REPORT TO THE HOUSE OF ASSEMBLY

On the Audit of the Financial Statements of the Province of Newfoundland and Labrador

For the Year Ended March 31, 2020

OFFICE OF THE AUDITOR GENERAL
NEWFOUNDLAND AND LABRADOR

Office of the Auditor General
Newfoundland and Labrador

The Office of Auditor General is committed to promoting accountability and encouraging positive change in the stewardship, management and use of public resources. The Auditor General reports to the House of Assembly on significant matters which result from the examinations of Government, its departments and agencies of the Crown. The Auditor General is also the independent auditor of the Province's financial statements and the financial statements of many agencies of the Crown and, as such, expresses an opinion as to the fair presentation of their financial statements.

VISION

Promoting positive change and accountability in the public sector through impactful audits.

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OFFICE OF THE AUDITOR GENERAL
NEWFOUNDLAND AND LABRADOR

April 2021

Honourable Derek Bennett, M.H.A.
Speaker
House of Assembly

Dear Sir:

In compliance with the Auditor General Act, I have the honour to submit, for transmission to the House of Assembly, my Report on the Audit of the Financial Statements of the Province of Newfoundland and Labrador for the year ended March 31, 2020.

Respectfully submitted,

DENISE HANRAHAN, CPA, CMA, MBA, ICD.D
Auditor General

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Key Messages

The Province reported a surplus of $1.12 billion for the year ended March 31, 2020. While this surplus is an improvement over the deficits reported in recent years, it is the result of recognizing one-time Federal revenue from the Atlantic Accord (2019) during 2019-20. Without the revenue of $2.36 billion from the Atlantic Accord (2019), there would have been a deficit of $1.24 billion.

Over the past 10 years, financial indicators show worsening trends. Net deficits over the past ten years have contributed to a substantial increase in the net debt of the Province – now at $14.4 billion – one of the highest levels in the Province's history.

The Province has forecasted a deficit of $1.84 billion for 2020-21. Declining revenues and increased expenses resulting from the COVID-19 pandemic have contributed to the forecasted deficit.

However, there is risk that the budget target may not be achieved. Government would be significantly challenged to address such a situation over the short-term.

Financial Condition of the Province

One picture of a government's financial condition is the use of ratios and analysis to generate discussion on sustainability, flexibility and vulnerability. These indicators are suggested by CPA Canada's Public Sector Accounting Board.

Sustainability

Is Government living within its means?

The past 10 years, taken as a whole, show a trend of worsening sustainability

10-year trend

- Cumulative net deficit of $3.8 billion
- Net debt averaged 34.7% of GDP

5-year trend

- Cumulative net deficit of $3.7 billion
- Net debt averaged 42.6% of GDP

Net debt increased by approximately $6.6 billion from its low point in 2011-12

Flexibility

Can Government meet rising commitments by expanding its revenues or increasing its debt?

Debt expenses as a percentage of revenue have increased over the past 10 years - reducing flexibility

10-year trend

Debt expense as a percentage of revenue averaged 11.9%

5-year trend

Debt expense as a percentage of revenue averaged 13.3%

Annual debt expenses averaged $899 million over the past 10 years

Vulnerability

To what extent is Government relying on sources of funding outside of its control to pay for existing programs and services?

Over the past 10 years, Government has experienced more vulnerability as it has generally become more reliant on its own source revenues, including oil royalties that are subject to factors outside of its control

10-year trend	**5-year trend**
Oil royalties averaged 19.6% of revenues	Oil royalties averaged 11.8% of revenues

Oil royalties as a percentage of total revenues have declined over the past 10 years

The volatility associated with oil royalties is an important planning consideration for Government so that expenditure levels are not built to be reliant on this revenue source

Financial Highlights – 2019-20 Revenues and Expenses

Revenues

- Significant fluctuations and change in composition over ten years
- Increased to $9.6 billion in 2019-20 - $2.3 billion increase from 2010
- Province generates the highest provincial revenue per capita in the country
- Province has one of the highest per capita tax burdens in the country

Expenses

- Steadily increased from $7.33 billion to $8.47 billion over ten years
- $1.06 billion in debt service expenses for 2019-20
- 43.8% of program expenses relate to health care
- 27.4% of program expenses relate to education, income support and skills development

Fiscal Outlook: 2020-21

The Province did not provide any forecast beyond 2020-21 because of the uncertainty related to the COVID-19 pandemic.

However, the Province already had risks associated with its fiscal outlook prior to COVID-19, including:

A rapidly aging population – has cost implications on programs and services, especially health costs

Electricity rate mitigation – may have negative impact on fiscal forecast if the anticipated sources of funding are not achieved

Volatility of revenues - certain revenues are impacted by factors outside of Government's control

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CHAPTER 1

INTRODUCTION

Introduction

The Consolidated Summary Financial Statements (commonly referred to as the Public Accounts) reflect the financial position and annual operating results of all organizations in the Government Reporting Entity. This includes Government departments and the Legislature and all other Government entities that are controlled by Government and are accountable to either a Minister of a Government Department or directly to the Legislature for the administration of their financial affairs and resources. A full listing of the Government Reporting Entity is included in Appendix I.

The Consolidated Summary Financial Statements provide the most complete information about the financial position and operating results of the Province. They are an important document which serve as the principal means by which Government reports to the House of Assembly and to all Newfoundlanders and Labradorians on its accountability and stewardship of public funds.

This Report provides information on the Consolidated Summary Financial Statements of the Province of Newfoundland and Labrador for the year ended March 31, 2020. This information is intended to provide an overview of the financial condition of the Province and changes in its financial position and operations from the previous year. It also includes observations on other matters that came to my attention during our audit of the Province's financial statements.

As Auditor General, I am responsible for this Report to the House of Assembly.

Acknowledgements

I acknowledge the cooperation and assistance my Office has received from the Office of the Comptroller General during the completion of the audit, as well as from officials of the various Government departments and Crown agencies. I also thank the staff of the Office of the Auditor General for their hard work, professionalism and dedication.

DENISE HANRAHAN, CPA, CMA, MBA, ICD.D
Auditor General

CHAPTER 2

INDEPENDENT AUDITOR'S REPORT

Responsibility for the Consolidated Summary Financial Statements

Government, through the Office of the Comptroller General, is responsible for providing the House of Assembly with the Province's Consolidated Summary Financial Statements. These statements are prepared in accordance with Canadian Public Sector Accounting Standards - the standards which are considered to be generally accepted accounting principles (GAAP) for Canadian governments.

The Comptroller General is responsible for preparing the Consolidated Summary Financial Statements, including related notes and schedules. To prepare financial statements in accordance with GAAP, the Comptroller General is required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses.

The Consolidated Summary Financial Statements include a Statement of Responsibility, signed by the President of Treasury Board and the Comptroller General. This Statement outlines Government's responsibility for maintaining a system of internal control in order to provide reasonable assurance that transactions are properly authorized, assets are safeguarded, financial records are properly maintained, and financial statements are prepared that are free from material misstatement whether due to fraud or error.

Independent Auditor's Report

The responsibility of the Office of the Auditor General is to perform an audit of the Consolidated Summary Financial Statements in accordance with Canadian generally accepted auditing standards (GAAS). The Office forms an opinion based upon the results of the audit and, in accordance with GAAS, issues an Independent Auditor's Report on the Consolidated Summary Financial Statements.

Some key points about the Independent Auditor's Report include:

Audit Opinion

An unqualified audit opinion was issued on the Consolidated Summary Financial Statements for the year ended March 31, 2020, concluding that they were fairly presented, in all material respects, in accordance with Canadian Public Sector Accounting Standards.

This audit opinion does not extend to the effectiveness of internal controls as this is not the focus of a financial statement audit. Consistent with GAAS, however, if we identify matters during our audit which result in recommendations to improve controls or management practices, we communicate these matters in writing to Government. Recommendations communicated to Government as a result of our audit of the Consolidated Summary Financial Statements for the year ended March 31, 2020 are outlined in Chapter 5 - Other Matters.

Other Information

Government includes a Financial Statement Discussion and Analysis report with the Consolidated Summary Financial Statements to provide an overview of changes in Government's financial position and to highlight key figures and comparatives. This report is considered part of the "other information" that is included in the Public Accounts of the Province. Our opinion on the Consolidated Summary Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon. However, GAAS requires us to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge we obtained during the audit, or otherwise appears to be materially misstated. If we conclude that there is a material misstatement of this other information, we are required to report that fact. For the year ended March 31, 2020, we had nothing to report in this regard.

Other Matter

GAAS allows an auditor to include additional communication in the Independent Auditor's Report if an auditor considers it necessary to do so. One such communication is an "Other Matter" paragraph. An Other Matter paragraph is a paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

In April 2019, Government released a proposed framework that outlined possible options to mitigate the increases in electricity rates. Government also requested the Board of Commissioners of Public Utilities (PUB) to examine options to mitigate impacts of the Muskrat Falls project. The PUB released its final report regarding rate mitigation in February 2020. Government has not yet finalized its rate mitigation plan. In September 2020, Government created a Rate Mitigation Team to continue work on rate mitigation. There was no date specified for the Rate Mitigation Team to complete its work.

In its Financial Statement Discussion and Analysis report for the year ended March 31, 2020, Government included commentary on risks to the Province's financial position and forecast which included risks relating to Government's rate mitigation strategy for the Muskrat Falls project. However, the Consolidated Summary Financial Statements for the year ended March 31, 2020 do not disclose information regarding Government's rate mitigation plan as such disclosure for this reporting timeframe was not required by Canadian Public Sector Accounting Standards.

We, nonetheless, felt it was important to include an Other Matter paragraph in our Independent Auditor's Report on the Consolidated Summary Financial Statements for the year ended March 31, 2020. This Other Matter paragraph highlighted that Government has not finalized specific strategies for its rate mitigation plan and that implementation of this plan may have a significant impact on the Province's Consolidated Summary Financial Statements in future years. We further noted that we did not modify our audit opinion because of this matter. This is consistent with GAAS.

Level of Assurance

The audit is designed to obtain reasonable, but not absolute, assurance that the Consolidated Summary Financial Statements, as a whole, are free of material misstatement. Reasonable assurance means that sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level to support the conclusion that the financial statements are free of material misstatement. This is consistent with GAAS.

Materiality

The Independent Auditor's Report provides an opinion on whether the Consolidated Summary Financial Statements present fairly, in all material respects, the consolidated financial position of the Province at a point in time (e.g. March 31, 2020), and the consolidated results of its operations, the change in its net debt, the change in its accumulated deficit, and its cash flows for the year then ended (e.g. the year ended March 31, 2020) in accordance with Canadian Public Sector Accounting Standards.

Audit procedures are performed to detect material misstatements in the financial statements. Materiality means how significant a financial statement omission or misstatement, either individually or in the aggregate, would need to be in order for such omissions or misstatements to be expected to influence or change the decisions of reasonably knowledgeable users relying on those financial statements. Guidance is provided by GAAS and professional judgment is exercised in order to set an overall level of materiality for the audit.

All errors or misstatements noted during the audit are accumulated and an assessment is made whether they would individually, or in aggregate, cause the financial statements to be materially misstated, based on the level of materiality chosen for the audit or because of other qualitative considerations associated with the information irrespective of the magnitude of the misstatement or omission.

Audit Procedures and Evidence

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Summary Financial Statements. The procedures selected depend on the auditor's judgment, including an assessment of risks of material misstatement of the Consolidated Summary Financial Statements, whether due to fraud or error.

Internal controls relevant to the preparation of the Consolidated Summary Financial Statements are considered in order to design audit procedures, but not for the purpose of expressing an opinion on the effectiveness of Government's system of internal controls.

The audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Government, as well as evaluating the overall presentation of the Consolidated Summary Financial Statements.

CHAPTER 3

THE FINANCIAL CONDITION OF THE PROVINCE

Province's Consolidated Financial Results - 2020

This chapter reports on the financial condition of the Province by expanding on the information contained in the Consolidated Summary Financial Statements. It provides an overview of the Province's financial position at March 31, 2020 with comparative information for the 10-year period ending March 31, 2020. It also considers forecasted financial information for 2020-21, obtained from Budget 2020, and other publicly available information.

Budget 2020, released September 2020, outlined the expected financial results for 2020-21. The Province did not provide any forecast beyond 2020-21 because of the uncertainty related to the COVID-19 pandemic.

Various indicators can be used to assess the Province's financial condition. The indicators discussed in this chapter are among those recommended for reporting by the Canadian Public Sector Accounting Board. These indicators combined assess the financial condition of a government: its financial health as measured by sustainability, flexibility and vulnerability, looked at in the context of the Province's overall economic and financial environment.

Sustainability - whether a government is living within its means

Flexibility - whether a government can meet rising commitments by expanding its revenues or increasing its debt

Vulnerability - the extent to which a government relies on sources of funding outside its control to pay for existing programs and services

Sustainability

Sustainability is the degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy. Sustainability indicators included in this chapter include Government's:

- annual surplus or deficit;
- surplus/deficit as a percentage of province's gross domestic product;
- net debt;
- net debt per capita; and
- net debt as a percentage of province's gross domestic product.

Each of these indicators provides useful insight into the sustainability of a government's revenue raising and spending practices.

Annual surplus or deficit

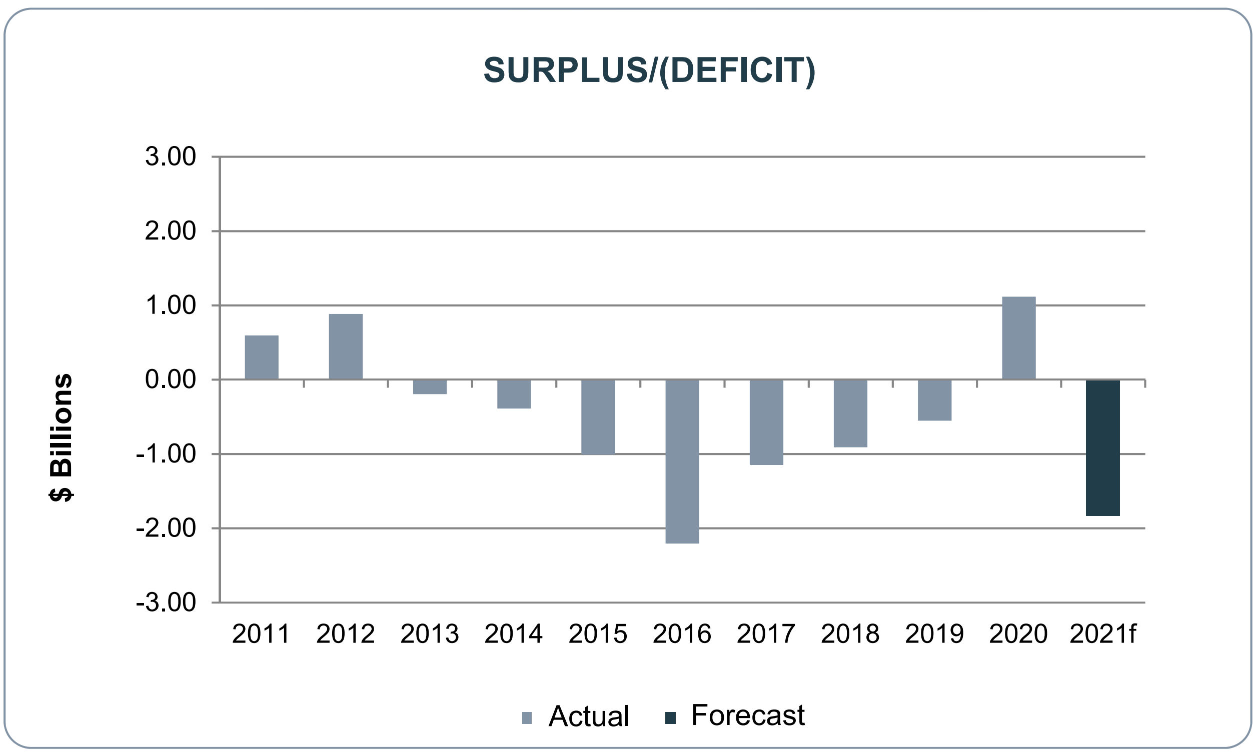
A surplus occurs when the amount of annual revenue available is more than expenses in the same year. A deficit occurs when the amount of expenses is more than the amount of revenue available in the same year. It is an indicator of whether a government is living within its means.

Observations

1. The Province reported a surplus of $1.12 billion in 2019-20. While this surplus is an improvement over the deficits reported in recent years, it is the result of recognizing one-time Federal revenue of $2.36 billion from the Atlantic Accord (2019) during 2019-20. Without the revenue from the Atlantic Accord (2019), there would have been a deficit of $1.24 billion.

2. The Province incurred annual deficits over the seven years from 2012-13 to 2018-19 totaling $6.4 billion.

3. The Province has forecasted a deficit of $1.84 billion for 2020-21. The Province did not provide any forecast beyond 2020-21 because of the uncertainty related to the COVID-19 pandemic.



Source: Public Accounts (actual); Department of Finance (forecast)

2019-20

For the year ended March 31, 2020, the Province recorded a surplus of $1.12 billion, which was $0.8 billion less than predicted in Budget 2019. While this surplus is an improvement over the deficits reported in recent years, it is the result of recognizing one-time Federal revenue from the Atlantic Accord (2019) during 2019-20.

The Atlantic Accord (2019) revenue is the result of the Federal/Provincial Hibernia Dividend Backed Annuity Agreement, announced in April 2019. This agreement will result in a guaranteed stream of additional net cash flows from the Federal government of $2.5 billion to be received over the period 2019-20 to 2055-56. Due to the nature of this agreement, the Province recognized $2.36 billion in revenue upfront in 2019-20. Without the revenue from the Atlantic Accord (2019), there would have been a deficit of $1.24 billion.

Over the past 10 years, the Province recorded a cumulative net deficit (adding annual surpluses or deficits for each of these years) of $3.8 billion. The Province incurred annual deficits over the seven years from 2012-13 to 2018-19 totaling $6.4 billion.

2020-21

The Province is expecting a deficit of $1.84 billion for 2020-21. Declining revenues and increased expenses resulting from the COVID-19 pandemic have contributed to the forecasted deficit.

The Province did not provide any forecast beyond 2020-21 because of the uncertainty related to the COVID-19 pandemic.

Surplus/Deficit as a percentage of GDP

While the absolute amount of the surplus/deficit is an important indicator of financial performance, an additional and more informative indicator is to express the deficit as a percentage of Gross Domestic Product (GDP). GDP is the measure of the value of goods and services produced by the economy. This indicator relates the surplus/deficit to the size of the Province’s economy and provides a basis for comparison of financial performance among other provincial jurisdictions.

Observations

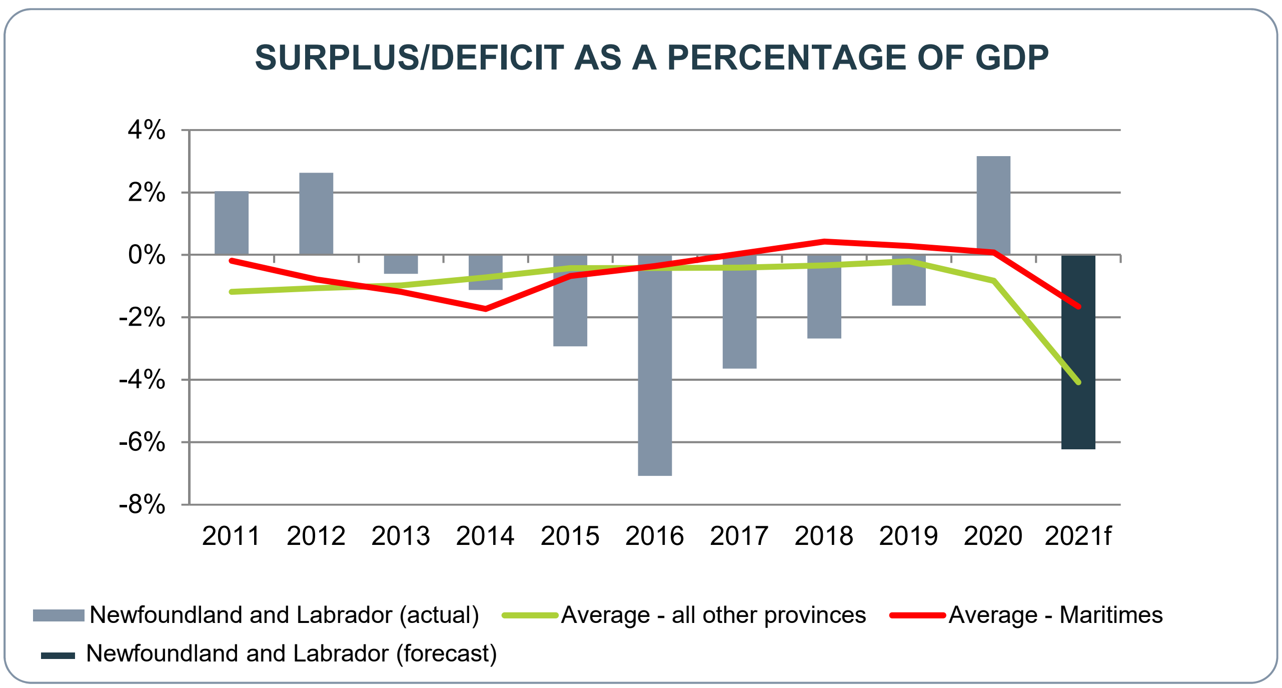
4. Newfoundland and Labrador's surplus as a percentage of GDP for 2019-20 is 3.2 per cent, the best in Canada. This situation is the result of recognizing one-time Federal revenue of $2.36 billion from the Atlantic Accord (2019) during 2019-20. In the absence of recognizing revenue from the Atlantic Accord (2019) during 2019-20, Newfoundland and Labrador's deficit as a percentage of GDP for 2019-20 would have been 3.5 per cent, the highest in Canada.

