November 2013

OBSERVATIONS ON FINANCIAL REPORTING: 2012/13 SUMMARY FINANCIAL STATEMENTS

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The Honourable Linda Reid
Speaker of the Legislative Assembly
Province of British Columbia
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Victoria, British Columbia
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Dear Madam Speaker:

I have the honour to transmit to the Legislative Assembly of British Columbia my 2013/14 Report: *Observations on Financial Reporting: 2012/13 Summary Financial Statements.*

My annual audit of the Government of British Columbia's Summary Financial Statements is the largest audit in the province and the biggest piece of work my Office carries out. Nearly 70 of my staff, as well as other private-sector auditors, audit the more than 150 organizations that comprise the provincial government.

This summer, I published *Audit Opinions Are Important: A discussion on the qualified audit opinion on B.C.'s 2012/13 Summary Financial Statements*, which explained the three qualifications, or areas of concern, that were included in my audit opinion on government's Summary Financial Statements. This report also speaks to these qualifications, in addition to highlighting other areas of concern encountered during the audit.

In closing, I wish to again thank the over 150 government entities that were audited, the Office of the Comptroller General, my staff and the private-sector auditors who assisted in the audit of the 2012/13 Summary Financial Statements. It is a large endeavour and I thank everyone involved for their contribution.

Russ Jones

Russ Jones, MBA, CA
Auditor General
Victoria, British Columbia
November 2013

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Russ Jones, MBA, CA
Auditor General

MY ANNUAL AUDIT OF THE Government of British Columbia's Summary Financial Statements is the largest audit in the province and the biggest piece of work my Office carries out. Nearly 70 of my staff, as well as other private-sector auditors, audit the more than 150 organizations that comprise the provincial government.

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Under its own legislation, government is required to follow Canadian generally accepted accounting principles (GAAP). More specifically, it directs all taxpayer-supported entities to adopt Public Sector Accounting Standards (PSAS), a form of GAAP designed for government. By September 30 of this year, all affected organizations will have transferred to PSAS. This three-year transition required much work on the part of these government organizations, as well as staff in my Office and private sector audit firms. I would like to thank them all for their efforts.

However, in recent years, government also introduced two regulations that modify these accounting principles. Modifying GAAP reduces the objectivity of financial reporting. It means that instead of using an independently created and agreed-upon standard to assess and report its financial performance, government has modified the way in which it should be measured and reported to British Columbians.

One of these regulations relates to deferring funds that government receives for building or purchasing assets. This regulation was introduced in anticipation of a new accounting standard that came into effect this year. Because government adheres to this regulation, the audit of the Summary Financial Statements resulted in 50 government entities receiving audit reports stating that they were not in compliance with GAAP.

This new accounting standard and government's corresponding regulation are also the main reason why my Office found that government should have recorded a $1.7 billion surplus as opposed to a $1.1 billion deficit for 2012/13. While a surplus sounds favourable, this does not mean government would have extra money, as these funds are already allocated to their respective projects.

As I stated in August's bulletin, part of the challenge lies in government's need to adhere to both its balanced-budget legislation and its legislated commitment to public-sector accounting standards. While these new accounting standards make balancing the budget more difficult, it is not impossible.

More changes to accounting standards, designed to make financial statements more transparent, are on the horizon. I encourage government to be prepared to address these changes while still adhering to GAAP. My staff and I continue to work through these challenges with government.

As part of this audit, we looked at BC Hydro’s continued use of rate-regulated accounting. To date, a net total of $4.4 billion in expenses has been placed in deferral accounts and will need to be recovered through rates over time. We will publish further work on this topic later this winter, looking at BC Hydro’s plans to recover these amounts.

I remain interested in government’s management of its working capital – for example, cash on hand and short-term investments. My Office first brought this issue to government’s attention in our 2010 report, *Aspects of Financial Management*. While some progress has been made in addressing this matter through the new Central Deposit Program, government continues to borrow money before it is required and significant amounts sit unused for years and accumulate interest. I plan to revisit government’s progress in this area in late fall.

In closing, I wish to again thank the over 150 government entities that were audited, the Office of the Comptroller General, my staff and the private sector auditors who assisted in the audit of the 2012/13 Summary Financial Statements. It is a large endeavour and I thank everyone involved for their contribution.

Russ Jones

Russ Jones, MBA, CA
Auditor General
November 2013

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Bill Gilhooly
Assistant Auditor General

Alex Kortum
Director

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Manager

EXECUTIVE SUMMARY

ON JULY 23, 2013, the Government of British Columbia released its audited Summary Financial Statements for the year ended March 31, 2013, as part of its Public Accounts (available at www.fin.gov.bc.ca/ocg/pa/12_13/pa12_13.htm). These statements report on the consolidated financial results of the more than 150 entities that make up British Columbia's government reporting entity.

The Summary Financial Statements provide an indication of the Province's financial well-being and are of vital importance in assisting British Columbians and their elected representatives in holding government to account. As required by the *Auditor General Act*, the Auditor General audits the statements and issues his opinion on their fairness in accordance with Canadian generally accepted accounting principles (GAAP). This year's audit resulted in the Auditor General issuing an audit report with three qualifications, or significant areas of concern.

This report, *Observations on Financial Reporting: 2012/13 Summary Financial Statements*, looks at these qualifications and discusses other issues encountered during the audit.

In 2001, the Government of British Columbia, through the *Budget Transparency and Accountability Act*, required all government entities to apply GAAP to their financial reporting. In subsequent years, the Act has been revised through two government regulations that allow modifications of GAAP. Modifying GAAP significantly reduces the objectivity of financial reporting and obscures government's financial results, to the detriment of the users of these statements, mainly British Columbians and their elected representatives.

In this year's audit, we observed that many entities reported their financial results with a modified form of GAAP as a result of using government regulation, most notably the Restricted Contributions Regulation (B.C. Regulation 198/2011). This resulted in the issuance of qualified or non-GAAP compliance audit opinions for many of the government entities for the year ended March 31, 2013.

KEY AUDIT OBSERVATIONS

1. For five years now, we have expressed an audit qualification related to government's classification of the Transportation Investment Corporation (TIC) and how it is accounted for in the Summary Financial Statements. This incorrect method of consolidation, based on government's classification of the TIC as a self-supporting corporation, has resulted in understatement of government's accumulated surplus and deficit for the year by $72 million and $60 million respectively.
2. Our other two audit qualifications relate to government's application of its Restricted Contributions Regulation pertaining to government transfers and restricted revenue. As noted above, government's decision to modify GAAP has resulted in an accounting treatment that is inconsistent with GAAP. This inconsistency has resulted in understatement of government's accumulated surplus and overstatement of government's deficit for the year by nearly $3 billion. It is important to note that this surplus does not represent additional funds available to government, but it does obscure the results of government's operations and limits the usability of the information presented.
3. In addition to the three audit qualifications, we made recommendations to improve government's financial reporting and financial management processes. The issues discussed include uncorrected errors outstanding, management of government's working capital, government's failure to provide for earned natural gas credits, application of rate-regulated accounting by BC Hydro, and disclosure deficiencies in government's financial statements. Some of these issues are outstanding from prior years' audits.

Based on the ongoing work of independent standard-setters such as the Public Sector Accounting Board, we anticipate continued changes to the accounting standards that government must adopt to assert that its financial statements are in accordance with GAAP. Some of these changes, such as the new standards on accounting for contaminated sites and financial instruments, are expected to have an impact on government's financial statements. Government must be proactive in monitoring these changes and involving its auditors early in the process, in order to ensure compliance with the changing standards.

SUMMARY OF KEY RECOMMENDATIONS

WE RECOMMEND THAT GOVERNMENT

1. Record government transfers as required by Canadian public sector accounting standards (page 23).
2. Record restricted revenues as required by Canadian public sector accounting standards (page 24).
3. Record deep-well credits as a liability of the Province as required by Canadian public sector accounting standards (page 26).
4. Provide detailed disclosure of the British Columbia Public Service Long Term Disability Plan in the notes to the Summary Financial Statements as required by Canadian public sector accounting standards (page 28).

