ANNUAL REPORT OF THE AUDITOR GENERAL OF BRITISH COLUMBIA TO THE LEGISLATIVE ASSEMBLY

MARCH 1987

British Columbia Cataloguing in Publication Data

British Columbia. Office of the Auditor General.
Report of the Auditor General.—1978—

Annual.
Report year ends Mar. 31.
ISSN 0708-5222 = Report of the Auditor General (Victoria)

1. Finance, Public—British Columbia—Accounting—Periodicals.

HJ9921.Z9B73 354'.711'007232

Province of British Columbia

Office of the
Auditor General
Province of British Columbia

8 Bastion Square
Victoria
British Columbia
V8V 1X4

The Honourable Melville B. Couvelier
Minister of Finance and Corporate Relations
Province of British Columbia

Sir:

I have the honour to transmit herewith my Annual Report to the Legislative Assembly, to be laid before the Assembly in accordance with the provisions of Section 10 of the Auditor General Act, R.S.B.C. 1979, chapter 24.

R.J. Hayward, C.A.
Acting Auditor General

Victoria, British Columbia
6 April 1987

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Auditor General's Overview

Auditor General's Overview

I am pleased to present my first Annual Report to the Legislative Assembly. It contains information about matters arising from audit work done during the past year which I believe warrants consideration by members of the Legislative Assembly.

Mrs. Erma Morrison, F.C.A., retired as Auditor General of British Columbia on 31 October 1986 after nine years in office. Her knowledge, experience and wisdom were essential to the successful establishment of the Office. All those who worked with her appreciate the leadership and counsel she provided. Although most of the observations contained in this Report arose from audits and studies begun while Mrs. Morrison was Auditor General, she was not, because of the timing of her retirement, involved in developing the conclusions and recommendations reported herein. This has been my responsibility.

Office Mission

Although the Auditor General's formal mandate is set out in the *Auditor General Act*, the role of the Auditor General and the expectations of those he serves have gradually evolved since the Office was established in 1977. Recognizing this, we have prepared a Mission Statement, which appears on page 9 of this Report, to serve as a point of reference for those who have expectations of the Office, and for those within the Office who strive to meet those expectations.

This statement sets out the responsibilities of the Auditor General in performing his audits of both the Government and various public bodies.

With respect to the Government, I view my main role as assisting the members of the Legislative Assembly with one of their primary responsibilities, that of holding the Government accountable for the funds provided to it by the Legislature.

We examine the various annual financial statements of the Government and express opinions on them. The audit of these statements provides assurance as to their credibility. It also adds an element of control, thus contributing to the overall accuracy and reliability of the financial information presented by the Government. In the course of auditing the Government's financial statements, we evaluate the adequacy of financial controls and determine whether the transactions we have examined comply with legislative and other authorities. When time and resources permit, we also conduct additional reviews of financial controls and compliance with legislative and related authorities, separate from our examination of the financial statements.

We also present the Legislature and the public with impartial evaluations of various aspects of government administration. We select for audit those systems and activities that are essential to the Government achieving its operating objectives. In making our selection, we do not concentrate only on areas where we anticipate significant deficiencies, or where we believe the administration is particularly good. Rather, we conduct our audits on a cyclical basis so that members of the Legislative Assembly receive assessments of all significant government operations over a period of time. In addition, we carry out audits on matters which I consider to be of particular interest or concern, as they arise.

Through our audit reports we attempt to provide members of the Legislative Assembly and the public with a fair picture of the quality of government administration. Although it is the duty of all legislators to see that the administration is held accountable, it has proven to be more practical to have the detailed work of doing so carried out by a committee of the Legislative Assembly. Consequently, my Annual Report is referred by the Legislature to the Public Accounts Committee, where it may serve as a base for members of the Committee to formulate enquiries of public service managers and others with administrative responsibilities.

With respect to the public bodies for which I am the appointed auditor, my primary role to date has been attesting to their financial statements.

The Government's Financial Statement

My predecessor expressed unqualified opinions on the Government's financial statements for the fiscal year ended 31 March 1986. These statements present the financial position and, where applicable, the related operating results and changes in financial position of the Government and of trust funds administered by the Government. The Auditor General's reports form part of the Public Accounts of the Province.

As might be expected in the audit of an organization as large and complex as the Government of British Columbia, accounting errors are sometimes encountered. Because of the nature and timing of our examination, however, we have always been able to ensure that any significant errors are corrected before the financial statements are finalized. I am pleased to say that there are no unresolved matters to report as a result of our audit of the 1986 financial statements.

However, several financial statement matters that were raised in previous Annual Reports of the Auditor General remain to be dealt with. Although they do not directly affect our audit opinions, they do represent issues we expect to see addressed in the interest of improving the Government's reporting of its financial affairs. Comments in this regard appear on pages 22 to 24.

Financial and Legislative Controls

During our audit of the Government's financial statements, we encountered a few control and compliance matters that I believe should be brought to the attention of the Legislative Assembly. These are described on pages 29 to 32.

This year we also examined, on a government-wide basis, the controls over certain purchasing activities that have been delegated to the ministries. The ministries, for the most part, were controlling these activities well. Nevertheless, we did point out to the management of various ministries a number of opportunities for improvements in control. Details on all these matters appear on pages 33 to 37 of this Report.

Regard for Economy, Efficiency and Public Accountability

In 1986 we conducted several comprehensive audits in selected areas of government activity. The principal purpose of these audits was to provide assurance to the Legislature and others concerned that these government operations were being carried on with due regard for economy, efficiency and accountability, and to comment in instances where such assurance could not be provided.

PURCHASING COMMISSION

A comprehensive audit was carried out in the Purchasing Commission, a part of the Ministry of Finance and Corporate Relations. The Commission is responsible, either directly or functionally, for most of the Government's purchasing activity.

The Purchasing Commission has significantly shifted the nature of its activity over the past few years. While it once fulfilled a primarily clerical function and served to ensure probity in government purchasing, the Commission is now a professional purchasing organization with a major role in achieving economy in the supply of the Government's needs. It has added new sources of supply and supply methods which are designed to reduce the cost to government of the goods and services it acquires. While substantially complete, this change is still going on. For the most part, the transformation has been accomplished well, although there are still some areas that need further work: the most appropriate method of supply is not used in all cases, and certain methods of supply, particularly warehousing, could be improved.

Having recently adopted the public sector purchasing policy, the Purchasing Commission now also has an important government program responsibility. The concept of value-added, which is included in the policy, involves purchasing in a way that maximizes the benefits to British Columbia. This development was still relatively new when we conducted our audit, and the procedures to deal with it were not complete. However, the Commission has been actively pursuing its value-added goals, and we found that the decision processes in use were appropriate in the circumstances.

MINISTRY OF ATTORNEY GENERAL

We also examined four specific subject areas in the Ministry of Attorney General:

- the probation, family and community services programs of the Corrections Branch;
- the legal services provided to government by the Legal Services Branch;
- the ministry's management of buildings and office accommodation; and
- the management of the ministry's financial function.

We found that the operations of the probation, family and community services programs of the Corrections Branch are well managed, although there are refinements that should be made to increase productivity and to measure management performance. Additionally, the Branch needs better overall indicators of program effectiveness. It has not established targets and methods of evaluation to allow it to measure its success in meeting program goals.

We concluded that the Legal Services Branch is providing its clients with acceptable professional services. Nevertheless, we feel the Branch should be managed more actively to ensure that services are provided economically and efficiently and that future demands are anticipated and met.

The ministry's management of its extensive building and office accommodation was found to be generally satisfactory. Our report includes an assessment of the three major types of facilities occupied by the Ministry: courthouses, prisons and offices.

In our audit of the ministry's decentralized financial function, we found that the support provided to program managers in financial matters varies according to the skill of financial staff in a particular area and the sophistication of the systems available to them. We concluded that, overall, the organizational structure of the financial function was sound and appropriate for the Ministry. However, we feel that the ministry's financial management would be strengthened if the central financial group took a more active role in guiding the activities of the various financial groups throughout the Ministry.

Public Bodies

The Auditor General is the appointed auditor of 30 public bodies. All of the auditor's opinions on the annual financial statements of these public bodies issued since the last Report of the Auditor General to the Legislative Assembly were expressed without reservation.

I have voiced concern in my Report about the reporting of public body accountability information, noting that information provided to the Legislative Assembly is not uniform in content, and is often not timely. For example, the March 1986 annual financial statements of most major Crown corporations have yet to be made available to Members of the Legislative Assembly and, hence, the public. Legislation is generally silent about what accountability information, other than financial statements, is required from public bodies. A new *Financial Information Act* was passed by the Legislative Assembly in 1985, but it has not been brought into force. Application of this Act would eliminate some of my concerns, although the overall question of public body accountability to the Legislative Assembly appears to deserve further study.

* * *

I would like to express my appreciation for the cooperation extended to my Office by officials of ministries and public bodies. We were provided with all the information and explanations required in the conduct of our audits. Also, I acknowledge the dedicated efforts of the staff of the Office of the Auditor General. Their contribution has been essential to the continuing achievement of the Office's goals.

Victoria, British Columbia
16 March 1987

R. J. Hayward, C.A.
Acting Auditor General

Mission Statement

Mission Statement

1.1 One of the more important responsibilities of the Members of the Legislative Assembly is the control of government finances. The Government must ask the Legislature to approve both the amount of money it wants and the purposes for which the money is to be spent. Members also have a responsibility to obtain from the Government an accounting of its stewardship of the funds they have voted to it. However, the size and complexity of the Government of British Columbia make it impossible for legislators to examine the accounts and records in sufficient depth to arrive at any authoritative conclusions. They have therefore appointed an Auditor General to assist with this responsibility.

1.2 The Legislative Assembly, through the *Auditor General Act,* provided initial direction to the Auditor General when the Office was established in 1977. However, because the role and expectations of legislative auditing have evolved over the years as new issues and audit practices have developed, this year we prepared a mission statement to provide a point of reference for those we serve and for the staff of the Office.

Mission Statement

The Auditor General provides the Legislative Assembly, the citizens of British Columbia and other interested parties with assurance, where appropriate, about the Government and other entities in the public sector with respect to their:

- annual financial statements;
- systems of financial and administrative control;
- compliance with legislative and related authorities; and
- regard for economy and efficiency in the administration of public funds, and for public accountability.

If he has concerns about these matters, and in his opinion assurance cannot be provided, he reports the nature and extent of his reservations.

Throughout his work the Auditor General identifies and reports on opportunities for improvement in the administration of the public sector in British Columbia.

The Auditor General, as an officer of the Legislature, is independent of the Government and therefore in a position to make impartial evaluations. To fulfill his role, the Auditor General has established a professional office dedicated to public sector auditing, and committed to the principles of objectivity, integrity and service to the public.

1.3 This year the organization of our Annual Report on the work of the Office conforms with the aims described in our mission statement.

Audits of the Government

Annual Financial Statements

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Reports and Comments on the Financial Statements

2.1 The Auditor General Act requires the Auditor General to examine the accounts and records of the Government, and to report annually on the Government's financial statements, expressing an opinion as to whether the statements fairly present the financial position and operating results of the Government in accordance with its stated accounting policies.

2.2 This section of the Annual Report deals with the Auditor General's reports on the Government's financial statements. As well, it discusses various developments within the accounting profession which have had, and will continue to have, significant impact on the way in which the Government reports its stewardship of the province's financial affairs.

Reports of the Auditor General on the Financial Statements

2.3 The Government presents three separate and distinct sets of annual financial statements. The first, referred to as the Combined Financial Statements, reflects the transactions and financial position of the General Fund and Special Funds which, when combined, are known as the Consolidated Revenue Fund. The second, called the Consolidated Financial Statements, provides a more comprehensive picture of the Government's financial position by aggregating the Consolidated Revenue Fund with financial information of a number of related Crown corporations and other public bodies. The third, referred to as the Trust Funds Financial Statements, presents financial information about amounts held and administered by the Government in trust for others. These include pension funds, sinking funds, managed trust funds and custodial deposits.

2.4 The Government's annual financial statements serve the interests of a wide variety of users, including legislators, the general public, investors and analysts. Not only should the statements contain clear comprehensible information in a timely and consistent manner, but, above all, they should be credible to those who rely on them as a source of information. Users need assurance, based on an independent, objective examination, that the information contained in the Government's financial statements is reliable.

2.5 This assurance is provided by the opinions contained in the Auditor General's reports on the Government's 1986 financial statements. These reports are included with the Government's financial statements in the 1986 Public Accounts. The audit opinions on the three sets of statements were expressed without reservation. The Auditor General's reports and the related financial statements are reproduced in Appendix III to this Report.

2.6 The Auditor General's reports represent the culmination of a significant amount of audit work. Almost half the resources of the Office are devoted to this activity which

is carried out virtually year-round. This important part of the work of the Office is aimed at collecting sufficient, appropriate evidence to support the audit opinions in the most cost-effective manner. For our audit of the financial statements we treat the Government as one economic entity. Nevertheless, we do visit each ministry, often for considerable periods of time, and perform specific audit work designed to support our audit opinions.

Auditing Standards

2.7 Each of the Auditor General's reports has two paragraphs: a scope paragraph, which identifies the financial statements that have been examined and explains by what standards the work has been performed; and an opinion paragraph, which expresses an opinion as to whether the financial information is presented fairly in accordance with the Government's stated accounting policies applied on a consistent basis.

2.8 In the scope paragraph there is a reference to "generally accepted auditing standards". These standards are established by the Canadian Institute of Chartered Accountants (CICA) and relate to the professional qualities of auditors, the performance of their examinations, and the preparation of their reports.

2.9 The standards represent the basic standards with which all auditors, in either the public or private sector, should comply when expressing an opinion on financial statements. These basic standards have been augmented by several standards for the public sector contained in the Public Sector Auditing Statements issued by the Public Sector Accounting and Auditing Committee (PSAAC) of the CICA.

2.10 The Committee was established in 1981 to consider matters of public sector accounting and auditing theory and practice. It renders such pronouncements as it considers in the best interests of the community as a whole, and fosters the growth of Canadian accounting and auditing literature for the public sector by encouraging specialized studies. To date, it has issued three auditing statements: Auditing in the Public Sector, Audit of Financial Statements in the Public Sector, and Auditing for Compliance with Legislative and Related Authorities.

Accounting Policies

2.11 The opinion paragraph of the Auditor General's reports refers to the statements having been prepared in accordance with "stated accounting policies". Sometimes alternative accounting policies may be applied to similar items. Fixed or physical assets, for example, may either be treated as an expenditure in the year of acquisition or be capitalized and written off over a number of years. Because alternative policies can produce significantly different operating results and surpluses or deficits, the selection of appropriate accounting policies is of great importance.

2.12 In the private sector, auditors are able to compare the accounting policies used to prepare the financial statements with those that are "generally accepted", namely those which are considered by the accounting profession in Canada to be the most appropriate and which are widely used throughout the private sector or a given industry. Many of these policies have not been adopted in the public sector, however, sometimes because they are inappropriate or not applicable.

2.13 Therefore, not only have there been no generally accepted accounting policies in the public sector, but on many issues there has not even been a consensus as to the most appropriate policy. As a result, the practice of public sector entities using "stated accounting policies" in their reporting evolved. This has meant, in effect, that any accounting policy can be used, as long as it is explained in a note to the financial statements. For years, individual governments in Canada have followed a variety of accounting policies.

2.14 This situation has provided some difficulties for financial statement users and auditors. Such diversity makes it difficult for users of government financial statements to understand them and to compare the statements of one government with those of another, even when the transactions and operations reported are similar. Furthermore, because, in general terms, auditors compare the accounting treatment accorded a particular transaction to that required by accepted standards, this lack of consensus on what the standards should be makes it difficult for auditors to form sound opinions.

2.15 It is the aim of PSAAC to provide, first, a framework for public sector reporting; and second, recommendations with respect to the appropriate accounting policies for particular types of transactions.

2.16 To date, PSAAC has issued three accounting statements: Disclosure of Accounting Policies, Objectives of Government Financial Statements, and General Standards of Financial Statement Presentation for Governments.

2.17 The statement, Objectives of Government Financial Statements, identified five objectives and defined the nature of information that users of government financial statements require. The most recent statement, General Standards of Financial Statement Presentation for Governments, sets out 35 recommendations on general reporting principles and disclosure standards for government financial statements. The Committee is currently working on a project to define what is meant by "government" as a financial reporting entity, in particular dealing with consolidation and accounting for long-term investments.

2.18 These three statements are intended to establish a structure for accounting principles and financial reporting standards for governments, and to ensure future recommendations on specific accounting matters are appropriate and consistent with each other.

2.19 The Province has contributed to this changing environment. The Office of the Comptroller General, on behalf of the Government, has been directly involved with PSAAC and many of its initiatives. Similarly, the Office of the Auditor General has been represented on the Committee and taken an active part in the process of improving public sector accounting and auditing standards.

Improvement in the Government's Financial Statements

2.20 In British Columbia, there has been a marked improvement in the Government's financial statements in recent years. For example, for the 1981 fiscal year the Government changed its basis of accounting from a predominantly cash basis to an accrual basis. In the 1983 fiscal year, the Public Accounts included, for the first time, separate financial statements of Trust Funds Under Administration (funds held and administered in trust for others). Previously, this information had been included, in abbreviated form, in the Government's main financial statements. In addition, considerable thought and effort have been devoted to removing unnecessary information from the main statements and to making the numerous notes to the statements easier to read. Our initial assessment is that the Government's financial statements are already complying with most of the PSAAC recommendations contained in the statement, General Standards of Financial Statement Presentation for Governments. We believe this progress has provided the users of the Government's financial statements with a more meaningful and useful product.

Comments on Specific Financial Statement Matters

2.21 Although our audit of the Government's financial statements culminates in the Auditor General's opinions on the statements which add credibility, the audit process also provides control.

2.22 In general, the fact that an audit is conducted and that the work of those responsible for the accounting procedures is checked may lead to better management performance. More specifically, in the course of our audit we may detect accounting or reporting errors. In these cases we would have the errors corrected or, where they were significant and were not corrected, the nature and extent of the errors would be disclosed by way of qualifications in the Auditor General's reports.

2.23 During our audit each year we find items that need correcting, although any significant items have always been resolved so that the Auditor General's opinions on the financial statements have been issued without qualification. In past years we have included certain matters in our Annual Report which, although they did not result in a qualification, we felt should be brought to the attention of the Legislative Assembly.

2.24 We are pleased to report that our audit of the financial statements this year disclosed no items of this nature. This is the result of several factors. First, as noted above, the Government over the past several years has been improving the form and content of the financial statements. Second, we have been able to improve the timing of our audit work so that potential problems are identified before the financial statements are finalized. This has allowed the Comptroller General, who is responsible for preparing the financial statements, to make the required changes. We believe all of these factors have contributed to improvements in the Government's financial statements.

Status of Findings and Recommendations About Financial Statement Matters Contained in Previous Annual Reports of the Auditor General

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report
2.25	The following points were reported in our previous Annual Reports, but were not resolved at the time our last Report was issued		
AUDIT OF THE FINANCIAL STATEMENTS			
1980	3.14	Limitations placed on the Auditor General of British Columbia by the *Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act, 1977 (Canada),* prevent normal verification procedures for provincial income taxes assessed, collected and allocated to the Province by the Federal Government.	No change in limitations. However, during 1986 the Auditor General of Canada provided an audit opinion to the Minister of Finance of Canada on his examination of income taxes payable to the provinces and territories for the 1984 and prior taxation years as at 31 March 1986. We have obtained a copy of the opinion, which was expressed without reservation, and the related financial statement.
FINANCIAL STATEMENT PRESENTATION			
1985	2.6	Suggestion that the Government consider presenting its main financial statements in the following order: • Consolidated Financial Statements • Combined Financial Statements • Trust Funds Financial Statements	This matter will be reconsidered by the Government when the relevant Canadian Institute of Chartered Accountants standards for government financial reporting are developed in full.
1985	2.9	Suggestion that, if highly summarized financial information is to be presented, it should be done in a manner which does not leave the impression that it represents the main audited financial statements of the Province.	Resolved. The former unaudited summary financial statements have been removed from the 1986 Public Accounts.

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report
1986	1.18	Recommendation that the Schedule of Special Fund Transactions and Balances disclose the transactions of all special funds, including those of the Fiscal Agency Loans Fund.	Financial statement format changes in 1986 have eliminated this problem.
1986	1.30	Recommendation that the Trust Funds Financial Statements include only those assets being held in trust for third parties and over which the Government does not have any power of appropriation.	The Government's response to our 1986 Annual Report stated that the Minister of Finance agreed with our assertion that it is not possible to hold assets in trust for oneself. Nevertheless, the Government has interpreted the *Financial Administration Act* as requiring the Government's own sinking funds to be included in its Trust Funds Financial Statements. Because this interpretation results in inappropriate disclosure in the Trust Funds Financial Statements, we recommend that either the interpretation be reconsidered or a legislative amendment be made, and that the Government's own sinking funds be removed from the Trust Funds Financial Statements.
1986	1.36	Recommendation that the trust funds of the Public Trustee and Official Administrators, the Crop Insurance Fund, and the Land Registry Assurance Fund be accounted for and reported as actively managed trust funds.	No change. Although the Government's response to our 1986 Annual Report states that the present classification of these trust funds is considered to be appropriate, we continue to support our original recommendation.
1986	1.40	Recommendation that the Workers' Compensation Board Superannuation Fund be excluded from the Government's Trust Funds Financial Statements.	Recommendation implemented.

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report
GOVERNMENT ACCOUNTING POLICIES			
1983	1.11	Recommendation that the Government reconsider its accounting policy, with respect to gains and losses on dispositions of long-term bond investments of pension funds. Under the current policy, gains and losses are deferred and then amortized over the lesser of the remaining term of the bonds and 20 years.	The Canadian Institute of Chartered Accountants (CICA) is continuing its research into accounting for investments. The Government has indicated that it will review its current practice when any authoritative pronouncements are made by the CICA.
1985 1986	3.15 2.10	Recommendation that the Government amend its accounting policy to ensure that cash receipts which arise from transactions of a similar nature and substance are recorded consistently in the accounts. The Estimates should then be developed in accordance with this policy.	No change. The Government's response to our 1986 Annual Report stated that development of a comprehensive recoveries policy is under way, but is expected to take more than one year to implement.
1986	2.15	Recommendation that the accounting policy for long-term leases for accommodation in special purpose buildings be reviewed as to its appropriateness; and that the future cost of lease commitments be included in the notes to Government's Combined Financial Statements.	Resolved. The accounting policy was changed in 1986, and commitments are now being included in the notes to the Government's financial statements.

Systems of Financial and Administrative Control, and Compliance with Legislative and Related Authorities

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Comments on Specific Control and Compliance Matters

2.26 In the course of our annual audit of the Government's financial statements, we review selected systems of financial and administrative control, and test compliance with legislative and related authorities. This work is done to support our opinions on the financial statements and uses statistical samples drawn for this purpose; it is not designed to support an overall conclusion as to whether controls are adequate or whether the authorities have been complied with.

2.27 Nevertheless, during our audit we encounter instances where accounts and records are inadequate, internal controls are deficient, or policies and procedures are not followed. *The Auditor General Act* directs us to report to the Legislature anything resulting from our audit which should be brought to its attention. Accordingly, the matters reported in this section represent only the problems we have encountered. It is important to note that in many areas our audit found no deficiencies serious enough to be included in our Report to the Legislative Assembly.

Accuracy of Corporate Water Usage Fees

2.28 The major source of revenue for the Ministry of Environment and Parks is water usage fees which are collected primarily from several large corporate users. We do not believe the Ministry is obtaining sufficient assurance that the amounts collected from these users are accurate.

2.29 The fees collected are based on returns submitted by the users, detailing the quantities of water they have consumed. To fulfill its role as revenue collector, the Ministry is empowered under the *Water Act* to inspect the relevant corporate records to verify the accuracy of corporate returns. Despite the fact that these revenues are in excess of $200 million annually, to date, the Ministry has not exercised this power, and the corporate returns are reviewed only for reasonableness. This approach, we feel, does not provide an effective control system for determining the water usage revenue.

2.30 We recommend that the Ministry institute procedures to ensure better verification of water usage fees.

Unauthorized Transfer of Expenditures

2.31 The Ministry of Education transferred expenditures from one vote to another vote without obtaining legislative approval for the transfer. The transfer resulted in a vote being charged with expenditures which the Legislative Assembly had not approved for that vote.

2.32 The Legislative Assembly approved textbook expenditures for public and independent schools in Vote 18, Management Operations. Without the required authority, the Ministry transferred the cost of textbooks for independent schools, $936,101, to Vote 21, Independent Schools. The costs of textbook purchases for public schools remained in Vote 18.

2.33 Had this transfer not been made, Vote 18 would have been overexpended, thus necessitating further approval by the Legislative Assembly. Conversely, Vote 21, Independent Schools, would have had additional unexpended funds at the year-end.

2.34 The vote structure is the primary method used by the Legislative Assembly to ensure that expenditures are made only for the purposes approved by the Legislature and that the amounts spent for any particular purpose are within the limits established by the Legislature. The Ministry, by charging Vote 21, Independent Schools with expenditures which the Legislature had not approved for that vote and by spending more for a particular purpose than was approved by the Legislature, breached a fundamental control of the Legislative Assembly.

Overpayments of Sewerage Assistance and Water Facility Grants

2.35 The *Revenue Sharing Act* enables the Minister of Municipal Affairs to pay grants to municipalities to assist them in retiring debts incurred for the construction of sewerage and water facilities. However, inadequate claims verification was found to have resulted in grant overpayments amounting to $468,000.

2.36 Our regular audit review of grants paid in the 1986 fiscal year disclosed one overpayment of $203,000. Subsequent reviews in conjunction with ministry personnel found nine smaller overpayments, totalling $62,000. A further check of grants paid in previous years disclosed an additional $203,000 in payment errors.

2.37 Most errors occurred because inappropriate amounts for debt retirement were included in the claims. Larger amounts were duplications of debt repayments already claimed, and most other overpayments occurred when the municipalities continued to claim repayments of debt which they were no longer entitled to.

2.38 In response to our expressed concern over the lack of effective control procedures for these payments, the Ministry stated that a full review of the program policies and procedures had already been initiated. Since then, the Ministry has recovered virtually all of the overpayments identified and is now checking applications for grants from the Revenue Sharing Fund more thoroughly. Written policies and procedures are currently in draft form, but these have not been formally adopted.

2.39 We believe that the corrective actions taken by the Ministry, when completed, should effectively eliminate the problem of overpayments.

Differences With Municipalities Over Tax Balances

2.40 Municipalities act as the Province's agent in collecting Non-Residential Schools Taxes (NRST). Even though the Ministry and some municipalities have differed for several years on the amounts outstanding between them, the Government has not taken conclusive action to settle these long outstanding differences.

2.41 The *Education (Interim) Finance Act* authorizes the Minister of Finance and Corporate Relations to raise revenues for schools by taxing non-residential properties. The Minister provides each municipality with the applicable taxable property values, sets the tax rates, and determines the amount of NRST to be raised. This information is used, first, by the municipalities to prepare the tax notices sent to taxpayers and, second, by the Ministry to record the amounts of NRST that the municipalities are due to collect and remit to the Ministry.

2.42 Because the tax rolls are continually revised, adjustments to the taxes payable occur frequently, even after the tax notices have been mailed. Between 1980 and 1983, in particular, changes in the taxable values of properties and their effect on related tax assessments were poorly communicated among the Ministry, municipalities, and the British Columbia Assessment Authority, which is responsible for maintaining and updating the property tax rolls. As a result, the amounts recorded as outstanding by the Ministry did not agree with those recorded by some municipalities. Ministry attempts to resolve the discrepancies without resorting to arbitrary measures have been largely unsuccessful. Furthermore, current legislation has been ineffective in providing a well-defined and equitable method of settling balances on a timely basis.

2.43 At 31 March 1986, NRST balances recorded by the Province as being due from municipalities totalled $1.7 million, while amounts recorded as being owed to municipalities were $4.2 million. Included in these totals were amounts attributed to assessment years prior to 1984, $0.2 million and $3.6 million, respectively. We believe that immediate action is needed if the Government is to ensure the orderly settlement of past and future NRST balances.

2.44 We recommend that the Ministry consider two courses of action: first, that it review legislation to determine whether or not the settlement provisions are equitable and meet the needs of the Ministry and the municipalities; and second, that it devise more conclusive measures to resolve the status of existing outstanding balances.

Authority for Sinking Funds

2.45 We are concerned that the Province is being committed to making annual sinking fund payments without approval from the appropriate level of authority.

2.46 Sinking funds are pools of cash and investments built up over a period of years to provide for the orderly retirement of debt. During the last two years, the Ministry of Finance and Corporate Relations has created sinking funds for a number of the Province's debt issues, essentially committing the Province to set aside considerable sums of money each year. It is our view that the *Financial Administration Act* requires Order in Council (OIC) approval for the creation, management and application of sinking funds. The Ministry of Finance and Corporate Relations has interpreted the *Financial Administration Act,* supported by legal counsel, as not requiring OIC approval.

2.47 Given the financial commitment inherent in sinking funds, we believe that the Government rather than ministry staff is the appropriate level of authority for establishing the funds. However, the Government has not established or approved a clearly defined policy for doing so.

2.48 In our 1986 Annual Report we also questioned the fact that, although sinking fund assets by their nature should be irrevocably segregated from other assets and not subject to appropriation for other purposes, the *Financial Administration Act* did not appear to address this issue.

2.49 We recommend that the *Financial Administration Act* be clarified with respect to the requirements of having sinking funds authorized by OIC and of having sinking fund assets segregated from other assets. Nevertheless, we recommend that the Government approve both the creation of sinking funds and the conditions that apply to them, regardless of whether the law requires it.

Review of Local Minor Purchase Orders and Emergency Purchase Orders

Introduction

2.50 Each year, in addition to the control and compliance work conducted in conjunction with our annual audit of the Government's financial statements, we undertake in-depth reviews of selected control systems as resources permit. This year we performed such a review, on a government-wide basis, on the use of Local Minor Purchase Orders (LMPOs) and Emergency Purchase Orders (EPOs).

2.51 Government ministries buy some $375 million of goods and supplies each year. Of this, about $50 million is purchased by means of LMPOs and EPOs. Generally, LMPOs are used for certain local purchases not exceeding $500, while EPOs may be used when time constraints and immediacy of need preclude ordering through other channels.

2.52 Ministries are responsible for designing control systems which ensure that uses of LMPOs and EPOs achieve acceptable standards of probity and cost-effectiveness. To assist ministries, the Purchasing Commission (part of the Ministry of Finance and Corporate Relations) has provided guidelines setting out the circumstances and conditions for the appropriate use of LMPOs and EPOs. In addition, ministries must consider the requirements of Treasury Board and those of the Ministry of Finance and Corporate Relations as set out in various policy and procedure manuals.

Purpose of the Review

2.53 Our review had two objectives:

- to assess the adequacy of internal controls established by ministries over the use of LMPOs and EPOs; and
- to determine the extent of compliance with policies, directives and guidelines of the Ministry of Finance and Corporate Relations, the Purchasing Commission and the individual ministries.

Conclusion

2.54 Internal controls established by ministries were generally satisfactory with respect to delegation of authority, processing of payments and recording of expenditures. However, we found that controls designed to prevent inappropriate or unauthorized use of LMPOs and EPOs were weak in a number of ministries.

2.55 Overall, ministries complied adequately with their own policies and procedures and with those of Treasury Board and the Ministry of Finance and Corporate Relations. However, we found frequent deviations from the practices recommended in the guidelines issued to ministries by the Purchasing Commission. None of the deviations appeared to relate to unauthorized or inappropriate objectives, and in most cases the ministries felt that time constraints and cost-effectiveness justified their actions. Nevertheless, the frequency of deviations suggests that the effectiveness of the functional direction exercised by the Purchasing Commission should be reviewed, as well as the mechanisms through which the direction is given.

2.56 To provide the fullest support to ministries, the Purchasing Commission needs complete and timely information about ministry purchases, including those requiring LMPOs and EPOs. We do not believe that the information currently provided by ministries enables the Commission to fulfill this role adequately. We therefore recommend that the Commission take the necessary steps to ensure it gets the information it requires.

Audit Scope

2.57 For each ministry, we reviewed a representative number of LMPOs and EPOs which were issued during the five months ended 31 August 1986. We also interviewed staff who are responsible for controlling and monitoring the use of the forms within the ministries and at the Purchasing Commission.

Audit Criteria

2.58 We assessed the adequacy of controls established against the following standards:

- Authority for entering into an LMPO/EPO should be clearly defined.
- Delegation of spending authority should be in accordance with stated government policy.
- Payment of LMPOs/EPOs should only be authorized when all requirements have been met.
- Payments for LMPOs/EPOs should be properly recorded.
- LMPOs/EPOs should be safeguarded and accounted for.
- All other requirements of Treasury Board, the Ministry of Finance and Corporate Relations and the Purchasing Commission should be complied with.

Audit Findings

2.59 We have reported the detailed findings of our review to each ministry. The findings are summarized below by audit criterion:

AUTHORITY FOR ENTERING INTO AN LMPO/EPO SHOULD BE CLEARLY DEFINED

2.60 Clearly stating who may issue LMPOs and EPOs and what, if any, limits there are on that authority provides an essential framework of responsibility for the proper use of the purchase orders. Ministries must not only ensure that these authorities are documented in a readily understandable way, but that they are being promulgated throughout the ministry.

2.61 We found that ministries had properly defined the authorities for entering into LMPOs and EPOs, and informed their staff of these either through their own financial manuals or through their signing authority documents.

DELEGATION OF SPENDING AUTHORITY SHOULD BE IN ACCORDANCE WITH STATED GOVERNMENT POLICY

2.62 Government policy requires that the delegation of spending authority be approved by the minister or his designate, and be limited to a reasonable number of appropriately qualified officials.

2.63 Ministries generally complied with government policy in the manner in which authorities were delegated. We found minor exceptions, but these usually arose where usage of the documents was minimal or involved unavoidable redelegation of authority on a temporary basis.

PAYMENT OF LMPOs/EPOs SHOULD ONLY BE AUTHORIZED WHEN ALL REQUIREMENTS HAVE BEEN MET

2.64 Before invoices are paid, ministries should ensure that the invoiced values and quantities agree with the related LMPOs and EPOs, and that the materials or the services were received. In addition, ministries must comply with the government's financial administration policy regarding payment processing, as well as with any additional policies developed by the ministry for its own use.

2.65 Generally, ministries achieved a satisfactory degree of compliance in processing payments for LMPO and EPO transactions. In no ministry did we find serious recurring deficiencies in the manner in which payments for LMPO and EPO transactions were processed. However, among the few exceptions we did find were: payments without proper evidence of receipt of materials; officials acting as both spending and payment authority for the same transaction; unauthorized spending or payment approvals; use of an LMPO where a professional service

contract would have been more appropriate; and one case where a cheque was produced without proper authority. Details of these exceptions have been provided to the ministries concerned for their corrective action.

PAYMENTS FOR LMPOs/EPOs SHOULD BE PROPERLY RECORDED

2.66 Fair presentation of the government's financial results requires transactions to be coded to appropriate votes and accounts, and to be processed completely and accurately into the government's financial records.

2.67 Overall, ministries had satisfactory controls to achieve this objective, and all the transactions we examined had been processed correctly.

LMPOs/EPOs SHOULD BE SAFEGUARDED AND ACCOUNTED FOR

2.68 To minimize the risk of unauthorized use, ministries should have documented policies and procedures for ordering, receiving and distributing books of LMPO and EPO forms. Books should only be issued to designated spending authorities and a register maintained of the numbers issued. Access to the books should be restricted to the spending authorities.

2.69 We found that eight ministries had no documented policies for ordering, receiving and distributing LMPO and EPO books. Books were issued to persons without spending authority in four ministries, and we observed a number of cases in other ministries in which books were accessible to unauthorized staff. In three of the larger ministries, no record was kept of the books issued.

2.70 A number of ministry officials cited the verification of transaction documents before payment as the primary control for detecting inappropriate use of LMPOs and EPOs. While this procedure may deter abuses, it only detects irregularities after the liability has been incurred. Realistically the exposure is not great, but we believe that more emphasis on preventative controls is desirable.

ALL OTHER REQUIREMENTS OF TREASURY BOARD, THE MINISTRY OF FINANCE AND CORPORATE RELATIONS AND THE PURCHASING COMMISSION SHOULD BE COMPLIED WITH

2.71 The manner in which LMPOs and EPOs are used is governed not only by the ministry's own policies, but also by directives and guidelines issued by central agencies such as Treasury Board and the Purchasing Commission. The Commission has issued instructions which impose certain limitations on the ministries' use of LMPOs and EPOs, and which attempt to provide a basis for the Commission to monitor LMPO and EPO usage. Although failure to adhere to these requirements may result in purchasing inefficiencies, it can be argued alternatively that this degree of control impedes or unduly restricts the ministries in making procurement decisions for which they are ultimately responsible.

2.72 We found deviations from Purchasing Commission policies in nearly all ministries. Failure to record all of the commitment details required by Purchasing Commission was common; moreover, we found evidence to suggest that the Purchasing Commission may not be receiving copies of all LMPOs and EPOs issued by ministries. These deficiencies could limit the usefulness of the information gathered by the Commission on ministry purchasing trends, and this in turn could impair the Commission's ability to provide the ministries with the optimum procurement service. We also noted other procedural deviations from Purchasing Commission requirements. However, we found no instances of deviations being unrelated to the pursuit of ministry policy goals. Ministries were generally aware of the requirements of the Purchasing Commission, but in certain circumstances felt other courses of action were needed to achieve their objectives on a timely or cost-efficient basis.

2.73 Other requirements of Treasury Board, the Ministry of Finance and Corporate Relations, and the ministries themselves were generally well observed.

Status of Findings and Recommendations About Systems of Financial and Administrative Control, and Compliance with Legislative and Related Authorities Contained in Previous Annual Reports of the Auditor General

2.74 In addition to the new control and compliance issues raised for the first time this year, there are a number of points which were reported in our previous Annual Reports that were not resolved at the time our last Report was issued. The status of these items is reported below.

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report
MINISTRY OF ATTORNEY GENERAL			
1986	3.64	Recommendation that the Public Trustee take corrective action to address a number of control weaknesses in areas such as cash management, asset control, valuation of assets, investigative teams, financial records, and compliance with legislation.	The Public Trustee made satisfactory progress in most areas, and has plans to implement solutions in the remaining areas.
MINISTRY OF FINANCE AND CORPORATE RELATIONS			
1983	3.18	Recommendation that the Securities Section of the Ministry count securities held for safekeeping at least once each year. The physical counts should be independently compared and reconciled to control records.	Recommendation implemented.
1985	4.10	Suggestion that, while ministries are responsible for obtaining required approvals for reallocation of funds, monitoring of such transactions is necessary to ensure that Treasury Board rules are being observed.	Problem persists. Unauthorized reallocations of funds continue to occur.

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report
1985 1986	4.17 3.54	Recommendation that all trust monies administered by the Government, and held through and in the Government's main bank account, be segregated from the assets of the Government.	No change.
1986	1.27	Recommendation that the *Financial Administration Act* be amended to clarify the requirements for the establishment of sinking funds and for the segregation and protection of sinking fund assets.	No change. See also paragraphs 2.45 to 2.49.
1986	3.9	Recommendation that a comprehensive review be conducted of all statutory expenditure authorizations and all special accounts, to determine the extent to which their spending provisions could be alternatively accommodated through the *Financial Administration Act* and thus be subject to annual review and approval by the Legislative Assembly. Recommendation that, if such authorities or accounts are deemed necessary, their need and use be subject to periodic review.	The Government's response to our 1986 Annual Report indicated that most annual expenditures are voted. However, because the expenditures that are not voted are significant, there continues to be a need for periodic review of all statutory expenditure authorizations and all special accounts, to assess their need and use.
1986	3.16	Recommendation that section 20(3) of the *Financial Administration Act,* which deals with items that are credits or recoveries, be studied to assess its interpretation and implications. Consideration should also be given to amending section 20(3) to require the actual receipt, or reasonable assurance thereof, of estimated credits or recoveries before the equivalent spending is allowed.	No change. Although the Government's response to our 1986 Annual Report indicates that clarification in the Estimates would resolve this matter, we continue to believe that the spending of estimated credits or recoveries should be contingent upon their actual receipt, or reasonable assurance thereof.