5. The forecast deficit as a percentage of GDP for 2020-21 is 6.2 per cent, the second highest in Canada.

2019-20 and 2020-21

Newfoundland and Labrador's surplus as a percentage of GDP for 2019-20 is 3.2 per cent, the best in Canada. This situation is the result of recognizing one-time Federal revenue of $2.36 billion from the Atlantic Accord (2019) during 2019-20. In the absence of recognizing revenue from the Atlantic Accord (2019) during 2019-20, Newfoundland and Labrador's deficit as a percentage of GDP for 2019-20 would have been 3.5 per cent, the highest in Canada.

The Province's forecasted deficit as a percentage of GDP for 2020-21 is expected to deteriorate to 6.2 per cent, the second highest in Canada and higher than both the average of all other provinces and the Maritimes.



Source: Economic Outlook – all provinces (forecast); Statistics Canada, Table: 36-10-0222-01, Gross domestic product, expenditure-based, provincial and territorial, annual (x 1,000,000) (actual); Public Accounts – all provinces (actual); Department of Finance (forecast)

Net Debt

Net Debt represents all the liabilities of the Province less its financial assets and indicates whether there are enough financial assets to cover the liabilities for future generations. Net Debt is a commonly used indicator to measure the financial health of the Province.

Liabilities are amounts that the Province owes others and include those items which are payable for items purchased in the ordinary course of doing business, amounts borrowed and which will be repaid over a longer time frame, and obligations related to employee post-retirement benefits. These benefits include pensions and group health and life insurance.

Financial assets are amounts that the Province has available to pay its liabilities or finance future operations. Financial assets consist of cash and temporary investments, amounts receivable from third parties, investments, inventories held for resale and equity in government business enterprises (GBEs) and government business partnerships (GBPs). GBEs of the Province of Newfoundland and Labrador include Nalcor and its subsidiaries and the Newfoundland and Labrador Liquor Corporation. The Province's only GBP is its 25 per cent equity interest in the Atlantic Lottery Corporation. GBEs and GBPs generate revenue for the Provincial treasury through the sale of goods and services.

Net Debt is impacted by annual surpluses or deficits and the purchase of tangible capital assets. Surpluses reduce Net Debt while deficits and purchases of tangible capital assets increase Net Debt.

Observations

6. Net Debt of the Province at March 31, 2020, was $14.4 billion, a decrease of $1.0 billion from the previous year, but still one of the highest levels in the Province's history. The decrease is the result of recognizing additional one-time revenue of $2.36 billion from the Atlantic Accord (2019) in 2019-20. Without revenue from the Atlantic Accord (2019), the Province would have recorded Net Debt of approximately $16.8 billion.

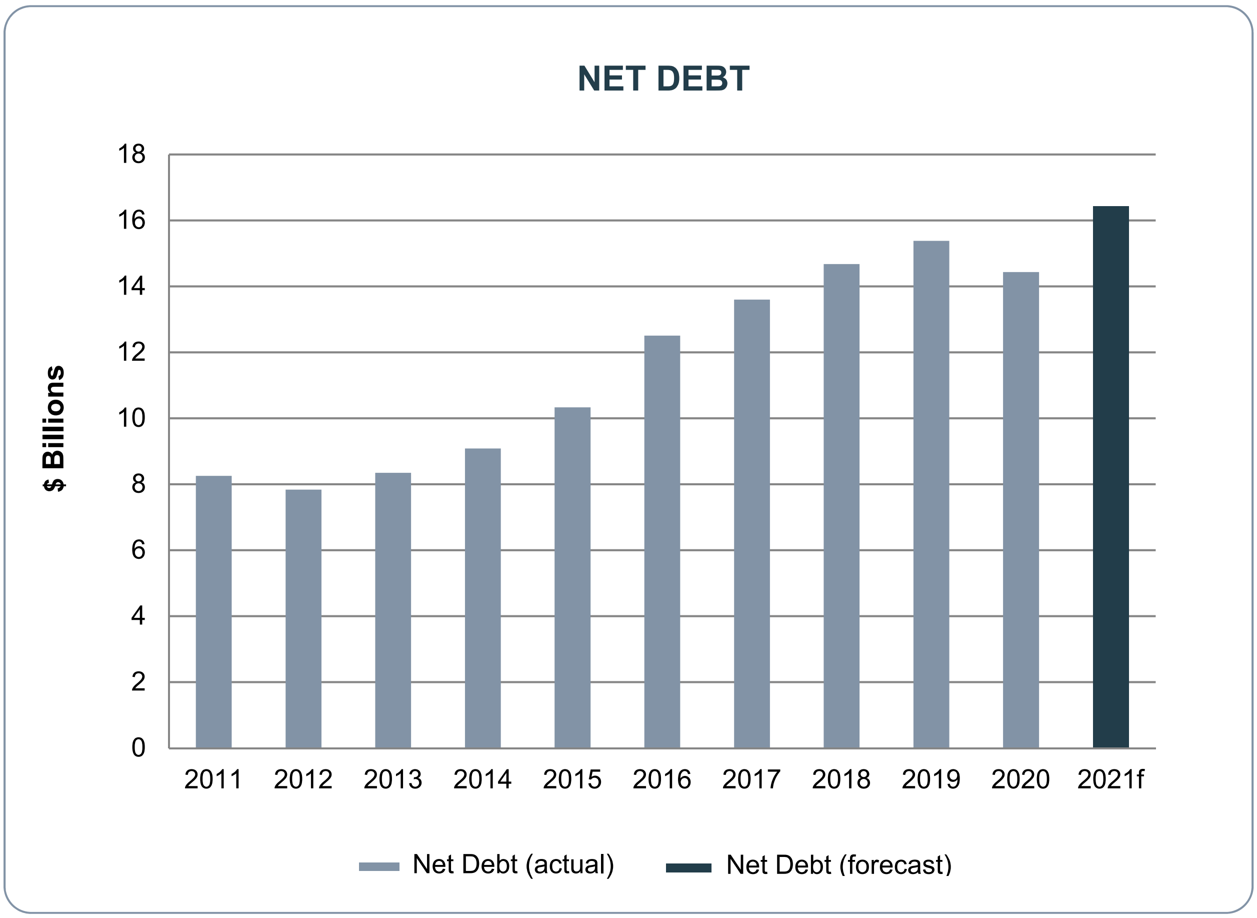
7. At March 31, 2020, Net Debt had increased by approximately $6.6 billion from its low point in 2011-12, primarily the result of net deficits totaling $5.3 billion in the 2012-13 through 2019-20 fiscal years plus the impact of tangible capital asset acquisitions during this period.

8. Net Debt is expected to increase to $16.4 billion by March 31, 2021. This is primarily the result of the deficit forecasted for 2021, combined with spending on infrastructure.

2019-20

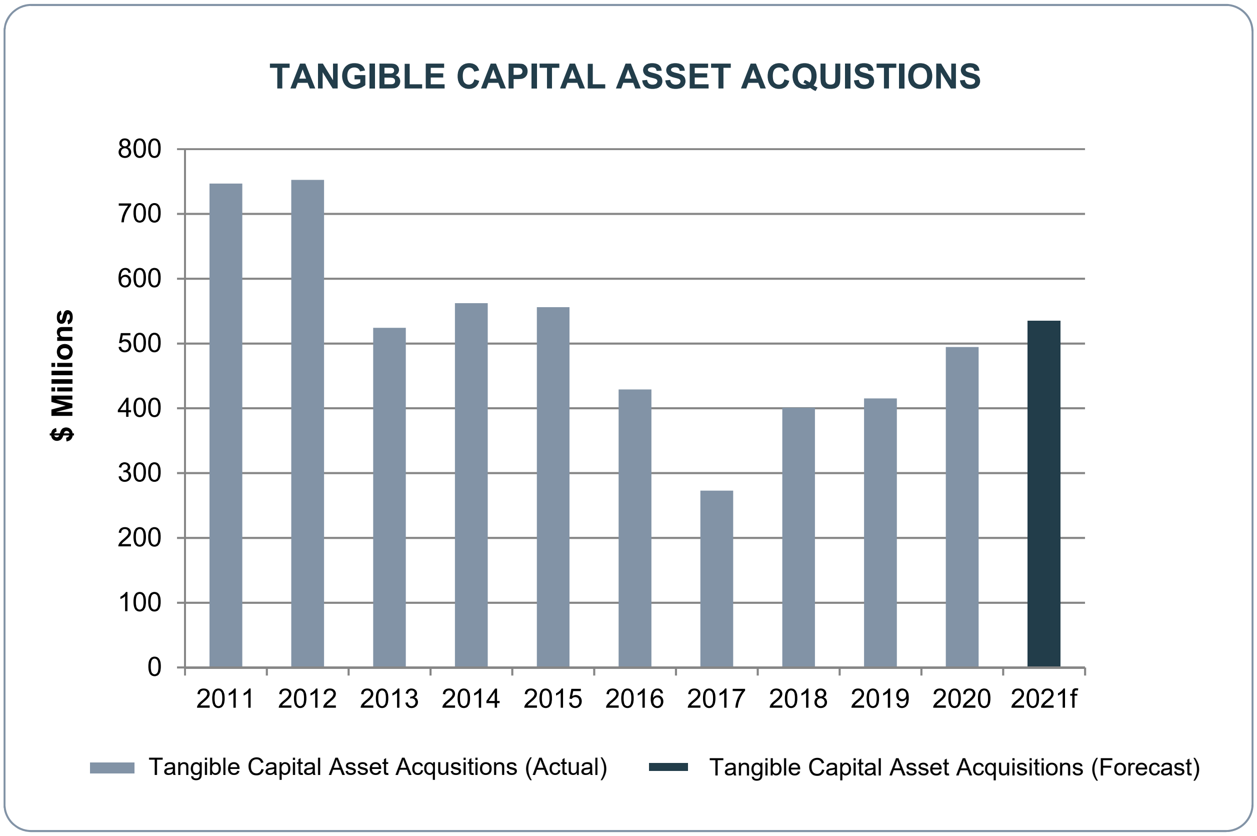
Net Debt of the Province at March 31, 2020, was $14.4 billion, a decrease of $1.0 billion from the previous year, but still one of the highest levels recorded by the Province. The decrease is the result of recognizing additional one-time revenue of $2.36 billion from the Atlantic Accord (2019) in 2019-20. Without the revenue from the Atlantic Accord (2019), the Province would have recorded Net Debt of approximately $16.8 billion.

At March 31, 2020, Net Debt had increased by approximately $6.6 billion from its low point in 2011-12, primarily the result of net deficits totaling $5.3 billion in the 2012-13 through 2019-20 fiscal years plus the impact of tangible capital asset acquisitions during this period.



Source: Public Accounts (actual); Department of Finance (forecast)

Tangible capital assets (infrastructure) represent the physical infrastructure of the Province (excluding those owned by GBEs and GBPs) and include hospitals, schools and roads. The cost of the infrastructure asset must be financed in the year it is acquired or built and increases Net Debt in that year. The cost of the asset is included as an expense evenly over the estimated life of the asset and impacts deficits over time.



Source: Public Accounts; Department of Finance (forecast)

In response to the recession of 2008 and 2009, annual spending on tangible capital assets spiked significantly in 2011 and 2012 as the federal and provincial governments supported the economy through spending on infrastructure. Annual infrastructure spending since 2012 has declined with 2017 reaching near pre-recession levels. In 2020, infrastructure spending levels increased by $79.5 million from 2019.

2020-21

Net Debt is expected to increase to $16.4 billion by March 31, 2021. This is primarily the result of the deficit forecasted for 2021, combined with spending on infrastructure. Infrastructure spending in 2021 is projected to increase by $40.6 million from 2020 levels.

Investments in infrastructure and programs will have to continue to be managed to allow a prudent pace of deficit reduction and timely stabilization of the net debt burden.

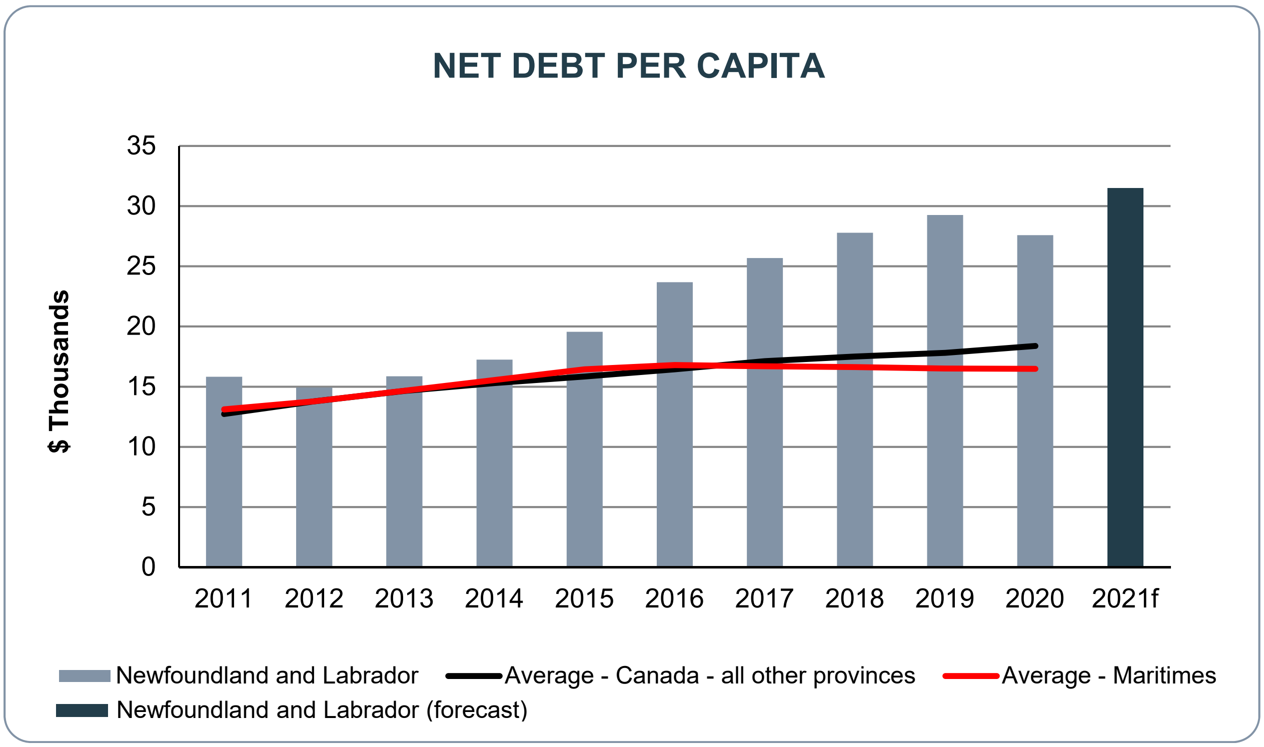
Net Debt per Capita

Net Debt per capita is a measure of the burden of the Province's debt attributed to each resident of the Province.

Observations

9. At March 31, 2020, Net Debt per capita decreased to $27,575 (2019 -$29,250) – but is still at one of the highest levels in the Province's history. The decrease is the result of recognizing additional one-time revenue of $2.36 billion from the Atlantic Accord (2019) in 2019-20.

10. Consistent with the expected increase in Net Debt, Net Debt per capita is expected to increase to $31,489 by March 31, 2021. This represents a significant financial burden attributed to each and every Newfoundlander and Labradorian.



Source: Public Accounts – all provinces (actual); Statistics Canada, Table: 17-10-0005-01, Population estimates on July 1st by age and sex (actual); Department of Finance (forecast)

In 2012, the Province's Net Debt per capita had reached its lowest point at $14,927. This occurred as a result of an improvement in both the Province's Net Debt and population from 2008 to 2012. The average of all other provinces and the Maritimes deteriorated during that same period.

At March 31, 2020, Net Debt per capita decreased to $27,575 (2019 - $29,250), but is still at one of the highest levels in the Province's history.

Consistent with the expected increase in Net Debt, Net Debt per capita is expected to increase to $31,489 by March 31, 2021. This represents a significant financial burden attributed to each and every Newfoundlander and Labradorian.

Net Debt as a percentage of GDP

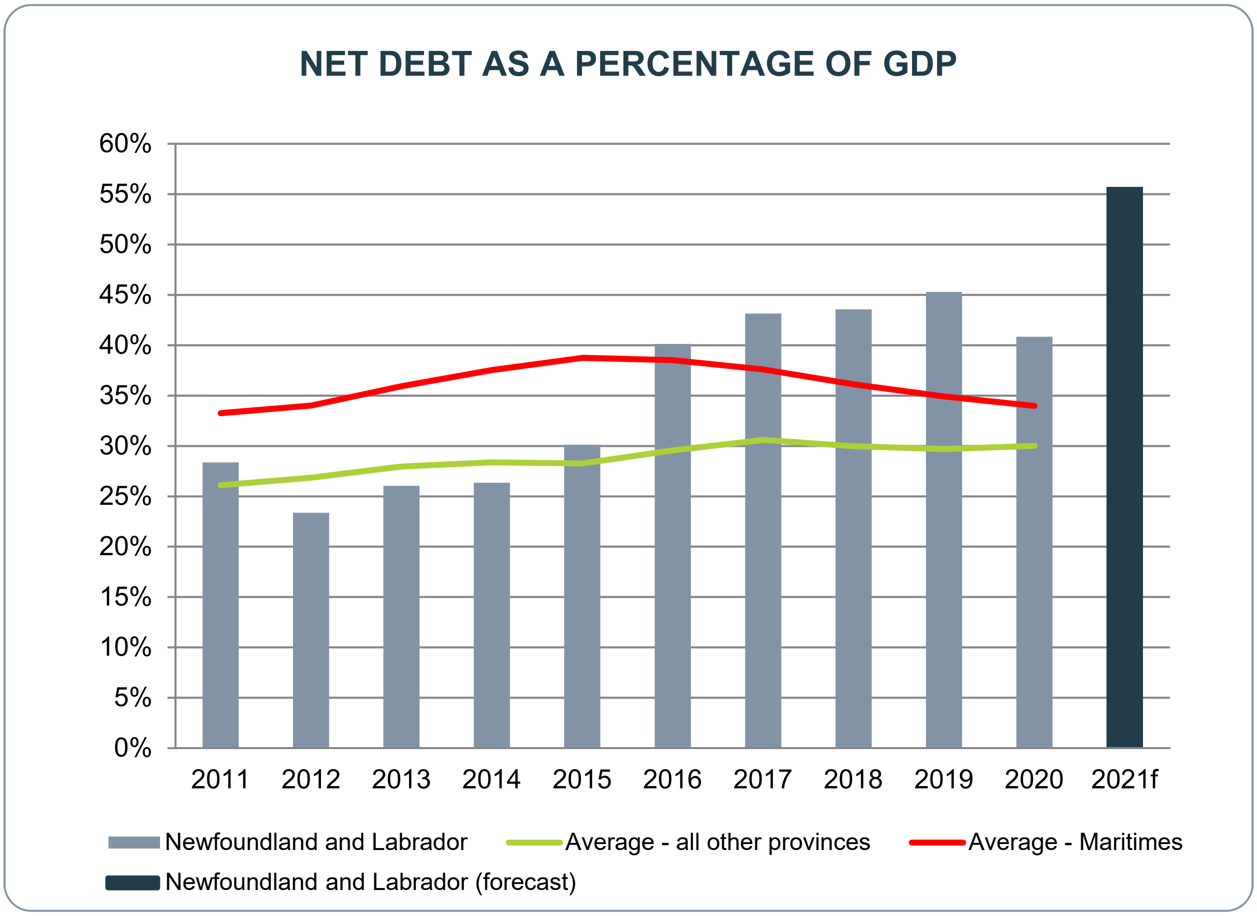
Another commonly used indicator to measure a province's financial position is Net Debt as a percentage of GDP. This indicator is perhaps the most widely used and relates provincial Net Debt to the size of the economy that supports the debt level. Because it is a relative measure, it is also used to compare jurisdictions to one another.