I APPRECIATE THE OPPORTUNITY to respond to the Office of the Auditor General's comments, the government remains committed to providing meaningful financial statements. To this end, we continue to report our financial statements in accordance with public sector generally accepted accounting principles (GAAP), which are those accounting policies and applications that have been generally accepted by a majority of senior governments in Canada. Our key objectives in preparing the Public Accounts are to:

- Provide the right level of information to help users understand the current financial position of the province, and the government's annual operating results;
- Report consistently so that users can easily compare results between years; and
- Select accounting policies and apply accounting standards as consistently as possible with other jurisdictions in Canada.

General purpose financial statements must serve the needs of a broad base of stakeholders. To achieve that they have to present the right level of information to provide a "summary" view of the financial effect of the wide range of programs delivered by the broader public sector including not only government, but also crown agencies including Schools, Universities, Colleges, and Health Authorities. The organizations that establish accounting standards for the public sector have the difficult job of determining how to do that while still achieving some core objectives including timeliness, representational faithfulness, and continuity over a long period of time.

The changes in accounting standards have been dramatic over the past decade and there is still much work to do to absorb those changes not only into financial reporting but also into the basic governance and management structures that are necessarily affected by changes in accounting standards.

Getting all of the preparers and auditors across jurisdictions to understand and adopt standards in the same way is difficult and usually takes time as the principles are applied to unique transactions and circumstances.

Changes in accounting standards are inevitable and should only be undertaken after due process resulting in a generally accepted application across jurisdictions. Our approach is to work actively with standard setters and other jurisdictions to understand how changes relate to historical practice, to identify conflicts that indicate problems either with past practice or new guidance, and to plan for implementation so that financial statements are reported on the same basis. We take this conservative approach because the risk of taking an accounting approach that is later found to be incorrect would undermine the long-term usefulness of financial reporting. Financial information is most useful if it is conceptually consistent over a long period of time so that users can meaningfully compare the current year to prior years and estimates of future years. In his opinion on the 2012/13 Public Accounts, the Auditor General identified three audit qualifications, which are outlined in this report.

AUDIT QUALIFICATIONS FOR 2012/13

Basis of Consolidation of the Transportation Investment Corporation

We believe that the Transportation Investment Corporation is best disclosed as a government business enterprise (GBE) under the modified equity basis of consolidation. The defining element of a GBE is that it is able to maintain its own operations from revenues raised outside the government reporting entity. Unlike taxpayer supported organizations, GBE's do not receive subsidies from their parent governments. An organization does not have to be profitable to be self-supporting. We both agree that the Transportation Investment Corporation will support its operations from toll revenue over the life of the program, but have a difference of opinion about when the organization should be reported as a GBE.

Because government's stated policy has been to fund the project through user tolls, and objective evidence indicates tolls will fully fund the project, we do not believe it would be correct to disclose the Transportation Investment Corporation as a taxpayer supported entity, then change the disclosure to a self-supported entity at an arbitrary point when annual revenues exceed annual expenses on the accrual basis. We note that the Auditor General has not made this recommendation in this year's report.

Deferral of Government Transfers Revenue and Restricted Revenues

Governments traditionally fund the capital requirements of public sector entities through grants that are restricted for a specific purpose such as the construction of a school, hospital or highway. Those contributions have historically been recorded as a liability rather than revenue when received because it best represents the ongoing obligation of the recipient to deliver the service to taxpayers for the useful life of the asset. The benefit of that treatment is that the recipient acquires low cost funding from government, government fulfills its duty to ensure taxpayer funding achieves the intended outcomes, and financial statement users are informed about the ongoing financial obligation to keep schools, hospitals or highways maintained and in service over their useful life.

A challenge identified by the Auditor General is that historical transfer agreements do not always include the specific terms of restriction that revised guidance in the area of government transfers contemplates. At this time, there is a broad divergence of opinion within the accounting community across jurisdictions in Canada. The issue is whether the substance of funding arrangements should be the determining factor, or whether the form of historical agreements should solely determine the economic substance of transfer arrangements. In Canada both private and public sector accounting guidance requires that accounting be based on the substance of transactions rather than their legal form.

While addressing this issue we have to be mindful of how other jurisdictions are applying this same guidance. Failing to work with other jurisdictions would compromise the credibility of our national public sector accounting standards. To address this transitional issue the Office of the Auditor General has introduced their own criteria that they feel would be required to support deferral of restricted contributions. I do not agree that these criteria are consistent with accounting standards and could not agree to a material adjustment that would change the reported deficit under GAAP to a surplus.

OTHER MATTERS DISCUSSED WITH GOVERNMENT

In addition to the reservations expressed in his opinion, the Auditor General also provides observations and recommendations in this report on areas of accounting or reporting that do not materially affect the financial statements.

Accounting Standards

We believe that a national accounting standard for the public sector is important to the credibility of government financial statements. In his audit opinion, the Auditor General agrees that the accounting policies used in the preparation of the Summary Financial Statements are consistent with Canadian Generally Accepted Accounting Principles.

As noted in the report there are currently two regulations under the BT AA that are required to address gaps in Canadian public sector accounting standards or their application during transition.

- BC Regulation 257/2010 retains the pre-existing Canadian guidance on rate-regulated accounting and is required because the International Accounting Standards Board has not yet decided how to address rate regulated accounting, and Canadian standard setting bodies have not provided interim direction. The regulation is consistent with the guidance of the Canadian Securities Administrators Association, and the Canadian Accounting Standards Board.
- BC Regulation 198/2011 applies to organizations within the government reporting entity and clarifies the requirement to defer contributions where appropriate stipulations are in place. The regulation is required to ensure consistency between the financial reporting of crown agencies and the legislative and regulatory requirements governing transfers from government to those entities. The regulation is consistent with Canadian public sector accounting standards guidance on government transfers and liabilities.

Natural Gas Credits

Reporting royalty revenues net of applicable credits has been a material audit qualification since 2007 /08 and, if adopted, would have resulted in significant changes to the Provinces annual operating result in each year.

Regulation provides for an allowable deduction on the royalties payable if the eligibility criteria is met. In the case of Deep Well credits, the deduction is calculated based on the depth of the well and can be calculated when the well is drilled, even though the royalties will be payable only when the well produces, which could be in future accounting periods. Because the deduction is only relevant in the calculation of royalties attributable to a specific well when they occur, there is no amount payable to the producer at the financial statement date. The Public Sector Accounting Board has undertaken a project to review accounting guidance for revenue from exchange transactions and the early results of that project support our existing treatment of royalty credits. The Auditor General has removed his qualification in this year's audit opinion but continues to recommend a change in accounting.

BC Public Service Long Term Disability Plan Disclosure

Although the Long Term Disability Plan has not been the subject of audit recommendation in past audits the Office of the Auditor General has this year recommended changes to the disclosure and we will work with their office to improve the disclosure. We believe the 2012/13 Public Accounts once again demonstrate government's commitment to transparent and accountable financial reporting that meets the information needs of our users. We thank the Office of the Auditor General for its continuing support in meeting this objective.

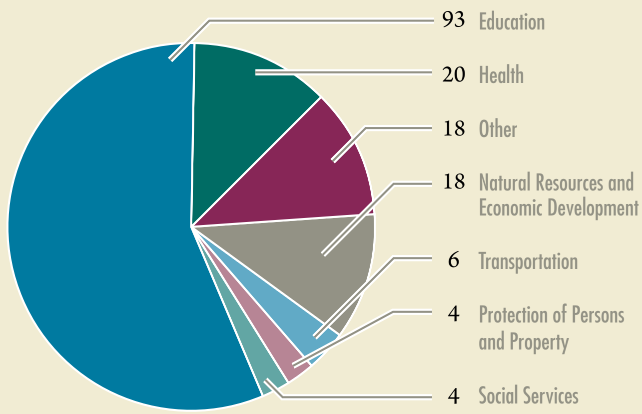
Stuart Newton
Comptroller General
Province of British Columbia
November 12, 2013

On July 23, 2013, the provincial government released the audited Summary Financial Statements of the Province of British Columbia for the year ended March 31, 2013.

The Summary Financial Statements is an important document for the people of British Columbia, as it provides an indication of the financial well-being of the Province.

