



OFFICE OF THE
Auditor General
of British Columbia

**Report on the
1996/97 Public Accounts**

Province of British Columbia

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**For immediate release
February 26, 1998**

Auditor General's Report on the 1996/97 Public Accounts Issued

Today Auditor General George Morfitt issued his report on the 1996/97 Public Accounts.

In his report, Mr. Morfitt provides his reasons for qualifying his audit opinions on the government's financial statements.

He notes that the Summary Financial Statements for the 1996/97 fiscal year provided an incomplete accounting by the government of its financial activities. He reported that the government, in preparing the Summary Financial Statements of the Province, excluded government health care and educational bodies which in the previous year had been included, and failed to treat acquired land as an asset as it had done in 1995/96. A proper accounting for these issues would have substantially increased the reported assets, liabilities, revenue and expenses, and reduced the reported 1996/97 deficit of \$768 million by \$174 million. The Auditor General is pleased to note that discussions currently are underway with the government to resolve these important issues and so improve future accountability.

Mr. Morfitt also qualified his auditor's opinion on the Consolidated Revenue Fund Financial Statements because, in his opinion, some \$6 billion of loans by government to its dependent organizations should not have been recorded as assets but as expenditures in the years the loans were made. If this policy had been followed, the reported 1996/97 fund deficit of \$368 million would have increased by \$306 million.

Mr. Morfitt expresses his continuing concern about the confusion that arises when the government reports its annual surplus or deficit by using the results of the Consolidated Revenue Fund Financial Statements. He notes these statements are prepared on the same basis as the Estimates. However, neither document includes the full range of government financial activities. The Auditor General urges the government to use summary level reporting for its financial accountability.

Mr. Morfitt is pleased that the government continues to annually report on the status of provincial debt. However, he observes that the 1997 financial management plan, which replaces the 1995 plan, presents goals and assumptions that need further clarification. He also wishes to see the government release its report on debt with the annual Public Accounts.

- more -

With respect to the Year 2000 issue, the Auditor General is pleased to note that the government is properly addressing requirements relating to its central financial systems. However, there is no monitoring function established to ensure Crown corporations and funded agencies are properly attending to the Year 2000 problem. Mr. Morfitt cautions much still needs to be done before the Year 2000 arrives, but the government is on the right path.

Report on the 1996/97 Public Accounts, Province of British Columbia. Copies of this report can be obtained from:

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Speaker of the Legislative Assembly
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Sir:

I have the honour to transmit herewith to the Legislative Assembly of British Columbia my Report on the 1996/97 Public Accounts.

George L. Morfitt, FCA
Auditor General

Victoria, British Columbia
February 1998

copy: Mr. E. George MacMinn, Q.C.
Clerk of the Legislative Assembly

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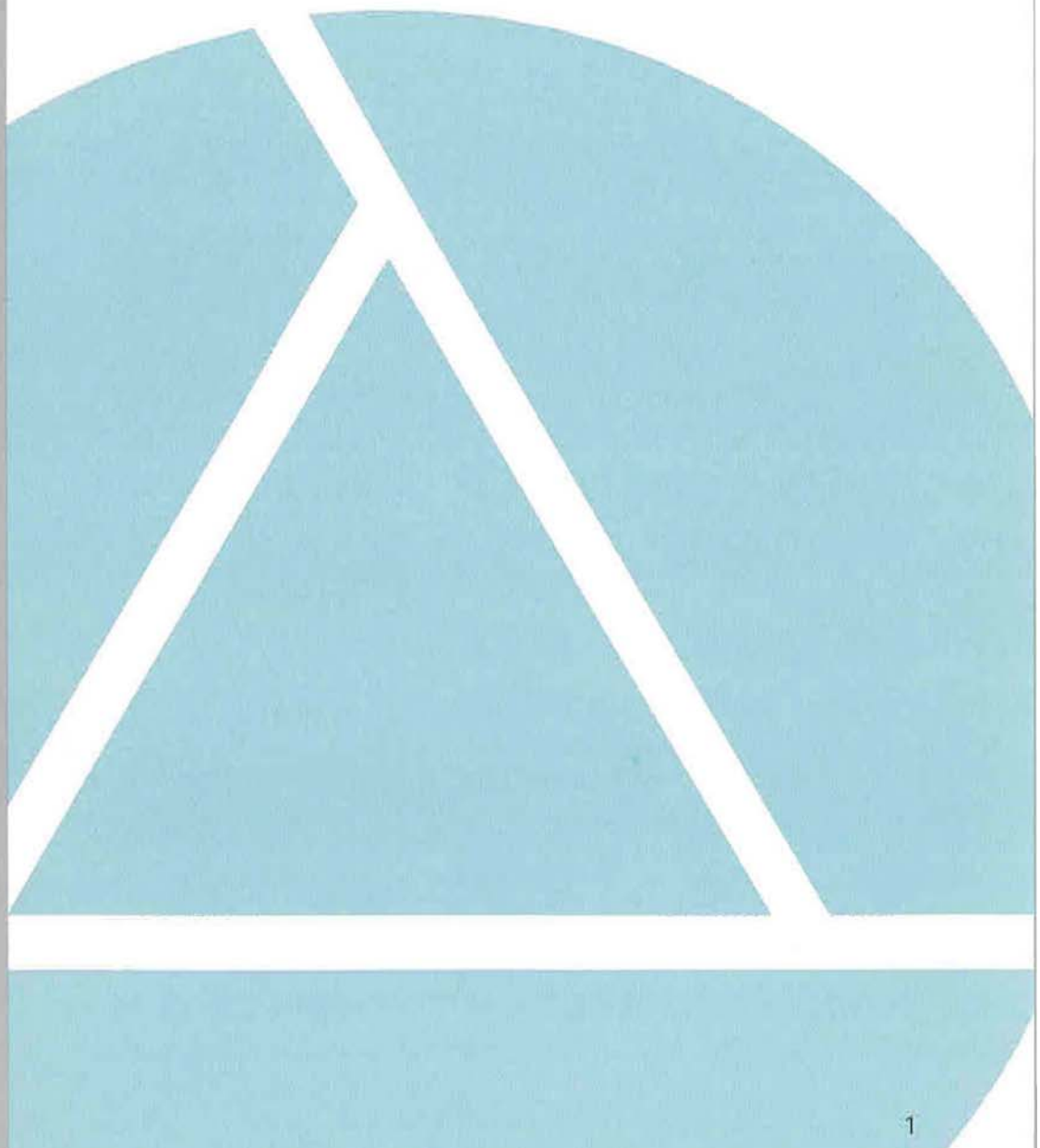
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overview



Comment About Financial Accountability

Public Accounts Need Improvements

In the 1996/97 fiscal year the government decided to exclude the public health care and educational bodies that it included in its reporting entity in 1995/96. It also postponed its intended capitalization of roads, bridges and land held by the Consolidated Revenue Fund. I believe by making these decisions the government has stepped back from the financial reporting standards it achieved in its 1995/96 Public Accounts, and therefore has made them incomplete. My qualified Auditor's Report on the Summary Financial Statements of the Province indicates that, for the financial results of the Province to be fairly presented, these statements must be adjusted to increase financial assets, liabilities, and tangible capital assets by \$1,165 million, \$1,247 million and \$8,228 million respectively, and revenue and expense by \$1,189 million and \$1,015 million respectively. These adjustments will decrease the Province's accumulated deficit by \$3,182 million and its 1996/97 deficit by \$174 million. I urge the government to present the next year's Summary Financial Statements in a manner that represents the complete picture of the Province's financial activities.

The government has already started to work closely with my Office to develop a strategy to resolve issues that caused me to qualify my opinion on both sets of the government's financial statements.

Government Financial Accountability Needs Refocusing

The Consolidated Revenue Fund Financial Statements are special-purpose fund statements prepared to compare the actual operating results of the Consolidated Revenue Fund with the estimates of revenue and expenditure as presented in the annual Estimates and Budget of the government. As with the annual Estimates, these fund statements do not include many of significant financial activities of the Province which occur outside the Consolidated Revenue Fund. The government, in its public statements, as well as in important documents such as the British Columbia Financial and Economic Review mostly refers to these fund statements. To understand and assess the government's management of public financial affairs and resources as a whole, government references should be made to the Province's Summary Financial Statements. Employing two sets of financial statements, especially when—as in this year—they are prepared on

overview



Good accountability is essential for there to be public trust and confidence in the institutions of government. My Office actively contributes to an effective accountability relationship between the government and the Legislative Assembly. This is done in a variety of ways. I have recently transmitted my third report, written jointly with the Deputy Ministers' Council, on enhancing accountability in the British Columbia public sector. Also, in recent years I have commented on improving the financial accountability of government through better information.

Because most of the accountability information government currently provides to the Legislative Assembly is financial in nature, the audit of the Public Accounts is the focus of much of my staff's energy over the year. In addition to the work of my Office, many accounting firms in British Columbia are also involved in auditing vast numbers of public bodies the financial affairs of which, in one way or another, affect the Public Accounts.

In this report I comment on the Public Accounts for 1996/97. My comments, where practical, enhance recommendations that I believe will further improve accountability to the public, and improve government financial accounting and controls. I also provide information that will be helpful to the reader in understanding the financial information provided by the government on the Province's revenue, expense, deficit, and management of debt.

I am somewhat disappointed that the government did not release its "Debt Statistics"—a report that provides valuable information on managing the Province's debt—with its 1996/97 Public Accounts, as it did the previous two years. However, I am pleased to note that at the date this report goes to print, the government has released its report on Debt Statistics.

therein goals and benchmarks that are measurable and relate directly to the financial condition of the Province.

Progress on Fixing the “Millennium Bug” Continues

The Year 2000 problem is recognized all over the world as a serious concern. British Columbia government has put in place a well-working organization to deal with the millennium bug in the ministries. I will continue to report on its progress. The concern about the effects of the Year 2000 date on computers goes a long way beyond software applications. There are, I am told, built-in clocks in computerized devices that might cause serious disruptions at the turn of the century. There are also software applications used by private businesses that communicate with the government computer systems. Though outside government, they too could result in difficulties for the government. I am concerned about these problems, but my comments are mostly directed at the government financial systems, especially those that affect government’s corporate accounting, revenue collection and payment for services. I am also concerned that the government has no central monitoring function to ensure Crown corporations and funded agencies are doing what they ought to do to resolve the Year 2000 problem.

Controls Over Forest Credit Management Are Good

In general, the government has built strong controls into the forest credit management system. The Ministry of Forests has an effective collection procedure, though I believe additional controls could further reduce the risk of revenue loss that is still there.



two different bases of accounting, has been a recurring source of public confusion in recent years. I urge the government to adopt only the expense-based summary level of reporting for the purpose of its financial accountability expressed by both the Estimates and the financial statements.

Tangible Capital Assets Need to Be Recorded Quickly

Last year, the government discussed with me a formal plan of action for the capitalization of tangible capital assets. Based on this plan, all major categories of assets would be recorded in the Public Accounts by the 1998/99 fiscal year. While every one understood the enormity of the task at hand, all were equally in agreement that for financial statements to be meaningful this task had to be accomplished quickly. Slow transition from modified accrual to full accrual—often referred to as changing from an “expenditure” to an “expense” basis of accounting—may result in financial information that is incomplete, during the transition period. I urge the government to do everything possible to speed up the asset capitalization process.

Special Warrants

I continue to be concerned about the provision for special warrants in the *Financial Administration Act*, and urge that action be taken to reform this spending authority to give full recognition to the rights of Members of the Legislative Assembly for granting the government the authority to spend public money.

The New Plan to Manage Debt Needs Better Explanation

In its Budget '97 the government changed some of the main goals announced in its previous plan to manage debt, and presented its new financial management plan. In my view the new plan has a number of shortcomings. For example, goals set for debt reduction are vague, the basis of assumptions are not well explained, and the fall-back positions are not clear if current assumptions do not materialize. The effectiveness of a financial management plan depends in good measure on the ability to compare actual results achieved against the plan. Undefined or vaguely defined goals, such as “reduce direct debt over 20 years,” will not provide a good base for an effective measure of performance. I encourage the government to review its new financial management plan and include

This is my second Report to the Legislative Assembly for the 1997/98 fiscal year. I believe this report provides valuable insights into matters reported in the 1996/97 Public Accounts, and addresses some of the senior financial accountability issues of the government.