GDP is an indicator of the ability of the Province to raise revenue and support debt. The financial demands placed on the economy by Government spending and revenue raising practices can be assessed for sustainability by comparing the level of Net Debt to provincial GDP. When a province's Net Debt as a percentage of GDP is high, it is an indication that the level of Net Debt may not be sustainable.

Observations

11. The Province's Net Debt as a percentage of GDP has fluctuated over the last ten years - from a low of 23.4 per cent in 2012 climbing to a high of 45.3 per cent at March 31, 2019. Net Debt as a percentage of GDP declined to 40.8 per cent at March 31, 2020 - the result of recognizing additional one-time revenue of $2.36 billion from the Atlantic Accord (2019) in 2019-20. The Province's Net Debt as a percentage of GDP is still significantly higher than the average of 30.0 per cent of all other provinces.

12. By March 31, 2021, the Province's Net Debt as a percentage of GDP is forecasted to increase to 55.7 per cent.



Source: Economic Outlook – all provinces (forecast); Statistics Canada, Table: 36-10-0222-01, Gross domestic product, expenditure-based, provincial and territorial, annual (x 1,000,000) (actual); Public Accounts – all provinces (actual); Department of Finance (forecast)

Over the past 10 years, Net Debt as a percentage of GDP averaged 34.7 per cent with a low of 23.4 per cent at March 31, 2012 and a high of 45.3 per cent at March 31, 2019. For fiscal 2012, 2013 and 2014, the Net Debt to GDP ratio of Newfoundland and Labrador was lower than the average of all other provinces and well below the average of the Maritimes. Over the past five years, the Net Debt as a percentage of GDP averaged 42.6 per cent - an upward and deteriorating trend.

At March 31, 2020, the Province's Net Debt as a percentage of GDP decreased to 40.8 per cent - the result of recognizing additional one-time revenue of $2.36 billion from the Atlantic Accord (2019) in 2019-20. The Province's Net Debt as a percentage of GDP is still significantly higher than the average of 30.0 per cent of all other provinces and higher than the average of 34.0 per cent for the Maritimes. By March 31, 2021, the Province's Net Debt as a percentage of GDP is forecasted to increase to 55.7 per cent.

Flexibility

Flexibility is the degree to which a government can increase its financial resources to respond to rising commitments, by either expanding its revenues or increasing its debt. Flexibility indicators include debt expenses as a percentage of total revenue.

Debt expenses as a percentage of total revenue

Debt expenses as a percentage of revenue, sometimes called the “interest bite”, is an important indicator of the state of government finances. It indicates how much of a province’s revenues first must go to pay for past borrowings before being able to fund existing or new government programs and services.

Observations

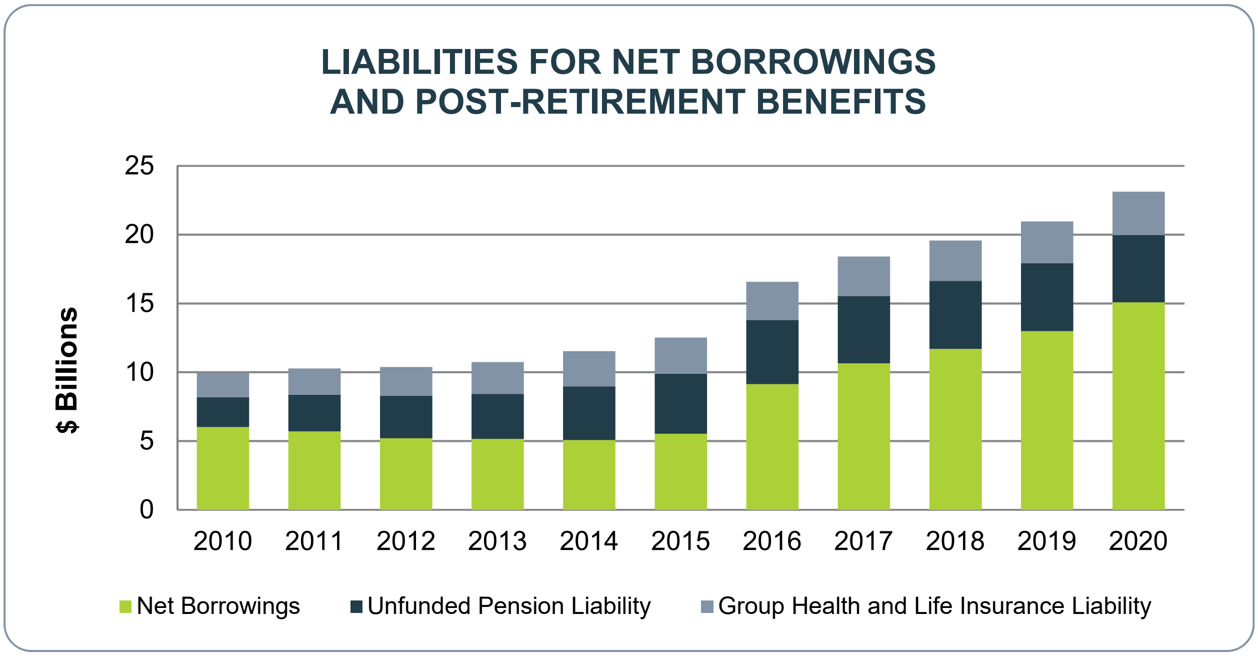
13. Over the past 10 years, debt expenses as a percentage of revenue averaged 11.9 per cent with a low of 9.0 per cent for 2011-2012. Over the past five years, debt expenses as a percentage of revenue averaged 13.3 per cent - an upward and deteriorating trend. Debt expenses as a percentage of revenue for 2019-20 are 11.1 percent.

14. Budget 2020 estimated that 15.1 per cent of every dollar of revenue generated for 2020-21 will be allocated to debt expense. Money allocated to servicing debt is money that is not available to fund programs and services.

15. In 2020-21, the Province expects to borrow up to $3.0 billion in the capital markets, which will have associated debt expenses.

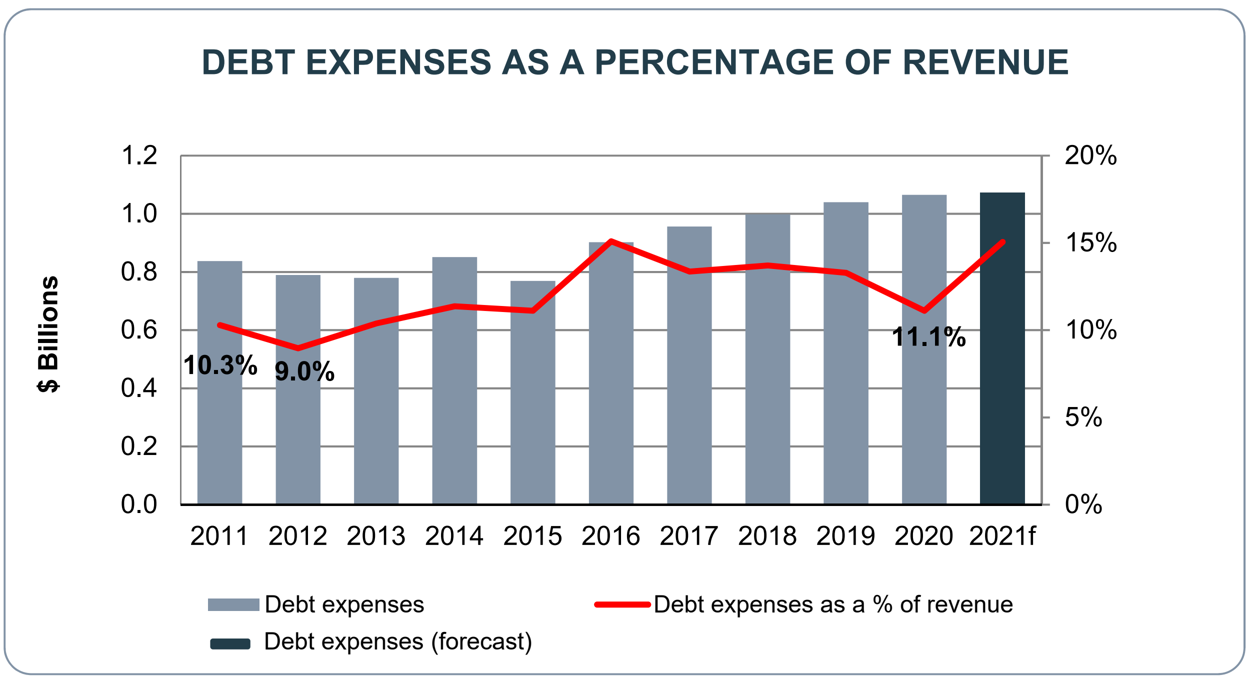
Government incurs interest costs on its borrowings, as well as on its liabilities related to employee post-retirement benefits. At March 31, 2020, Government borrowings (net of sinking funds), unfunded pension liability and unfunded group health and life insurance retirement benefits liability totaled $23.1 billion, an increase of $13.2 billion or approximately 132 per cent over the last ten years.

The net borrowings do not include the borrowings of Government business enterprises and partnership (Nalcor, Newfoundland Labrador Liquor Corporation and the Province’s share of Atlantic Lottery Corporation) as these entities are considered investments. Therefore, their assets and liabilities are recorded as equity in the Consolidated Summary Financial Statements.



Source: Public Accounts

Over the last 10 years, annual debt expenses averaged $899 million and debt expenses as a percentage of revenue averaged 11.9 per cent with a low of 9.0 per cent for 2011-2012. Over the past five years, debt expenses as a percentage of revenue averaged 13.3 per cent - an upward and deteriorating trend. Debt expenses as a percentage of revenue for 2019-20 are 11.1 per cent.



Source: Public Accounts (actual); Department of Finance (forecast)

Budget 2020 forecasted annual debt servicing expenses to be $1.1 billion for 2020-21. Debt expenses as a percentage of revenue are estimated to be 15.1 per cent for 2020-21. This increase to 15.1 per cent is the result of recognizing less revenue in 2020-21, combined with additional borrowings during 2020-21.

In recent years, Government has implemented measures to reduce liabilities for post-retirement benefits. These measures included, for example, pension reform to address the significant growing unfunded pension liability and amendments to other post-retirement benefits.

In 2020-21, the Province expects to borrow up to $3.0 billion in the capital markets, which will have associated debt expenses.

Vulnerability

Vulnerability is the degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside of its control or influence. Important vulnerability indicators include:

- Federal Government and own source revenues compared to total revenues; and
- offshore oil royalties as a percentage of own source revenues.

Federal Government and own source revenues compared to total revenues

A comparison of Federal Government and own source revenues to total revenues reflects how dependent Government is on these different revenue sources for financing its programs and services and thus, how vulnerable Government is to changes in these revenue sources.

Observations

16. Over the ten-year period 2011 to 2020, the Province has generally become more reliant on own source revenues and less reliant on Federal revenues. In 2020, there was an increase in Federal revenues as a percentage of total revenues as a result of recognizing additional one-time revenue of $2.36 billion from the Atlantic Accord (2019). Over the ten-year period 2011 to 2020, own source revenues increased from 78.3 per cent in 2011 to a high of 86.8 per cent in 2013, with an average of 79.6 per cent over the last five years.

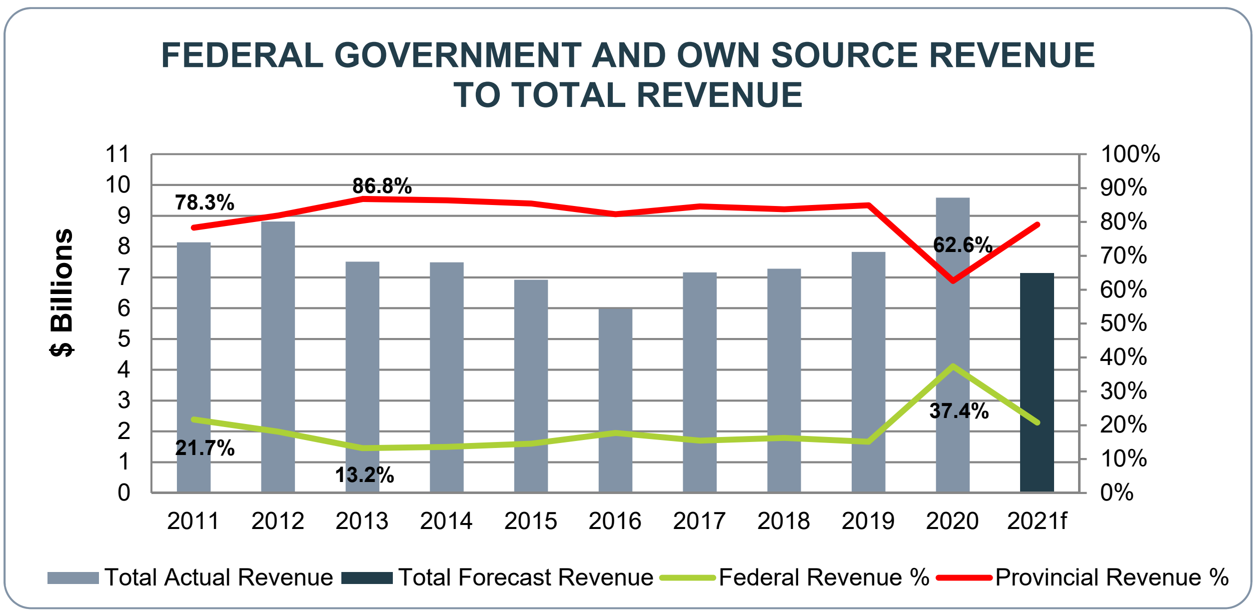
17. Own source revenues include oil royalties that are subject to volatile pricing and production swings and change in exchange rates – factors outside of Government's control. Thus, there is vulnerability associated with reliance on this source of revenue to finance existing programs and services. Continued efforts to diversify the economy over the medium to longer-term timeframe, and thus reducing reliance on oil royalties, will remain important.

Federal revenues primarily consist of Health and Social Transfers and cost-shared programs. Newfoundland and Labrador has not received any equalization payments since 2008. However, equalization transfers are affected by each province's performance in relation to the performance of other provincial economies, and therefore are subject to change.

Over the ten-year period from 2011 to 2020, Federal revenue as a percentage of total revenue has seen a generally downward trend from 21.7 per cent in 2011 to a low of 13.2 per cent in 2013. In 2020, there was an increase in Federal revenues as a percentage of total revenues as a result of recognizing additional one-time revenue of $2.36 billion from the Atlantic Accord (2019). With the exception of 2020, this percentage has generally remained consistent with some modest increases since 2013, with an average of 20.4 per cent over the last five years.

During this same period, own source revenues as a percentage of total revenue has seen a corresponding increase from 78.3 per cent in 2011 to 86.8 per cent in 2013, with an average of 79.6 per cent over the last five years. Thus, the Province has generally become more reliant on its ability to generate own source revenues to finance its programs and services.

Own source revenues include oil royalties, however, which are subject to volatile pricing and production swings and changes in exchange rates that are outside of Government's control. Thus, there is vulnerability associated with reliance on this source of revenue to finance programs and services. For example, in 2016, as a result of declines in production and oil prices, oil royalties declined $1.0 billion from 2015. The impact of this vulnerability from oil prices, production and exchange rates is outlined in more detail below. Continued efforts by Government to diversify the economy in the medium to longer-term timeframe, and thus reducing reliance on oil royalties, will remain important.



Source: Public Accounts (actual); Department of Finance (forecast)

Budget 2020 forecasts that the percentage of Federal revenue to total revenue will be 20.8 per cent for 2020-21. This is higher than the trend that existed between 2013 and 2019 and is due to a decline in total revenue, particularly a decline in own source revenue.

Oil royalties as a percentage of revenues

Oil royalties are a significant revenue source for the Province but are subject to volatility in commodity prices, exchange rates and oil production – factors that are outside of Government's control. Therefore, changes in these factors can result in significant differences between forecast revenues and actual revenues. This is an important fiscal planning consideration for Government so that expenditure levels are not built to be reliant on oil royalties.

Observations

18. For the ten-year period 2010-11 to 2019-20, oil royalties accounted for, on average, 19.6 per cent of total revenues with a peak in 2011-12 of 31.7 per cent. For the last five-year period from 2015-16 to 2019-20, this had dropped to, on average, 11.8 per cent. For 2019-20, oil royalties had dropped to 10.0 per cent of revenues. The volatility associated with oil royalties is an important fiscal planning consideration for Government so that expenditure levels are not built to be reliant on this revenue source.

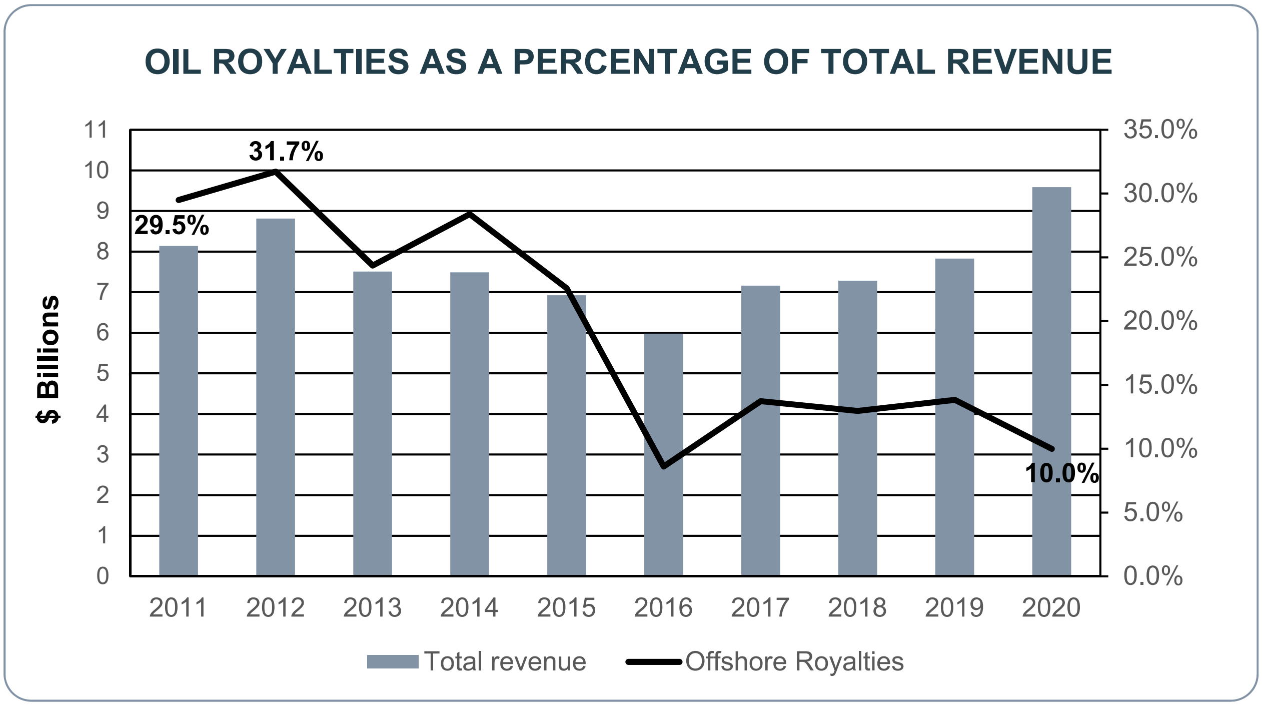
19. Annual production of offshore oil, while fluctuating significantly, has shown an overall downward trend since 2007-08 when production was 133.8 million barrels. Production fell to a low of 61.7 million barrels in 2015-16, increasing to 99.4 million barrels in 2019-20.

20. Budget 2020 forecast production for 2020-21 to be 100.3 million barrels.

21. The average annual price of Brent Crude peaked in 2011-12 at $US114.58 per barrel and has declined since that time. In 2019-20, prices trended downward for most of the year compared to the previous year and the price of Brent Crude averaged $US61.08 per barrel.