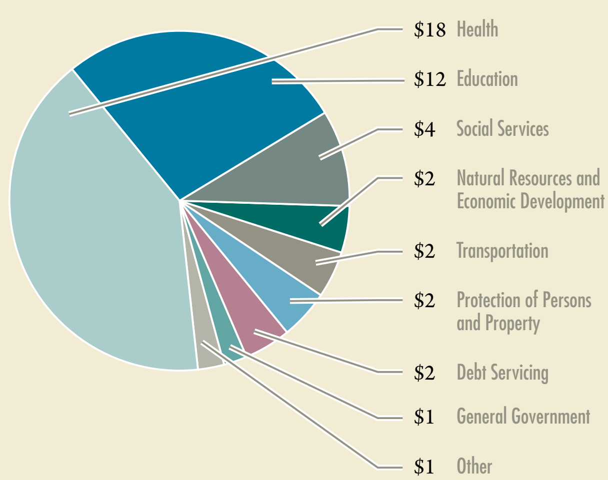
The statements report the consolidated financial results of the more than 150 entities that make up the government reporting entity – including core government, Crown corporations, trusts, colleges, school districts, universities, health authorities and other public-sector entities (see Exhibit 1).

Exhibit 1: Number of government entities consolidated in the 2012/13 Summary Financial Statements, grouped by sector



Source: Province of British Columbia Public Accounts 2012/13, pages 85 to 87

Exhibit 2: Government expenditures in 2012/13, grouped by sector ($ billions)[1]



Source: Province of British Columbia Public Accounts 2012/13, page 42

1 This is not a complete listing of the province's expenditures for the 2012/13 financial year. For example, interest expense ($2.4 billion), general government expenses ($1.3 billion) and expenses of self-supported Crown corporations are excluded from this pie chart.

Overall, $43 billion in revenue, $44 billion in expenses (see Exhibit 2) and $78 billion in assets are included in these financial statements.

Under section 11 (1) of the *Auditor General Act*, our Office is required to report on whether the Province's Summary Financial Statements are presented fairly in accordance with Canadian generally accepted accounting principles (GAAP). This audit of government's Summary Financial Statements is the largest audit in British Columbia. It takes nearly 70 staff in our Office almost 45,000 hours to complete and requires assistance from about 30 private-sector auditing firms.

The Auditor General's report (or opinion) on government's Summary Financial Statements is included with the statements in government's Public Accounts (available at www.fin.gov.bc.ca/ocg/pa/12_13/Pa12_13.htm). The Public Accounts also include unaudited information, such as government's financial statement discussion and analysis report, and information about the Consolidated Revenue Fund and the provincial debt.

This year, the Auditor General's report included three qualifications, or areas of concern. On August 8, 2013, our Office published *Audit Opinions Are Important: A discussion on the qualified audit opinion on B.C.'s 2012/13 Summary Financial Statements* to explain these three qualifications.

This report, *Observations on Financial Reporting: Summary Financial Statements 2012/13*, discusses these qualifications and other issues encountered during the audit of government's Summary Financial Statements.

GAAP: encompasses broad principles and conventions of general application as well as rules and procedures that determine accepted accounting practices at a particular time

PSAS: specific GAAP for government

MANAGING ACCOUNTING RESULTS THROUGH GOVERNMENT REGULATION

Canadian generally accepted accounting principles: key to credible financial reporting

Government is a complex organization composed of multiple entities. Each entity has numerous monetary transactions for which it can be difficult to properly account. Therefore, it is essential that government's accounting policies reflect best practices and follow professional accounting standards so its financial documents are clear and understandable.

All levels of government (federal, provincial and local) follow Canadian generally accepted accounting principles (GAAP) as the basis for their accounting. Specifically, almost all use a form of GAAP designed for the public sector called Public Sector Accounting Standards (PSAS). These standards are issued by the Public Sector Accounting Board, an independent standard-setting body.

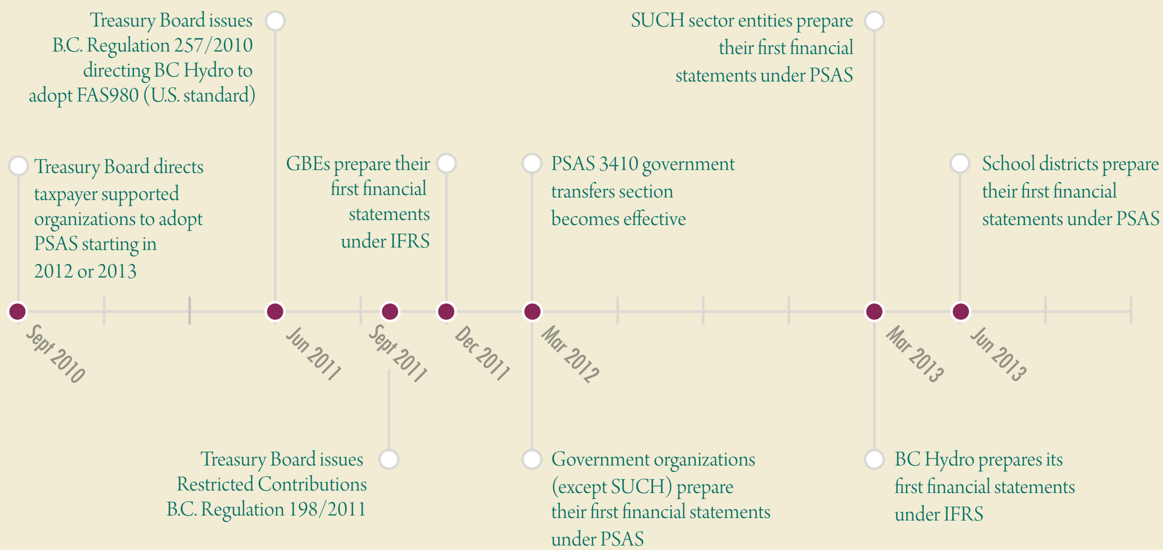
While all levels of government use PSAS, how each jurisdiction applies the standards can vary given differences in legislation, regulations, composition of the reporting entity, and interpretation of the accounting standards.

However, these standards always reflect best practices in public-sector accounting and reporting and are the yardstick by which auditors provide their independent opinion on each entity's financial statements. By adopting these standards, government demonstrates its commitment to carrying out high-quality financial reporting and producing credible, consistent financial statements that are comparable with those of other jurisdictions.

In 2001, the Government of British Columbia took an extra step and legislated that GAAP be applied in all of its budgeting and financial reporting – the first Canadian jurisdiction to do so. PSAS is the form of GAAP appropriate for use by the Province in preparing its Summary Financial Statements. In 2010, B.C.'s Treasury Board directed all taxpayer-supported entities to also adopt PSAS by the 2012/13 fiscal year. Previously, most entities were using not-for-profit accounting standards.

The timeline in Exhibit 3 shows key government accounting decisions and when each government entity transitioned to PSAS or IFRS. To date, 82 government organizations have transitioned to PSAS or IFRS. A further 60 entities, all school districts, published their first PSAS audited financial statements by September 30, 2013. School districts were the last sector of government to transfer to the new standards.

Exhibit 3: Timeline of transition of government entities to PSAS/IFRS standards and government regulations modifying GAAP



Source: Compiled by the Office of the Auditor General of British Columbia
GBEs = government business enterprises
SUCH = Schools, Univesities, Colleges and Hospitals – commonly referred to as the SUCH sector
FAS = U.S. accounting standards issued by Financial Standards Accounting Board (FASB)

Government's departures from GAAP

Section 23.1 of the *Budget Transparency and Accountability Act* requires the provincial government and its entities to conform to GAAP. However, as we noted in prior years, government has now amended the Act so it can modify GAAP with alternative standards as it chooses.

Modifying GAAP reduces significantly the objectivity of financial reporting. Instead of using an independently agreed-upon standard measure to assess financial performance, government now determines how its performance should be measured and reported to British Columbians.

To date, government has passed two regulations under the Act that override Canadian GAAP. The first one relates to deferring expenses or revenues into the future:

> **B.C. Regulation 257/2010** – Government directed BC Hydro to adopt part of a U.S. accounting standard (FAS980 Regulated Operations) by 2012/13 to account for the effects of rate regulation.