I wish to acknowledge the full cooperation of the government management within ministries, Crown corporations and agencies who devoted time and effort to enable me to complete my audit of the Public Accounts.

I also wish to acknowledge the outstanding work of my staff, which has resulted in the issuing of this report. I thank them for their hard work, professionalism, and dedication.

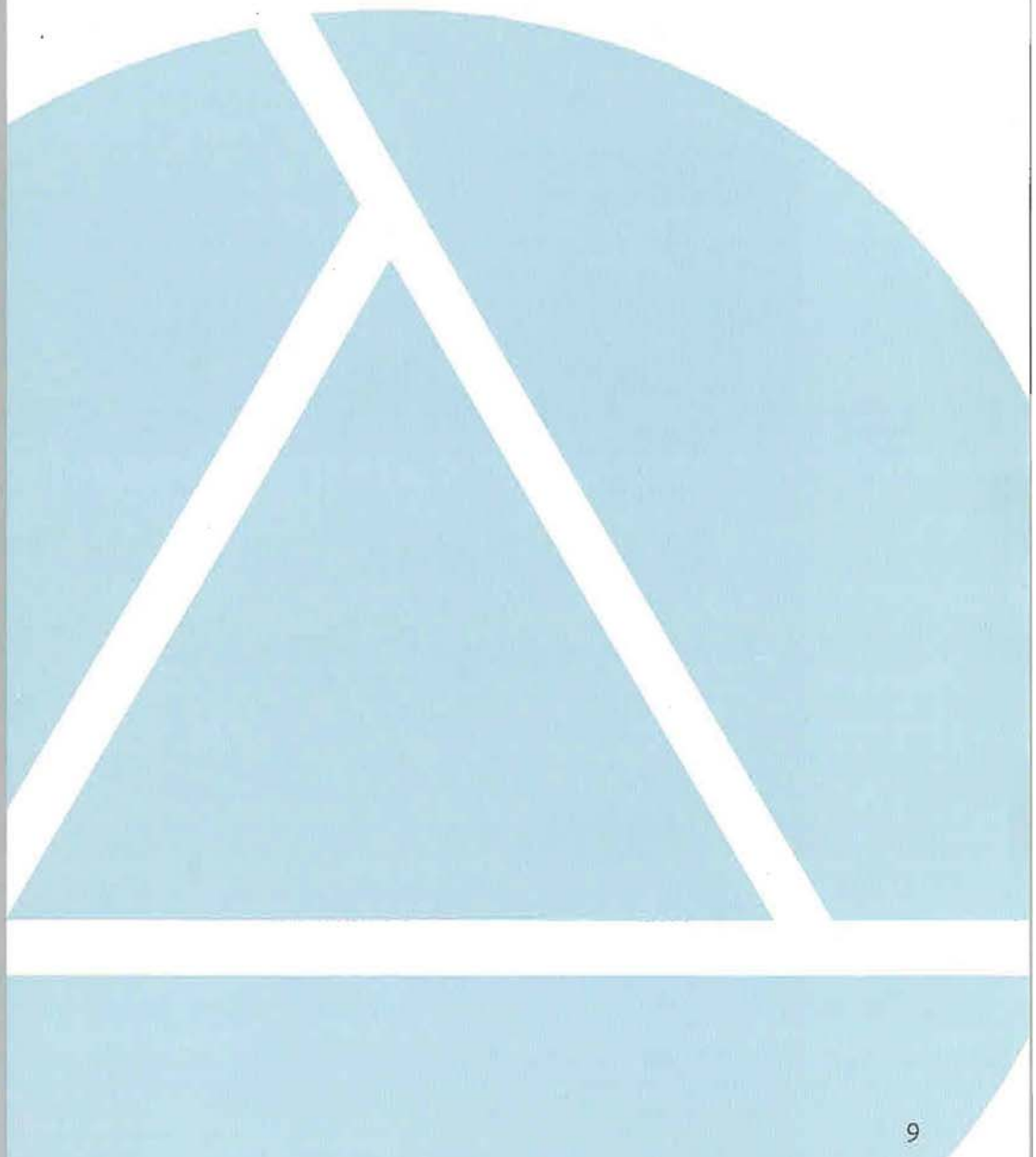


George L. Morfitt, FCA
Auditor General

Victoria, British Columbia
February 1998



introduction



introduction

The Auditor General is required, under the provisions of the *Auditor General Act*, to examine the government's accounts and records and to report annually to the Legislative Assembly on the Financial Statements of the Province. In these reports, the Auditor General must state whether all the information and explanations required have been received; whether the statements present fairly the financial position, results of operations, and changes in financial position of the Province; and whether the statements have been prepared in accordance with accounting policies stated in them, on a basis consistent with that of the preceding year. If the Auditor General is unable to express an opinion without reservation, the reason why should be stated.

The Auditor General is also eligible to be appointed auditor of any Crown corporation, Crown agency, or public body. The Act does not specify what is required of the Auditor General in the conduct of such audits. In the absence of special direction, the work is carried out in a manner and with the same objectives as those applied to the audit of the Financial Statements of the Province of British Columbia.

The Act directs that the Auditor General should comment where he or she believes that accounting records are not sufficient or properly kept, or that internal controls are not adequate to protect the assets of the Crown or ensure the proper collection of revenue and making of expenditures. He or she may also provide the Legislative Assembly with an assessment as to whether the Financial Statements of the Province have been prepared in accordance with the most appropriate basis of accounting for the purpose of fair presentation and disclosure.

The Auditor General also has the mandate to comment on whether government programs are being administered economically and efficiently, and on whether there has been compliance with laws and regulations. This the Auditor General does periodically, in other public reports.

This report contains comments and observations arising during the Auditor General's audit of the financial statements of the Province for the fiscal year ended March 31, 1997. It also relates to audits of the financial statements of various Crown corporations and other public bodies, in particular those for which the Auditor General is the appointed auditor.



province's financial
statements
and public accounts



province's financial statements and public accounts

The Province's financial statements are an important link in an essential chain of accountability of the government to the public. They are the principal means by which the government reports to the Legislative Assembly, and to all British Columbians, on its stewardship of public funds.

Public Accounts

The Public Accounts, prepared pursuant to the *Financial Administration Act*, contain the financial statements and other information that the government is either required or chooses to include in the publication. The form and content of the Public Accounts, as well as the accounting policies used in the preparation of the financial statements, are determined by Treasury Board.

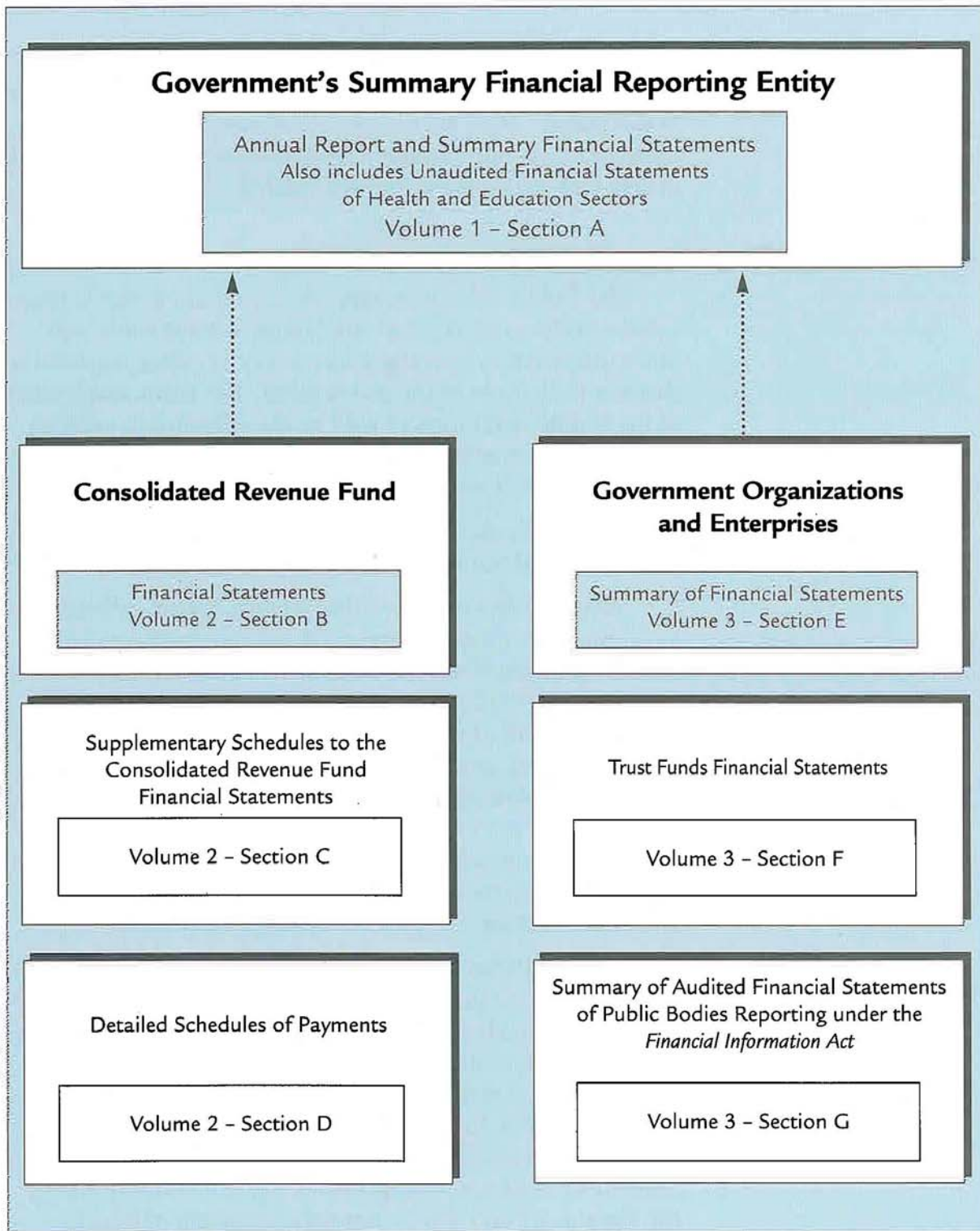
The Public Accounts for the 1996/97 fiscal year were published in three volumes in December 1997.

Volume I (Section A), titled *Annual Report*, provides a commentary by government on the numbers reported in the Summary Financial Statements, plus additional information on the financial performance of the government. The audited Summary Financial Statements of the Province, providing information on the financial affairs and resources of many government organizations for which the government is responsible, are also in this volume. The unaudited section of the volume provides additional information on the results of the health and education sectors.

Volume II (Sections B to D), titled *Financial Statements and Schedules of the Consolidated Revenue Fund*, contains the audited financial statements of the Consolidated Revenue Fund, together with unaudited supplementary schedules to the financial statements and detailed schedules of payments. This volume is intended to serve as the government's accountability report to the legislature on revenues raised and expenditures made as authorized by the *Supply Act* and other statutory spending authorities.

Exhibit 1.1

Financial Reporting in the 1996/97 Public Accounts



Source: The Public Accounts

Volume III (Sections E to G), titled *Other Government Financial Statements and Information*, contains the summaries of the latest audited financial statements of government organizations and enterprises, and of trust funds administered by the government. This volume also contains a summary of the financial information of corporations and entities to which the *Financial Information Act* applies.

The structure of the government's financial reporting in the Public Accounts is outlined in Exhibit 1.1.



Summary Financial Statements

The Summary Financial Statements of the Province provide the most complete information about the operating results and financial position of the Province of British Columbia. Aggregating most, but currently not all, entities owned or controlled by the Province, the statements consolidate the financial position and results of operation of the Province's general and special funds—collectively referred to as the Consolidated Revenue Fund—with the financial position and operating results of the government entities (see pages A49 and A50 of Appendix E of this report for a complete list).

A copy of the Summary Financial Statements, together with the Auditor General's report on them, appears in Appendix E of this report.

Depending on the nature of their operations, these aggregated entities are referred to as either "government organizations" or "government enterprises." In addition to the Consolidated Revenue Fund, government organizations include corporations, associations, boards, foundations, societies, and similar entities that are separated from the operation of central government mainly for administrative reasons. They also include subsidized corporations which provide goods or services to the public. Government enterprises, on the other hand, are usually separate legal entities that, in the normal course of their operations, earn sufficient revenue from goods or services they sell to the public to cover all their costs.