22. The 2020 Budget forecasted price of Brent Crude for 2020-21 to be $US39 per barrel. The actual price of Brent Crude for 2020-21 has averaged $US44.64 per barrel. The increase in the actual oil price as compared to the forecasted oil price will have a positive impact on actual oil royalties for 2020-21.

For the ten-year period 2010-11 to 2019-20, oil royalties accounted for, on average, 19.6 per cent of total revenues with a peak in 2011-12 of 31.7 per cent. For the last five-year period from 2015-16 to 2019-20, this had dropped to, on average, 11.8 per cent. For 2019-20, oil royalties represented 10.0 per cent of revenues.



Source: Public Accounts

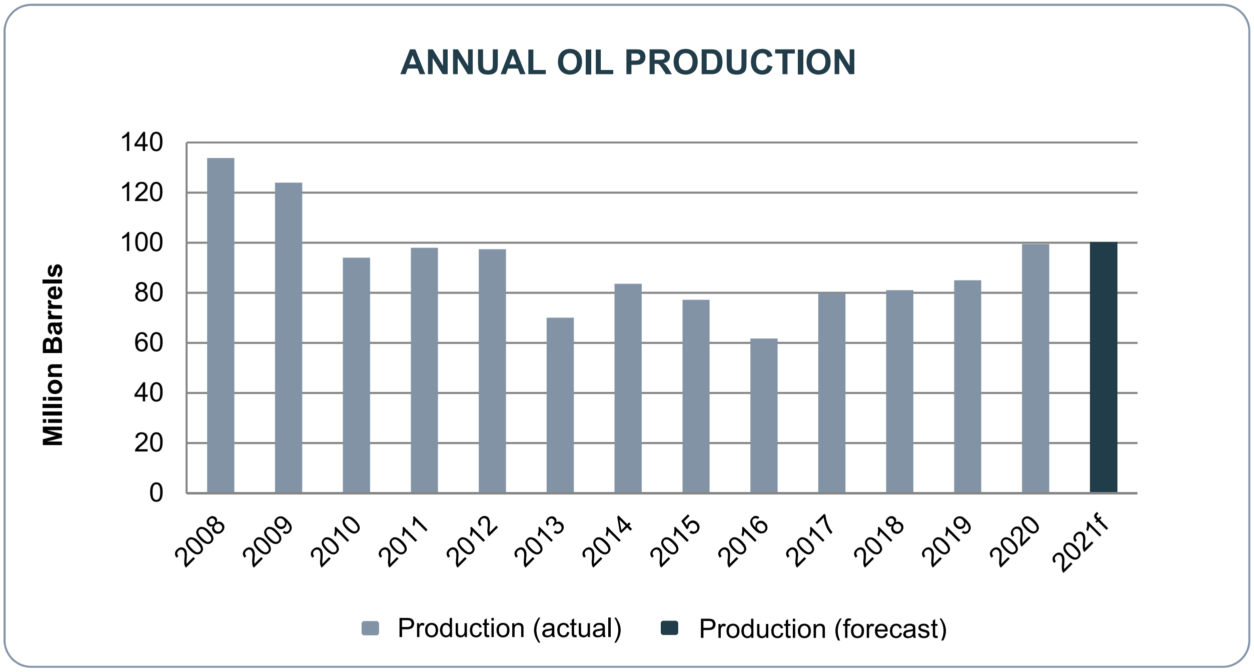
Oil Production

2019-20

Oil production commenced in the Newfoundland and Labrador offshore area in 1997 and peaked in 2007-08 at 133.8 million barrels. Since that time, while fluctuating significantly, production has been generally on a downward trend. Production fell to a low of 61.7 million barrels in 2015-16, increasing to 99.4 million barrels in 2019-20.

2020-21

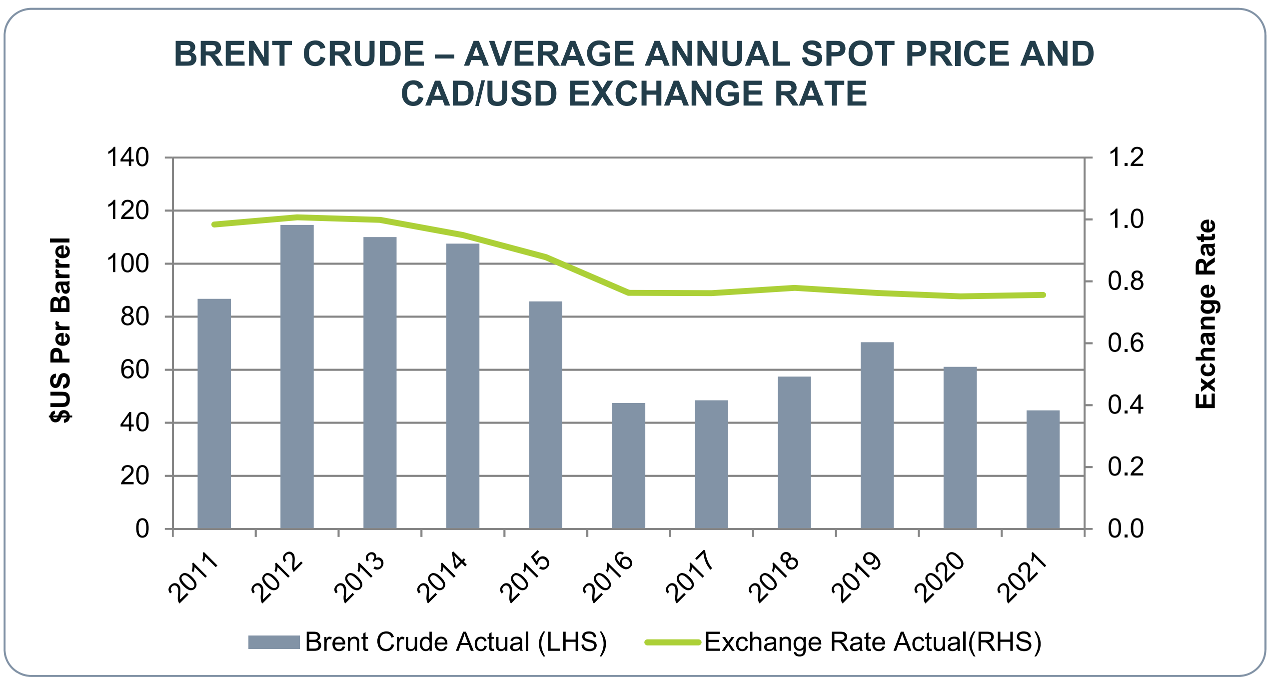
Budget 2020 forecast oil production to be 100.3 million barrels in 2020-21.



Source: Canada-Newfoundland and Labrador Offshore Petroleum Board (Actual)
Department of Finance (forecasted)

Oil Price and Exchange Rate

The price of Brent Crude (quoted in US dollars), and the Canada-US exchange rate are subject to significant fluctuation that can have a significant impact on oil revenues.



Source: US Department of Energy – Energy Information Administration (Brent Crude price)
Bank of Canada – (Canada-US Exchange Rate)

2019-20

The average annual price of Brent Crude peaked in 2011-12 at $US114.58 per barrel. From 2011-12, the average price steadily declined until 2015-16 when it reached $US47.42 per barrel. The average annual price has increased since that time and in 2019-20, the average price of Brent Crude was $US61.08 per barrel.

The average annual Canada-US (CAD/USD) exchange rate also peaked in 2011-12 at 1.007. From 2011-12, the exchange rate steadily declined until 2016-17 when it reached 0.762. After some fluctuation in 2017-18 and 2018-19, the average annual exchange rate has declined again to 0.751 in 2019-20.

2020-21

Budget 2020 forecast the price of Brent Crude to be $US39 per barrel for 2020-21. The actual price of Brent Crude has averaged $US44.64 for 2020-21. The increase in the actual oil price as compared to the forecasted oil price will have a positive impact on actual oil royalties for 2020-21.

Budget 2020 forecast the average CAD/USD exchange rate at 0.738 for 2020-21. The actual CAD/USD exchange rate has averaged 0.757 for 2020-21. The increase in the actual exchange rate as compared to the forecasted exchange rate will have a negative impact on actual oil royalties for 2020-21.

Of greater risk is the forecast beyond 2020-21. The farther in the future the forecast extends, the greater the risk around predicting the oil fundamentals at that time. The Province will have to closely monitor oil prices as it manages the deficit and adjust as circumstances warrant.

Other Financial Highlights - Revenues and Expenses

Observations

23. Over the ten-year period 2010 to 2020, total expenses have grown steadily from $7.33 billion to $8.47 billion, an increase of $1.14 billion or 15.6 per cent. During this same period, revenues have fluctuated significantly. For the year ended March 31, 2020, revenues totaled $9.6 billion – an increase of $2.3 billion or 31.3 per cent from 2009-10. Deficits have been recorded in the seven years from 2013 to 2019. In 2019-20, there was a surplus of $1.12 billion, which was the result of recognizing $2.36 billion in revenue from the Atlantic Accord (2019).

24. The composition of the revenues has changed significantly between 2010 and 2020. There has been a significant decline in revenues from oil royalties and a moderate decline in corporate income taxes, which have been mostly offset by an increase in Federal transfers and partially offset through increased personal income tax, Harmonized Sales Tax (HST) and other taxes and revenues.

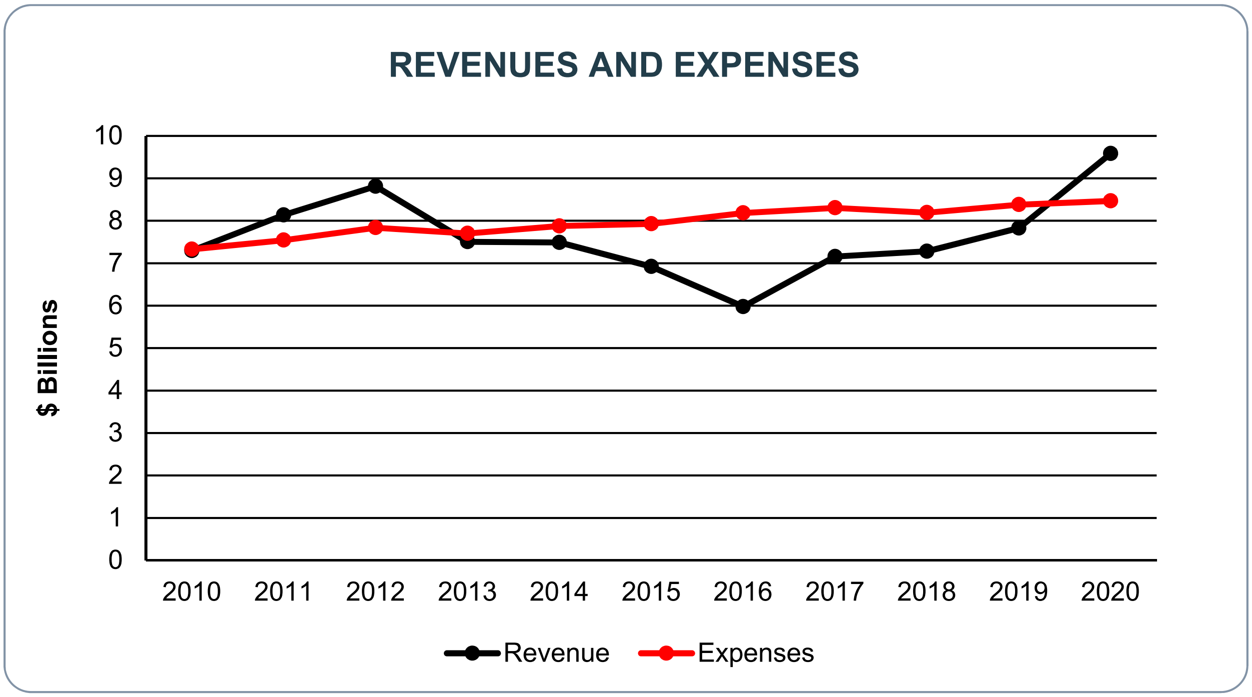
25. During the period 2010 to 2015, total expenses grew by 8.2 per cent or an average of 1.6 per cent per year. While expenses continued to grow from 2015 to 2020, the average rate of growth decreased to 1.4 per cent per year.

26. Program expenses include all those expenses incurred by the Province other than those required to service debt and for the year ended March 31, 2020, represented $7.4 billion of the $8.5 billion in total expenses. Of the $7.4 billion, approximately:

    - 71.2 per cent, or $5.27 billion, was directed to the health, education and skills development sectors.
    - 47.2 per cent, or $3.5 billion, was spent on salaries and employee benefits.

27. The Province of Newfoundland and Labrador generates more revenue, on a per capita basis, than every other province. Newfoundland and Labrador also has one of the highest tax burdens on a per capita basis in the country. In addition, per capita spending in this Province is substantially higher than per capita spending in every other province and is also generally higher than the Province's per capita revenues. This suggests that revenue is not the primary issue creating the deficits but the level of spending. Continued emphasis on sustainably reducing the Province's per capita spending will remain important.

Over the ten-year period 2010 to 2020, total expenses have grown steadily from $7.33 billion to $8.47 billion, an increase of $1.14 billion or 15.6 per cent. During this same period, revenues have fluctuated significantly. For the year ended March 31, 2020, revenues totaled $9.6 billion - an increase of $2.3 billion or 31.3 per cent from 2009-10. Deficits have been recorded in the seven years from 2013 to 2019. In 2019-20, there was a surplus of $1.12 billion, which was the result of recognizing $2.36 billion in revenue from the Atlantic Accord (2019).



Source: Public Accounts

Revenues

Revenues have fluctuated considerably over the last ten years, from a high of $9.6 billion in 2019-20 to a low of $6.0 billion in 2015-16. Over the ten-year period 2010 to 2020, there was an increase in revenues of $2.3 billion or 31.3 per cent; while over the last five years - 2015 to 2020 - there has been an increase in revenues of $2.7 billion or 38 per cent. These significant increases in revenues are primarily the result of recognizing $2.36 billion in revenue from the Atlantic Accord (2019) during 2019-2020.

The composition of the revenues has also changed significantly over this ten-year period. There has been a significant decline in revenues from oil royalties and a moderate decline in corporate income taxes, which have been mostly offset by an increase in Federal transfers and partially offset through increased personal income tax, Harmonized Sales Tax (HST) and other taxes and revenues.

10-Year/5-Year Trend of Change in Total Revenue ($Millions)							
Revenue Type	2009-10	2014-15	2019-20	5-Year Trend (2015-2020)		10-Year Trend (2010-2020)	
				Amount	%	Amount	%
Oil Royalties	$ 2,121	$ 1,562	$ 957	$ (605)	-39%	$ (1,164)	-55%
Personal Income Tax	817	1,310	1,601	291	22%	784	96%
Corporate Income Tax	595	219	225	6	3%	(370)	-62%
HST and Other Taxes	1,189	1,597	1,907	310	19%	718	60%
Other Revenues	1,029	1,227	1,309	82	7%	280	27%
Federal Transfers	1,546	1,006	3,585	2,579	256%	2,039	132%
Total Revenues	**$ 7,297**	**$ 6,921**	**$ 9,584**	**$ 2,663**	**38%**	**$ 2,287**	**31%**

Source: Public Accounts

Expenses

Expenses, in general, have grown steadily over the last ten years with an overall increase of $1.14 billion or 15.6 per cent. During the period 2010 to 2015, expenses grew by 8.2 per cent or an average of 1.6 per cent per year. While expenses continued to grow from 2015 to 2020, the average rate of growth decreased to 7 per cent or 1.4 per cent per year.

Program Expenses

Program expenses include all those expenses incurred by the Province other than those required to service debt and for the year ended March 31, 2020, represented $7.4 billion of the $8.5 billion in total expenses. Since 2009-10, program expenses have grown by $972 million, representing cumulative growth of 15.1 per cent. Over the last five years, program expenses have grown by 3.0 per cent or an average of 0.6 per cent per year, with most increases for social programs and services.

5-Year Trend of Change in Total Expenses ($Millions) [1]				
Expense by Department or Sector	2014-15	2019-20	5-Year Trend	
			Amount	%
Health and Community Services	$ 3,014	$ 3,237	$ 223	7%
Advanced Education, Skills and Labour	1,085	1,183	98	9%
Education and Early Childhood Development	827	846	19	2%
General Government Sector and Legislative Branch	1,120	1,044	(76)	-7%
Resource Sector - Other	388	289	(99)	-26%
Social Sector - Other	724	803	79	11%
Total Program Expenses	**7,158**	**7,402**	**244**	**3%**
Debt expenses	769	1,064	295	38%
Total Expenses	**$ 7,927**	**$ 8,466**	**$ 539**	**7%**

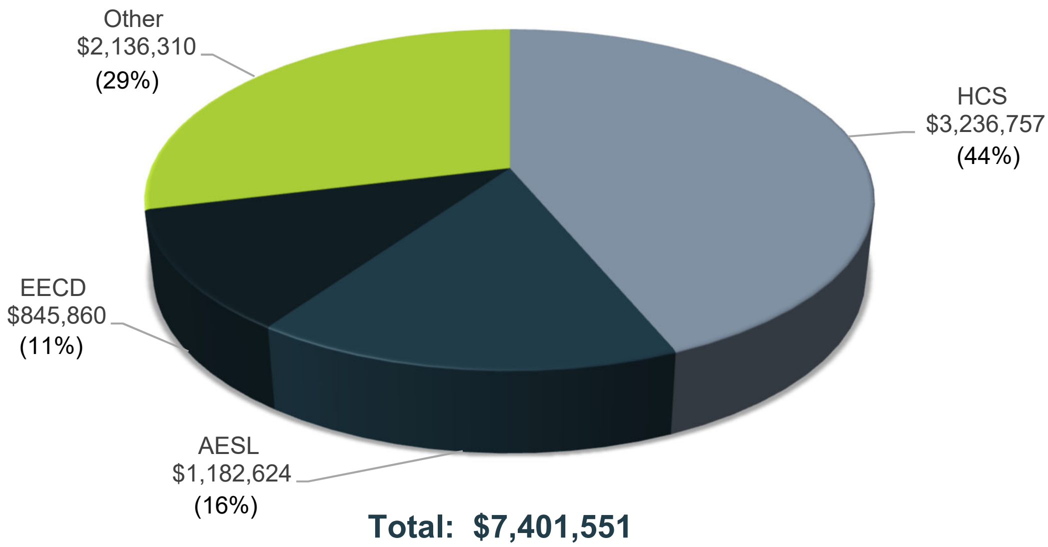
Source: Public Accounts
Note 1: Unlike revenue, due to restructuring of departments, comparative 10-year expenses by department or sector information were not readily available.

Approximately 71.2 per cent of program expenses in 2019-20, or $5.27 billion, were incurred for the following social programs and services:

- $3.24 billion or 43.8 per cent of program expenses were attributed to the Department of Health and Community Services and includes the operations of the four regional health authorities across the Province.

- $2.03 billion or approximately 27.4 per cent of program expenses were attributed to the former Departments of Advanced Education, Skills and Labour, and Education and Early Childhood Development. This includes spending on the K-12 system, the university and college, as well as income support and skills development.

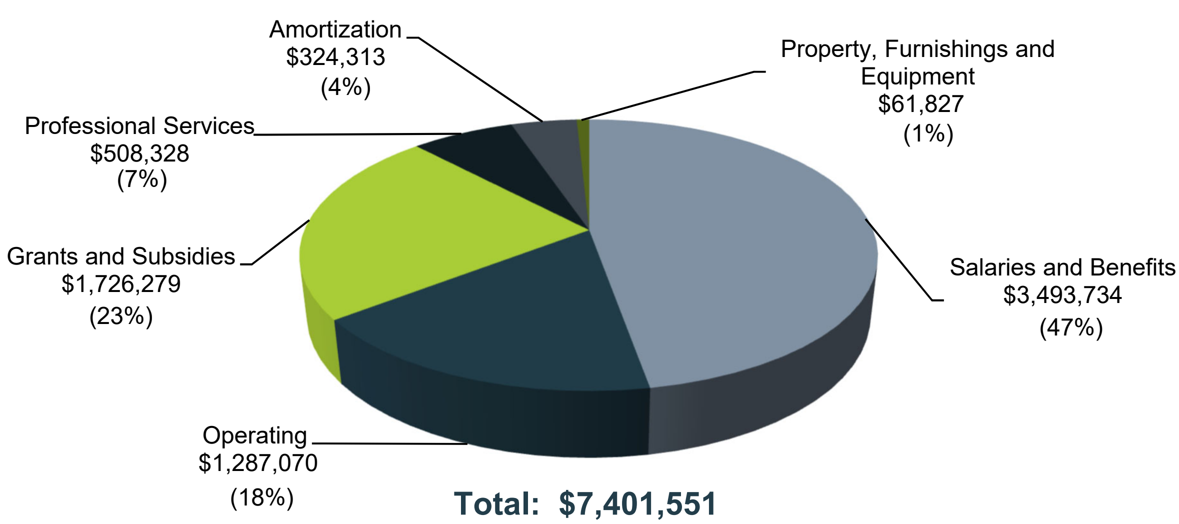
PROGRAM EXPENSES BY DEPARTMENT: 2019-20 ($000s)



Source: Public Accounts

As with any organization providing programs and services, the Province spends the majority of its expenses on human resources – its employees. In 2019-20, the Province spent $3.5 billion on salaries and employee benefits, representing 47.2 per cent of the total program spending.