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report
1986	3.25	Recommendation that the Orders in Council (OICs) which authorize borrowing contain and clearly identify the maximum face value of the securities to be issued.	The Government has undertaken to include in relevant OICs the maximum face value of debt to be issued if the amount is "substantially different" from the net proceeds of the issue. However, OICs still do not clearly identify whether the amount being approved is the face value or the net proceeds of the issue. We recommend that this be done in future.
1986	3.33	Recommendation that the Government ensure that the expenditures processed through the Contingencies vote conform with the description of vote expenditures in the Estimates.	The Government has indicated that the description of the vote will be modified in the Estimates for the year ending 31 March 1988.
1986	3.38	Recommendation that Senior Financial Officer (SFO) bank accounts be evaluated and that: • policies, procedures, practices, funding levels and spending limits be reviewed with the objective of improving the administration of SFO bank accounts; • the practice of making personal accountable advances to SFOs to establish these accounts be reconsidered; • adequate internal controls, such as appropriately senior cheque signing authorities, be put in place before the bank accounts are established; and • the SFO bank account balances be reported as cash in bank in the Government's accounts and annual financial statements.	Our only remaining concern is that the accounts are still treated as "Accounts Receivable" rather than "Cash" in the Government's financial statements.

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report
1986	3.40	Recommendation to improve the accounting function with regard to debt-related transactions. Prior to our 1986 Annual Report the Ministry stated that corrective action had been taken.	Recommendation implemented.
1986	3.49	Recommendation to improve the internal controls over investment transactions and sinking fund certifications. Prior to our 1986 Annual Report the Ministry stated that some corrective action had been taken and that these actions, together with a new system introduced early in 1986, should remedy the weaknesses.	Recommendation implemented.
MINISTRY OF FORESTS AND LANDS			
1986	3.78	Recommendation that the Ministry consider modifying its accounts receivable system to ensure that information necessary for the proper monitoring and collection of accounts receivable is readily available to all those responsible for this activity. Also, that steps be taken to ensure the consistent application and enforcement of collection policies in the future.	Accounts receivable collections have improved. Systems revisions have been started.
MINISTRY OF HEALTH			
1986	3.82	Recommendation that the Ministry ensure that the requirements of the *Financial Administration Act* and Treasury Board are met for all expenditures. We noted instances where the Ministry made payments based on contributions from others, and where the Ministry made discretionary grants in amounts over ministry limits without obtaining the required Treasury Board approvals.	No similar instances were noted for the year ended 31 March 1986.

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report
MINISTRY OF MUNICIPAL AFFAIRS			
1986	3.87	Recommendation that adequate statutory authority be provided for grant payments which are made to municipalities by the Ministry from the Revenue Sharing Fund for policing costs in non-urban areas within municipal boundaries.	No change.
MINISTRY OF PROVINCIAL SECRETARY AND GOVERNMENT SERVICES			
1982	3.16	Recommendation that, if the centralized leave management system is to be relied upon, steps be taken to ensure that the information emanating from the system is accurate and reliable, and that unnecessary manual systems in ministries, which duplicate the central system, be eliminated.	No change to date. However, a new leave management system is to be implemented in 1987.
1986	3.90	Recommendation to establish satisfactory controls over the costs incurred by the Province in staging the summer and winter B.C. Games.	Controls improved.
1986	3.93	Recommendation that the lease negotiation process for telephone equipment be reviewed and amended to involve senior management and Finance Division staff formally in the decision process, and to ensure that the most competitive financing rates available are obtained.	New leases entered into during the year ended 31 March 1986 were monitored closely by senior management and favorable interest rates were obtained.

Report	Paragraph	Subject	Status as at Date of Preparation of this Annual Report
MINISTRY OF SOCIAL SERVICES AND HOUSING			
1983	3.33	Concern about the overall system for processing income assistance payments including file documentation, segregation of duties, cheques issued by computer, and cheques issued by field offices.	Implementation of the central registry and on-line data entry phases of the GAIN Payment System has significantly improved certain aspects of the systems of internal control over income assistance payments. Further controls relating to imprest cheque payments are scheduled for introduction in 1987. However, we still have some concerns about GAIN file documentation at district offices.
1986	3.73	Recommendation that the Ministry expedite the resolution of a negotiated settlement with the Federal Government for the federal share of the costs of operating the civil legal aid program in 1981, 1982 and 1983. Deficiencies in the Legal Aid Society's documentation precluded the Ministry from submitting cost-sharing claims under the Canada Assistance Plan in the normal manner for those years.	A joint Federal-Provincial committee has agreed on a basis for settling the outstanding claims for the 1981 and 1982 fiscal years, and currently is reviewing the claim for the 1983 fiscal year.

Regard for Economy and Efficiency in the Administration of Public Funds, and for Public Accountability

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Report Summaries

2.75 This year our Report includes the results of five comprehensive audits. These audits focus on the regard of public service managers for economy and efficiency in the administration of public funds, and on the public accountability information provided by ministries. In addition, we include comments on the timing of ministry accountability reporting.

2.76 Of the five audits completed during the year, one was a cross-government review while the other four concentrated on operations in the Ministry of Attorney General.

2.77 Summaries of our audit reports appear below. The complete reports follow.

GOVERNMENT PURCHASING

2.78 Government ministries spend about $375 million annually to purchase the goods and services required to operate government programs and administer the government.

2.79 In our comprehensive audit of government purchasing we reviewed the procurement practices of provincial ministries to determine whether current policies and procedures are achieving the best overall value for the Province. Our examination looked at the ways items are acquired. We focused on the procurement process government-wide, rather than on the various systems designed by individual ministries to ensure that the goods and materials were required or used.

2.80 We concluded that the government's purchasing policies and procedures provide reasonable assurance that the best overall value is obtained for most purchases. The Purchasing Commission has made significant improvements recently, primarily by placing greater emphasis on value-added considerations, and by introducing new methods of supply that achieve economy savings and enable more timely supply. However, it has not yet completed its efforts to ensure that the most appropriate method of supply is used in all instances. In addition, further improvements are still required in the management of certain methods of supply, particularly warehousing.

MINISTRY OF ATTORNEY GENERAL, CORRECTIONS BRANCH

2.81 The main programs of Corrections Branch of the Ministry of Attorney General are prisons, probation and community services, and family court services. Probation and community services provide a community-based alternative to prisons for people who are in conflict with the law. Separate programs are provided for adults and for youths. Family court services help people resolve their family or marital disputes without court intervention. Family maintenance and child custody and access are involved in many of the cases handled by the Branch.

2.82 Our audit included the probation, family and community services programs of the Branch. We conducted the audit to determine whether the branch's systems of administration provided reasonable assurance that the programs were delivered economically, efficiently and reliably, and whether the Ministry was providing adequate accountability information.

2.83 The probation, family and community services programs divert many people from other government programs, such as prisons and courts, which are more expensive. However, we found that the Branch has not established any targets for the cost of effective probation, family and court services, so it cannot determine whether the programs could be more economical. Similarly, both targets and methods of evaluation are lacking for other program goals, such as the probation goal of "protecting the community". While there are few complaints from the public, that is not a reliable indicator. We believe management needs better overall indicators of program effectiveness.

2.84 Although the Branch has not demonstrated that the probation, family and community services programs are as cost effective as they might be, the programs, as they are currently structured, are well managed. As a result, these programs are delivered economically and efficiently. We believe, however, there are refinements that could be made to increase productivity. Both management and staff could be made more productive if branch objectives and individual responsibilities were defined more clearly. Greater use of modern office technology would also improve staff productivity.

MINISTRY OF ATTORNEY GENERAL, LEGAL SERVICES BRANCH

2.85 The Legal Services Branch provides legal services to all ministries, and to various boards, commissions and other agencies in the public sector. It is responsible for providing legal advice, conducting civil litigation, drafting enactments and ensuring that the administration of government is lawful. The branch's significance stems from the importance of its legal decisions rather than the size of the program.

2.86 We conducted our audit to determine whether the branch's services met the needs of its clients and whether management had developed and adopted effective systems for ensuring that resources are used economically and efficiently. Our examination encompassed all aspects of branch operations, and included each operating division and the branch support services group.

2.87 We concluded that the Branch has provided its clients with acceptable professional services. We found that clients of the Branch are satisfied with its ability to deliver legal services, although they did identify some refinements which, if made, would allow the Branch to meet their needs and expectations more effectively.

2.88 However, despite some beneficial changes to management processes now under way, the Legal Services Branch is undermanaged. We believe that further improve-

ments are required if management is to demonstrate that services are being provided economically and efficiently, and if future demands for service are to be recognized and met.

MINISTRY OF ATTORNEY GENERAL, MANAGEMENT OF BUILDINGS AND OFFICE ACCOMMODATION

2.89 The Ministry of Attorney General spends more of its budget on facilities than does any other government ministry. A large part of this expenditure is for courts and prisons which are not only expensive buildings, but also a major part of the service of the ministry's two largest programs, Court Services and Corrections.

2.90 Our audit was conducted to determine whether the Ministry had suitable facilities to run its programs and whether its accommodation costs were reasonable. We concentrated our review on the ministry's performance in its role in accommodation management, although we also examined how the policies of Treasury Board and B.C. Buildings Corporation, which also play major roles in accommodation decisions were affecting ministry performance. We came to the following conclusions:

2.91 *Courthouses:* Some courthouses in the province are underused while others have difficulty meeting the demands placed on them. The Court Services Branch needs to develop and get consensus for service standards for courts that would allow it to determine where courthouses should be located and when to build new ones. These standards will not be achieved easily. They must consider such issues as reasonable court access and reasonable waiting time for a trial, in addition to cost. These issues are contentious because the various interested parties have strong but often conflicting convictions about them.

2.92 The Branch does have standards to guide suitability once the decision to build a new courthouse has been taken. Of the existing courthouses, about two-thirds are suitable in relation to today's buildings standards. The newest courthouses are also being constructed at a reasonable cost. However, many of the other courthouses that are suitable were built when the standards were more permissive, and they cost more to build than today's standards would allow. The remaining one-third of existing courthouses, many of them older buildings, are not considered suitable by today's standards and are in need of updating.

2.93 *Prisons:* The Ministry has agreement on service standards for its corrections programs and has developed building standards in keeping with them. Meeting the standards for inmates needing secure custody requires expensive buildings. The Ministry is about halfway through a program of replacing old and unsuitable secure prisons with newly designed facilities that fully meet its needs. The cost of these new prisons is reasonable, given the type of program that the Ministry has decided to provide.

2.94 *Offices:* The Ministry does not have exclusive control over the suitability or price of general office space because of the role of government central agencies. We found that very few general offices were without some suitability problems. In some cases these problems occurred because the government's central agency standards did not match ministry needs; in other cases, the central agency standards had not been met. The Ministry is generally paying an appropriate price for space leased in privately owned buildings, although we did find some situations where the rents were above market rates. However, in a number of government-owned buildings, particularly in courts, the space was overly expensive because the buildings were built to specifications not required for general office accommodation.

2.95 *Management:* For the most part, the Ministry manages its accommodations satisfactorily. The ministry executive is actively involved in making decisions about significant accommodations, and is receiving suitable advice and support from technical experts. However, accommodation in the 150 or so smaller offices used by the Ministry throughout the province has not been managed as actively. We expect management performance will improve in this area, as the Ministry further decentralizes responsibility for these buildings to program managers.

MINISTRY OF ATTORNEY GENERAL, MANAGEMENT OF THE FINANCIAL FUNCTION

2.96 With a 1987 fiscal year budget of $387 million, the Ministry of Attorney General ranks sixth amongst government ministries in terms of annual expenditures. Because the Province operates a unified justice system, with all the justice components responsible to one minister, the organization of the Ministry is complex. Adding to this organizational complexity and to the challenge for financial managers is the fact that the Ministry is headed by two individuals with deputy minister status who share responsibility for financial management; and the fact that the Ministry operates with a decentralized management structure.

2.97 We performed the audit to assess whether the ministry's financial management and control systems provide reasonable assurance that its financial affairs are controlled and are managed economically and efficiently. We reviewed financial management in all ministry branches, but excluded the regulatory bodies that report administratively through the Ministry.

2.98 The ministry's financial function is decentralized and the financial support provided to program managers varies according to the skill of financial staff and the sophistication of the system available to them. We concluded that the financial function is properly organized to serve the decentralized management structure of the Ministry and that certain aspects of financial management, such as financial, planning and reporting, are conducted satisfactorily. However, other areas need improvement before management can be satisfied that its financial affairs are well controlled and managed economically and efficiently.

2.99 The Ministry is currently working on a number of areas where it has determined its performance could be improved. For instance, a ministry internal audit function has been established, and consideration is being given to improving the control of fixed or physical assets. We believe there are some other areas where the Ministry would benefit from changes. The ministry's decentralized management structure and financial function make financial management more difficult and require financial managers to be vigilant. In our view, the linkages among those in the Ministry with financial responsibility could be made more effective if the central financial group took on a more significant functional role and if coordination of the various financial groups was more formal.

2.100 We also have a concern that, in a few specific cases, the Ministry must seek additional funding from the Legislature, not because of unforeseen circumstances or policy changes, but because of operating plans that are not adjusted to the authorized funding levels.

Government Purchasing

Audit Objective

2.101 In this comprehensive audit, we reviewed procurement activities by provincial ministries. We examined the procurement process and assessed whether current policies and procedures are achieving the best overall value for the province of British Columbia.

Audit Scope

2.102 The public sector as a whole buys about $2 billion in goods and supplies each year. The purchasing procedures established by the 500 public bodies collectively account for three-quarters of this total. The audit focused on the $375 million that ministries spend annually on everything from paper clips to bridges and computer systems.

2.103 We examined the rules, policies and procedures that ministries must follow, and considered the broad range of supply functions, from initial specification of needs, through acquisition, warehousing and storage, and ultimately to disposal. We did not examine the various systems designed by individual ministries to ensure that the goods and materials are required or used; we looked only at the ways the items are acquired.

Overall Assessment

2.104 In our opinion, purchasing policies and procedures provide reasonable assurance that the best overall value is obtained for most purchases. The Purchasing Commission has made significant improvements recently, primarily by placing greater emphasis on value-added considerations, and by introducing new methods of supply that achieve economy savings and enable more timely supply. However, it has not yet completed its efforts to ensure that the most appropriate method of supply is used in all instances. In addition, further improvements are still required in the management of certain methods of supply, particularly warehousing.

Audit Criteria

2.105 "Best overall value" is a concept that considers several, sometimes conflicting objectives. One of the more important goals is to achieve economy: buying the right goods at the least cost. In this sense, "cost" includes the time and expense of acquiring the item, as well as the cost of the item itself; and the cost of the item includes the life cycle maintenance costs as well as the initial costs of acquisition. However, the economy objectives may be at odds with value-added, probity or equity goals.

2.106 Value-added goals look beyond strict price and quality factors. British Columbia suppliers may be encouraged to fill government orders; out-of-province suppliers may be asked how they might create jobs in British Columbia and/or purchase British Columbia products if they were to obtain large orders for government business. The additional direct cost to government, if any, would have to be weighed against the potential for greater benefits to British Columbia.

2.107 Probity considerations were among the original motives behind the establishment of public sector procurement policies and the formation of a central procurement agency. The probity criteria require purchasing transactions to be handled with integrity and honesty in fact and appearance.

2.108 Equity goals are designed to provide all qualified suppliers with an equal opportunity to provide goods and supplies to government. While this may increase the time and expense of acquiring items, some reasonable cost could be justified to ensure all suppliers are treated fairly.

Getting the Best Value

2.109 Two of the four audit criteria, economy and value-added, directly address the value obtained from the ways the government purchases needed goods and supplies. The other criteria, probity and equity, are more concerned with ensuring that purchases are handled honestly and fairly.

2.110 Economy requires that the right goods be acquired at the least cost on a timely basis to minimize the direct cost to government. Value-added involves purchasing in a way that maximizes the benefits to British Columbia. Thus, if two firms could supply government with the identical product at the same cost and in the same amount of time, but one supplier were located outside the province, better value would be achieved by purchasing from the British Columbia firm. On the other hand, if the British Columbia firm's price were double the price of the other supplier, better value would be obtained by going outside the province.

2.111 Although it seems obvious that "best value" involves both economy and value-added considerations, until March 1985, value was narrowly defined as minimizing the direct cost to government. In the last two years, the Purchasing Commission has made significant changes aimed at fostering value-added opportunities. At the same time, major improvements have been made to achieve greater economies from government purchases. In particular, there is a much greater emphasis on taking advantage of possible savings through bulk buying and standing offers to the Government from its suppliers.

2.112 At the time of our audit, however, the Purchasing Commission had not completed its efforts to ensure that best value is achieved for all purchases. Work must be done to improve the way some of the new methods of supply are managed, and to ensure that ministries understand how and when to use the alternative methods of supply available to them. The Purchasing Commission recognizes these opportunities for further improvement and, for the most part, is working satisfactorily towards achieving them.

Economy

2.113 To obtain the right goods on a timely basis at the least cost, it is necessary to have a system that:

- directs the transaction to the most appropriate "stream" or method of supply; and
- ensures that each transaction stream is properly managed to minimize costs.

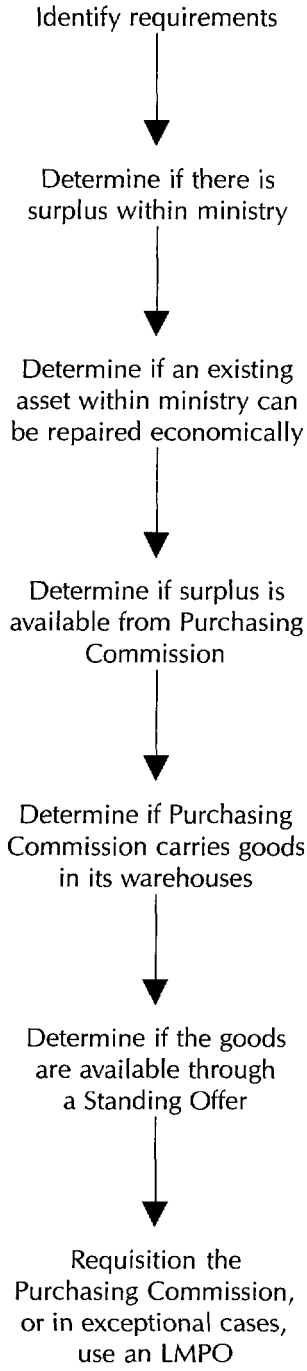
CHOOSING THE RIGHT ACQUISITION STREAM

2.114 A ministry's need for goods could be satisfied in a number of ways. In some cases, it could be part of a consolidated bulk purchase; in others, it might be satisfied by using a standing offer with a supplier. The challenge to management is to minimize total product and processing costs, to weigh the relative timeliness of delivery in each situation, and to choose the acquisition method that makes the most sense in the circumstances. The system established should evaluate the trade-offs involved and guide managers in selecting the procurement stream best suited to the situation.

2.115 A system has been established to direct purchases to various procurement streams. For routine acquisitions of goods supplied through the Purchasing Commission, ministries follow a linear decision process that requires certain alternatives to be considered before others. Thus, ministries must first determine whether the needed goods are available in some other division or branch within their own ministries. If not, the next most preferred stream is considered, and so on, as depicted in Exhibit 1.

Exhibit 1

Process for Routine Acquisition of Goods



2.116 The system provides a full array of streams to choose from, and guides ministries to those methods of supply that would generally provide better economy savings than others. However, we found the Purchasing Commission to be handicapped by a lack of reliable forecast information, which often makes it unable to offer the most appropriate acquisition stream for some purchases. In addition, we found that some ministry personnel do not understand how to use other than the generally preferred method of supply in cases where a better alternative exists. These problems are discussed below following a brief description of the acquisition streams.

THE CHOICES

Surplus — The First Choice

2.117 If a ministry does not have needed goods on hand, it first looks to surplus held by the Purchasing Commission. If surplus goods are available for redistribution from one of the Purchasing Commission warehouses, the ministry can obtain them the same day at no cost, although the ministry is not obliged by the Purchasing Commission to take surplus goods if it is not satisfied with them. Thus, surplus goods held for redistribution are a bargain for the ministries who need those goods.

Purchasing Commission Warehouses — The Second Choice

2.118 If the required goods are not available within the ministry or from surplus, the ministry must see if they can be obtained from Purchasing Commission warehouses.

2.119 Theoretically, warehousing makes a great deal of sense. In the right circumstances, requirements for goods could be forecast and bulk buys arranged accordingly. Goods could be stocked for short periods of time so that they would be available where and when required by ministries. This would assure product cost savings, provide a convenient source of supply to ministries, reduce the lead time in filling individual orders, and greatly reduce the administrative costs of dealing with much larger volumes of individual orders.

2.120 Recognizing the wisdom of this theory, the Purchasing Commission recently expanded its warehousing operation. A year ago, there was one Purchasing Commission warehouse occupying 440,000 cubic feet. Today, there are four warehouses with a total capacity of 1.2 million cubic feet. In terms of products carried in warehouses at any one time, the operation has grown from 700 items worth $300,000 a year ago to 1,200 line items valued at almost $1 million today. In addition, a Working Capital Special Account was established to finance the acquisition of selected goods for resale to ministries and other public bodies. For the fiscal year ending 31 March 1987 — the first full year for the Working Capital account — about $35 million was allocated to purchase warehouse stock for resale to ministries.

Master Standing Offers — The Third Choice

2.121 After surplus redistributions and warehouse stock, Master Standing Offers (MSOs) are the preferred method of supply. An MSO is an agreement with a supplier to provide specified items at agreed prices, as and when required by the ministries. Standing offers thus provide the ministry with an opportunity to realize savings by combining orders in larger, one-time deals that result in product cost savings, yet leave the costs of warehousing with the supplier.

2.122 Like warehousing, MSOs are a relatively new method of supply. A year ago, 11 MSOs had been established with suppliers. Today, there are almost 100. Some cover a wide variety of products: the standing offer with a large hardware distributor covers about 150 items.

2.123 Once an MSO has been negotiated, a ministry need not contact the Purchasing Commission to obtain goods covered by the offer. Instead, the goods are purchased directly from that supplier. This means ministries can obtain their goods approximately one month sooner than would otherwise be possible, and the Purchasing Commission need not deal with the numerous individual requests that it would otherwise receive over the year.

2.124 Standing offers also provide a good means to achieve product cost savings (in fact, this was the primary motivation for them). Although the Province does not buy many individually expensive items, the relatively small individual purchases by ministries add up to considerable amounts of money. Furthermore, a supplier can usually quote a lower unit price on 200 rather than 2 car batteries or cans of paint.

Purchase Orders — The Last Resort

2.125 If a ministry needs something that would cost more than $500 but is not available through surplus redistributions, warehouse stock or standing offers, the final alternative is to issue a purchase order requisition to make an individual purchase. This is the most time-consuming and expensive way of buying, and hence the policy of considering all other alternatives first is appropriate.

Delegated Authorities

2.126 Three additional streams have been established to process nonroutine acquisitions of goods that are not supplied by the Purchasing Commission:

2.127 *Local Minor Purchases* Ministries may make low dollar purchases of certain types of items by ordering them directly from suppliers. This greatly reduces the time delay and processing costs associated with purchase orders, but means economy savings from consolidated orders in a bulk buy or MSO arrangement may have to be foregone. The challenge is to use Local Minor Purchase Orders (LMPOs), like all other acquisition streams, only where it is most cost-effective to do so.

2.128 *Queen's Printer* Ministries must obtain their printing services and stationery supplies through the Queen's Printer following policies and procedures similar to — but quite separate from — the policies and procedures used by the Purchasing Commission.

2.129 *Emergency Purchases* In an emergency, such as when a flood washes out a bridge or when fire fighting equipment is urgently required, it would be ridiculous to search for the best possible price on a product before buying it. Accordingly, a "fast-track" procedure has been established to allow ministries to meet their needs using Emergency Purchase Orders. We found good understandings throughout government of when and how to use this particular acquisition stream, and procedures to ensure it is only used where appropriate.

The Need for Better Forecast Information

2.130 Annual usage of the acquisition streams described above is approximately as follows:

	No. Transactions	$
Surplus	2,000	—
Warehouses	3,000	4 million
MSOs	55,000	18 million
Purchase Orders	17,000	275 million
Local Minor Purchases	175,000	24 million
Queen's Printer	101,000	30 million
Emergency Purchases	9,000	24 million

2.131 Warehouses and MSOs, the preferred acquisition streams, are now used to a much greater extent than in the past. However, many purchases that are still being made through other acquisition streams could be made more economically if they could be forecast and consolidated in part of a bulk buy or MSO. The Purchasing Commission is well aware of the need for this information, and it has already begun to build a computerized database of historical purchasing activity for this purpose.

2.132 We note that the Purchasing Commission has taken a reasonable approach in proceeding with the establishment of more economical acquisition streams, rather than waiting for detailed information. It has talked with ministry personnel involved in purchasing and reviewed the information that is available to identify instances where warehouses or MSOs should be considered. In this way, the Purchasing Commission has identified the most obvious candidates for consolidated bulk buy savings. To identify further potential savings, it will have to obtain better forecast information from its clients.

THE NEED FOR GREATER FLEXIBILITY

2.133 The decision model depicted in Exhibit 1 is a useful guide for ministries faced with a choice of acquisition streams, particularly because flexibility has been designed into the system. At the time of our audit, however, the flexibility which the Purchasing Commission intended to provide was not being used where appropriate. We learned of instances where ministries felt they were forced into making dysfunctional decisions — buying from the warehouse, for instance — even when the identical goods could have been purchased more cheaply from a local supplier.

2.134 Part of this problem can be attributed to the newness of the decision model, which was first described in a chapter of the General Management Operating Policy (GMOP) Manual distributed to ministries in November 1986. A three-day training course on purchasing policies has similarly been developed only recently.

2.135 Another part of the problem can be attributed to the wording and structure of the communications by the Purchasing Commission. For instance, in the GMOP Manual, one has to read almost to the end of subsection 7 to learn that there are opportunities to use methods of supply other than those described in earlier subsections. Similarly, the Supply Catalogue that describes warehouse and MSO procedures makes no mention of the possibility of using any method of supply except the warehouse when the warehouse stocks the goods.

2.136 The LMPO policies and procedures contained in the Purchasing Commission Instruction and GMOP Manual are also worded in a negative manner that tends to discourage flexible application of the model. Both contain pages of items "prohibited from purchase or rental by LMPO." The prohibited items are mainly those that are covered by an MSO or are stocked in the warehouses, and the intent of the prohibited list is appropriate since it should be possible to achieve economy savings through these other methods of supply. However, since the items are not described as being generally prohibited from purchase by LMPO, the implication — and in some cases the understanding by ministries — is that the items are absolutely prohibited from purchase by LMPO.

2.137 The Purchasing Commission is aware of the overly restrictive nature of its communications about LMPOs, and it has established a committee comprised of ministry, Treasury Board staff and Purchasing Commission representatives to review them. We do not believe any items should be prohibited from purchase by LMPO — whether they are stocked in Purchasing Commission or Queen's Printer warehouses or covered by MSOs — as long as ministry personnel understand that they should first consider the generally preferred methods of supply.

MANAGING THE ACQUISITION STREAMS

2.138 Economical purchases are not necessarily made by ensuring that all transactions are directed to the most appropriate acquisition stream. Each method of supply

must also be managed properly. Our findings relating to the management of each acquisition stream are outlined below.

Surplus Redistributions

2.139 The surplus redistribution operation provides outstanding value to government when it is used. However, we do not believe it is used as much as it could be, primarily because it is managed on a reactive basis. The Purchasing Commission generally waits for ministries to declare goods as surplus or to enquire as to the availability of goods from surplus. A more proactive approach to match one ministry's projected need for goods with another's anticipated release of surplus items would provide greater assurance that surplus redistributions are used where appropriate.

2.140 Surplus redistributions may also be underused because ministries do not receive any proceeds or other incentive to declare goods as surplus. In fact, they may be penalized for doing so since they generally must absorb the cost of shipping the goods to a Purchasing Commission warehouse.

2.141 In many cases, the goods which might be declared surplus have little value. The cost of establishing a system to determine deemed values to be credited to a contributing ministry's account could not be justified unless the value exceeded, say, $500. However, we see no reason for the disincentive caused by requiring ministries to pay the cost of shipping to Purchasing Commission warehouses. The cost to government is the same whether the shipping costs involved are borne by the ministries or the Purchasing Commission; we believe they should be paid by the Purchasing Commission.

Purchasing Commission Warehouses

2.142 As mentioned above, warehousing is only starting to be used to any significant extent. We are pleased to see the Purchasing Commission offering this method of supply to ministries. However, while the overall policy direction is appropriate, we found significant deficiencies in the management of this particular acquisition stream. In our opinion, there is inadequate assurance that the right goods are carried in the warehouses or that the warehouses are operated economically and efficiently.

Carrying the Right Goods at the Right Prices

2.143 The Purchasing Commission has not established adequate procedures for evaluating whether to stock specific goods in its warehouses, nor have the persons performing these evaluations generally had adequate training or other guidance to enable them to make proper decisions. As a result, most analyses done to date have been overly simplistic and at times illogical.

2.144 We also found that the Purchasing Commission does not monitor its initial decisions about what goods to warehouse and at what price. The Purchasing Commis-

sion has a general policy that warehouse stock prices should not exceed regular prices charged by private vendors. However, warehouse stock prices are not monitored on an ongoing, systematic basis to detect instances where changes in market conditions have made the warehouse prices noncompetitive. Where ministries bring such instances to the attention of the Purchasing Commission, warehouse prices may be adjusted downwards. However, since not all ministry personnel understand the Purchasing Commission's willingness to accept the "price challenge", this is not a reliable basis for ensuring compliance with the policy.

2.145 At the time of our audit, the Purchasing Commission was working on its warehousing policies and procedures. The December 1986 draft that we reviewed provides overall policy direction and clarifies the roles and responsibilities of certain groups and positions within the Purchasing Commission. However, it does not provide sufficient guidance to ensure that personnel will make proper and consistent decisions about what goods to warehouse and at what price.

Operating the Warehouses

2.146 We also found inadequate procedures for ensuring the day-to-day operations of the warehouses are economic and efficient.

2.147 The warehouses receive bulk shipments from suppliers, store the goods, break the bulk, repackage the items and ship them to ministries. The Purchasing Commission has no standards against which to compare the costs of providing these services; nor has it done any analyses to examine the costs and benefits of using the private sector to perform them. It is interesting to note that the federal government recently found significant savings could be achieved by privatizing some of its warehousing services. We believe the Purchasing Commission should consider alternative ways of acquiring warehousing services.

2.148 Certain financial positions within the Purchasing Commission have only recently been filled. We believe these individuals should immediately help establish the detailed procedures and training necessary to ensure that the warehouses carry the right goods at the right prices and that the warehouses are operated economically and efficiently.

Master Standing Offers

2.149 We found that MSOs provide reasonably good value when they are used. However, some improvements may be possible to achieve even greater economies and to ensure that they are always used where appropriate.

Achieving Greater Economies

2.150 In general, maximum but not minimum quantities are specified in MSOs. + Some suppliers, particularly those that have little past experience with government, may be reluctant to offer their best prices under this type of arrangement. Therefore,

additional negotiated savings might be achieved in some cases if minimum quantities were specified in MSOs.

2.151 Better forecast information would enable the Purchasing Commission to establish minimum MSO quantities. Until more reliable information is available, commitments could be made for some lesser quantity, say 75% of the rough estimates.

Facilitating the Use of MSOs

2.152 A practical problem created by the recent increase in the use of MSOs is that ministries may have difficulty keeping track of all the products covered by them.

2.153 Master Standing Offers can be very bulky documents. Some are over 80 pages; one is 150 pages. It is a full-time effort for one person to keep track of the standing offers and to make copies for each ministry and public body requiring one. In turn, persons in each of these ministries and public bodies duplicate copies to be distributed throughout their organizations. The field person who winds up with a complete set of MSOs often has difficulty in determining whether the goods he needs are, in fact, covered by an offer and if so, by which ones.

2.154 We believe MSO details would be more easily maintained, better communicated, and more easily used in a "paperless society". Master Standing Offers represent one of the classic, ideal applications for a computerized database. Information could be put into the database in one way, but ministries could ask for that information by supplier, or by commodity, or by location; and instead of having several people copy and distribute large volumes of paper, only the central database would need to be kept up to date.

2.155 We were pleased to see the Purchasing Commission including MSO information in SupplyNet, the computerized database discussed in the Value-Added section of this report. We would encourage efforts to enable ministries to access this information.

Purchase Orders

2.156 We found that processes and procedures specific to purchase orders ensure the right goods are acquired at the right price within a reasonable period of time.

2.157 When goods are required, ministries first determine exactly what they need and whether they could cost-justify the acquisition. Then, the request is turned over to the Purchasing Commission, whose function is to acquire those goods at the least cost. Because there is a potential for duplicating or overlapping efforts in any situation where more than one person is involved, we looked specifically at this "hand off" from ministries to the Purchasing Commission. We were pleased to find sound appreciations of the different roles of the various players, good working relationships, and no significant overlaps in duties.

2.158 We were also pleased to note a number of recent changes designed to make the Purchasing Commission more responsive to the needs of its clients. For instance, a Purchasing Council, comprised of representatives from all ministries, now meets regularly to discuss purchasing matters. In addition, although the Purchasing Commission is organized by commodity to allow specialization by product, a single representative will often be assigned to coordinate all purchasing requirements in cases where ministries would otherwise have to deal with several buyers. Almost all ministry personnel interviewed during this audit characterized these and other recent improvements as a change from a clerical to a professional function.

Processing Times

2.159 Once the Purchasing Commission receives a purchase order requisition, it follows a series of procedures to process it. Some of the steps are done to achieve the value-added, probity and equity goals (discussed below); others are done to ensure that the best price is obtained for the requested items. All of these procedures take time: the Purchasing Commission has established a target turnaround time of 28 calendar days from receipt of the requisition to issuance of the actual purchase order.

2.160 In recent years, the Purchasing Commission has increased the use of other methods of supply to reduce the number of orders requiring full Purchasing Commission involvement, and computerized much of the purchase order processing functions. Although the processing times are not unreasonable now, the Purchasing Commission continues to work at further improving them. Overall, ministry personnel accept the times required to perform necessary and useful work, and are able to plan for it when they ask for goods to be ordered.

Obtaining the Best Price

2.161 In the past, individual purchases were virtually the only way to acquire goods. Because of this experience, the system established by the Purchasing Commission to process purchase orders ensures that the best price will be obtained when this procurement stream is used.

2.162 When purchase order requisitions are received, they are forwarded to the group that handles the items. Procurement officers specializing in these products must then exercise professional judgment to determine how to get the best price for the goods required. The Purchasing Commission has established guidelines for procurement staff to follow in exercising these judgements, and has established upper dollar limits for each staff member's authority in issuing purchase orders. We found good understandings of the economy procedures to be followed in various types of situations, and we believe that the procedures established provide reasonable assurance that economical purchases will be made when purchase orders are used.

Local Minor Purchases

2.163 The Purchasing Commission attempts to assure economy in local minor purchases by anticipating when and where specific types of items will be required, and then establishing MSOs or warehouse stocks to meet those demands. We reiterate that better forecast information is required to achieve these economies.

2.164 One way to forecast future local minor purchases is to review past activity. Ministries are supposed to forward copies of LMPO forms to the Purchasing Commission, but there is no incentive provided to do so and, conversely, there is no penalty for not doing so. In fact, the only response that a ministry can expect from this action is a note to the appropriate Executive Financial Officer explaining that some rules have been broken.

2.165 At present, the Purchasing Commission receives its copy of the LMPO forms about 60% of the time. On the other hand, the Comptroller General's office receives copies of all forms used because it must process the forms for payment. In the past, the Purchasing Commission investigated the practicality of capturing and summarizing the information forwarded to the Comptroller General's office. We recommend that this matter be pursued again.

Emergency Purchases

2.166 In emergencies, economy is not the main concern. Nonetheless, some procedures have been established to provide reasonable assurance that economies will be achieved even in these cases.

2.167 Because of the increase in the use of warehouses and MSOs, more emergency needs can be met through these generally more economical methods of supply than in the past. Similar to the comments above on LMPO forms, the Purchasing Commission should investigate more effective ways of identifying past patterns of emergency purchasing activity to determine whether additional use of other procurement streams would be desirable.

2.168 For emergency purchases that cannot be made through other methods of supply, telephone authorization is obtained from the Purchasing Commission. The ministry obtains this authorization from the buyer who specializes in purchasing that particular product. Often, the buyer is able to recommend suppliers in the area who might be able to supply the goods at a reasonable price, even though they may not previously have been considered by the ministry.

Queen's Printer

2.169 Because the Queen's Printer was in operation before the Purchasing Commission was created, it was reasonable for the Purchasing Commission to delegate formally

to the Queen's Printer the authority to continue acquiring printing services and stationery supplies for government. In our audit, we looked for procedures at the Purchasing Commission that would hold the Queen's Printer accountable for achieving economy and other objectives. This point is discussed more fully below under the section, Probity.

Value-Added

2.170 In March 1985, a new Public Sector Purchasing Policy was introduced. Among other things, this new policy introduced the concept of using the purchasing power of public sector buying to bring added economic value to British Columbia. "Added economic value" can take many forms, including job creation, reciprocal purchase of government products, increased use of British Columbia materials by suppliers, or capital investment in the province.

2.171 The Public Sector Purchasing Policy represents a significant change in focus from "lowest cost" to "best value". Because it applies to Crown corporations as well as government ministries, and because municipalities, hospitals, school boards and other public bodies are also encouraged to adopt its principles, the Public Sector Purchasing Policy considerably expands the potential for cooperative purchasing. The Purchasing Commission has taken steps to ensure that the new policy is understood by the wide audience affected by it.

2.172 The Public Sector Purchasing Policy is summarized in a clear, concise and readily understandable document that has been widely distributed. The objectives of the policy and the major strategies to achieve them are contained in other documents, and the Purchasing Commission takes every opportunity to repeat the message at trade shows and business seminars. It is still too soon to tell whether the recent value-added initiatives will result in lasting net benefits to the province, but we are encouraged by their direction and by the numerous "success stories" that have begun to be written.

DEVELOPING BRITISH COLUMBIA SUPPLIERS

2.173 Any items currently purchased out-of-province are considered for potential value-added. Efforts to achieve import substitution include actively encouraging existing British Columbia suppliers to compete for government business, and working with other agencies such as the Ministry of Economic Development to encourage the private sector. In addition, product specifications are routinely reviewed by the Purchasing Commission to ensure they do not unnecessarily preclude British Columbia products or otherwise make it difficult for British Columbia firms to compete with outside suppliers.

2.174 A number of products previously purchased from out-of-province suppliers are now purchased from British Columbia firms, or at least are made with greater

British Columbia raw material content. In the majority of cases, there has been no sacrifice with economy; in fact, many products are now purchased at less cost than before.

2.175 To assist the 500 British Columbia public bodies in similar import substitution efforts, the Purchasing Commission has begun to establish a computerized database called SupplyNet, which contains information about British Columbia suppliers and their products. Although it has only recently moved beyond the test phase, at the time of our audit 30 public bodies already had access to a database of some 40,000 British Columbia suppliers. In addition, the Purchasing Commission had organized local suppliers and public sector buyers in Kamloops and Prince George. This has already been successful in a few cases where public sector buyers became aware of local businesses that could supply — at the same or lower cost to the taxpayer — goods that were previously purchased outside the province.

2.176 In addition to trying to purchase more from existing British Columbia suppliers, a number of business opportunities have been identified for new businesses or for new products to be made by existing businesses in British Columbia. These have ranged from coat-tree racks to the world's first natural gas powered ferry. While these and other successful import substitution efforts are encouraging, we note that they have not resulted from a systematic review of public sector spending. As mentioned in the Economy section of this report, the Purchasing Commission does not have the detailed historical purchasing information it needs to maximize the benefit of its import substitution initiatives.

USING THE ECONOMIC LEVER

2.177 The June 1986 agreement with Wang Canada Limited illustrates how the purchasing power of the province can be used as a lever to achieve added economic value for British Columbia. In this case, two ministries indicated a desire to purchase several millions of dollars worth of computer products over five years, all in accordance with their five-year plans. Rather than simply asking the (out-of-province) suppliers for their best prices on the products required, the Purchasing Commission asked the suppliers what value they could add to British Columbia in exchange for such a sizable order. After a series of proposals, meetings and negotiations, the Commission had secured both a good price for needed goods and a firm commitment to create new jobs in the province.