The account balances of government organizations are fully consolidated with the central government's accounts on a line-by-line basis after they are adjusted for compliance with the government's stated accounting policies. Government's commercial enterprises are consolidated on a modified equity basis. This means that the original cost of investment of the government in these business enterprises is adjusted each year to include the net earnings or losses and other net equity changes of each enterprise. These enterprises follow accounting policies generally accepted for commercial operations.

In the 1995/96 fiscal year, the composition of the government reporting entity was significantly expanded so that health care organizations, regional hospital districts, universities, colleges and institutes, and school districts—often referred to as the S.U.C.H sectors—were included in the Summary Financial Statements of the Province. However, in the 1996/97 fiscal year, the government excluded the S.U.C.H sectors from reporting in the Summary Financial Statements, and effectively returned to the reporting entity of the 1994/95 fiscal year.

Another change by the government, started in the 1995/96 fiscal year, was to capitalize its acquired capital assets in the Summary Financial Statements regardless of the date of acquisition, and to amortize them over their useful lives. Capitalization of tangible capital assets is continuing to proceed on a phased-in basis. Virtually all purchased or otherwise acquired-for-value, major tangible capital assets of the Province have been capitalized, with the exception of land held by the Consolidated Revenue Fund, and highways and bridges.

The expenses shown in the Summary Financial Statements recognize capitalization and amortization of some tangible capital assets. Note 30 to the statements provides the reconciliation of expense to expenditure-based accounting, the latter having been used in the years before the capitalization of assets began.



Consolidated Revenue Fund Financial Statements

The Consolidated Revenue Fund is established in accordance with the *Financial Administration Act*. Its financial statements account for the financial activities of central government, which includes ministries, special offices, and other appropriations.

This is the fund into which all public money of the government, other than trust funds, must be paid. Accordingly, its financial statements also constitute an important accountability document, and include the accounts of the General Fund and the Natural Resource Community Fund. The Consolidated Revenue Fund Financial Statements provide a comparison of the actual results of the fund operation with the intended results as approved by the Legislative Assembly in the estimates of revenue and expenditure. They are the operating fund statements of the government on which the Auditor General provides an auditor's report.

These fund statements could be used mistakenly for reviewing the Province's overall financial position and results of operation. To prevent any misunderstanding, the Auditor General's report on the Consolidated Revenue Fund Financial Statements for the year ended March 31, 1997, contains these two additional opening paragraphs:

These fund statements are prepared to compare the actual operating results of the Consolidated Revenue Fund with the estimates of revenue and expenditure as presented by the annual Estimates and Budget of the government for the 1996/97 fiscal year. As with the annual Estimates, these fund statements do not include many of the significant financial activities of the Province which occur outside the Consolidated Revenue Fund. These additional activities occur in organizations and enterprises for which the government is responsible and which are to be included, along with the Consolidated Revenue Fund, in the Province's Summary Financial Statements.

To understand and assess the government's management of public financial affairs and resources as a whole, readers should refer to the Province's Summary Financial Statements.

To clarify the significant differences in financial results between the government's summary financial reporting entity and the Consolidated Revenue Fund, relative financial results and balances for the fiscal year ended March 31, 1997, are shown in Exhibit 1.2.

Exhibit 1.2

Comparative Summary of Financial Results and Balances for the Year Ended March 31, 1997¹

(\$ Millions)

	Government Reporting Entity	Consolidated Revenue Fund Reporting Entity
Liabilities, end of year:		
Public debt	27,916	26,961
Other	6,347	6,004
	34,263	32,965
Financial assets, end of year	15,163	14,778
Net liabilities, end of year	19,100	18,187
Net expense, for the year	(768)	(352)
Guaranteed debt, end of year	1,055	2,004

¹Not adjusted for the effects of reservations in the Auditor General's Report (pages 22 to 25)

Source: The Public Accounts



Special Fund

Natural Resource Community Fund

Effective April 1, 1992, the Natural Resource Community Fund was established under the *Natural Resource Community Fund Act*. This Special Fund was established to assist communities largely dependent on a single resource industry to adjust to severe economic declines that result in business closures or industry workforce reductions.

The fund receives as income 0.5% of all revenues, other than fines, collected under a number of Acts dealing with natural resources. Its value is not to exceed \$25 million. During the 1996/97 fiscal year, the fund received \$12 million from natural resource revenues and earned \$1 million in income from investments. In the same period, it provided \$39,155 in assistance to eligible

communities and transferred \$13 million back to the General Fund. The balance of the Natural Resource Community Fund as at March 31, 1997, stood at its \$25 million limit, as it also did at March 31, 1996.



The Auditor General's Reports Resulting from Financial Statement Audits

Auditor's Reports on Financial Statements

As a result of the examinations carried out, the Auditor General has provided auditor's reports on the Summary Financial Statements and the Consolidated Revenue Fund Financial Statements prepared by the government for the fiscal year ended March 31, 1997, and on the financial statements of 63 entities whose fiscal yearends occurred on that date or during that fiscal year.

The Auditor General reports in the format of the standard auditor's report recommended by the Canadian Institute of Chartered Accountants (CICA). The wording adopted by the CICA emphasizes the roles of management and the auditor with respect to the statements.

The recommended report, where there is no reservation of opinion, contains three paragraphs. The first identifies the financial statements that have been audited, and points out that management is responsible for preparing those statements and the auditor for expressing an opinion on them. Next is a paragraph that describes the nature and extent of the auditor's work and the degree of assurance that the auditor's report provides. It refers to generally accepted auditing standards and describes some of the important procedures the auditor undertakes. The final paragraph contains the auditor's conclusion based on the audit conducted. The Auditor General's reports on the Province's financial statements and financial statements of trust funds held and administered by the government appear with their respective statements published in the Public Accounts. Reports containing the Auditor General's opinions on the financial statements of government entities are similarly appended to the statements in each entity's annual report.

Summary Financial Statements

The Auditor General's Report on the Summary Financial Statements for the fiscal year ended March 31, 1997, was qualified with three reservations. The effect of matters described in the Auditor General's reservations on the financial statements of the Province is very significant. Nevertheless, the Auditor General believes that the Summary Financial Statements—as presented by the government—together with information contained in his reservation paragraphs, would provide the reader of the statements adequate information to assess the financial position and results of operation of the Province.

The following paragraphs explain the reasons for, and the effect of, each reservation on the financial statements of the Province.

1. *In preparing this year's statements, the government has excluded the regional hospital districts, public health care organizations, universities, colleges and institutes, and school districts. Exclusion of these organizations, though clearly stated in note 1 to these statements, is an exception to the government's general accounting policies governing the summary reporting entity. Those policies provide for the inclusion in the Summary Financial Statements of organizations which are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the Legislature, and are owned or controlled by the government. The above-noted organizations meet these criteria for inclusion and, accordingly, should be consolidated into these financial statements, as they were in 1996.*

Had the regional hospital districts, public health care organizations, universities, colleges and institutes, and school districts been included in these statements, the total financial assets as at March 31, 1997 would increase by \$1,165 million (\$1,008 million for 1996), and total liabilities as at March 31, 1997 would increase by \$1,247 million (\$1,067 million for 1996), resulting in an increase of \$82 million (\$59 million for 1996) in net liabilities as at March 31, 1997. Similarly, there would be an increase in revenue for the year ended March 31, 1997 of \$1,189 million (\$1,111 million for 1996), and an increase in expense for the year ended March 31, 1997 of \$1,040 million (\$1,049 million for 1996), resulting in a decrease in annual net operating expense of \$149 million for the year ended March 31, 1997 (\$62 million for 1996). The exclusion from the reporting entity of the regional hospital

districts, public health care organizations, universities, colleges and institutes, and school districts also affect many other significant components of the financial statements, as outlined in the schedule of impact of change in reporting entity included in these statements.

2. *The government, by presenting, outside of its net deficiency, the amounts described in the statements of financial position as "loans for the purchase of assets, recoverable through future appropriations," has reported these amounts, in effect, as assets of the Province. These loans do not have the necessary characteristics of assets, and should be accounted for as an expense of the Province of the period in which each loan was incurred.*

Had the above-noted loans been expensed, the net deficiency as at March 31, 1997 would increase by \$4,964 million (\$4,710 million for 1996). Also, the expense for the year ended March 31, 1997 would increase by \$254 million (\$390 million for 1996), resulting in a similar increase in the consolidated net expense for the year.

3. *Capitalization of tangible capital assets is proceeding on a phased-in basis. During the transitional period, which started with the 1995/96 fiscal year, groups of assets for which estimated or actual values have been ascertained are to be capitalized. Land purchased, or otherwise acquired for value consideration, is recorded in these financial statements as a capitalized asset group, except for the ascertained value of land that is held by the Consolidated Revenue Fund. Land value should include the ascertained value of the land held by the Consolidated Revenue Fund, as was the case in 1996.*

Had the ascertained value of land held by the Consolidated Revenue Fund been included in these statements, the tangible capital assets would increase, and the net deficiency would decrease, as at March 31, 1997 by \$735 million (\$710 million for 1996). Also, the net operating expense for the year ended March 31, 1997 would decrease by \$25 million (\$8 million for 1996).

In a further paragraph, the Auditor General quantified the net effect of the three reservations on the Summary Financial Statements for the year ended March 31, 1997.

The changes referred to in these reservations, taken together, have the following effects as at March 31, 1997: total financial assets would increase by \$1,165 million to \$16,328 million, total liabilities would increase by \$1,247 million to \$35,510 million, tangible capital assets would increase by \$8,228 million to

\$12,408 million, and net deficiency would decrease by \$3,182 million to \$6,774 million. The revenue for the year ended March 31, 1997 would increase by \$1,189 million to \$24,388 million; and, for the year then ended expense would increase by \$1,015 million to \$24,929 million and consolidated net expense would decrease by \$174 million to \$594 million.

Further comments on each of the above-mentioned matters can be found in the following sections of this report:

- for government reporting entity, refer to comments under "Changes in the Composition of the Summary Financial Reporting Entity" on page 29;
- for loans, refer to comments under "Loans and Guaranteed Debts Repayable Through Future Government Funding" on page 39; and
- for land held by the Consolidated Revenue Fund, refer to comments under "Tangible Capital Assets" on page 32.

Consolidated Revenue Fund Financial Statements

The preamble to the Auditor General's report on the Consolidated Revenue Fund Financial Statements explains the specific purpose of those statements and refers to other significant financial activities of the Province that occur outside the Consolidated Revenue Fund.

Although the government has presented the Consolidated Revenue Fund Financial Statements for the year ended March 31, 1997, on both an "expense" and an "expenditure" basis (see page 31), the Auditor General's opinion is expressed on the expenditure-based statements only. The reasons for this are given in the Auditor General's report, in a paragraph following the opinion paragraph. They can be summed up as follows:

- These special purpose fund statements are prepared to compare results of the Consolidated Revenue Fund with the estimates of revenue and expenditure as presented by the annual Estimates and Budget of the government for the 1996/97 fiscal year.
- The Estimates and Budget are presented primarily on an expenditure basis of accounting.
- The government accounting policy states that information on the expense basis of accounting is provided for the current fiscal year only to allow comparison between the two bases.

The Auditor General's report on the Consolidated Revenue Fund Financial Statements contains a reservation about the government accounting treatment of loans recoverable through future appropriations and of certain debts of government organizations that are guaranteed by the Province but expected to be repaid by future government funding. The two reservation paragraphs explain why the Auditor General has expressed a qualified opinion on these financial statements, and quantify the effect of the reservation:

The government has recorded as assets of the Consolidated Revenue Fund the amounts described in the statement of financial position as "loans for the purchase of assets, recoverable through future appropriations." These loans do not have the necessary characteristics of assets, and should be accounted for as an expenditure of the Consolidated Revenue Fund of the period in which each loan was incurred. Similarly, the debt of government organizations guaranteed by the Province, the repayment of which depends on future appropriations, should be accounted for as a direct liability of the Consolidated Revenue Fund.

Had the above-noted loans been expensed and guaranteed debt been recorded as a direct liability of the Consolidated Revenue Fund, the net deficiency as at March 31, 1997 would increase by \$6,198 million to \$18,889 million (for 1996 by \$5,892 million to \$18,215 million), liabilities as at March 31, 1997 would increase by \$702 million to \$33,667 million (for 1996 by \$823 million to \$32,676 million), and net operating expenditure for the year ended March 31, 1997 would increase by \$306 million to \$674 million (for 1996 by \$458 million to \$827 million).

We have commented in greater detail about loans and guaranteed debts repayable through future government funding on page 39 of this report.