Rate-regulated accounting allows the deferral (or smoothing) of expenditures over multiple years when they would otherwise be accounted for as an expense or revenue in the current year. For more information on this, see our October 2011 report, *BC Hydro: The Effects of Rate-Regulated Accounting*.

While Canadian accounting standards permit the use of rate-regulated accounting until January 1, 2015, the International Accounting Standards Board (IASB) is trying to reach consensus as to the appropriateness of rate-regulated accounting. It plans to issue a discussion paper in late 2013.

The second regulation relates to deferring contributions/revenue from other governments and non-government sources into the future:

> **B.C. Reg. 198/2011** – In 2012/13, new accounting standards for government transfers and restricted revenues came into effect. These standards set stricter rules on what kinds of revenue can be deferred and accounted for at a later date. This regulation directs government organizations to continue deferring government transfers and restricted revenues.

Since issuing this deferred contributions regulation, government has consistently expressed the view that this is an acceptable interpretation of the new accounting standards. However, our Office and other independent auditors of government organizations in British Columbia do not consider the regulation to be an acceptable interpretation of the standards, and in our collective view it actually modifies them.

We have therefore concluded that when government organizations defer these types of revenues, it is not complying with GAAP. As a result, many of those organizations received either a non-GAAP compliance or a qualified GAAP audit opinion. This had a significant impact on the Auditor General's overall audit report, as well as the Province's bottom line for the 2012/13 fiscal year. For more information on this, see Audit Qualifications 2 and 3, starting on page 22, and the section below describing the types of audit reports.

The introduction of these two regulations had a direct impact on government's departures from GAAP.

Types of audit reports

While GAAP is the standard that government has to adhere to when preparing its financial statements, the Canadian Auditing Standards are rules and processes that auditors have to follow when preparing their independent audit reports.

Audit reports represent an auditor's professional opinion on whether an entity's financial position and the results of its operations are presented fairly in its financial statements. Audit reports can also bring to the reader's attention any concerns auditors have with the quality of the financial statements.

For the 2012/13 audit of government's Summary Financial Statements, three different types of audit reports were issued:

- unqualified,
- qualified (concerns expressed as qualifications), and
- compliance.

On the rare occasion when auditors issue a "qualified report," they are saying that they have concerns with:

- the availability of sufficient and appropriate information for users to make an informed decision; or
- the entity's compliance with accounting standards (GAAP).

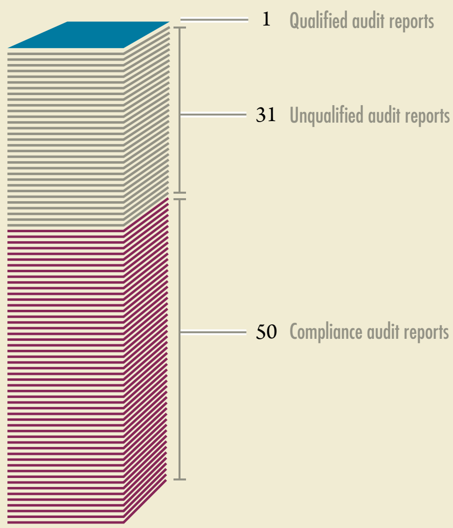
Auditors can also issue a compliance audit report if an entity decides (or is directed by legislation) to prepare its financial statements using a framework that is not in compliance with GAAP. This means that the entity's financial statements are fairly presented according to their chosen framework, but that its chosen framework is not in accordance with GAAP. The entity must include a note with its financial statements explaining how they would be different if it were adhering to GAAP, and the auditor's report must reference that note.

This year, 31 of the 82 organizations audited that recently transitioned to PSAS or IFRS, or 38%, received an unqualified audit report. That is, the independent auditors felt that the entity's financial statements were fairly presented.

However, 50 of the 82 organizations audited, that recently transitioned to PSAS or IFRS, or 61%, received compliance audit reports on their financial statements, and one organization (BC Transportation Financing Authority) received a qualified audit report because of how it treats material government transfers and restricted revenues under B.C. Reg. 198/2011.

Given that concerns with financial statements are rare, this is a notable number of organizations that received compliance or qualified audit reports so far (see Exhibit 4).

Exhibit 4: 2012/13 auditors' reports for recently transitioned government entities



Source: Compiled by the Office of the Auditor General of British Columbia

Our ongoing concerns

An important aspect of GAAP is the objectivity of financial reporting. The principles are developed by independent standard-setters, and so are free of the bias of those who are responsible for preparing financial statements. Independence in developing accounting standards is extremely important, given that the goals of those who prepare financial statements are typically not the same as the goals of those who rely on the objectivity of the information provided.

For this reason, our Office is concerned that government has created accounting policies that are inconsistent with independently developed accounting standards.

The implications of modifying GAAP are significant and may obscure the true financial position of government.

We continue to encourage government to report to the public as required by accounting standards developed by independent Canadian public sector standard-setters.

AUDIT QUALIFICATIONS FOR 2012/13

Unqualified audit reports are important

Audit reports are an auditor's way of communicating with the financial statement user. The report is an independent opinion on whether an entity's financial statements are presented fairly. An audit report can also bring to the reader's attention any concerns that the auditor has with the financial statements.

Most people would assume that the financial results of an entity are fairly presented, even without reading the attached audit report. A standard audit report – that is, one without qualifications – indicates that the statements can be held to a higher level of reliability than those without such a report.

A qualification is a concern that an auditor has about the fairness of how something is accounted for or reported in a set of financial statements. When issuing a qualified audit report, the auditor is indicating concerns about errors or inaccuracies in the entity's financial statements, such as its compliance with a chosen reporting framework, or application of an accounting standard.

Public corporations (corporations that are publicly traded on a securities exchange) are required to have unqualified audit reports annually.

In British Columbia, if a public corporation were given a qualified audit report, the British Columbia Securities Commission would normally place a "cease trade" order against it. The public corporation then runs the risk of being delisted by the stock exchange on which it is traded.

While Canadian governments are not subject to public corporation reporting requirements, a qualified audit report could impact the jurisdiction's credit rating and cost of debt. Thus, ideally, qualifications should not have to be issued.

According to public sector accounting standards, governments are held to a higher standard of accountability than a business or a not-for-profit organization. That may be so, but in British Columbia, accountability for not complying with GAAP appears to have had little impact on government.

Because the Auditor General found that government had not materially (that is, significantly) complied with GAAP in three main instances, he qualified his report on the Summary Financial Statements. Each qualification is explained below.[1]

1 In August 2013, the Auditor General released an information bulletin discussing the qualified audit opinion on the Government of British Columbia's 2012/13 Summary Financial Statements.

Qualification 1: Full consolidation of Transportation Investment Corporation is required

This qualification on the Summary Financial Statements concerns the way government consolidates the Transportation Investment Corporation (TIC). This audit qualification has been included in the Auditor General's audit report each year since 2008/09.

In the public sector, the method of consolidating each entity's financial statements into government's Summary Financial Statements depends on what type of organization the various entities are classified as. PSAS have specific criteria for classifying organizations. For the Summary Financial Statements, an entity can be classified as:

- part of central government (e.g. a ministry);
- a government business enterprise (GBE) (e.g. BC Hydro);
- a government not-for-profit enterprise (e.g. school districts); or
- an "other government organization" (e.g. Oil and Gas Commission).

Most types of government organizations are consolidated on a line-by-line basis. The exception is GBEs, which are consolidated on a modified equity basis. GBEs are defined in PSAS as organizations that:

- are separate legal entities;
- have been delegated the financial and operational authority to carry on business;
- sell goods or services outside of the government reporting entity; and
- can, in the normal course of their operations, maintain their operations and meet their liabilities from the revenue sources outside of the government reporting entity.

When a government organization is consolidated on a line-by-line basis, each item from the organization's financial statements is added into the government's financial statements after transactions with other government organizations and ministries are removed, and adjustments are made to bring the items under the same accounting standards.

When a GBE is consolidated on a modified equity basis, transactions are consolidated differently. For example, only the initial contribution of money to the organization from government (adjusted for annual earnings or loss) is included in the Summary Financial Statements. In addition, the accounting standards followed by the GBE are not adjusted to be the same as government's, nor are adjustments made for transactions with other government organizations and ministries, apart from those involving the sale of assets.

