

BACKGROUND

For Immediate Release
August 19, 2010

AUDITOR GENERAL RELEASES REPORT ON B.C.'S FINANCIAL STATEMENTS

Report Highlights: Audit of the 2009/10 Summary Financial Statements

This report informs legislators and the public about the Auditor General's opinion on government's 2009/10 Summary Financial Statements, and discusses significant audit findings. It also recognizes and encourages improved practices in government's financial reporting and management. Overall, government's Summary Financial Statements are presented fairly according to Canadian accounting standards. However, there are three areas where the financial statements are significantly not in compliance with these standards, resulting in three audit opinion reservations. These are the same three reservations as were included in the previous year's audit opinion.

Audit opinion reservations for 2009/10

Audit reservations represent deviations from Canadian generally accepted accounting principles (GAAP) that might mislead a user of the financial statements. This year's report contains three audit reservations:

- 1. Oil and natural gas producer royalty credits inappropriately netted from revenues*
Government should be recording these royalty credits as expenses, rather than deducting them from revenues.
- 2. No provision for deep-well credits*
Deep-well credits should be recorded as liabilities when they are earned, not when they are claimed.
- 3. Full consolidation of the Transportation Investment Corporation (TI Corp)*
Government should have consolidated the TI Corp into the Summary Financial Statements using the full line-by-line consolidation method (rather than the modified equity method) as it does not yet qualify as a government business enterprise.

Had these three issues been recorded correctly in the financial statements, the deficit for 2009/10 would have been \$73 million greater than the amount reported by government.

Other Key Issues

The report also contains an overview of a number of other key issues relating to government's financial reporting:

- **Changing accounting standards** across Canada will be a major challenge for organizations and require a significant investment to manage this change effectively.
- Government's use of **rate-regulated accounting** in light of these changing standards.
- **Government's response to changing accounting standards** such as an amendment to the *Budget Transparency and Accountability Act*.
- Government's **management of working capital**.

Management Letters

The Summary Financial Statements are a consolidation of the audited financial statements of about 150 organizations across the entire government reporting entity. Internal control and other issues are identified by the auditors and brought to the organization's attention through a letter to management and the governing board.

For the third year, the report includes a summary of management letters. This summary helps organizations identify and mitigate risk by identifying those areas with the greatest potential risk and impact.

Governance Survey

This year a survey was sent out across government on governance practices. There was a high response rate (90% overall) and the results were generally positive, with the majority of entities reporting that they use a range of good governance practices.

Recommendations to Improve Financial Reporting

This year's report includes eight recommendations to assist government in improving its financial reporting. These recommendations cover such areas as pension plan disclosures, classification of debt and the preparation of ministry financial statements. Some of these recommendations were also made in previous reports.

Issues of Interest

The report also contains a review of issues which, while neither recommendations nor reservations, will still be of interest to legislators and the public. These include:

- A discussion of which entities should be included in the financial statements;
- The inclusion of universities in the government reporting entity;
- Accounting for payments for the 2010 Olympics' security costs; and
- Carbon neutrality in the public sector.