2.178 For any purchase over $200,000, including MSOs and warehouse bulk buys, suppliers may be requested to bid not only on the bases of price and quality, but also in terms of the value they could add to British Columbia.

2.179 To date, the value-added proposals received have been reviewed by selected individuals who have established their own decision models appropriate in the circumstances. Recognizing that value-added awards may become more frequent in the future, the Purchasing Commission has begun to prepare guidelines for use by procurement managers and officers.

Summary

2.180 We believe that major improvements have been made by the Purchasing Commission in recent years to achieve greater value from government purchasing. In particular, it has introduced more cost-effective ways of acquiring needed goods and supplies, and it has begun to place greater emphasis on value-added considerations. As a result, there is reasonable assurance at this time that value will be obtained for most of the purchases made by or on behalf of ministries. There are a number of relatively minor improvements that could still be made. We feel particular attention should be focused on improving the management of the warehousing operation and designing greater flexibility into the decision process to select the most appropriate acquisition stream.

Handling Purchases Properly

2.181 While the economy and value-added criteria are concerned with ensuring that good value will be obtained from government purchasing, the other two criteria used in this audit — probity and equity — are concerned with the way the purchase transactions are handled. Probity looks for established tendering and bidding procedures, conflict of interest guidelines and other procedures for ensuring all transactions are handled with integrity and honesty. The equity criteria require that reasonable rules of fair play be consistently applied to all transactions to ensure that suppliers have equal opportunities to compete for government business.

Probity

TRANSACTIONS HANDLED BY THE PURCHASING COMMISSION

2.182 We found appropriate tendering and bidding procedures for purchases handled directly by the Purchasing Commission. These purchases, which account for the vast majority of the dollar volume involved, are handled by buyers who deal at arm's length from the ministries requiring the goods. Suppliers are specifically instructed to contact the Purchasing Commission rather than the ministries for additional information about the order, and ministries are specifically instructed not to provide any additional information to suppliers. Aside from providing greater assurance that value will be achieved by having specialized buyers handle the purchase transactions, this segregation of ministries from suppliers greatly reduces the opportunities for improprieties, and certainly enhances the appearance of independence and honesty.

2.183 Although the Purchasing Commission buyers initially decide on the extent of competition required in any given instance, no buyer has unlimited authority. Supplier bids are separately received and securely filed until the closing date and time. The buyer would not be able to see the bids before this time even if he wanted to, and in fact the bids are ranked and entered in the computer system before he sees them. All awards over certain dollar limits must be approved by superiors; all others are subject to review on a spot-check basis. Ultimately, all decisions are

reviewed by parties outside the Purchasing Commission, including the ministry that must pay for the goods, and possibly a disgruntled bidder. The effectiveness of probity procedures can be measured by the extremely few complaints received from either of these sources.

2.184 Thus, the Purchasing Commission's procedures to process purchases directly are adequate to ensure probity. However, when it delegates purchasing authority to the ministries, its procedures are not as good.

TRANSACTIONS HANDLED BY OTHERS

Emergency and Local Minor Purchases

2.185 Ministries may buy certain items under $500 without going through the Purchasing Commission. In emergencies, they may spend any amount required so long as they obtain telephone authorization from the Purchasing Commission. In any given year, close to 200,000 purchases amounting to about $50 million are made in these ways.

2.186 Procedures to assure probity in these situations are largely limited to restricting ministries from making direct purchases. For purchases under $500, ministries must first exhaust all other possible ways of acquiring the goods. Emergency purchases require authorization to be obtained from the Purchasing Commission before the purchase is made or within 48 hours of the purchase. Copies of the forms used in these cases are supposed to be forwarded to the Purchasing Commission. As mentioned in the Economy section above, the Purchasing Commission does not receive copies of all such forms to enable it to review ministry purchases for compliance with government procedures. However, we do not believe the Purchasing Commission should be monitoring local minor or emergency purchases primarily for this purpose.

2.187 We believe the control aspects of these after-the-fact reviews are of secondary importance to the Purchasing Commission. Reviews for control purposes are properly performed by the ministries to whom the individuals are accountable and by the Comptroller General who must ensure that there is proper authority for disbursing funds. The Purchasing Commission should monitor these purchases primarily to make decisions about when to establish MSOs or to stock the warehouses. We recommend that the Purchasing Commission focus on the service rather than the control aspects of its mandate, that it clearly communicate this role to others, and that it ensure reviews for control purposes are performed by others better suited to the function.

Queen's Printer

2.188 The Purchasing Commission has also formally delegated to the Queen's Printer authority to acquire office supplies and printing services. These expenditures

amount to about $30 million a year. We did not review in detail the procedures established by the Queen's Printer, but we have no reason to suspect any deficiencies in them. However, we were surprised to learn that the Purchasing Commission has never performed a detailed review of the policies and procedures established by the Queen's Printer, or tested any transactions to ensure that the system is actually working as designed.

2.189 The Purchasing Commission recently advised the Queen's Printer that it intended to review all delegated authorities. This is a commendable and overdue effort, but since no plans have yet been drawn, we cannot comment on the reasonableness of the criteria or methodologies that will be used in the Purchasing Commission's review.

Equity

MAKING THE LIST OF ELIGIBLE SUPPLIERS

2.190 A supplier must be listed as an eligible supplier to be considered as a potential source to fill a government order. The Purchasing Commission has made considerable effort not only to remove any barriers, but also to encourage and help suppliers be put on what it calls its "shopping list" of qualified suppliers.

2.191 About two years ago, the database of qualified suppliers was computerized. This technology enables buyers to consider more suppliers in less time than was previously possible. Efforts were also made to increase the size of the shopping list. A brochure entitled *We want you on our shopping list!* has been prepared and widely circulated through direct mailings, industry association meetings and trade fairs throughout the province.

2.192 We were pleased to note that once a supplier has been made aware of the shopping list, there are no barriers to his being included on it. All a supplier needs to do is write to the Purchasing Commission, describing the goods he could supply to which areas of the province. There are no complicated forms to use, and suppliers are not subjected to any checks, investigations or screening at this time. This not only makes it easier for a supplier to be placed on the list initially, but it also allows the Purchasing Commission to make more efficient use of its time by having only to check unknown low bidders just before an order is placed.

GETTING AN OPPORTUNITY TO BID

2.193 By itself, being placed on a list of eligible suppliers serves little purpose. Those persons on the list must be provided a chance to compete for government business.

2.194 We found no formal procedures or "automatic" computerized systems designed to ensure that all suppliers on the list receive a reasonable number of requests to bid

for government business. A large part of a buyer's job involves using professional judgment to decide whether to ask for competitive bids and, if so, from how many and from which suppliers. In some cases, all suppliers on the shopping list are invited to submit bids. More often, only some of the suppliers are selected from the list. In these cases, there are two factors that can bias a supplier's opportunity to compete.

2.195 Suppliers who complain they are not getting sufficient requests to bid will subsequently always be invited to submit bids. This demonstrates the Purchasing Commission's desire to ensure that suppliers will receive opportunities to bid, but where the total numbers of requests to bid are limited, the proverbial "squeaky wheels" may be given an unfair advantage over their competitors.

2.196 On the other hand, some suppliers may never have an opportunity to compete. Buyers are appropriately most concerned about getting the right goods at the best price in the least amount of time. Enough bids will always be obtained to satisfy the buyer that the best price was obtained. However, some suppliers sell goods that they purchase from others. The buyers are aware of many of these situations. In these cases, one would expect the original supplier to be able to offer the better price, and thus, the buyer who is concerned only about best price would never invite the reseller to submit a bid. This would still ensure that economy is achieved, and would be efficient use of the buyer's time. However, it would not ensure that all qualified vendors have an equal opportunity to compete for government business.

2.197 We recommend that the Purchasing Commission establish formal guidelines for selecting suppliers from the shopping list for all competitive bids. Such guidelines would describe when all suppliers listed should be invited to quote and, where this would not be practical, how the necessary choices should be made. For instance, buyers might be told to select the previous two successful bidders, plus all vendors recommended by the ministry, plus a certain number of the remaining suppliers on the list, with preference given to suppliers in the area where the goods are required.

2.198 The remaining suppliers on the list would have to be selected in a way that ensures they all receive about the same number of requests to bid over time. Ultimately, the selection procedure could be totally computerized, but an interim step might be to keep track of the vendors who were requested to bid on orders so that the buyers could have a reliable basis for making their selections.

PRODUCT SPECIFICATIONS

2.199 Overly "tight" product specifications can be a barrier to fair competition. The customer and supplier both are ill served by brand name specifications if an equivalent product can be supplied at lower cost by another supplier. To use an often quoted example, a ministry specifying the need for a Xerox machine could preclude suppliers of all competing photocopying equipment from bidding, even though one of them might do the same job at less cost. Similarly, a focus on the

physical properties of the product rather than on its performance requirements may have the unintended effect of preventing the makers of, say desks made of British Columbia wood, from bidding on an order for metal desks.

2.200 The specifications for goods or materials to be supplied are made initially by ministries requiring them. All ministry personnel that we met during this audit stressed the importance of generic rather than brand name specifications, and noted that where a brand name was used, the clause "or equivalent" would always be attached.

2.201 The Purchasing Commission has also recently requested feedback from the private sector and embarked on a project to review the current standard furniture specifications systematically, looking for any that unnecessarily preclude British Columbia products or drive up costs.

2.202 Finally, there has been a deliberate shift away from preparing detailed product specifications in more complex situations. Instead of having a ministry define what products it needs to solve a particular problem, and then asking firms to bid on what they would charge to supply that particular product, suppliers are being told what the problem is and asked for their proposed solution. Therefore, suppliers are not excluded from competition simply because they do not carry the particular product requested, and ministries benefit in cases where more cost-effective alternatives are suggested by suppliers.

CONTRACT TERMS AND CONDITIONS

2.203 Many suppliers are forced to accept whatever terms and conditions the province specifies if they wish to do business with the government. Compliance with these requirements involves costs to the suppliers, and therefore any unreasonable terms or conditions should be avoided.

2.204 We found that the government has adopted reasonable contract terms and conditions. In the past, suppliers to government often complained about the payment terms. Government policy now is to pay supplier invoices within 30 days, and to pay interest on overdue amounts.

2.205 The increasing use of MSOs does, however, indicate a potential problem in that MSOs generally require a supplier to service all areas of the province. This precludes the small local supplier without a province-wide network from bidding on these kinds of orders. The Purchasing Commission intends to use regional MSOs where appropriate in future to eliminate this problem.

OBJECTIVE EVALUATIONS OF BIDS

2.206 Supplier bids must be consistently evaluated against clearly understood criteria that are objective and fair.

2.207 Before the bids are received, the Purchasing Commission ensures that all suppliers have the same information to prepare their quotes. Thus, if one supplier requests clarification of any part of the order, that clarification is provided to all suppliers who were invited to quote. Similarly, after the bids are received, they are all subjected to the same ground rules. The rules are simple, objective and fair: supply the goods as and when requested at the lowest price.

2.208 In situations where the bid may be awarded on bases other than straight price and quality, all bidders are advised of the evaluation criteria in advance and the quotes or proposals received are consistently evaluated against them.

EXPLAINING TO UNSUCCESSFUL BIDDERS

2.209 In any competition, there will be more losers than winners. The Purchasing Commission provides the name of the successful supplier and the total price of the purchase award to unsuccessful bidders who request such information in writing within 90 days.

2.210 The Purchasing Commission has previously considered the desirability of routinely advising unsuccessful bidders of the outcome of the competition, and in some industries, it is already doing so at the request of those industries. In all other cases, the information is perceived as not being useful to suppliers. We recommend establishing some means of confirming the accuracy of this perception.

Summary

2.211 We believe government purchases are handled with due regard to probity and equity. While some changes could be made to the way delegated purchasing authorities are monitored, and to the procedures for ensuring all qualified suppliers receive reasonable numbers of requests to bid for government business, we consider such improvements to be fine tunings rather than responses to significant deficiencies.

Response of the Purchasing Commission to the Auditor General's Report

Two years ago the Purchasing Commission embarked on a mission to significantly improve our performance. We determined that this improvement must be based on first class service to our customers (government ministries) and suppliers, while retaining the Commission's strong tradition of ethics and fairness in the procurement process. At the same time it became evident that the Commission should play a stronger policy leadership role across the public sector, particularly to realize benefits for British Columbia taxpayers in the form of cost reduction and job creation from the $2 billion in annual public sector procurement.

When the Auditor General started his comprehensive audit of government purchasing practices we asked that it be done as a 'motion picture' rather than a 'snapshot'. We asked that consideration be given to where we have come from, our future plans and where we stand today. This request was made in the belief that a modernization process of the scale undertaken by the Commission takes time, and that any government organization that is sensitive to the needs of B.C. taxpayers cannot remain static for long. For the most part the Auditor General has conducted his review in this context. As a result they present a comprehensive picture of government procurement practices.

The Auditor General's staff are to be commended for the professional manner in which they conducted this audit. They took the time to understand our business and demonstrated interest in the management practices we use to deliver our programs. The Auditor General has made a notable contribution to both our immediate operational effectiveness, and our development plans for the near future.

Ministry of Attorney General, Corrections Branch

Audit Objective

2.212 Our review of the Corrections Branch was conducted to determine whether the branch's systems of administration provide reasonable assurance that its programs are delivered economically, efficiently and reliably; and whether the Ministry has provided the Legislative Assembly with sufficient, appropriate operational and financial information to allow Members to assess branch performance.

Audit Scope

2.213 Our examination included the probation, family and community services programs of the Branch. The prison program was not included in the audit, as it has been recently reviewed by others.

Profile of the Branch

2.214 The main programs of the Corrections Branch of the Ministry of Attorney General are prisons, probation and community services, and family court services. The Branch is headed by the Commissioner of Corrections who has the rank of deputy minister.

2.215 Management at the Victoria headquarters and five regional offices has responsibility for all the branch's main programs. The probation, family and community services programs are delivered by about 470 staff members assigned to one of 80 local offices located throughout the province. Contractors are also used extensively for program delivery.

2.216 Probation and community services provides a community-based alternative to prisons for people who are in conflict with the law. Separate programs are provided for adults and for youths.

2.217 Family court services help people resolve their family or marital disputes without court intervention. Family maintenance, and child custody and access are involved in many of the cases handled by the Branch.

2.218 In the 1987 fiscal year, the probation, family and community services programs will cost about $33 million. This breaks down as:

Program delivery staff	$16 million
Office rentals	$ 2
All other operating costs	$ 2
Management and head office costs	$ 2
Contracted services	$11
	$33 million

Overall Assessment

2.219 The probation, family and community services programs are economical because they divert many people from other government programs, such as prisons and courts, which are more expensive. However, the Branch has not established any targets for the cost of effective probation, family and court services, so it cannot determine whether the programs could be more economical. Similarly, both targets and methods of evaluation are lacking for other program goals, such as the probation goal of "protecting the community". While there are few complaints from the public, that is not a reliable indicator. We believe management needs better overall indicators of program effectiveness.

2.220 Although the Branch has not demonstrated that the probation, family and community services programs are as cost effective as they might be, the programs, as they are currently structured, are well managed. As a result, these programs are delivered economically and efficiently. We believe, however, there are refinements that could be made to increase productivity. Both management and staff could be made more productive if branch objectives and individual responsibilities were defined more clearly. Greater use of modern office technology would also improve staff productivity.

Detailed Findings

THE PURPOSES AND GOALS OF THE BRANCH

2.221 We commend Corrections Branch for producing a comprehensive statement of its mission, goals and beliefs. We feel, however, that the statement would be even more useful if it identified targets against which the Ministry could measure its performance.

2.222 In deciding what the Corrections Branch should do as an organization, management has considered — in addition to the direction given in statute or provided by the Attorney General — the ideas and opinions of an array of parties, including:

- the management and staff of the Branch, based on their own experience in the field, and their own beliefs;
- branch counterparts in other provinces, the federal government, or other countries;
- other members of the "justice system", including police, lawyers and judges;
- special interest groups such as the offenders themselves and their families, the victims of crime, and organizations that help offenders, such as the John Howard Society;
- the general public, as taxpayers and potential victims of crime;

- other ministries that deal with social issues, because the causes of crime and treatment of offenders may involve poverty, mental illness, or lack of education; and
- private sector suppliers of services to the Branch.

2.223 From these sources, management has defined its mission and goals and documented them in a written statement. This statement even includes its philosophical beliefs about corrections, which underpin the mission and goals.

2.224 Management has published this material in a booklet which is available to the public. As well, it promotes these beliefs, mission and goals to the staff of the Branch and to contractors providing services to the Branch, and actively uses the statement in planning and programming. We believe that all of these efforts are commendable.

2.225 The one defect of the statement is that the goals are not measurable: they are not expressed as targets. This makes it difficult for branch staff to determine priorities among goals, particularly because the stated goals are wide-ranging. It also makes it hard for staff and the public to determine how successful the Branch has been in achieving its goals. The probation, family and community services programs are social programs of significant complexity. Measurement would require qualitative as well as quantitative indicators to reflect, within broad limits, the success of the programs. These indicators would also have to capture the contradictory nature of social programs. In probation, for example, increasing community safety may detract from decreasing offender recidivism, and almost any improvement in service factors would increase program costs. Despite these difficulties, if the phenomena were measured, there would be a basis not only for assessing ministry performance, but for debating, on economic and social grounds, the merits of raising or lowering the targets.

STRATEGIC PLANNING

2.226 Management of the Corrections Branch has been active in planning the direction of branch programs, but has not formalized the results of this planning activity.

2.227 After deciding in a broad sense what the Branch should do, management must make a plan for accomplishing its objectives. The plan should define the programs to be offered in each program area — adult probation, youth probation, family court — and the results the programs are expected to accomplish. The plan should also define the resources and systems required to operate the programs, along with those required to manage and administer the Branch.

2.228 The Branch does not have a specific plan of the sort described abovea strategic plan. After going through a major growth period in the 1970s, the size and structure of the Branch are now fairly stable. Philosophically the Branch believes it should be a

conservative organization and it is committed to sustaining most of its current programs. Thus, it is satisfied to make small year-to-year changes in its operations, foregoing an overall strategic plan.

2.229 Management keeps alert to the changes in program needs and opportunities through meetings with its community based staff, analysis of statistical information, and dealings with other corrections organizations and agencies in the justice system. As a result, the changes management has made in its programs have generally been reasonable. Nevertheless, without a plan and targets, it is much more difficult for management to be sure it is attending to the most significant needs and opportunities. It is also more difficult to keep all members of the Branch working by appropriate means to achieve desired ends.

CONTRACTING

2.230 The probation, family and community services programs make effective use of contractors. As yet, however, the Branch has not determined whether it is less costly to use contractors to deliver its programs than public servants.

2.231 One-third of branch expenditures on the probation, family and community services programs are for contracted services. The Branch has always used contractors to deliver some of its programs in certain parts of the province. However, in response to the government restraint initiative in the 1983–1985 period, the Branch doubled the amount of contracting it was doing so as to reduce its permanent staff. Branch management gave careful consideration to which services could be contracted out, and we believe it made appropriate choices.

2.232 With probation, the decision involves not only social values and costs, but also a legal aspect. Probation services involve people under court order, for whom the Branch remains legally responsible to the courts even if contractors are used. Thus, if the Corrections Branch is to contract services, it must have sound systems and adequate numbers of properly trained staff to manage and monitor the contracting.

2.233 The Corrections Branch believes that, on balance, the quality of services supplied by contractors is about equal to that formerly supplied by branch employees, although some services are better and some worse. Management has acted to terminate or upgrade contractors who have not performed satisfactorily. The Branch has gained from contracting in that it has been able to offer more programs in more communities, and it has been able to react more quickly to new needs. On the other hand, it is at somewhat greater risk from using contractors to serve its clients, although the Branch is continually making improvements in its contractor monitoring practices.

2.234 Whether contracting saves money is still uncertain. The labor-intensive nature of the work, the lack of a sizable private market in probation services, and the fact that public service probation officers are not highly paid combine to suggest that

contracting has no obvious cost advantages over delivering the services through public servants unless a lower quality of service is accepted. Furthermore, to keep program risk at an equivalent level when a program is delivered by contractors, the Branch must allocate staff to manage and monitor the contracts. The Branch has not yet fully developed a method for doing this.

2.235 The Ministry did not do a thorough cost-benefit analysis before the recent increase in the use of contractors because its decision was prompted by changes in government priorities. The Branch made its decisions about which services to contract based on its assessment of risks and its previous contracting experience. While we are satisfied that this process led the Branch to contract in the appropriate areas, we believe it should do a thorough retrospective analysis of the costs versus benefits of contracting as soon as possible. In addition, because experience with privatization in other jurisdictions indicates that savings that had been achieved previously are not currently sustainable, we believe the Ministry should continue to monitor carefully its cost experience with contracting.

DECENTRALIZING

2.236 The Corrections Branch, through its decentralized service delivery system, is meeting the needs of its clients effectively and economically. Most of the 80 local offices throughout the province, varying in size from 1 to 10 professional staff, provide both probation, and family and community services, although some offices are specialized.

2.237 The main advantage of community offices is an improvement in effectiveness. The best way to handle a youth in trouble with the law in Dawson Creek is not necessarily the best way to handle a youth with similar problems in downtown Vancouver. With decentralized offices, staff are familiar with the conditions in the local community and are in regular contact with the other justice system organizations resident there, such as police and courts. As a result, staff of the Branch believe that local offices promote better decisions in dealing with clients. Local offices are also more accessible for the clients.

2.238 Having a large number of offices does incur some extra costs in management overhead and office rentals. However, management overhead has been controlled by Correction's use of full-time managers or supervisors in only the largest offices. In addition, accommodation costs are offset by other operating economies. The nature of probation and family court work requires staff to travel to court, to related justice or social agencies, and to client premises. Thus, the economy of locating in any particular place must take into consideration travel time and costs for staff, in addition to the actual office rentals. Furthermore, Corrections has not wasted money on extravagant offices. Of the 15 local offices we visited in the course of our audit, only two were of superior quality, one of which was located in a new court building. Most of the remainder were barely suitable.

2.239 Overall, we agree with branch management that decentralized delivery is appropriate for the probation, family and community service program. We did not have any major concern about the economy of local offices, although we would like to see management develop an economic model for locating offices which would weigh and balance all the various costs and benefits.

STAFF LEVELS

2.240 At the time of our audit, the overall staffing level in the probation, family and community services programs was generally appropriate to handle the workload, although deployment was somewhat uneven, causing some offices to be overworked while others were underworked. Recent trends point to an increasing demand for services. Because the branch's ability to control demand is limited and its resources are relatively fixed, improved productivity will be required to meet increasing workloads. We believe staff productivity could be increased through automation and the use of word processing.

2.241 Professional staff, consisting of probation officers and family court counselors, make up the largest single employee group. The Branch uses a workload measurement system to decide how many of these professionals are required in each local office. This system has some serious defects and it has not enabled the Branch to spread the workload evenly among staff. However, we believe that the overall professional staff level of the Branch is appropriate, provided some staff are redeployed, and modern office technology is introduced into local offices.

2.242 Although the Branch hires staff that may be of somewhat higher quality than is strictly necessary to deliver its service, it does not pay a salary premium to attract these staff members. This higher quality staff enables the Branch to delegate more responsibility, thereby reducing its management overhead. We agree with management's approach to professional staffing.

2.243 The amount of clerical and secretarial support in the local offices verges on the inadequate. Where clerical support is lacking, professionals must fill in, which is uneconomic. Management plans to install word processing equipment in local offices, and this, we believe, should be effective in relieving the clerical work pressure.

2.244 We found that the Branch is making good use of professional support staff in policy development, finance, computer systems, and training. Any reductions in this area would likely result in inadequate advice being provided to management, or in the need to increase the number of managers.

2.245 The executive level of the Branch is small in numbers, yet effective. It consists of the Commissioner of Corrections, a Deputy Commissioner who oversees the professional support groups and the policy making process, and five regional directors. The regional directors play a combined role, as branch executives, developing

policy and making resource and organizational decisions, and as line managers in the operating divisions. Full operating authority is delegated to the director of each region. The branch executive conducts its affairs in an effective and efficient manner, providing leadership and demonstrating organizational values in support of delegation, cooperation and participation.

2.246 As mentioned above, the management overhead in the local offices is reduced by using part-time supervisors and by delegating considerable authority to the professional staff. There is a middle level of line manager — the district director — who acts mainly to link groups of local offices with the regional director. There are some weaknesses with the roles of the district director and local office supervisor. Because the role of district directors is not well defined, their function is not clearly differentiated from that of the local supervisor. Their role is also subject to a wide variety of interpretations in practice. At the local office level, supervisors, particularly in smaller offices, are expected to maintain a professional caseload and to manage. We found supervisors tended to concentrate on their professional work to the detriment of their management responsibilities. However, the overall organizational and management principles of the Branch are quite effective.

2.247 Our biggest concern with branch efficiency was the lack of automation in the local offices. Branch staff, in the course of their work, produce numerous written reports either for ministry purposes or for the courts. Most of these reports are currently handwritten or typed. An investment in word processors and microcomputers is likely to return significant benefits in efficiency for both professional and clerical staff, who have been under heavy workload pressure in the last few years. Management has a plan for local office automation, but has not yet put it into effect.

MANAGEMENT DIRECTION AND CONTROL

2.248 The quality of service delivery in the probation, family and community services program of the Corrections Branch is generally good, despite weaknesses in management's forms of direction and controls.

2.249 The methods available to management for providing direction and control include staff selection and training, reward systems, operational planning and budgeting systems, written policies and procedures, supervision and review, information systems, and audits. The most effective methods now used in the Branch are staff selection and training, although the training is not as economical as it might be. Other than staff selection and training, several additional, more subtle, factors account for the success in program delivery, namely:

- the general guidance of the mission statement;
- the probation officers and family court counselors responding to the considerable autonomy given them by management in a competent and professional manner;

- the supervision that judges provide over the staff's work; and
- exposure of each professional's work to others within the justice system, creating self-pressure to do quality work.

2.250 While these factors have been useful, we believe more structured management direction would be beneficial in some areas. The professionals within the Branch have similar concerns. Although they have been given broad direction by management in the branch's mission statement, and appreciate the freedom they have to deliver the service, they have difficulty determining what is most important and how much is enough. Some staff, driven by their personal standards of quality, work very hard for their clients, regularly putting in substantial overtime for which they are not paid. Others merely provide the services called for in the court order, and do not serve the client to the same extent as other more committed staff. All need better guidance from management.

EVALUATION AND PUBLIC REPORTING

2.251 Management of the Corrections Branch does some program evaluation from time to time, but nothing systematic or comprehensive. Program evaluation is designed to evaluate whether an organization is doing the right things and whether its programs are having the intended impact and effect. The Branch has a formalized complaint procedure which is a form of public accountability. Complaints are few, but this is not a definitive indicator of success. Indeed, the Branch has no suitable performance indicators at present. Branch management neither sets specific targets against which its success could be measured, nor systematically gathers and reports key information about the success of its programs. Thus, the public and Legislature cannot determine if they are being well served by the Branch.

Ministry of Attorney General, Legal Services Branch

Audit Objectives

2.252 Our review of the Legal Services Branch was conducted to determine whether the branch's services are meeting the needs of its clients and whether management has developed and used effective systems for ensuring that resources are used economically and efficiently.

Audit Scope

2.253 Our examination covered all aspects of branch operations, and included each operating division and the branch support services group.

Profile of the Branch

2.254 The Legal Services Branch is an integral part of the Ministry of Attorney General. Its significance lies not so much in the dollars it expends or its staff size — both of which make it one of the ministry's smaller programs — but in the nature of the work it does. The Branch provides legal services to all ministries, and to various boards, commissions and other agencies. It is responsible for providing legal advice, conducting civil litigation, drafting enactments and ensuring that the administration of government is lawful. If contracts are poorly written, legal advice is inappropriate, or representation at litigation is weak, significant long-term costs to the Province can result.

2.255 The provision of branch services is being centralized within the Ministry of Attorney General. The Branch carries out its activities from two locations, one in Victoria and one in Vancouver. There are 64 professional staff, 18 of whom are on annual contracts. The staff are organized into three distinct operating groups: the Barristers conduct civil litigation, the Solicitors provide legal advice, and the Legislative Counsel drafts enactments such as bills, regulations and Orders in Council.

2.256 Family law services, which are provided by private sector lawyers on contract, are administered through a separate, small group within the Branch. Additionally, some other legal services are provided by private sector lawyers who are engaged on a contract basis to work on specific assignments. Approximately 47 clerical, administrative and secretarial staff provide support services.

2.257 The Branch budget of $8.6 million for the 1987 fiscal year includes $3.6 million for professional and support staff and $3.5 million for the costs of contractors, both those retained by the Ministry on an annual basis and those retained for specific assignments.

Overall Assessment

2.258 The Branch has provided its clients with acceptable professional services. We found that clients of the Branch are also satisfied with its ability to deliver legal services, although they did identify some refinements which, if made, would allow the Branch to meet their needs and expectations more effectively.

2.259 However, despite some beneficial changes to management processes now under way, the Legal Services Branch is undermanaged. We believe that further improvements are required if management is to demonstrate that services are being provided economically and efficiently, and if future demands for service are to be recognized and met.

Audit Findings

CLIENT SATISFACTION

2.260 Although a majority of the branch's clients felt the Branch is adequately advising the Crown, drafting enactments, conducting civil litigation and ensuring administration of public affairs is in accordance with the law, 30% said they did not know whether the Branch was fulfilling its key responsibilities. This response is understandable, since the Branch does not provide any formal guidelines describing the type of services that are available, how they are performed or when they are delivered.

2.261 Ninety percent of branch clients felt that the availability of legal services was adequate. Clients indicated that they had some concerns about the centralization of lawyers, although we believe that a high level of availability can be achieved in a centralized system if there is some flexibility in the method of service delivery.

2.262 In our survey, ministries rated their degree of "satisfaction with the results of legal work" on a scale from poor to excellent. They evaluated the three main activities within the Branch as follows:

Drafting enactments — 85% good or excellent
Litigation — 88% good or excellent
Solicitors' work — 93% good or excellent

2.263 These commendable ratings are a result of many factors, including the competence of staff, the existence of a good working relationship between the individual lawyers and their clients, the lawyers' knowledge of ministry affairs, the thoroughness of research, and the timeliness of task completion. Of these, timeliness of task completion was identified as one area requiring improvement within each of the three main activities.

2.264 About half of the respondents indicated they had been dissatisfied with the services at some point. This fact in itself is of minor concern. However, less than one-third of

these individuals contacted the branch managers to resolve their dissatisfaction. Because the Branch relies heavily on client comments to evaluate its services, without such response — negative and positive — branch management lacks valuable information with which to improve the effectiveness of its program. Clients should be actively encouraged to present their views on service to the Branch.

2.265 The legal services provided by the Branch are either reactive (necessary action is taken as the result of an event), proactive (action is taken to influence the outcome of an event before it occurs), or a blend of the two. Our survey results showed that ministries wanted the Branch to be more proactive in its service. Although the service received was considered to be satisfactory, it did not represent the best mix from the clients' viewpoint. Clients of the Branch gave several reasons why there should be a shift toward the provision of preventive law services: avoidance of problems through their anticipation, avoidance of litigation, provision of advice on legal aspects of policy, and involvement with the legal aspects of the day-to-day workings of the ministry.

2.266 The overall indication from the client ministries is that the Branch is a good provider of legal services. Over 70% of the comments received in response to our questionnaire were favorable, expressing satisfaction with the services received and the relationships established. This state of affairs is largely attributable to the initiatives being taken by the individual lawyers. Provision of more preventive law services, improved timeliness of service provision and increased involvement of the lawyers in ministry affairs were areas said to require attention. The direction for improving these aspects of legal services must come from management. Its challenge will be to develop a strategy for providing the clients with the mix of services they require, on a timely basis, while maintaining the existing quality of service and using the same level of resources.

QUALITY OF WORK

2.267 As the provider of all legal services to government, the Branch must ensure that the services offered meet the expectations and entitlements of the client and the public, while upholding the reputation of the Branch within government and the legal community. To accomplish this, the Branch follows a number of informal and formal processes which ensure that its expectations are being met and that the results of staff efforts are timely and of high quality.

2.268 Management relies heavily on the experience, skill and integrity of the staff and contract lawyers. Lawyers are encouraged to consult their peers and senior staff for advice or assistance as required. This practice is particularly valuable for junior staff who, working within a system with few documented procedures or checklists, learn much from their more experienced associates about the quality of work that is expected. Managers also play an active role in this system by reviewing concerns of staff and assisting them when requested. While this system provides some guid-

ance, a more formal arrangement fashioned after the principal/articling student relationship would be more valuable as it would promote a better instructive environment. This system places a greater onus on senior lawyers to develop the capabilities of junior lawyers by making them mentors to the less experienced staff that are assigned to them.

2.269 Although these informal measures are essential elements of the quality control process, we believe more formal structures are also required if management is to be able to assess or measure whether performance is meeting its expectations.

2.270 Some formal assessment processes are now in limited use and management is undertaking further improvements. A system to maintain a file of significant legal opinions has been tried, but with less success than management anticipated. One project that should enhance work quality is a contracts precedent system, which will provide staff with access to standardized contract component information. Other opportunities not yet pursued by management include the establishment of training standards and professional development standards, and a system of formal file reviews.

2.271 We believe management should also be seeking information about its services from external sources, one of which is the clients themselves. The existing lines of communication between the client ministries and branch management are not used often enough and are not designed to provide the comprehensive information that management requires to determine whether client needs are being adequately met. Regular communication with clients would enhance management's ability to assess the quality of services being provided, and to implement change where necessary and practical.

2.272 Management has recognized the need to know whether its services are being provided satisfactorily. In the area of family law, the Branch is considering the use of a questionnaire to obtain client reaction to the services provided by private sector lawyers on contract.

2.273 Overall, the processes relied upon by management to ensure that the quality of service being provided meets its expectations are primarily informal and are not part of a considered management appraisal of the branch's performance. Our survey of ministry clients indicated that the quality of the branch's legal services is considered to be very good. By enhancing the existing quality control techniques, branch management should be able to assess if this level of service is being maintained.

ECONOMY AND EFFICIENCY

2.274 Branch management should know whether branch services are being provided cost-effectively. We found that management relies primarily on informal indicators to provide the information on which decisions are based. Such sources are valuable, but their main use should be to supplement more formal information systems.

Staff Management

2.275 Because salaries and professional fees consume 83% of the branch's budget, having suitable staff properly employed is essential if the Branch is to provide its services cost-effectively. In addition, funding constraints at a time of increasing demand for legal services reinforce the need to use staff resources as efficiently as possible. Optimum staffing is attained when an organization includes both professional and support staff of adequate numbers and with appropriate skills. Staff size and abilities should reflect the legal service needs of the clients. In essence, the Branch should have the right people doing the right job. We found several opportunities to improve branch staffing.

2.276 There is currently an appropriate mix in the experience level of professional staff, but this experience mix is shifting because of restraints imposed on staff size, which have limited the number of salaried staff in the Branch. No professional staff have been hired on a salaried basis for three years and, to meet increased demands, management has compensated by increasing its use of contract staff. Annual contracts have been used primarily to fill junior positions. It is more difficult to attract more experienced lawyers on annual contracts. The staffing limitation, therefore, has restricted management's ability to replenish its resource base with lawyers who have similar skills to those who have left.

2.277 The number of support staff the Branch requires should be directly related to the number of professional staff in the Branch. Too many support personnel increase costs needlessly and too few result in inefficient use of lawyers' time. Studies of private law firms can serve as guides to whether or not adequate support is being provided to the branch lawyers. We found that the Branch has a low ratio of support staff to professional staff, in the order of .75:1. This ratio is below that of private firms, which is generally around 1:1 or slightly higher. Without enough support, lawyers carry out activities they would otherwise delegate to support staff.

2.278 A similar situation exists with paralegal support. While the trend in the private sector has been to have one paralegal assistant for every four to six lawyers, the Branch has only one contractor providing paralegal support. Branch management has recognized that additional paralegal support could be used.

2.279 To improve the efficiency of its organization, management must review the branch's processes and procedures to determine how duties could best be delegated to paralegals or other support staff, and how an optimum staff mix could be attained.

2.280 Contract lawyers account for 41% of the 1987 budget. This includes both private sector lawyers hired for specific assignments, and annual contractors who supplement the salaried lawyers. Family law requirements are also serviced primarily by contract lawyers.

2.281 There are situations in which it is cost-effective to engage private sector lawyers on contract. These situations include cases where location, conflict of interest or a need for special skills are an important factor. If, however, private sector lawyers on contract are used when the services could reasonably be provided by either an annual contractor or one of the salaried lawyers, the service is not cost effective. Even though branch management has been able to hold compensation rates for private sector contractors steady for two years, it is estimated that for the amount paid for each man-year of private sector contractor services, the Branch could obtain two man-years of annual contractor time.

2.282 Several initiatives are under way to control costs of contract services. In the area of family law, for example, where contract services are budgeted at $2.6 million for the 1987 fiscal year, past service patterns are assessed and estimates of appropriate time expenditures for specific activities are determined before a contract amount is set. Further work will refine such performance measures and standards. Development of similar standards should be considered for other areas of the Branch.

2.283 The costs of private sector lawyers on contract are also controlled through the requirement that the Branch approve all contracted legal services. However, the results of our client survey show that this requirement may not be fully understood by all ministries. Thirty percent of respondents either ascribed no role in obtaining contract services to the Legal Services Branch or did not understand its role.

Management Information Systems

2.284 To ensure that legal services are provided efficiently, management must know whether the staff are taking a reasonable amount of time to do the work. The most useful system compares standards or budgets for specific assignments with the time spent by staff on those assignments. At present the Branch does not have an adequate system for objectively determining whether legal services are provided on a timely basis and with acceptable standards of performance. Whereas timekeeping systems are a standard feature of private law practices, branch management is not convinced of the need for them. We believe that management will not be able to make reliable, objective decisions about staff needs, allocation and overall performance until there is an improvement in the information available to them.

Organization and Management

2.285 Unlike many programs which have managers whose sole responsibility is to manage but not directly provide services, managers in Legal Services Branch have a dual role. As well as being responsible for managing the Branch, each assumes a considerable professional workload. This provides a valuable service to the ministry and is an effective use of these individuals' experience and skills. However, maintaining a proper balance between the dual roles is somewhat difficult.

2.286 In our view, the management side of the role has been so diminished that the Branch is being undermanaged. It is currently coping with service delivery needs, but better information for decision making and long-term planning is required. In the short term, having managers devote their time almost exclusively to legal matters is efficient because the time spent managing is minimized. But over the long term, lack of adequate planning and lack of information with which to plan will decrease the branch's ability to carry out its programs effectively.

2.287 The management function is currently concentrated in the four-member Management Committee. The managers act in both an executive and management capacity, not only developing branch policies and long-term plans, but also managing day-to-day operations. Except for the senior solicitor managing the Vancouver office, there are no professional staff below the managers to whom specific management responsibilities have been assigned. In our opinion, managers have too extensive a span of control to enable them to adequately fulfill their management role. Two options exist if management of the Branch is to be improved: either managers must spend more time managing, or a more hierarchical organization structure should be developed, with managers delegating some of their management responsibilities to senior staff. We believe that the latter approach offers the best potential as it would allow managers to continue to devote their considerable legal knowledge to professional activities.

2.288 Management appears to be addressing the problem of extensive spans of control. A contracts group, headed by a senior solicitor, is now providing an intermediate level of supervision. Branch management should consider a similar approach for the entire organization.

Planning

2.289 Annual operating plans should provide the basis on which operating budgets are developed. In the Legal Services Branch the actual situation is the reverse of this ideal: a total dollar amount is provided to management and its plans must be adjusted to meet the funding provided. As service levels are primarily determined by the clients and by statutory requirements, management has little flexibility for adjusting operating plans to meet its budget. For the past two years the Branch has required special warrants to fund operations fully.

2.290 Depending on one's viewpoint, this represents either consistent underfunding, or an inability of management to adjust service provision to meet the limits imposed through the Estimates process. We do not believe that the current planning and resource allocation systems serve the Legislative Assembly well, or reinforce in management the cost-conscious attitude needed to monitor branch operations meaningfully.

2.291 Management has identified certain future needs for staff, equipment and facilities, but the planning process has not included a comprehensive review that would

clearly indicate potential program changes and options available to the Branch. We believe that management needs to undertake more rigorous planning.

