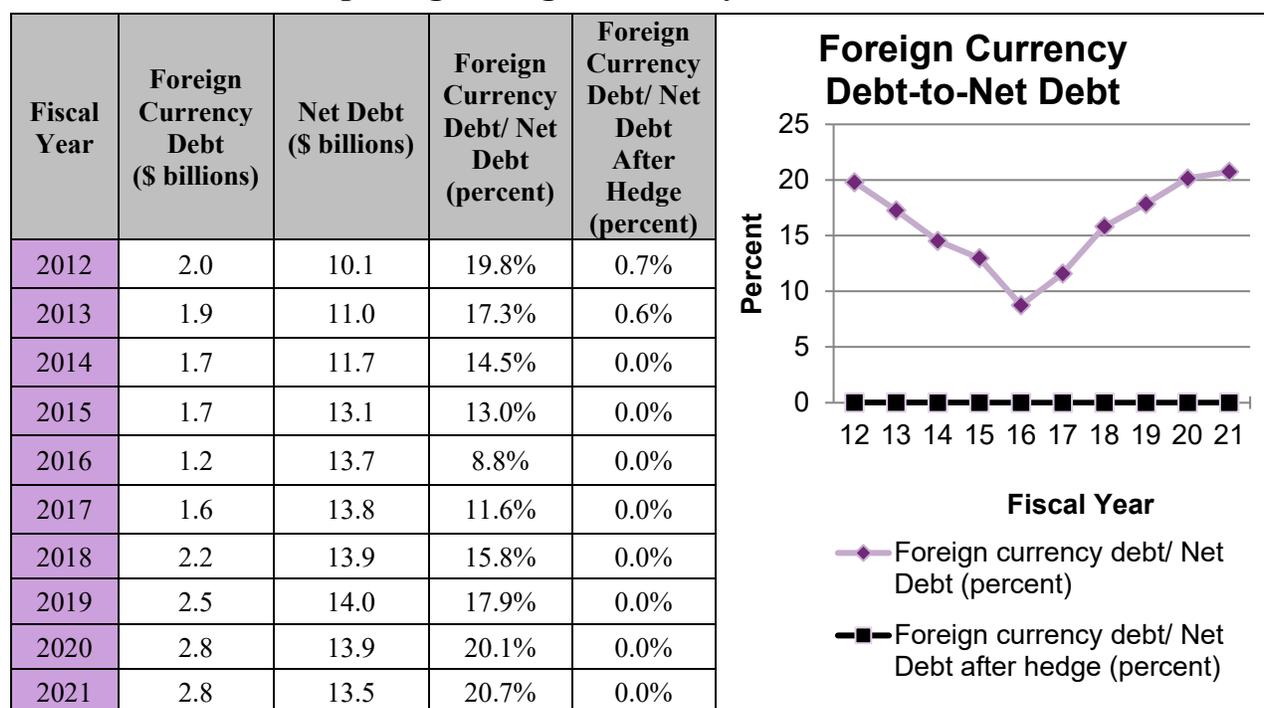
3.70 We present the foreign currency debt-to-net debt vulnerability indicator in Exhibit 3.17.

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

***Acting Auditor General
signed unqualified audit
opinion***

- 4.1** On September 16, 2021 the Acting 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, 2021.
- 4.2** This opinion indicates the Province’s consolidated financial statements are presented fairly in accordance with Public Sector Accounting Standards.
- 4.3** 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.
- 4.4** In this Chapter, we present our significant findings and recommendations we made to the Office of the Comptroller (OOC) in our audit of the Province’s public accounts. We also present our findings regarding the Province’s major out-dated information technology systems and findings regarding property assessment processes at Service New Brunswick.
- 4.5** In our view, while all of our recommendations were important to report to both the Comptroller 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.

<i>NB Power and Vestcor remain areas of significant concern</i>	4.7	Two of our most significant areas of concern continue to be NB Power's ability to self-sustain its operations and the Auditor General's access to Vestcor. These items were both included in a presentation we made to the Province's audit committee at the end of our audit.
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NB Power's Ability to Self-Sustain its Operations Remains a Concern

<i>On-going concerns regarding NB Power's ability to self-sustain operations</i>	4.8	For the past three years, we have reported our concerns 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.
<i>Other recent concerns regarding NB Power's debt challenges</i>	4.9	In February 2021, we also presented our concerns regarding NB Power's on-going debt challenges. This was included in the 2020 Report of the Auditor General – Volume II, Chapter 3, NB Power Debt Challenges.
	4.10	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.
<i>Accounting method for NB Power will change if it can no longer self-sustain its operations</i>	4.11	<p>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:</p> <ul style="list-style-type: none"> • \$7.4 billion in assets and regulatory balances; • \$7.1 billion in debt and liabilities; • \$1.8 billion in revenues; and • \$1.7 billion in expenses.