Further comments on the significance of an audit opinion, and on the process employed in reaching that opinion, appear in Appendix A of this report.

Other Reports

While conducting our financial statement audits, we encounter numerous items that call for study and corrective action by the ministries, central agencies, and government entities concerned. We deal with these matters by having direct contact with officials of these organizations. Some issues, however, are considered of sufficient significance to

warrant the attention of the Legislative Assembly and are included in this report. Those arising as a result of our audit of the government financial statements appear in a section of this report entitled "Audit of the Financial Statements of the Province." Those relating to our audit of government entities are contained in a subsequent report section entitled "Audit of Financial Statements of Government Entities, Trust Funds, and Other Organizations."



audit of the
financial statements
of the province



audit of the financial statements of the province

Changes in the Composition of the Summary Financial Reporting Entity

Government accounting policies define what should be included in the Summary Financial Statements of the Province. The statements are intended to include all organizations that are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the legislature, and are owned or controlled by the government.

A detailed schedule of organizations and enterprises included in the government reporting entity is shown in Appendix E on pages A49 and A50.

In the 1995/96 fiscal year, the composition of the government reporting entity was expanded to include health care organizations, regional hospital districts, universities, colleges and institutes, and school districts. However, in the 1996/97 fiscal year, the government decided to exclude these organizations from the summary reporting entity. Doing this has had several effects:

- The tangible capital assets have decreased by approximately \$7.5 billion. This amount represents physical assets acquired by advanced education institutions, school districts, and public hospitals but not accounted for in the Summary Financial Statements of the Province. Including capital assets and their amortization will provide better information about the total costs of government programs, and will enhance the stewardship over tangible capital assets invested by the government.
- Approximately \$5.0 billion of amounts receivable that otherwise would have been eliminated has instead been recorded. This represents the outstanding balance of loans made over the years by various financing authorities to advanced education institutions, school districts, and public hospitals for purchase of capital assets.

These loans, made under the Fiscal Agency Loan Program, had no value to the Province as assets. Because their repayments depended on government's future payments to the borrowing organizations, the loans

Exhibit 2.1

The Overall Effect of the Change in the Reporting Entity

Effect of expanding the government reporting entity to include health care organizations, regional hospital districts, universities, colleges and institutes, and school districts (\$Billions)

Condensed Summary Financial Statements Province of British Columbia Fiscal Year Ended March 31, 1997		
<u>Statement of Financial Position</u>		
	Existing ¹	Pro Forma ²
Liabilities		
Other liabilities	6.3	7.4
Debt	28.0	28.1
	<u>34.3</u>	<u>35.5</u>
Assets		
Equity in government enterprises	3.0	3.0
Other financial assets	12.2	13.3
	<u>15.2</u>	<u>16.3</u>
Net liabilities	<u>19.1</u>	<u>19.2</u>
Net liabilities represented by:		
Loans for purchase of assets, recoverable from future appropriations	5.0	-
Tangible capital assets	4.2	11.7
Net deficiency	9.9	7.5
	<u>19.1</u>	<u>19.2</u>
<u>Statement of Operations</u>		
	Existing ¹	Pro Forma ²
Revenue	23.2	24.4
Expense	23.9	25.0
Net operating expense for the year	<u>0.7</u>	<u>0.6</u>
<p>¹ Existing summary reporting entity comprising government organizations (excluding health care organizations, regional hospital districts, universities, colleges and institutes and school districts) and government enterprises.</p> <p>² The summary reporting entity as in ⁽¹⁾ above, and including health care organizations, regional hospital districts, universities, colleges and institutes, and school districts.</p>		

Source: The Public Accounts and financial statements of excluded organizations

expected to be recovered through future government appropriations should have been written off as an expense in the periods these loans were made. In the 1995/96 fiscal year, these loans were not a concern because health care organizations, regional hospital districts, universities, colleges and institutes, and school districts were included in the government reporting entity.

- Both “other liabilities” and “other financial assets” have each decreased by approximately \$1.1 billion. These amounts reflect the other liabilities and assets of advanced education institutions, school districts, and hospitals, that have not been included in the Summary Financial Statements of the Province.
- The net deficiency (accumulated deficit) of the Province increased by \$2.4 billion, from \$7.5 billion to \$9.9 billion.
- Both “revenue” and “expense” decreased by approximately \$1.2 billion and \$1.1 billion, respectively. These amounts represent the revenue, such as tuition fees and patient charges, that are not funded through the Consolidated Revenue Fund, but which are necessary for the organizations to deliver their programs.
- The net operating expense increased by approximately \$1 billion.

Exhibit 2.1 summarizes the above differences and shows the significance of the information currently being excluded from the Province’s financial statements. For more detail, see the Schedule of Impact of Change in Reporting Entity on pages A64 and A65 of Appendix E of this report.



Government Accounting Policies

Expense vs. Expenditure Basis of Presentation

Before 1996, the Province’s financial statements were presented on the “expenditure” basis of accounting. This meant that, regardless of their useful lives, the full cost of tangible capital assets was charged to the expenditure of operations of the year in which the assets were acquired. In other words, these assets were not capitalized and no trace of them appeared as assets in the Statement of Financial Position.

In the fiscal year ended March 31, 1996, the Province began the process of capitalizing tangible capital assets and, by doing so, presented the Province’s financial statements on

the "expense" basis of accounting. The expense basis requires that the full costs of capital assets be accumulated as acquired, and presented as assets in the Statement of Financial Position. It also requires that the annual amortization of tangible capital assets be considered as an operating expense and shown in the Statement of Operations.

For the 1996/97 fiscal year, the Summary Financial Statements of the Province continued to be presented on the expense basis. However, the Consolidated Revenue Fund Financial Statements for the year ended March 31, 1997, were presented on the expenditure basis, though expense-based figures were also provided for the current year to allow comparison between the two bases.

The presentation of accounting information calculated on two different bases is potentially confusing to the user and may give rise to misinterpretation. For example, the Consolidated Revenue Fund Financial Statements contain two different amounts for the deficit and accumulated deficit. The annual deficit is \$352 million if the expense-based numbers are used, and \$368 million if the expenditure-based numbers are used. The net deficiency, or accumulated deficit, is \$12,497 under the expense basis and \$12,691 under the expenditure basis.

Another potential source of confusion is the use of the expense-based amounts extracted from the Consolidated Revenue Fund Financial Statements in the "British Columbia Financial and Economic Review."

We recommend that the Province use only the expense basis of accounting in its financial statements and other financial information.

Tangible Capital Assets

Introduction

In 1980, the government took a significant first step in updating its accounting policies from traditional cash-based financial reporting to "modified accrual accounting." This meant that the government began to recognize, in its annual Estimates and financial statements, the effect of expenses incurred but not paid for, and revenues due but not received. However, the government continued to treat the cost of tangible capital assets as expenditures in the year of acquisition rather than recognizing the expense over the useful life of the asset. In the 1995/96 fiscal year, this changed. The government began, in its financial statements, to capitalize the cost of

tangible capital assets and amortize those costs over the useful life of each asset. This process is going to take a number of years to complete. When it is, it will have changed the government's basis of accounting to what is known as "full accrual," the basis of accounting used for all for-profit businesses and not-for-profit organizations. This improvement in public sector accounting in British Columbia is mostly in line with the current pronouncements of the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.

Why is capitalization important?

Capitalizing and amortizing tangible capital assets rather than charging the cost to operations will result in a more realistic measurement of the costs of operating government programs. This is because each year, over the useful life of the asset, only the value given to the use of the asset will be charged to the operating expense of that year.

Capitalizing tangible capital assets has the effect of "smoothing" the cost of programs delivered by the government from one year to the next. In contrast, when tangible capital assets are not capitalized, the entire cost of the asset is charged to government programs in the year of acquisition and, similarly, the entire amount received on their disposal is recorded as revenue in the year of disposition.

Also important is the information about the total stock of capital assets for which the government has stewardship responsibility. Capitalizing these assets helps maintain accurate records and better management of them.

How does capitalization work?

As new capital assets are acquired, they will be added to the total stock of assets for which the government has responsibility. This transaction has no immediate effect on the annual cost of government programs. However, when assets are used, value will decrease by an amount equivalent to amortization cost—the amount that will then be recorded as an expense.

Normally, the value of every tangible capital asset except land is amortized over a certain number of years, depending on the asset's useful life span. Businesses and not-for-profit organizations that own land consider it to have a limitless life. In fact, land's value often appreciates over time. Therefore, when capitalized, amounts spent to acquire land do not normally affect the annual cost of the organization's operations.

Capitalizing land, however, still has a smoothing effect on program costs—first because cost of operations in the year the land was acquired will not be inflated and, second, because in the year it is disposed, only the profit made or loss incurred will be taken as revenue or expense of that year rather than the total sale price.

What are the difficulties?

To be meaningful, the process of capitalizing and amortizing tangible capital assets must be applied retroactively. Almost all Crown corporations and public not-for-profit organizations that follow generally accepted accounting policies have been routinely capitalizing their tangible capital assets. Government ministries, on the other hand, have not. This means that, in determining the total stock of tangible capital assets for which it is responsible, and their costs, the government must analyze years of historical financial information. This will be a significant and time-consuming undertaking.

The government initially anticipated that the task of identifying and valuing the numerous (and often poorly recorded) tangible capital assets used in its central activities would be done over a three-year period. Such phasing-in is a capitalization approach that is in line with PSAAB's current thinking.

Besides the challenge of "catching-up," another difficulty relates to the basis on which the government plans its future activities. Preferably, both the annual Estimates and the financial statements prepared by the government should be on the same accounting basis. This means that the Estimates should include the amortization costs of capital assets rather than their full costs.

Are all capital assets treated the same?

Assets reported in the Summary Financial Statements of the Province include tangible capital assets of fully consolidated organizations, but not those of the commercial enterprises. These enterprises are consolidated into the government reporting entity on a modified equity basis, which does not require a line-by-line consolidation of all assets, liabilities, revenue and expense.

Some of the more significant enterprises whose tangible capital assets are not included in the Summary Financial Statements are British Columbia Hydro and Power Authority,

British Columbia Railway Company, the Provincial Capital Commission, the Insurance Corporation of British Columbia, and the British Columbia Liquor Distribution Branch. These entities own railways, land, buildings, vehicles, computers, and other tangible capital assets with a book value of over \$11 billion. Information about these assets is included in a supplementary statement accompanying the Summary Financial Statements, titled "Statement of Government Enterprises Summary of Financial Position as at March 31, 1997."

What has been the progress so far?

In its 1995/96 financial statements, the government capitalized and amortized:

- computer systems (hardware and software) with a combined cost of \$100,000 or more;
- land for which historical cost or a reasonable estimate of historical cost could be obtained;
- light vehicles, regardless of cost;
- buildings with a cost of \$50,000 or more; and
- work in progress on the above assets.

In the 1996/97 fiscal year, the government initially intended to record most infrastructure assets, including highways, tunnels, bridges, fresh water ferries, ferry landings, dams, water management systems, and telecommunication systems. However, in March 1997, Treasury Board decided to remove land from the asset base of the Consolidated Revenue Fund and restrict further capitalization of tangible capital assets to only those asset categories already recorded. This resulted in an additional \$14 million being recorded, bringing the total cost of capital assets to \$339 million. In contrast, the decision not to capitalize land resulted in the reversal of \$710 million of previously capitalized land and the expensing of \$25 million in land acquired in the 1996/97 fiscal year.

In preparing the financial statements for the 1996/97 fiscal year the government held the view that unless all land acquired by the central government was identified and its value determined, it should not be capitalized on the Consolidated Revenue Fund Financial Statements. The government is reviewing this matter further.

Exhibit 2.2 outlines the government's initial plan for capitalization for 1995/96 and 1996/97, and compares actual assets recorded in the Consolidated Revenue Fund Financial Statements for each of those two years.

Exhibit 2.2

Capitalization Progress Summary

Comparison of planned and actual progress in recording tangible capital assets in Consolidated Revenue Fund Financial Statements (in \$Thousands)

Asset Category	1995/96 Planned	1995/96 Actual	1996/97 Planned	1996/97 Actual
Land	*	*	*	None
Highways, bridges and other highways infrastructure			>\$5	None
Buildings	>\$50	>\$50	>\$5	>\$10
Vehicles	All	All	All	All
Computer systems (hardware and software)	>\$100	>\$100	>\$1	>\$10
Personal computers and LANs (hardware and software)			>\$1	None
Machinery and equipment			>\$1	None
Dams and water management systems			>\$5	None
Office furniture and fixtures				
Betterments and replacements	All	>\$25	>\$5	>\$10
Work in progress on capitalized assets	All	All	All	All
* To the extent for which value could be determined.				