2.292 The demand for branch services is generated primarily by the clients, a situation which places the Branch into a reactive position. To plan for future service demand, management will have to work with clients to obtain information about their anticipated future needs. As a starting point, information systems should be improved so that both branch management and clients know the level of legal services that are currently being provided.

ACCOUNTABILITY

2.293 Branch accountability information is contained in the Ministry of Attorney General's annual report. However, the report does not contain sufficient detail to let a reader determine whether program results have met expectations.

2.294 Recently the Branch has made efforts to provide information about management performance by identifying measures undertaken to keep costs down and to increase productivity. We believe this is a positive step, but further enhancements to the report content are required if the Legislative Assembly and the public are to receive sufficient accountability information.

2.295 At a different level, management and staff should also be held accountable for their own performance. Because program goals have not been defined in measurable terms, it is difficult for branch management to assess the success of its programs except in a general way.

2.296 Staff are held accountable only informally. Accountability relies heavily on client response, or the lack of it, as an indicator, but this is not supported by an internal system of evaluation and assessment. A more useful system would incorporate client response with regular internal assessments.

Ministry of Attorney General, Management of Buildings and Office Accommodation

Audit Objective

2.297 This audit sought to determine whether the Ministry of Attorney General has suitable facilities to run its programs, and whether its accommodation costs are reasonable.

Audit Scope

2.298 Three parties are involved in the management of public buildings. The Ministry defines the size, type and location of the facilities it needs; Treasury Board controls the budget for buildings and sets rules limiting the ministry's accommodation choices; B.C. Buildings Corporation (BCBC) acts as the government's property manager. BCBC owns all government buildings and rents any additional space required by ministries from the private sector on behalf of the government. The Ministry leases all of its facilities from BCBC.

2.299 In this audit we reviewed the Ministry of Attorney General's management of its facilities. Because Treasury Board and BCBC also play major roles in accommodation decisions, we considered the impact of their policies on the performance of the Ministry. However, we did not audit these organizations, and therefore this report is limited to our assessment of the ministry's performance in its role in accommodation management.

2.300 All types of facilities used by the Ministry were included in the audit: courthouses, prisons and offices.

Profile of Buildings and Office Accommodation

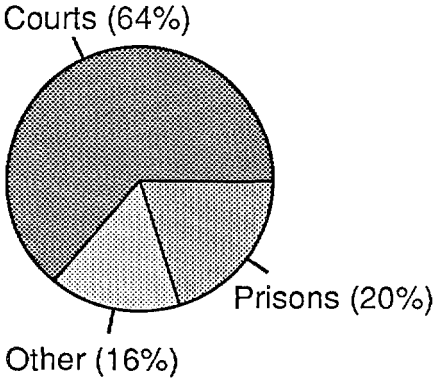
2.301 The Ministry spends more of its budget on buildings than does any other ministry (18% vs 2.2% on the average, respectively). Not only do buildings constitute a major part of the service in the ministry's two biggest programs, courts and corrections, but the courthouses and prisons used in these programs are more expensive buildings than, for example, office buildings.

2.302 In 1986 the Ministry spent $68 million for the use of 358 buildings (91 courthouses; 32 prisons; 235 offices). The total building area occupied by the Ministry is about 313,000 square meters, which is equivalent to approximately 2,200 homes of 1,500 square feet. The total land area occupied is over 13 square kilometers (five square miles), accounted for primarily by the 11 prison camps.

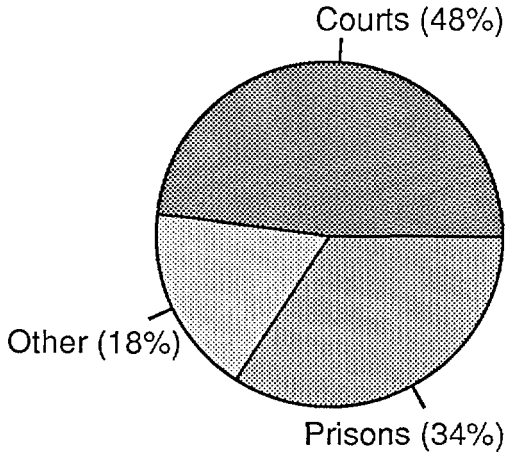
2.303 From 1980 to 1987, the annual cost of the ministry buildings will have roughly doubled (although, with the effects of inflation removed, the increase is only 26%). Annual building expenditures in constant dollars are shown in Exhibit 2. The absolute expenditure on buildings, and the proportion accounted for by prisons, are expected to continue growing.

Exhibit 2

Total Building Occupancy Cost by Type of Facility (Constant Dollars)



1981 building occupance cost (%)



1988 building occupance cost (%)

2.304 Accommodation decisions in the ministry's two major programs, courts and prisons, are linked directly to the choices made by the Government and ministry management about the types of programs that are best for the province. Prison and courthouse buildings reflect these choices. For example, although massive central provincial prisons may be less costly, the conscious emphasis in corrections programming on "re-integration into the community" involves building smaller regional prisons and community halfway houses which are somewhat more expensive.

2.305 This audit assesses the suitability and cost of the ministry's accommodation at one point in time. Because buildings have long useful lives, the review necessarily included an evaluation of decisions taken years ago, as well as those made recently. Consideration was also given to the fact that, because programs change over time, buildings once perfectly suitable become less so. Some buildings still in use by the ministry were built in the 19th century. However, although only a few of the ministry's 358 buildings are replaced with new ones each year, overall the average

age of facilities has declined notably in the last decade. Because the accommodation decisions we reviewed were made over a period of years, they were also made under varying economic and social conditions. Decisions that are acceptable during prosperous times may seem less acceptable when reviewed in a more cost-conscious era.

Overall Assessment

2.306 *Courthouses:* Some courthouses in the province are underused while others have difficulty meeting the demands placed on them. The Court Services Branch needs to develop and get consensus for service standards for courts that would allow it to determine where courthouses should be located and when to build new ones. These standards will not be achieved easily. They must consider such issues as reasonable court access and reasonable waiting time for a trial, in addition to cost. These issues are contentious because the various interested parties have strong but often conflicting convictions about them.

2.307 The Branch does have standards to guide suitability once the decision to build a new courthouse has been taken. Of the existing courthouses, about two-thirds are suitable in relation to today's buildings standards. The newest courthouses are also being constructed at a reasonable cost. However, many of the other courthouses that are suitable were built when the standards were more permissive, and they cost more to build than today's standards would allow. The remaining one-third of existing courthouses, many of them older buildings, are not considered suitable by today's standards and are in need of updating.

2.308 *Prisons:* The Ministry has agreement on service standards for its corrections programs and has developed building standards in keeping with them. Meeting the standards for inmates needing secure custody requires expensive buildings. The Ministry is about halfway through a program of replacing old and unsuitable secure prisons with newly designed facilities that fully meet its needs. The cost of these new prisons is reasonable, given the type of program that the Ministry has decided to provide.

2.309 *Offices:* The Ministry does not have exclusive control over the suitability or price of general office space because of the role of government central agencies. We found that very few general offices were without some suitability problems. In some cases these problems occurred because the government's central agency standards did not match ministry needs; in other cases, the central agency standards had not been met. The Ministry is generally paying an appropriate price for space leased in privately owned buildings, although we did find some situations where the rents were above market rates. However, in a number of government-owned buildings, particularly in courts, the space was overly expensive because the buildings were built to specifications not required for general office accommodation.

2.310 *Management:* For the most part, the Ministry manages its accommodations satisfactorily. The Ministry executive is actively involved in making decisions about significant accommodations, and is receiving suitable advice and support from technical experts. However, accommodation in the 150 or so smaller offices used by the Ministry throughout the province has not been managed as actively. We expect management performance will improve in this area, as the Ministry further decentralizes responsibility for these buildings to program managers.

Audit Criteria

2.311 We selected three general criteria against which to evaluate ministry performance:

Suitability

2.312 The Ministry should acquire accommodation that is suitable to operate its programs.

2.313 A "suitable" building is one that: corresponds to program needs; is in the proper location; is the right size; has the necessary facilities and amenities for the program to be operated; is efficiently laid out; and is a safe and healthy place to work.

Economy

2.314 The Ministry should acquire its accommodation at a reasonable cost.

2.315 An economical building is one that is suitable and acquired at the right price. However, economy is more than just low costs for rent, utilities and maintenance.

2.316 The efficiency of staff using the building must also be considered. Although it may cost more to rent a downtown office, if the staff must frequently visit a downtown courthouse, then savings in staff time may more than offset the higher rent. A similar consideration can apply to such matters as air quality and heating and cooling in a building. The average salary of ministry staff is about $33,000; the average accommodation cost per employee is about $3,500. With a 10:1 ratio in costs, it may be well worth spending a little extra money on a building to improve staff productivity.

Accountability

2.317 Ministry management should be held accountable for its decisions on accommodation.

Audit Findings

COURTHOUSES

Suitability of the Number and Locations of Courthouses

2.318 We believe court services are now provided in more locations than is justified on the basis of cost alone. This view is shared by both the Ministry and the judiciary.

2.319 Currently many courts, mainly in the smaller centers, are underused, while many others, primarily in the larger urban areas, have difficulty meeting the demands placed on them. Less than half the 91 court locations sit daily and some sit only once per month or less; others are overbooked.

2.320 The process for matching court capacity with work load needs improvement. The Ministry is attempting to develop a series of models that balance the quantifiable factors so that court facilities are sited appropriately. This work should continue, as the resolution of this problem will require further thoughtful administrative and political decisions.

2.321 Several factors influence the location of courthouses:

Equal access to justice: One factor is the value given to such concepts as "equal access to justice" and "jury of your peers". The higher the value placed on these concepts, the more decentralized the court system should be. Governments in the past have supported a fairly decentralized court system, but in these less prosperous times the pressure is on the Ministry to centralize. The Ministry is investigating the potential of modern electronic communication to achieve economy from central courts without withdrawing access from small communities.

2.322 *Historical precedent:* Some courts are located in communities that were more prominent than their adjacent communities at the time the courthouse was first built. Once a court has been established, the community is reluctant to lose it because of civic pride, convenience, and the economic stimulus it provides. The different historical origins of superior courts and provincial courts have also impeded the sharing of courthouse facilities, resulting in a number of underused facilities.

2.323 *Lobby for new courthouses:* Civic pride, convenience and local economic stimulus also make new courthouses highly prized in communities. Municipal politicians and the local bar association often lobby vigorously for a new courthouse. The keen local interest in courthouses and the use of courthouse construction as an economic stimulus make courthouses attractive to the provincial government also. These factors lead to overbuilding and decentralization.

2.324 *Economies of scale:* For several reasons it is not certain that costs would be reduced if the court system was centralized. One is that larger courthouses are usually built to a grander scale and image than smaller ones. Another reason is that, according to many court administrators, courthouses should be no bigger than 10 to 12 courtrooms for efficient use of staff. Centralized courts also require more travel (e.g., by police) and may increase policing costs in smaller communities. As well, the communities whose local courts must be closed incur economic losses.

2.325 *Uncertain demand:* The courts that currently are crowded are mainly in the larger urban settings. New courthouses, however, are quite expensive to build (roughly $1 million per courtroom), and the government has been cautious about its expenditures since 1982. Court usage can be dramatically affected by legislative changes. Current changes in family law are expected to increase the demands on courts, although at the same time, development of mediation and other alternatives to court act to decrease the demand. In the face of such uncertainty and the significant cost of a new court, the Ministry recently built "interim" courts in Surrey and Prince George, thus deferring a major expenditure commitment until the 1990s.

2.326 *Courthouse site:* Courthouse location within a city can also be contentious. The Vancouver Family court continues to operate from an unsuitable facility, partly because of the lack of agreement over where to locate its replacement. Other courthouse decisions in the lower mainland are being negotiated as part of a "package deal" that includes a new prison. (Unlike courthouses, most local communities do not want prisons.)

Suitability of Courthouse Buildings

2.327 We found the overall suitability of newer courthouses is acceptable, although problems exist in older courthouses. We believe the Ministry needs better information about its current facilities for planning its building programs.

2.328 *Problems of age:* Most problems of suitability occur in the older buildings. Some were not particularly well designed in the first place and increasingly heavy use has aggravated the design problems. As well, most old buildings did not include provision for the security that is now deemed necessary in courthouses. Not only is it difficult to retrofit an old building with good security, but in some cases modifications are hindered because the older courthouses are designated as heritage buildings. Most of the serious problems with buildings are in the larger urban settings, and are due to both population growth and the aging of the existing facilities. The Ministry is aware of these problems with older buildings and has invested funds in renovations and improvements. In 1986 it markedly improved the old Chilliwack courthouse for less than $200,000. However, in some locations, the Ministry is caught in a dilemma of not wanting to spend funds on an old building it hopes will be replaced, yet not being able to plan for the replacement because of the province's economic uncertainties.

2.329 *Courthouse conditions:* The ministry's new courthouses built in the last decade are, for the most part, suitable in size, layout and function. There are, however, environmental problems with many of them, including air quality and temperature control. BCBC is currently upgrading the heating and ventilation in all its major buildings.

2.330 The Ministry does not maintain a current, systematic inventory of the condition of all its courthouses. During our audit, we learned that 20% of the courthouses have problems with acoustics in the courtroom. As well, some judges described certain court interiors as gloomy, stuffy, and overly warm.

2.331 *Security:* Security also has a significant impact on the suitability of the courthouse design. However, the Ministry has not yet been able to agree on a policy that sets the level of security required for the various courts or outlines how the required security is best achieved.

2.332 The issues involved in court security are difficult. To date, there is no consensus on which types of cases present the greatest risks, whether all courtrooms should be capable of accommodating high risk cases, or whether security should be provided through building design or by increasing the number of sheriffs and police when high security is required. Nevertheless, the concerns are real and the issue needs to be addressed.

Courthouse Costs

2.333 Courthouses, at $1 million per courtroom, are expensive buildings. Part of the expense is symbolic. The law is a cornerstone of our society and the courthouse an expression of the value of the law. Until restraint in 1983, British Columbia governments were willing to pay for courthouses that portrayed an image of substance and stability in keeping with the law's significance. Since then, all aspects of courthouse cost have been considered for reduction.

2.334 The Ministry has made definite progress in adapting its planning for courts to a more cost-conscious era. Given that the program philosophy of the Ministry accepts the image of the court as important, and hence costly to uphold, we are satisfied that the Ministry is building current courthouses at a reasonable cost.

2.335 Although courthouse costs include a price for image, the largest part of the expense is unavoidable given the functions of a court. In addition to courtrooms, courthouses must provide space for judges' offices, law libraries, secure holding areas for defendants in custody, room for juries, room for the public, and office space and storage for the court officials who do all the paperwork, record keeping and exhibit keeping. Furthermore, judges, juries, lawyers, the accused and the public must be kept separated from each other except when meeting in the courtroom. Designing separate circulation patterns adds to the building's size and complexity, and hence to its cost.

2.336 To control the cost of courthouses, the Ministry has divided courts into four "service levels" ranging from the once-a-month visiting court in a small town, to large permanent courts in the urban centers. The average number of sitting hours per month by level of court are as follows:

Level of Court	No. of Courthouses	No. of Courtrooms	Average sitting hours per courtroom per month
Community	14	14	5.5 hrs.
Local	35	39	19.4 hrs.
District	31	77	44.4 hrs.
Regional	11	117	53.2 hrs.

2.337 Different building standards are specified for each level. For example, a once-a-month court does not require a courthouse building because court sessions can be held in the local municipal hall. The standard for the very largest courthouses, however, calls for "architecturally significant" buildings. The cost of the higher finishing standards for such buildings tends to offset savings from economy of scale.

2.338 In addition to guidance from the standards, the Ministry uses recent successful courthouses of various sizes as models for future courthouses. These include the Invermere court which is used as a model for a one courtroom facility, North Vancouver for four courtrooms, and New Westminster or Kamloops for 16 courtrooms. These models are continually being refined in an attempt to improve the layout and reduce costs.

2.339 The Ministry has made good progress in adapting its planning for courts to a more cost-conscious era. Its major needs in the next decade are in the cities, where buildings will be big and costs will be high. The large number of tradeoffs that must be considered in planning a court system and the large number of parties interested in the decisions, make the management task very demanding. The Ministry must spend the time and money to do the planning well.

PRISONS

Suitability of the Number and Locations of Prisons

2.340 The Corrections Branch has deliberately capped its prison capacity since the late 1970s and sought alternatives to incarceration. Given the program model adopted by the Ministry, we are satisfied that the number of prisoners that can be accommodated is reasonable and that the prison facilities are located appropriately.

2.341 The number of persons in provincial prisons fluctuates during the year, but in 1986 the planned capacity of the system was 2,175 inmates, distributed as follows:

Type of Facility	No. Facilities	No. Inmates	% Inmates
Secure adult	6	935	43
Adult camps	12	740	34
Community homes	7	174	8
Youth	7	326	15
	32	2,175	100

2.342 The Corrections Branch of the Ministry is responsible for the provincial prison system. It has developed specific standards for the location, scale and design of prison facilities, compatible with its correctional program philosophy. Generally the standards call for moderately sized facilities in each of five regions in the province (Vancouver Island, Vancouver, Fraser Valley, Southern Interior and North). Although both we and the Branch are satisfied with the number and locations of the prisons, there is concern about the physical condition of the old prisons, and the Ministry is in the midst of a program to replace them with new ones. Three new facilities are planned to replace the men's and women's complex which is located on Oakalla grounds in Burnaby. Finding suitable sites for replacement facilities has been difficult in the lower mainland for several reasons, including lack of availability of suitable land and the reluctance of some citizens to having prisons in their communities. No siting problems have occurred in the other regions.

Suitability of Prison Buildings

2.343 Primarily because most of the secure adult institutions are old and were constructed when values and standards were different, they do not meet the ministry's current standards for prisons. The Corrections Branch systematically evaluates the state of its facilities against its standards and is well aware of the deficiencies that exist. New prisons, which are being built to replace outdated ones, conform fully to the standards and are suitable.

2.344 Although the ministry's camps and community homes are not in the best condition, they are relatively easy and inexpensive to upgrade. Youth facilities are receiving considerable attention at this time in reaction to new legislation for young offenders.

2.345 Secure adult institutions are the major area of concern for building suitability. Of the six facilities, two (Vancouver Pre-Trial Services Centre and Wilkinson Road in Victoria) and part of a third (Prince George) have been built since 1980 and are satisfactory. The rest of the facilities are very old and are considered unsuitable.

2.346 Suitability in a secure prison first of all means security. The courts have ordered the inmates to be held in custody, separate from the community. Ensuring that inmates are held within the prison is accomplished partly through building design and partly through the use of guards. There is also a high concern for safety in prison design, ensuring guards are protected from inmates, and inmates from each other. As well, certain standards for the humane treatment of inmates are prescribed by the United Nations, including single occupant cells, fresh air and daylight. In addition to all the above factors, a suitable prison will have facilities to support prison work, education and recreation programs; will be efficiently laid out; and will be both durable and easy to repair.

2.347 The Ministry has considered all aspects of suitability in building its new prisons. The new Vancouver prison has been open since 1983 and is considered by the Ministry to be very successful. We agree. The new Victoria prison, on the other hand, which opened in 1985, showed three major suitability problems which should have been corrected at the design stage. Management has since compensated for the problems. The Ministry is carefully evaluating its experience with these two prisons as it designs the remaining ones.

Prison Costs

2.348 We found the costs of prison buildings to be reasonable. Occupancy costs of the older prisons are low in relation to the costs of newer prisons. However, while the newer prisons are expensive, their cost is reasonable given the type of program that the Ministry has decided to provide.

2.349 The newly designed prisons cost about $200,000 per inmate to construct. They also cost more than older prisons to operate, although this is mainly because they offer more facilities for inmate programs.

2.350 The typical costs of operating adult male prisons are shown below:

Type of Facility	Operating cost per day per inmate ($)	Proportion represented by building costs (%)
New secure prisons	170	48
Old secure prisons	100	27
Camps	80	20
Community homes	60	10

2.351 How much to spend on prisons is a controversial topic. Large prisons are cheaper per inmate, but building larger prisons would mean abandoning the government's regional siting standard. With the new Vancouver Island prison built and the work started on the new Kamloops prison, the Government is committed to its decentralized model. In addition, although less expensive prisons could be built, generally they compromise security, safety, health or durability factors; or they

reduce the "correctional effectiveness" of the prison and have a negative impact on recidivism which is a key measure of overall prison economy.

2.352 The deliberate cap on prison capacity has forced the development of lower cost programs as alternatives to incarceration. As well, the Branch has reduced the prison costs. Refinements in design will reduce the cost of one of the Oakalla replacement prisons by about 15% compared to the new Vancouver Pre-Trial Center. One larger scale facility will be built in place of two smaller ones in the lower mainland. Innovations in door design will save $300,000 in Kamloops and similar amounts in the other new prisons still to be built.

OFFICES

Suitability of the Number and Location of Offices

2.353 We found that, with minor exceptions, the number and locations of ministry offices are suitable. The Ministry also is satisfied generally with the location of its offices from the standpoint of service to the public and staff efficiency.

2.354 The Ministry needs normal office space for its headquarters. There are also a number of ministry programs other than courts and corrections which use regular offices. For example, the probation program has over 90 offices throughout the province and the Crown prosecutors have over 50. A variety of smaller programs, mainly located in Vancouver and Victoria, also use regular office space.

2.355 The only general concern with office locations is that many of the Crown prosecutor and probation offices are located inside courthouse buildings. The Ministry and some of the judiciary feel uneasy about the propriety of such an arrangement, in that it could adversely affect the public's confidence in the independence of the judiciary. At this time, however, cost and not appearance is the deciding factor of location.

Suitability of Office Buildings

2.356 We concluded that there are only a few offices without some suitability problems. While these problems are not so compelling that they destroy the effectiveness of programs, they do affect productivity.

2.357 The problems with the attributes of suitability — size, layout, security, functions, furnishings and environmental quality — exist primarily for three reasons:

2.358 *Program changes:* As programs change over time, office space requirements also change. For example, in the late 1970s the probation program started to offer family court counselling. To serve the public properly this meant that probation offices had to provide two separate waiting areas: one for families coming in for counselling

and another for those people coming in because they were on parole or probation. Only in a few of the newer offices is this separation being achieved.

2.359 *Government guidelines:* A second, more significant cause of suitability problems is that government standards aim for large, open-landscape offices, whereas the ministry's need is for mainly small, enclosed offices. The proportions that work for a 50-person office of clerks do not necessarily reduce well to accommodate a 5-person office of professionals.

2.360 An example of another unsuitable government control was in a Crown prosecutor office with a severe storage problem. Case files have to be retained seven years, yet there was no place to store them except by stacking them in the lawyers' offices. Although there was plenty of storage space in the basement of the building, the Ministry could not rent the space without exceeding the total space allotment permitted by the government.

2.361 In our surveys and in our discussions with building users we were struck by the importance people place on fresh air and daylight in their workplace. Current government standards do not fully recognize these needs. It is ironic that the UN standards adopted by the Ministry guarantee fresh air and daylight for its prison inmates, while the government's standards for its own employees do not.

2.362 *Management interest:* The third and main reason that suitability problems exist, particularly in the small offices, is that management has not paid much attention to them. The Ministry does not measure the suitability of its inventory of offices. If such monitoring were done, the Ministry would be aware of many suitability problems. During the course of our work, for example, we found that in almost one-half of the probation offices, confidential probation and family counselling interviews are held in rooms without adequate soundproofing. The government standards define proper soundproofing for confidential interviews, but no one has ensured that the standard is being applied. In another example, staff in one office said they could cut their space use in half with an efficient layout, but they were unable to do so without the authority to change the layout themselves. Over a third of probation offices complained of poor layouts.

2.363 Many people we surveyed during the audit were dissatisfied with the air quality and heating in their workplace. We also found from our survey and our discussions with staff that these factors were considered important by them. Yet no one we talked to in the Ministry or in the government control agencies has standards for these qualities, or reliable data that related environmental quality to employee productivity.

Office Costs

2.364 The Ministry spent $12.5 million for rental of offices in 1986. The rentals being paid for offices are comparable to the private market in most locations. Where offices are

located within courthouses or prisons, their rental is higher than is strictly necessary because they are sharing in the higher building quality of the main structure. We believe that in most cases the efficiency gains from this type of arrangement more than offset the increased rental cost. However, if courthouses or prisons were designed to support ancillary functions in separate but adjacent buildings (a "mews" concept), the cost premium might be avoided and the concern about judicial independence mentioned above might be diminished.

2.365 An anomaly has occurred with office rentals in the last couple of years. A number of Crown prosecutor and probation offices have moved into higher priced courthouse space from lower priced locations outside the courthouses. Although the cost to the respective branches goes up, the government as a whole benefits because it fills space within the courthouses that would otherwise be unused. Similarly, the Ministry has remained in high-priced space in Robson Square in Vancouver because if it moved out the government could not rent the space at rates that would cover costs. While remaining in this space is reasonable from an overall government perspective, we believe the Ministry should be charged only the market rate it would pay for suitable rental accommodation elsewhere, and that BCBC should absorb the costs of the rent premium. Some of these moves are only short-term solutions, however, as either court expansion or probation expansion will force the ancillary program back out of the courthouses within a few years. In these cases the Ministry is responding to current government policy which emphasizes short-term economies even if higher long-term costs result.

2.366 An area where the Ministry could do more to reduce its office costs is in furniture design, particularly in high rent locations. For example, in downtown Vancouver the annual cost to rent the space occupied by an ordinary bookcase is higher than the cost of the bookcase itself ($200). Use of wall-mounted bookshelves could reduce the space required in these high rent offices. We believe that current central agency policies inhibit optimization of furniture design and use.

MANAGEMENT

2.367 Until 1984, costs of buildings were centrally managed in the Ministry and the government budgeting system isolated these costs from all other forms of expenditure. Although experts in both the Ministry and the government central agencies were trying to reduce the costs of buildings, the overall effect of this arrangement was that the ministry program managers were more concerned with the suitability than the cost; once an initial commitment had been made by the government for a new building, its costs would be automatically funded in perpetuity.

2.368 Since 1984, costs of buildings have been made the responsibility of individual program managers. As well, the budgets for buildings are now pooled with all other forms of program expenditure. Hence, the funds a program manager spends on buildings are not available for expenditure on other things, such as new equipment.

Furthermore, if a manager tries to over-economize on buildings, resulting in an unsuitable facility, his costs of operation for staff and utilities will increase. Buildings experts are still used but in an advisory capacity.

2.369 At the time of our audit the Ministry was still in transition from its old, centralized management system to a decentralized one, and it was experiencing some difficulties. However, we believe that overall this new arrangement provides a better framework for accountability and that the ministry management of building costs has been satisfactory.

Ministry of Attorney General, Management of the Financial Function

Audit Objective

2.370 An audit of the financial function was performed to assess whether the Ministry of Attorney General's financial management and control systems provide reasonable assurance that the financial affairs of the Ministry are properly controlled and are managed economically and efficiently.

Audit Scope

2.371 We reviewed financial management in all branches of the Ministry, but excluded the regulatory bodies that report administratively through the Ministry.

Ministry Profile

2.372 With a 1987 fiscal year budget of $387 million, the Ministry of Attorney General ranks sixth amongst government ministries in terms of annual expenditures. Of this amount, about one-half goes for human resources, both ministry staff and contractors.

2.373 Because the Province operates one of the few unified justice ministries in Canada, with all components of the justice system being responsible to one minister, the organization of the Ministry of Attorney General is complex. There are five operational branches, two headquarters branches and a number of regulatory bodies. The two largest operational branches — Court Services and Corrections — consume over half of the ministry budget.

2.374 Adding to the organizational complexity is the fact that both the Deputy Attorney General and Commissioner of Corrections carry deputy minister status and report directly to the minister. They share responsibility for financial management, each having jurisdiction in his own program area.

2.375 The Ministry operates with a decentralized management structure. Branch heads are individually responsible and accountable for the operations of their respective branches, and for the development of policy and procedures necessary to carry out their mandates. In some branches, including Court Services and Corrections, management responsibility is further decentralized to the regional level.

2.376 This organization provides a challenging environment for financial managers. They must serve both the Deputy Minister and the Commissioner of Corrections effectively, and meet the needs of the decentralized organization while at the same time ensuring that the interests of the Ministry as a whole are met.

Overall Assessment

2.377 The ministry's financial function is decentralized and the financial support provided to program managers varies according to the skill of financial staff and the sophistication of the systems available to them. We concluded that the financial function is properly organized to serve the decentralized management structure of the Ministry and that certain aspects of financial management, such as financial planning and reporting, are conducted satisfactorily. However, other areas need improvement before management can be satisfied that its financial affairs are well controlled and managed economically and efficiently.

2.378 The Ministry is currently working on a number of areas where it has determined its performance could be improved. For instance, a ministry internal audit function has been established, and consideration is being given to improving the control of fixed or physical assets. We believe there are some other areas where the Ministry would benefit from changes. The ministry's decentralized management structure and financial function make financial management more difficult and require financial managers to be vigilant. In our view, the linkages among those in the Ministry with financial responsibility could be made more effective if the central financial group took on a more significant functional role and if coordination of the various financial groups was more formal.

2.379 We also have a concern that, in a few specific cases, the Ministry must seek additional funding from the Legislature, not because of unforeseen circumstances or policy changes, but because of operating plans that are not adjusted to the authorized funding levels.

Audit Findings

ORGANIZATION OF THE FINANCIAL FUNCTION

Organization and Financial Roles

2.380 The Ministry has established a financial organization that recognizes the diversity of its programs and its decentralized management structure. A central financial group in the Administration and Support Services Branch provides ministry-wide accounting services, as well as financial support to smaller programs which do not have their own financial support groups. The two largest branches, Court Services and Corrections, have established their own financial support groups in both their headquarters and regional offices.

2.381 We found the organizational structure to be sound and appropriate for the Ministry. However, because the structure is decentralized, the central financial group is involved only in an indirect way in the financial affairs of a large portion of the Ministry. In these circumstances, effective functional direction from the central group is necessary if the interests of the Ministry as a whole are to be served. Also, to

ensure that a ministry-wide focus and direction is maintained, the separate branch financial units must work cohesively with the central financial group, each recognizing and fulfilling its respective responsibilities.

2.382 The central financial group provides some functional direction and the required coordination exists to a degree. However, in our view, the Ministry would benefit from senior financial staff and the central financial group adopting a more active functional role on a ministry-wide basis.

2.383 The Executive Financial Officer (EFO) disseminates financial policies throughout the Ministry by way of the Executive Committee. Implementation of these policies and procedures is carried out at the operational level. The central financial group is active in coordinating the estimates process, in developing the ministry-wide accounting and reporting systems, and in maintaining signing authorities. It is less actively involved in financial management issues that affect the various individual branches. Rather than using its financial expertise and ministry-wide perspectives to provide ongoing quality assurance, the central group becomes involved primarily when problems arise.

2.384 We also found that the functional relationships in the Ministry are not well documented and are only vaguely understood. To improve the effectiveness of the support it offers, the central financial group should establish better and more formal links to the other financial units.

2.385 We believe the ministry's financial management would be strengthened if the central financial group took a more active role throughout the Ministry. The group would then be in a position to ensure that program managers and their financial support staff understood ministry financial priorities and initiatives, and to provide the EFO with the assurance he requires about the operation of the ministry's financial administration.

Staffing and Training

2.386 The ministry's most senior financial personnel, the EFO and the Senior Financial Officer (SFO), both have extensive experience in their positions. The Ministry generally has appropriate numbers of financial staff both in headquarters and in regional locations. There are fewer professionally qualified staff than we would expect, based on the requirements of some positions.

2.387 A number of staff are actively improving their qualifications. Much of this activity is at the initiative of staff rather than as a result of a ministry analysis of skills needs. The Ministry does provide training opportunities, primarily through the financial management and control course. While this is useful as a foundation for understanding of financial systems, it does not necessarily address specific needs of either financial staff or program managers. Most of the managers we talked to during our audit recognized that the importance of good financial management was increas-

ing, and they were becoming more involved in this aspect of their operations. They were looking for ways to make their involvement more productive. To assist them in their efforts to obtain the skills they need for their expanded role, the central financial group has provided special sessions for some program managers. Continued and increased efforts in this direction are warranted.

FINANCIAL PLANNING, BUDGETING AND REPORTING

Financial Planning and Budgeting

2.388 The Ministry operates a modified zero-based budgeting system, in which budgetary requests and allocations are made on the basis of operating plans. Both program managers and financial staff devote a great deal of time and energy developing their operating plans and determining the financial resources required to implement them. However, the Legislative Assembly makes the final determination of the amounts to be spent for particular purposes by voting funds in the *Supply Act*.

2.389 The funding provided by the Legislative Assembly is not always sufficient to carry out the ministry's operating plan. Where funding allocations match management's plans or where services are adjusted to reflect funding levels, there are no significant problems. However, in some instances the inflexible nature of the programs restrict management's ability to adjust operating plans to the funding levels, and they continue to manage according to their original operating plans. In these cases, management continues to look for opportunities to reduce costs or to transfer funds that are not required elsewhere. However, unless these measures produce enough money to offset the difference between the funds voted by the Legislature and those required by the operating plan, the vote is overexpended.

2.390 The budgets contain sufficient detail to allow managers to control and account for their operation. Although all costs have not yet been allocated to individual cost centers, there has been improvement and further refinements are planned.

2.391 Within programs, budgets are reviewed and challenged at several organizational levels, primarily by program managers. The financial officers' role in the process is primarily that of ensuring all submissions are made in accordance with the instructions and timetables. The central financial group fulfills a similar role on a ministry-wide basis. Overall, however, the skills of financial officers are not used as fully as they could be in assessing budget proposals critically.

Reporting and Monitoring

2.392 The Ministry regularly monitors financial activity at several levels. Financial results are reviewed monthly both in the regions and at headquarters, including an Executive Committee review of all ministry operations. Within some programs, the effectiveness of these reviews is hampered by inconsistent variance analyses.

2.393 In addition to the financial reports available from the ministry reporting system, the subsidiary systems maintained by some branches also produce financial reports. Managers generally rely on the subsidiary systems reports rather than those from the main system because they are more timely and complete.

2.394 Subsidiary reporting systems are being refined and extensive use is made of microcomputers to develop useful management reports. These reports will allow managers to improve control over their operations through use of better and more extensive information systems. Programs within the ministry are increasingly standardizing report formats and seeking to improve analysis guidelines for program managers. Inconsistent direction has resulted in managers operating at different levels of sophistication in managing the financial aspects of their operations.

2.395 Monitoring of costs is further complicated when variances are identified for both the authorized allocation and the operating plan amount. In some cases, monitoring against the authorized allocation is meaningless because the operating plan amounts are the basis against which results are more realistically measured.

MANAGEMENT CONTROLS

Development of Financial Systems

2.396 We found that the processes for implementing financial systems for specific programs do not involve the central financial group in an appropriate role.

2.397 There is no recognized system that is followed by program management; each establishes its own guidelines and processes. Whether the central financial group becomes involved depends primarily on the initiative of program managers rather than on a recognized need for ongoing involvement of the central financial group. While program managers and support staff are responsible for the operation of their system, the SFO is responsible for ensuring that financial systems in the Ministry meet control standards of the Office of the Comptroller General. We believe that, for program specific systems, this requires greater involvement of the SFO during the implementation process.

Management Controls

2.398 Management controls are the methods and processes that management uses to obtain assurance about the operation of the system of financial administration. Ministry managers use a variety of sources for that assurance. Visits to field offices, day-to-day communication, and staff and client response are informal measures used by managers. While they can provide useful insight, they may not provide a balanced assessment. Formal methods such as error reports and audits supplement the informal measures, but are not yet used as effectively as they could be.

2.399 Improvements to financial management are now under way. A ministry internal audit function has been established, and increasing use is being made of computers for management reporting. Management should review the value of its current practices to ensure the full potential of available control measures is being achieved.

Asset Controls

2.400 Although ministry managers recognize the need for control over assets, a ministry policy has not yet been established. In the absence of central guidelines, control procedures are carried out at various levels of diligence by the different branches. However, up-to-date and accurate asset records are generally the exception rather than the norm. The effectiveness of the current control procedures, where implemented, is hindered by inconsistent practices resulting from the lack of ministry-wide defined requirements.

Internal Audit

2.401 We were pleased to learn that a ministry internal audit function was established during 1986. A policy statement has been developed which addresses both independence and reporting relationships. It provides the internal audit function with a suitable role and the independence necessary for it to operate effectively.

2.402 Prior to the establishment of a ministry audit function, other audit groups have been established by some of the major branches. The Ministry will need to ensure that the relationships between these audit groups minimize duplication and promote a coordinated approach to planning and conducting audits.

Response of the Ministry of Attorney General to the Auditor General's Comprehensive Audit Reports

The Auditor General's reports indicate a general satisfaction with the management of those ministry programs reviewed in the comprehensive audits. From the ministry's perspective, the comprehensive audit results, and the process involving auditor general staff with ministry officials, have been constructive.

The comprehensive audit activity was restricted to four major project areas. The results derived from those individual audits will, however, find themselves applied generally and improvements proposed by the Auditor General will be considered for all programs.

The comprehensive audits are limited. An assessment is made, at a point in time, of the operation of certain programs of the ministry. The Auditor General can not report on the progress of the ministry in improving management practice over a number of years.

In the Auditor General's report on the management of the financial function, the audit concluded that the financial function is properly organized to serve the decentralized management structure of the ministry. The audit dealing with the management of buildings and office accommodation determined that for the most part the ministry manages its accommodation satisfactorily. With respect to the Legal Services Branch, the thrust of the report indicated that the branch was providing its clients with acceptable professional services. The audit in the Corrections Branch found a clear perception of direction and objectives, with an appropriate organizational structure.

These general conclusions indicate, from a ministry's perspective, an overall level of satisfaction by the Auditor General with respect to ministry management practice and delivery of programs in those areas reviewed.

The Auditor General details a number of areas where improvements could be made and the ministry will respond accordingly.

Legal Services Branch

This Audit Report represents the first comprehensive audit of the Legal Services Branch. It provides an accurate profile of Branch operations.

Although the Report indicates a high level of client satisfaction with the legal services provided, it points out the need for improved responsiveness to client demands chiefly through improved communication between Branch management and client agencies. This need will be responded to by Branch management.

The Report's recommendation that further work be delegated to support staff, including paralegals, will be further explored.

The span of control of senior management respecting the provision of legal services will be reduced by encouraging the "mentoring" of junior lawyers by their senior colleagues.

The report recognizes "consistent underfunding" in the recent past. This appears to have been rectified by a significant increase in the Branch's funding for fiscal 1987/88.

Management of the Financial Function

As a matter of basic principle, the Ministry of Attorney General is of the view that the various functions of management should be delegated to the lowest organization level, consistent with government policy generally and effective management practice and control specifically. The Auditor General, in the comprehensive audit of the financial function, recommends a higher level of central or functional control than determined by the Ministry.

It is the role of the central financial group to ensure that Government policy is communicated to program managers, who thereafter assume a responsibility to ensure that the needs of the Legislature and Government are met with respect to delivering services within approved budgetary and staffing allocations.

The Auditor General suggests that the central financial group should increase its functional control over the various programs of the ministry relating to financial management. The ministry is of the view that effective decentralization of all functions of management precludes selective centralization of certain programs, including financial management responsibility. The ministry is committed to a course whereby awareness of the importance of financial management is known at all levels of the organization. In that regard, the positive observation of the Auditor General with respect to a growing awareness in the ministry to the importance of sound management financial practice was gratifying.

The initiative of the central financial group in developing policy and procedural manuals, in standardizing ministry management practice and in developing financial management systems will be continued.

The ministry will respond to the recommendations made by the Auditor General and continue with developing improved financial policy and practice.

Corrections Branch

The Corrections Branch is pleased to receive the Auditor General's report on the efficiency and reliability of the Corrections Branch Probation, Family and Community Services programs. This audit has been reviewed and is seen as a worthwhile endeavour. It has confirmed many of the Branch's observations and provides an outside perspective on the effectiveness of the organization.

The Auditor General's Report concludes that the Corrections Branch Probation, Family and Community Services programs were well managed and provide an economic alternative by diverting people from costly options such as court hearings and periods of incarceration. The report also found that the overall organization and the management principles were well-defined and were effective in the delivery of service. The report commented favourably on the Branch's lean management structure and its regionalization and decentralized model of service delivery. Staffing practices and the effective use of contracts were also seen in a

positive light. The report went on to commend the Branch for producing a comprehensive statement of Missions, Goals and Beliefs. Needless to say, the Corrections Branch is quite pleased with these comments.