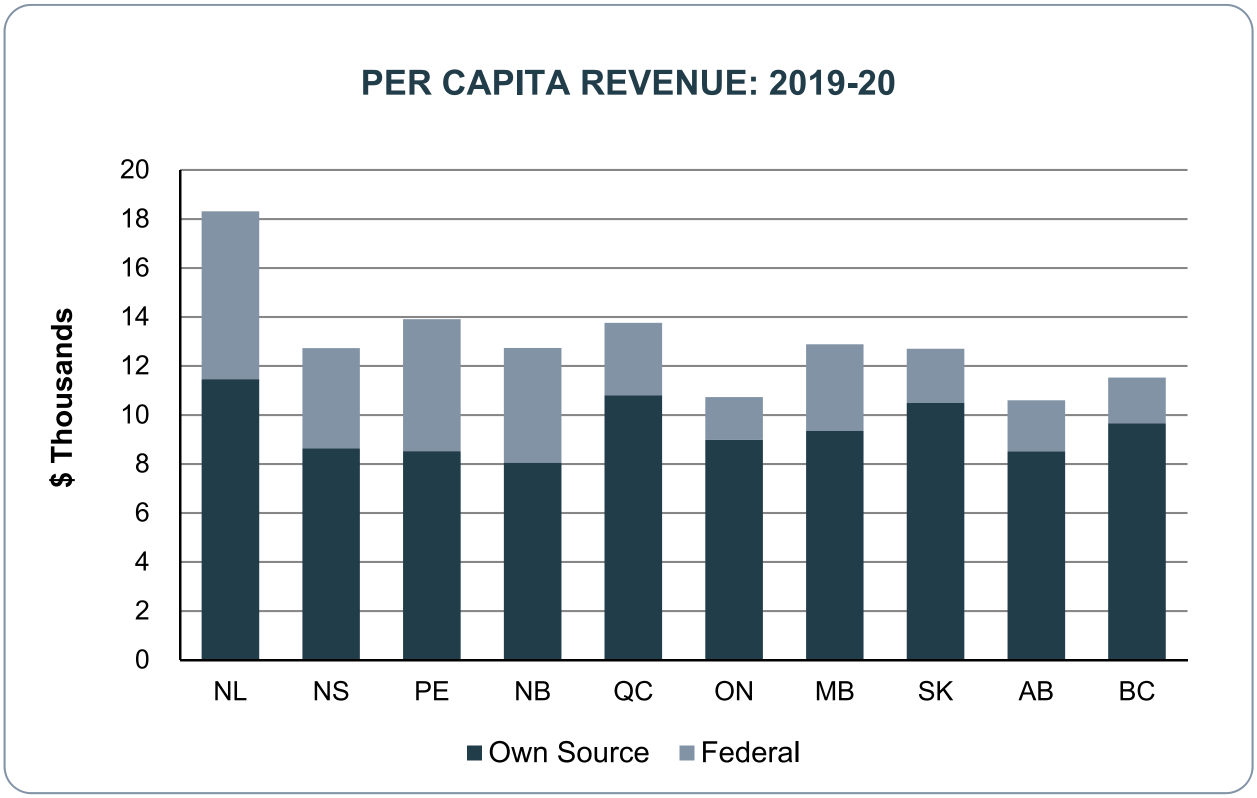
PROGRAM EXPENSES BY CATEGORY: 2019-20 ($000s)



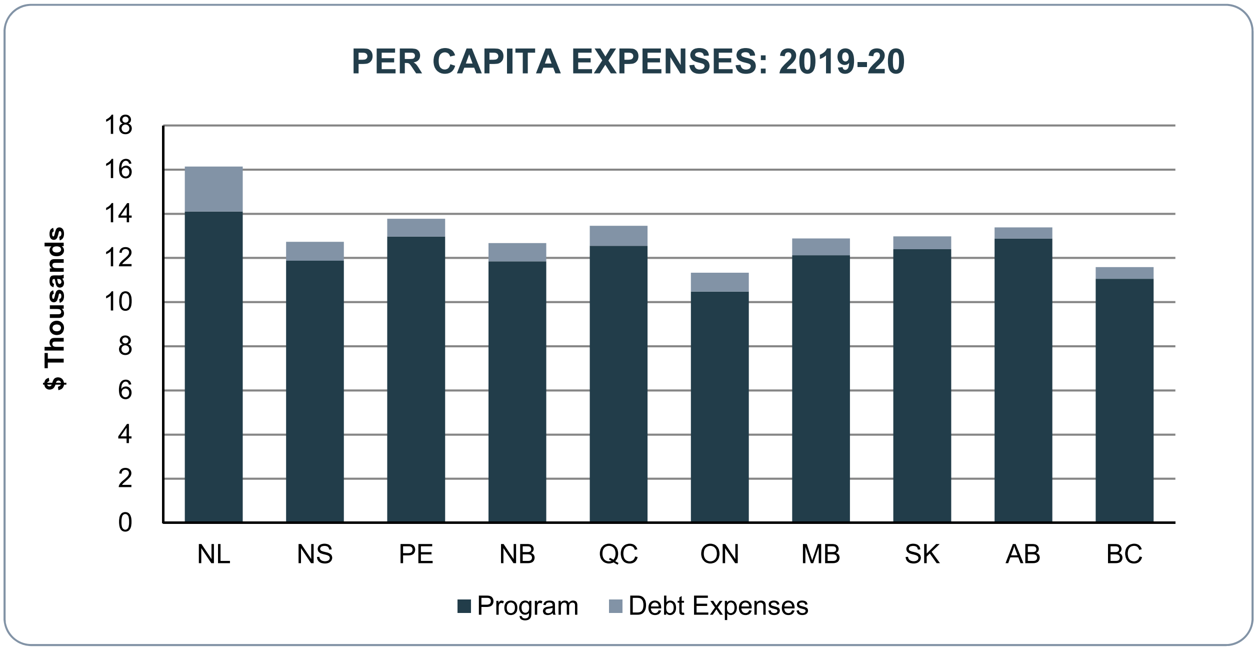
Source: Public Accounts

Revenue and Expenses per Capita

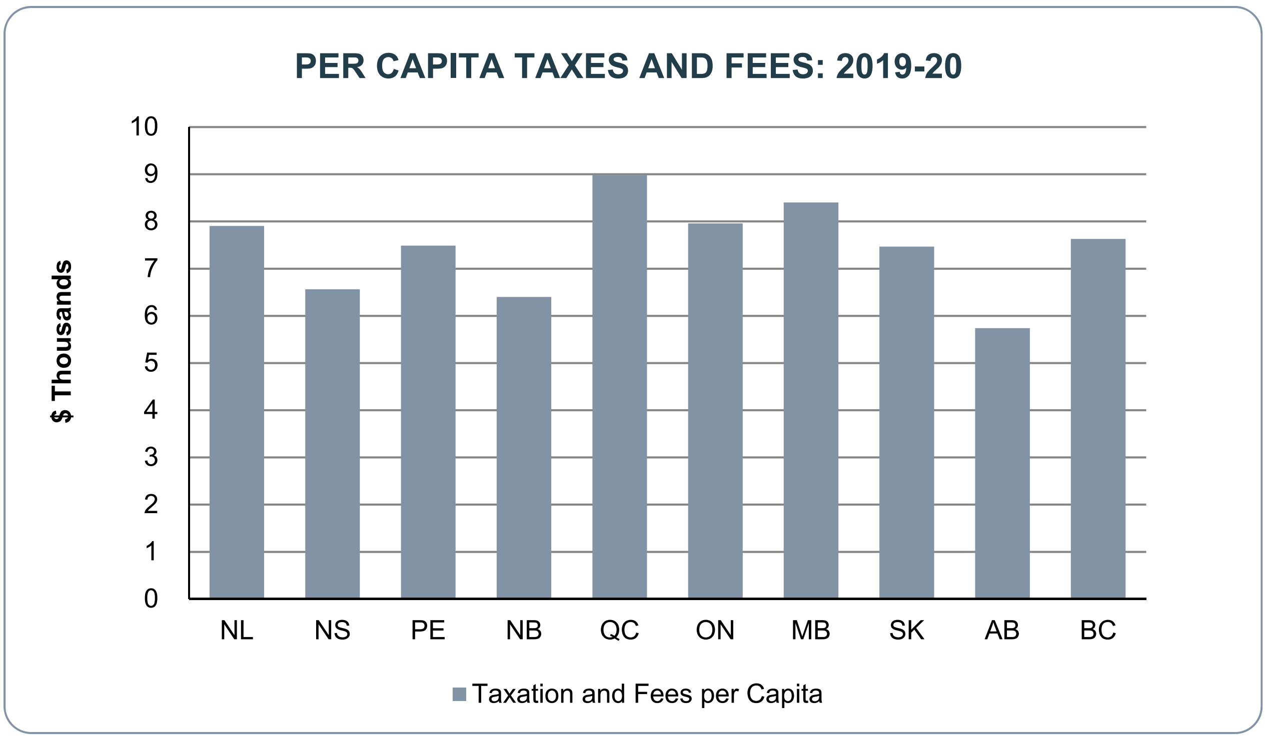
On a per capita basis, Newfoundland and Labrador generates more revenue than every other province. Newfoundland and Labrador also has one of the highest tax burdens on a per capita basis in the country. In addition, per capita spending in this Province is substantially higher than other provinces. We spend more than every other province by a considerable margin – approximately 17 per cent more per capita than the next highest province – Prince Edward Island, followed by Quebec. Also, we generally spend more per capita than our per capita revenues. Overall, this suggests that revenue is not the primary issue creating the deficits but the level of spending. Continued emphasis on sustainably reducing the Province's per capita spending will remain important.



Source: Public Accounts – all provinces (actual); Statistics Canada, Table: 17-10-0005-01, Population estimates on July 1st by age and sex (actual)



Source: Public Accounts – all provinces (actual); Statistics Canada, Table: 17-10-0005-01, Population estimates on July 1st by age and sex (actual)



Source: Public Accounts – all provinces (actual); Statistics Canada, Table: 17-10-0005-01, Population estimates on July 1st by age and sex (actual)

Economic Outlook

Economic forecasts predict how well the economy will perform and provides essential information for Government in developing multi-year plans and annual budgets.

Observations

28. The Province's economic forecast is based on assumptions and future expectations and, like any forecast, is subject to potential upside opportunities but is also subject to downside risks and change.

29. GDP is forecast to decline in 2020 due to measures that were implemented as a result of the COVID-19 pandemic.

30. Capital investment is expected to decrease during 2020 as construction on several major projects were temporarily suspended due to the COVID-19 pandemic. This will have a corresponding negative impact on employment, income and revenue to the treasury.

31. Budget 2020 forecasted employment would drop from 226,600 persons in 2019 to 213,400 persons by 2020. This is a decrease of 29,300 from the high of 242,700 persons employed in 2013. While only one of a number of factors that impact tax revenues, this will negatively impact personal income tax revenue and will also impact retail sales with an associated negative impact on HST revenue and other consumption taxes such as gasoline tax.

The Province's economic forecast is based on assumptions and future expectations and, like any forecast, is subject to upside potential opportunities but is also subject to downside risks and change. Budget 2020 indicated that there is much uncertainty regarding economic performance in 2020 and that GDP will decline for 2020 due to measures that were implemented as a result of the COVID-19 pandemic. The decline in GDP will also result in a decline in capital investment and employment.

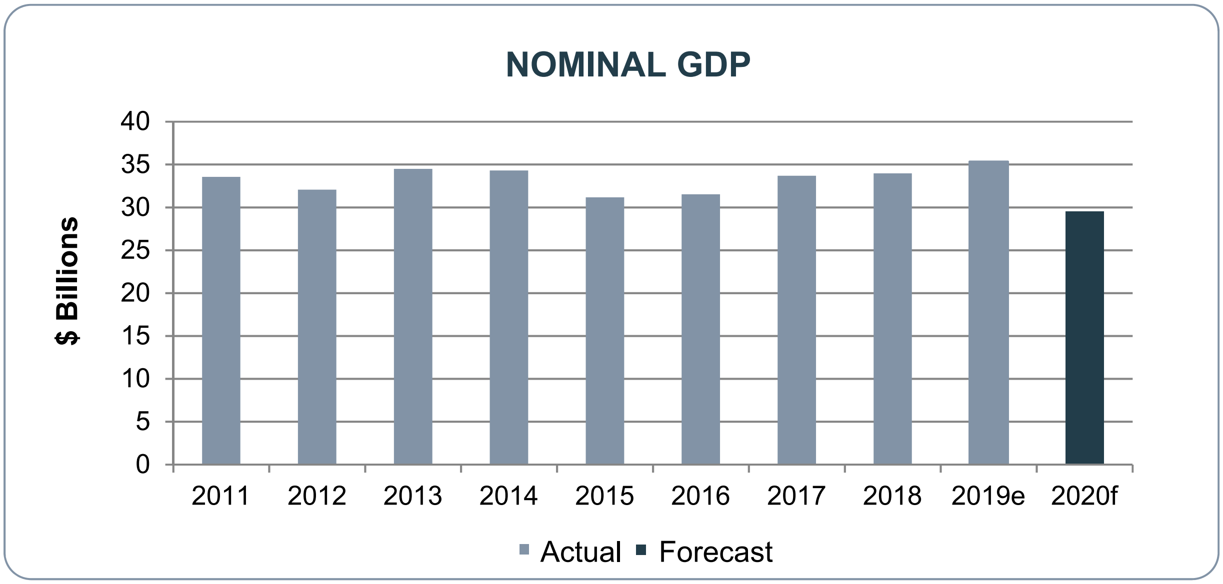
Budget 2020 further indicated that, looking forward, the economy is expected to rebound from 2020 levels, but that there is a greater degree of uncertainty than usual regarding the medium-term outlook for the Province.

Gross Domestic Product

Gross domestic product (GDP) is the measure of the value of goods and services produced by the economy. GDP can be expressed in either nominal or real terms. Nominal GDP values the goods and services at today's prices while real GDP excludes the impact of changing prices, focusing on the volume of activity. Nominal GDP could be considered an economic proxy for the base on which government revenue is generated and an appropriate indicator to use to examine the potential for government revenue generation in the future.

Nominal GDP has experienced considerable fluctuation over the past ten years. For example, in 2015 and 2016 GDP was impacted by both oil price and oil production declines.

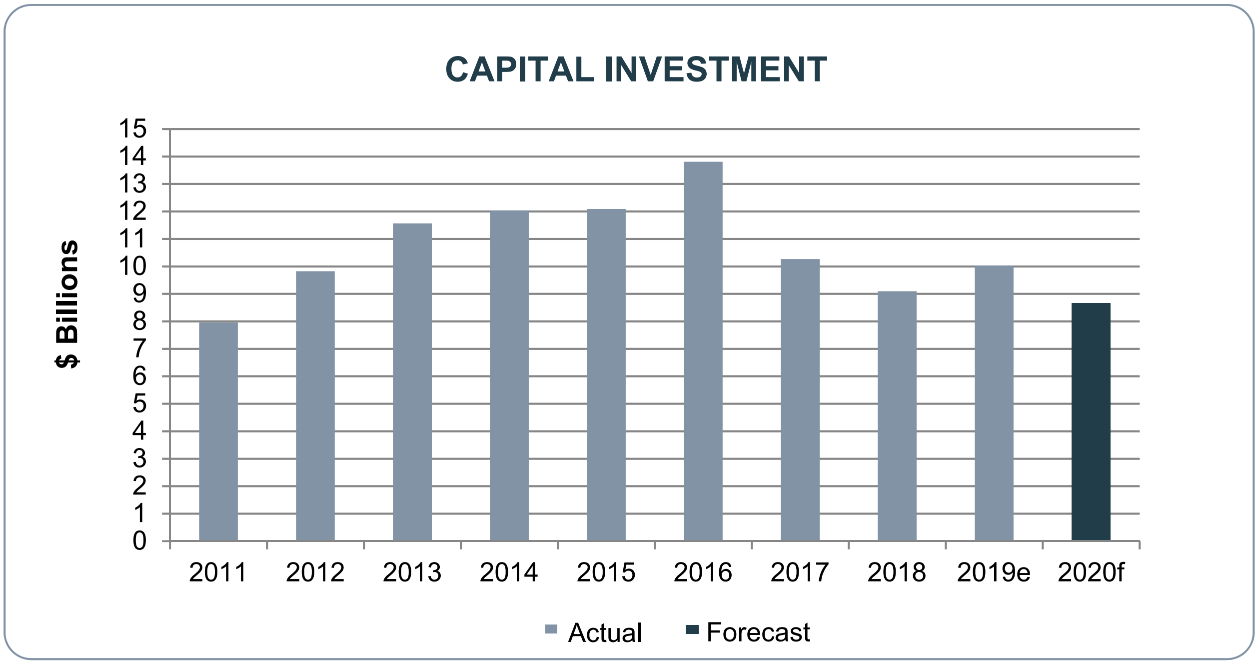
The Province's economic forecast predicts a decline in GDP for 2020 due to measures that were implemented as a result of the COVID-19 pandemic.



Source: Statistics Canada, Table: 36-10-0222-01, Gross domestic product, expenditure-based, provincial and territorial, annual (x 1,000,000) (actual); Department of Finance (forecast)
Note: Nominal GDP is presented on a calendar year basis.

Capital Investment

The Newfoundland and Labrador economy is primarily resource based and activity in recent years has been dominated by large, capital and labour intensive projects, such as construction of the Long Harbour nickel processing facility and development of the Hebron oil field and the Muskrat Falls project. These projects generate strong levels of employment and considerable benefits throughout the economy and to the treasury during the construction cycle.



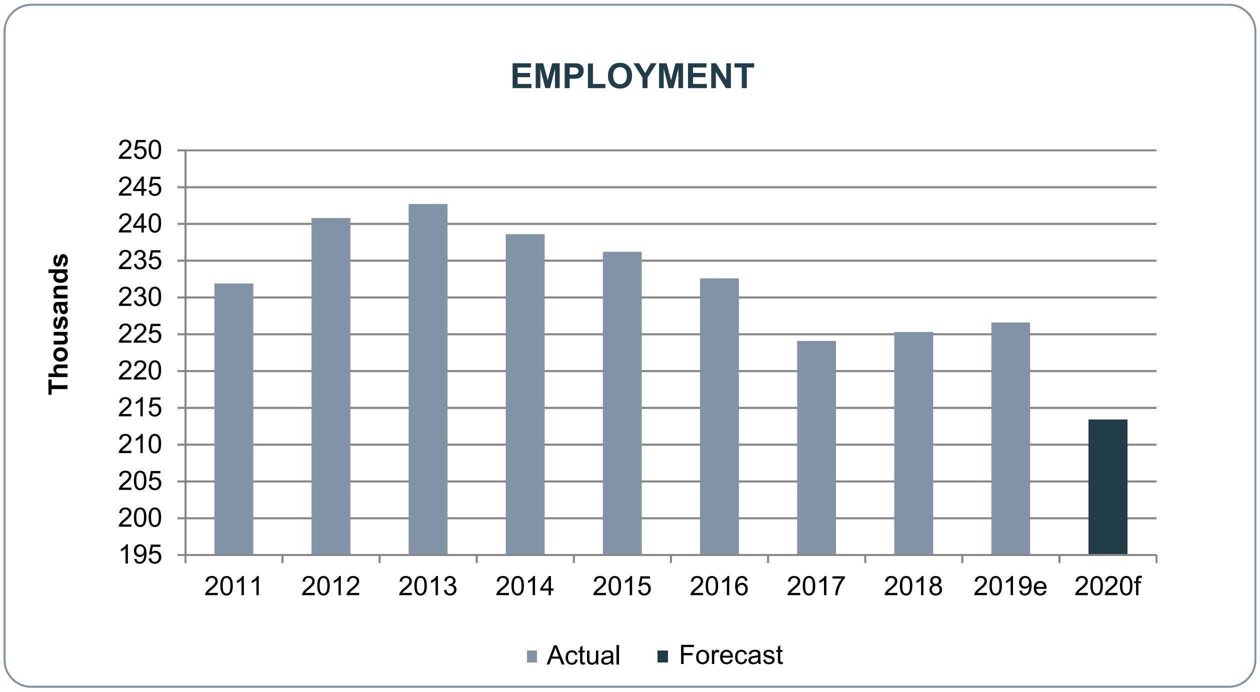
Source: Statistics Canada, Table: 36-10-0222-01, Gross domestic product, expenditure-based, provincial and territorial, annual (x 1,000,000) (actual); Department of Finance (forecast)
Note: Capital investment is presented on a calendar year basis.