Province's financial results could change significantly

- 4.12** 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.
- 4.13** 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.

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

- 4.14** We noted again this year NB Power's ability to self-sustain its operations continues to worsen from year to year and our concerns are increasing. During our audit this year, we noted the following areas of significant concern.
- Income remains at break-even levels. This year, NB Power recorded a net loss of \$4 million. If mark-to-market income is removed (unrealized income which fluctuates year-to-year), NB Power has not made a profit since 2016.
 - NB Power did not meet its requirement under the *Electricity Act* for an 80-to-20 debt-to-equity ratio. NB Power's debt at March 31, 2021 was approximately \$5 billion and their long-term plan indicates they do not expect to meet this requirement until 2027.
 - Significant capital investments remain on the horizon for NB Power. For example, refurbishing the Mactaquac Dam. Capital investments will result in increased debt for NB Power.
 - NB Power's regulator, the Energy and Utilities Board (EUB) has not always approved rate increases requested by NB Power.

- We monitor NB Power every year*** **4.15** Each year, we request the OOC prepare an accounting analysis regarding NB Power's ability to self-sustain its operations. Although we agreed with the OOC's analysis that NB Power can self-sustain its operations as at March 31, 2021, we did not see strong evidence in the analysis of how assumptions and estimates were challenged or compared to current results. Given the challenges identified above, the situation remains very concerning.
- Recommendation*** **4.16** **We recommend the Office of the Comptroller update and improve its accounting analysis for NB Power to include items such as:**
- **information reported in the 2020 Report of the Auditor General, Volume II, Chapter 3;**
 - **significant business and operations events in the year;**
 - **government involvement in NB Power's operations; and**
 - **activity and decisions from the EUB.**
- Province announced it intends to amend the Electricity Act*** **4.17** In November 2021, the Province announced it would amend the *Electricity Act* with the intent to "...allow NB Power to improve its fiscal health." These amendments may impact how NB Power is accounted for in the Province's consolidated financial statements in the future.
- 4.18** We will continue to monitor NB Power 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

- 4.19** Last year, we reported on how 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. The VIE manage over \$15 billion in public sector pension plan investments of the New Brunswick Public Service and Teachers' Pension Plans (NBPSPP and NBTPP).
- 4.20** We also reported on how we worked cooperatively with the OOC last year to have the VIE external auditor (who was permitted access) perform an engagement using procedures designed by our Office. This work was necessary to address the value of pension plan assets which were impacted by the volatility in the financial markets between December 2019 and March 2020.
- 4.21** 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. As there was overall less volatility in the financial markets between December 2020 and March 2021, our audit risk was lower this year. As a result, we did not require access to the review the VIE external audit files this year.
- 4.22** We did, however, still request the VIE auditor to provide us with additional information. This year, we again worked cooperatively with the OOC to obtain the information needed for our work. This report came at a cost of approximately \$2,000 to the Province.
- 4.23** 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.
- 4.24** Given Vestcor's stated role as an external services provider to the Province, we would expect to receive information on how Vestcor fulfills its duties relating to how its internal controls are designed and operated. Typically, this is provided by an external auditor in a Report on Controls at a Service Organization (such as

We still required the VIE auditor to provide us with additional information

A permanent solution is needed

a CSAE 3416 report). We found Vestcor does not provide the Province or the OOC with such a report.

<i>Recommendations</i>	4.25	We recommend the Office of the Comptroller obtain audit assurance on controls in place at Vestcor (such as a CSAE 3416 report) before the 2021-2022 public accounts audit.
	4.26	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.
<i>Last year's denial of access could happen again</i>	4.27	The value of pension plan assets could again become a more significant audit risk in the future, if extreme volatility in the financial markets were to happen again (as it did last year) at March 31. It is likely our Office would again require more audit assurance in this situation to address the underlying investment audit risks.
<i>2020 AG report raised concerns</i>	4.28	In February 2021, our Office issued a report regarding how Vestcor declined and restricted the Auditor General's access to information required to perform her duties. This was included in the 2020 Report of the Auditor General, Volume II, Chapter 5 – Auditor General's Access to Vestcor Significantly Limited.
<i>No further response to our recommendations and no implementation timeline has been provided</i>	4.29	In this report, recommendations were made to ensure the Auditor General has access to Vestcor to perform work needed for financial audits (such as the value of pension plan assets) and performance audits. Our Office has not received any further response or an implementation timeline for our recommendations made in the February 2021 chapter regarding access to Vestcor.

