

Observations on Financial Reporting: Summary Financial Statements 2011/12



OFFICE OF THE
Auditor General
of British Columbia

Background

- Provincial government publishes audited Summary of Financial Statements every year
- The SFS report the consolidated financial results of the **government reporting entity**, which includes:
 - the Legislative Assembly
 - legislative offices, such as the Office of the Auditor General
 - the Office of the Premier
 - Ministries
 - Crown corporations, school districts, universities, colleges and health organizations and their subsidiaries



Background

- The SFS provides British Columbians with a picture of the financial well-being of the Province.
- The audited SFS are part of government's Public Accounts (available at www.fin.gov.bc.ca/ocg/pa/11_12/Pa11_12.htm)
- Under the *Audit General Act* the Auditor General is the auditor of all central government operations, including all government ministries.



Observations on Financial Reporting

- This report is designed to:
 - inform legislators and the public about the Auditor General's opinion on the 2011/12 Summary Financial Statements
 - discuss significant findings resulting from the audit
 - encourage improved practices in financial reporting and management



Summary: report topics

- Three key issues resulting in 4 recommendations
- 3 qualified audit opinions
- 8 issues discussed with management
- 54% of management letter issues outstanding from prior years
- 30 recommendations outstanding



Three key issues

1. Implications of changing accounting and auditing standards
 2. Information presented in the Financial Statement Discussion and Analysis
 3. Issues of control in government and government organizations
- Resulted in four recommendations to government.



1. Implications of changing standards

- Government amended the *Budget Transparency and Accountability Act* to define its interpretation of Canadian GAAP
- Government directed BC Hydro to use the US accounting standard for rate-regulated accounting starting April 1, 2012 (BC Regulation 257/2010)
- Government directed government organizations to continue the historical practice of deferring government transfers (BC Regulation 198/2011)



Recommendation 1

- ***We recommend that government report to the public in accordance with accounting standards developed by Canadian independent standard setters.***



2. Understanding Financial Performance

Financial Discussion and Analysis (FD&A) should:

- enhance the Public Accounts
- provide more than just basic information

Balanced Budget issues result in:

- excess working capital in government organizations
- focus on short-term performance



Recommendations 2 and 3

- ***We recommend that government provide all relevant information within the Financial Statement Discussion and Analysis, supported by financial statement results, to explain how it performed as fiscal stewards of public funds.***
- ***We recommend that government review how accountability frameworks, including annual balanced budget requirements, interact to influence decision-making across the government reporting entity. The framework should be designed so that appropriate incentives are in place to encourage sound financial management.***



3. Unresolved control issues

- Management letters are reports by auditors to management and governing boards about weaknesses in internal controls
- Many management letter findings were not responded to in 2011/12
- Central government has no process to:
 - Track outstanding issue
 - Hold entities to account for resolving them



Recommendation 4

- ***We recommend that government implement a process to ensure that all management letter points are followed up and resolved on a timely basis.***



Qualified audit opinions

Qualifications on the Summary Financial Statements:

- Recommendation 5: Failure to fully consolidate the Transportation Investment Corporation (issue since 2008/09)
- Recommendation 6: Failure to provide for deep-well credits (issue for 2007/8 to 2009/10)
- Recommendation 7: Inappropriate deferral of government transfers revenue
- Recommendation 8: Failure to disclose required government business enterprise financial information



Other Matters Discussed with Management

1. *Financial reporting framework*
2. *Non-GAAP audit reports*
3. *Government transfers/deferred contributions*
4. *Rate-regulated accounting*
5. Uncorrected errors outstanding
6. Working capital management
7. Disclosure of capital lease obligations
8. Changes to the Provincial Capital Commission



Management letters

- Internal control findings prepared annually by auditors to management and governing boards of all government entities
- 152 management letters were issued containing 463 issues/recommendations
- 54% of the 463 issues remain outstanding from previous years



Recommendations outstanding

In previous year's observations reports (2006/7 to 2010/11):

- 62 recommendations (14 were made in more than one years)
- 12 completed or substantially completed
- 6 no longer being pursued
- 30 are partially completed or still outstanding



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