The Auditor General's Report also made several suggestions which, from the Auditor General's perspective, would assist in strengthening the overall effectiveness of the organization. Many of these suggestions were already being addressed by the Branch at the time the audit took place. For example, the Branch has, for the last two years, produced a strategic plan, the Major Initiative Plan, which details the Branch's plan of action. This plan is currently being revised and will incorporate specific work plans for each initiative which will produce a comprehensive document which will represent the general plan for the next three to five years.

The Branch has also spent a considerable amount of resources on technological upgrades and is currently in the process of implementing a probation records system which will automate probation records, enhance productivity, and assist to better manage the increasing heavy workload demands. The word processing capacity will also assist clerical and secretarial support in local offices which the Auditor General found verged on the inadequate.

With the increase of contractors, the Branch has developed policy and procedures dealing with contract management. It has also recently conducted a comprehensive provincial training program for managers detailing the contracting and audit tendering process. As the Auditor General's Report points out, the Branch has always used contracts to deliver some of its programs. However, with the increase of privatization, the Branch has had to train staff in the area of contract management. It is our observation that the increase in contracts has not cost government additional money or reflected on the quality of service. The Branch plans to continue to evaluate and monitor this activity.

The report also comments on the role of Local Directors and District Directors in the overall operation of the Branch and the need to provide clarification of roles and, possibly, provincial standardization. Management is currently reviewing these positions and updated job descriptions will be produced shortly.

The Auditor General's Report comments on two areas where the Branch needs to do additional work.

1. It was felt that the Branch would increase its effectiveness if it would set targets and measurable goals. This is a significant challenge for the Branch as it is difficult in the public sector, especially in a service delivery ministry, to set realistic and meaningful target goals. For example, what type of goal do you set beyond a statement that states the need to protect society and the community? Research and evaluation unto itself is costly and it is important that whatever design is used produces the desired results. The Branch plans to do further work to produce meaningful goals which will result in a qualitative and quantitative study.
2. The second area that was identified by the Auditor General is for the Branch to increase its attention to the evaluation of the programs. It is true that some activity in this area dropped off with the restraint of 1983; however, in the Major Initiative Plan, several program areas have been identified for evaluation during 1987.

Management of Buildings and Office Accommodation

The Ministry of Attorney General has improved planning and management of buildings occupied and used for ministry programs. That process has involved Treasury Board and the British Columbia Buildings Corporation.

With the British Columbia Buildings Corporation, the ministry constitutes a Facilities Policy Committee which meets routinely to review all major planning and project issues. That process has facilitated planning and communication between both agencies. Treasury Board has developed improved policies and processes for annual budgeting and reporting on facility requirements. These initiatives, in their combination, have generally improved the quality and detail of planning associated with major facility issues.

Since 1980, the ministry, with the approval of Treasury Board, has embarked on a comprehensive accommodation planning and replacement program. The major component of that program relates to the up-grading or replacement of major correctional facilities in the Province. Substandard court facilities have been replaced or renovated in most areas.

The comprehensive audit identifies a number of achievements in the planning and management of accommodation. The report points to a number of deficiencies and makes recommendations for improvements in the management and planning process. The report also makes some detailed recommendations with respect to general office accommodation which will be dealt with by the ministry.

The report of the Auditor General provides a valuable assessment of the progress of the ministry, B.C.B.C., and Treasury Board which will form the basis for on-going planning involving these agencies.

Timing of Ministry Accountability Reporting

2.403 This year we followed up our 1985 review of ministry annual reports, and were pleased to find that ministries have improved the timeliness of these annual accountability documents. Their usefulness, however, is still impaired because the information in them is outdated by the time they are received by members of the Legislative Assembly and the public.

Background

2.404 In our 1985 Annual Report, we noted that in recent years ministries have made their annual reports available to members of the Legislature and to the public only after they have been tabled in the Legislative Assembly. Because of the timing of the government's fiscal year-end and of the sittings of the Legislature, this has meant that ministry annual reports have not been released until one to two years after the period covered by them. The result is that the reports have not been serving their primary purpose, which is to act as a means by which the administration can be held accountable for its use of the powers and public funds entrusted to it. Furthermore, the reports have not been used as a source of information on which future plans could be made or evaluated.

2.405 We also pointed out in our 1985 report that the Financial Administration Policy Manual issued by Treasury Board stipulates that the annual reports of ministries should be submitted not later than six months after the fiscal year-end.

2.406 After the results of our review were issued in our Annual Report, we held discussions with officials of several ministries concerning their efforts to improve their annual reports. During these discussions it became evident that ministries were not aware of the requirement to submit annual reports within six months. They believed that there was a legal requirement to table annual reports in the Legislative Assembly before they could be made publicly available. In fact, there is no such requirement in law. The practice of tabling the reports in the Legislature before making them available publicly is merely a convention that most ministries have adopted.

Follow-up Survey

2.407 This year we sent a letter to each deputy minister clarifying the point that annual reports could be made public before going to the Legislature. We also conducted a follow-up survey in October 1986 to determine whether ministries were complying with the policy that annual reports be issued within six months. We chose October for this survey, as ministries should have completed and released their reports for the 31 March 1986 fiscal year-end by then to meet Treasury Board's six month requirement.

Findings

2.408 We found that few ministry annual reports for the 1986 fiscal year were issued by October 1986. However, most ministries had made significant efforts to improve both the timeliness and content of their reports. For the most part, they intended to complete their 1986 reports by the end of the 1986 calendar year, and while this means most ministries would not meet the six month requirement, it is an improvement over prior years. The date the reports will become available is less certain, as some ministries have not yet decided whether to release their reports prior to tabling them in the Legislative Assembly.

2.409 The delay in completing the reports in some ministries was caused mainly by their efforts to improve the information the reports contained. These improvements frequently required ministries to develop new systems to assemble data that had not been captured previously. These problems should be overcome once the information systems are in place.

2.410 In other ministries, however, further changes will be required. A few ministries report on a basis other than the government's fiscal year. Although on the surface there appear to be sound reasons for using the various reporting periods, we believe it is more important to have all ministry reports correspond to the 31 March fiscal year-end of the Government. The Legislative Assembly provides ministries with their funding on the fiscal year basis, and it is on this basis that they should provide an accounting. In addition, it is only if all ministries report on a consistent basis that elected officials and the public can get a composite picture of the activities of the government as a whole.

2.411 Comments from some of the ministries that report using year-ends other than the Government's lead us to believe that they are addressing their reports to interested groups in the community rather than focusing on the needs of the members of the Legislative Assembly and the public. In our view, the legitimate needs of special interest groups should be met through separate publications for this purpose if an April to March reporting period is not suitable. Providing annual reports that do not cover the same period as the government's fiscal year ignores the needs of the reports' primary audience: those who have supplied the funds.

2.412 The Ministry of Finance currently reports its activities on a calendar year basis, as required by the *Financial Administration Act*. We recommend that the Ministry request an amendment to the *Financial Administration Act* to report on a fiscal year basis.

2.413 The Ministry of Energy, Mines and Petroleum Resources also reports on the calendar year. This is done because technical information for the report is gathered from the private sector on this basis. We suggest that such technical information may be better published in a separate report.

2.414 The Ministry of Education uses a June year-end for its annual report. We recognize that the school year creates a natural cycle for the Ministry, but the Legislature provides funding to the Ministry on a fiscal year basis, and we feel the purpose of the annual report should be to account to the Legislature for what was done with these resources in that fiscal period.

2.415 Other ministries use the appropriate reporting period but have difficulty reporting within six months. The Ministry of Health indicated that meeting the six month requirement reduced the value of its report to researchers, because reporting so soon after the year-end meant using less reliable interim data from hospitals. The Ministry of Transportation and Highways also issues a very detailed report on its activities. Again, we suggest that this level of detail is of limited interest to members of the Legislative Assembly and the general public, and is of greater concern to special interest groups. Such technical detail should be published in a separate report.

Conclusion

2.416 We continue to urge ministries to make their annual reports available as soon as possible after the fiscal year-end. Although there is no legal requirement to provide the reports to members of the Legislative Assembly before they are released to the public, as a practical matter we believe it would be desirable to extend elected representatives the courtesy of receiving the reports in advance of the public. This could be accomplished by sending each member of the Legislative Assembly a copy of the report approximately one or two weeks before its general release.

Audits of Public Bodies

Public Bodies

3.1 The *Auditor General Act* states that the Auditor General is eligible to be appointed the auditor of any Crown corporation or other public body. At 31 March 1986, the Auditor General was the appointed auditor of the 30 public bodies listed below. Assets administered by, and expenditures of, these public bodies total approximately $13.7 billion and $3.3 billion, respectively. Their audited financial statements are included in Volume III of the Public Accounts.

British Columbia Assessment Authority
British Columbia Educational Institutions Capital Financing Authority
British Columbia Health Care Research Foundation
British Columbia Heritage Trust
British Columbia Housing and Employment Development Financing Authority
British Columbia Institute of Technology
British Columbia Place Ltd.
British Columbia Power Commission Superannuation Fund
BC Rail Ltd. Pension Fund
British Columbia Regional Hospital Districts Financing Authority
British Columbia School Districts Capital Financing Authority
College Pension Fund
Creston Valley Wildlife Management Authority Trust Fund
Expo 86 Corporation
Health Facilities Association of British Columbia
Knowledge Network of the West Communications Authority
Legal Services Society
Medical Services Commission of British Columbia
Members of the Legislative Assembly Superannuation Account
Municipal Superannuation Fund
Pacific Vocational Institute
Provincial Capital Commission
Provincial Rental Housing Corporation
Public Service Superannuation Fund
Simon Fraser University
Teachers' Pensions Fund
University of British Columbia
University of Victoria
Workers' Compensation Board of British Columbia
Workers' Compensation Board Superannuation Fund

3.2 The financial statements of the Liquor Distribution Branch also appear in Volume III of the Public Accounts. Since we examine the accounts of this Branch as part of our overall audit of the Government's accounts, no separate audit opinion is given on these statements.

Audits of Public Bodies

3.3 As the auditor of these 30 public bodies, our main responsibility is to express an opinion as to whether their financial statements are presented fairly in accordance with an appropriate basis of accounting. During the year, all of the Auditor General's opinions on the annual financial statements of public bodies were expressed without reservation.

3.4 In the course of our public body audit work, we often note situations where procedures are not followed or where systems of financial control could be improved. Based on such observations, we issue a letter to management of the public body, reporting our concerns and making recommendations for remedial action where appropriate. The issues raised in our letters normally receive prompt action from management.

Appointing Public Body Auditors

3.5 As a result of a change to the *Financial Administration Act* in 1986, the Minister of Finance and Corporate Relations now selects the auditor of many public bodies. His selection is made from a list of prospective auditors recommended to him by the public body's audit committee or board of directors. The only exception to this provision is when another Act either specifically names the Auditor General as auditor, or empowers the Lieutenant Governor in Council to appoint the auditor.

3.6 Subsequent to this amendment, the Office of the Comptroller General issued guidelines for the appointment of public body auditors. These guidelines describe the types of audits a public body may request, which includes legislative and comprehensive audits as well as the traditional financial statement audit. The decision on the types of services which auditors are engaged to provide is left to the audit committee or board of directors of each public body. In addition, the guidelines address the issue of audit reports and provide for the Minister of Finance and Corporate Relations to receive a copy of the auditor's report and the audited financial statements if he so requests. We note that the guidelines also formally provided for this Office to have access to all financial statements, reports, working papers and other documents of the public body auditor.

3.7 Although the guidelines that apply to the appointment of public body auditors should clarify the auditor's terms of engagement and responsibilities, neither the changes to the Act nor the related guidelines establish any requirement for im-

proved accountability information to be provided to the Legislative Assembly. Furthermore, decisions on the scope and type of audit work to be undertaken remain with the public body.

Reliance on Other Auditors

3.8 The Consolidated Financial Statements on which we report include the financial results of certain public bodies that we do not audit. In the year ended 31 March 1986, there were 23 such public bodies with combined assets and expenditures of $17 billion and $3.6 billion, respectively.

3.9 In conducting our audits on the government's Consolidated Financial Statements, we rely on the work of the auditors of these public bodies, making enquiries where necessary. We appreciate the cooperation received from those auditors in providing us with information and answering our questions.

3.10 Appendix II lists those public bodies included in the consolidated statements, but not audited by our Office.

Public Body Accountability Information

3.11 Crown corporations and other public bodies have become significant instruments of government policy in recent years. By some measures their collective financial status and impact exceed those of the government itself.

3.12 If the Legislative Assembly is to exercise adequate control over the activities of these public bodies, it is essential that complete and timely accountability information be made readily available to the Members of the Legislative Assembly.

3.13 The *Financial Information Act* presently in force requires some, but not all, public bodies to publish annual financial statements and some related information. However, it neither specifies how that information is to be made available, nor imposes effective penalties for non-compliance.

3.14 Few of the major Crown corporations are covered by the *Financial Information Act*. However, most are required to provide annual financial statements for tabling in the Legislative Assembly. Since tabling can only occur when the Legislature is sitting, and since the Legislature adjourned at a relatively early date (17 June) in 1986, most Crown corporation financial statements for the 1986 fiscal year have yet to be tabled in the Assembly.

3.15 The Public Accounts, another source of financial information on major Crown corporations, are similarly not available to Members of the Legislative Assembly (MLAs) until the Accounts are tabled in the House. This usually does not occur until some 10 months after the government's fiscal year end.

3.16 Although a new *Financial Information Act* was passed by the Legislative Assembly in 1985, it has never been brought into force.

3.17 The new Act would ensure that public body financial information is more readily available to MLAs. Although legislators may need more than just financial information to evaluate the performance of public bodies properly, the new Act is a significant improvement. We reiterate last year's recommendation that the new *Financial Information Act* be brought into force at an early date.

General Matters

General Matters

Auditor General Retires

4.1 This year marked the end of an era for the Office. Mrs. Erma Morrison, F.C.A., British Columbia's first Auditor General, retired on 31 October 1986. Mrs. Morrison commenced her duties in September 1977, shortly after the *Auditor General Act* was proclaimed, and was serving in her second six-year term at the time of her retirement.

4.2 Throughout her long and distinguished career, Mrs. Morrison displayed a dedication to both those she served and her profession. As Auditor General, her personal commitment to the members of the Legislative Assembly and the citizens of British Columbia, and her high regard for the office she held, set an example for her staff.

4.3 She is missed. We all extend her our very best wishes for an enjoyable retirement.

Acting Auditor General Appointed

4.4 Mr. Robert J. Hayward, C.A., was appointed Acting Auditor General effective 1 November 1986. His appointment was made by the Lieutenant Governor in Council under the provisions of the *Auditor General Act*. Mr. Hayward joined the Office soon after it was formed in 1977 and served as Deputy Auditor General during Mrs. Morrison's term in office.

4.5 The *Auditor General Act* specifies that the Lieutenant Governor, on the recommendation of the Legislative Assembly, shall appoint a person as Auditor General for a six-year term. A special committee of the Legislative Assembly must unanimously recommend to the Assembly the person to be appointed.

4.6 After Mrs. Morrison informed the Speaker of the Legislative Assembly in April 1986 of her intention to resign effective 31 October 1986, a special committee was selected to recommend a person as her successor. However, that committee did not make a recommendation before the Assembly was dissolved in September and an election called. As a result, a new committee will have to be struck at the next session of the Legislature to continue the process of selecting and appointing a new Auditor General.

Administration

4.7 For the last two years, we have reported that the Office was experiencing difficulties which stemmed from the Government's management compensation plan. During the year, the Government introduced a new plan which has eased the problems we had encountered in office administration.

4.8 Under the new plan, we have been able to eliminate most of the inequities in compensation that had developed over time, and accordingly, reduce much of the staff turnover we had experienced as a result of these problems.

Organization

4.9 During the year we made some modifications to the organization of the Office. Two Executive Directors continued with their respective responsibilities for planning and coordination of audit work on the Government's financial statements and on the audits of public bodies. However, in recognition of the increased significance of comprehensive auditing, an Executive Director, Comprehensive and Special Audits, was appointed in April 1986. This individual heads the staff group involved in comprehensive auditing and also provides the Office with the capacity to deal with the demands of special audits as they arise.

4.10 Audit Directors continue to be responsible for the three audit divisions which carry out the audit work in government ministries and public bodies, and for the computer audit group. To cope with the increased activity in comprehensive auditing, an Audit Director was added to that group.

4.11 The Executive Committee, which is the senior policy body of the Office, is comprised of the Acting Auditor General, the Executive Directors and the Directors.

Training and Related Professional Activities

4.12 The fields of legislative accounting and auditing continued to develop at a rapid pace during the year. It is important that our staff remain abreast of these developments if we are to maintain and enhance the level of service provided to the Legislative Assembly and the people of British Columbia. Accordingly, considerable emphasis is placed on training.

4.13 All student-level staff are actively pursuing their professional accounting qualifications through the course of studies prescribed by their respective institute or association. During the year, four members of our staff successfully completed the academic requirements for their professional accounting designations.

4.14 Our professionally qualified staff attended both in-house and external courses in a variety of subjects pertinent to legislative auditors.

4.15 We are particularly pleased with the progress that is evident in the computer skills of our staff. The advances made in the use of computers in auditing have been exceedingly rapid and offer benefits both to audit quality and staff productivity. We believe our staff have adapted well to these techniques and that we are well positioned to take advantage of new developments as they occur.

4.16 We are also pleased that the initiative demonstrated by staff in developing their skills has allowed us to promote existing staff members to fill most vacancies as they occur.

4.17 Several of our staff members take an active part in shaping the advances that are being made in accounting and auditing in the public sector. They contribute to the work of the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants which is undertaking an important project to develop standards for public sector accounting and auditing. Staff also contribute to the ongoing development of comprehensive auditing practices and procedures by assisting the Canadian Comprehensive Auditing Foundation with its work.

Canadian Comprehensive Auditing Foundation

4.18 The Foundation provides leadership in the development of comprehensive auditing methodology. Legislative auditors, public accountants, management consultants and others with an interest in comprehensive auditing contribute to the research and development work of the Foundation and benefit from the technical materials disseminated by the Foundation and the training opportunities afforded by it. The Office finds the work of the Foundation of considerable value as we continue to advance our practice in this developing audit field.

Canadian Conference of Legislative Auditors

4.19 The Canadian Conference of Legislative Auditors is an informal association of Auditors General and Provincial Auditors from the senior governments of Canada. It serves as an important means of exchanging information with others in the field of legislative auditing and provides an opportunity for us to learn from the experiences of others. The Conference held its 14th annual meeting in Regina, Saskatchewan, in July 1986.

4.20 The Conference also afforded a chance for the legislative auditors to meet with senior officials of the Public Accounts Committees of Canada, the provinces and the territories, who met in Regina at the same time. A joint session of the two groups was held.

Other Activities

4.21 Our staff remained active in professional and community affairs during the year. Various staff members served on committees or participated in other ways in the affairs of the Institute of Chartered Accountants of British Columbia, the Canadian Institute of Chartered Accountants, the Canadian Comprehensive Auditing Foundation, the EDP Auditors Association, the Institute of Internal Auditors and other organizations. These activities assist the organizations being served, but also act as

a means of keeping the Office up-to-date on current developments of interest, and contribute to the audit capability of the Office.

4.22 Several of our staff also share their knowledge with others by lecturing at community colleges and universities.

Advisory Council

4.23 A small group of senior members of the accounting profession assist the Auditor General with certain complex issues encountered in carrying out the work of the Office. The members of the Auditor General's Advisory Council are:

Michael J. Ashby, F.C.A.

Arthur Beedle, F.C.A.

Dennis F. Culver, F.C.A.

Denham J. Kelsey, F.C.A.

Ronald W. Park, F.C.A.

Their contribution to our Office is appreciated.

Appendices

Appendix I

Sections of the *Auditor General Act* Relevant to the Responsibilities of the Auditor General

Appointment, Salary, Term and Pension

2. (1) The Lieutenant Governor shall, on the recommendation of the Legislative Assembly, appoint as an officer of the Legislature, a person as Auditor General to exercise the powers and perform the duties assigned to him under this Act.

(2) The Legislative Assembly shall not recommend a person to be appointed as Auditor General unless a special committee of the Legislative Assembly has unanimously recommended to the Legislative Assembly that the person be appointed.

(3) The Auditor General shall be appointed for a term of 6 years and he may be reappointed in the manner provided in this section for further 6 year terms.

(4) The Auditor General shall be paid, out of the consolidated revenue fund, a salary in an amount equal to the salary paid to a Supreme Court judge.

(5) The Auditor General shall be reimbursed for reasonable travelling and out of pocket expenses necessarily incurred by him in discharging his duties.

(6) Subject to subsections (7) to (10), the *Pension (Public Service) Act* applies to the Auditor General.

(7) An Auditor General who retires, is retired or removed from office after at least 10 years' service shall be granted an annual pension payable on or after attaining age 60.

(8) Where an Auditor General who has served at least 5 years is removed from office by reason of a physical or mental disability, section 19 of the *Pension (Public Service) Act* applies and he is entitled to a superannuation allowance commencing on the first day of the month following his removal.

(9) Where an Auditor General who has served at least 5 years dies in office, section 20 of the *Pension (Public Service) Act* applies and the surviving spouse of the Auditor General is entitled to a superannuation allowance commencing on the first day of the month following the death.

(10) When calculating the amount of a superannuation allowance under subsections (7), (8), or (9),

(a) each year of service as Auditor General shall be counted as 1 1/2 years of pensionable service; and

(b) the number of years referred to in section 19 (1) (b) of the *Pension (Public Service) Act* shall be multiplied by 1.5.

(11) Before beginning to perform his duties, the Auditor General shall take an oath before the Clerk of the Legislative Assembly that he will faithfully and impartially exercise the powers and perform the duties of his office.

Resignation, Removal or Suspension

3. (1) The Auditor General may at any time resign his office by written notice to the Speaker of the Legislative Assembly or to the Clerk of the Legislative Assembly if there is no Speaker or if the Speaker is absent from the Province.

(2) On the recommendation of the Legislative Assembly, based on cause or incapacity, the Lieutenant Governor shall

(a) suspend the Auditor General, with or without salary; or

(b) remove the Auditor General from his office

in accordance with the recommendation.

(3) Where the Auditor General is suspended or removed from office or the office of Auditor General becomes vacant, the Lieutenant Governor shall, on the recommendation of the Legislative Assembly, appoint an acting Auditor General to hold office until the end of the period of suspension of the Auditor General or until an Auditor General is appointed under this act, as the case may be.

(4) When the Legislature is not sitting and is not scheduled to sit within the next 5 days, the Lieutenant Governor in Council may, with or without salary, suspend the Auditor General from his office for cause or incapacity but the suspension shall not continue in force after the expiry of 20 sitting days.

Acting Auditor General

4. (1) Where

(a) the Auditor General is suspended or removed or the office of Auditor General becomes vacant when the Legislature is sitting but no recommendation under this Act is made by the Legislative Assembly before the end of that session; or

(b) The Auditor General is suspended or the office of the Auditor General becomes vacant when the Legislature is not sitting,

the Lieutenant Governor in Council may appoint an acting Auditor General.

(2) The appointment of an acting Auditor General under this section terminates

(a) on the appointment of a new Auditor General under section 2;

(b) at the end of the period of suspension of the Auditor General; or

(c) immediately after the expiry of 20 sitting days after the day on which he was appointed

whichever the case may be and whichever occurs first.

Examination of Accounts

6. (1) The Auditor General shall examine in the manner he considers necessary the accounts and records of the government relating to the consolidated revenue fund and all public money, including trust and special funds under the management of the government, and to public property.

(2) Notwithstanding any other Act, the Auditor General

(a) shall be given access to the records of account and administration of any ministry; and

(b) may require and receive from any person in the public service, information, reports and explanations necessary for the performance of his duties.

Report on Financial Statements

7. (1) The Auditor General shall report annually to the Legislative Assembly on the financial statements of the government, including those required by section 8(2) of the *Financial Administration Act,* respecting the fiscal year then ended.

(2) The report shall form part of the public accounts and shall state

(a) whether he has received all of the information and explanations he has required; and

(b) whether in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the government in accordance with the stated accounting policies and as to whether they are on a basis consistent with that of the preceding year.

(3) Where the report of the Auditor General does not contain the unqualified opinion required under this section, the Auditor General shall state the reasons why.

Annual Report

8. (1) The Auditor General shall report annually to the Legislative Assembly on the work of his office and call attention to anything resulting from his examination that he considers should be brought to the attention of the Legislative Assembly including any case where he has observed that

(a) accounts have not been faithfully and properly kept or public money has not been fully accounted for;

(b) essential records have not been maintained;

(c) the rules, procedures or systems of internal control applied have been insufficient

(i) to safeguard and protect the assets of the Crown;

(ii) to secure an effective check on the assessment, collection and proper allocation of the revenue;

(iii) to ensure that expenditures have been made only as authorized; or

(iv) to ensure the accuracy and reliability of the accounting data; or

(d) public money has been expended for purposes other than for which it was appropriated by the Legislature.

(2) In the report the Auditor General may also include an assessment

(a) as to whether the financial statements of the government are prepared in accordance with the most appropriate basis of accounting for the purpose of fair presentation and disclosure; or

(b) as to whether any program being administered by a ministry is being administered economically and efficiently.

Trivial Matters

9. The Auditor General need not report to the Legislative Assembly on any matter he considers immaterial or insignificant.

Submission of Annual Report

10. (1) A report of the Auditor General to the Legislative Assembly shall be submitted by him through the Minister of Finance.

(2) On receipt of a report of the Auditor General, the Minister of Finance shall lay the report before the Legislative Assembly as soon as possible.

(3) If the Minister of Finance does not lay the report before the Legislative Assembly on the first sitting day following the receipt of the report by him, the Auditor General shall transmit the report to the Speaker and the Speaker shall lay the report before the Legislative Assembly.

(4) On being laid before the Legislative Assembly, the annual report of the Auditor General shall be referred to the Public Accounts Committee of the Legislative Assembly.

Special Reports

11. The Auditor General may at any time make a special report to the Legislative Assembly on a matter of primary importance or urgency that, in his opinion, should not be deferred until he makes his annual report.

Other Reports

12. The Auditor General may at any time make a report to the Minister of Finance, the Treasury Board, the Lieutenant Governor in Council, or any public officer on any matter that in the opinion of the Auditor General should be brought to his or their attention.

Special Assignments

13. The Auditor General may undertake special assignments at the request of the Lieutenant Governor in Council, but he is under no obligation to carry out any requested assignment if, in his opinion, it would interfere with his primary responsibilities.

Staff in Ministries

14. (1) The Auditor General may station in any ministry a person employed in his office to enable him to more effectively carry out his duties, and the ministry shall provide the necessary office accommodation for a person so stationed.

(2) The Auditor General shall require every person employed in his office who is to examine the accounts or the administration of a ministry pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that ministry.

Inquiry Powers

15. The Auditor General may examine any person on oath on any matter pertaining to his responsibilities and for that examination the Auditor General has all the powers, protection and privileges of a commissioner under sections 12, 15 and 16 of the *Inquiry Act*.

Public Bodies

16. (1) Notwithstanding any other Act, where the Auditor General is not the auditor of a public body,

(a) the public body shall, on the request of the Auditor General, supply the Auditor General with a copy of all financial statements and reports relating to the public body;

(b) the auditor of the public body shall, on the request of the Auditor General, make available to the Auditor General, within a reasonable time, all working papers, reports and other documents in his possession relating to the public body; and

(c) the Auditor General may conduct examinations of the records and operations of the public body he considers necessary or advisable to carry out his duties under this act.

(2) Notwithstanding any other Act, the Auditor General

(a) shall be given access to the records of account and administration of any public body; and

(b) may require and receive from any officer or employee of a public body information reports and information necessary for the performance of his duties.

Eligibility As Auditor

17. Notwithstanding any other Act, the Auditor General is eligible to be appointed the auditor, or a joint auditor, of a Crown corporation, Crown agency or public body.

Transfer of Audit Duties

18. The Lieutenant Governor in Council may transfer to the Auditor General the duty imposed by any Act on the Comptroller General to conduct an audit.

Appendix II

Public Bodies, of Which the Auditor General Was not the Appointed Auditor, Whose Financial Statements Are Included in Sections G and H of the Public Accounts

British Columbia Buildings Corporation
British Columbia Cellulose Company
British Columbia Development Corporation
British Columbia Ferry Corporation
British Columbia Food Exhibitions Ltd.
British Columbia Housing Management Commission
British Columbia Hydro and Power Authority
British Columbia Hydro and Power Authority Pension Fund
British Columbia Lottery Corporation
B.C. Pavilion Corporation
British Columbia Petroleum Corporation
— Petroleum Corporation Fund
— Natural Gas Price Adjustment Fund
British Columbia Railway Company
British Columbia Steamship Company (1975) Ltd.
British Columbia Systems Corporation
British Columbia Transit
Discovery Foundation
Housing Corporation of British Columbia
Insurance Corporation of British Columbia
Ocean Falls Corporation
Pacific Coach Lines Limited
Science Council of British Columbia and Secretariat on Science, Research and Development
Universities Council
W.L.C. Developments Ltd.

Appendix III

Sections A, C and D of the Public Accounts

The material which forms Appendix III is an excerpt from the Public Accounts of British Columbia for the fiscal year ended 31 March 1986.

SECTION A

COMBINED FINANCIAL STATEMENTS

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Province of British Columbia

Office of the Auditor General
Province of British Columbia

8 Bastion Square
Victoria
British Columbia
V8V 1X4

AUDITOR GENERAL'S REPORT

To the Legislative Assembly
of the Province of British Columbia
Parliament Buildings
Victoria, British Columbia

I have examined the combined balance sheet of the Government of the Province of British Columbia as at 31 March 1986, and the combined statements of operating results and changes in cash and temporary investments for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances. I have received all the information and explanations I have required.

I report in accordance with section 7 of the *Auditor General Act*. In my opinion, these combined financial statements present fairly the financial position of the Government of the Province of British Columbia as at 31 March 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with the stated accounting policies as set out in Note 1 to these financial statements applied on a basis consistent with that of the preceding year.

Erma Morrison

ERMA MORRISON, F.C.A.
Auditor General

Victoria, British Columbia
29 August 1986

COMBINED BALANCE SHEET AS AT MARCH 31, 1986

	Note	In Thousands 1986	1985
ASSETS		$	$
Cash and temporary investments	2	64,623	204,239
Accounts receivable	3	713,710	694,288
Inventories	4	109,653	106,049
Investments in and amounts due from Crown corporations and agencies	5	380,770	488,744
Loans, advances and mortgages receivable	6	440,558	470,414
Fiscal Agency loans	7	1,824,005	1,309,626
Other assets	8	127,964	118,240
		3,661,283	**3,391,600**
LIABILITIES AND NET EQUITY			
Liabilities:			
Accounts payable and accrued liabilities	9	838,315	822,114
Due to Crown corporations and agencies	10	143,009	169,108
Deferred revenue	11	210,627	193,950
Public debt, issued for Government purposes	12	3,197,088	2,475,936
Public debt, to finance Fiscal Agency loans	13	1,824,005	1,315,761
		6,213,044	4,976,869
Net Equity:			
Net equity (deficiency) — beginning of year (as restated for 1985)		(1,585,269)	(591,396)
Net expenditure for the year		(966,492)	(993,873)
Net deficiency — end of year		(2,551,761)	(1,585,269)
		3,661,283	**3,391,600**
Fixed Assets	1		
Contingencies and Commitments	14		

The accompanying notes and supplementary statements are an integral part of these financial statements.

Approved on behalf of the Ministry of Finance:

P. G. HALKETT
Acting Deputy Minister of Finance and Secretary of Treasury Board

D. B. MARSON
Comptroller General

COMBINED STATEMENT OF OPERATING RESULTS FOR THE FISCAL YEAR ENDED MARCH 31, 1986

	In Thousands		
	1986		1985
	Estimated	Actual	Actual
	$	$	$
Revenue			
Taxation	4,678,000	4,649,401	4,360,553
Natural resources	732,000	699,553	720,914
Other	527,000	606,829	557,204
Contributions from Government enterprises	390,000	398,375	360,303
Contributions from the Federal Government	1,839,000	1,825,640	1,790,968
Total revenue	**8,166,000**	**8,179,798**	**7,789,942**
Expenditure			
Health	2,583,700	2,587,103	2,506,715
Social services	1,570,500	1,526,900	1,484,499
Education	1,753,600	1,735,223	1,710,935
Transportation and communications	1,010,300	1,081,048	765,838
Natural resources, trade and industrial development	632,700	659,881	528,510
Protection of persons and property	411,600	427,117	411,259
Aid to local government	295,000	297,901	286,584
Debt servicing[1]	384,100	341,894	274,581
General government	153,000	161,304	169,716
Housing	76,600	87,887	72,923
Recreation and cultural services	66,000	67,456	58,873
Other	118,900	172,576	513,382
Total expenditure	**9,056,000**	**9,146,290**	**8,783,815**
Net Expenditure for the Year	**(890,000)**	**(966,492)**	**(993,873)**

[1] Debt servicing does not include interest of $184,328,000 on borrowings to finance Fiscal Agency loans as the interest revenue and expenditure are intended to be offsetting.

The accompanying notes and supplementary statements are an integral part of these financial statements.

COMBINED STATEMENT OF CHANGES IN CASH AND TEMPORARY INVESTMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1986

	In Thousands			
	1986		1985	
	$		$	
OPERATING TRANSACTIONS				
Net expenditure for the year		(966,492)		(993,873)
Non-cash items included in net expenditure		75,169		91,816
Cash items applicable to future operations		7,478		(6,088)
Cash used for operations		(883,845)		(908,145)
INVESTMENT TRANSACTIONS				
Loans, advances and mortgage repayments (issues)	11,082		47,365	
Divestment of (investment in):				
Crown corporations	53,359		2,131	
Other assets	(10,634)		(17,842)	
Cash derived from investing		53,807		31,654
Total financial requirements		(830,038)		(876,491)
FINANCING TRANSACTIONS (Net)				
Increase in Public debt issues	1,193,580		1,944,740	
Less: used for Fiscal Agency loans	(503,158)		(1,071,012)	
Cash derived from financing		690,422		873,728
Decrease in cash and temporary investments		(139,616)		(2,763)
Balance — Beginning of Year		204,239		207,002
Balance — End of Year		64,623		204,239

The accompanying notes and supplementary statements are an integral part of these financial statements.

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1986

1. Significant Accounting Policies

(a) Reporting Entity

These financial statements include the transactions and balances of the General Fund and Special Funds which combined are known as the Consolidated Revenue Fund. Separate consolidated financial statements of the Province are prepared which include the financial activities of certain Crown corporations and agencies. (*See* Section C of the Public Accounts)

For purposes of these financial statements the accounts of the Province are presented as one Consolidated Revenue Fund, which is comprised of:

- General Fund — it includes all transactions and balances of the Province not otherwise earmarked by legislative action, including the accounts of the British Columbia Liquor Distribution Branch, the Queen's Printer and the Purchasing Commission; and
- Special Funds — these are comprised of all amounts set aside from the General Fund by special disposition of the Legislature for specific purposes.

(b) Principles of Combination

The accounts of the General Fund are combined with the Special Funds after adjusting them to conform with the accounting policies as described below. Interfund revenue and expenditure transactions are eliminated upon combination.

(c) Basis of Accounting

The accrual basis of accounting is used which, for these combined financial statements, is specifically expressed as follows:

Revenue

All revenues are recorded on an accrual basis except where the accruals cannot be determined with a reasonable degree of certainty or where their estimation is impracticable. The exceptions, which normally relate to certain payments to the Province under the *Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act, 1977*, are recorded on a cash basis.

Revenues from Crown corporations are recognized when cash transfers are received or when dividends are declared.

Expenditure

All expenditures, including the cost of fixed assets, are recorded for goods received and services rendered during the year.

Grants and forgivable loans are recorded as expenditure when disbursement of the funds has been authorized, with the following exception:

social assistance payments during a given month to meet the needs of recipients in an ensuing month, are recorded as expenditure in the period to which the payments apply.

Recoveries of expenditure may be permitted as a credit to the appropriate expenditure account when:

(i) they can be specifically identified with the expenditure transactions and payment has actually been made from an appropriation;
(ii) provision for them has been approved through the Estimates or by Treasury Board; and
(iii) the expenditure to which they relate was incurred in the same fiscal year.

Assets

All assets are recorded to the extent that they represent claims upon outside parties or items held for resale to outside parties as a result of events and transactions prior to the year-end. Rental payments for leases which transfer the benefits and risks incident to the ownership of certain assets, not including special purpose buildings, are reported as expenditures at the dates of inception of the leases.

Liabilities

All liabilities are recorded to the extent that they represent claims payable to outside parties as a result of events and transactions prior to the year-end.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate prevailing at the year-end and foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction unless hedged by forward contracts which specify

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1986 — Continued

1. Significant Accounting Policies — Continued

the rate of exchange. Adjustments to revenue or expenditure transactions arising as a result of foreign currency translation are credited or charged to operations at the time the adjustments arise. Unrealized foreign currency gains and losses on long-term, fixed term monetary assets and liabilities are reported as a deferred charge and amortized over the remaining terms of the related items on a straight-line basis.

Non monetary assets and liabilities are translated at historical rates of exchange.

(d) Specific Policies

Cash and Temporary Investments

Cash balances are shown after deducting outstanding cheques issued prior to the year-end. Cheques issued subsequent to the year-end relating to the previous year are included in accounts payable.

Temporary investments represent short-term investments, including those in Crown corporations, made to obtain a return on a temporary basis.

Temporary investments are recorded at the lower of cost and market value.

Accounts Receivable

All amounts receivable (including any trade receivables from Crown corporations and agencies) at the year-end for work performed, goods supplied or services rendered are recorded as part of the revenue of the fiscal year. Provision is made where collectibility is considered doubtful.

Inventories

Inventories comprise items held for resale and are recorded at the lower of cost and net realizable value. Inventories of supplies are charged to the respective programs when the cost is incurred.

Property under development is comprised of all property which will eventually be sold to outside parties. Such property is recorded at the lower of cost and net realizable value.

Investments In and Amounts Due from Crown Corporations and Agencies

Investments in and amounts due from Crown corporations and agencies represent long-term investments and amounts due, other than trade receivables, and are recorded at cost unless significant prolonged impairment in value has occurred, in which case they are written down to recognize this loss in value.

Loans, Advances and Mortgages Receivable

Loans and advances of a miscellaneous nature are recorded at cost after adjustment for any prolonged impairment in value.

Mortgages receivable are secured by real estate and are repayable over periods ranging up to thirty years. Provision is made where collectibility is considered doubtful.

Fiscal Agency Loans

Fiscal agency loans consist of loans made to government bodies which have been financed by borrowings made by the Minister of Finance, in his capacity as fiscal agent, on behalf of government bodies in accordance with the *Financial Administration Act* (S.B.C. 1981, chap. 15). These loans are recorded at maturity value less unamortized discount and sinking fund balances. Discount is amortized on a straight-line basis over the lives of the loans.

Fixed Assets

Disbursements for fixed assets are recorded as expenditures in the year the assets are received. Consistent with the reporting of fixed assets as expenditures, highways, bridges, wharves, ferries and ferry landings, buildings, office equipment, furniture, automobiles and Crown land comprised of parks, forests and all other publicly held land in the Province are recorded at a nominal value of $1.

Other Assets

Other assets include prepaid program costs. Prepaid program costs represent expenditures made during the fiscal year for work to be performed, goods to be supplied, services to be rendered or contractual obligations to be fulfilled by outside parties in a subsequent fiscal year. These costs also include inventories of operating materials held in the Purchasing Commission and Queen's Printer warehouses pending distributions in a subsequent fiscal year.

Also included in other assets are certain deferred charges.

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1986 — Continued

1. Significant Accounting Policies — Continued

Accounts Payable and Accrued Liabilities

All amounts payable (including trade payables to Crown corporations and agencies) for work performed, goods supplied, services known to have been rendered or for charges incurred in accordance with the terms of a contract are recorded as part of the expenditure of the fiscal year.

Due to Crown Corporations and Agencies

Amounts due to Crown corporations and agencies represent liabilities incurred, other than trade payables, which are repayable in the following year.

Deferred Revenue

Deferred revenue represents amounts received prior to the year-end in payment of revenue that will be earned in subsequent fiscal years.