Other Findings from our Audit of the Province's Financial Statements

<i>Other recommendations made to the OOC</i>	4.30	As part of our work, we made other recommendations to the OOC and Service New Brunswick. These recommendations are summarized in the sections below.
<i>\$12 million accounting error in deferred revenue</i>	4.31	We found the liability for deferred revenue recorded by the Department of Social Development for the Healthy Seniors Pilot Project was understated by \$12 million. Under the terms of an agreement with the Public Health Agency of Canada, revenue can only be recognized for this project when eligible expenditures have occurred by the Province. We estimate \$12 million has been incorrectly recognized in revenue since the start of this project in fiscal 2019.
	4.32	While we believe this error is not material to the Province's financial statements, it demonstrates increased diligence is required when recognizing revenue related to the project.
<i>Recommendation</i>	4.33	<p>We recommend the Office of the Comptroller work with the Department of Social Development to ensure:</p> <ul style="list-style-type: none"> • revenue for the Healthy Seniors Pilot Project is recognized for accounting purposes only when the terms specified in the agreement with the Public Health Agency of Canada have been met; and • the deferred revenue balance for the Healthy Seniors Pilot Project is properly recorded.
<i>Accounting estimates need to be improved</i>	4.34	We noted during our work, estimates prepared by the OOC and departments need to be improved. For example, we found estimates made by the OOC regarding COVID-19 vaccines used amounts which could not be reliably validated. We also noted the Department of Post-Secondary Education, Training and Labour did not update its estimate of the allowance for doubtful accounts for student loans receivable to consider the impact of the COVID-19 pandemic.
	4.35	While we believe the accounting estimates prepared by the OOC and departments are not materially misstated,

the issues demonstrate increased diligence is required when preparing estimates.

- | | | |
|---|-------------|---|
| Recommendations | 4.36 | We recommend the Office of the Comptroller work with departments to improve the quality of estimates in the consolidated financial statements.
We also recommend estimates, at a minimum, are supported by historical data and include review of results of previous periods where appropriate. |
| Financial Administration Act needs to be amended | 4.37 | For the past three 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 <i>Financial Administration Act</i> (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 conducted a review of the FAA in 2020, we noted the FAA was still not amended during 2021. |
| Recommendation | 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 2022. |
| | 4.40 | In general, the OOC agreed with our recommendations and intends to address our concerns in the coming year. |