Source: Government of British Columbia's accounting records

What specific issues need to be addressed?

Land

In our report on the 1995/96 Public Accounts, we commented that the government was only able to verify with certainty its ownership and date of acquisition of approximately 16,000 plots of land (acquired before 1995) with a value of \$702 million. Information on various databases maintained by the Land Titles Office and the British Columbia Assessment Authority indicates that the government may hold title to as many as 70,000 plots of land. During 1996/97, no progress was made in verifying the ownership and value of the remaining plots.

We believe that the reversal of the land already capitalized was unwarranted and will delay the capitalization process.

Both government accounting policies and PSAAB standards on the capitalization of tangible capital assets require that, during a transition period, all assets of the same class be capitalized together. However, in the 1996/97 financial statements of the Province, the government did not follow this accounting treatment, as it relates to capitalizing land. Land owned by all organizations included in the government reporting entity was capitalized in the Summary Financial Statements, except for land purchased or otherwise acquired for value by the Consolidated Revenue Fund.

We again recommend that the government identify all land that it has purchased or otherwise acquired for value, so that all of it can be recorded as a tangible capital asset in the financial statements of the Province. Since this process may take some time, we recommend that the cost of every plot that is determined be immediately capitalized.

Infrastructure

Another category of assets that require a substantial amount of work to identify and value is "infrastructure." Infrastructure includes highways, roads, bridges, dams, and water management systems. Significant work was done in 1996/97 to identify and cost these assets, but capitalization of them was further postponed. To comply with its accounting policy on capitalization, the government did not include in the Summary Financial Statements, B.C. Transportation Financing Authority's highways and bridges worth over \$1 billion, because the highways and bridges infrastructure held by the Consolidated Revenue Fund has not yet been recorded.

Once capitalized, the cost of an asset considered to be part of infrastructure should be amortized. To ensure this happens, the government should determine appropriate measures for amortizing each asset included in this category.

We again recommend that the government determine the costs of the Province's highway system, including any land acquired for highway construction and other infrastructure assets, for inclusion in the financial statements of the Province. Also, we recommend that the method of amortization of highways, roads, bridges, and other infrastructure assets such as dams be clearly stated.

Heritage Assets

The Province owns a number of heritage assets, such as the Legislative Buildings, Government House, and works of art, which have not yet been identified and valued for inclusion in the Province's financial statements. Although allocating monetary value to these assets may not be critical for financial statement purposes, it is important that a complete record of them be maintained.

We recommend that the Province determine how it will account for its heritage assets, and that it include these assets in the records of the government.

Computers

Computer systems of the central government with a cost over \$10,000, as well as all computer systems of government organizations, were capitalized and amortized in 1996/97. These systems represent government's investment in information technology to support many varied and complex programs such as building highways, administering land titles, planning forest resources, and providing social assistance.

In 1996/97, government ministries spent about \$46 million on new mainframe and minicomputer hardware and software for such systems as the corporate accounting systems, receivable collection systems, and several management information systems. We noted inconsistencies between ministries in their treatment of some of the costs (such as payroll and overhead) of developing software. In some cases, these costs are being expensed in the current period; in others, they are being included in the capitalized cost of the system and expensed over the life of the asset. We also found inconsistencies between ministries in the application of amortization policies.

We recommend that the government provide clear guidance on how development costs for computer systems should be accounted for and amortized.

Specialized Equipment

The Summary Financial Statements of the Province include a category of assets referred to as "specialized equipment." The government owns a number of specialty vehicles, including ambulances, heavy-duty trucks, and buses, which it intends to capitalize and amortize in this category in the 1997/98 fiscal year. Other organizations in the reporting entity already capitalize and amortize similar assets in their financial statements. We therefore concluded that these assets were not consistently accounted for in the 1996/97 Summary Financial Statements of the Province.

We recommend that the government ensure that equipment is capitalized in the Consolidated Revenue Fund Financial Statements so that equipment is accounted for in a consistent manner throughout the government reporting entity.

How does the government monitor capital assets?

The government does not systematically monitor its tangible capital assets after they have been purchased. Although many ministries have their own systems in place to track movement of assets, the financial information on obsolescence and disposition of assets is not captured by the corporate accounting system. This may result in the value of assets being overstated in the financial statements of the Province, as the book value of disposed or obsolete assets could continue to be included in those statements.

We recommend that the government, within its corporate accounting system, monitor changes in the value of its tangible capital assets.

Loans and Guaranteed Debts Repayable Through Future Government Funding

In previous reports on the government's annual Public Accounts, we have discussed loans made to public sector organizations through the Fiscal Agency Loan Program that are included as assets in the financial statements of the government. We recommended that these loans, which will only be repaid if the government provides those organizations with the funds to do so, be written off as an expenditure in the period the loans were made.

In the 1995/96 fiscal year, the inclusion of advanced education institutions, school districts, and hospitals in the government reporting entity eliminated our concern about reporting these loans in the Summary Financial Statements. This was because assets and liabilities of these organizations were consolidated with other assets and liabilities of the Province. Therefore, any debt of these organizations to the Province was eliminated against corresponding loans made from the Consolidated Revenue Fund (CRF). Nevertheless, we were still concerned about these loans being reported as assets in the CRF Financial Statements, which are unaffected by the composition of the government reporting entity.

We believe that as long as organizations can repay their debt to the CRF only if they continue to receive funding from the Province, the loans should not be considered as assets of the CRF. This is especially the case where no other source

of funding outside the CRF has been identified for the repayment of these loans. The accounting treatment for \$5,496 million (\$5,069 million for 1996) representing these amounts as assets of the CRF and for \$4,964 million (\$4,710 million for 1996) as assets of the summary reporting entity is inappropriate.

In addition to these loans, the Province has also guaranteed some \$702 million of debt of dependent government organizations (\$823 million for 1996). The repayment of these guaranteed debts is also expected to be made from resources provided to the government organizations from the CRF in the future. These guaranteed debts should be recognized as liabilities of the Province.

The loans recoverable through future appropriations do not have the necessary characteristics of assets. Assets are economic resources controlled by government and from which future economic benefits may be obtained. The government would not be able to use amounts received from these loans to discharge its existing liabilities or finance its future operations unless it first paid the borrower that amount. Accounting for these amounts as assets in the financial statements of the Province would therefore produce a misleading picture of the Province's financial position and results of its operations.

For these reasons, the Auditor General's opinion on both the Consolidated Revenue Fund Financial Statements and the Summary Financial Statements of the Province were qualified. The text of the reservation paragraphs of the Auditor General's opinion about these loans and guaranteed debts can be found on pages 23 and 25 of this report.

We again recommend that the government charge both loans and guaranteed debt, repayable through future appropriations, to the periods in which the loans or guarantees were made.



Liability for Post-Retirement Benefits

In previous years, we have commented on the way the provincial government records its obligation for post-retirement benefits. Many retired members of the Public Service Superannuation Plan and other government-funded pension plans receive benefits paid for by their former employers. For example, provincial government employers may pay all or a portion of the pensioners' premiums for the Medical Services Plan and the premiums for extended health care plans.

We believe that all post-retirement benefits that are earned over an employee's service life should be accounted for in a similar manner. In June 1997, the Canadian Institute of Chartered Accountants issued an exposure draft "Employees' Future Benefits" to address the subject. This exposure draft moves Canadian standards for accounting for post-retirement benefits closer to standards in other countries. The proposed standards define future benefits to include not only pension income, but also health care and life insurance premiums and other miscellaneous benefits. The cost of providing all of these different types of benefits should be accounted for in the same way.

Although the provincial government does record a liability in its financial statements for the pension payments as they are earned throughout the employee's service life, it does not record a liability for other benefits earned in the same manner. The cost of these benefits is recorded only when benefits are actually paid—an amount of approximately \$14 million each year. At present, neither the liability for unpaid benefits earned by retired employees nor the amount required to fund benefits for current employees is recorded in the financial statements.

Note 25 of the Summary Financial Statements of the Province states that, under current pension agreements, the government is responsible for paying pensioners' Medical Services Plan and Extended Health Care premiums, which are recorded when due. Although this disclosure clearly places responsibility for this liability, it does not quantify it. We believe this liability should be estimated and recorded in the Summary Financial Statements of the Province.

The Select Standing Committee on Public Accounts discussed this matter, both on November 8, 1996, and again on May 13, 1997. On each occasion, government representatives agreed that a liability exists, but that funding concerns have kept them from estimating the liability, by actuarial calculation or otherwise.

We again recommend that a valuation of post-retirement benefits be prepared, and the estimated liability be accounted for in the Summary Financial Statements of the Province.



Government Assistance to Canadian Airlines

In 1992, Canadian Airlines International approached the governments of British Columbia, Alberta, and Canada for financial assistance, and the three governments jointly provided a loan guarantee. British Columbia's portion of this guarantee was \$20 million.

In 1996, the company again approached the three governments for financial assistance. In February 1997, British Columbia provided \$11.1 million and committed to providing the same amount in each of the next three years. This payment was not recorded as an expenditure, as the government holds that this payment is an allowance to reduce fuel tax owed by Canadian Airlines. However, we believe this amount should be treated as a grant rather than a deduction from fuel tax revenue. It is a set amount, unrelated to the rate of fuel tax payable. It is also a concession that has been made only to this airline company and no other. While the government's accounting treatment does not affect the current year's deficit, it does not reflect the true nature of the transaction.

We recommend that the government account for financial assistance provided to individual organizations in a manner that the nature of the transaction is accurately reflected in the Public Accounts.



summary of recommendations

Recommendations made in the section of this report titled *Audit of the Financial Statements of the Province* are listed below for ease of reference. They should be regarded in the context of the report.

The Office of the Auditor General recommends that:

Expense vs. Expenditure Basis of Presentation

- *The Province use only the expense basis of accounting in its financial statements and other financial information.*

Tangible Capital Assets

- *The government identify all land that it has purchased or otherwise acquired for value, so that all of it can be recorded as a tangible capital asset in the financial statements of the Province. Since this process may take some time, we recommend that the cost of every plot that is determined be immediately capitalized.*
- *The government determine the costs of the Province's highway system, including any land acquired for highway construction and other infrastructure assets, for inclusion in the financial statements of the Province. Also, we recommend that the method of amortization of highways, roads, bridges, and other infrastructure assets such as dams be clearly stated.*
- *The Province determine how it will account for its heritage assets, and that it include these assets in the records of the government.*
- *The government provide clear guidance on how development costs for computer systems should be accounted for and amortized.*
- *The government ensure that equipment is capitalized in the Consolidated Revenue Fund Financial Statements so that equipment is accounted for in a consistent manner throughout the government reporting entity.*
- *The government, within its corporate accounting system, monitor changes in the value of its tangible capital assets.*

Loans and Guaranteed Debts Repayable Through Future Government Funding

- *The government charge both loans and guaranteed debt, repayable through future appropriations, to the periods in which the loans or guarantees were made.*