Public Debt

Public debt represents direct debt obligations for the purposes of the Province of British Columbia and the Fiscal Agency loans. These obligations are recorded at principal less unamortized discount and sinking fund balances where applicable. Discount is amortized on a straight-line basis over the lives of the respective issues.

Guaranteed Debt

Guaranteed debt represents that debt of municipalities and other local governments, private enterprises and individuals, and debt and minority interests of Provincial Crown corporations which has been explicitly guaranteed by the Province under the authority of a statute as to net principal or redemption provisions and accrued interest or dividends outstanding.

Commitments

Commitments represent obligations of the Province to the extent of contracts and agreements in place at the year-end.

2. Cash and Temporary Investments

	In Thousands	
	1986	1985
	$	$
Cheques issued in excess of funds on deposit	(181,019)	(30,006)
Temporary investments	408,522	374,437
	227,503	344,431
Less amounts applicable to Trust Funds (See Section D)	(162,880)	(140,192)
	64,623	204,239

Other than statutory requirements or administrative policies which specifically provide for the maintenance of separate bank accounts, the Government's cash balances and temporary investments are all held in General Fund bank and investment accounts. At year-end, balances applicable to trust funds outside the Consolidated Revenue Fund are deducted from the General Fund balance and reported in the trust fund accounts.

Included in temporary investments are bonds and notes of certain Crown corporations amounting to $859,000 (1985 $293,000).

3. Accounts Receivable

	In Thousands	
	1986	1985
	$	$
Taxes receivable	280,270	262,093
Local government bodies	208,523	215,090
Government of Canada	62,840	76,430
Ministerial accounts receivable	192,899	136,082
Accrued interest	46,636	39,764
Crown corporations and agencies	7,068	10,978
	798,236	740,437
Less provision for doubtful accounts	(84,526)	(46,149)
	713,710	694,288

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1986 — Continued

4. Inventories

	In Thousands 1986	1985
	$	$
Property under development	59,863	57,866
British Columbia Liquor Distribution Branch	46,562	43,104
Ministerial inventories	3,228	5,079
	109,653	106,049

5. Investments In and Amounts Due From Crown Corporations and Agencies

	In Thousands 1986			1985
	Investments	Amounts Due	Total	Total
	$	$	$	$
British Columbia Buildings Corporation		54,885	54,885	71,947
British Columbia Cellulose Company[1]				
British Columbia Development Corporation[2]		20,779	20,779	75,468
British Columbia Ferry Corporation	6,851		6,851	6,851
British Columbia Food Exhibitions Ltd.[1]				
British Columbia Hydro & Power Authority		8,081	8,081	8,077
British Columbia Lottery Corporation		13,282	13,282	13,282
British Columbia Petroleum Corporation		100,905	100,905	135,905
British Columbia Railway Company	27,116	10,235	37,351	37,351
British Columbia Regional Hospital Districts Financing Authority		12,000	12,000	12,000
British Columbia School Districts Capital Financing Authority		44,084	44,084	44,080
British Columbia Steamship Company (1975) Ltd.[1]				
British Columbia Transit		55,000	55,000	55,000
Housing Corporation of British Columbia[1]				
Pacific Coach Lines Limited[1]				
Provincial Rental Housing Corporation	634	25,416	26,050	27,281
W.L.C. Developments Ltd.[1]				
Workers' Compensation Board of British Columbia		1,502	1,502	1,502
	34,601	346,169	380,770	488,744

[1] The Province's investment is less than one thousand dollars for these corporations.
[2] See Note (c).

(a) Definitions

The entire issued capital stock of each of the Crown corporations recorded under investments is owned by the Province. A number of Crown corporations and agencies exist for which the Province has no recorded investment.

Amounts due represent long-term notes and debentures of Crown corporations and agencies held by the Province, in addition to recoverable advances due to the Province.

(b) British Columbia Cellulose Company (the Company)

The *British Columbia Cellulose Company Repeal Act* came into force March 31, 1986 by regulation of the Lieutenant Governor in Council. Effective April 1, 1986 the Company is dissolved and all of the properties and liabilities transferred to the Crown.

(c) British Columbia Development Corporation (the Corporation)

During the year ended March 31, 1986 the Province's investment of $54,618,300 in shares of the Corporation was written down to zero by means of a provision made under the authority of the *Financial Administration Act*, section 14. This action was taken to reflect the significant prolonged impairment in the value of the investment due to continuing heavy losses sustained by the Corporation.

(d) British Columbia Food Exhibitions Ltd.

British Columbia Food Exhibitions Ltd. has been organized to carry out an international food trade show "Food Pacific 86", to be held August 29 to September 2, 1986. Recognition of revenue and expenses has been deferred until completion of the show.

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1986 — Continued

5. Investments In and Amounts Due From Crown Corporations and Agencies — Continued

(e) British Columbia Petroleum Corporation (the Corporation)

Prior to July 1, 1985 the Corporation's retained earnings were recorded as due to the Province because these amounts were considered to have been collected in lieu of other forms of taxation. Subsequent to the *Natural Gas Price Act*, the Corporation is no longer a revenue collecting agent of the Province. Any transfer of funds to the Province will be applied to reduce the amount due from the Corporation. In 1985/86, the amount of this transfer was $35,000,000.

(f) Pacific Coach Lines Ltd. (the Company)

Effective March 31, 1984 the operations of Pacific Coach Lines Ltd. ceased and wind-up of the Company commenced. At March 31, 1986 all operating equipment and certain real estate holdings had been sold to independent interests. The wind-up of the Company will be completed following disposal of the remaining real estate assets.

(g) Ocean Falls Corporation (the Corporation)

The *Ocean Falls Corporation Repeal Act* came into force March 31, 1986 by regulation of the Lieutenant Governor in Council. Effective April 1, 1986 the Corporation is dissolved and all the properties and liabilities transferred to the Crown.

6. Loans, Advances and Mortgages Receivable

	In Thousands	
	1986	1985
Loans and advances pursuant to	$	$
Ministry of Industry and Small Business Development Act	10,711	45,940
Industrial Development Fund Act	22,985	24,305
Low Interest Loan Agreement Revolving Fund Act	28,679	
Agricultural Land Development Act	17,161	18,292
Downtown Revitalization	14,883	10,839
British Columbia Credit Unions under Housing Initiative Program Agreement		31,638
Homeowner Assistance Act	72,840	79,918
Crop Insurance Stabilization	10,000	5,100
Other	2,093	2,708
	179,352	218,740
Less provision for doubtful accounts	(20,066)	(17,680)
	159,286	201,060
Mortgages receivable		
Crown Land — Pursuant to *Ministry of Lands, Parks and Housing Act*	36,379	38,083
Provincial Home Acquisition — Pursuant to the *Provincial Home Acquisition Act, Home Purchase Assistance Act*, and the *Home Conversion and Leasehold Loan Act*	252,537	234,271
Other	1,400	
	290,316	272,354
Less provision for doubtful accounts	(9,044)	(3,000)
	281,272	269,354
	440,558	470,414

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1986 — Continued

7. Fiscal Agency Loans

	In Thousands			
	1986			1985
	Short Term	Long Term	Total	Total
	$	$	$	$
British Columbia Assessment Authority	3,637		3,637	3,320
British Columbia Buildings Corporation	39,781	99,122	138,903	124,562
British Columbia Development Corporation		10,000	10,000	
British Columbia Educational Institutions Capital Financing Authority		11,718	11,718	5,188
British Columbia Hydro & Power Authority		440,255	440,255	353,340
British Columbia Place Ltd.	66,783	44,182	110,965	77,077
British Columbia Railway Company	18,996	74,264	93,260	140,679
British Columbia Systems Corporation	2,019		2,019	
British Columbia Transit	349,123	310,938	660,061	375,929
Certificate of Approval Program	34,860		34,860	11,694
Expo 86 Corporation	286,838		286,838	206,388
Simon Fraser University	1,362		1,362	
University of British Columbia	22,647	4,988	27,635	11,449
W.L.C. Developments Ltd.	2,492		2,492	
	828,538	995,467	1,824,005	1,309,626

8. Other Assets

	In Thousands	
	1986	1985
Prepaid Program Costs	$	$
Guaranteed Available Income for Need Act	65,915	71,788
Medical Services Commission of B.C.	21,149	18,867
Other ministerial prepayments	14,738	5,551
Unamortized issue costs of Public Debt	12,989	9,821
Unamortized foreign exchange losses less gains	13,173	12,213
	127,964	118,240

9. Accounts Payable and Accrued Liabilities

	In Thousands	
	1986	1985
	$	$
Ministry trade accounts and other liabilities	519,717	529,748
Accrued interest on public debt	138,277	102,351
Accrued employee leave entitlements	95,855	100,725
Forest Act, Section 88	55,597	50,306
Government of Canada	28,869	38,984
	838,315	822,114

The amount payable under section 88 of the *Forest Act* is for work such as the construction of logging access roads and structures, reforestation, silviculture and similar activities performed. Payment will only be made as an offset against related timber stumpage payments which would otherwise be due to the Province.

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1986 — Continued

10. Due to Crown Corporations and Agencies

	In Thousands 1986	1985
	$	$
British Columbia Development Corporation	3,158	2,150
British Columbia Housing Management Commission		17
British Columbia Hydro and Power Authority		87
British Columbia Institute of Technology		382
British Columbia Transit	1,237	10,997
Health Facilities Association of British Columbia	884	
Legal Services Society		420
Medical Services Commission of B.C.	130,111	143,046
Pacific Vocational Institute	9	1,191
Simon Fraser University	1,712	1,536
University of British Columbia	4,554	6,571
University of Victoria	1,011	977
Workers' Compensation Board of British Columbia	333	1,734
	143,009	169,108

11. Deferred Revenue

	In Thousands 1986	1985
	$	$
Motor vehicle licences and permits	71,633	63,297
Water rentals and recording fees	59,958	51,597
Petroleum, natural gas, and minerals leases and fees	31,585	31,893
Canada Assistance Plan	30,473	30,565
Miscellaneous	16,978	16,598
	210,627	193,950

12. Public Debt Issued for Government Purposes

	In Thousands 1986	1985
Short term promissory notes	$	$
Payable in Canadian currency	147,594	7,471
Payable in United States currency (U.S. $82,323,000; 1985 - U.S. $15,000,000)	115,445	20,551
	263,039	28,022
Less: Unamortized discount	(1,315)	
	261,724	28,022
91-day Treasury Bills	780,000	780,000
Less: Unamortized discount	(9,737)	(9,790)
	770,263	770,210
Notes and bonds		
Payable in Canadian currency	2,139,438	1,640,412
Payable in United States currency (U.S. $174,240,000; 1985 - $174,596,000)	243,466	238,673
	2,382,904	1,879,085
Less: Unamortized discount	(177,016)	(192,783)
	2,205,888	1,686,302
Less: Sinking fund balances	(40,787)	(8,598)
	2,165,101	1,677,704
	3,197,088	2,475,936

Short term promissory notes payable in U.S. currency are hedged to mature in Canadian funds. Notes outstanding at March 31, 1986 mature at various dates to May 9, 1986 at an annual average interest rate of 11.62%. During the year $533,729,000 in notes were issued at interest rates which varied between 9.25% - 12.73%.

Treasury bills outstanding at March 31, 1986 mature at various dates to June 25, 1986 at an annual average interest rate of 10.67%. During the year, $3,120,000,000 in Treasury bills were issued at interest rates which varied between 8.52% - 11.86%.

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1986 — Continued

12. Public Debt Issued for Government Purposes—Continued

The Province had 77 series of notes and bonds outstanding at March 31, 1986.

Included in notes and bonds payable in Canadian currency are Japanese Yen notes totalling 14.3 billion Yen (1985: nil) which have been hedged to $83.8 million Canadian (1985: nil) through currency exchange agreements.

Included in notes and bonds payable in U.S. currency are Swiss Franc notes totalling 325 million Franc (1985: 325 million Francs) which have been hedged to $149 million U.S. (1985: $149 million U.S.) through a currency exchange agreement.

The following notes and bonds were issued by the Province during the year ended March 31, 1986.

Date of Maturity	Series	Coupon Rate	Principal	Currency
		%	In thousands	
May 30, 1988	PRG	10.50	50,000	Canadian
April 15, 1990	BCEC-4	12.00	125,000	Canadian
December 10, 1990	PRK	9.75	237,978	Canadian
October 25, 1992	BCJY-3	10.76	28,595	Canadian
March 27, 1993	BCJY-4	9.45	15,000	Canadian
April 23, 1993	BCJY-2	11.41	40,224	Canadian
June 20, 1995	PRH	11.00	225,000	Canadian

The aggregate amounts of payments estimated to be required in each of the next five fiscal years to meet sinking fund and retirement provisions are:

	In Thousands	
	Canadian Funds	U.S. Funds
	$	$
1987	62,141	8,078
1988	88,241	887
1989	199,769	687
1990	96,444	149,536
1991	397,505	687

13. Public Debt to Finance Fiscal Agency Loans

	In Thousands	
	1986	1985
Short term promissory notes	$	$
Payable in Canadian currency	721,284	444,800
Payable in United States currency (U.S. $90,177,000; 1985 - U.S. $108,900,000)	127,290	148,295
	848,574	593,095
Less: Unamortized discount	(20,036)	(9,470)
	828,538	583,625
Notes, bonds and debentures payable in Canadian currency	1,019,699	748,038
Less: Unamortized discount	(12,675)	(13,420)
	1,007,024	734,618
Less: Sinking fund balances	(11,557)	(2,482)
	995,467	732,136
	1,824,005	1,315,761

Short term promissory notes payable in U.S. currency are hedged to mature in Canadian funds. Notes outstanding at March 31, 1986 mature at various dates to October 15, 1986 at an annual average interest rate of 10.51%. During the year, $3,333,985,000 in notes were issued at interest rates which varied between 8.36% - 12.89%.

The Province had 24 issues of notes and debentures outstanding at March 31, 1986.

Included in notes, bonds and debentures payable in Canadian currency are Japanese Yen notes totalling 14.5 billion Yen (1985: 10 billion Yen) which have been hedged to $89.8 million Canadian (1985: $54.8 million) through foreign currency exchange agreements.

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1986 — Continued

13. Public Debt to Finance Fiscal Agency Loans—Continued

The following notes, bonds and debentures were issued by the Province during the year ended March 31, 1986.

Date of Maturity	Series	Coupon Rate	Principal	Currency
		%	In thousands	
May 30, 1988	PRG	10.50	50,000	Canadian
December 10, 1990	PRK	9.75	12,022	Canadian
March 27, 1993	BCJY-4	9.45	35,000	Canadian
June 20, 1995	PRH	11.00	25,000	Canadian
April 10, 2005	BCCP-9	12.57	36,790	Canadian
May 10, 2005	BCCP-10	12.15	50,612	Canadian
July 10, 2005	BCCP-11	10.86	37,748	Canadian
August 9, 2005	BCCP-12	10.99	24,490	Canadian

The aggregate amounts of payments estimated to be required in each of the next five fiscal years to meet sinking fund and retirement provisions are:

	In Thousands Canadian Funds
	$
1987	10,337
1988	10,337
1989	60,337
1990	334,399
1991	31,479

14. Contingencies and Commitments

(a) Guaranteed debt

Guaranteed debt as at March 31, 1986 totalled $12 billion. Included in guaranteed debt is that debt of municipalities and other local governments, private enterprises and individuals, and debt and minority interests of Provincial Crown corporations which has been explicitly guaranteed by the Province under the authority of a statute as to net principal and accrued interest outstanding. *See* Statement of Guaranteed Debt on A32 for details.

(b) Contingent liabilities

(i) Pending litigation

The Government is a defendant in legal actions which may give rise to future liabilities. Because the outcome of the litigation is uncertain, no amount has been recorded in these financial statements.

The Government has a contingent liability in respect of the following summary of cases where the estimated or known claim is or exceeds $100,000:

- a substantial unquantified claim has been made by a mining company as compensation for being disallowed to proceed with mining in a Provincial park;
- claims totalling $3.5 million have been made by logging companies for negligence in issuing scale and royalty accounts;
- various claims totalling $5.5 million against assessments for social services, logging, mining, and corporation capital taxes; and
- various legal actions totalling $7.3 million (each between $100,000 and $2 million) representing claims of damages to persons and property or other miscellaneous claims.

(ii) Other contingent liabilities

The Government also has contingent liabilities in the form of indemnities, indirect guarantees and outstanding claims. Because these amounts are uncertain no liability for them has been recorded in these financial statements.

(c) Commitments

General

At the end of each year Government has a number of general commitments outstanding for ongoing programs and operations. Such future expenditures are charged to the appropriation in the year in which the work or service is performed. Commitments for capital construction projects totalled approximately $176 million, and commitments of a non-capital nature totalled approximately $573 million.

NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1986 — Continued

14. Contingencies and Commitments—Continued

Expo 86 Corporation (the Corporation)

As the sole owner, the Province is ultimately responsible for the Corporation's final operating deficit. While the exact amount of the deficit is not yet known, the Province has committed to fund the required amount by way of contributions from Lotto 6/49. Up to March 31, 1986 Lotto 6/49 contributions to the Corporation totalled $105,334,715.

(d) Superannuation and pension actuarial valuations

The Government has statutory responsibility for unfunded liabilities of the Public Service Superannuation Fund and the Teachers' Pensions Fund, as shown in the latest available actuarial valuations, as follows:

	In Thousands	
	Public Service Superannuation as at March 31, 1984	Teachers' Pensions as at December 31, 1984
Assets	$	$
Fund	1,660,012	1,411,044
Present value of future contributions	1,741,452	2,142,951
	3,401,464	3,553,995
Unfunded Liability	555,858	1,392,116
Total Actuarial Liability	3,957,322	4,946,111

See Section H of the Public Accounts for further details of these plans.

15. Trust Funds

Amounts held and administered in trust by the Government at the end of the fiscal year were comprised of the following:

	In Thousands	
	1986	1985
	$	$
Superannuation and Pension Funds	7,408,431	6,509,907
Sinking Funds	2,511,014	2,239,834
Other Managed Trust Funds	750,438	536,854
Workers' Compensation Board of British Columbia	2,276,187	1,922,725
Custodial Deposits	341,069	328,923
	13,287,139	11,538,243

See section D of the Public Accounts for further details.

16. Subsequent Event

British Columbia Place Ltd.

Effective April 1, 1986 the Province undertook to transfer to British Columbia Place Ltd. the one issued share of W.L.C. Developments Ltd. and certain properties under development in Coquitlam and Victoria, for the consideration of $1. The Province's development costs to March 31, 1986 of the Coquitlam and Victoria properties totalled $13.5 million.

17. Comparatives

Certain of the comparative figures for the previous year have been reclassified to conform with the current year's presentation. These reclassifications have had no effect on the operating results or fund balances as previously reported.

STATEMENT OF COMBINED REVENUE BY SOURCE FOR THE FISCAL YEAR ENDED MARCH 31, 1986

	In Thousands			
	Estimated		Actual	
Taxation Revenue	$	$	$	$
Personal income	2,005,000		2,073,088	
Corporation income	415,000		323,481	
Social service	1,441,000		1,451,761	
Gasoline	385,000		354,772	
Motive fuel use	58,000		65,248	
Tobacco	182,000		188,271	
Corporation capital	95,000		94,340	
Property (rural areas)	39,000		38,204	
Insurance premium	24,000		25,295	
Hotel room	27,000		27,657	
Horse Racing	7,000		7,184	
Succession and Gift			100	
Total Taxation Revenue		**4,678,000**		**4,649,401**
Natural Resource Revenue				
Petroleum and Natural Gas				
British Columbia Petroleum Corporation and natural gas royalties	114,000		37,301	
Permits and fees	87,000		133,593	
Petroleum royalties	100,000	301,000	102,902	273,796
Minerals				
Mining tax	3,000		4,113	
Mineral resource tax	3,000		4,968	
Mineral land tax	21,000		18,622	
Coal, minerals and metals royalties	26,000		23,821	
Miscellaneous mining receipts	8,000	61,000	5,666	57,190
Forests				
Logging tax	5,000		5,146	
Timber sales	109,000		93,442	
Small Business Enterprise Special Account	16,000		20,450	
Timber royalties	14,000		16,992	
Forest scaling fees	4,000		2,458	
Miscellaneous forests receipts	6,000	154,000	5,657	144,145
Other				
Water rentals and recording fees	204,000		213,891	
Wildlife Act — fees and licences	12,000	216,000	10,531	224,422
Total Natural Resource Revenue		**732,000**		**699,553**
Other Revenue				
Sales and services				
Lottery Special Fund	78,000		105,273	
Farm Income Assurance Special Fund (producers' premiums and interest)	31,460		24,890	
Land registry fees	30,000		33,667	
Real estate earnings of the Crown Land Special Account	20,500		25,097	
Medicare services recoveries			115	
Motor vehicle lien and search fees	6,700		6,494	
Ambulance service	6,600		7,073	
Ferry revenue	5,400		3,191	
Sheriff's fees	1,700		1,343	
Property tax collection fees	2,000		2,374	
Vital statistics fees	3,100		2,831	
Hearing aid equipment	1,400		2,053	
Sales of maps and airphotos	200		375	
Miscellaneous sales and services	5,940	193,000	7,024	221,800

STATEMENT OF COMBINED REVENUE BY SOURCE FOR THE FISCAL YEAR ENDED MARCH 31, 1986 — Continued

	In Thousands			
	Estimated		Actual	
Licences and permits	$	$	$	$
Motor vehicle licences and permits	125,000		116,321	
Liquor Licencing Branch — permits and fees	17,000		16,466	
Companies Branch	9,300		8,458	
Safety inspection fees	6,000		6,112	
Filing fees — Court Services	6,000		3,610	
Camp-site permits and park use	3,700		3,597	
Fire Service Act — fees, etc.	4,000		4,517	
Insurance, brokers and real estate	1,700		1,892	
Agricultural licences	1,700		1,473	
Trade and dealer licences	300		261	
Mobile home registry	600		583	
Miscellaneous licences and permits	3,700	179,000	2,590	165,880
Interest from investments		92,000		84,350
Miscellaneous				
Fines and penalties	18,000		15,126	
Maintenance of children	11,400		15,363	
Other maintenance receipts	1,000		1,337	
Insurance claim receipts	10,600		10,359	
Municipal share of joint-service programs	2,600		2,805	
Other miscellaneous	19,400	63,000	20,376	65,366
Non-recurring recoveries				
Sale of fixed assets			60,612	
Wind-up of Pier B.C.			127	
Wind-up of General Insurance Division of the Insurance Corporation of British Columbia			8,694	69,433
Total Other Revenue		**527,000**		**606,829**
Contributions from Government Enterprises				
Liquor Distribution Branch — net income		**390,000**		**398,375**
Contributions from the Federal Government				
Established Programs Financing	1,104,000		1,091,252	
Canada Assistance Plan	614,000		595,744	
National Training Act	53,300		42,999	
Economic development	3,300		12,784	
Transportation and highways	15,000		15,310	
Public Utilities Income Tax Transfer Act	5,000		2,656	
Statutory subsidies	2,500		2,516	
Reciprocal Taxation Agreement	20,000		21,786	
Other payments	21,900		40,593	
Total Contributions from the Federal Government		**1,839,000**		**1,825,640**
Total Combined Revenue		**8,166,000**		**8,179,798**

Revenue by source is reported after the deduction of amounts considered uncollectible. These amounts totalled $33,234,000 in 1985/86 and were comprised of reductions of Taxation $25,830,000, Natural Resources $4,147,000 and Other Revenue $3,256,000.

Personal and Corporation income tax revenues are recorded after reduction for tax credits of $3,517,000 and $9,932,000 respectively. Taxes were reduced for the payment of foreign tax, logging tax, small business employment, political contributions, for recipients of Housing and Employment Development bond interest, low income and royalty rebates.

Petroleum and Natural Gas Permits and Fees are net of offsets allowed under section 68 of the *Petroleum and Natural Gas Act* of $1,878,000.

Timber sales are net of stumpage offsets allowed under section 88 of the *Forest Act* — $71,262,830 (Estimates $75,100,000).

The British Columbia Liquor Distribution Branch revenue is the net income of the Branch after adjusting for the difference in the accounting policies of the Branch from those of the Government. Revenue of $398,375,000 is comprised of gross revenue of $1,001,312,000 less cost of merchandise sold and operating expenses of $604,219,000 and an accounting policy adjustment which adds back $1,282,000 for the decrease in value of fixed assets. (Refer to Section G of the Public Accounts for complete financial statements of the Branch).

STATEMENT OF COMBINED EXPENDITURE BY APPROPRIATION FOR THE FISCAL YEAR ENDED MARCH 31, 1986

Vote No.	Description	Total Appropriations Estimated	Other Authorizations	Total	Actual Expenditure	Net Under Expenditure
		$	$	$	$	$
	Legislation					
1	Legislation	**10,458,961**		**10,458,961**	**9,913,115**	**545,846**
	Auditor General					
2	Auditor General	**3,655,695**				
	Supplement—Special Warrant No. 10		**281,100**	**3,936,795**	**3,850,402**	**86,393**
	Ombudsman					
3	Office of the Ombudsman	**2,031,156**				
	Supplement—Special Warrant No. 11		**281,110**	**2,312,266**	**2,279,060**	**33,206**
	Premier's Office					
4	Premier's Office	**694,396**		**694,396**	**691,576**	**2,820**
	Economic Renewal Program					
5	Economic and Regional Development Agreement (ERDA)	65,000,000		65,000,000	29,283,607	35,716,393
	Statutory—*Financial Administration Act* (S.B.C. 1981, chap. 15, sec. 22 (1))—Net of Recoveries					
		65,000,000		**65,000,000**	**29,283,607**	**35,716,393**
	Ministry of Agriculture and Food					
6	Minister's Office	188,723		188,723	179,524	9,199
7	Ministry Operations	69,177,308		69,177,308	61,733,515	7,443,793
8	Milk Board	290,406		290,406	289,731	675
9	Provincial Agricultural Land Commission	1,036,670		1,036,670	1,023,665	13,005
10	Economic Renewal — Agricultural Market and Food Industry Development	4,300,000		4,300,000	1,807,955	2,492,045
	Statutory—					
	Cattle Horn Act (R.S.B.C. 1979, chap. 44, sec. 7)—Livestock Improvement		96,727	96,727	96,727	
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 21 (1))					
	Special Warrant No. 1 — Drought Assistance		2,250,000	2,250,000	2,250,000	
	Special Warrant No. 2 — Red Wine Assistance		2,800,000	2,800,000	2,724,600	75,400
	Special Warrant No. 6 — Drought Assistance		3,000,000	3,000,000	2,450,000	550,000

	Special Accounts—					
	Livestock Protection Act (R.S.B.C. 1979, chap. 245, sec. 14) — Livestock Protection	15,000	7,151	22,151	22,151	
	Farm Product Industry Act (R.S.B.C. 1979, chap. 124, sec. 16) — Farm Products Industry Improvement	500,000	282,769	782,769	782,769	
	Special Fund — *Farm Income Insurance Act* (R.S.B.C. 1979, chap. 123, sec. 2) — Farm Income Assurance	62,920,000		62,920,000	43,720,846	19,199,154
	Less transfer to the Farm Income Assurance Fund from Vote 7	(31,460,000)		(31,460,000)	(24,889,458)	(6,570,542)
		106,968,107	**8,436,647**	**115,404,754**	**92,192,025**	**23,212,729**
	Ministry of Attorney General					
11	Minister's Office	223,385		223,385	180,442	42,943
12	Ministry Operations	237,530,816				
	Supplement—Special Warrant No. 8		4,285,000			
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 23 (3))		963,466			
	Criminal Injury Compensation Act (R.S.B.C. 1979, chap. 83, sec. 2 (5))		73,690	242,852,972	242,852,972	
13	Judiciary	14,713,906		14,713,906	14,206,857	507,049
14	Corrections	114,872,944				
	Supplement — Special Warrant No. 9		700,000			
	Statutory—*Financial Administration Act* (S.B.C. 1981, chap. 15, sec. 23 (3))		(89,509)	115,483,435	115,404,274	79,161
	Statutory—					
	Escheat Act (R.S.B.C. 1979, chap. 111, sec. 13 (2))—Estate Disbursement		654,041	654,041	654,041	
	Police Act (R.S.B.C. 1979, chap. 331, sec. 7 (4)) — Police Study		44,573	44,573	44,573	
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22 (1))—Net of Recoveries					
	Special Account — *Land Title Act* (R.S.B.C. 1979, chap. 219, sec. 274) — Land Titles Survey	14,813		14,813		14,813
		367,355,864	**6,631,261**	**373,987,125**	**373,343,159**	**643,966**
	Ministry of Consumer and Corporate Affairs					
15	Minister's Office	208,370		208,370	201,541	6,829
16	Ministry Operations	18,996,243		18,996,243	18,852,641	143,602
	Statutory—*Securities Act* (S.B.C. 1985, chap. 83, sec. 161) — Implementation Costs		66,809	66,809	66,809	
		19,204,613	**66,809**	**19,271,422**	**19,120,991**	**150,431**

STATEMENT OF COMBINED EXPENDITURE BY APPROPRIATION FOR THE FISCAL YEAR ENDED MARCH 31, 1986—Continued

Vote No.	Description	Total Appropriations Estimated	Other Authorizations	Total	Actual Expenditure	Net Under Expenditure
		$	$	$	$	$
	Ministry of Education					
17	Minister's Office	179,543		179,543	164,470	15,073
18	Management Operations	24,238,265				
	Statutory—					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14, O.I.C.s 250/86, 646/86) — Transfer to the Ministry of Post-Secondary Education		(72,641)			
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 20 (3))		583,845	24,749,469	24,749,469	
19	Public Schools Education	1,064,554,825				
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 20 (3))		14,189,959			
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 23 (3))		(22,794,198)	1,055,950,586	1,055,950,586	
20	Post-Secondary Colleges and Institutes	312,105,535				
	Statutory — *Constitution Act* (R.S.B.C. 1979, chap. 62, secs. 13 and 14, O.I.C.s 250/86, 646/86) — Transfer to the Ministry of Post-Secondary Education		(24,498,977)	287,606,558	287,606,558	
21	Independent Schools	27,105,867		27,105,867	27,045,751	60,116
	Statutory—					
	Education (Interim) Finance Act (S.B.C. 1982, chap. 2, sec. 20 (6)) — Administration Fees		1,126,278	1,126,278	1,126,278	
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 24 (1) (c))—Interest On Property Tax Refunds		1,159,326	1,159,326	1,159,326	
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 58 (1))—Net of Recoveries					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22 (1))—Net of Recoveries					
		1,428,184,035	**(30,306,408)**	**1,397,877,627**	**1,397,802,438**	**75,189**
	Ministry of Energy, Mines and Petroleum Resources					
22	Minister's Office	184,214		184,214	182,186	2,028
23	Resource Management Program	20,970,041		20,970,041	20,119,454	850,587
24	British Columbia Utilities Commission	1,436,210				
	Statutory — *Financial Administration Act* (S.B.C. 1981, chap. 15, sec. 20 (3))		597,967	2,034,177	2,034,177	

25	Fort Nelson Indian Band Mineral Revenue Sharing Agreement	3,325,000		3,325,000	743,627	2,581,373
	Statutory —					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 24 (1) (c)) — Interest On Revenue Refunds		26,250	26,250	26,250	
	Mines Act (S.B.C. 1980, chap. 28, sec. 15 (2)) — Mine Improvement		16,705	16,705	16,705	
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 14 (1)) — Debt Write-Off		52,501	52,501	52,501	
		25,915,465	**693,423**	**26,608,888**	**23,174,900**	**3,433,988**
	Ministry of Environment					
26	Minister's Office	169,073		169,073	168,638	435
27	Resource and Environmental Management	91,605,504		91,605,504	86,150,536	5,454,968
28	Emergency Assistance	2,403,500		2,403,500	563,322	1,840,178
29	Economic Renewal — Water Management Capital Construction Projects	4,000,000		4,000,000	3,981,716	18,284
	Statutory—					
	Flood Relief Act (R.S.B.C. 1979, chap. 138, sec. 2)—Flood Costs		1,541,009	1,541,009	1,541,009	
	Emergency Program Act (R.S.B.C. 1979, chap. 106, sec. 16)—Purchase of Property Subject to Hazard		2,623,135	2,623,135	2,623,135	
	Environment Management Act (S.B.C. 1981, chap. 14, sec. 6 (1))—Byrne Disaster		19,082	19,082	19,082	
	Skagit Environmental Enhancement Act (S.B.C. 1984, chap. 28, sec. 6)—Skagit Environmental Endowment Commission		349,589	349,589	349,589	
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 15 (1))—Extinguishment of Debt		3,225	3,225	3,225	
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22 (1))—Net of Recoveries					
	Special Fund — *Wildlife Act* (S.B.C. 1982, chap. 57, sec. 11 (4))—Habitat Conservation Fund	1,804,000		1,804,000	1,460,962	343,038
		99,982,077	**4,536,040**	**104,518,117**	**96,861,214**	**7,656,903**

STATEMENT OF COMBINED EXPENDITURE BY APPROPRIATION FOR THE FISCAL YEAR ENDED MARCH 31, 1986—Continued

Vote No.	Description	Total Appropriations Estimated	Other Authorizations	Total	Actual Expenditure	Net Under Expenditure
		$	$	$	$	$
	Ministry of Finance					
30	Minister's Office	189,239		189,239	187,316	1,923
31	Government Financial Support	57,520,590		57,520,590	57,492,556	28,034
32	Provincial Capital Commission	300,000		300,000	300,000	
33	Compensation Stabilization Program	710,263		710,263	622,871	87,392
	Statutory—					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 53 (f))—Issue Costs		7,373,423	7,373,423	7,373,423	
	Unclaimed Money Act (R.S.B.C. 1979, chap. 418, sec. 4)— Payment of Claims		10,268	10,268	10,268	
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 24 (1) (c))—Interest On Revenue Refunds		1,268,513	1,268,513	1,268,513	
	Critical Industries Act (S.B.C. 1985, chap. 47, sec. 16)—Critical Industries Commissioner		218,705	218,705	218,705	
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 13 (a))—Payment of Claim		2,529	2,529	2,529	
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 14)					
	—Inventory Write Down		1,650,820	1,650,820	1,650,820	
	—Valuation Adjustment (*see* note 5 (c))		54,618,300	54,618,300	54,618,300	
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22 (1))—Net of Recoveries					
	Special Account — *Purchasing Commission Act* (R.S.B.C. 1979, chap. 350, sec. 23.1 (3))—Purchasing Commission Working Capital Account		521,144	521,144	521,144	
	Special Fund — *Resource Revenue Stabilization Fund Act* (S.B.C. 1982, chap. 24, sec. 4) — Resource Revenue Stabilization Fund		677,725,136	677,725,136	677,725,136	
	Less transfer to the General Fund from the Special Fund		(677,725,136)	(677,725,136)	(677,725,136)	
		58,720,092	**65,663,702**	**124,383,794**	**124,266,445**	**117,349**
	Ministry of Forests					
34	Minister's Office	156,162		156,162	156,010	152
35	Forest and Range Management	200,676,846				
	Supplement — Special Warrant No. 7		750,000			
	Statutory — *Financial Administration Act* (S.B.C. 1981, chap. 15, sec. 23 (3))		4,863,248	206,290,094	206,290,094	
36	Fire Suppression Program	46,500,000				
	Statutory — *Forest Act* (R.S.B.C. 1979, chap. 140, sec. 124 (4))		82,895,460	129,395,460	129,395,460	

	Statutory —					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 24 (1) (c)) — Interest on Revenue Refunds		5,801	5,801	5,801	
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22 (1)) — Net of Recoveries					
	Special Accounts —					
	Forest Act (R.S.B.C. 1979, chap. 140, sec. 87.1) — Small Business Enterprise	12,000,000		12,000,000	11,289,504	710,496
	Special Appropriations Act (S.B.C. 1982, chap. 40, sec. 5) — Forest and Range Resource Fund		354,231	354,231	354,231	
		259,333,008	**88,868,740**	**348,201,748**	**347,491,100**	**710,648**
	Ministry of Health					
37	Minister's Office	206,025		206,025	189,599	16,426
38	Management Operations	66,615,137		66,615,137	66,389,202	225,935
39	Medical Services Commission	588,602,983		588,602,983	561,170,962	27,432,021
40	Preventive and Community Health Care Services	217,313,447		217,313,447	208,779,851	8,533,596
41	Institutional Services	1,794,176,742		1,794,176,742	1,794,001,397	175,345
	Statutory — *Financial Administration Act* (S.B.C. 1981, chap. 15, sec. 22 (1))—Net of Recoveries		43,071	43,071	43,071	
		2,666,914,334	**43,071**	**2,666,957,405**	**2,630,574,082**	**36,383,323**
	Ministry of Human Resources					
42	Minister's Office	214,384		214,384	198,747	15,637
43	Ministry Programs	1,464,102,542				
	Supplement—Special Warrant No. 12		14,000,000	1,478,102,542	1,467,874,101	10,228,441
		1,464,316,926	**14,000,000**	**1,478,316,926**	**1,468,072,848**	**10,244,078**
	Ministry of Industry and Small Business Development					
44	Minister's Office	196,194		196,194	176,313	19,881
45	Ministry Operations	22,467,046		22,467,046	21,150,624	1,316,422
46	Economic Renewal — Special Initiatives	8,300,000		8,300,000	58,729	8,241,271
	Statutory —					
	Low Interest Loan Assistance Revolving Fund Act (S.B.C. 1985, chap. 44, sec. 2) — Assets Transferred to the Special Fund		26,312,904	26,312,904	26,312,904	
	Special Funds —					
	Industrial Development Fund Act (R.S.B.C. 1979, chap. 194, sec. 1 (3)) — Industrial Development Subsidiary Agreement Loan Repayment Revolving Fund	992,000	423,510	1,415,510	1,415,510	
	Low Interest Loan Assistance Revolving Fund Act (S.B.C. 1985, chap. 44, sec. 4) — Low Interest Loan Assistance Revolving Fund	2,484,000		2,484,000	653,155	1,830,845
	Less transfer to the Special Fund from the General Fund		(26,312,904)	(26,312,904)	(26,312,904)	
		34,439,240	**423,510**	**34,862,750**	**23,454,331**	**11,408,419**

STATEMENT OF COMBINED EXPENDITURE BY APPROPRIATION FOR THE FISCAL YEAR ENDED MARCH 31, 1986—Continued

Vote No.	Description	Total Appropriations Estimated	Other Authorizations	Total	Actual Expenditure	Net Under Expenditure
		$	$	$	$	$
	Ministry of Intergovernmental Relations					
47	Minister's Office	126,917		126,917	126,905	12
48	Intergovernmental Relations	2,504,861		2,504,861	2,482,503	22,358
	Statutory—*Public Service Act* (R.S.B.C. 1979, chap. 343, sec. 78)— Medical expenses, London, England		2,601	2,601	2,601	
		2,631,778	**2,601**	**2,634,379**	**2,612,009**	**22,370**
	Ministry of International Trade and Investment					
49	Minister's Office	143,191		143,191	137,979	5,212
50	Ministry Operations	7,754,283		7,754,283	6,185,802	1,568,481
	Statutory —					
	Constitution Act (R.S.B.C. 1979, chap. 62, secs. 13 and 14, O.I.C.s 250/86, 647/86) — Transfer from Ministry of Universities, Science and Communications		1,718,419	1,718,419	551,970	1,166,449
	Public Service Act (R.S.B.C. 1979, chap. 343, sec. 78) — Medical expenses, London, England		1,601	1,601	1,601	
		7,897,474	**1,720,020**	**9,617,494**	**6,877,352**	**2,740,142**
	Ministry of Labour					
51	Minister's Office	210,175		210,175	181,155	29,020
52	Ministry Operations	54,027,722		54,027,722	50,702,758	3,324,964
	Statutory —					
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 21 (1)) — Special Warrant No. 3 — British Columbia Youth Council		50,000	50,000	30,470	19,530
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22 (1)) — Net of Recoveries					
		54,237,897	**50,000**	**54,287,897**	**50,914,383**	**3,373,514**
	Ministry of Lands, Parks and Housing					
53	Minister's Office	195,365		195,365	192,567	2,798
54	Ministry Operations	58,299,086		58,299,086	57,242,228	1,056,858
55	Ministry Enterprises	10		10		10
56	British Columbia Home Program	10		10		10