Improvements are Still Needed in Property Assessment Processes

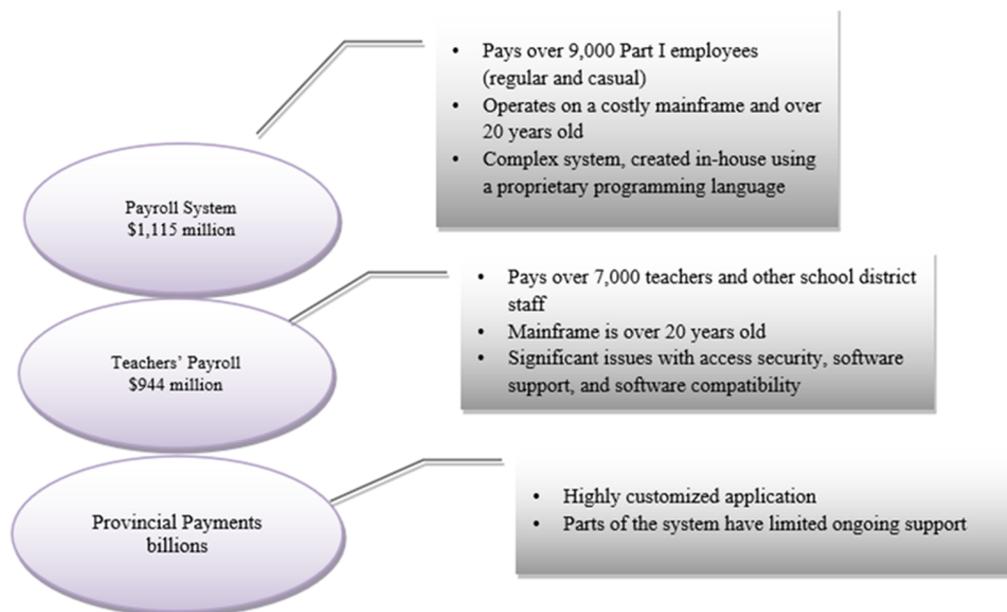
- 4.41** For the past two years, we have reported the results of our work regarding SNB's property assessment processes which we perform each year as part of the audit of the Province's consolidated financial statements. This Chapter does not include follow up on our November 2017 special report to the Legislative Assembly describing many weaknesses we found in property assessment processes. Refer to Chapter 4 in Volume II of the 2021 Report of the Auditor General for this follow-up work.
- Property assessments result in approximately over \$550 million in revenue and \$1 billion of taxes receivable for the Province**
- 4.42** 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 470,000 properties which generate approximately \$70 billion in tax assessment base for the Province and municipalities. This results in approximately over \$550 million in revenue, and over \$1 billion in property tax receivable for the Province.
- Some processes have improved, however, we are still concerned**
- 4.43** During our audit this year, we found SNB has responded to our past recommendations and improved some of its property assessment processes. This includes creating a Quality Assurance unit and improving the accuracy of some property assessment data. We are still concerned, however, by the number of serious weaknesses we are still observing in property assessment processes.
- Four recommendations made in 2021**
- 4.44** We made four recommendations this year to SNB relating to property assessment processes. We made each of these recommendations during last year's audit and found they have not yet been fully implemented. In our view, this shows the need for SNB to continue to work toward improving its:
- quality control processes;
 - data integrity (including validating approximately 78,000 properties from the Fast Track initiative in 2017); and
 - review of assessor's work and property assessment staff.

- We have also made one recommendation for SNB to improve system access controls.
- Recommendations**
- 4.45 We again recommend SNB improve the quality control processes used to verify the accuracy of property assessment values in advance of next year's assessment cycle.**
- 4.46 We again recommend SNB proceed as quickly as possible to validate the assessment data of properties assessed using methodologies from the 2017 Fast Track initiative.**
- We again recommend SNB develop and implement a re-inspection cycle to ensure all properties in the province are visually re-inspected. We again recommend this information be used when creating annual assessor work plans.**
- 4.47 We again recommend SNB strengthen its processes to verify property assessment values by using a risk-based approach to review the work of assessors and assessment staff.**
- 4.48 We again recommend SNB review and resolve system access control weaknesses for the property assessment system (EvAN) as soon as possible. These weaknesses relate to user access reviews and managing user access for the EvAN application, database and operating system.**
- 4.49 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.**

Province Has Major Outdated IT Systems

- Major systems are out of date** **4.50** A failure of the Province's major IT systems would affect the majority of New Brunswickers. For the past nine years, we reported the Province has many outdated IT systems. Exhibit 4.1 shows the Province's major out-dated systems at March 31, 2021, dollars processed, and associated risks.

Exhibit 4.1 - Province's Major Outdated Systems at March 31, 2021



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

4.51 These outdated systems process the majority of the Province's employee payroll and its payments to suppliers, nursing homes, municipalities, etc. Replacing these systems should be a key priority and the Province has started the process of replacing these outdated systems.

Multiple duplicate systems can result in duplicate payments and efforts

4.52 In addition to the risk of system failure, in our financial audit of SNB (Service New Brunswick) we noted SNB is now operating three separate payroll and payments systems. We also found SNB made duplicate payroll and supplier payments as a result of operating multiple systems. Operating multiple duplicate systems results in wasted time for employees and can result in duplicate payments to employees and suppliers.

What Is the Province Doing About Its Outdated IT Systems?

New ERP project – Oracle Fusion

4.53 The Province has started replacing the outdated and duplicate systems with a new system called Oracle Fusion as part of the ERP (Enterprise Resource Planning) Project. The scope of the ERP Project is extensive, requiring multiple years to implement and,

as a result, needs to be properly managed by the Province to ensure success and to prevent a system implementation failure.

4.54 Three benefits from implementing the Oracle Fusion system are as follows.

- It will be more efficient as it will replace many of the Province's outdated systems.
- It will prevent system failures from outdated systems as the Oracle Fusion system will run on up-to-date software and hardware in a cloud environment.
- It is expected to provide more timely and detailed information for decision makers.

