

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



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2023 Volume III

Chapter 4 Highlights

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

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

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

Audit of the Province’s Financial Statements

Auditor General Signed Unqualified Audit Opinion

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

4.2 Our audit work included analysis of:

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

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

NB Power’s Self-Sustainability

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

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

Elevated Debt Levels

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

4.6 NB Power:

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

Lack of Profitability

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

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

Operating Challenges

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

Future Capital Investments

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

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

NB Power’s Strategic Plan Outlines Many Challenges

4.10 NB Power’s strategic plan:

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

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

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

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

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

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

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

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

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

NB Power Annual Accounting Analysis

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

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

Asset Retirement Obligations

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

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

Government IT Systems

Oracle Fusion System

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

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

4.20 Fusion will be used by:

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

Internal Control and Accounting Processes

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

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

- user access
- segregation of duties
- override ability

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

Other IT Systems

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

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

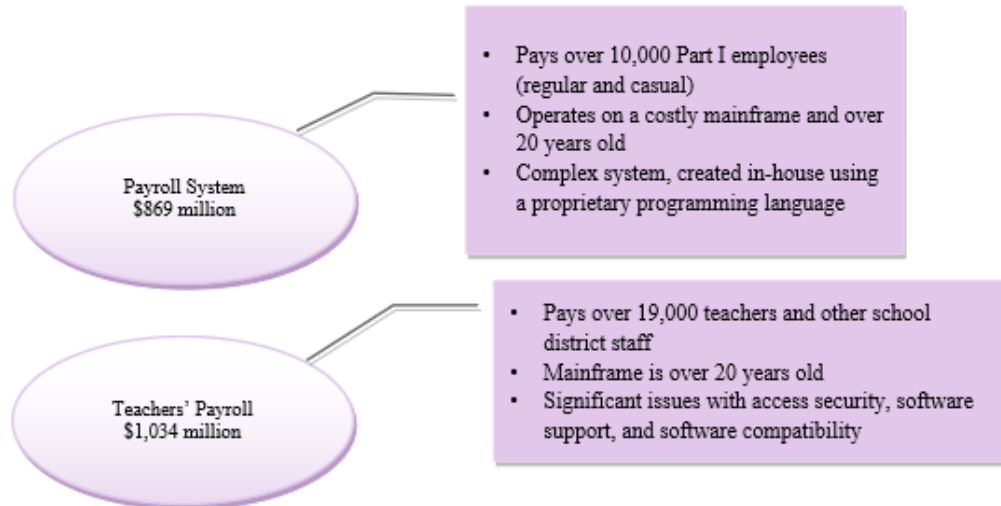
4.25 We noted recommendations for all IT systems except EBS. Common themes in improvements required related to:

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

IT Systems with Noted Risks

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

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



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