Liability for Post-Retirement Benefits

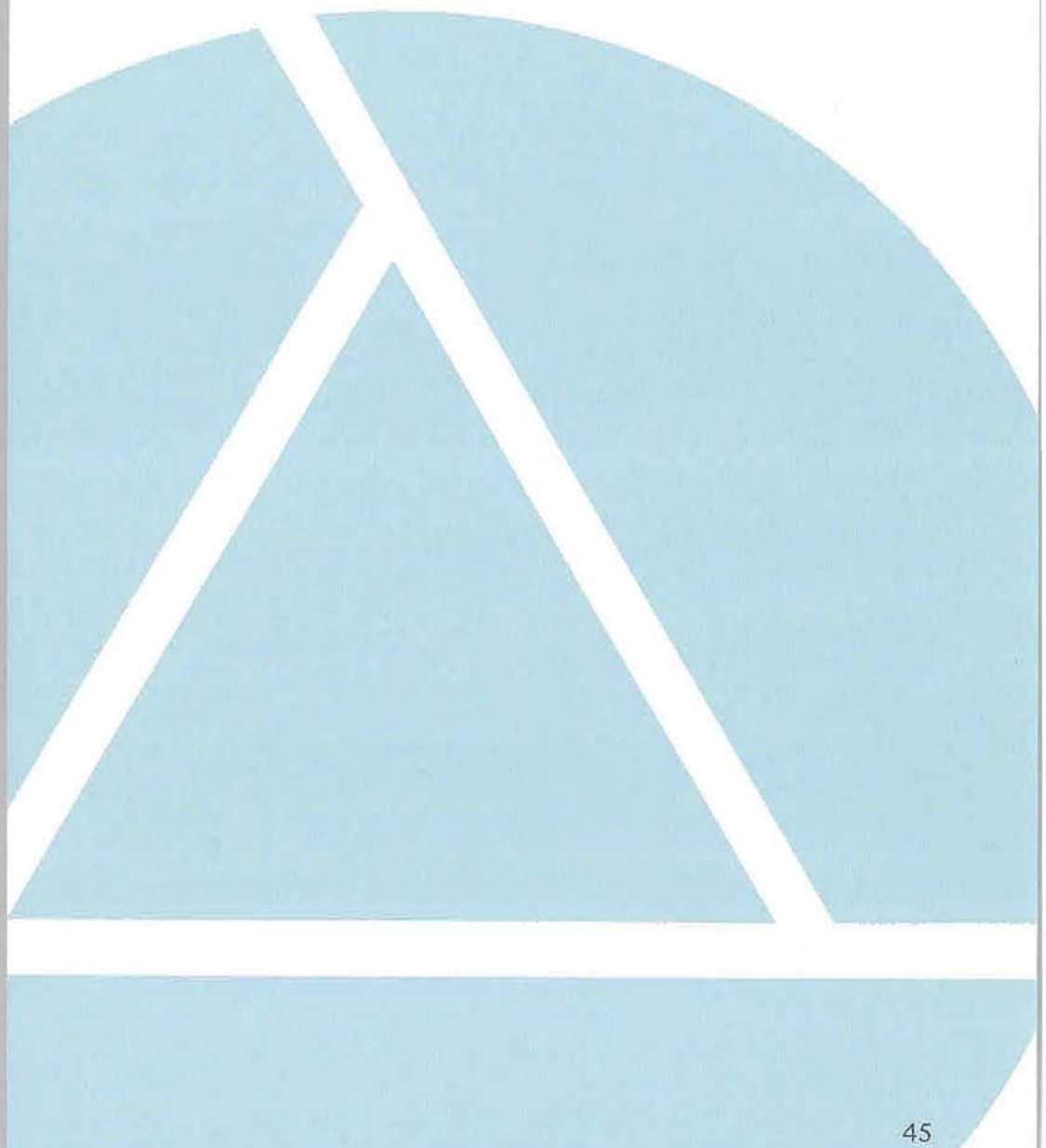
- *A valuation of post-retirement benefits be prepared, and the estimated liability be accounted for in the Summary Financial Statements of the Province.*

Government Assistance to Canadian Airlines

- *The government account for financial assistance provided to individual organizations in a manner, so that the nature of the transaction is accurately reflected in the Public Accounts.*



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Comments on the Government Annual Report for the 1996/97 Fiscal Year

The Public Accounts is the primary document that provides annual accountability for the government's financial performance. Starting in the fiscal year 1994/95, the government improved its financial accountability by including its annual report as the first volume of the Public Accounts. The annual report includes an overview which provides financial analysis and commentary on financial results and accomplishments of the Province's summary financial reporting entity. It also includes the audited Summary Financial Statements of the Province.

In addition to the Public Accounts, the government annually issues a number of other financial accountability publications such as the "British Columbia Financial and Economic Review" and the "Debt Statistics Report."

The "British Columbia Financial and Economic Review" contains the latest available information on a wide variety of aspects of the Province's economy and finances, including its people, industries, government, major programs, and Crown corporations. It also, includes excerpts from the financial statements of the Consolidated Revenue Fund, in addition to information on provincial debt for the year ended March 1997. This report was issued soon after the Public Accounts were released in December 1997. Because the Auditor General is the auditor of the Province's financial statements, and to ensure information cited from the Public Accounts is accurately presented, the Ministry of Finance and Corporate Relations annually provides the Office with financial sections of the report for comment before publishing it.

Our main comment this year was on the selection of information included in this report. As explained on page 24 of this report, the 1996/97 Consolidated Revenue Fund Financial Statements are prepared on the expenditure basis of accounting. In those statements the government has also provided, for comparison purposes, unaudited financial information on the expense basis of accounting. We supported the fact that the Ministry of Finance and Corporate Relations used the expense-based information in the "British Columbia

Financial and Economic Review,” rather than the audited expenditure-based information. We believe using the expense-based information in this report is a step in the right direction in improving accountability. We also think it underscores the need for all financial statements of the Province, from which information for a wide range of users is extracted, to be prepared on the expense basis of accounting.

The government’s annual report refers to the “Debt Statistics Report.” The Debt Statistics Report, which in prior years accompanied the Public Accounts, was not issued to the public at that time. The report would, if issued, include information on provincial debt and debt management operations, as well as three audited statements on debt for the fiscal year 1996/97: the summary of provincial net debt, the key indicators of provincial debt, and the summary of key benchmarks of debt management.

As in prior years, the annual report of the government for the 1996/97 fiscal year includes an overview of provincial financial reporting and the audited Summary Financial Statements of the Province. The overview provides a much improved reconciliation between the two sets of financial statements the government annually produces: the Summary Financial Statements and the Consolidated Revenue Fund Financial Statements. It represents a very important part of public accountability.

Included in this year’s annual report volume of the Public Accounts are also statements of financial position and results of operations for two major sectors of government services to the public: health and education. Added to the general-purpose Summary Financial Statements, these statements provide valuable information on specific aspects of government’s services. These “sectoral financial statements” are gaining favour with users of governments’ financial statements because of the added relevance they bring to the public reporting of financial activities.

We believe that publication of the sectoral financial statements on health and education in the annual report of the government is an important step towards improved financial accountability.

We recommend that the government further improve its sectoral financial reporting by also including in sectoral financial statements the financial position and result of operations of relevant government programs delivered by ministries.



Comments on Accounting for Government Enterprises

The Summary Financial Statements disclose financial information not only about the operations of the central government, but also about other entities that are accountable to the legislature or a minister of the government and are owned or controlled by the government. The accounting policies stated in note 1 to the Summary Financial Statements of the Province outline two important points that are relevant to this discussion. First is that the gross basis of accounting is fundamental to the preparation of these statements. This means that the financial statements should disclose the essential components of each economic activity, not just the result of that activity. Second is that entities making up the consolidated reporting entity are divided into two groups: government "organizations" and government "enterprises."

Government organizations, which include the Consolidated Revenue Fund, are fully consolidated. This means that all their revenues, expenses, assets, and liabilities are aggregated according to the government accounting policies, line-by-line, in the Summary Financial Statements. The accounting effect is as if they all operate as one organization.

Entities that are designated as government enterprises are accounted for differently. They are recorded in the Summary Financial Statements on the "modified equity" basis of accounting. This means that only the cost of government's investment in these entities, adjusted for any increase or decrease in the value of that investment, is included in the Summary Financial Statements. Summaries of the financial operations of these government enterprises are provided as separate statements supplemental to the Summary Financial Statements.

As we have commented in previous reports on the Public Accounts, we believe that government enterprises should be accounted for on a line-by-line consolidation. One reason is that recording only the adjusted value of the Province's investment in government enterprises in the Summary Financial Statements is inconsistent with the gross basis of accounting. Excluding these government enterprises from full consolidation in the Summary Financial Statements results in a significant amount of assets, liabilities, revenue, and expenses that are under government stewardship not being disclosed.

Another reason is that, although government enterprises may carry out a self-sufficient commercial activity, they are invariably also given responsibility to implement major public policies. This makes them essentially equivalent to other government programs captured and reported in the Summary Financial Statements. For example, British Columbia Hydro and Power Authority, established in 1962 as a Crown corporation, has a corporate mission to support the development of the Province through the efficient supply of electricity. The British Columbia Lottery Corporation, as an agent of the Crown, is the authority designated by the Province to conduct and manage lottery games.

In our report on the Public Accounts last year, we noted that the government made some improvements by fully consolidating a number of entities previously accounted for on a modified equity basis. In the fiscal year 1996/97, the government has further consolidated the financial activities of British Columbia Ferry Corporation on a line-by-line basis. The financial activities of other entities, however, continue to be recorded on a modified equity basis on the grounds that they do not depend on the government to subsidize their operations. Examples of these bodies include a number of large corporations such as British Columbia Hydro and Power Authority, British Columbia Railway Company, and the Insurance Corporation of British Columbia.

The accounting decision government has made is consistent with the current recommendations of the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants. Nevertheless, we believe that the current basis of consolidation could be improved if all government enterprises were fully consolidated, line-by-line, in the Summary Financial Statements.

Exhibit 3.1 shows the significance of the information currently excluded from disclosure in the Summary Financial Statements. It compares the main components of the Summary Statement of Financial Position and Summary Statement of Operations, as currently presented, to similar components of a pro forma financial statements, prepared on the assumption that all components of the government reporting entity are consolidated on a line-by-line basis.

Exhibit 3.1

Effect of Reporting the Government Enterprises on a Full Consolidation Basis

Current accounting of nine commercial enterprises on a modified equity basis leaves significant assets, liabilities, revenue, and expense out of the Summary Financial Statements (\$ Billions)

Condensed Summary Financial Statements			
Province of British Columbia			
March 31, 1997			
<u>Statement of Financial Position</u>			
	Existing ¹	Pro Forma ²	Difference
Liabilities			
Other liabilities	6.3	13.0	6.7
Debt	28.0	29.0	1.0
	<u>34.3</u>	<u>42.0</u>	<u>7.7</u>
Assets			
Equity in government enterprises	3.0	—	(3.0)
Other financial assets	12.2	11.9	(0.3)
	<u>15.2</u>	<u>11.9</u>	<u>(3.3)</u>
Net liabilities	<u>19.1</u>	<u>30.1</u>	<u>11.0</u>
Net liabilities represented by:			
Loans for purchase of assets, recoverable from future appropriations	5.0	5.0	—
Tangible capital assets	4.2	15.2	11.0
Net deficiency	9.9	9.9	—
	<u>19.1</u>	<u>30.1</u>	<u>11.0</u>
<u>Statement of Operations</u>			
	Existing ¹	Pro Forma ²	Difference
Revenue	23.2	31.1	7.9
Expense	23.9	30.7	6.8
Net operating revenue (expense) for the year	<u>(0.7)</u>	<u>0.4</u>	<u>1.1</u>
¹ Government organizations are currently recorded on a full consolidation basis, and government enterprises on a modified equity basis.			
² Government organizations and enterprises are all accounted for on a line-by-line consolidation basis.			

Source: The Public Accounts and financial statements of government's commercial enterprises



Special Warrants

Over the past ten years our Office has reported on the need for reform of the special warrants provisions of the *Financial Administration Act*, section 24. By using “special warrants,” the government can authorize itself to spend public monies without the prior approval of Members of the elected Assembly. During the past several years, the government has used this provision to authorize the spending of hundreds of millions of dollars, and, in some years, billions of dollars. Our latest report on this subject was in June 1996. That report was discussed by the Select Standing Committee on Public Accounts in December 1996, but the committee could reach no consensus as to how to deal with this subject.

We continue to urge that action be taken to reform the enabling statutory provisions relating to special warrants.



summary of recommendations

The recommendation made in the section of this report titled *Improved Accountability Through Better Information* is listed below for ease of reference. It should be regarded in the context of the report.