Budget 2020 forecasts that capital investment will decrease during 2020 as construction on several major projects (West White Rose, Muskrat Falls, and the Voisey's Bay underground mine) were temporarily suspended due to the COVID-19 pandemic. Looking forward, Budget 2020 forecasts that the economy will improve from 2020 levels. Budget 2020 further indicates that major project construction schedules will continue to have a significant impact on capital investment and employment. However, the timing of projects in the oil sector is especially difficult to forecast, which creates more uncertainty than usual regarding the medium-term economic outlook for the Province.

While only one of a number of factors that impact tax revenues, declines in capital investment will have a corresponding drop in employment and income and will negatively impact revenue to the treasury from tax sources such as personal income tax and consumption taxes such as HST.

Employment

Consistent with the forecasted levels of capital investment, Budget 2020 also forecasted a decrease in employment for 2020. Again, while only one of a number of factors that impact tax revenues, this decline will negatively impact personal income tax revenue and will also impact retail sales with an associated negative impact on HST revenue and other consumption taxes such as gasoline tax.



Source: Statistics Canada, Table: 14-10-0327-01, Labour force characteristics by sex and detailed age group, annual (actual); Department of Finance (forecast)

Note: Employment is presented on a calendar year basis.

Budget 2020 forecasted employment would drop from 226,600 persons in 2019 to 213,400 persons by 2020. This is a decrease of 29,300 from the high of 242,700 persons employed in 2013.

Fiscal Outlook: 2020-21

Budget 2020 outlined the expected financial results for 2020-21. The Province did not provide any forecast beyond 2020-21 because of the uncertainty related to the COVID-19 pandemic.

Observations

32. The Province is projecting a deficit of $1.84 billion in 2020-21. Declining revenues and increased expenses resulting from the COVID-19 pandemic have contributed to the forecasted deficit.

33. The Province did not provide any forecast beyond 2020-21 because of the uncertainty related to the COVID-19 pandemic. However, the Province already had risks associated with its fiscal outlook prior to COVID-19, which need to be considered when forecasts are prepared. These risks include, but are not limited to, the following:

    - A rapidly aging population. This demographic challenge has cost implications on programs and services, particularly in the area of health costs.

    - In April 2019, Government released a proposed framework that outlined possible options to mitigate the increases in electricity rates. In September 2020, Government created a Rate Mitigation Team to continue work on rate mitigation. There was no date specified for the Rate Mitigation Team to complete its work.

      Government has not yet finalized its rate mitigation plan. Achieving rate mitigation continues to create risks for the Province when preparing expense forecasts. If the anticipated sources of funding for rate mitigation are not achieved, the Province's fiscal forecast would be negatively impacted.

    - The Province will also have to assess the impact of its final rate mitigation strategy on the valuation of the Muskrat Falls project assets. If the assets are determined to be impaired, the assets would have to be written down to an appropriate value. This potential asset impairment is a risk to any fiscal forecast.

- The Province's economic forecasts are based on assumptions and future expectations and are impacted by global and national economic environments, including trade relations, and so like any forecast, are subject to considerable risk and change. Given that the economic forecast provides the basis for predicting taxation and other provincial revenues, this risk also extends to the Province's revenue forecasts.

- Corporate tax revenues included in the Province's forecasts are subject to volatility as some of the largest remitters are commodity-based and commodity prices and production are factors outside of Government's control.

- Oil royalties continue to represent a large portion of the Province's revenue forecasts. These revenues are subject to volatility in prices, exchange rates and production – factors that are outside of Government's control.

34. While there is a potential upside for economic performance to be stronger than forecast and opportunities for increased revenues, should the downside risks to the forecast materialize and result in significantly less revenues than expected or more expenses than expected, Government would be significantly challenged to address such a shortfall. There is limited flexibility, for example, to address such a shortfall with increased taxes as the Province currently has one of the highest tax burdens on a per capita basis in the country. Further, current borrowing levels are significant and any additional borrowings would further increase the debt expense burden which is currently forecast to be 15.1 per cent of total revenues for 2020-21.

While it is difficult for the Province to provide any forecast beyond 2020-21, there are still risks to the Province's fiscal outlook which need to be considered when forecasts are prepared.

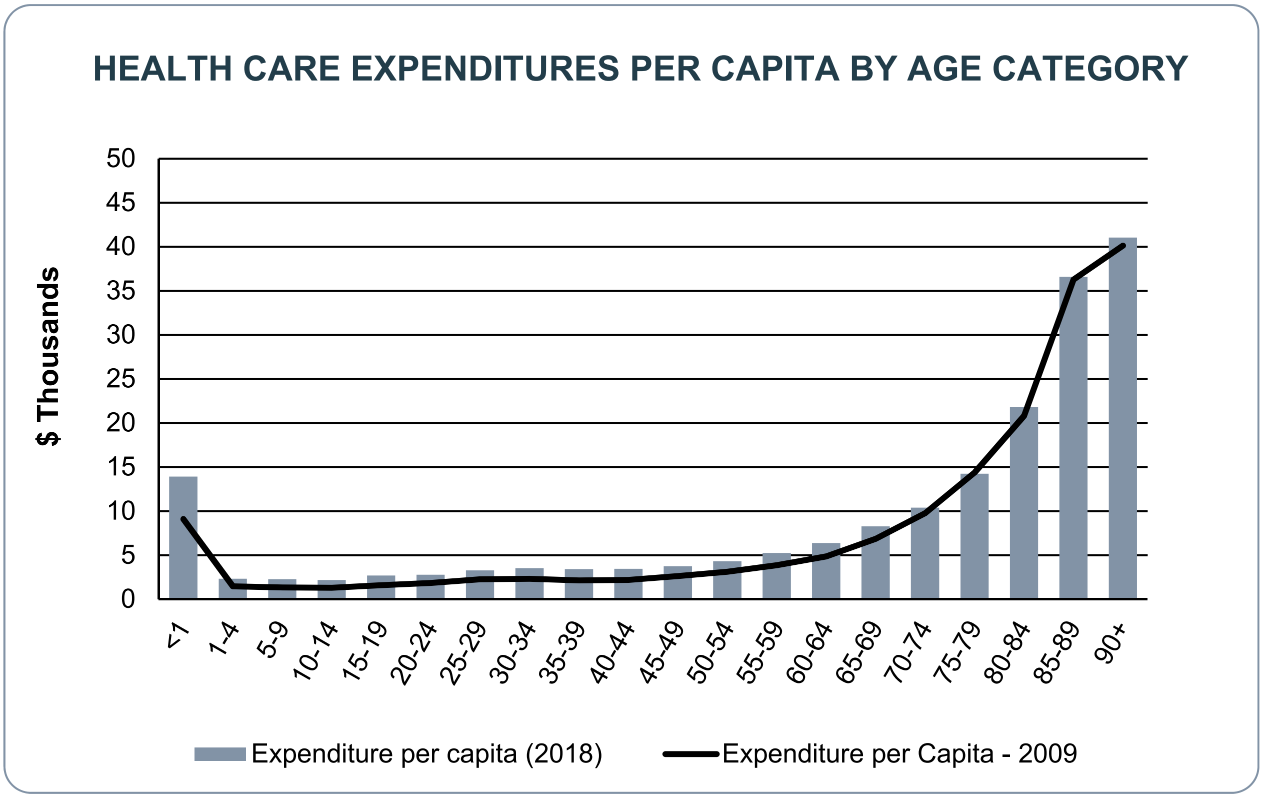
Forecasted Expenses

Budget 2020 has projected expenses for 2020-21 of $9.0 billion, an increase of approximately $0.5 billion over 2019-2020. The Province indicated that most of this increase is due to projected COVID-19–related spending.

The Province has risks associated with its expense forecasts because of the uncertainty related to COVID-19. However, the Province already had risks associated with its expense forecasts prior to COVID-19. These risks include, but are not limited to, the following:

Aging Population

One key pressure on expenditures stems from the Province's rapidly aging population. This demographic challenge has cost implications on programs and services. Health care costs, in particular, increase with age, with significantly higher costs later in life. Approximately 22.3 per cent of the Province's population is age 65 and older and this is expected to increase to 28.5 per cent by 2030.



Source: National Health Expenditure Database, Canadian Institute for Health Information

Electricity Rate Mitigation for the Muskrat Falls Project

Another key risk affecting expense forecasts pertains to the overall costs of the Muskrat Falls project and how it will ultimately impact ratepayers and Government expenses. The project is currently expected to cost $13.1 billion, including interest during construction/pre-funded financing and other costs of $2.9 billion. This represents an increase of $5.7 billion from the expected cost when it was sanctioned. As of December 31, 2020, Nalcor Energy and/or its subsidiaries had incurred $12.0 billion related to the project and had contractual commitments related to construction contracts to spend a further $0.2 billion.

A portion of the project has been financed through an issuance of bonds of $7.9 billion by Nalcor Energy project subsidiaries. The bonds are fully guaranteed by the Government of Canada. The Province has also provided a guarantee to the Government of Canada under the Inter-Governmental Agreement to compensate it for any costs under this Guarantee that are triggered by legislative or regulatory actions of the Province. The remaining cost of $5.2 billion is expected to be financed through equity contributions from the Province and Nalcor Energy, as well as Emera, which has a partnership interest in the Labrador-Island Link. The Province has also committed to fund all additional equity that may be required to cover any further cost overruns on each aspect of the project. Any further cost overruns may require additional borrowings by the Province which will in turn increase the planned level of debt expenses.

During 2012-13, the Lower Churchill Project Regulatory Regime was adopted by the Province. This regulatory regime allows costs, expenses or allowances related to the Project to be recovered in full from the ratepayers in the Province. Such expenditures were exempted from review by the Board of Commissioners of Public Utilities (PUB).

In April 2019, Government released a proposed framework that outlined possible options to mitigate the increases in electricity rates. The options included applying Nalcor dividends toward rate mitigation, increasing revenues through the sale of Newfoundland and Labrador Hydro surplus energy, and fuel switching/electrification. Government also requested the PUB to examine options to mitigate impacts of the Muskrat Falls project. The PUB released its final report regarding rate mitigation in February 2020. In its final report, the PUB recommended that Government pursue many of the options outlined in the proposed framework that was released in April 2019. Government indicated that it would consider the recommendations made by the PUB in its final rate management plan.

Government has not yet finalized its rate mitigation plan. In September 2020, Government created a Rate Mitigation Team to continue work on rate mitigation. There was no date specified for the Rate Mitigation Team to complete its work. Any rate mitigation options presented by the Rate Mitigation Team would still require the approval of Government.

In December 2020, the Government of Canada deferred certain financial obligations totaling $844 million which were due from Nalcor in December 2020 and June 2021 under existing Federal loan guarantee agreements. As a result, Nalcor did not require additional equity from the Province or borrowings in the short-term to meet these obligations.

Achieving rate mitigation continues to create risks for the Province when preparing expense forecasts. If the anticipated sources of funding for rate mitigation are not achieved, the Province’s fiscal forecast would be negatively impacted.

Monitoring the Province's Investment in Nalcor

Under Canadian Public Sector Accounting Standards, Nalcor is considered a Government Business Enterprise (GBE). A GBE is a crown corporation whose operations are commercial in nature and self-sustaining. The debt of GBEs is fully supported by its customers – in the case of the electrical generation and distribution business of Nalcor, the ratepayers.

Because of the self-sustaining nature of GBEs, they are considered investments and therefore, under Canadian Public Sector Accounting Standards, their assets and liabilities are not combined with the assets and liabilities of other government entities. Rather, the net of the GBEs assets less liabilities is recorded in one line as equity in GBEs on the Province's Consolidated Statement of Financial Position. In essence, the debt of a GBE is not explicitly shown on the Province's Consolidated Statement of Financial Position as any debt is offset by the assets which generate the revenue to support the debt.

Each year, Government must assess the value of assets owned by the Crown, directly or through Crown corporations, regardless of whether they are a GBE or otherwise, to ensure there is no impairment in value. In simple terms, an asset of a GBE would be considered impaired if expected future cash flows are less than the carrying value of the asset. If that were the case, the value of the asset would be reduced, resulting in an increase in the Provincial deficit and Net Debt.

As noted above, the existing Muskrat Falls business, regulatory and financing structure ensures costs, expenses or allowances related to the project will be recovered, in full, from ratepayers in the Province. This existing structure supported the current valuation of the Muskrat Falls assets at March 31, 2020.

In its Financial Statement Discussion and Analysis report for the year ended March 31, 2020, Government included commentary on risks to the Province's financial position and forecast which included risks relating to Government's rate mitigation strategy for the Muskrat Falls project.

Mitigation of electricity rates may have an impact on the valuation of the Muskrat Falls project assets on the financial statements of Nalcor and possibly the valuation of the Province's investment in Nalcor on the Consolidated Summary Financial Statements. Therefore, we consider the valuation of the Province's investment in Nalcor to be a significant risk and we perform additional audit procedures to address this risk.

We included an Other Matter paragraph in our Independent Auditor's Report on the Consolidated Summary Financial Statements for the year ended March 31, 2020 to highlight that Government has not finalized specific strategies for its rate mitigation plan and that implementation of this plan may have a significant impact on the Province's Consolidated Summary Financial Statements in future years. We further noted that we did not modify our audit opinion on the Province's Consolidated Summary Financial Statements because of this matter.

The Province will have to assess the impact of its final rate mitigation strategy on the Consolidated Summary Financial Statements, in particular the valuation of the Muskrat Falls project assets and Nalcor's status as a GBE. If Nalcor were to no longer meet the criteria of a GBE, its assets and liabilities would have to be combined with the assets and liabilities of other Government entities. If the assets are determined to be impaired, the asset would be written down to an appropriate value. These scenarios, if realized, would have an impact on the Province's Consolidated Summary Financial Statements.

Our Office will continue to closely monitor this matter.

Forecasted Revenues

The Province also has risks associated with its revenue forecasts because of the uncertainty related to COVID-19. Similar to the expense forecasts, the Province already had risks associated with its revenue forecasts prior to COVID-19. These risks include, but are not limited to, the following:

- The Province's economic forecasts are based on assumptions and future expectations and are impacted by global and national economic environments, including trade relations, and so, like any forecast, are subject to considerable risk and change. Given that the economic forecast provides the basis for predicting taxation and other provincial revenues, this risk also extends to the Province's revenue forecasts.

- Corporate tax revenues included in the Province's forecasts are subject to volatility as some of the largest remitters are commodity-based and commodity prices and production are factors outside Government's control. Further, taxes paid by these companies in this Province are often based on inter-jurisdictional taxable income and thus is impacted by a company's operating results in other jurisdictions. For example, expected increases in taxes in our Province from an offshore oil company could be reduced if the company incurs losses in other Canadian jurisdictions.

- Oil royalties continue to represent a large portion of the Province's revenue forecasts. These revenues are subject to volatility in prices, exchange rates and production – factors that are outside of Government's control. Therefore, changes in these factors can result in significant differences between forecast revenues and actual revenues.

Overall Risk to Forecasts

While there is a potential upside for economic performance to be stronger than forecast and opportunities for increased revenues, should the downside risks to the forecasts materialize and result in significantly less revenues than expected or more expenses than expected, Government would be significantly challenged to address such a shortfall. There is limited flexibility, for example, to address such a shortfall with increased taxes as the Province currently has one of the highest tax burdens on a per capita basis in the country. Further, current borrowing levels are significant and any additional borrowings would further increase the debt expense burden which is currently forecast to be 15.1 per cent of total revenues for 2020-21.

Credit Ratings

Bond rating agencies provide an independent assessment of the Province's credit worthiness based upon their own assessment of the Province's fiscal situation. If the Province were not to achieve the targets it has established in its forecast (i.e. its fiscal plan), there could be further negative pressure on the Province's credit ratings. The higher interest rates associated with lower credit ratings would increase the Province's cost of borrowing and may impair its access to capital markets, restricting the Province's ability to borrow.

The Province receives credit ratings from three firms: Moody's Investors Service (Moody's), Standard and Poor's Ratings Services (S&P), and DBRS Morningstar.

Moody's revised the Province's rating from A1 Stable to A1 Negative on April 8,2020 (with confirmation on April 6, 2021), citing factors including elevated debt and interest burdens, a narrow economic base, and the large liability associated with Nalcor.

S&P revised their rating from A Stable to A Negative, citing factors such as the heightened risk that a prolonged disruption associated with COVID-19 or an oil price slump could, depending on the policy response, lead to persistently high deficits and escalating debt over the next several years.

DBRS Morningstar confirmed their rating as A (low) Negative. DBRS Morningstar noted that deteriorating global economic conditions and a decline in global oil prices caused by COVID-19 have significantly impacted the Province's economy and public finances.

Bond Rating Agency	Long-Term Rating	Short-Term Rating	Outlook	Date of Rating
S&P	A	A-1	Negative	May 28, 2020
Moody's	A1	Not rated	Negative	April 6, 2021
DBRS Morningstar	A (low)	R-1 (low)	Negative	December 2, 2020

CHAPTER 4

UNDERSTANDING THE CONSOLIDATED SUMMARY FINANCIAL STATEMENTS

While the annual Budget outlines Government's fiscal forecast or plan for the year, the Consolidated Summary Financial Statements are the financial report card of the actual results for the fiscal year – from April 1 to March 31. Included with the financial statements, Government provides a commentary - Understanding the Financial Health of the Province of Newfoundland and Labrador. This commentary is intended to provide readers of the financial statements with an overview of changes in Government's financial position and highlight key figures and comparative information from previous years.

This chapter provides an overview of the five financial statements that comprise the Consolidated Summary Financial Statements. These statements are each designed to provide separate important pieces of information that link together to present a complete and comprehensive picture of the Province's financial position and its operations for the fiscal year. These five statements include:

- Consolidated Statement of Financial Position
- Consolidated Statement of Change in Net Debt
- Consolidated Statement of Operations
- Consolidated Statement of Change in Accumulated Deficit
- Consolidated Statement of Cash Flows

The statements also include Notes and Schedules that provide considerable additional detail and explanation around information contained in the financial statements. The notes are an integral part of the financial statements.

Consolidated Statement of Financial Position

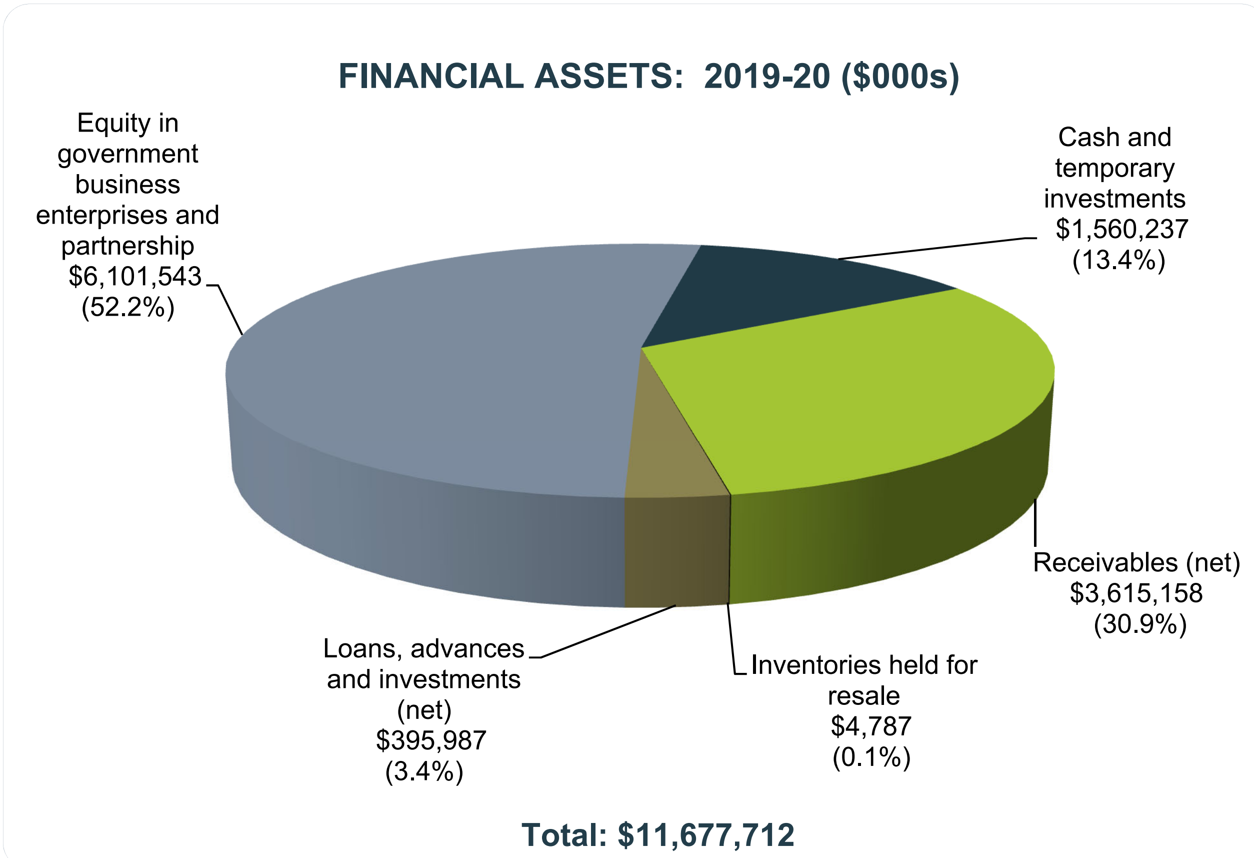
This statement provides a snapshot of the financial position of the Province at a point in time - the end of the fiscal year (e.g. March 31, 2020). Comparative figures are also shown for the same point in time for the previous year. This allows the reader to be able to make comparisons and consider trends related to financial results.