Statutory —					
Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22 (1))—Net of Recoveries					
Special Accounts —					
Ministry of Lands, Parks and Housing Act (R.S.B.C. 1979, chap. 277, sec. 7) — Crown Land	27,600,000	18,445,617	46,045,617	46,045,617	
Home Conversion and Leasehold Loan Act (R.S.B.C. 1979, chap. 170, sec. 17) and *Home Purchase Assistance Act* (R.S.B.C. 1979, chap. 172, sec. 21) — Provincial Home Acquisition	4,100,000	9,219,693	13,319,693	13,319,693	
University Endowment Land Act (R.S.B.C. 1979, chap. 420, sec. 3) — University Endowment Lands Administration	1,306,446		1,306,446	1,226,908	79,538
	91,500,917	**27,665,310**	**119,166,227**	**118,027,013**	**1,139,214**
Ministry of Municipal Affairs					
57 Minister's Office	179,377		179,377	176,793	2,584
58 Operations and Administration	7,188,968		7,188,968	7,093,390	95,578
59 Municipal Revenue Sharing	235,000,000		235,000,000	235,000,000	
Statutory —					
Special Account — *Special Appropriations Act* (S.B.C. 1982, chap. 40, sec. 2) — Downtown Revitalization	900,000	79,279	979,279	979,279	
Special Fund — *Revenue Sharing Act* (R.S.B.C. 1979, chap. 368, sec. 3) — Revenue Sharing Fund	204,000,000	6,008,593	210,008,593	210,008,593	
Less transfer to the Revenue Sharing Fund from Vote 59	(235,000,000)		(235,000,000)	(235,000,000)	
	212,268,345	**6,087,872**	**218,356,217**	**218,258,055**	**98,162**
Ministry of Post-Secondary Education					
Ministry Operations					
Statutory — *Constitution Act* (R.S.B.C. 1979, chap. 62, secs. 13 and 14, O.I.C.s 250/86, 646/86, 647/86)					
— Transfer from the Ministry of Universities, Science and Communications		10,069,542			
— Transfer from the Ministry of Education		24,571,618	34,641,160	32,949,654	1,691,506
		34,641,160	**34,641,160**	**32,949,654**	**1,691,506**

STATEMENT OF COMBINED EXPENDITURE BY APPROPRIATION FOR THE FISCAL YEAR ENDED MARCH 31, 1986—Continued

Vote No.	Description	Total Appropriations Estimated	Other Authorizations	Total	Actual Expenditure	Net Under Expenditure
		$	$	$	$	$
	Ministry of Provincial Secretary and Government Services					
60	Minister's Office	190,520		190,520	169,314	21,206
61	Ministry Operations	60,464,576		60,464,576	59,522,193	942,383
62	Government Information Services	20,428,969		20,428,969	20,341,881	87,088
63	Pensions and Employee Benefits Administration	10		10		10
64	Pensions and Employee Benefits Contributions	10		10		10
	Statutory —					
	Inquiry Act (R.S.B.C. 1979, chap. 198, part 2, sec. 18) — The McFarlane Commission		43,389	43,389	43,389	
	Election Act (R.S.B.C. 1979, chap. 103, sec. 191 (1)) — Revision of Electoral Lists		1,233,071	1,233,071	1,233,071	
	Financial Administration Act (S.B.C. 1981, chap. 15, sec. 22 (1)) — Net of Recoveries					
	Special Account — *Special Appropriations Act* (S.B.C. 1982, chap. 40, sec. 7) — Provincial Computerization of Libraries	563,741		563,741	217,910	345,831
	Special Funds —					
	Funds Control Act (R.S.B.C. 1979, chap. 146, sec. 6) — British Columbia Cultural Fund	1,544,000		1,544,000	1,535,306	8,694
	Funds Control Act (R.S.B.C. 1979, chap. 146, sec. 3) — First Citizens Fund	1,831,000		1,831,000	1,340,814	490,186
	Lottery Act (R.S.B.C. 1979, chap. 249, secs. 6 and 7) — Lottery Fund	69,340,000	13,897,796	83,237,796	83,237,796	
	Funds Control Act (R.S.B.C. 1979, chap. 146, sec. 4) — Physical Fitness and Amateur Sports	1,545,000	236,514	1,781,514	1,781,514	
		155,907,826	**15,410,770**	**171,318,596**	**169,423,188**	**1,895,408**
	Ministry of Tourism					
65	Minister's Office	151,996		151,996	149,183	2,813
66	Ministry Operations	8,344,439				
	Supplement — Special Warrant No. 4		2,000,000	10,344,439	10,244,471	99,968
	Statutory—*Public Service Act* (R.S.B.C. 1979, chap. 343, sec. 78)— Medical expenses, London, England and California, U.S.A.		6,445	6,445	6,445	
		8,496,435	**2,006,445**	**10,502,880**	**10,400,099**	**102,781**

	Ministry of Transportation and Highways					
67	Minister's Office	224,728		224,728	200,030	24,698
68	Administration and Services Department	10,814,278		10,814,278	10,424,277	390,001
69	Highway Operations Department	478,803,665				
	Supplement — Special Warrant No. 5		118,800,000	597,603,665	585,961,989	11,641,676
70	Motor Vehicle Department	32,456,912		32,456,912	31,629,365	827,547
71	Motor Carrier Commission and Branch	2,693,472		2,693,472	2,488,735	204,737
72	Transportation Policy Department	57,454,633		57,454,633	55,381,663	2,072,970
73	Air Services Branch	8,446,603		8,446,603	8,090,736	355,867
74	Economic Renewal — Special Highway Capital Construction Projects	456,055,000		456,055,000	430,260,551	25,794,449
		1,046,949,291	**118,800,000**	**1,165,749,291**	**1,124,437,346**	**41,311,945**
	Ministry of Universities, Science and Communications					
75	Minister's Office	127,740				
	Statutory — *Constitution Act* (R.S.B.C. 1979, chap. 62, secs. 13 and 14, O.I.C.s 250/86, 647/86) — Transfer to the Ministry of Post-Secondary Education		(32, 901)	94,839	94,839	
76	Ministry Operations	1,959,618				
	Statutory — *Constitution Act* (R.S.B.C. 1979, chap. 62, secs. 13 and 14, O.I.C.s 250/86, 647/86)					
	— Transfer to the Ministry of Post-Secondary Education		(95,499)			
	— Transfer to the Ministry of International Trade and Investment		(169,775)	1,694,344	1,694,344	
77	Government Telecommunications Services	10				
	Statutory — *Constitution Act* (R.S.B.C. 1979, chap. 62, secs. 13 and 14, O.I.C.s 250/86, 647/86) — Transfer to the Ministry of International Trade and Investment		(10)			
78	Universities	330,603,700				
	Statutory — *Constitution Act* (R.S.B.C. 1979, chap. 62, secs. 13 and 14, O.I.C.s 250/86, 647/86) — Transfer to the Ministry of Post-Secondary Education		(9,941,142)	320,662,558	320,662,558	
79	Science and Technology	9,500,000				
	Statutory — *Constitution Act* (R.S.B.C. 1979, chap. 62, secs. 13 and 14, O.I.C.s 250/86, 647/86) — Transfer to the Ministry of International Trade and Investment		(1,548,634)	7,951,366	7,951,366	
80	Economic Renewal — Science and Technology Stimulation Program	2,345,000		2,345,000	2,345,000	
		344,536,068	**(11,787,961)**	**332,748,107**	**332,748,107**	

STATEMENT OF COMBINED EXPENDITURE BY APPROPRIATION FOR THE FISCAL YEAR ENDED MARCH 31, 1986—Continued

Vote No.	Description	Total Appropriations Estimated	Other Authorizations	Total	Actual Expenditure	Net Under Expenditure
		$	$	$	$	$
	Other Appropriations					
81	Student Employment Programs (Minister of Labour)	10,000,000		10,000,000	8,865,071	1,134,929
82	Transit Services (Minister of Human Resources)	74,300,000				
	Statutory — *Financial Administration Act* (S.B.C. 1981, chap. 15, sec. 23 (3))		786,570	75,086,570	75,086,570	
83	Interest on the Public Debt (Minister of Finance)	384,100,000		384,100,000	334,520,393	49,579,607
84	Contingencies (All Ministries — Minister of Finance)	50,000,000		50,000,000	18,799,032	31,200,968
		518,400,000	**786,570**	**519,186,570**	**437,271,066**	**81,915,504**
	Total Combined Expenditure	**9,056,000,000**	**355,001,792**	**9,411,001,792**	**9,146,289,565**	**264,712,227**
	Summary					
	Voted Expenditure	8,929,000,000	(16,270,423)	8,912,729,577	8,687,283,178	225,446,399
	Statutory —					
	Special Accounts	47,000,000	28,909,884	75,909,884	74,759,206	1,150,678
	Special Funds	346,460,000	698,291,549	1,044,751,549	1,022,879,632	21,871,917
	Special Warrants		149,197,210	149,197,210	126,383,435	22,813,775
	Various Acts		198,911,612	198,911,612	198,911,612	
	Less Inter-Fund Transfers	(266,460,000)	(704,038,040)	(970,498,040)	(963,927,498)	(6,570,542)
	Total Combined Expenditure	**9,056,000,000**	**355,001,792**	**9,411,001,792**	**9,146,289,565**	**264,712,227**

For details of amounts referred to under section 22 of the *Financial Administration Act*, *see* Section B of the Public Accounts.

STATEMENT OF COMBINED EXPENDITURE BY GROUP ACCOUNT CLASSIFICATION FOR THE FISCAL YEAR ENDED MARCH 31, 1986

	In Thousands	
	1986	1985
	$	$
Grants and contributions	6,571,291	6,930,626
Salaries and benefits	1,124,900	1,100,350
Operating costs	1,029,474	830,802
Asset acquisitions	594,785	325,086
Other	685,920	456,015
Recoveries	(860,080)	(859,064)
	9,146,290	8,783,815

COMBINED FINANCIAL STATEMENTS
STATEMENT OF GUARANTEED DEBT AS AT MARCH 31, 1986

Debt of municipalities and other local governments, private enterprises and individuals, and debt and minority interests of Provincial Crown corporations which has been explicitly guaranteed by the Province under the authority of a statute as to net principal or redemption provisions and accrued interest or dividends outstanding.

	In Thousands			
	1986			1985
	Gross Outstanding[2]	Sinking Funds[3]	Net Outstanding	Net Outstanding
	$	$	$	$
Municipalities and other local governments—				
(1) Guarantees authorized pursuant to the *Municipalities Assistance Act*, sec. 3 (serials)	2,633		2,633	4,193
(2) Guarantees authorized pursuant to the *Municipal Act*, sec. 854 — Debentures (principally serials)	24,574	10,263	14,311	14,789
(3) Guarantees authorized pursuant to the *Greater Vancouver Sewerage and Drainage District Act*, sec. 36 — Debentures (some serials)	9,943	9,943		
Subtotal, municipalities and other local governments	37,150	20,206	16,944	18,982
Government services—				
(4) Guarantees authorized pursuant to the *British Columbia Buildings Corporation Act*, sec. 13[1]— Debentures — funded	505,998	37,883	468,115	492,284
(5) Guarantees authorized pursuant to the *System Act*, sec. 20[1] — Debentures — funded	54,382	2,857	51,525	52,017
Subtotal, government services	560,380	40,740	519,640	544,301
Health and education				
(6) Guarantees authorized pursuant to the *Educational Institution Capital Finance Act*, sec. 9[1]— Debentures — funded	431,213	49,194	382,019	390,066
(7) Guarantees authorized pursuant to the *Financial Administration Act*, sec. 56—				
Student aid loans	20,898		20,898	9,955
Riverview Hospital Volunteer Association	11		11	15
(8) Guarantees authorized pursuant to the *Hospital District Finance Act*, sec. 9[1]—				
Debentures — funded	1,003,481	294,082	709,399	744,379
unfunded	2,936		2,936	4,112
(9) Guarantees authorized pursuant to the *School District Capital Finance Act*, sec. 9[1]—				
Debentures — funded	1,599,489	686,993	912,496	975,571
— unfunded				1,200
Subtotal, health and education	3,058,028	1,030,269	2,027,759	2,125,298
Economic development—				
(10) Guarantees authorized pursuant to the *Agricultural Credit Act*, sec. 3	4,143		4,143	2,957
(11) Guarantees authorized pursuant to the *British Columbia Cellulose Company Act*, sec. 8[1]				4,848
(12) Guarantees authorized pursuant to the *British Columbia Place Act*, 1980, sec. 6[1]	31,516	1,437	30,079	30,829
(13) Guarantees authorized pursuant to the *British Columbia Railway Finance Act*, sec. 10[1]—				
Bonds and debentures — funded	768,101	768,101		
Capital leases	25,957		25,957	26,323
1st preferred shares — BC Rail Ltd.	200,000		200,000	200,000
(14) Guarantees authorized pursuant to the *British Columbia Transit Act*, sec. 22[1]—				
Bonds and debentures	58,639	3,336	55,303	77,024
Notes	49,280		49,280	100,702
Capital leases	186,006		186,006	94,369

(15) Guarantees authorized pursuant to the *Development Corporation Act*, sec. 15[1]—				
Bonds	218,607			
Less: held by the British Columbia Housing and Employment Development Financing Authority	(135,586)			
	83,021		83,021	82,625
Notes	98,011		98,011	86,431
(16) Guarantees authorized pursuant to the *Farm Product Industry Act*, sec. 2	280		280	1,046
(17) Guarantees authorized pursuant to the *Ferry Corporation Act*, sec. 18[1]—				
Notes — funded	14,870	723	14,147	14,525
Notes — unfunded (serials)	28,689		28,689	28,689
Capital leases	43,977		43,977	
(18) Indemnities authorized pursuant to the *Financial Administration Act*, sec. 56 —				
W.L.C. Developments Ltd.	21,277		21,277	15,742
The Terry Fox Medical Research Foundation, *et al*	8,046		8,046	8,000
Canadian Commercial Bank	14,228		14,228	
Moli Energy Limited	15,748		15,748	
National Homes Limited	65		65	
(19) Guarantees authorized pursuant to the *Housing and Employment Development Financing Act*, secs. 5 and 6[1] — Bonds and debentures	149,437		149,437	179,684
(20) Guarantees authorized pursuant to the *Ministry of Transportation and Highways Act*, sec. 66, *re:* British Columbia Steamship Company (1975) Ltd.[1]	5,669		5,669	4,937
(21) Guarantees authorized pursuant to the *Petroleum Corporation Act*, secs. 10 and 12[1]	30,000		30,000	30,009
Subtotal, economic development	1,836,960	773,597	1,063,363	988,740
Utilities—				
(22) Guarantees authorized pursuant to the *Hydro and Power Authority Act*, sec. 44[1]—				
Bonds and debentures — funded	9,420,697	1,034,503	8,386,194	8,564,843
Subtotal, utilities	9,420,697	1,034,503	8,386,194	8,564,843
Grand total, all guaranteed debt	14,913,215	2,899,315	12,013,900	12,242,164
Less: Amounts included above held by General and Special Funds	(81,258)	(42,359)	(38,899)	(34,806)
Net total, all guaranteed debt	14,831,957	2,856,956	11,975,001	12,207,358

[1] *See* Section G of the Public Accounts for details of maturity dates, interest rates, and redemption features of the outstanding debt of these Crown agencies.

[2] Gross outstanding debt as at March 31, 1986 includes accrued interest of $489.8 million. Debt payable in United States currency is recorded in Canadian dollars at the rate of exchange prevailing at March 31, 1986.

[3] Sinking funds consist of cash, investments and accrued interest. For the purpose of this statement, investments are reported at amortized cost, with the following exceptions: For item (3), the actual sinking fund balance exceeds the gross outstanding debt and is therefore shown at an amount equal to the debt. Investments held by certified sinking funds included in items (2), (8) and (9) are reported at par value, as are investments held by the British Columbia Railway Company sinking funds (item 13). Investments reported at par value in the statement total $1,038 million (1985: $969 million). These investments have a par value, interest rate and maturity date identical to the debt they are funding, and so constitute a complete offset against the debt. By reporting these investments at par, the related net outstanding debt is reported at nil.

The market value of sinking fund investments at March 31, 1986 was $2.8 billion (1985: $2.4 billion). These are not considered to be temporary investments, and are generally held until maturity, at which time the par value is realized. Certified investments must be held in trust until maturity.

The Government is directly responsible for paying 57.1% to 100% of debt service costs for health and education debt through various grant formulas. In 1985/86 these contributions totalled approximately $303 million or 79.4 per cent of the debt service costs. The Government also pays a portion of the debt service costs of some economic development enterprises. No such contribution is made for utilities.

As a result of Government financing policies $3.5 billion of the guaranteed debt is held in investment accounts included in these financial statements and in other Provincial public sector superannuation and pension funds. Canada Pension Plan funds made available to the Government ($4.1 billion) are redeemable by the Federal Minister of Finance, subject to six months notice and certain other restrictions.

Between the year end and August 15, 1986 there have been redemptions net of additional debt issues guaranteed or indemnified by the Province in the amount of $287 million.

COMBINED FINANCIAL STATEMENTS
STATEMENT OF INFORMATION REQUIRED UNDER SECTION 8 (2) (b) (iii) OF THE *FINANCIAL ADMINISTRATION ACT* FOR THE FISCAL YEAR ENDED MARCH 31, 1986

Ministry	Money Refunded	Assets & Uncollectible Debts Written Off	Debts and Obligations Forgiven	Remissions Made
	In Thousands			
	$	$	$	$
Agriculture & Food		2		
Attorney General	187	1		
Consumer & Corporate Affairs	447			
Education	9,367	8		
Energy, Mines & Petroleum Resources		53		
Environment	46		3	
Finance	144	5,417		1,567
Forests	388	26		1,120
Health	228	1,088	4	16
Human Resources		41		
Industry & Small Business Development — T.I.D.S.A			1,975	
Lands, Parks and Housing	426	4,257	3,177	
Transportation & Highways	6,927	7		
Total 1986	18,160	10,900	5,159	2,703
Total 1985	11,059	9,884	3	60

SECTION C

CONSOLIDATED FINANCIAL STATEMENTS OF THE PROVINCE

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Province of British Columbia

Office of the
Auditor General
Province of British Columbia

8 Bastion Square
Victoria
British Columbia
V8V 1X4

AUDITOR GENERAL'S REPORT

To the Legislative Assembly
of the Province of British Columbia
Parliament Buildings
Victoria, British Columbia

I have examined the consolidated balance sheet of the Government of the Province of British Columbia as at 31 March 1986, and the consolidated statements of operating results and changes in cash and temporary investments for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances. I have received all the information and explanations I have required.

I report in accordance with section 7 of the *Auditor General Act.* In my opinion, these consolidated financial statements present fairly the financial position of the Government of the Province of British Columbia as at 31 March 1986 and the results of its operations and the changes in its financial position for the year then ended on a consolidated basis in accordance with the stated accounting policies as set out in Note 1 to these financial statements applied on a basis consistent with that of the preceding year.

ERMA MORRISON, F.C.A.
Auditor General

Victoria, British Columbia
29 August 1986

CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 1986

	Note	In Thousands 1986	1985
ASSETS		$	$
Cash and temporary investments	2	145,728	280,781
Accounts receivable	3	826,549	897,513
Inventories	4	119,764	115,349
Investments in and amounts due from Crown corporations and agencies	5	1,470,768	1,194,351
Loans, advances, and mortgages receivable	6	488,213	519,776
Fiscal Agency loans	7	3,122,820	2,844,663
Other assets	8	192,133	221,271
		6,365,975	**6,073,704**
LIABILITIES AND NET EQUITY			
Liabilities:			
Accounts payable and accrued liabilities	9	1,102,212	1,178,437
Due to Crown corporations and agencies	10	12,014	25,625
Deferred revenue	11	365,958	258,181
Public debt	12	7,524,152	6,393,323
		9,004,336	7,855,566
Net Equity:			
Net equity (deficiency) — beginning of year (as restated for 1985)		(1,781,862)	(959,508)
Net expenditure for the year		(856,499)	(822,354)
Net deficiency — end of year		(2,638,361)	(1,781,862)
		6,365,975	**6,073,704**
Fixed Assets	1		
Contingencies and Commitments	13		

The accompanying notes and supplementary statements are an integral part of these financial statements.

Approved on behalf of the Ministry of Finance:

P. G. HALKETT
Acting Deputy Minister of Finance and Secretary of Treasury Board

D. B. MARSON
Comptroller General

CONSOLIDATED STATEMENT OF OPERATING RESULTS
FOR THE FISCAL YEAR ENDED MARCH 31, 1986

In Thousands

	1986				1985
	Consolidated Revenue Fund (A 6)	Consolidated Crown Corporations (C 19)	Transfers Between Consolidated Revenue Fund and Crown Corporations	Total	Total
Revenue	$	$	$	$	$
Taxation	4,649,401			4,649,401	4,360,553
Natural resources	699,553	59,204		758,757	1,124,552
Other	606,829	843,417	(26,470)	1,423,776	1,083,865
Contributions from Government enterprises	398,375	912,782	(909,762)	401,395	364,688
Contributions from Federal Government	1,825,640	100		1,825,740	1,791,043
Total revenue	8,179,798	1,815,503	(936,232)	9,059,069	8,724,701
Expenditure					
Health and social services	4,114,003	894,074	(643,779)	4,364,298	4,157,475
Education	1,735,223	5,017	(7,855)	1,732,385	1,547,394
Transportation and communications	1,081,048		(37,876)	1,043,172	730,049
Natural resources and primary industries	593,379	65,753	(34,244)	624,888	841,898
Trade and industrial development	66,502	294,324	(7,211)	353,615	300,392
Protection of persons and property	427,117	18,582	(85,789)	359,910	342,809
Aid to local government	297,901	1,594	(619)	298,876	287,372
Interest on public debt	341,894	445,417	(11,143)	776,168	683,498
General government	161,304	184,934	(26,041)	320,197	360,325
Housing	87,887	43,435	(16,035)	115,287	60,823
Recreation and cultural services	67,456	9,957	(2,613)	74,800	61,923
Other	172,576	73,526	(63,027)	183,075	557,740
Total expenditure	9,146,290	2,036,613	(936,232)	10,246,671	9,931,698
Net Expenditure For The Year	(966,492)	(221,110)		(1,187,602)	(1,206,997)
Increase in Unremitted Equity of Transportation Companies and Commercial Enterprises (C 21)				331,103	384,643
Consolidated Net Expenditure for the Year				(856,499)	(822,354)

The accompanying notes and supplementary statements are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN CASH AND TEMPORARY INVESTMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1986

In Thousands

	1986		1985	
OPERATING TRANSACTIONS	$		$	
Net expenditure for the year		(856,499)		(822,354)
Non-cash items included in net expenditure		(295,289)		(259,305)
Cash items applicable to future operations		157,804		(9,330)
Cash used for operations		(993,984)		(1,090,989)
INVESTMENT TRANSACTIONS				
Loans, advances and mortgage repayments (issues)	31,563		528	
Divestment of (investment in):				
Crown corporations			(13,216)	
Other assets	(25,304)		21,920	
Cash derived from investing		6,259		9,232
Total financial requirements		(987,725)		(1,081,757)
FINANCING TRANSACTIONS (Net)				
Increase in Public Debt issues	1,130,828		1,888,816	
Less: used for Fiscal Agency loans	(278,156)		(799,273)	
Cash derived from financing		852,672		1,089,543
Increase (decrease) in cash and temporary investments		(135,053)		7,786
Balance — Beginning of Year		280,781		272,995
Balance — End of Year		145,728		280,781

The accompanying notes and supplementary statements are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1986

1. Significant Accounting Policies

(a) Reporting Entity

These financial statements include the accounts of the following entities which have been consolidated for reporting purposes:

(i) the General Fund — it includes all transactions and balances of the Province not otherwise earmarked by legislative action, including the accounts of the British Columbia Liquor Distribution Branch, the Queen's Printer and the Purchasing Commission;

(ii) Special Funds — these are comprised of all amounts set aside from the General Fund by special disposition of the Legislature for specific purposes;

(iii) Crown Service corporations — these are considered to be extensions of existing Government programs; and

(iv) certain Provincial corporations and agencies — considered to support existing Government programs.

Certain Crown corporations which have been identified as transportation and commercial enterprises, and which are intended to be run on commercial lines, are recorded in these financial statements on an equity basis. A schedule of entities recorded on a consolidated or equity basis may be found on C 18.

The British Columbia Housing and Employment Development Financing Authority is not recorded in these financial statements because it is designed to finance housing and other capital projects managed by the private sector without any Provincial government funding. Also excluded are health and educational institutions which are legally distinct from Government and whose boards are required to report separately on their stewardship.

The Natural Gas Price Adjustment Fund, administered by British Columbia Petroleum Corporation, has not been consolidated, as the Fund is held for subsequent distribution to natural gas producers.

The Workers' Compensation Board of British Columbia has neither been consolidated nor recorded on an equity basis because it carries on a quasi-insurance activity funded by contributions from employers and it is not intended to be run on commercial lines. Similarily, the activities of the Insurance (Motor Vehicle) Act Fund have neither been consolidated nor recorded on an equity basis because it operates as a self-sustaining entity.

Since the purpose of the British Columbia Assessment Authority is to establish and maintain uniform provincial assessments, largely for municipalities, it has neither been consolidated nor recorded on an equity basis in these financial statements.

Separate financial statements for all entities which have been either consolidated or recorded on an equity basis in these financial statements are included in Section G of the Public Accounts. Section G also includes financial statements for all major Provincial government entities, as well as those for all public bodies which are audited by the Auditor General.

(b) Principles of Consolidation

The accounts of the Crown Service and Provincial corporations are consolidated with the General Fund and Special Funds after adjusting them to conform with the accounting policies described below. Inter-company accounts and inter-fund revenue and expenditure transactions are eliminated upon consolidation.

The transportation and commercial enterprises, which maintain their accounts in accordance with accounting principles applicable to commercial entities, are included on an equity basis without adjusting them to conform with the accounting policies described below. Inter-company accounts and transactions are not eliminated. However, profit elements included in such transactions, including certain increases in contributed surplus, are eliminated. Also eliminated is an unamortized gain on the defeasance of British Columbia Railway Company's historic debt.

No adjustments are made on consolidation to those consolidated entities whose fiscal year-ends are not the same as that of the Government, where the effect of adjustment would not be significant to the consolidated operating results.

(c) Basis of Accounting

The accrual basis of accounting is used which, for these consolidated financial statements, is specifically expressed as follows:

Revenue

All revenues are recorded on an accrual basis except where the accruals cannot be determined with a reasonable degree of certainty or where their estimation is impracticable. The exceptions, which normally relate to certain payments to the Province under the *Federal-Provincial Fiscal Arrangements*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1986 — Continued

1. Significant Accounting Policies — Continued

and Federal Post-Secondary Education and Health Contributions Act, 1977, are recorded on a cash basis.

Expenditure

All expenditures, including the cost of fixed assets, are recorded for goods received and services rendered during the year.

Grants and forgivable loans are recorded as expenditures when disbursement of the funds has been authorized with the following exception:

social assistance payments during a given month to meet the needs of recipients in an ensuing month, are recorded as expenditure in the period to which the payments apply.

Recoveries of expenditures may be permitted as a credit to the appropriate expenditure account when:

(i) they can be specifically identified with the expenditure transactions and payment has actually been made from an appropriation;
(ii) provision for them has been approved through the Estimates or by Treasury Board; and
(iii) the expenditure to which they relate was incurred in the same fiscal year.

Assets

All assets are recorded to the extent that they represent claims upon outside parties or items held for resale to outside parties as a result of events and transactions prior to the year-end. Rental payments for leases which transfer the benefits and risks incident to the ownership of certain assets, not including special purpose buildings, are reported as expenditures at the dates of inception of the leases.

Liabilities

All liabilities are recorded to the extent that they represent claims payable to outside parties as a result of events and transactions prior to the year-end.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate prevailing at the year-end and foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction unless hedged by forward contracts which specify the rate of exchange. Adjustments to revenue or expenditure transactions arising as a result of foreign currency translation are credited or charged to operations at the time the adjustments arise. Unrealized foreign currency gains and losses on long-term, fixed term monetary assets and liabilities are reported as a deferred charge and amortized over the remaining terms of the related items on a straight-line basis.

Non-monetary assets and liabilities are translated at historical rates of exchange.

(d) Specific Policies

Cash and Temporary Investments

Cash balances are shown after deducting outstanding cheques issued prior to the year-end. Cheques issued subsequent to the year-end relating to the previous year are included in accounts payable.

Temporary investments represent short-term investments, including those in Crown corporations, made to obtain a return on a temporary basis.

Temporary investments are recorded at the lower of cost and market value.

Accounts Receivable

All amounts receivable (including any trade receivables from Crown corporations and agencies) at the year-end for work performed, goods supplied or services rendered are recorded as part of the revenue of the fiscal year. Provision is made where collectibility is considered doubtful.

Inventories

Inventories comprise items held for resale and are recorded at the lower of cost and net realizable value. Inventories of supplies are charged to the respective programs when the cost is incurred.

Property under development is comprised of all property which will eventually be sold to outside parties. Such property is recorded at the lower of cost and net realizable value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1986 — Continued

1. Significant Accounting Policies — Continued

Investments in and Amounts Due from Crown Corporations and Agencies

Investments in those Crown corporations which have been identified as transportation companies and commercial enterprises and which are intended to be run on commercial lines are recorded on an equity basis of accounting. Under this method the Province records its investments (including long-term advances) at cost, adjusted for increases and decreases in the investees' net assets. Since the Government ensures the ongoing activities of these enterprises, full account is taken of losses in the investee companies, even where the cumulative losses exceed the original investment.

Amounts due from Crown corporations and agencies represent amounts other than trade receivables which will be realized in the following year.

Loans, Advances and Mortgages Receivable

Loans and advances of a miscellaneous nature are recorded at cost after adjustment for any prolonged impairment in value.

Mortgages receivable are secured by real estate and are repayable over periods ranging up to thirty years. Provision is made where collectibility is considered doubtful.

Fiscal Agency Loans

Fiscal agency loans consist of loans made to government bodies which have been financed by borrowings made by the Minister of Finance, in his capacity as fiscal agent, on behalf of government bodies in accordance with the *Financial Administration Act* (S.B.C. 1981, chap. 15). These loans are recorded at maturity value less unamortized discount and sinking fund balances. Discount is amortized on a straight-line basis over the lives of the loans.

Fixed Assets

Disbursements for fixed assets are recorded as expenditures in the year the assets are received. Consistent with the reporting of fixed assets as expenditures, highways, bridges, wharves, ferries and ferry landings, buildings, office equipment, furniture, automobiles and Crown land comprised of parks, forests and all other publicly held land in the Province are recorded at a nominal value of $1.

Other Assets

Other assets include prepaid program costs. Prepaid program costs represent expenditures made during the fiscal year for work to be performed, goods to be supplied, services to be rendered or contractual obligations to be fulfilled by outside parties in a subsequent fiscal year. These costs also include inventories of operating materials held in the Purchasing Commission and Queen's Printer warehouses pending distributions in a subsequent fiscal year.

Also included in other assets are certain deferred charges.

Accounts Payable and Accrued Liabilities

All amounts payable for work performed, goods supplied, services known to have been rendered or for charges incurred in accordance with the terms of a contract are recorded as part of the expenditure of the fiscal year.

Due to Crown Corporations and Agencies

Amounts due to Crown corporations and agencies represent liabilities incurred, other than trade payables, which are repayable in the following year.

Deferred Revenue

Deferred revenue represents amounts received prior to the year-end in payment of revenue that will be earned in subsequent fiscal years.

Public Debt

Public debt represents direct debt obligations for the purposes of the Province of British Columbia and the Fiscal Agency loans. These obligations are recorded at principal less unamortized discount and sinking fund balances where applicable. Discount is amortized on a straight-line basis over the lives of the respective issues.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1986 — Continued

1. Significant Accounting Policies — Continued

Guaranteed Debt

Guaranteed debt represents that debt of municipalities and other local governments, private enterprises and individuals, and debt and minority interests of Provincial Crown corporations which has been explicitly guaranteed by the Province under the authority of a statute as to net principal or redemption provisions and accrued interest or dividends outstanding.

Commitments

Commitments represent obligations of the consolidated entities to the extent of contracts and agreements in place at the year-end as disclosed in the audited financial statements of the Province and the related Crown corporations and agencies.

2. Cash and Temporary Investments

Included in temporary investments are bonds and notes of certain Crown corporations amounting to $859,595 (1985: $292,968).

3. Accounts Receivable

	In Thousands 1986	1985
	$	$
Taxes receivable	280,270	270,925
Local government bodies	208,523	215,090
Government of Canada	62,840	76,430
Ministerial accounts receivable	192,899	127,251
Accrued interest	39,538	36,314
Crown corporations and agencies	7,065	10,970
	791,135	736,980
Less: Provision for doubtful accounts	(84,526)	(46,149)
	706,609	690,831
Accounts receivable of consolidated Crown corporations:		
British Columbia Buildings Corporation	1,460	2,455
British Columbia Educational Institutions Capital Financing Authority	17,633	17,167
British Columbia Food Exhibitions Ltd.	341	
British Columbia Health Care Research Foundation	35	62
British Columbia Heritage Trust	55	51
British Columbia Housing Management Commission	5,127	3,998
B.C. Pavilion Corporation	380	1,487
British Columbia Petroleum Corporation	4,366	97,043
British Columbia Place Ltd.	4,153	632
British Columbia Regional Hospital Districts Financing Authority	29,703	31,655
British Columbia School Districts Capital Financing Authority	47,855	47,348
British Columbia Systems Corporation	517	1,125
Creston Valley Wildlife Management Authority Trust Fund	8	5
Discovery Foundation	522	384
Expo 86 Corporation	3,260	818
Health Facilities Association of British Columbia	134	134
Knowledge Network of the West Communications Authority	58	56
Legal Services Society	84	28
Medical Services Commission of British Columbia	3,880	1,828
Provincial Capital Commission	141	75
Science Council of British Columbia	44	29
W.L.C. Developments Ltd.	184	302
	826,549	897,513

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1986 — Continued

4. Inventories

	In Thousands 1986	1985
	$	$
Consolidated Revenue Fund	109,652	106,049
Inventories of consolidated Crown corporations:		
B.C. Pavilion Corporation	62	
Creston Valley Wildlife Management Authority Trust Fund	9	8
Provincial Capital Commission	8	10
W.L.C. Developments Ltd.	10,033	9,282
	119,764	115,349

5. Investments In and Amounts Due From Crown Corporations and Agencies

	In Thousands 1986	1985
	$	$
Equity investments — (C 21)	1,469,266	1,192,849
Amount due from Workers' Compensation Board of British Columbia	1,502	1,502
	1,470,768	1,194,351

(a) Definitions

Investments (including long-term advances) in those Crown corporations which have been identified as transportation companies and commercial enterprises are recorded at cost, adjusted for increases and decreases in the investees' net assets.

Amounts due represent amounts, other than trade receivables, which will be realized in the following year.

(b) British Columbia Cellulose Company (the Company)

The *British Columbia Cellulose Company Repeal Act* came into force March 31, 1986 by regulation of the Lieutenant Governor in Council. Effective April 1, 1986 the Company is dissolved and all of the properties and liabilities transferred to the Crown.

(c) Pacific Coach Lines Ltd. (the Company)

Effective March 31, 1984 the operations of Pacific Coach Lines Ltd. ceased and wind-up of the Company commenced. At March 31, 1986 all operating equipment and certain real estate holdings had been sold to independent interests. The wind-up of the Company will be completed following disposal of the remaining real estate assets.

(d) Ocean Falls Corporation (the Corporation)

The *Ocean Falls Corporation Repeal Act* came into force March 31, 1986 by regulation of the Lieutenant Governor in Council. Effective April 1, 1986 the Corporation is dissolved and all the properties and liabilities transferred to the Crown.

6. Loans, Advances and Mortgages Receivable

	In Thousands 1986	1985
	$	$
Consolidated Revenue Fund	437,530	467,784
Loans, advances and mortgages receivable by consolidated Crown corporations:		
British Columbia Heritage Trust	100	152
British Columbia Petroleum Corporation	45,064	42,534
British Columbia Place Ltd.	231	2,709
Health Facilities Association of British Columbia	3,726	4,825
Knowledge Network of the West Communications Authority	1,562	1,772
	488,213	519,776

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1986 — Continued

7. Fiscal Agency Loans

	In Thousands 1986			1985
	Short Term	Long Term	Total	Total
	$	$	$	$
British Columbia Assessment Authority	3,637		3,637	3,319
British Columbia Educational Institutions		374,537	374,537	378,551
British Columbia Development Corporation		10,000	10,000	
British Columbia Hydro and Power Authority		440,255	440,255	353,340
British Columbia Railway Company	18,996	74,264	93,260	140,679
British Columbia Regional Hospital Districts	607,949		607,949	636,405
British Columbia School Districts	869,264		869,264	933,297
British Columbia Transit	349,123	310,938	660,061	375,929
Capital Project Certificate of Approval Program	34,860		34,860	11,694
Simon Fraser University	1,362		1,362	
University of British Columbia	22,647	4,988	27,635	11,449
	1,907,838	1,214,982	3,122,820	2,844,663

8. Other Assets

	In Thousands 1986	1985
	$	$
Consolidated Revenue Fund	106,814	99,372
Other assets of consolidated Crown corporations:		
British Columbia Buildings Corporation	1,921	3,682
British Columbia Food Exhibitions Ltd.	15	7
British Columbia Housing Management Commission	947	1,144
B.C. Pavilion Corporation	28	25
British Columbia Petroleum Corporation	54,247	112,173
British Columbia Place Ltd.	963	978
British Columbia Regional Hospital Districts Financing Authority	3,457	
British Columbia School Districts Capital Financing Authority	21,140	
British Columbia Systems Corporation	935	1,256
Creston Valley Wildlife Management Authority Trust Fund	146	110
Discovery Foundation	1,349	2,350
Knowledge Network of the West Communications Authority	11	10
Legal Services Society	61	61
Provincial Capital Commission	23	10
Provincial Rental Housing Corporation	11	21
Science Council of British Columbia	2	2
W.L.C. Developments Ltd.	63	70
	192,133	221,271

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1986 — Continued

9. Accounts Payable and Accrued Liabilities

	In Thousands 1986	1985
	$	$
Consolidated Revenue Fund	820,038	793,856
Accounts payable of consolidated Crown corporations:		
British Columbia Buildings Corporation	32,398	35,812
British Columbia Educational Institutions Capital Financing Authority	17,021	17,167
British Columbia Food Exhibitions Ltd.	85	3
British Columbia Health Care Research Foundation	2	3
British Columbia Heritage Trust	16	13
British Columbia Housing Management Commission	3,450	3,371
B.C. Pavilion Corporation	687	62
British Columbia Petroleum Corporation	6,124	85,842
British Columbia Place Ltd.	13,346	15,172
British Columbia Regional Hospital Districts Financing Authority	32,294	31,655
British Columbia School Districts Capital Financing Authority	47,266	47,349
British Columbia Systems Corporation	6,616	17,132
Creston Valley Wildlife Management Authority Trust Fund	3	1
Discovery Foundation	910	365
Expo 86 Corporation	15,367	16,400
Health Facilities Association of British Columbia	447	3,090
Knowledge Network of the West Communications Authority	365	89
Legal Services Society	2,465	1,322
Medical Services Commission of British Columbia	100,090	105,706
Provincial Capital Commission	158	129
Provincial Rental Housing Corporation	2,451	2,583
Science Council of British Columbia	45	44
Universities Council	17	22
W.L.C. Developments Ltd.	551	1,249
	1,102,212	1,178,437

10. Due to Crown Corporations and Agencies

	In Thousands 1986	1985
	$	$
British Columbia Development Corporation	3,157	2,151
British Columbia Hydro and Power Authority		87
British Columbia Institute of Technology		382
British Columbia Transit	1,237	10,997
Pacific Vocational Institute	9	1,191
Simon Fraser University	1,712	1,536
University of British Columbia	4,554	6,571
University of Victoria	1,011	977
Workers' Compensation Board of British Columbia	334	1,733
	12,014	25,625

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1986 — Continued

11. Deferred Revenue

	In Thousands 1986	1985
	$	$
Motor vehicle licences and permits	71,633	63,297
Water rentals and recording fees	59,958	51,597
Petroleum, natural gas and mineral leases and fees	31,585	31,893
Canada Assistance Plan	30,473	30,565
Miscellaneous	16,978	16,598
Deferred revenue of consolidated Crown corporations:		
British Columbia Food Exhibitions Ltd.	541	
British Columbia Housing Management Commission	214	212
B.C. Pavilion Corporation	14	
British Columbia Petroleum Corporation		30,475
British Columbia Place Ltd.	1,661	1,802
British Columbia Systems Corporation	486	
Creston Valley Wildlife Management Authority Trust Fund	11	
Discovery Foundation	188	200
Expo 86 Corporation	125,530	2,917
Knowledge Network of the West Communications Authority	44	42
Legal Services Society	519	
Medical Services Commission of British Columbia	26,119	28,570
Provincial Capital Commission	4	13
	365,958	258,181

12. Public Debt

	In Thousands 1986				1985
		Less			
	Gross Debt	Sinking Funds Accumulated	Debt Held by Consolidated Entities	Net Debt	Net Debt
	$	$	$	$	$
Debt issued by:					
Consolidated Revenue Fund[1]	5,021,093		(2,199)	5,018,894	3,791,697
Crown corporations:					
British Columbia Buildings Corporation[1]	576,189	(38,589)	(99,122)	438,478	453,628
British Columbia Educational Institutions Capital Financing Authority	426,404	(49,668)	(11,719)	365,017	373,363
British Columbia Petroleum Corporation	29,915			29,915	29,873
British Columbia Place Ltd.	141,052	(2,220)	(110,965)	27,867	29,166
British Columbia Regional Hospital Districts Financing Authority	974,124	(290,091)	(12,000)	672,033	705,352
British Columbia School Districts Capital Financing Authority	1,551,572	(661,169)	(44,084)	846,319	889,217
British Columbia Systems Corporation	58,980	(2,858)		56,122	57,377
Expo 86 Corporation	273,492		(273,492)		
Health Facilities Association of British Columbia	90,605	(24,468)	(66,137)		
Provincial Rental Housing Corporation	69,551		(23,129)	46,422	46,511
W.L.C. Developments Ltd.	24,176		(1,091)	23,085	17,139
	9,237,153	(1,069,063)	(643,938)	7,524,152	6,393,323

Net debt repayment due in the next fiscal year is Canadian $281 million and U.S. $24 million and due within the next five years is Canadian $2,452 million and U.S. $176 million. Details of the various terms of repayment are available in the financial statements of each of the consolidated entities. Refer to Section G for Crown corporations' financial statements and to the Schedule of Public Debt in Section B for Combined General and Special Fund details.

