



## **BACKGROUND**

January 26, 2007

### **Seeking Best Practices in Financial Reporting: Report on the Province's 2005/06 Public Accounts**

#### **Why do we publish this report?**

The annual Public Accounts represent an important aspect of government's accountability to the legislature and the citizens of the province. The Public Accounts include the Summary Financial Statements of the Government of the Province of British Columbia. The Office of the Auditor General's annual audit of the Summary Financial Statements is a significant and important part of the Office's work on behalf of legislators and the public.

We conduct our audit to assess whether or not the statements present fairly both the financial position of the Province and the results of its operations. We concluded that they did and reported so to legislators and to the public in July, 2006.

This report is another important product of our audit. We publish it to help legislators and the public understand the improvements being made to government's financial reporting and to be aware of key issues that may impact future reporting.

#### **What is in our report?**

We outline government's accomplishments last year in improving its financial accounting and reporting practices, describe the impact of upcoming changes in generally accepted accounting principles and suggest further improvements that we hope government will make. And, we describe some significant issues that we believe are relevant to an understanding of the financial statements and our audit thereof.

We also include a copy of government's 2005/2006 Summary Financial Statements.

#### **Highlights**

We acknowledge the improvements made by government in its financial statement discussion and analysis, and improvements in disclosure of interest expense and investments. We also describe how recent changes in accounting standards have resulted in changes in information disclosed by government with respect to its contractual obligations and contingent liabilities.

We describe new or potentially new accounting standards covering segmented reporting and government transfers, and explain the potential impact of these changes to the way in government accounts for and discloses its activities.

We focus on aspects of accounting or disclosure that we believe may benefit from changes, including accounting for resource roads and disclosure regarding employee pension plans and the Olympic Games commitment.

Finally, we discuss the challenges involved in establishing which organizations should be included in the government reporting entity, and accounting for public-private partnerships

## **Our Recommendations**

We make ten recommendations for further improving government's financial accounting and reporting:

### Disclosure of contractual obligations

*We recommend that government provide fuller disclosure on the nature of its contractual obligations.*

*We recommend that government disclose government business enterprise contractual obligation information separately from the information on the rest of government's contractual obligations.*

### Accounting for and disclosure of contingent liabilities

*We recommend that, if government wishes to disclose the maximum claim amount for a contingent liability, it state this fact, explain any significant factors that could affect the resolution of the contingent liability, and the prospects of it being settled for a lesser amount.*

### Accounting for resource roads

*We recommend that government review its policy on accounting for resource roads to see whether there are roads that should be capitalized, when they should be capitalized, at what value they should be capitalized and at what rate they should be amortized.*

### Disclosure regarding employee pension plans

*We recommend that government provide complete disclosure on pension plans as required by generally accepted accounting standards.*

### Post-Employment benefits disclosure

*We recommend that government revise its current accrued employee leave entitlements disclosure so that it complies with the accounting standard on post-employment benefits.*

### Capitalized interest during construction

*We recommend that government review its policy on capitalization of interest during construction so that the policy is applied more logically (in terms of calculating the amount), and consistently across the government reporting entity.*

### Disclosure of the Olympics Games commitment

*We recommend that government disclose the complete Games-related commitments in its Olympic commitment note.*

### Reports on controls for significant service organizations

*We recommend that government require all service organizations that initiate, authorize, record and process significant transactions for the Province to engage a service auditor to provide a report on controls that the service organization has placed in operation and tests of the operating effectiveness of the controls.*

*We recommend that the requirement for reporting on controls be built into all significant future service organization agreements where applicable.*