The TIC is a public Crown corporation that was established to develop and operate toll highways. The first one is the Port Mann Highway Improvement Project, which includes the new Port Mann Bridge and improvements to Highway 1.

Although government defines the TIC as a GBE and consolidates it on a modified equity basis, the entity does not meet all four of the PSAS criteria defining a GBE, and should instead be consolidated on a line-by-line basis.

In our report last year, we noted that the TIC did not meet two of the four criteria. As TIC moved into operations during the 2012/13 fiscal year, it is now meeting three of the four criteria required to be classified as a GBE.

The one criterion that the TIC does not currently meet is that it should, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity. The TIC began collecting toll revenue in December 2012. Total toll revenue earned in 2012/13 was $15 million, while operating costs were $50 million. Therefore, the TIC is not yet meeting the last criterion for classification as a GBE and should not be consolidated on the modified equity basis.

A key indicator of meeting the last criterion is an organization's ability to generate a positive operating cash flow. The TIC has a financial model with detailed projections of its operating revenue and costs into the future, with the expectation that there will be positive cash flows by 2015/16. However, the financial model also has a number of assumptions around things like tolling rates and traffic volumes that could impact expected future results. Assumptions on tolling rates have been amended over the years (e.g. assumptions on introductory discount tolls were added to the model in 2012/13). In order to reach a conclusion on the validity of the cash flow projections from the financial model, we need to observe stability in both the key assumptions and their implementation. This would be a significant step towards meeting the final criterion for classification as a GBE in future years.

As with all audit qualifications, we reassess our position on an annual basis. Although there is not enough evidence as of March 31, 2013, to support classifying the TIC as a GBE, we will re-evaluate the situation again at March 31, 2014, after the introductory phase of operations has been completed.

The financial impact on the Summary Financial Statements of fully consolidated the TIC is shown in Exhibit 5.

Exhibit 5: Impact on 2012/13 Summary Financial Statements

	March 31, 2013		
$ Millions	As reported by the Province	After Auditor General's adjustment to fully consolidate TIC	Difference
Consolidated statement of financial position			
Financial assets	37,528	35,202	(2,326)
Liabilities	75,664	75,950	286
Net liabilities	(38,136)	(40,748)	(2,612)
Non-financial assets (i.e. capital assets)	39,521	42,205	2,684
Accumulated surplus	**1,385**	**1,457**	**72**
Consolidated statement of operations			
Revenue	42,055	42,020	(35)
Expenses	43,201	43,226	25
Deficit for the year	**(1,146)**	**(1,206)**	**(60)**

The increase to the deficit for the year relates to realized losses on interest rate hedging transactions that would be recorded as an expense if the TIC were fully consolidated.

The financial assets, liabilities, non-financial assets, revenues and expenses shown on the supporting consolidated Summary Financial Statements by sector (pages 85 to 95) and the supporting statements for self-supported Crown corporations and agencies (pages 96 and 99) would also be over- or understated by this inappropriate classification of the TIC by the amounts described above.

Given these significant differences, the Auditor General included a qualification in his opinion on the Summary Financial Statements.

Qualification 2: Inappropriate deferral of government transfers revenue

New accounting standards for government transfers (funds received from other governments) came fully into effect in 2012/13. The standards set stricter measures on what kinds of revenue can be deferred and accounted for as revenue at a later date. As it has done in the past and continues to do, the Government of British Columbia recognizes the funds it receives for the construction of capital assets (e.g. hospitals and roads) as revenue over the same number of years as the life of the asset (or as it is amortized).

This is not in keeping with the new Canadian PSAS on government transfers. However, as mentioned on page 17, government legislated B.C. Regulation 198/2011 so it could continue to account for these funds as it always has, as opposed to abiding by the new standards.

The new standards generally say that the revenue must be recognized as the funds are used, which in most cases means as the asset is built. (By comparison, a road may take only two years to build but have a useful life of 40 years.) On rare occasions, there may be a stipulation attached to the transfer that creates a liability (i.e. a situation where money is owed at a later date), which extends beyond the period of construction. If there is such a stipulation, the transfer can be deferred and recognized as revenue as the liability is amortized.

For example, in the past if the Province received $4 million from the federal government for building a new highway with an anticipated 40-year life span, it would have "deferred the revenue" and only recorded revenue of $100,000 each year for 40 years. The new standard generally says that the entire $4 million should now be recognized when the highway is built.

The financial impact on the Summary Financial Statements of deferring all government transfers is shown in Exhibit 6.

Exhibit 6: Impact on 2012/13 Summary Financial Statements

$ Millions	March 31, 2013 As reported by the Province	After Auditor General's adjustment to recognize revenue that should not be deferred	Difference
Consolidated statement of financial position			
Financial assets	37,528	37,528	-
Liabilities	75,664	73,719	(1,945)
Net liabilities	(38,136)	(36,191)	1,945
Non-financial assets (i.e. capital assets)	39,521	39,521	-
Accumulated surplus	**1,385**	**3,330**	**1,945**
Consolidated statement of operations			
Revenue	42,055	44,000	1,945
Expenses	43,201	43,201	-
Deficit for the year	**(1,146)**	**799**	**1,945**

If government had not directed most government entities, by way of B.C. Reg. 198/2011, to continue the historical practice of deferring government transfers, we would not have been compelled to issue this qualification in our audit report.

RECOMMENDATION 1: ***We continue to recommend that government record government transfers as required by Canadian public sector accounting standards.***

Qualification 3: Inappropriate deferral of restricted revenues

The third qualification concerns the inappropriate deferral of externally restricted funds received from non-government sources, such as money donated to a university from a private donor specifically to purchase computers.

In 2012/13, the Province deferred $1.01 billion of externally restricted revenues received from non-government sources, and is recognizing the money over the life of the assets. These funds were restricted to the purchase or construction of capital assets. In our opinion, government's accounting is not in accordance with GAAP, which requires that these funds be recognized in revenue as the conditions for earning them are met.

The financial impact on the Summary Financial Statements of deferring these restricted revenues is shown in Exhibit 7.

Exhibit 7: Impact on 2012/13 Summary Financial Statements

	March 31, 2013		
$ Millions	As reported by the Province	After Auditor General's adjustment to recognize revenue that should not be deferred	Difference
Consolidated statement of financial position			
Financial assets	37,528	37,528	-
Liabilities	75,664	74,654	(1,010)
Net liabilities	(38,136)	(37,126)	1,010
Non-financial assets (ie. capital assets)	39,521	39,521	-
Accumulated surplus	**1,385**	**2,395**	**1,010**
Consolidated statement of operations			
Revenue	42,055	43,065	1,010
Expenses	43,201	43,201	-
Deficit for the year	**(1,146)**	**(136)**	**1,010**

If government had not directed most government entities, by way of B.C. Reg. 198/2011, to continue its historical practice of deferring restricted revenues, we would not have been compelled to issue this qualification in our audit report.

RECOMMENDATION 2: ***We recommend that government record restricted revenues as required by Canadian public sector accounting standards.***

OTHER MATTERS DISCUSSED WITH GOVERNMENT

1. Uncorrected errors outstanding

It is important for an auditor to track errors found in the financial statements, because this affects whether the auditor can provide an unqualified audit opinion. The number and type of errors found can also indicate how well management's internal controls and financial statement preparation processes work.

During our audit of government's Summary Financial Statements, we recorded 42 errors. Of these, 27 were monetary errors, or errors in the actual numbers, and 15 were disclosure errors, or errors where government did not provide appropriate disclosure around certain numbers and accounting policies in the notes to their financial statements. Exhibit 8 provides an overview of the errors found and government's response to them.

Exhibit 8: Summary of errors in the 2012/13 Summary Financial Statements and government's response

		Government's Response			
		Agrees			
Error type	Errors	Corrected	Uncorrected	Disagrees	Audit Qualifications
Monetary errors	27	7	4	16	3
Disclosure errors	15	7	1	7	-
Totals	**42**	**14**	**5**	**23**	**3**

Note: The 3 errors that resulted in audit qualifications are included in the 16 errors that the government disagreed with.