System's scope is extensive

4.55 The Oracle Fusion system will be used by Part I (departments and some Crown agencies), Part II (school districts), the Legislative Assembly, and the Community Colleges. The system will cover many areas such as:

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

4.56 The project is co-sponsored by the Department of Finance and Treasury Board and Service New Brunswick. The Province has created an ERP Project Team to oversee and monitor this major system change. This team is made up of government resources, as well as other professional resources from outside of government.

Oracle Fusion is expected to be completed by March 2025

4.57 We were informed, a planned deployment schedule targeting an expected completion date of March 2025, has been approved by a Steering Committee and an Executive Committee. Exhibit 4.2, contains an excerpt from this schedule, as well as progress to date for, what we consider, key Fusion modules. As the ERP Project Team works through the different stages of implementation, the schedule may be revised.

Exhibit 4.2 - Excerpts from the ERP Planned Deployment Schedule: Progress to Date and Future Deployment Plan and Comments from AGNB

Description	Timeline	To Replace	AGNB Comments
Oracle: General Ledger (GL) goes live	December 2020	Existing Oracle General Ledger	<ul style="list-style-type: none"> Existing Oracle GL is still operating and transactions are transferred to the Fusion GL regularly. Existing Oracle GL and Fusion GL reconcile. Existing Oracle GL is the official book of record.
Oracle: Payables Module goes live*	July 2021	Existing system to input invoices (IPM)/ Oracle	<ul style="list-style-type: none"> Existing IPM system is still operating but in very limited circumstances. The existing Oracle GL is still operating and transactions are transferred to the Fusion GL. The official book of record is now the Fusion GL.
Oracle Fusion: Human Resources, Payroll, and Employee Expense Modules go live	November 2021	Existing payroll system – HRIS Existing employee expense system - iExpense	<ul style="list-style-type: none"> Only some employees are transferred to the new Fusion modules. Employees in: SNB paid by HRIS, FTB, and organizations that receive Human Resources service from FTB. departments.
Oracle Fusion: Fixed Assets Module	Fiscal 2022 & 2023	Existing Oracle ERP did not use a fixed asset module	<ul style="list-style-type: none"> Fixed assets for the Province will be recorded in the Fusion Fixed Asset Module
Oracle Fusion: Human Resources, Payroll and Employee Expense Modules	Fiscal 2023	Existing payroll and employee expense system - JD Edwards used by SNB	<ul style="list-style-type: none"> SNB employees who are paid by JD Edwards system will be transferred over to Fusion Payroll, Human Resources and Employee Expenses.
Oracle Fusion: Human Resources, Payroll and Employee Expense Modules	Fiscal 2023	HRIS, School District Payroll and employee expense systems	<ul style="list-style-type: none"> Employees in the Department of Transportation and Infrastructure, and two school districts will be transferred to Fusion Payroll, Human Resources and Employee Expenses.
Oracle Fusion: Human Resources, Payroll and Employee Expense Modules	Fiscal 2024 & 2025	School District Payroll System, HRIS and Meditech Payroll used by SNB	<ul style="list-style-type: none"> Remaining School District employees and all employees in both Community Colleges to transfer to Fusion Payroll, Human Resources and Employee Expenses.

Oracle Fusion: Procurement Module	Fiscal 2025	Existing procurement system (NBON)	<ul style="list-style-type: none"> • Procurement will now become integrated with accounts payable in the Oracle Fusion system.
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**This roll-out included Cash Management, Fixed Assets and Project Costing modules
Source: ERP Planned Deployment Schedule with comments from AGNB. Other modules in the deployment plan include Accounts Receivable, Planning and Budgeting and Talent Management and Learning.*

What is the Auditor General Doing to Audit the New Oracle Fusion System?

AGNB will audit Oracle Fusion modules in fiscal 2022 audit

- 4.58** Given the substantial size and breadth of the Oracle Fusion system, we consider its implementation a significant risk for our 2022 audit of the Province. This is because new IT systems sometimes have a history of processing errors and data integrity issues. Given this, as well as the IT system implementation issues encountered by other government agencies (especially regarding payroll) we are assessing the audit risk for the Fusion system implementation as high.
- 4.59** To address this high audit risk, we will perform additional audit procedures as part of our fiscal 2022 audit of the Province. Our audit procedures will be designed to ensure appropriate system controls are in place and to ensure the amounts recorded and processed by Oracle Fusion modules are materially complete and accurate.
- 4.60** We will continue to audit the existing outdated systems, as long as they are still in use and still process a significant dollar value of transactions.

