



NEWS RELEASE

For Release: Dec. 4, 2012

Auditor General details improvements for government's financial reporting

VICTORIA – Auditor General John Doyle's report on the Summary Financial Statements contains numerous recommendations for government to improve its financial reporting.

“Overall, while government is meeting most of the basic requirements of financial reporting, there are still significant improvements it can make,” said Doyle. “British Columbians deserve easy-to-understand financial reporting, with a clean opinion, from their government.”

The report provides further details on his audit opinion for government's 2011/12 Summary Financial Statements, which was once again a qualified opinion. In issuing an opinion, the Auditor General applies standards as they currently exist, not how they may be shaped in the future.

“Government has had audit qualifications in its summary financial statements in the last 13 of 17 years,” said Doyle. “This has a relatively straightforward solution – government merely needs to comply with the standards set by the Public Sector Accounting Board.”

The eight recommendations in the report, four of which address this year's audit opinion qualifications, relate both to government's application of accounting standards and broader issues of financial management processes and frameworks. The report also contains a status update of the 62 recommendations contained in the Office's reports on the Public Accounts since 2007.

“I must emphasize my concern with government's overriding of the independent standard-setting process,” stated Doyle. “One of the qualifications this year – relating to government transfers – is likely to be many times its current size in the coming audit cycle.”

As in prior years, this report also includes a summary of internal control issues described in auditors' letters to the management of government organizations and their governing boards, as well as an overview of future changes in accounting standards and the potential impacts on government's Summary Financial Statements.

About the Office of the Auditor General of B.C.

The Auditor General is a non-partisan, independent Officer of the Legislature who reports directly to the Legislative Assembly. The *Auditor General Act* empowers the Auditor General and to conduct audits, report findings and make recommendations.

2012/13 Report 7 – Observations on Financial Reporting: Summary Financial Statements 2011/12

-30-

Contact:

Office of the Auditor General
250 419-6100

www.bcauditor.com



BACKGROUND

For Immediate Release

Dec. 4, 2012

Report Highlights: Audit of the 2011/12 Summary Financial Statements

This report informs legislators and the public about the Auditor General's opinion on government's 2011/12 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 in accordance with Canadian accounting standards. However, there are areas where the financial statements are not in compliance with these standards resulting in four qualifications.

Recommendations to Improve Financial Reporting

This year's report includes eight recommendations to assist government in improving its financial reporting, four of which relate to the qualifications in this year's audit opinion. These recommendations cover such areas as contractual obligation disclosures, classification of debt and accounting for tax appeals. We also provide information on previous recommendations that have not yet been implemented by government.

Four audit opinion qualifications for 2011/12

Qualifications are deviations from Canadian generally accepted accounting principles (GAAP) that might mislead a user of the financial statements. This year's audit opinion contained four qualifications:

1. *The improper consolidation of the Transportation Investment Corporation.*

Government should have consolidated the TI Corp (*the Crown corporation responsible for constructing and managing the new Port Mann Bridge*) 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 the TI Corp been fully consolidated, the deficit would have been greater by \$97 million.

This item has been an audit qualification every year since 2008/09.



2. *Failure to provide for deep-well credits*

Deep-well credits are used to reduce the amount of royalties that gas producers must pay to the Province when they extract gas from a well drilled to a specified depth. From an accounting perspective, deep-well credits are an expense incurred by the government to promote the growth of the oil and gas resource industry. They should, therefore, be recorded as a liability of the Province.

Had these credits been correctly accounted for, the deficit would have been greater by \$702 million.

This item was also a qualification in the 2007/08 through 2009/10 audit opinions. (In 2010/11, the issue still existed but did not warrant any further explanation.)

3. *Inappropriate deferral of government transfers revenue*

Historically, transfers of funds or other assets from one level of government to another, designated for a particular area of activity or over future periods, were deferred and matched with the related expenditures of the recipient as they occurred. However, as of the mandatory adoption date of April 1, 2012, the new standard is to define income in terms of change in financial position from one period to the next. This provides readers of the financial statements with a better sense of whether the entity's financial position has improved or deteriorated.

In the fall of 2011, government issued regulation B.C. Reg. 198/2011, directing government organizations to continue reporting government transfers as they had in the past. As a result, 10 organizations received non-GAAP compliant audit opinions, and this number is expected to increase substantially in fiscal 2012/13.

In 2011/12, the significance of these errors (specifically in the financial statements of the BC Transportation Financing Authority, of which government was forewarned in last year's report) are enough that the Auditor General has qualified his opinion on the Summary Financial Statements. Had deferrals been accounted for correctly, the deficit for the year ended would have been less by \$279 million.

4. *Failure to disclose required government business enterprise financial information*

Public sector accounting standards require that condensed supplementary financial information be provided for government business enterprises.

Had this information been disclosed, a number of line items (including assets, liabilities, equity and net earnings) in the Public Accounts for self-supported Crown corporations and agencies would have been different. But, the deficit for the year as reported would not have been affected.



As it is, however, assets would have been greater by \$1.1 billion and liabilities other than debt would have been greater by \$207 million.

Other Key Issues

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

- Accounting and auditing standards in Canada are changing to be more consistent with international standards. However, we found several instances where government did not follow generally accepted accounting principles (GAAP).
- The purpose of the Financial Statement Discussion and Analysis (FSD&A) is to expand upon and explain information contained in the consolidated financial statements. However, government did not provide an adequate explanation of variances from budget in its current FSD&A.
- Government should have a process in place to classify control issues identified by the auditors and a strategy for resolving them.

Other Matters Discussed with Management

The report also contains a review of other significant issues discussed with management, including:

- rate-regulated accounting;
- financial reporting frameworks under Canadian accounting standards; and
- working capital management.

Management Letter Issues

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

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

Management Response

For all our public reports, we provide management the option of responding to our findings. Management has exercised that option and we include those comments within our report.



In its response, government has stated that it has made choices based on potential changes in accounting standards. The Auditor General is required to apply standards as they currently exist, not how they may be shaped in the future.

In addition, the government's interpretation of some standards is inconsistent with the position of, not just our office but, the entire the auditing profession (for example, government transfers). The failure to clear these are of concern to the Auditor General.

About the Office of the Auditor General of B.C.

The Auditor General is a non-partisan, independent Officer of the Legislature who reports directly to the Legislative Assembly. The *Auditor General Act* empowers the Auditor General and staff (known as the Office of the Auditor General or OAG) to conduct audits, report findings and make recommendations.

2012/13 Report 7 – Observations on Financial Reporting: Summary Financial Statements 2011/12

-30-

Contact:
Office of the Auditor General
250 419-6100