Other than the three issues that resulted in the Auditor General's qualified audit opinion, we did not consider any of the other uncorrected errors, individually or cumulatively, to be significant enough to result in further qualifications.

In the coming months, we will continue to discuss these uncorrected or disagreed-upon errors with the Comptroller General in the hope of reducing them in future years.

2. Working capital management issues persist

We remain concerned with government's progress in improving its management of working capital (e.g. cash on hand and short-term investments). We first brought this issue to government's attention in our 2010 report, *Aspects of Financial Management*. The report pointed to excess of working capital (cash) in school districts and colleges, as well as money government transferred in advance of the recipient's need.

Some progress has been made in addressing this issue through the new Central Deposit Program (CDP). The CDP allows school districts to voluntarily deposit their excess funds in an interest-bearing account with the Ministry of Finance instead of a financial institution. The Ministry can then pay expenses with these funds rather than have to borrow money from the bank and incur interest charges. This way, school districts can earn a return on their funds and government can reduce the Province's cost of borrowing.

To date, 28 of 60 school districts have deposited about $253 million in the CDP. Although this may seem a large amount (and it is certainly an improvement from prior years), at least $1 billion from the education sector still remains deposited with financial institutions.

The working-capital issue is not restricted to the education sector. Health-sector entities have also deposited over $1 billion with financial institutions. In some instances, these entities have forecast that they may not need this cash for many years. In the interim, this money could be used more responsibly and contribute to better financial management within government.

As a result of a variety of laws, regulations and processes, government continues to borrow money before it is required and significant amounts of it end up sitting unused for years. Government's interest expenses would have been lower if it had avoided borrowing until these funds were actually needed.

We plan to revisit government's progress around the issues raised in our 2010 report, *Aspects of Financial Management,* later this fall.

3. Failure to provide for earned natural gas credits

In the past, the Auditor General had an audit qualification in his audit report related to government's failure to set up a provision, or liability, for the deep-well credits given to gas producers.

Deep-well credits are used to reduce the amount of royalties that gas producers must pay to government in the future when they extract gas from a well drilled to a specified depth. This incentive program was initiated to encourage further development of gas resources.

In this year's Summary Financial Statements, government included disclosure in Note 28 so readers can see and understand the amount of deep-well credits given to gas producers. While disclosure is not a substitute for complete and accurate financial reporting, enough information was provided for users to assess the impact of the deep-well credit program on future natural gas royalty revenues. As such, a qualification was no longer required.

RECOMMENDATION 3: ***We continue to recommend that government record deep-well credits as a liability of the Province as required by Canadian public sector accounting standards***

4. Rate-regulated accounting is still an area of concern

The British Columbia Utilities Commission administers the *Utilities Commission Act*, which regulates British Columbia's natural gas and electricity utilities, and well as intra-provincial pipelines and universal compulsory automobile insurance. The British Columbia Utilities Commission sets the rates that each of these entities (BC Hydro and ICBC, as well as non-government entities such as Fortis) can charge its customers.

Rate-regulated accounting practices were developed to recognize the unique nature of regulated entities and their transactions, but they are not currently addressed under Canadian GAAP. However, the International Accounting Standards Board (IASB) is currently reviewing the practice of rate-regulated accounting to determine whether it is appropriate under International Financial Reporting Standards. In the meantime, the Canadian Accounting Standards Board has allowed rate-regulated entities such as BC Hydro to use rate-regulated accounting until January 1, 2015. This provision was made in anticipation of the IASB reaching a consensus.

Regardless of the final outcome of the IASB deliberations, we also noted that government has directed BC Hydro (through B.C. Regulation 257/2010) to continue to use U.S. accounting standard FAS980 Regulated Operations.

We remain concerned that government has overridden due process in determining its accounting policies by legislating an accounting result that has a significant impact on the financial statements of BC Hydro and the Province's Summary Financial Statements.

BC Hydro's use of rate-regulated accounting has resulted in a net total of $4.4 billion in expenses being deferred as of March 31, 2013. Over time, these expenses will need to be recognized as expenses in BC Hydro's financial statements and recovered by either rate increases and/or some other source of revenue. We detailed this concern in our 2011 report, *BC Hydro: The Effects of Rate-Regulated Accounting*. We plan to revisit this topic later this year.

Rate-regulated accounting allows the deferral (or smoothing) of expenditures or revenues over multiple years when they would otherwise be accounted for as an expense or revenue in the current year. While this limits rate spikes to the customer, it means that future generations will have to pay for charges we incur today.

5. BC Public Service Long Term Disability Plan should not be disclosed as a trust

The British Columbia Public Service Long Term Disability Plan (the plan) was established under the Long Term Disability Regulation of the *Public Service Benefit Plan Act*. There are several plan participants, the largest being the Government of British Columbia, which also administers the plan on behalf of plan participants.

Government's current disclosure in Note 31 of the Summary Financial Statements incorrectly presents the entire plan as a "Trust Under Administration." In a typical trust arrangement, a trustee is appointed to hold title to the property for the eventual benefit of a beneficiary. However, in the case of government's portion of the plan, there is no trustee or trust arrangement.

The current arrangement for government's portion of the plan meets the definition of long-term employment benefit under PSAS and therefore should be disclosed in government's financial statements in accordance with requirements of PSAS sections 3250 (Retirement Benefits) and 3255 (Post-Employment Benefits, Compensated Absences and Termination Benefits).

Disclosure requirements for long-term employment benefits are much more comprehensive and detailed than those required for trusts, since trusts are deemed to be outside of government's control over its assets and liabilities.

In this case, because there is no trust arrangement in place, government has liability for and control over its portion of the plan. This differentiating circumstance requires detailed disclosure in the Summary Financial Statements, to allow users of the financial statements to better understand government's current and potential future cash flow requirements to meet its obligations.

RECOMMENDATION 4: ***We recommend that government provide detailed disclosure of the British Columbia Public Service Long Term Disability Plan in the notes to the Summary Financial Statements as required by Canadian public sector accounting standards.***

MANAGEMENT LETTERS: A WEALTH OF INFORMATION

Internal controls are processes and procedures put in place to achieve effective operations, reliable financial reporting, and compliance with laws and regulations. Common internal controls include monthly bank reconciliations, inventory counts, limited access to accounting and payment systems, and separate approval and payment authorizations.

We expect management to have appropriate internal controls to mitigate errors or deficiencies in financial reporting so there are no issues. When an internal control is found to be inadequate, it is brought to management's attention with the auditor's recommendation for addressing it in a management letter.

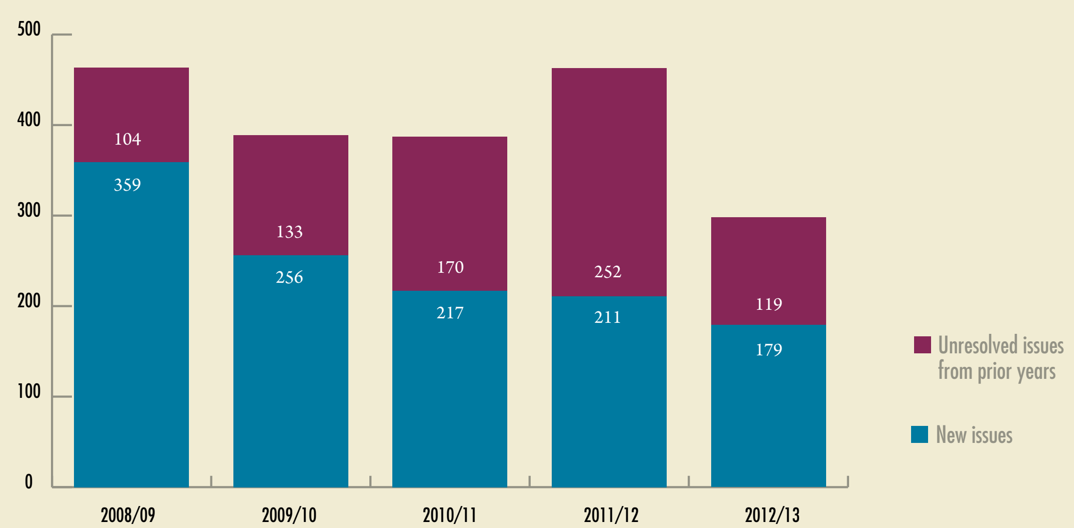
The findings presented in management letters are important and should be considered as soon as possible. It is management's responsibility to weigh the costs of implementing recommended control improvements against the benefits that will be achieved, and to implement those recommendations it considers beneficial.