Five main components make up the financial position of the Province at March 31, 2020:

Component	Amount at March 31, 2020 (000s)
Financial Assets	$ 11,677,712
Liabilities	26,112,572
Net Debt	**14,434,860**
Non-financial Assets	4,759,974
Accumulated Deficit	**$ 9,674,886**

Financial Assets

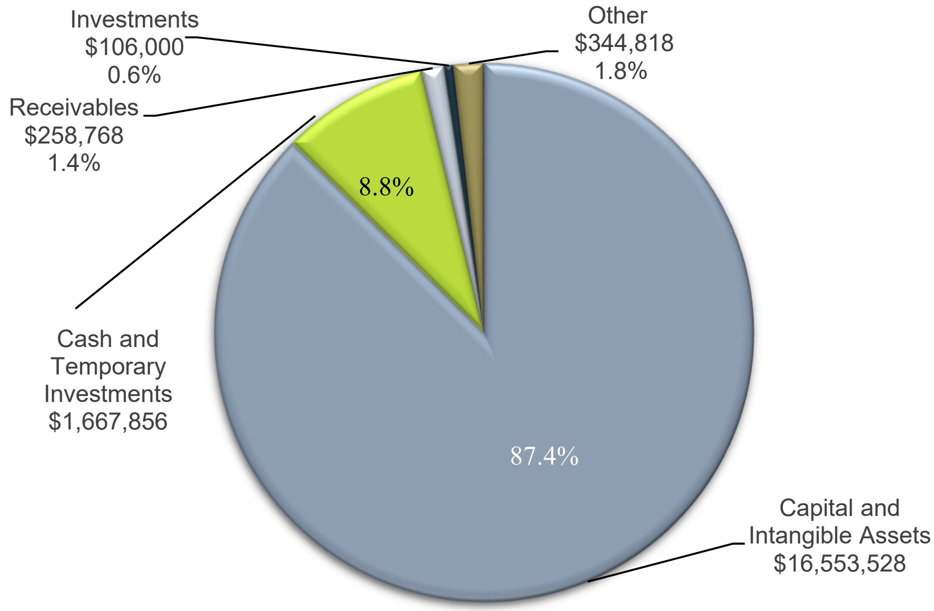
Financial assets are assets that can be used to discharge existing liabilities or finance future operations.



Equity in Government Business Enterprises (GBEs) and Government Business Partnership (GBP) reflects the net assets (assets less liabilities) of Nalcor Energy, the Newfoundland and Labrador Liquor Corporation, and Government's 25 per cent equity interest in the Atlantic Lottery Corporation, Inc. This equity is used by these entities to generate a profit each year, which accrues to the benefit of the Province.

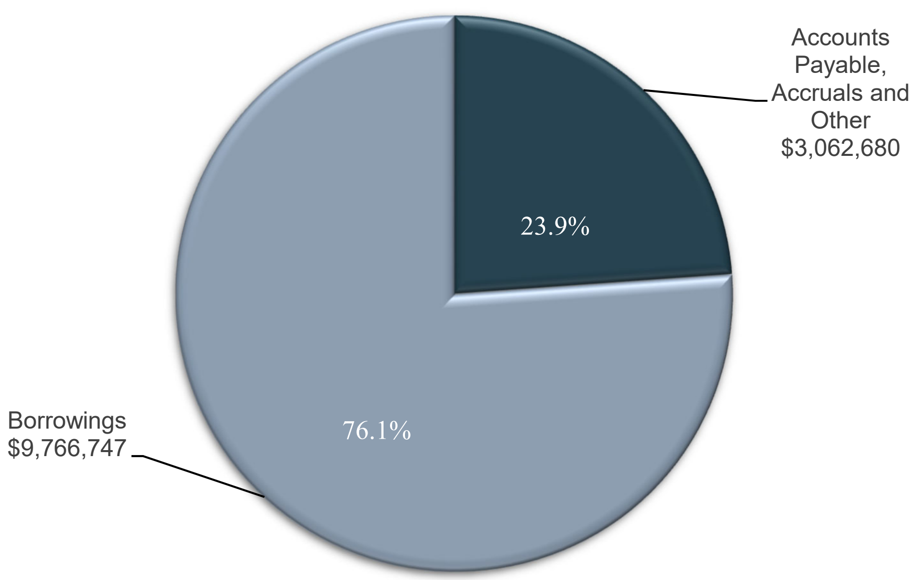
At March 31, 2020, equity in GBEs/GBP represents approximately 52 per cent of Province's consolidated financial assets. The net equity of the GBEs/GBP of $6.1 billion is comprised of assets of $18.9 billion less liabilities of $12.8 billion.

GBE/GBP's ASSETS: 2019-20 ($000s)



Total: $18,930,970

GBE/GBP's LIABILITIES: 2019-20 ($000s)

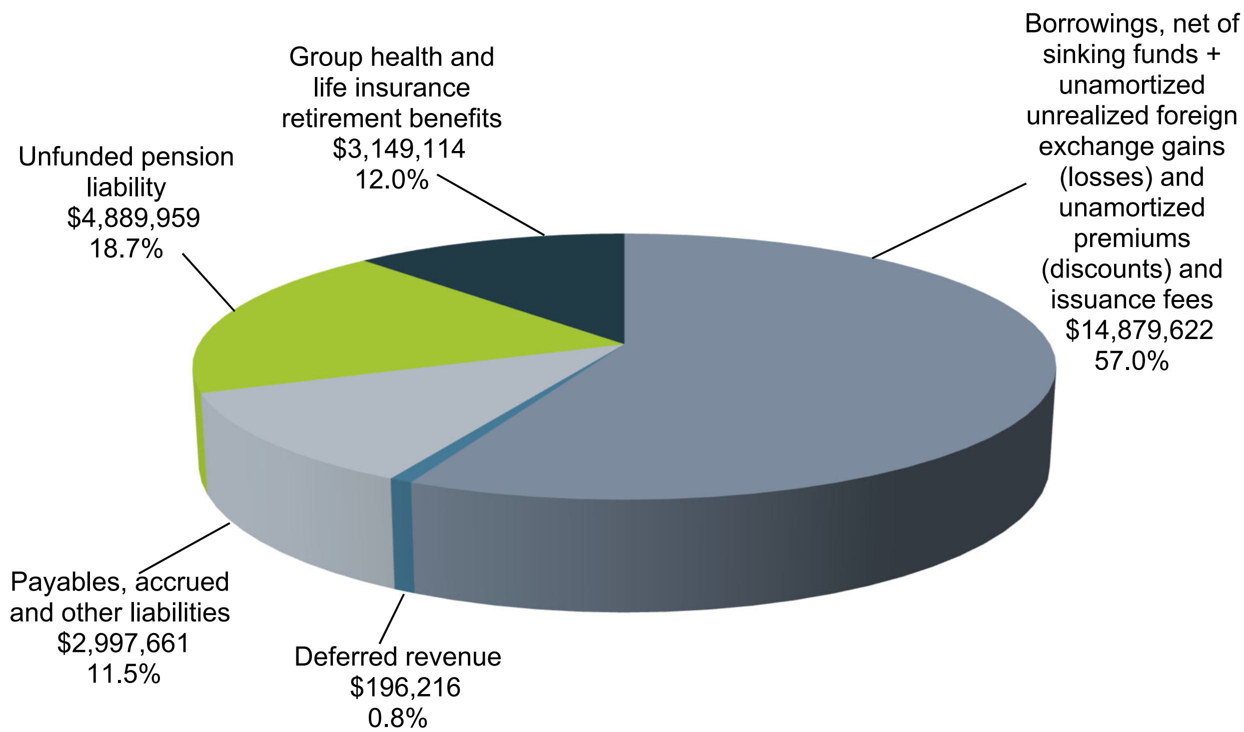


Total: $12,829,427

Liabilities

Liabilities represent amounts that are payable or will be required to be paid to third parties and include amounts payable in the normal course of operations, deferred revenue, amounts due to bond holders and other lenders that have provided money to finance the Province's operations and amounts the Province is responsible for related to employee future benefit obligations.

LIABILITIES: 2019-20 ($000s)



Total: $26,112,572

Net Debt

Net Debt represents the difference between liabilities and financial assets. This is one of the key measures that is used to evaluate the financial health of all senior governments in Canada.

The Province's Net Debt at March 31, 2020, was $14.4 billion (2019 - $15.4 billion).

Non-financial Assets

Non-financial assets are assets consumed in the delivery of government services but not intended to reduce existing or future liabilities. The most significant non-financial assets are the Province's investment in tangible capital assets, which comprise such things as land, buildings, roads, equipment, vehicles and other items that have a useful life extending beyond one year.

Non-financial assets of the Province at March 31, 2020, were $4.8 billion (2019 - $4.6 billion). This balance was comprised of tangible capital assets of approximately $4.7 billion and prepaid expenses, deferred charges and inventories of approximately $0.1 billion.

Accumulated Deficit

This is the accumulated amount of deficits that the Province has incurred over time, less any surpluses.

The accumulated deficit at March 31, 2020, was $9.7 billion (2019 - $10.8 billion).

Consolidated Statement of Change in Net Debt

This statement provides information on how Net Debt has changed from one year to the next. There are two main elements that impact Net Debt from year to year:

1. Surplus or deficit for the year - If the Province operates with a surplus for the year, this will reduce Net Debt. Similarly, a deficit will increase Net Debt.

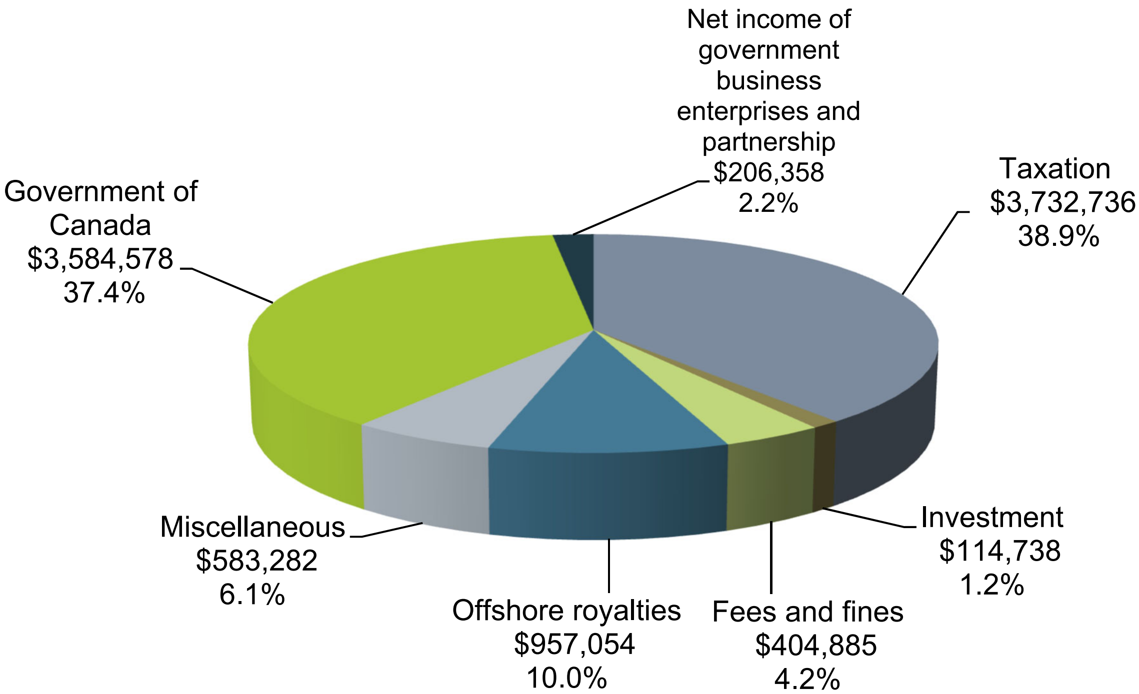
2. Changes in Tangible Capital Assets -The acquisition of tangible capital assets increases Net Debt each year. This amount is adjusted for the net book value of any disposals of tangible capital assets during the year and by the amount of amortization which is already included in determining the surplus or deficit for the year.

Consolidated Statement of Operations

This statement shows the consolidated results of the operations of the Government Reporting Entity for the year April 1, 2019 to March 31, 2020. These results are compared to the original estimates that were presented to the Legislature and approved as part of the budget process.

The statement provides the amount of revenues that the Province generated during the year and is broken down by major categories.

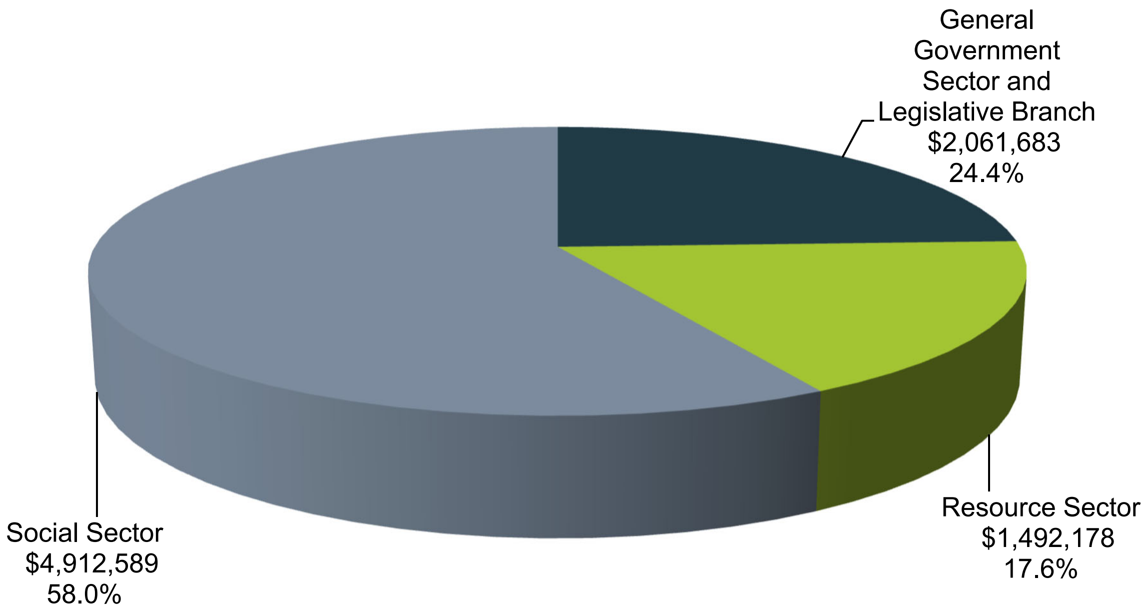
REVENUES BY SOURCE: 2019-20 ($000s)



Total: $9,583,631

The statement also provides information on the expenses incurred by the Province during the year by major functional area.

EXPENSES BY MAJOR FUNCTIONAL AREA: 2019-20 ($000s)



Total: $8,466,450

The difference between revenues and expenses for the year is the annual surplus or deficit. When revenues exceeds expenses, a surplus results and, conversely, when expenses exceeds revenues, a deficit is the result.

The Province recorded a surplus of $1.12 billion for the year ended March 31, 2020 (2019 - $0.55 billion deficit).

Consolidated Statement of Change in Accumulated Deficit

This statement provides the details of what comprises the change in accumulated deficit for the year. The main element impacting the accumulated deficit is the annual surplus or deficit.

Consolidated Statement of Cash Flows

This statement provides useful information to the reader regarding how cash resources were generated during the year and how they were used. The four main categories that cash is provided from or applied to are:

- Operations
- Capital Transactions
- Financing Activities
- Investing Activities

CHAPTER 5

OTHER MATTERS

Opportunities for Improvements Identified

Audits of financial statements of the Province and other Government entities are directed primarily to expressing an opinion on the financial statements and are not designed to express an opinion as to whether the systems of controls established by management have been properly designed or have been operating effectively. However, each year during these audits, matters may come to the auditors' attention for which the auditor identifies recommendations to improve internal controls, financial statement preparation or financial reporting.

Audit of the Consolidated Summary Financial Statements

During the audit of the Consolidated Summary Financial Statements for the year ended March 31, 2020, our Office identified and communicated the following recommendations to Government:

Compliance with Canadian Public Sector Accounting Standards

Government does not use actuarial valuations to record a liability and expense for accumulating non-vesting sick leave benefits for employees in Government departments, which is required by Canadian Public Sector Accounting Standards. The liability and expense for these sick leave benefits is determined by using management's best estimate of the probability of the employees utilizing these benefits.

Estimation of taxation revenues

The Province often has significant amounts owing from or to the Government of Canada related to underpayments or overpayments under the Tax Collection Agreement. These underpayments or overpayments are included with, or recovered from, future entitlements under the Agreement.

The Government of Canada, with input from the Province and in accordance with the Agreement, provides revenue estimates to the Province for Corporate Income Tax, Personal Income Tax, and Harmonized Sales Tax. These estimates are revised in subsequent periods as information that is more accurate becomes available. The resulting adjustments are recorded as they become known in future periods.

During the year, the estimation methodologies for Harmonized Sales Tax and Corporate Income Tax were revised because of multilateral reviews and discussions between the Federal and provincial governments. There were no revisions made to the estimation methodology for Personal Income Tax.

Continued reviews of the methodology to estimate these revenues may provide opportunities to improve reliability of the estimates and reduce the likelihood of significant adjustments.

Completeness of the Government Reporting Entity

Ensuring the completeness of the Government Reporting Entity will provide users of the Public Accounts with the most comprehensive accounting of the Province's financial position and the results of its operations. The Office of the Comptroller General is responsible for assessing whether entities should be included or excluded from the Government Reporting Entity. If an assessment determines that Government controls an entity, it will be included in the Government Reporting Entity.

We have identified an entity that should be considered for inclusion in the Government Reporting Entity and have requested the Office of the Comptroller General to complete an assessment to determine whether control exists. Also, certain entities which are presently included in the Government Reporting Entity indicate they should not be included as they do not consider themselves to be controlled, either directly or indirectly, by Government.

The Office of the Comptroller General has commenced a comprehensive review of entities both included and excluded from the Government Reporting Entity to ensure accuracy and completeness of the Government Reporting Entity. We encourage the Office of the Comptroller General to continue with this comprehensive review.

Preparation of the Public Accounts

It is important to use complete and accurate information to prepare the Public Accounts to reduce the risk of error and improve the timeliness of completing the Public Accounts. We noted instances where the Office of the Comptroller General received incomplete or inaccurate information from departments and Crown corporations for use in preparing the Public Accounts.

The comparison of actual and budgeted financial results provides key accountability information about the Government's performance in achieving its operational goals. We noted instances where budget information that was included in the Public Accounts was prepared on a basis that was inconsistent with the presentation and classification in the Public Accounts. As a result, in these instances, it may be difficult to compare actual results to planned results.