[1] The 1986 Gross Debt is net of unamortized discount in the amount of $221 million for the Consolidated Revenue Fund and $18 million for the British Columbia Buildings Corporation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1986 — Continued

13. Contingencies and Commitments

(a) Guaranteed debt

Guaranteed debt as at March 31, 1986 totalled $9.2 billion. Included in guaranteed debt is that debt of municipalities and other local governments, private enterprises and individuals, and debt and minority interests of Provincial Crown corporations which has been explicitly guaranteed by the Province under the authority of a statute as to net principal and accrued interest outstanding. *See* Statement of Guaranteed Debt on C 23 for details.

(b) Contingent liabilities

(i) Pending litigation

The Government is a defendant in legal actions which may give rise to future liabilities. Because the outcome of the litigation is uncertain, no amount has been recorded in these financial statements.

The Government has a contingent liability in respect of the following summary of cases where the estimated or known claim is or exceeds $100,000:

(a) a substantial unquantified claim has been made by a mining company as compensation for being disallowed to proceed with mining in a Provincial park;
(b) claims totalling $3.5 million have been made by logging companies for negligence in issuing scale and royalty accounts;
(c) various claims totalling $5.5 million against assessments for social services, logging, mining, and corporation capital taxes; and
(d) various legal actions totalling $7.3 million (each between $100,000 and $2 million) representing claims of damages to persons and property or other miscellaneous claims.

(ii) Other contingent liabilities

The Government also has contingent liabilities in the form of indemnities, indirect guarantees and outstanding claims. Because these amounts are uncertain no liability for them has been recorded in these financial statements.

(c) General commitments

At the end of each year there are a number of general commitments outstanding for ongoing programs and operations.

For reporting purposes in these financial statements, future expenditures of fully consolidated entities are recorded as a charge in the year in which the work or service is performed. Commitments for capital construction projects totalled approximately $249 million. Minimum payments under leases and other operating commitments totalled approximately $776 million.

Approved capital commitments for those entities reported on the equity basis totalled approximately $476 million and minimum payments under operating leases totalled approximately $115 million.

(d) Superannuation and pension actuarial valuations

The Government has statutory responsibility for unfunded liabilities of the Public Service Superannuation Fund and the Teachers' Pensions Fund, as shown in the latest available actuarial valuations, as follows:

	In Thousands	
	Public Service Superannuation as at March 31 1984	Teachers' Pensions as at December 31 1984
Assets:	$	$
Fund	1,660,012	1,411,044
Present value of future contributions	1,741,452	2,142,951
	3,401,464	3,553,995
Unfunded Liability	555,858	1,392,116
Total Actuarial Liability	3,957,322	4,946,111

See Section H of the Public Accounts for further details of these plans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1986 — Continued

14. Trust Funds

Amounts held and administered in trust by the Government at the end of the fiscal year were comprised of the following:

	In Thousands	
	1986	1985
	$	$
Superannuation and Pension Funds	7,408,431	6,509,907
Sinking Funds	2,511,014	2,239,834
Other Managed Trust Funds	750,438	536,854
Workers' Compensation Board of British Columbia	2,276,187	1,922,725
Custodial Deposits	341,069	328,923
	13,287,139	11,538,243

See section D of the Public Accounts for further details.

15. Subsequent Event

British Columbia Place Ltd.

Effective April 1, 1986 the Province undertook to transfer to British Columbia Place Ltd. the one issued share of W.L.C. Developments Ltd. and certain properties under development in Coquitlam and Victoria. The Province's development costs to March 31, 1986 of the Coquitlam and Victoria properties totalled $13.5 million.

16. Comparatives

Certain of the comparative figures for the previous year have been reclassified to conform with the current year's presentation. These reclassifications have had no effect on the operating results or fund balances as previously reported.

CONSOLIDATED FINANCIAL STATEMENTS
STATEMENT OF ENTITIES RECORDED ON A CONSOLIDATED OR EQUITY BASIS
FOR THE FISCAL YEAR ENDED MARCH 31, 1986

Crown Service Corporations Recorded on Consolidated Basis

British Columbia Buildings Corporation
British Columbia Systems Corporation

Provincial Corporations and Agencies Recorded on Consolidated Basis

British Columbia Educational Institutions Capital Financing Authority
British Columbia Food Exhibitions Ltd.
British Columbia Health Care Research Foundation
British Columbia Heritage Trust
British Columbia Housing Management Commission
B.C. Pavilion Corporation
British Columbia Petroleum Corporation (reported by Petroleum Corporation Fund)
British Columbia Place Ltd.
British Columbia Regional Hospital Districts Financing Authority
British Columbia School Districts Capital Financing Authority
Creston Valley Wildlife Management Authority Trust Fund
Discovery Foundation
Expo 86 Corporation
Health Facilities Association of British Columbia
Knowledge Network of the West Communications Authority
Legal Services Society
Medical Services Commission of British Columbia
Provincial Capital Commission
Provincial Rental Housing Corporation
The Science Council of British Columbia and Secretariat on Science, Research and Development (Science Council of British Columbia)
Universities Council
W.L.C. Developments Ltd.

Transportation Companies and Commercial Enterprises Recorded on Equity Basis

British Columbia Cellulose Company
British Columbia Development Corporation
British Columbia Ferry Corporation
British Columbia Hydro and Power Authority
British Columbia Lottery Corporation
British Columbia Railway Company
British Columbia Steamship Company (1975) Ltd.
British Columbia Transit
Housing Corporation of British Columbia
Insurance Corporation of British Columbia — excluding the Insurance (Motor Vehicle) Act Fund
Ocean Falls Corporation
Pacific Coach Lines Limited

CONSOLIDATED FINANCIAL STATEMENTS
STATEMENT OF OPERATING RESULTS OF CONSOLIDATED CROWN CORPORATIONS FOR THE FISCAL YEAR ENDED MARCH 31, 1986[1]

In Thousands

	1986				1985
	Earnings (losses) per Consolidated Crown Corporations' Financial Statements	*Accounting Policy Adjustments*[2]		**Net Earnings (losses) for the Year**	**Net Earnings (losses) for the Year**
		Fixed Assets	Other		
	$	$	$	$	$
Crown Service Corporations:					
British Columbia Buildings Corporation	3,195	18,909		**22,104**	**13,385**
British Columbia Systems Corporation	2,708	785		**3,493**	**(4,170)**
	5,903	19,694		**25,597**	**9,215**
Provincial Corporations and Agencies:					
British Columbia Food Exhibitions Ltd.		(44)	105	**61**	**22**
British Columbia Health Care Research Foundation	75		(282)	**(207)**	**(333)**
British Columbia Heritage Trust	(75)	(110)		**(185)**	**(205)**
British Columbia Housing Management Commission	508	86		**594**	**156**
B.C. Pavilion Corporation	(13,599)	31	3,800	**(9,768)**	**17,203**
British Columbia Petroleum Corporation	1,716	(10)	(2,048)	**(342)**	**(46)**
British Columbia Place Ltd.	(4,594)	(27,659)		**(32,253)**	**(50,988)**
Creston Valley Wildlife Management Authority Trust Fund	39			**39**	**33**
Discovery Foundation	(1,034)	(595)	(451)	**(2,080)**	**(897)**
Expo 86 Corporation		(154,091)	(46,688)	**(200,779)**	**(177,776)**
Health Facilities Association of British Columbia	136	5,912		**6,048**	**(3,402)**
Knowledge Network of the West Communications Authority	(664)	51		**(613)**	**(797)**
Legal Services Society	(984)			**(984)**	**1,678**
Provincial Capital Commission	134			**134**	**224**
Provincial Rental Housing Corporation			1,292	**1,292**	**127**
Science Council of British Columbia	(417)			**(417)**	**(800)**
Universities Council	6			**6**	**(59)**
W.L.C. Developments Ltd.	(1,250)	(6,003)		**(7,253)**	**(6,479)**
	(20,003)	(182,432)	(44,272)	**(246,707)**	**(222,339)**
Total	(14,100)	(162,738)	(44,272)	**(221,110)**	**(213,124)**

[1] The British Columbia Educational Institutions Capital Financing Authority, British Columbia Regional Hospital Districts Financing Authority and British Columbia School Districts Capital Financing Authority do not generate any earnings or losses and are, therefore, not shown on this schedule.

[2] Accounting policy adjustments are made so that the net earnings (losses) of consolidated entities are calculated in accordance with the accounting policies adopted by the Government as described in Note 1, Basis of Accounting, C 8.

CONSOLIDATED FINANCIAL STATEMENTS
STATEMENT OF EQUITY IN COMMERCIAL ENTERPRISES
FOR THE FISCAL YEAR ENDED MARCH 31, 1986

	In Thousands 1986							
	British Columbia Cellulose Company	British Columbia Development Corporation[1]	British Columbia Hydro and Power Authority	British Columbia Lottery Corporation	Housing Corporation of British Columbia	Insurance Corporation of British Columbia[2]	Ocean Falls Corporation	**Total**
	$	$	$	$	$	$	$	**$**
Earnings (losses) for the year before extraordinary items	(1,718)	(27,379)	12,000	104,068	(1,167)	316	(2,385)	**83,735**
Extraordinary items							(2,097)	**(2,097)**
Net earnings (losses) for the year	(1,718)	(27,379)	12,000	104,068	(1,167)	316	(4,482)	**81,638**
Unremitted earnings (losses) — beginning of year	1,722	(60,027)	524,000		2,897	8,378	(19,044)	**457,926**
Transfer from (to) Government				(104,068)		(8,694)		**(112,762)**
Other changes to net equity			(15,000)[3]					**(15,000)**
Unremitted earnings (losses) — end of year	4	(87,406)	521,000		1,730		(23,526)	**411,802**
Equity contributed and transferred		54,618	(5,200)		1,902		16,085	**67,405**
Unremitted equity — end of year	4	(32,788)	515,800		3,632		(7,441)	**479,207**
Recorded by the Government:								
Shares and other investments			8,081					**8,081**
Advances		20,779		13,282				**34,061**
Total Equity	4	(12,009)	523,881	13,282	3,632		(7,441)	**521,349**

[1] The amount shown above for the British Columbia Development Corporation does not include $28,452,888 of the Government of British Columbia's funds held in trust and administered by the Corporation under the Low Interest Loan Assistance Program (L.I.L.A.).

[2] The amount shown above for the Insurance Corporation of British Columbia does not include the activities of the Insurance (Motor Vehicle) Act Fund, which operates as a self-sustaining entity; the profit for the year ended December 31, 1985 in this Fund was $73,562,000.

[3] The amount of $15,000,000 is the result of a prior period adjustment by British Columbia Hydro and Power Authority.

CONSOLIDATED FINANCIAL STATEMENTS
STATEMENT OF EQUITY IN TRANSPORTATION COMPANIES AND COMMERCIAL ENTERPRISES FOR THE FISCAL YEAR ENDED MARCH 31, 1986[1]

	In Thousands 1986								1985
	British Columbia Ferry Corporation	British Columbia Railway Company	British Columbia Steamship Company (1975) Ltd.	British Columbia Transit	Pacific Coach Lines Limited	**Transportation Companies Total**	**Commercial Enterprises (C 20)**	**Transportation Companies and Commercial Enterprises Total**	**Transportation Companies and Commercial Enterprises Total**
	$	$	$	$	$	**$**	**$**	**$**	**$**
Earnings (losses) for the year before Provincial grants	(56,680)	36,312	(980)	(71,927)	20	**(93,255)**	**83,735**	**(9,520)**	**(151,057)**
Provincial grants	40,000	6,618		72,781		**119,399**		**119,399**	**136,076**
Earnings (losses) for the year before extraordinary items	(16,680)	42,930	(980)	854	20	**26,144**	**83,735**	**109,879**	**(14,981)**
Extraordinary items					(223)	**(223)**	**(2,097)**	**(2,320)**	**(4,588)**
Net earnings (losses) for the year	(16,680)	42,930	(980)	854	(203)	**25,921**	**81,638**	**107,559**	**(19,569)**
Unremitted earnings (losses) — beginning of year	(15,720)		(9,255)	(16,728)	(6,458)	**(48,161)**	**457,926**	**409,765**	**214,453**
Transfers from (to) Government							**(112,762)**	**(112,762)**	
Other changes to net equity				20,342	4,667	**25,009**	**(15,000)**	**10,009**	**214,881**
Unremitted earnings (losses) — end of year	(32,400)	42,930	(10,235)	4,468	(1,994)	**2,769**	**411,802**	**414,571**	**409,765**
Equity contributed and transferred	168,117	580,151	9,687	85,500	2,491	**845,946**	**67,405**	**913,351**	**587,054**
Unremitted equity — end of year[2]	135,717	623,081	(548)	89,968	497	**848,715**	**479,207**	**1,327,922**	**996,819**
Recorded by the Government:									
Shares and other investments	6,851	37,351				**44,202**	**8,081**	**52,283**	**106,897**
Advances				55,000		**55,000**	**34,061**	**89,061**	**89,132**
Total Equity	142,568	660,432	(548)	144,968	497	**947,917**	**521,349**	**1,469,266**	**1,192,848**

[1] This statement should be read in conjunction with note 5 of the Consolidated Financial Statements.

[2] The net increase in unremitted equity from $996,819,000 in 1984/85 to $1,327,922,000 in 1985/86 of $331,103,000 is comprised of the net increase in unremitted earnings of $4,806,000 and the net increase in equity contributed and transferred of $326,297,000. (Refer to C 6).

CONSOLIDATED FINANCIAL STATEMENTS
STATEMENT TO RECONCILE CORPORATE EQUITY TO EQUITY OF PROVINCE
AS AT MARCH 31, 1986[1]

In Thousands

	British Columbia Development Corporation	British Columbia Hydro and Power Authority	Ocean Falls Corporation	British Columbia Ferry Corporation	British Columbia Railway Company	British Columbia Steamship Company (1975) Ltd.	British Columbia Transit
	$	$	$	$	$	$	$
Share capital	54,618			6,851	257,688		
Contributed surplus	10,898	672,000	37,342	250,401	510,716	7,900	203,798
Retained earnings (deficit)	(87,406)	521,000	(59,754)	(32,400)	42,930	(10,235)	4,468
Rate stabilization account		107,000					
Corporate equity	(21,890)	1,300,000	(22,412)	224,852	811,334	(2,335)	208,266
Unamortized asset appraisal increases	(10,898)			(82,284)			(118,298)
Profit on transactions between consolidated entities		(5,200)					
Contributed and other surpluses not recognized in government equity until taken into operating results of corporation		(779,000)					
Long-term debt due to other consolidated entities, written off by creditor but not by debtor			14,971			1,787	
Unamortized gain on defeasance of entity debt not recognized in government equity					(161,137)		
Permanent debt-financing of entities, included in equity of Province	20,779	8,081			10,235		55,000
Equity of Province	(12,009)	523,881	(7,441)	142,568	660,432	(548)	144,968

[1] For all other entities on C 20 and C 21, corporate equity and equity of the Province are the same.

CONSOLIDATED FINANCIAL STATEMENTS
STATEMENT OF GUARANTEED DEBT AS AT MARCH 31, 1986

Debt of municipalities and other local governments, private enterprises and individuals, and debt and minority interests of Provincial Crown corporations which has been explicitly guaranteed by the Province under the authority of a statute as to net principal or redemption provisions and accrued interest or dividends outstanding.

	In Thousands			
	1986			1985
	Gross Outstanding[2]	Sinking Funds[3]	Net Outstanding	Net Outstanding
Municipalities and other local governments —	$	$	$	$
(1) Guarantees authorized pursuant to the *Municipalities Assistance Act*, sec. 3 (serials)	2,633		2,633	4,193
(2) Guarantees authorized pursuant to the *Municipal Act*, sec. 854 — Debentures (principally serials)	24,574	10,263	14,311	14,789
(3) Guarantees authorized pursuant to the *Greater Vancouver Sewerage and Drainage District Act*, sec. 36 —				
Debentures (some serials)	9,943	9,943		
Subtotal, municipalities and other local governments	37,150	20,206	16,944	18,982
Health and education —				
(4) Guarantees authorized pursuant to the *Financial Administration Act*, sec. 56 —				
Student aid loans	20,898		20,898	9,955
Riverview Hospital Volunteer Association	11		11	15
Subtotal, health and education	20,909		20,909	9,970
Economic development—				
(5) Guarantees authorized pursuant to the *Agricultural Credit Act*, sec. 3	4,143		4,143	2,957
(6) Guarantees authorized pursuant to the *British Columbia Cellulose Company Act*, sec. 8[1]				4,848
(7) Guarantees authorized pursuant to the *British Columbia Railway Finance Act*, sec. 10[1] —				
Bonds and debentures — funded	768,101	768,101		
Capital leases	25,957		25,957	26,323
1st preferred shares — BC Rail Ltd.	200,000		200,000	200,000
(8) Guarantees authorized pursuant to the *British Columbia Transit Act*, sec. 22[1] —				
Bonds and debentures	58,639	3,336	55,303	77,024
Notes	49,280		49,280	100,702
Capital leases	186,006		186,006	94,369
(9) Guarantees authorized pursuant to the *Development Corporation Act*, sec. 15[1] —				
Bonds	218,607			
Less: held by the British Columbia Housing and Employment Development Financing Authority	(135,586)			
	83,021		83,021	82,625
Notes	98,011		98,011	86,431
(10) Guarantees authorized pursuant to the *Farm Product Industry Act*, sec. 2	280		280	1,046
(11) Guarantees authorized pursuant to the *Ferry Corporation Act*, sec. 18[1] —				
Notes — funded	14,870	723	14,147	14,525
Notes — unfunded (serials)	28,689		28,689	28,689
Capital leases	43,977		43,977	

CONSOLIDATED FINANCIAL STATEMENTS
STATEMENT OF GUARANTEED DEBT AS AT MARCH 31, 1986 — Continued

	In Thousands			
	1986			1985
	Gross Outstanding[2]	Sinking Funds[3]	Net Outstanding	Net Outstanding
	$	$	$	$
(12) Indemnities authorized pursuant to the *Financial Administration Act*, sec. 56 —				
The Terry Fox Medical Research Foundation, *et al*	8,046		8,046	8,000
Canadian Commercial Bank	14,228		14,228	
Moli Energy Limited	15,748		15,748	
National Homes Limited	65		65	
(13) Guarantees authorized pursuant to the *Housing and Employment Development Financing Act*, secs. 5 and 6[1] — Bonds and debentures	149,437		149,437	179,684
(14) Guarantees authorized pursuant to the *Ministry of Transportation and Highways Act*, sec. 66, re: British Columbia Steamship Company (1975) Ltd.[1]	5,669		5,669	4,937
Subtotal, economic development	1,754,167	772,160	982,007	912,160
Utilities —				
(15) Guarantees authorized pursuant to the *Hydro and Power Authority Act*, sec. 44[1] —				
Bonds and debentures — funded	9,420,697	1,034,503	8,386,194	8,564,843
Subtotal, utilities	9,420,697	1,034,503	8,386,194	8,564,843
Grand total, all guaranteed debt	11,232,923	1,826,869	9,406,054	9,505,955
Less: Amounts included above held as investments within the Consolidated Entity	(219,990)	(53,022)	(166,968)	(67,101)
Net total, all guaranteed debt	11,012,933	1,773,847	9,239,086	9,438,854

[1] *See* Section G of the Public Accounts for details of maturity dates, interest rates, and redemption features of the outstanding debt of these Crown agencies.

[2] Gross outstanding debt as at March 31, 1986 includes accrued interest of $377.1 million. Debt payable in United States currency is recorded in Canadian dollars at the rate of exchange prevailing at March 31, 1986.

[3] Sinking funds consist of cash, investments and accrued interest. For the purpose of this statement, investments are reported at amortized cost, with the following exceptions. For item (3), the actual sinking fund balance exceeds the gross outstanding debt and is therefore shown at an amount equal to the debt. Investments held by certified sinking funds included in item (2) are reported at par value, as are investments held by the British Columbia Railway Company sinking funds (item 7). Investments reported at par value in the statement total $754 million. These investments have a par value, interest rate and maturity date identical to the debt they are funding, and so constitute a complete offset against the debt. By reporting these investments at par, the related net outstanding debt is reported at nil.

The market value of sinking fund investments at March 31, 1986 was $1.8 billion (1985: $1.5 billion). These are not considered to be temporary investments, and are generally held until maturity, at which time the par value is realized. Certified investments must be held in trust until maturity.

As a result of Government financing policies $3 billion of the guaranteed debt is held in investment accounts included in these financial statements and in other Provincial public sector superannuation and pension funds. Canada Pension Plan funds made available to the Government ($1.3 billion) are redeemable by the Federal Minister of Finance, subject to six months notice and certain other restrictions.

Between the year end and August 15, 1986 there have been redemptions net of additional debt issues guaranteed by the Province in the amount of $274 million.

SECTION D

TRUST FUNDS

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Province of British Columbia

Office of the
Auditor General
Province of British Columbia

8 Bastion Square
Victoria
British Columbia
V8V 1X4

AUDITOR GENERAL'S REPORT

To the Legislative Assembly
of the Province of British Columbia
Parliament Buildings
Victoria, British Columbia

I have examined the statement of financial position of the Trust Funds of the Government of the Province of British Columbia as at 31 March 1986, and the statement of changes in trust balances for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances. I have received all the information and explanations I have required.

I report in accordance with section 7 of the *Auditor General Act*. In my opinion, these financial statements present fairly the financial position of the Trust Funds of the Government of the Province of British Columbia as at 31 March 1986 and the changes in trust balances for the year then ended in accordance with the stated accounting policies as set out in Note 1 to these financial statements applied on a basis consistent with that of the preceding year.

ERMA MORRISON, F.C.A.
Auditor General

Victoria, British Columbia
29 August 1986

TRUST FUNDS
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 1986

In Thousands

	Cash and Temporary Investments	Receivables	Other Investments[1]	Other Assets	Accounts Payable	Trust Balances 1986	Trust Balances 1985
Actively Managed:	$	$	$	$	$	$	$
Superannuation and Pension Funds							(note 2)
Public Service Superannuation Fund	769,103	81,317	1,472,577	14,556	(3,482)	2,334,071	2,063,573
Municipal Superannuation Fund	767,214	80,693	1,519,065	12,467	(2,864)	2,376,575	2,074,791
Teachers' Pensions Fund	575,408	58,918	1,173,177	12,059	(1,301)	1,818,261	1,590,548
College Pension Fund	111,608	6,293	37,422	528	(122)	155,729	133,311
British Columbia Hydro and Power Authority Pension Fund	160,704	15,855	372,111	(581)	(248)	547,841	492,147
British Columbia Power Commission Superannuation Fund	7,381	859	21,249	349	(65)	29,773	29,095
BC Rail Ltd. Pension Fund	33,657	4,682	103,395	336	(35)	142,035	123,138
Members of the Legislative Assembly Superannuation Account	2,905	160	1,101		(20)	4,146	3,304
Total Superannuation and Pension Funds	2,427,980	248,777	4,700,097	39,714[2]	(8,137)	7,408,431	6,509,907
Sinking Funds							
British Columbia Buildings Corporation	36,276	1,064	552		(9)	37,883	29,632
British Columbia Educational Institutions Capital Financing Authority	33,317	1,888	14,000		(11)	49,194	35,211
British Columbia Hydro and Power Authority	259,355	23,335	752,076		(263)	1,034,503	900,156
British Columbia Railway Company		16,816	580,814			597,630	580,065
British Columbia Regional Hospital Districts Financing Authority	127,263	5,503	131,464		(538)	263,692	226,801
British Columbia School Districts Capital Financing Authority	197,080	8,725	222,134		(62)	427,877	416,228
Greater Vancouver Sewerage and Drainage District	20,791	734	8,485		(8)	30,002	25,772
Province of British Columbia	39,971	816				40,787	8,598
Province of British Columbia — Fiscal Agency borrowings	11,239	318				11,557	2,482
Other	10,871	409	6,616		(7)	17,889	14,889
Total Sinking Funds	736,163	59,608	1,716,141		(898)	2,511,014	2,239,834
Other Managed Trust Funds							
British Columbia Buildings Corporation Trust	13,901	23			(3)	13,921	5,005
British Columbia Development Corporation Trust	90,819	156			(21)	90,954	133,452
British Columbia Ferry Corporation Trust	15,563	53			(6)	15,610	19,651
British Columbia Housing and Employment Development Financing Authority Trust	48,482	55				48,537	224
British Columbia Hydro and Power Authority Trust	222,934	1,242			(16)	224,160	85,578
British Columbia Lottery Corporation Trust	11,153	17			(3)	11,167	
B.C. Pavilion Corporation Trust	385	30				415	15,490
British Columbia Railway Company Trust	7	1				8	19
British Columbia Regional Hospital Districts Financing Authority Trust		534	26,399			26,933	14,554

British Columbia School Districts Capital Financing Authority Trust		4,685	233,298			237,983	182,106
British Columbia Transit Trust	11,048	20			(4)	11,064	15,586
Discovery Foundation Trust	6,612	34			(3)	6,643	4
Expo 86 Corporation Trust	5,709	27			(4)	5,732	7
Health Facilities Association of British Columbia Trust	80				(4)	76	2,182
Public Service Long Term Disability Plan	39,427	2,430	1,988		(3,292)	40,553	36,564
Crown Corporations Long Term Disability Plan	6,293	424	346		(527)	6,536	6,434
Travel Industry Development Subsidiary Agreement	57	2,630			(57)	2,630	3,011
University of Victoria Engineering Complex Capital Account	1,870				(28)	1,842	11,126
Other	5,553	126			(5)	5,674	5,861
Total Other Managed Trust Funds	479,893	12,487	262,031		(3,973)	750,438	536,854
Custodial Deposits:							
Held Under the Jurisdiction of:							
Public Trustee and Official Administrators	162,201	3,586	32,414	31,140[3]	(2,882)	226,459	222,507
Crop Insurance Fund	242	5,977			(10,000)	(3,781)	(2,660)
Land Registry Assurance Fund	581	27	683			1,291	1,206
Supreme and County Court Rules (Suitor's Funds)	50,926		18,720			69,646	65,417
Workers' Compensation Board	921,911	50,272	1,304,109		(105)	2,276,187	1,922,725
Other Acts and Miscellaneous Deposits	40,830		6,924		(300)	47,454	42,453
Total Custodial Deposits	1,176,691	59,862	1,362,850	31,140	(13,287)	2,617,256	2,251,648
Total Trust Funds	4,820,727	380,734	8,041,119	70,854	(26,295)	13,287,139	11,538,243

[1] Comprised mainly of long-term investments.
[2] Consist of deferred losses less gains on sale of investments.
[3] Comprised mainly of real property.

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Minister of Finance:

P.G. HALKETT
Acting Deputy Minister of Finance and Secretary of Treasury Board

D.B. MARSON
Comptroller General

TRUST FUNDS
STATEMENT OF CHANGES IN TRUST BALANCES
FOR THE YEAR ENDED MARCH 31, 1986

In Thousands

	Contributions and Transfers In	Investment Income	Pension Payments and Transfers Out	Administration Fees and Other	Net Change	Trust Balances 1986	Trust Balances 1985
Actively Managed:	$	$	$	$	$	$	$
Superannuation and Pension Funds							(note 2)
Public Service Superannuation Fund	163,500	226,014	(116,803)	(2,213)	270,498	2,334,071	2,063,573
Municipal Superannuation Fund	210,153	221,624	(127,511)	(2,482)	301,784	2,376,575	2,074,791
Teachers' Pensions Fund	161,547	172,392	(104,695)	(1,531)	227,713	1,818,261	1,590,548
College Pension Fund	12,356	14,018	(3,771)	(185)	22,418	155,729	133,311
British Columbia Hydro and Power Authority Pension Fund	35,985	54,064	(34,006)	(349)	55,694	547,841	492,147
British Columbia Power Commission Superannuation Fund	21	2,521	(1,836)	(28)	678	29,773	29,095
BC Rail Ltd. Pension Fund	8,567	13,574	(3,147)	(97)	18,897	142,035	123,138
Members of the Legislative Assembly Superannuation Account	549	338	(45)		842	4,146	3,304
Total Superannuation and Pension Funds	592,678	704,545	(391,814)	(6,885)	898,524	7,408,431	6,509,907

	Instalments	Investment Income	Capital Disbursements	Other Costs and Administration	Net Change	Trust Balances 1986	Trust Balances 1985
	$	$	$	$	$	$	$
Sinking Funds							
British Columbia Buildings Corporation	4,858	3,394		(1)	8,251	37,883	29,632
British Columbia Educational Institutions Capital Financing Authority	9,740	4,282		(39)	13,983	49,194	35,211
British Columbia Hydro and Power Authority	86,598	100,327	(52,574)	(4)	134,347	1,034,503	900,156
British Columbia Railway Company		86,903	(69,338)		17,565	597,630	580,065
British Columbia Regional Hospital Districts Financing Authority	25,437	25,585	(13,958)	(173)	36,891	263,692	226,801
British Columbia School Districts Capital Financing Authority	34,491	42,893	(65,491)	(245)	11,648	427,876	416,228
Greater Vancouver Sewerage and Drainage District	1,410	2,852		(32)	4,230	30,002	25,772
Province of British Columbia	30,090	2,099			32,189	40,787	8,598
Province of British Columbia — Fiscal Agency borrowings	8,298	777			9,075	11,557	2,482
Other	3,143	1,781	(1,909)	(15)	3,000	17,889	14,889
Total Sinking Funds	204,065	270,893	(203,270)	(509)	271,179	2,511,013	2,239,834

	Capital Receipts	Investment Income	Capital Disburse-ments	Other Costs and Admin-istration	Net Change	Trust Balances 1986	Trust Balances 1985
	$	$	$	$	$	$	$
Other Managed Trust Funds							
British Columbia Buildings Corporation Trust	423,647	373	(415,101)	(3)	8,916	13,921	5,005
British Columbia Development Corporation Trust	249,849	12,025	(304,281)	(91)	(42,498)	90,954	133,452
British Columbia Ferry Corporation Trust	186,723	2,790	(193,555)		(4,042)	15,610	19,652
British Columbia Housing and Employment Development Financing Authority Trust	63,763	481	(15,931)		48,313	48,536	223
British Columbia Hydro and Power Authority Trust	1,657,372	10,721	(1,529,504)	(6)	138,583	224,161	85,578
British Columbia Lottery Corporation Trust	28,000	170	(17,000)	(3)	11,167	11,167	
B.C. Pavilion Corporation Trust	5,000	877	(20,957)	5	(15,075)	415	15,490
British Columbia Railway Company Trust	226,636	155	(226,802)		(11)	8	19
British Columbia Regional Hospital Districts Financing Authority Trust	11,162	2,840	(1,623)		12,379	26,933	14,554
British Columbia School Districts Capital Financing Authority Trust	58,194	31,996	(34,313)		55,877	237,983	182,106
British Columbia Transit Trust	1,777,167	1,578	(1,783,272)	5	(4,522)	11,064	15,586
Discovery Foundation Trust	16,605	308	(10,272)	(2)	6,639	6,643	4
Expo 86 Corporation Trust	659,984	352	(654,607)	(4)	5,725	5,732	7
Health Facilities Association of British Columbia Trust			(2,106)		(2,106)	76	2,182
Public Service Long Term Disability Plan	10,517	3,989	(10,204)	(313)	3,989	40,553	36,564
Crown Corporations Long Term Disability Plan	1,012	664	(1,544)	(30)	102	6,536	6,434
Travel Industry Development Subsidiary Agreement		178	(283)	(276)	(381)	2,630	3,011
University of Victoria Engineering Complex Capital Account			(9,284)		(9,284)	1,842	11,126
Other	574,041	1,141	(575,362)	(5)	(185)	5,676	5,861
Total Other Managed Trust Funds	5,949,672	70,638	(5,806,001)	(723)	213,586	750,440	536,854

The accompanying notes are an integral part of these financial statements.

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1986

1. Significant Accounting Policies

A. REPORTING ENTITY

Trust Funds include amounts held and administered in trust; the Government has no power of appropriation over these funds. Two types of funds exist: actively managed funds and custodial deposits. The actively managed funds require the Minister of Finance to perform at least one of the following functions—set investment policy; control the collection of contributions, instalments and other receipts; disburse payments; and perform other administrative and miscellaneous functions related to the funds. The Minister's involvement with custodial deposits is merely to hold assets according to conditions set by agreements or statutes.

Actively managed funds include superannuation and pension funds, sinking funds and other managed trust funds. Custodial deposits include: funds held by the Public Trustee and Official Administrators, funds held under the Supreme and County Court Rules, funds held for the Workers' Compensation Board, funds held under other acts and miscellaneous deposits. Each is more fully described below.

(a) *Superannuation and Pension Funds*

The Government administers and is responsible for collection of employee contributions to certain superannuation and pension plans in accordance with the following acts and regulations:

Pension (Public Service) Act
Pension (Municipal) Act
Pension (Teachers) Act
Pension (College) Act
Legislative Assembly Allowances and Pension Act
British Columbia Hydro and Power Authority Pension Fund Regulations
British Columbia Power Commission Superannuation Fund Regulations
BC Rail Ltd. Pension Fund Plan

The Government is responsible for the employer contributions and has statutory responsibilities with respect to unfunded liabilities under the *Pension (Public Service) Act*, the *Pension (Teachers) Act* and the *Legislative Assembly Allowances and Pension Act*. The Government has no statutory responsibilities with respect to unfunded liabilities under the other acts and regulations noted above.

(b) *Sinking Funds*

The Minister of Finance holds in trust and manages sinking funds on behalf of various Crown corporations and public bodies. The Minister also establishes sinking funds for the Province's borrowings under the provisions of the *Financial Administration Act* (S.B.C. 1981, chap. 15). Instalments are received on a periodic basis from the Crown corporations and are invested by the Minister of Finance in his capacity as Trustee. The accumulated instalments, together with interest earned, less administrative costs, constitute the sinking funds. The purpose of these sinking funds is to provide for an orderly retirement of debts at maturity.

(c) *Other Managed Trust Funds*

These are funds of various Crown corporations and public bodies deposited with the Government for investment and administration. They include amounts such as working capital surplus to their immediate needs, funds for capital transactions and long term disability funds.

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1986 — Continued

1. Significant Accounting Policies — Continued

A. REPORTING ENTITY — Continued

(d) *Custodial Deposits*

(i) Public Trustee and Official Administrators

Trust officers are responsible for the recording, managing and reporting aspects of the accounts maintained under the *Infants Act, Patients Property Act, Estate Administration Act, Public Trustee Act* and *Trustee Act*. These officers ensure that funds received for payments on mortgages, receivables, property rentals and investments are managed within the requirements of the acts. The management of each account's disbursements for liabilities, maintenance costs and benefits along with the process of consolidating and closing of accounts is also done in accordance with the requirements of the acts.

(ii) Supreme and County Court Rules (Suitors' Funds)

As trustee of all Supreme and County Court accounts — which include such items as garnishees, infants' settlements and court awards — the Minister of Finance records and reports the financial transactions in each area of these suitors' funds according to the instructions given by the courts.

(iii) Workers' Compensation Board

The Minister of Finance acts only in an accounting and custodial capacity in the administration of the Workers' Compensation Board Trust Fund. The Minister is informed of what investments have been purchased or sold and arranges for the settlement of the transactions and the delivery of securities. All securities are under joint registry of the Workers' Compensation Board and the Minister of Finance.

(iv) Other Acts and Miscellaneous Deposits

Other acts and miscellaneous deposits include funds or securities lodged with the Minister of Finance to meet conditions set out in the statutes such as the *Forest Act, Mines Act, Insurance Act* or *Trust Company Act*. The Minister's function is only of a custodial nature, one in which the assets are held in safekeeping and the accounting records maintained.

B. BASIS OF ACCOUNTING

These financial statements are prepared on an accrual basis, except where noted.

(a) Temporary investments include deposits with chartered banks and other approved institutions. They are carried at cost of acquisition.

(b) *Superannuation and Pension Funds*

(i) These financial statements show only the position of the funds as at March 31, 1986 and the changes in the fund balances for the year then ended and do not purport to show the adequacy of the funds to meet the obligations of the superannuation and pension plans.

(ii) The long-term investments are carried at cost of acquisition adjusted as follows:

— premiums and discounts on single maturity bonds are amortized on a straight line basis over the terms of the bonds,

— premiums and discounts on serial bonds are recognized as income when redemptions occur,

— shares are carried at cost adjusted annually by 7 per cent of the difference between cost or adjusted cost and market value,

— gains and losses on disposition of long-term bonds are deferred and amortized on a straight line basis over the lesser of the remaining terms of the bonds sold or twenty years. The amortization is included in income from investments.

NOTES TO TRUST FUNDS FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1986 — Continued

1. Significant Accounting Policies — Continued

B. BASIS OF ACCOUNTING — Continued

(c) *Sinking Funds and Other Managed Trust Funds*

Long-term investments are carried at amortized cost, with premiums and discounts being amortized on a straight line basis over the terms of the investments acquired.

(d) *Public Trustee*

Because of the nature of the activities of the Public Trustee in managing assets under various acts, and the need to promptly record these assets at the time of their receipt, various valuation methods are employed to provide for values which either approximate net realizable value at the commencement date of the trusteeship, or are at a nominal value.

(e) *Workers' Compensation Board*

Long-term investments are carried at amortized cost, with premiums and discounts being amortized on a straight line basis over the terms of the investments acquired.

(f) *Other Acts and Miscellaneous Deposits*

(i) Other custodial deposits are reported on a cash basis. Income earned on security deposits is received directly by the depositors and is not reflected in these financial statements.

(ii) Securities held are reported at par value.

(g) *Foreign Currency Translation*

Assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate prevailing at the year-end and foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction unless hedged by forward contracts which specify the rate of exchange. Adjustments to revenue or expenditure transactions arising as a result of foreign currency translation are credited or charged to operations at the time the adjustments arise.

2. Comparatives

Certain of the comparative figures for the year ended March 31, 1985 have been reclassified to conform with the current year's presentation. These reclassifications have had no effect on the operating results or fund balances as previously reported.

In addition, the Workers' Compensation Board Superannuation Fund has been deleted from these financial statements. The assets of this fund are not held in trust by the Government as a public officer. The effect of this change is to decrease trust balances by $81,123,000 (1985: $65,249,000).