For the 2012/13 fiscal year, 150 management letters were issued – almost one for every entity audited, and on par with past years. Issuing a management letter at the end of an audit is a common value-added practice among independent auditors, including our Office.

Auditors generally present their management letter findings to the audited organization's audit committee, with management present. Management then provides a written response to the management letter points. This way, the audit committee has an opportunity to understand the issue from the perspective of both the auditors and management, and is informed of any actions management will take.

The 150 management letters issued to date for the 2012/13 fiscal year include a total of 298 issues and recommendations. Of the 298 issues, 179 (60 percent) pertain to new issues identified in the current year's audit, while the remaining 119 (40 percent) pertain to items identified in prior audits that were not addressed (or were only partially addressed) by management over the past fiscal year. Exhibit 9 shows a gradual decline in the number of new issues identified each year.

Exhibit 9: Number of new and prior years' unresolved issues



Source: Compiled by the Office of the Auditor General of British Columbia

Exhibit 10 shows the number of issues and management letters issued by sector. While the education sector accounts for the vast majority of management letters and points issued, it is important to remember that the education sector is the largest in all of government and accounts for 60 percent of all government entities (see Exhibit 10).

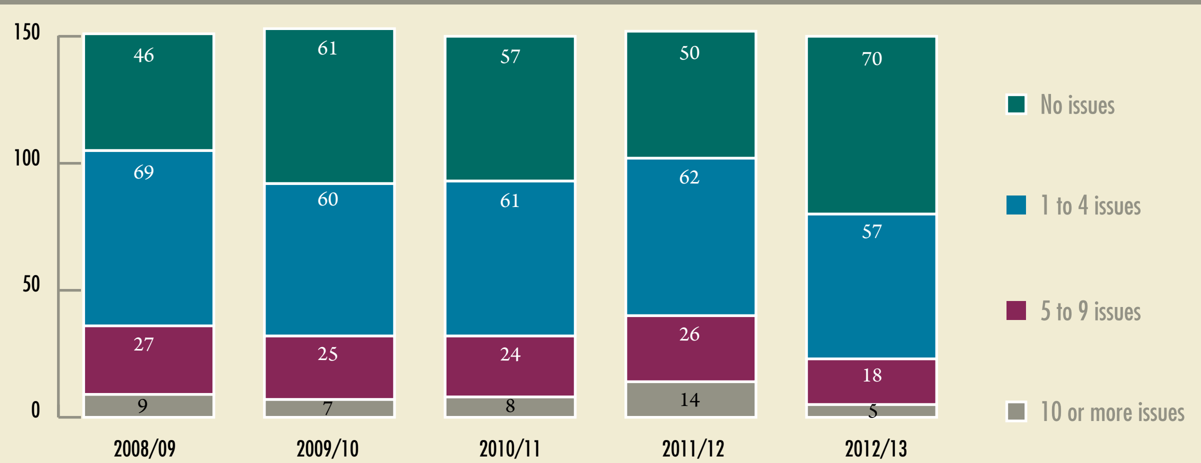
Exhibit 10: Number of outstanding issues by sector as at 2012/13

	# of management letters issued		# of issues reported	
Education (91 entities)	89	59%	184	62%
Other (13 entities)	10	7%	31	10%
Health (19 entities)	18	12%	30	10%
Consolidated Revenue Fund (16 ministries)	16	11%	25	8%
Transportation (5 entities)	3	2%	12	4%
Natural Resources and Economic Development (14 entities)	10	7%	11	4%
Protection of Persons and Property (3 entities)	2	1%	3	1%
Social Services (2 entities)	2	1%	2	1%
Totals	**150**	**100%**	**298**	**100%**

The management letters issued focus mainly on improving internal controls with respect to areas of governance and accountability, financial management and disclosure, and information technology. We also found that 127 of the 150 management letters issued contained four issues or less (see Exhibit 11).

While certain more complicated issues could take a few years to successfully resolve, other recommendations can be implemented sooner. We will continue to monitor government's progress to determine whether systemic issues exist and a further, more specific audit may be required. As well, we will continue to discuss the implications of unresolved issues with the Comptroller General's office.

Exhibit 11: Number of issues per management letter[2]



Source: Compiled by the Office of the Auditor General of British Columbia

2 It is common practice among independent auditors to issue a management letter even when no issues are identified. Doing so provides management and those charged with governance with positive confirmation that no issues have been raised by the independent auditors.

Common findings throughout sectors

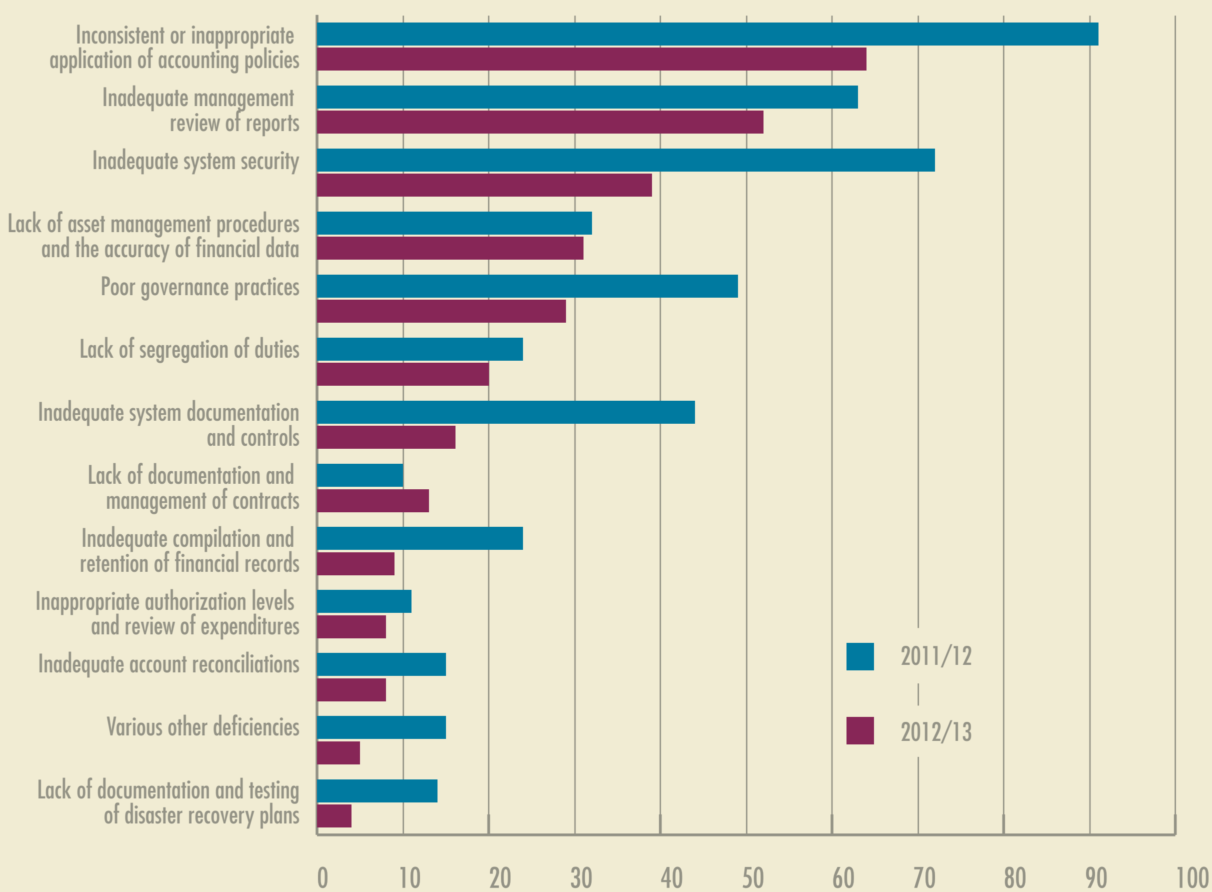
A financial audit involves obtaining audit evidence for the amounts and notes in the financial statements. Therefore, organizations must be vigilant in conducting their own review of possible internal control issues, such as those related to financial management and disclosure, governance and accountability, and information technology.