Liability for Contaminated Sites

Contaminated sites which are Government's responsibility to manage, either through direct ownership or due to abandonment, and that require remediation are required to be recognized on the financial statements as a liability. The value of the liability is based on the estimated costs to remediate the sites. As at March 31, 2020, the Province had identified approximately 188 sites which may have a related liability for either assessment, remediation, or monitoring. As at March 31, 2020, the Province had recorded a liability related to expenditures that are expected to be incurred for 23 of these 188 sites.

When the Government developed its contaminated sites assessment implementation plan in 2015, it indicated that further policies and procedures would be developed to guide the updates of existing liabilities and for the evaluation of new liabilities. These policies and procedures have not been developed.

During our audit, we noted that underlying information used to determine the estimated liabilities for certain sites has not been updated in recent years and thus is now several years old. Furthermore, additional work is also required for certain sites to further refine the estimated remediation costs. The lack of regular updates for both site assessments and related policies and procedures for completing assessments, increases the risk that estimated liabilities for sites may be inaccurate as they do not reflect the current conditions of sites or related costs of remediation.

Tangible Capital Assets

Government's financial management policies state that individual departments are responsible for managing tangible capital assets and for reporting these assets to the Office of the Comptroller General for inclusion in the Public Accounts. This includes notifying the Office of the Comptroller General when assets have been placed in service or disposed of. It also includes ensuring that any costs recorded as betterments meet the criteria as outlined in Government's financial management policies and that capitalization is appropriate.

Our audit determined that the Office of the Comptroller General was not always notified when work-in-progress assets were placed into service. As a result, the required amortization of these assets was not initially recorded. Our audit also determined that the Office of the Comptroller General was not always notified when assets were disposed of. As a result, the total cost and accumulated amortization of tangible capital assets were initially recorded incorrectly and the gain from the sale of these assets was not reported in revenue initially.

Furthermore, our audit identified instances where expenses related to a building were incorrectly capitalized as betterments. As a result, the total cost of tangible capital assets and total expenses were initially recorded incorrectly.

The Office of the Comptroller General corrected the identified errors.

Audit of Financial Statements of Crown Entities

The Consolidated Summary Financial Statements include the financial activities of Government departments and the Legislature (Consolidated Revenue Fund) as well as 41 other Crown entities. A listing of these entities is included in Appendix I. In addition to the audit of the Consolidated Revenue Fund, our Office audits the financial statements of 16 of these 41 Crown entities. Private sector auditors perform audits of the financial statements for 23 of the 41 Crown entities (outlined in Appendix I). Audits of two Crown entities were not completed during 2019-20 as the entities were not material to the Government Reporting Entity or were inactive during the year.

Section 14 of the Auditor General Act requires private sector auditors to provide our Office with access to all working papers, reports, schedules and other documents related to their audit of a Crown entity. Also, as the group auditor of the Consolidated Summary Financial Statements, we request certain information from private sector auditors and will review their audit documentation if a Crown entity is considered significant. We reviewed management letters and other communications that the private sector auditors issued to these entities to identify issues which may be of interest to the House of Assembly.

The following is a summary of the issues communicated to the entities during the current year from our Office and from private sector auditors.

Number of issues	Number of entities audited by the Office of the Auditor General	Number of entities audited by private sector auditors
No issues	7	18
1 to 4 issues	9	4
5 or more issues	0	1
Total	**16**	**23**

We have summarized the issues noted by the following categories: internal controls, maintenance of accounting records, financial statement preparation, and other.

Issue	Number of entities audited by the Office of the Auditor General where the issue was identified	Number of entities audited by private sector auditors where the issue was identified
Internal controls	7	4
Maintenance of accounting records	2	1
Financial statement preparation	3	1
Other	3	1

Internal controls

Issues that were identified related to internal controls included:

- absence of a formal risk assessment process;
- bank reconciliations not performed on a timely basis;

- lack of segregation of duties;
- absence of an internal audit function;
- deficiencies related to purchasing controls;
- receipt books not returned to headquarters;
- outstanding premiums not followed up in a timely manner;
- information technology controls not functioning effectively; and
- no documentation for use in IT security monitoring.

Internal controls help to minimize operational, fraud, and financial reporting risks. Therefore, it is important to address issues that are identified with internal controls.

Maintenance of accounting records

Issues that were identified related to the maintenance of accounting records included:

- entity amalgamation and consolidation of operations not completed; and
- Harmonized Sales Tax not being recorded correctly.

It is necessary for entities to maintain their accounting records accurately and in a timely manner to promptly identify and address transactions that are potentially incorrect or inappropriate.

Financial statement preparation

Issues that were identified related to financial statement preparation included:

- inappropriate application of accounting policies; and
- unclear responsibility for an environmental liability.

Accounting policies should be applied appropriately to ensure consistent accounting for transactions and to provide users of the entity's financial statements with financial information that is comparable with other entities in the Public Sector.

Other

Other issues identified included:

- budget not approved or provided to the Minister;
- approval thresholds not updated in accordance with Public Tender Policy;
- lack of approval of financial statements by the Board of Directors; and
- operating under the terms of an expired contract.

Crown entities should comply with legislation and policies and procedures. Entities should also formally approve audited financial statements in a board meeting. Furthermore, Crown entities should ensure that they maintain current contracts with their employees and suppliers. The absence of current contracts that clearly and comprehensively define the risks and obligations of each party may increase financial and performance risk for the entities.

Timing of Release of Consolidated Summary Financial Statements

In order for financial statement information to be useful to users, it should possess four principle characteristics - understandability, relevance, reliability and comparability. One of the ways relevance is achieved is by ensuring the information is received by users and decision makers in a timely manner. The usefulness of information for decision making declines as time elapses.

Since 2016, the Office of the Auditor General (OAG) and the Office of the Controller General (OCG) have made considerable progress in concluding the audit of the Public Accounts earlier. With the exception of 2020, where timing was impacted by the COVID-19 pandemic, the Consolidated Summary Financial Statements have been available between six to seven months after the year-end.

Year End	Audit Report Date	Number of Days After Year-end
March 31, 2016	October 14, 2016	197
March 31, 2017	September 29, 2017	182
March 31, 2018	October 4, 2018	187
March 31, 2019	October 18, 2019	201
March 31, 2020	December 23, 2020	267

Source: Public Accounts

While there has been progress, there is still room for improvement. A review of other jurisdictions in Canada indicates a range of audit report dates; however, Newfoundland and Labrador remains one of the jurisdictions with the latest audit report dates each year.

Jurisdiction	Audit Report Date	
	March 31, 2020	March 31, 2019
Newfoundland and Labrador	December 23, 2020	October 18, 2019
Nova Scotia	August 13, 2020	July 18, 2019
Prince Edward Island	January 8, 2021	October 25, 2019
New Brunswick	October 8, 2020	September 12, 2019
Quebec	December 22, 2020	October 10, 2019
Ontario	September 11, 2020	August 16, 2019
Manitoba	September 25, 2020	September 23, 2019
Saskatchewan	June 18, 2020	June 19, 2019
Alberta	July 29, 2020	June 18, 2019
British Columbia	July 8, 2020	June 28, 2019
Canada	October 9, 2020	September 4, 2019

Source: Public Accounts – all provinces and Canada

In 2017, the Financial Administration Act (the Act) was amended to require that the Public Accounts be tabled before November 1 of the following fiscal year. The previous date was February 1.

The Act was further amended to require that, in the year of a general election, the Public Accounts be tabled no less than 15 days prior to the fixed election date, generally the 2nd Tuesday in October every four years. This would require the Public Accounts to be tabled in mid-September in the year of a fixed date election.

Both the OCG and the OAG are actively looking for opportunities to reduce the time required to prepare and audit the Public Accounts. Given that the earliest audit report date in the past five years has been September 29, 2017, ensuring the legislated tabling requirements are met in an election year will require further improvements by both the OAG and the OCG.

One impediment to an earlier release date is the current provision in the Act, which requires that the books of the Province remain open for up to one month after the year end to facilitate processing certain transactions which relate to the previous year. This essentially means that the Province is one month late in starting to prepare the year-end financial statements, which has a corresponding impact on the timing of audit work.

This provision in the Act is a throwback to the days when the Province used a cash basis of accounting. The Province moved to full accrual accounting in the 1990s and the interplay between the Estimates process and accounting has not been brought up to date. Newfoundland and Labrador is the only province that follows this practice - which is unnecessary and an impediment to more timely release of the Public Accounts.

The Province should strongly consider amendments to the Act to reflect modern accounting and controllership practices.

The COVID-19 pandemic presented additional challenges to the timely preparation and audit of the March 31, 2020 Public Accounts for the Province. As a result, Government enacted the Temporary Variation of Statutory Deadlines Act. Under the authority of this Act, Government extended the deadline for the tabling of the Public Accounts by three months. Many other jurisdictions in Canada also experienced similar challenges, resulting in later audit report dates for the March 31, 2020 Public Accounts for several jurisdictions.

Reports Issued Pursuant to Section 15(1) of the Auditor General Act

Section 15(1) of the Auditor General Act requires the Auditor General to report to the Lieutenant-Governor in Council instances the Auditor General becomes aware of during the course of an audit which may involve improper retention or misappropriation of public money or another activity that may constitute an offence under the Criminal Code or another Act. Section 31 of the Auditor General Act requires the report be made through the Minister of Finance. In addition, Section 15(2) of the Act requires that I attach to my annual report a list containing a general description of the incidents and the date reported to the Lieutenant-Governor in Council.

During the audit of the Public Accounts for the year ended March 31, 2020, my Office became aware of matters addressed under Section 15(1) of the Auditor General Act. I reported the following matters to the Minister of Finance on March 9, 2021:

- The Professional Services and Internal Audit Division (PSIA) of Executive Council (PSIA previously reported to the Department of Finance) reported the following:

    - In October 2019, the former Department of Natural Resources informed PSIA of possible fraudulent activity relating to the use of a Government-owned building whereby an employee (or employees) was using the warehouse to store personal property amongst the inventory. Staff were informed, by the Department, that no personal property should be stored at any Government-owned building. All items were removed from the warehouse. No disciplinary action was taken.

- In October 2019, PSIA was informed that a pensioner reported that they had not been receiving their payments. An investigation by the Human Resource Secretariat (HRS) determined another individual was paid in error, likely the result of a keying error when banking information in the payroll system was updated. A portion of the amount owed was recovered through the bank with the remainder paid to the pensioner by the pension plan. Therefore, the pensioner has been compensated accordingly. As the funds received by the individual in error may have been intentionally and wrongly retained, the matter was brought to the police. However, the police advised that there was not enough evidence to pursue this situation as a criminal matter.

- In November 2019, the former Department of Transportation and Works (TW) notified PSIA of an allegation of fraud whereby unnamed contractors were providing unnamed employees at a depot with gift cards in exchange for highway maintenance work being directed to them. The matter was referred to the HRS. It was determined that there was insufficient information to proceed further with an investigation.

- In December 2019, TW informed PSIA of an allegation that employees of TW who operate heavy equipment were bypassing a gas station in favour of another gas station and were receiving financial incentives (bribes) to do so. TW provided further detail on this matter as outlined later in this chapter.

- In December 2019, the Department of Justice and Public Safety informed PSIA of an instance of potential fraud. In this instance, the same cheque was cashed twice. The bank reversed the second transaction so there was no financial loss to Government. The Department referred the matter to the police.

- In February 2020, TW notified PSIA of an allegation that an employee at a depot was stealing tires. TW provided further detail on this matter as outlined later in this chapter.

- In February 2020, TW notified PSIA of an allegation of fraud involving one or more employees who may have been purchasing gas from a specific gas station, in exchange for loyalty points and gift cards for liquor. Security staff at TW are investigating and will engage HRS as necessary.

- In March 2020, TW informed PSIA that HRS had received a written complaint from a TW employee alleging fraud by a supervisor. The Department advised PSIA in May 2020 that the preliminary review of the original complaint did not result in enough evidence to support an investigation.

While the preliminary investigation was ongoing, HRS was informed of two additional potential instances of fraud while interviewing employees. TW informed PSIA of these additional potential instances of fraud in May 2020. Both of the following allegations occurred over the last five years, however, the exact time-frame is not known:

  - An employee was alleged to have sold Government-owned culverts. TW conducted a review of this allegation and determined there was no evidence of wrongdoing.

  - An employee was alleged to have colluded with a fuel vendor. TW provided further detail on this matter as outlined later in this chapter.

- In March 2020, the former Department of Advanced Education, Skills, and Labour (AESL) informed PSIA of an instance of fraud by an income support client. In May 2020, AESL informed my Office of this instance of fraud. AESL provided further detail on this matter as outlined later in this chapter.

- The former Department of Transportation and Works (TW) reported the following:

  - Thirteen employees were alleged to have violated the Government Corporate Charge Card Policy and the Travel Card – Cardholder agreement. Based on a review, five employees were disciplined. There was no financial loss to Government as all employees were directed to pay the credit card balance or face further discipline.

  - An allegation of accepting bribes was received by TW claiming that employees in an area were bypassing one gas station in favour of another. The allegation was investigated by TW, with HRS, and reported to the PSIA as noted earlier in this chapter. Both gas stations are participants in the Government's fuel card program. The allegation was investigated and was found to be unsubstantiated and no further action was taken.

    Another allegation was made in June 2020 on the same case. The second allegation resulted in another investigation. The investigation determined there were legitimate reasons for bypassing one gas station to go to the other and that there was no fraudulent behaviour. Therefore, no disciplinary action was taken.

  - Three allegations were made of misappropriation of TW assets as follows:

    - An employee was alleged to have sold Government assets. The Department, in conjunction with HRS, is currently investigating this matter.

- An employee was alleged to have colluded with a vendor for the employee's benefit. TW is currently conducting a review of this allegation. Once this is complete, information will be provided to HRS as part of their ongoing investigation to determine next steps. TW reported this matter to PSIA as noted earlier in this chapter.

- An employee at a depot was alleged to have been stealing tires. The allegation was investigated and the employee received a one-day suspension as a result. There was no financial loss to Government as the tires were returned. This matter was not reported to the police. TW reported this matter to PSIA as noted earlier in this chapter.

- The corporate credit cards of two TW employees were fraudulently used by unknown third parties. The Province's credit card service provider detected these charges and reversed them. The credit card service provider assumed responsibility for pursuing the matters and the Department is not involved in the credit card service provider's investigations.

On August 19, 2020, the Department of Transportation and Infrastructure (the former Department of Transportation and Works) reported one instance of potential fraud. The Province's credit card service provider identified a potentially fraudulent purchase on a corporate charge card held by one of the Department's employees. The credit card was cancelled and the charge was reversed by the credit card service provider. As a result, there was no loss to Government. My Office reported this matter to the Minister of Finance on September 23, 2020.

The former Department of Advanced Education, Skills and Labour (AESL) reported the following:

- On May 5, 2020, one instance of potential fraud was reported where an income support client is alleged to have cashed the same income support cheque on two separate dates. My Office reported this matter to the Minister of Finance on June 8, 2020.

- On June 17, 2020, one instance of potential fraud was reported where an income support client is alleged to have cashed the same income support cheque on two separate dates. My Office reported this matter to the Minister of Finance on March 31, 2021.

In both instances, the Office of the Comptroller General (OCG) detected the potentially fraudulent activity and stopped payment. As a result, there was no financial loss to Government. AESL immediately placed a hold on all future payments to these clients. The instances have been reported to the police for investigation.

The Department of Education reported the following:

- One instance of potential fraud by a student receiving student financial assistance was reported on November 12, 2020. The student is alleged to have submitted falsified documents to obtain additional financial assistance. The student received additional financial assistance because of this potentially fraudulent claim.

- One instance of potential fraud by an applicant for student financial assistance was reported on November 24, 2020. The applicant submitted a falsified document to obtain student financial assistance. The potential fraud was detected in the final stages of the application review process and no payments were issued to this applicant. As a result, there was no financial loss to the Government.

My Office reported both of these instances to the Minister of Finance on December 7, 2020.

The former Department of Immigration, Skills and Labour (ISL) reported the following:

- On August 27, 2020, one instance of potential fraud was reported where an income support client is alleged to have altered a cheque to increase the amount of the cheque. The individual then cashed the altered cheque. My Office reported this matter to the Minister of Finance on October 20, 2020.

- On August 31, 2020, one instance of potential fraud was reported where an income support client is alleged to have cashed the same income support cheque on two separate dates. My Office reported this matter to the Minister of Finance on October 23, 2020.

- On December 14, 2020, the following instances of potential fraud were reported:

    - Four instances, involving four different clients, where the client is alleged to have cashed the same income support cheque on two separate dates.

    - An instance where a client is alleged to have cashed the same income support cheque on three separate occasions. For two of the three occasions where the cheque was cashed, the client is also alleged to have altered the cheque to increase the amount of the cheque.

  My Office reported these matters to the Minister of Finance on February 4, 2021.

- On January 12, 2021, one instance of potential fraud was reported where an income support client cashed the same income support cheque on two separate dates. My Office reported this matter to the Minister of Finance on February 4, 2021.

- On January 14, 2021, one instance of potential fraud was reported where an income support client cashed the same income support cheque on two separate dates. My Office reported this matter to the Minister of Finance on February 4, 2021.

In all these instances, the OCG detected the potentially fraudulent activity and stopped payment. As a result, there was no financial loss to Government. ISL immediately placed a hold on all future payments to these clients. The instances have been reported to the police for investigation.

During our audit of the Support Enforcement Division of the Department of Justice and Public Safety for the year ended March 31, 2020, we became aware of the following instances of potential fraud:

- Seven cheques, issued to five separate payees between September 2015 to October 2019, cleared the bank twice. My Office reported this matter to the Minister of Finance on October 6, 2020.

- A cheque cleared the bank twice. My Office reported this matter to the Minister of Finance on October 27, 2020.

In each case, the Support Enforcement Division identified the duplicate cheque during its monthly bank reconciliation process and was reimbursed by the bank. As a result, there was no financial loss to Government. The payees were informed that they will be required to use direct deposit for future transactions and the matters were reported to police in accordance with direction provided by Government.

APPENDIX I

Government Reporting Entity

The Government Reporting Entity includes Government departments and the Legislature (known as the Consolidated Revenue Fund) and all other Government entities that are controlled by Government and are accountable to either a Minister of a Government Department or directly to the Legislature for the administration of their financial affairs and resources. Control is defined as the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities.

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- Consolidated Revenue Fund (16 Departments and Legislature)
- 4 Regional Health Authorities
- 2 School Districts
- 35 Crown Agencies

In addition to Government departments and the Legislature, the Government Reporting Entity includes 41 other Government entities. The financial statements of these entities are audited by either the Office of the Auditor General or a private sector auditor.

Audited by the Office of the Auditor General	Audited by a Private Sector Auditor
C.A Pippy Park Commission	Atlantic Lottery Corporation Inc.
Consolidated Revenue Fund	Board of Commissioners of Public Utilities
Heritage Foundation of Newfoundland and Labrador	Central Regional Health Authority
Innovation and Business Investment Corporation	Chicken Farmers of Newfoundland and Labrador
Livestock Owners Compensation Board	College of the North Atlantic
Newfoundland and Labrador Arts Council	Conseil scolaire francophone provincial de Terre-Neuve et Labrador
Newfoundland and Labrador Crop Insurance Agency	Credit Union Deposit Guarantee Corporation
Newfoundland and Labrador Housing Corporation	Dairy Farmers of Newfoundland and Labrador
Newfoundland and Labrador Immigrant Investor Fund Limited	Eastern Regional Health Authority

Audited by the Office of the Auditor General	Audited by a Private Sector Auditor
Newfoundland and Labrador Industrial Development Corporation	Egg Farmers of Newfoundland and Labrador
Newfoundland and Labrador Legal Aid Commission	Labrador-Grenfell Regional Health Authority
Newfoundland and Labrador Liquor Corporation	Marble Mountain Development Corporation
Newfoundland and Labrador Municipal Financing Corporation	Memorial University of Newfoundland
Provincial Advisory Council on the Status of Women - Newfoundland and Labrador	Multi-Materials Stewardship Board
Provincial Information and Library Resources Board	Municipal Assessment Agency Inc.
Student Loan Corporation of Newfoundland and Labrador	Nalcor Energy
The Rooms Corporation of Newfoundland and Labrador	Newfoundland and Labrador 911 Bureau Inc.
	Newfoundland and Labrador Centre for Health Information
	Newfoundland and Labrador English School District
	Newfoundland and Labrador Film Development Corporation
	Newfoundland and Labrador Sports Centre Inc.
	Newfoundland Hardwoods Limited
	Western Regional Health Authority
Unaudited	
Churchill Falls (Labrador) Corporation Trust [1]	
No Financial Statements Prepared	
Newfoundland and Labrador Farm Products Corporation [2]	

1 - No audit completed as not considered material.
2 - No audit completed as the entity is inactive.