The Office of the Auditor General recommends that:

Comments on the Government Annual Report for the 1996/97 Fiscal Year

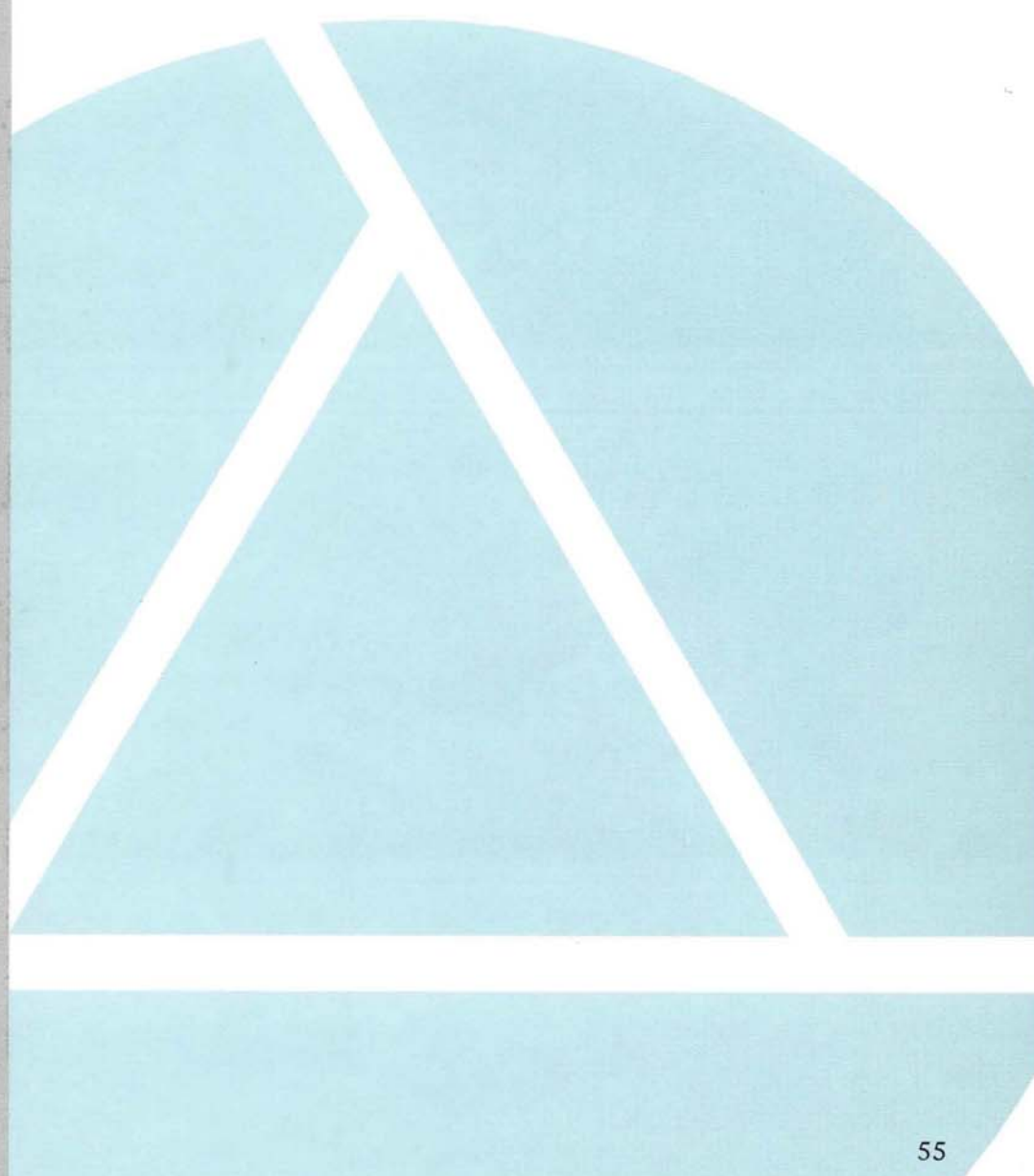
- *The government further improve its sectoral financial reporting by also including in sectoral financial statements the financial position and result of operations of relevant government programs delivered by ministries.*

Special Warrants

- *Action be taken to reform the enabling statutory provisions relating to special warrants.*



provincial debt:
comments on
its reporting



provincial debt: comments on its reporting

The total debt of the Province of British Columbia has increased every year since the fiscal year ending in 1989/90. In the five years leading up to March 31, 1997, debt has grown from \$20.1 billion to \$29.3 billion, an increase of 46%. And while some other provinces are currently projecting debt reductions, the government's latest Budget '97 predicts that total debt will increase during fiscal 1997/98, to \$30.4 billion.

Each year, since the 1991/92 Auditor General's report on the Public Accounts, we have commented on the government's reporting of public debt. During this time, we have stated that if information about debt were better reported, the public would be better able to understand provincial borrowing and how it affects them. We also made several recommendations as to how the reporting of debt information could be improved, including the use of 10 key measures and performance indicators to show trends in provincial debt. Exhibit 4.1 summarizes the 10 items we recommended for disclosure.

The government has reported on the 10 measures and indicators we recommended. In Budget '95, the government introduced its debt management plan and made a commitment to produce an audited annual debt management progress report. The progress report was to provide information on debt measures and performance indicators, and match the provincial debt to the benchmarks set in the debt management plan.

Exhibit 4.1

Measures and Indicators Recommended for Disclosure in the Public Accounts

- | | |
|--|-----------------------------------|
| 1. Debt to revenue | 6. Sources of borrowing |
| 2. Total provincial debt | 7. Interest bite |
| 3. Debt per capita | 8. Debt to Gross Domestic Product |
| 4. How debt changed | 9. Total cost of debt servicing |
| 5. Why debt changed, including the operating deficit | 10. Rate of interest |

The Auditor General's first audit opinion, on the base-year information as at March 31, 1995, was published in the 1994/95 Debt Management Progress Report. The second progress report, as at March 31, 1996, was published in a document titled "Debt Statistics 1995/96." In prior years, these reports on provincial debt were released by the government with the Public Accounts. We therefore expected the third audited progress report, as at March 31, 1997, to be published in a Debt Statistics 1996/97 report released along with the Public Accounts in December 1997. However, it was not released until February 1998.

In Budget '97, the government replaced its debt management plan with its financial management plan. The Minister of Finance and Corporate Relations has asked the Auditor General to provide an audit opinion on the benchmarks and other information contained in the new financial management plan starting with the 1997/98 fiscal year.

Debt Management Plan '95 and Financial Management Plan '97

The debt management plan was initiated in Budget '95. It, like its successor the financial management plan, is the responsibility of government. Our Office was not associated with the development of either plan. At the time it was developed, the government stated the debt management plan was intended to be a long-term plan to harness and control the debt, and it represented a commitment by the government to repay the Province's direct debt and to cap and reduce the overall cost of debt.

The debt management plan adopted four key goals:

1. maintain British Columbia's credit rating as the highest of any province in Canada;
2. eliminate, over 20 years, the then \$10.2 billion in debt incurred from previous budget deficits, by using budget surpluses to pay down debt;
3. reduce total taxpayer-supported debt as a share of British Columbia's Gross Domestic Product (GDP) from its 1994/95 level of 19.1% to 10.2% within 20 years; and
4. cap the interest cost of taxpayer-supported debt to ensure that this cost does not exceed 8.5% of provincial revenue in any year over the next 20 years.

The first and fourth goals were met or exceeded by the government for the fiscal year ending March 31, 1997. However, the benchmarks set in Budget '96 for operating

debt, which was \$10.2 billion, and the taxpayer-supported debt to GDP ratio, which was 18.4%, were not met. The actual results for the fiscal year were \$11.0 billion and 20.4%, respectively.

In Budget '95, the government set specific benchmarks for each of the first five fiscal years of the debt management plan, and for five-year intervals after that to the year 2015. For example, by March 31, 1997, the direct debt was to have been reduced by \$639 million, from \$10,182 million to \$9,543 million. At March 31, 1997 direct debt actually increased to \$11,031 million, a deviation from the benchmark of \$1,488 million. By the year 2000 the government was to have reduced direct debt by \$1.3 billion. Although the plan was based on certain economic growth assumptions, the government, in Budget '95, committed itself to achieving its five-year benchmarks regardless of actual future economic performance.

In Budget '96, the government reduced its forecasted direct debt repayments for the first few years of the plan. However, it maintained that it could still reduce direct debt by \$1.3 billion by March 31, 2000.

In Budget '97, the government determined that its projections for debt repayment were not achievable, and it replaced the debt management plan with a new financial management plan. The Budget '97 report explains that, in 1995, the government sought advice from a panel of business and labour representatives in the design of a debt management plan. Evidently it heard the panel's advice, but chose to adopt benchmarks that exceeded those suggested by the panel. The report further explains that the subsequent slowdown in the provincial economy demonstrated that the benchmarks adopted by the government were not sustainable. As a result, the government again consulted with the business/labour panel in February 1997. The panel repeated its earlier advice and recommended that the government adopt the benchmarks originally proposed.

According to the Budget '97 report, the financial management plan now has as its focus the achievement of the following four key goals, based on business and labour panel advice:

1. a ceiling of 20% for the ratio of taxpayer-supported debt to GDP, with the ratio falling to 15% by 2015;
2. a balanced operating budget;
3. a reduced direct debt over 20 years; and

4. a maximum taxpayer-supported interest bite (cost of debt servicing per dollar of revenue) of 9.0 cents.

The new plan benchmarks are scheduled to take effect for the fiscal year ending March 31, 1998. However, the government states in Budget '97 that it does not plan to balance the operating budget until the 1998/99 fiscal year.

With respect to the first goal, the panel also advised that if the taxpayer-supported debt to GDP ratio ever exceeds 20%, then the government should provide a three-year fiscal plan showing how the ratio is to be brought down to 20%. This ratio was 20.4% as at March 31, 1997, and is projected to be even higher as at March 31, 1998. To follow the panel's advice the government should provide in its Budget '98 a three-year fiscal plan for reducing this ratio to 20%.

Exhibit 4.2 compares the key goals of both the financial management plan and the debt management plan. It also shows the expected benchmarks of the first year of the financial management plan compared to those originally projected in the Budget '95 debt management plan.

Three key goals are similar in the financial and the debt management plans: those related to the reduction of government's direct (operating) debt, to the capping and reduction of taxpayer-supported debt as a percentage of GDP, and to the capping of taxpayer-supported debt servicing costs as a percentage of revenue.

The debt management plan's goal requiring British Columbia to have the highest credit rating of all provinces has not been included in the new financial management plan. The credit rating of the Province is, nonetheless, an important measure of debt management and should be reported publicly. We think a useful goal would be the maintenance of a certain credit rating, regardless of what happens in other jurisdictions. In May, 1997 the Province's credit rating was downgraded by two of the four major bond rating agencies.

The financial management plan has a number of shortcomings:

- The plan's goal for debt reduction is very vague. Reducing direct debt over 20 years without identifying expected milestones is difficult to monitor.
- Information on the main assumptions used in the plan is not sufficient because it does not explain how the government will deal with significant changes in forecasts if they were to occur. If the public are made more aware of what issues could affect the plan, and how the government might

Exhibit 4.2

Comparison of Key Goals and Benchmarks

Overall plan goals, and benchmarks for the year ended March 31, 1998

	Overall Goals		1997/98 Benchmarks	
	Per FMP ¹	per DMP ²	Per FMP ¹	per DMP ²
Credit rating relative to other provinces	N/A	highest	N/A	highest
Direct (operating) debt of the Consolidated Revenue Fund (\$Billions)	Reduce over 20 years	Eliminate over 20 years	11.6	9.5
Taxpayer-supported debt as a percent of provincial GDP	Cap at 20%. Reduce to 15% by 2015	Reduce to 10.2% by 2015	20.9	18.7
Taxpayer-supported interest expense per dollar of revenue (interest bite) (cents)	Cap at 9.0	Cap at 8.5	7.4	7.9
Operating budget - Surplus/(Deficit) (\$Millions)	Balanced	Surplus	(185)	40

¹Financial Management Plan - forecasts from Budget '97 Reports.
²Debt Management Plan - original forecasts from Budget '95 Reports.

respond to those issues, then they will be in a better position to judge the reasonableness of the government's policies.

- The plan should include more detailed information on future spending to maintain the Province's infrastructure.
- The government has discussed in previous budget documents the possibility of obtaining revenue through the sale of Crown assets. If this is to become part of the government program to reduce debt, then we believe information on the general strategy and impact of Crown asset sales should be included in the financial management plan.
- We understand that alternative financing will play a significant role in the Province's future financial planning. However, the financial management plan does not indicate the extent to which alternative financing will be required to support infrastructure spending. In our opinion, the government should clearly identify goals for capital asset acquisitions, and provide more information to the public on the financing of this important aspect of services.

Commercial vs. Taxpayer-Supported Debt

Similar to the debt management plan, the financial management plan separates the total debt of the Province into two categories: commercial debt and taxpayer-supported debt. Since the focus of the financial management plan is on taxpayer-supported debt only, any increases in commercial enterprise debt (mainly those of BC Hydro and BC Rail) will not affect the plan's benchmarks. For this reason we are pleased to see that the government's report on debt provides information on the performance indicators for both the Province's total debt and the portion of it that is taxpayer-supported.