To help organizations identify potential risk areas, we have summarized all major findings from the audit of government's Summary Financial Statements in Exhibit 12, which shows the types of concerns that arose the most often. All government entities should examine these findings with a focus on improving their own controls.

One of the important issues noted during the financial audits of government entities in 2012/13 related to management of contracts with external service providers.

Government entities often engage with outside parties to provide or receive specific services related to government's day-to-day business activities. In such arrangements, adequate controls should be required in order to ensure that government entities receive the anticipated value as well as adequate assurance from service providers.

Exhibit 12: Frequency of themes noted in management letters



Source: Compiled by the Office of the Auditor General of British Columbia

LOOKING AHEAD

Accounting standards continue to change. Some will have an impact on government and the way it accounts for its transactions. To implement some of these changes, government must adapt its current practices for gathering and processing accounting information.

Liability for Contaminated Sites (PSAS 3260)

One such change with a potentially significant impact relates to recording liabilities for contaminated sites. This standard will come into effect on April 1, 2014, and will have to be reflected in government's financial statements beginning with the fiscal year ending on March 31, 2015. While government already records liabilities once site assessments are made, this new standard requires it to determine if these liabilities exist regardless of whether an assessment has been made. This could significantly increase the liabilities currently recorded by government, and will increase the effort government makes to identify any such liabilities.

Financial Instruments (PSAS 3450)

Another change in accounting standards with an expected material impact on government is the new standard for accounting for financial instruments. It will come into effect on April 1, 2015. As a result of this standard, the fair value of the Province's interest rate and foreign currency swap transactions will need to be presented on the balance sheet.

Changes in the valuation of these transactions will flow through the new Statement of Remeasurement Gains and Losses, rather than the Statement of Operations. Currently, the notional values of swap transactions are only disclosed in the Risk Management and Derivative Financial Instruments note of the Summary Financial Statements, and therefore have no impact on the financial statements.

These changes could have a significant impact on the way government records and reports the results of its operations and financial position.

Other accounting standard changes are also on the horizon. As previously mentioned, government must be proactive in monitoring the changes, involve its auditor early in the discussions and adapt its processes accordingly in order to position itself to achieve compliance with changing standards.

While there are currently no significant changes expected in the Canadian Auditing Standards (CAS), Canadian standard-setters are continually reviewing and optimizing the standards. Any such changes may significantly affect the way we and other public sector auditors conduct our work and report on government's financial statements.

APPENDIX A: STATUS OF PRIOR YEARS' RECOMMENDATIONS

SINCE 2006/07, our reports on government's Public Accounts have made a total of 70 recommendations, 14 of which were recommendations made in more than one year. Of the 56 different recommendations:

- 17 have been completed or substantially completed;
- 15 we are not pursuing at this time in our public report (some are reported to government in our annual management letter to the Comptroller General); and
- 24 are still outstanding.

Exhibit 13: Outstanding recommendations by year

Source: Compiled by the Office of the Auditor General of British Columbia

APPENDIX A: STATUS OF PRIOR YEARS' RECOMMENDATIONS

All outstanding recommendations are listed below.

OUTSTANDING RECOMMENDATIONS BY THEME

Departures from GAAP

2011/12 no.1 (p. 13)

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

2011/12 no.5 (p. 22)

We recommend that government not classify the Transportation Investment Corporation as a government business enterprise and instead consolidate it on a line-by-line basis in accordance with Canadian public sector accounting standards.

2011/12 no.7 (p. 23)

We recommend that government record government transfers in accordance with Canadian public sector accounting standards.

2011/12 no.6 (p. 23)

We continue to recommend that government accrue a liability for the deep-well credits as they are earned by the oil and gas producers, as required by Canadian public sector accounting standards.

Government's accountability framework

2011/12 no.3 (p. 17)

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.

Unresolved internal control issues

2011/12 no.4 (p. 18)

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

Classification of debt

2010/2011 no.2 (p. 25)

We recommend that government include the debt of the warehouse borrowing program with taxpayer-supported debt and not with self-supported debt.

2008/09 no.3 (p. 42) and 2009/10 no.5 (p. 26)

We recommend that the debt of the warehouse borrowing program and of the Transportation Investment Corporation be included with taxpayer-supported debt and not self-supported debt.

Accounting for tax appeals

2010/11 no.4 (p. 26)

We recommend that government record an estimate of tax appeals that have not yet been assessed as an accrued liability in the Summary Financial Statements. Because the accrual will be based on an estimate, government should also disclose the amount of uncertainty around the estimate in the Measurement Uncertainty note (note 2) to the Summary Financial Statements.

Complete disclosure of prior year adjustments

2008/09 no.4 (p. 43) and 2009/10 no.1 (p. 23)

We recommend that, when prior year numbers have been restated, government draw attention to the restated numbers with appropriate referencing and make full disclosure of the changes that have taken place, in accordance with Canadian generally accepted accounting principles.

Ministry financial statements

2008/09 no.10 (p. 55) and 2009/10 no.2 (p. 23)

We recommend that government require individual ministries to prepare separate financial statements as well as consolidated financial statements to show the financial results of the sectors they are responsible for.

Disclosure of contractual obligations

2006/07 no.4 (p. 16), 2007/08 no.10 (p. 47), 2008/09 no.5 (p. 44) and 2009/10 no.6 (p. 26)

We recommend that government include additional information about the nature of the contractual obligations in the Summary Financial Statements.

Pension plan disclosures

2009/10 no.8 (p. 27)

Partially resolved: We continue to recommend that government improve its disclosure of pension plans as required by Canadian GAAP.

Separate disclosure of liabilities related to leased tangible capital assets

2006/07 no.9 (p. 26) and 2007/08 no.1 (p. 37)

Partially resolved: We continue to recommend that government include liabilities related to leased tangible capital assets as a separate line on the statement of financial position, and include the additional note disclosure as required by PSAS.

Segmented reporting disclosure

2006/07 no.20 (p. 41) and 2007/08 no.15 (p. 49)

Partially resolved: We continue to recommend that government, in continuing to adopt best disclosure practices, produce detailed sector schedules in the Summary Financial Statements.

Disclosure of tangible capital assets under lease

2006/07 no.8 (p. 25)

We recommend that government create a table for tangible capital assets under lease, similar to the table presentation used for the current statement of tangible capital assets.

Disclosure of gaming grants

2010/11 no.3 (p. 26)

We recommend that gaming grants be classified in the statement of operations according to the purpose of the grant provided by government.

Direct method of cash flows

2008/09 no.7 (p. 46)

We recommend that government present its statement of cash flow using the direct method.

Comparing budget information with the Summary Financial Statements

2008/09 no.9 (p. 54)

We recommend that government improve its Budget and Estimates documents to include full, line-by-line budget information for each of the sectors reported in the Summary Financial Statements, and to include the budget-to-actual information in the Summary Financial Statements.

We also recommend that government provide budget information in the financial statements of organizations that make up the Summary Financial Statements.

Provision for deep-well credits

2007/08 no.4 (p. 40)

We continue to recommend that government accrue a liability for the deep-well credits as they are earned by the oil and gas producers, as required by PSAS.

Government's financial statement discussion and analysis

2011/12 no.2 (p. 14)

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.

2006/07 no.1 (p. 14)

We continue to recommend that government present a long-term trend analysis in the Financial Statement Discussion and Analysis (FSD&A) so that it can provide better context for discussing government's financial performance. In addition, we recommend that government cross-reference the FSD&A and the Financial and Economic Review.

2006/07 no.2 (p. 14)

We recommend that government continue to expand its Financial Statement Discussion and Analysis (FSD&A) to better cover material financial risks and uncertainties and the challenges involved in their ongoing management.

2006/07 no.3 (p. 15)

We recommend that government adopt the use of the CICA-recommended measure of "government-to-government transfers to own-source revenue" for use in the financial statement discussion and analysis.

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