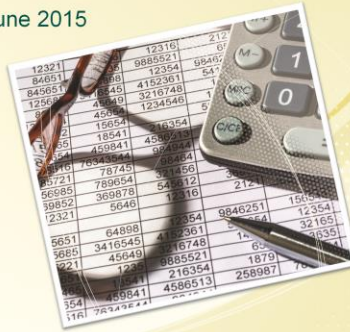


Budget Process Examination Phase 1: Revenue

June 2015



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Auditor General
of British Columbia

This report is part of a multi-year phased approach to examine government's budget process.

In this first report, we examined the economic and revenue forecast processes in government's *Budget and Fiscal Plan 2014/15 – 2016/17*, which was tabled in the Legislature on February 18, 2014.

Next year, we will examine the expenditure budget processes and related forecasts in government's 2015/16 – 2017/18 Budget and Fiscal Plan.

About our Office

- The Auditor General is the independent auditor of the Legislative Assembly of British Columbia
- Reports to the Legislative Assembly, not to the government of the day
- Conducts both financial audits and performance (or “value for money”) audits



As the non-partisan, independent auditor of the legislative assembly, the Auditor General audits the government reporting entity.

This consists of ministries, Crown corporations, and other government organizations, such as universities, colleges, school districts, health authorities, and similar organizations that are controlled by, or accountable to, the provincial government.

The Office of the Auditor General serves the people of British Columbia and their elected representatives by conducting independent audits and advising on how well government is managing its responsibilities and resources.

Under the *Auditor General Act*, the Auditor General conducts and reports on both financial audits and performance (or “value for money”) audits.

Purpose

- Provide an independent examination of the budgeting process to give MLAs and the public assurance that the budget is based on sound processes



The budget is one of government's key accountability documents, which always draws a lot of public interest.

We wanted to provide an independent examination of the budgeting process to give MLAs and the public assurance that the budget is based on sound processes. Again, this first piece of work looked at one specific component of government's budget process: revenue forecasts.

Annual budget process

Ministry of Finance's
TREASURY BOARD STAFF
coordinates budget process

150+
government organizations included in annual budget process

- Output of the process:
- 3-year Budget and Fiscal Plan
- Main Estimates

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In BC, the annual budget process is coordinated by Treasury Board Staff at the Ministry of Finance. The process involves more than 150 government organizations who prepare their individual budgets, which are then consolidated into government's annual budget documents.

Forecasts in the budget rely on assumptions of future economic activity. The Ministry of Finance, Economic Forecasting and Analysis Branch, is responsible for developing economic forecasts that support significant components of the budget.

Two of the main outputs of the annual budget process are:

1. The three-year Budget and Fiscal Plan, and
2. The Main Estimates which are tabled in the Legislative Assembly.

Scope of our examination

Budget and Fiscal Plan 2014/15 – 2016/17

- Economic and revenue assumptions and the revenue forecasting process
- 4 criteria based on CPA Canada standards and applicable BC legislation
- Challenges in examining future-oriented financial information



We examined and provide assurance on the systems, methodologies and processes used by the Ministry of Finance in preparing the economic and revenue forecasts in the Budget and Fiscal Plan.

Our four criteria for this examination were developed using the assurance standards for future-oriented financial information issued by CPA Canada as well as applicable requirements of the *Budget Transparency and Accountability Act* and the *Balanced Budget and Ministerial Accountability Act*.

Auditors generally deal with past transactions and events. A budget is a forward looking document that relies on forecasts of future economic activity. One thing is certain: the actual results will vary from the budget estimates, and the variances might be significant. Therefore, our examination cannot provide assurance on whether government will achieve their economic, revenue or surplus forecasts.

Key findings and conclusions


Economic forecasts

Key economic assumptions :

- are suitably supported
- reflect expected economic conditions
- are consistent with government's plans
- provide a reasonable basis for the forecast

Forecasts accurately reflect the underlying assumptions

**REVENUE
BUDGET
PROCESS
IS SOUND**

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We concluded that the key economic and revenue assumptions used in government's 2014/15-2016/17 Budget and Fiscal Plan are:

- suitably supported
 - reflect expected economic conditions
 - are consistent with government's plans, and
 - provide a reasonable basis for the forecast.
- We also found that the forecasts accurately reflect the key assumptions.

Key findings and conclusions

Presentation and Disclosures in the Budget and Fiscal Plan

- Comparison to the SFS
- General disclosures requirements – CPA Canada
- Disclosure of significant assumptions



For the presentation and disclosure in the Budget and Fiscal Plan:

We concluded that the Budget and Fiscal Plan allows for comparison with the actual results in the Summary Financial Statements.

We also found the current level of disclosure provides a good foundation for readers to assess the risks associated with the revenue forecasts. Many of the disclosures set out in the CPA Canada standards are included within the Budget and Fiscal Plan.

We also found that the Budget and Fiscal Plan provides good discussion on the risks to economic growth. Further, Appendix [Table A5](#) in the Budget and Fiscal Plan provides detailed information on the key economic assumptions for significant revenue sources.

That said, we recommended a few areas where government could enhance the disclosures in the Budget and Fiscal Plan.

Key findings and conclusions

Compliance with Legislation

- *Balanced Budget and Ministerial Accountability Act (BBMAA)*
- *Budget Transparency and Accountability Act (BTAA)*
- We did not identify any significant instances of non-compliance.



Finally, we examined all the requirements of the legislation as they relate to the economic and revenue forecasting for the Budget and Fiscal Plan.

We did not identify any significant instances of non-compliance.

Recommendations

WE RECOMMEND THAT THE MINISTRY OF FINANCE:

- 1** clearly disclose in its Budget and Fiscal Plan the inherent limitations associated with future-oriented financial information, in line with the disclosure standards established by CPA Canada.
- 2** enhance its sensitivity disclosures in appendix Table A5 of the Budget and Fiscal Plan, explaining why the selected economic variables are used, and disclosing and discussing the likely range of historical data volatility.
- 3** provide additional information on the risks supporting the annual forecast allowance.

While our overall conclusion from the examination was positive, we did make three recommendations for the Ministry of Finance.

These recommendations focus on improvements to the information presented in the annual Budget and Fiscal Plan to assist readers in better understanding the risks and sensitivities underlying the revenue forecasts.

Further resources

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- Our thanks to the Ministry of Finance staff for their cooperation with this project.
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