IT Computer Systems Audited During the Provincial Financial Statement Audit

- 4.61** During the audit of the Province's consolidated financial statements, we perform work on various computer systems. In Exhibit 4.3, we provide information on the computer systems audited and if recommendations were made to each responsible department or Crown agency.

Exhibit 4.3 - List of IT Systems/Areas Audited by AGNB in 2021 and if Recommendations were Issued to Management of the Department or Crown Agency

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

Source: Prepared by AGNB.

Some findings are sensitive

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

Multiple Weaknesses in IT System

Concerns with the nature, number and severity of system weakness

- 4.63** In all of the seven computer system audits presented in Exhibit 4.3, we found multiple IT weaknesses. We are concerned with the nature, number and severity of the weaknesses given the significance of the systems examined.

Risk of unauthorized access to systems

- 4.64** We made 13 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.
- 4.65** 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.

<i>Inappropriate segregation of duties</i>	4.66	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.
<i>Excessive system rights</i>	4.67	We found some users had access beyond what was needed for their job responsibilities. These users had access to alter confidential scanned images.
<i>Weaknesses with maintenance of system accounts</i>	4.68	We found weaknesses relating to how system accounts are maintained. These weaknesses related to both user accounts, as well as system administrator accounts.

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
but one Crown agency*

5.1 Each year, our Office conducts audits of Crown agency financial statements. This past year, we completed:

- 13 Crown agency financial statement audits; and
- one claim audit.

As a result of our work, we issued unqualified (“clean”) audit opinions to all but one of the Crown agencies we audit.

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 11 of our 14 audits of Crown agency financial statements. Some of our recommendations were made to address items such as:

- weaknesses in internal control processes;
- uncorrected accounting errors; and
- lack of oversight from the Board of Directors.

5.3 Exhibit 5.1 provides information on:

- the Crown agencies we have completed audits for over the past year (November 2020 – December 2021);
- 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 November 2020 and December 2021*

**Summary of Crown Agency Financial Statement Audits Performed
Between November 2020 and December 2021**

Crown Agency	Unqualified Audit Opinion Issued	Recommendations Issued
March 31, 2021 Year End Audits		
Cannabis Management Corporation	Yes	Yes
New Brunswick Legal Aid Services Commission	Yes	Yes
New Brunswick Legal Aid Services Commission – Federal Claim	Yes	No
New Brunswick Legal Aid Services Commission – Trusts Under the Administration of the Public Trustee	No	Yes
New Brunswick Lotteries and Gaming Corporation	Yes	Yes
Opportunities New Brunswick	Yes	Yes
Service New Brunswick	Yes	Yes
December 31, 2020 Year End Audits		
New Brunswick Municipal Finance Corporation	Yes	No
March 31, 2020 Year End Audits		
Cannabis Management Corporation	Yes	No
New Brunswick Energy Solutions Corporation	Yes	Yes
New Brunswick Highway Corporation	Yes	Yes
New Brunswick Legal Aid Services Commission – Trusts Under the Administration of the Public Trustee	No	Yes
New Brunswick Lotteries and Gaming Corporation	Yes	Yes
Regional Development Corporation	Yes	Yes

Source: Prepared by AGNB.

Common with many trusts, we were not able to verify the completeness of trust assets

5.4 We issued qualified opinions for the March 31, 2021 and March 31, 2020 financial statement audits of the Trusts Under the Administration of the Public Trustee. As is common with many trusts, we were not able to verify the completeness of trust assets. As a result, our work was limited to amounts recorded in the accounting records.

Crown agencies should implement our recommendations before the next audit cycle

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

5.6 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

5.7 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 tax payers of New Brunswick. In 2021, SNB had revenues of approximately \$291 million and expenses of approximately \$292 million.

Recommendations made again this year to address risk of fraud at Service New Brunswick

5.8 This year, during our audit of SNB, we found three areas where weaknesses in internal control processes increased the risk of fraud. We also have noted each of these items below in prior year audits and we are concerned these weaknesses remain unresolved.

Payments Made Without Proof of Goods Received

SNB made approximately \$6.8 million in payments to vendors without any proof the goods had been received. As a result of our work, SNB was able to provide proof for \$4.8 million of these payments. This proof, however, was not provided until after the payments had already been made. In our view, not having proof of receipt of goods increases the risk of fraud through payments made for goods or services not received or through unauthorized purchases.

Duplicate Payments Made to Vendors

This year, we found six instances where SNB made duplicate payments to vendors for the same invoice. 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. We found SNB had been refunded for five of these instances.

Bank Reconciliations Contained Errors

SNB's monthly bank reconciliations contained errors. For example, we found one instance where a transfer of cash was not reconciled until nine months after the transaction had taken place. In our view, not having bank accounts regularly reconciled increases the risk of fraud. SNB has a significant number of employees who handle or process cash transactions.

We have again made recommendations to SNB to address these weaknesses in internal control processes.

Recommendations

5.9 We again recommend SNB only pay for goods or services when evidence exists to support the goods have been received or the services have been provided. For example, SNB should only pay for goods if proof of receipt is attached to an invoice.

5.10 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.

5.11 We recommend SNB investigate and correct any unreconciled cash amounts in its monthly bank reconciliations on a timely basis.

Four other recommendations made to Service New Brunswick

5.12 We also made four other recommendations to SNB as part of our work. These recommendations show the need for SNB to strengthen processes related to internal control and accounting. Three of these recommendations were made again this year and we are concerned they are not resolved. We made one recommendation where SNB needs to reduce the risk it is exposed to with its business partners.

Recommendation to improve internal control processes

5.13 We made one recommendation for SNB to improve its internal controls. We found 18 weaknesses in different areas such as payroll, payments to vendors and access to information technology systems. Eleven of these 18 items were noted in prior years and again this year and we are concerned these weaknesses have not been corrected.

- 5.14** We made a recommendation to SNB to review and resolve the weaknesses in internal control as soon as possible.
- 5.15** We made two recommendations for SNB to improve its accounting processes.
- 5.16** One recommendation was for SNB to improve its estimates of the useful lives of tangible capital assets. For example, we found instances where capital assets were disposed of before the end of their estimated useful life. We found other instances where SNB estimated the useful life of capital assets would extend beyond the maximum time allowed by its capital asset policies. These items show the need for SNB to review, and update as necessary, its estimates for useful lives and its policies for capital assets.
- 5.17** SNB has over \$148 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 \$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.
- 5.18** We recommend SNB review, and update as necessary:
- the useful life estimates of its Tangible Capital Assets;
 - its classes of Tangible Capital Assets (such as what is included in Major Equipment and if any new classes of Tangible Capital Assets are needed); and
 - its policies for Tangible Capital Assets.
- We recommend this review be performed on a regular basis such as annually.**
- 5.19** Our second accounting related recommendation was for SNB to improve its process to identify and calculate contract amounts to be disclosed in its financial statements. This includes items such as leases for office space and other contractual agreements. This information is required by Canadian Public Sector Accounting Standards and provides valuable information to users of the financial statements regarding what SNB is committed to spend in

Recommendations to improve accounting processes

Estimates of the useful lives of tangible capital assets need to be improved

Recommendation

Process to identify and calculate amounts requiring disclosure needs to be improved

the future. We made this recommendation as part of our 2020 audit as well.

5.20 During our work, we found approximately \$17 million in contracts which were not disclosed. We also found errors of approximately \$1.5 million in contracts that were disclosed. SNB corrected its financial statement disclosure for each of these instances. At March 31, 2021, SNB had disclosed approximately \$142 million regarding its future contract commitments.

Recommendation

5.21 We recommend SNB refine and document its processes to identify and calculate contract amounts to be disclosed in its financial statements. We recommend evidence of this work be retained for audit purposes.

SNB is exposed to risk with its business partners

5.22 Our last recommendation was for SNB to reduce the risk it is exposed to with its business partners. We found SNB still does not have signed agreements for services it provides to six of its business partners. SNB is exposed to risk should one of these partners disagree with charges or services. This is the sixth consecutive year we have made this recommendation to SNB.

Recommendation

5.23 We again recommend SNB have signed service level agreements with all of its business partners.

Recommendations Made to Opportunities New Brunswick

Opportunities New Brunswick is another large and complex audit

5.24 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, 2021, ONB had approximately \$197 million in loans receivable and during 2021, ONB made approximately \$15 million in financial assistance payments.

Recommendation made to improve estimates of loan provisions

5.25 We made one recommendation 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.

Loan provisions are a significant audit risk

5.26 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.

5.27 In our sample of 25 loans, we found 11 instances where ONB's estimates needed to be improved. For example, we found instances 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 the financial statements were 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.

Recommendation

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

Recommendations made to address weaknesses when paying financial assistance claims

5.29 We have also made recommendations for ONB to improve its processes when paying financial assistance claims. Financial assistance claims are another area of significant risk in our audit. These claims consist of items such as payroll rebates and funding recipients are required to submit claims before ONB will issue a payment. The nature and extent of these payments are also set out in the terms of signed agreements.

5.30 During our work we found two instances where ONB made payments for claims without first having received appropriate support. We also found one instance where ONB issued payments for the same claim more than once. In our view, failure to properly assess and monitor financial assistance claims increases the risk fraudulent claims submitted by recipients would not be detected before payment.

Recommendations

5.31 We 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 agreements.

5.32 We recommend ONB ensure financial assistance payments are appropriately reviewed and approved prior to payment.

**Recommendation Made to
New Brunswick Lotteries and Gaming Corporation**

5.33 The New Brunswick Lotteries and Gaming Corporation (NBLGC) is responsible for developing, organizing, conducting and managing provincial lottery schemes on behalf of the Province. NBLGC also manages the provincial gaming revenue sharing agreements with First Nations.

\$14.7 million in overpayments to First Nations is still unresolved after five years

5.34 During our audit of NBLGC, we again found there has been no decision regarding \$14.7 million in overpayments made to First Nations. These overpayments date back to 2016 and are the result of errors NBLGC made when calculating First Nations' share of gaming revenue. Each year since 2016, NBLGC has recorded these overpayments as an amount receivable with an allowance for doubtful accounts (provision) of 100%.

5.35 During our work, we were informed an Executive Council decision was made in February 2021 and concluded the Department of Finance and Treasury Board is to consider these overpayments as part of a larger First Nations strategy. The details of this First Nations strategy have yet to be determined.

5.36 Despite this Executive Council decision, we remain concerned this issue is still unresolved after five years. We have made recommendations each year since 2016, including again this year, for these overpayments to be resolved.

Recommendation

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

Recommendations Made to Cannabis Management Corporation

CMC is responsible for the oversight, organization, conduct and management of the retail sales of cannabis in New Brunswick

5.38 The Cannabis Management Corporation (CMC) is responsible for the oversight, organization, conduct and management of the retail sales of cannabis in New Brunswick. CMC does this through a service provider agreement with Cannabis NB (CNB). CNB operates cannabis retail outlets in New Brunswick on behalf of the CMC.

Oversight of Cannabis Education Awareness Fund needs to be improved

5.39 As part of our CMC audit this year, we made two recommendations regarding the oversight of the Cannabis Education Awareness Fund (the fund). This fund is important because it is to be used specifically for items such as providing education and awareness programs related to cannabis. At year end, there was approximately \$1.6 million in the fund.

Amounts received from CNB were not verified

5.40 Our first recommendation was for CMC to verify the amounts received from CNB for the fund are accurate. CNB is required to remit a percentage of its net cannabis purchases to CMC each year. CMC, in turn, deposits all of these remittances into the fund. We found CMC was not verifying if these amounts were accurate. In our view, not having a process to verify amounts received from CNB increases the risk of error.

Recommendation

5.41 We recommend CMC develop and implement a process to verify the accuracy and completeness of Cannabis Education and Awareness Fund revenue. We recommend evidence of this work be retained for audit purposes.

Advisory Committee has not met since 2019

5.42 Our second recommendation was for CMC to work with the Advisory Committee responsible for the fund to resume committee meetings as soon as possible. These meetings are necessary to ensure the fund is actively managed and being used for its intended purpose. We found the Committee has not met since 2019.

Recommendation

5.43 We recommend CMC work with the Cannabis Education and Awareness Fund Advisory Committee to resume meetings as soon as possible to ensure there is active management and direction of the fund.

Appendix to Volume Loss Through Fraud, Default, or Mistake

1.1 Section 17(2) of the *Auditor General Act* indicates that the Auditor General may report to the Legislative Assembly cases where fraud or illegal activity has been discovered.

1.2 During 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 2021 Amount of Loss
Natural Resources and Energy Development Missing equipment from various regions	\$38,248
Transportation and Infrastructure Stolen property and equipment	\$209,317
Justice and Public Safety Cash shortage	\$1,129
Post-Secondary Education, Training and Labour Missing equipment	\$1,237
Education and Early Childhood Development Stolen equipment	\$1,051
Total	\$250,982

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