The government has included in the Summary of Provincial Net Debt as at March 31, 1997, approximately \$96 million of non-guaranteed debt of the Columbia Basin Power Company (the Company). The Company is a joint venture owned equally by the Columbia Power Corporation (the Corporation) and the Columbia Basin Trust (the Trust). One-half of the debt of the Company is recorded in each of the financial statements of the Corporation and the Trust. Since the debt of the Trust effectively carries a charge on Crown assets, it would normally be shown as taxpayer-supported debt. The debt of the Corporation is shown as commercial debt. In preparing its benchmarks and indicators, however, the government classified the debt of the joint venture entirely as commercial debt, rather than attributing the debt back to its owners, the Corporation and the Trust. In doing this, the government has departed from its own guidelines in the classification of this debt.

Debt Measures and Indicators

In the past few years, the government has published information on the measures and indicators of provincial debt that we believed would provide adequate information on debt. We discuss some of these below under the headings "Total Provincial Debt," "Changes in Debt," "Financial Well-being of the Province," and "Cost of Debt Servicing."

In the 1996/97 fiscal year, the government has changed the composition of its reporting entity by excluding from it all health care organizations, regional hospital districts, universities, colleges and institutions, and school districts (the S.U.C.H. sectors). Except for the "debt to revenue" ratio (see page 66), this change has not caused a significant difference in the reporting of debt measures and indicators for 1996/97. For the purpose of this report, debt measures

and indicators are based on the reporting entity that includes those entities just listed.

Unless specifically referred to otherwise, all references to debt in this report is to the debt net of sinking funds.

Total Provincial Debt

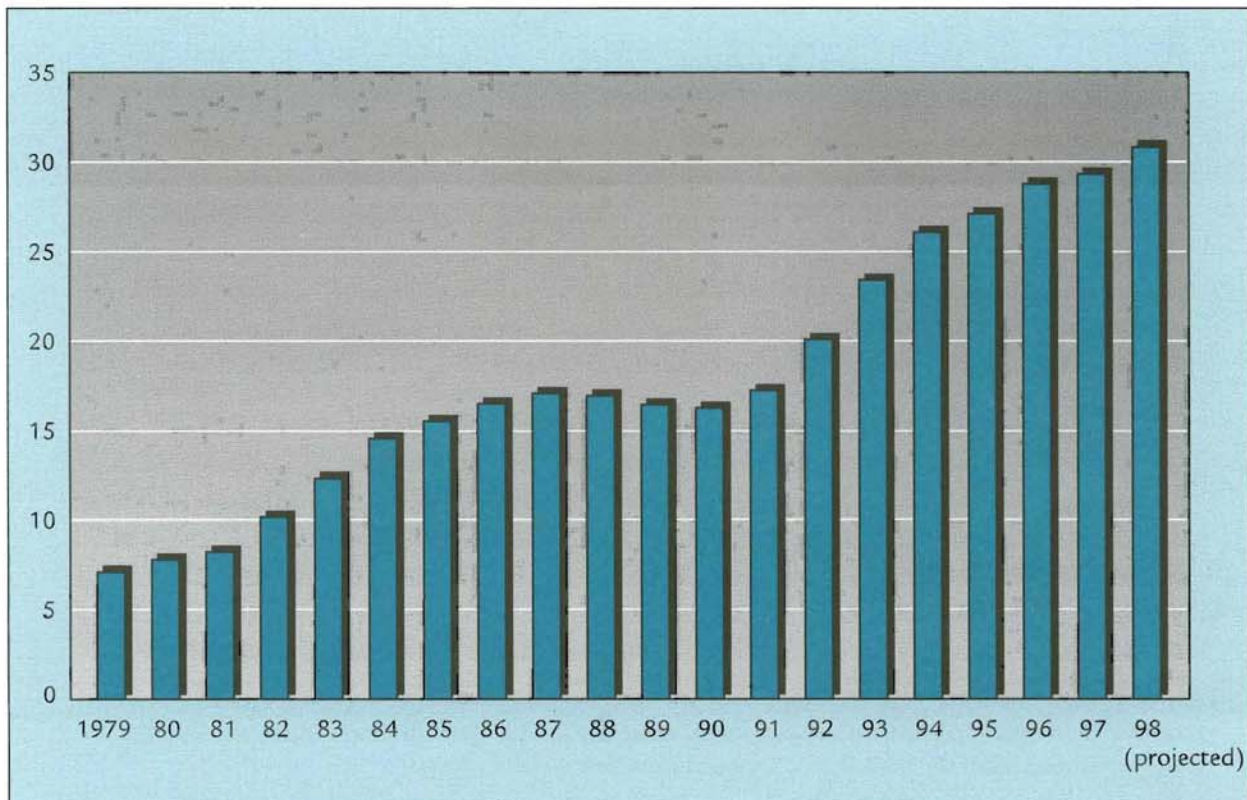
The total debt of the Province of British Columbia increased from \$28.8-billion in 1996 to \$29.3 billion in 1997. Exhibit 4.3 shows the actual total provincial debt for the 19 years ending March 31, 1997, and the amount projected in Budget '97 as at March 31, 1998.

The total debt of the Province is composed of amounts borrowed for the operation of the central government (direct), for the warehouse borrowing program, for government agencies, and for third-party debt guaranteed by the government.

Exhibit 4.3

Total Provincial Debt

Total debt for the 20 years 1979 to 1998 (\$ Billions)



Source: The Public Accounts; Ministry of Finance and Corporate Relations, Debt Management Branch

Exhibit 4.4

Total Provincial Debt

Details of gross and net debt as at March 31, 1997 (\$ Millions)

	Gross Debt	Sinking Funds & Unamortized Discounts	Net Debt	
Direct debt of Consolidated Revenue Fund	12,199	1,168	11,031	11,031
Debt of Warehouse Borrowing Program	100	0	100	100
Debt of government agencies¹				
BC Transportation Financing Authority	928	7	921	
British Columbia Assessment Authority	6	0	6	
British Columbia Buildings Corporation	883	147	736	
British Columbia Ferry Corporation	722	37	685	
British Columbia Housing Management Commission	41	0	41	
British Columbia Hydro and Power Authority	8,724	1,247	7,477	
British Columbia Lottery Corporation	4	0	4	
British Columbia Railway Company	424	12	412	
British Columbia Systems Corporation	39	20	19	
British Columbia Transit	1,854	316	1,538	
Capital Project Certificate of Approval Program	173	1	172	
Columbia Power Corporation	51	0	51	
Columbia Basin Trust	48	0	48	
Educational Institutions	2,005	475	1,530	
Improvement Districts	4	1	3	
Liquor Distribution Branch	3	0	3	
Pacific National Exhibition	3	0	3	
Pacific Racing Association	6	0	6	
Provincial Rental Housing Corporation	111	0	111	
Regional Hospital Districts	2,022	607	1,415	
School Districts	3,455	666	2,789	
Victoria Line	2	0	2	
				17,972
Third-party guaranteed debt¹				228
Total provincial net debt²				29,331

¹ Debt of government agencies and third-party guaranteed debt is extracted from the audited accounting records of the Ministry of Finance and Corporate Relations as at March 31, 1997, where possible, and otherwise is taken from the most recent financial statements of the agency.

² Debt includes regular borrowings, notes payable, capital leases, mortgages, and minority interests.

Source: The Public Accounts; Ministry of Finance and Corporate Relations, Debt Management Branch

Exhibit 4.4 shows a breakdown of direct, warehouse, agency, and third-party guaranteed debt as at March 31, 1997. Total provincial debt at that date was \$29.3 billion, and consisted of the \$28.0 billion in debt reported in the Summary Financial Statements, together with \$1.0 billion in additional debt of "government enterprises," \$0.2 billion in third-party guaranteed debt and \$0.1 billion in debt of the S.U.C.H. sectors.

Two important indicators of trends in provincial debt are "debt per capita" and "debt to revenue."

Debt Per Capita

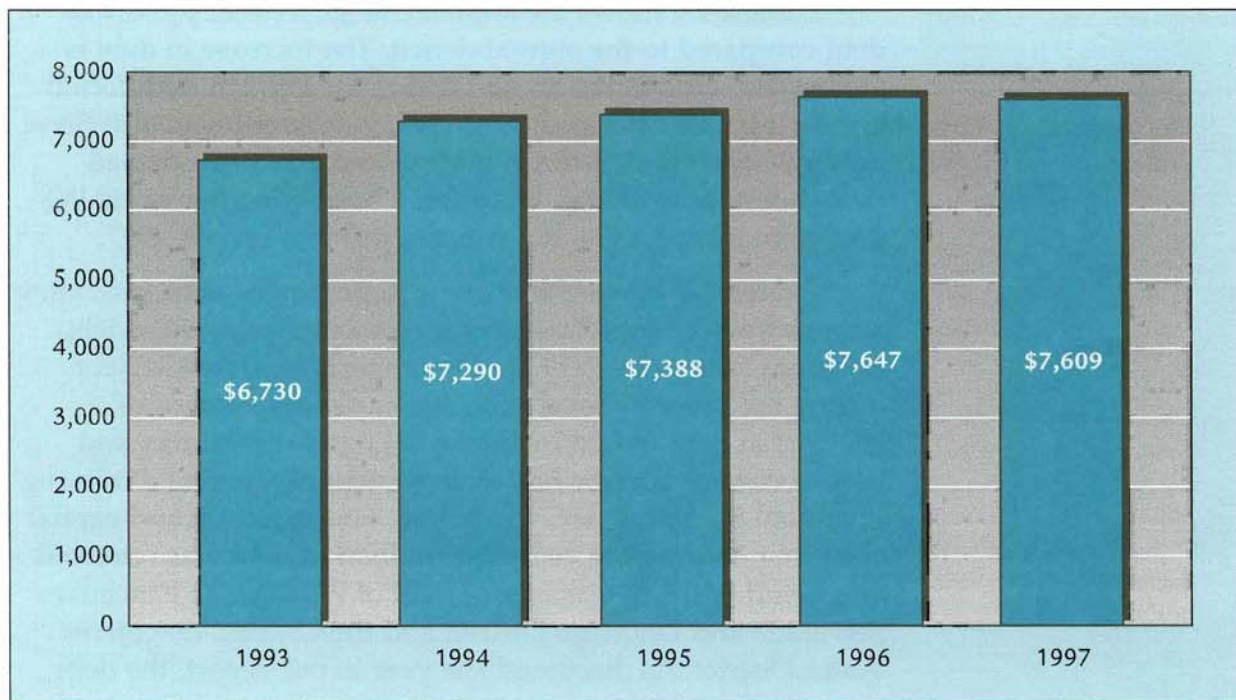
As a performance indicator, the debt per capita shows the average amount of provincial debt owing by each British Columbian. It is calculated by dividing the total debt of the Province by the population of the Province.

Each British Columbian's share of the provincial debt decreased from \$7,647 to \$7,609 between 1996 and 1997. This is the first year that debt per capita has decreased since 1990. The explanation for this is that the rate of increase in population is higher than the rate of increase in debt. Exhibit 4.5 shows the debt per capita for the five years ending March 31, 1997.

Exhibit 4.5

Debt per Capita

Average share of provincial debt of a person living in British Columbia, 1993 to 1997



Source: The Public Accounts and Ministry of Finance and Corporate Relations for debt; B.C. Statistics for population

Debt to Revenue

Another frequently used trend indicator is debt to revenue. Calculated as the ratio of debt outstanding at yearend compared to revenue from all sources for that year, it indicates how many years of revenue it would take to repay the provincial debt. Comparing this ratio for the 1995/96 fiscal year (94%) to that of the 1996/97 fiscal year (94%) shows that during 1996/97 the rate of increase in debt was the same as the rate of increase in revenue.

The total revenue figure used in calculating the above ratio is approximately \$1.2 billion larger than that used by the government to arrive at its 97.7% ratio. The \$1.2 billion reflects additional revenue generated by the S.U.C.H. sectors.

Changes in Debt

To understand why debt has been incurred, it is useful to understand both the use and source of borrowing. A statement of changes in debt should explain why and from whom the Province has been borrowing.

Total debt of the Province increased by \$555 million during the 1996/97 fiscal year. One reason for this increase could be the financing of the annual deficit of the government. In addition, a government may borrow to finance capital asset acquisitions, new investment and lending, or simply to have funds available for future needs.

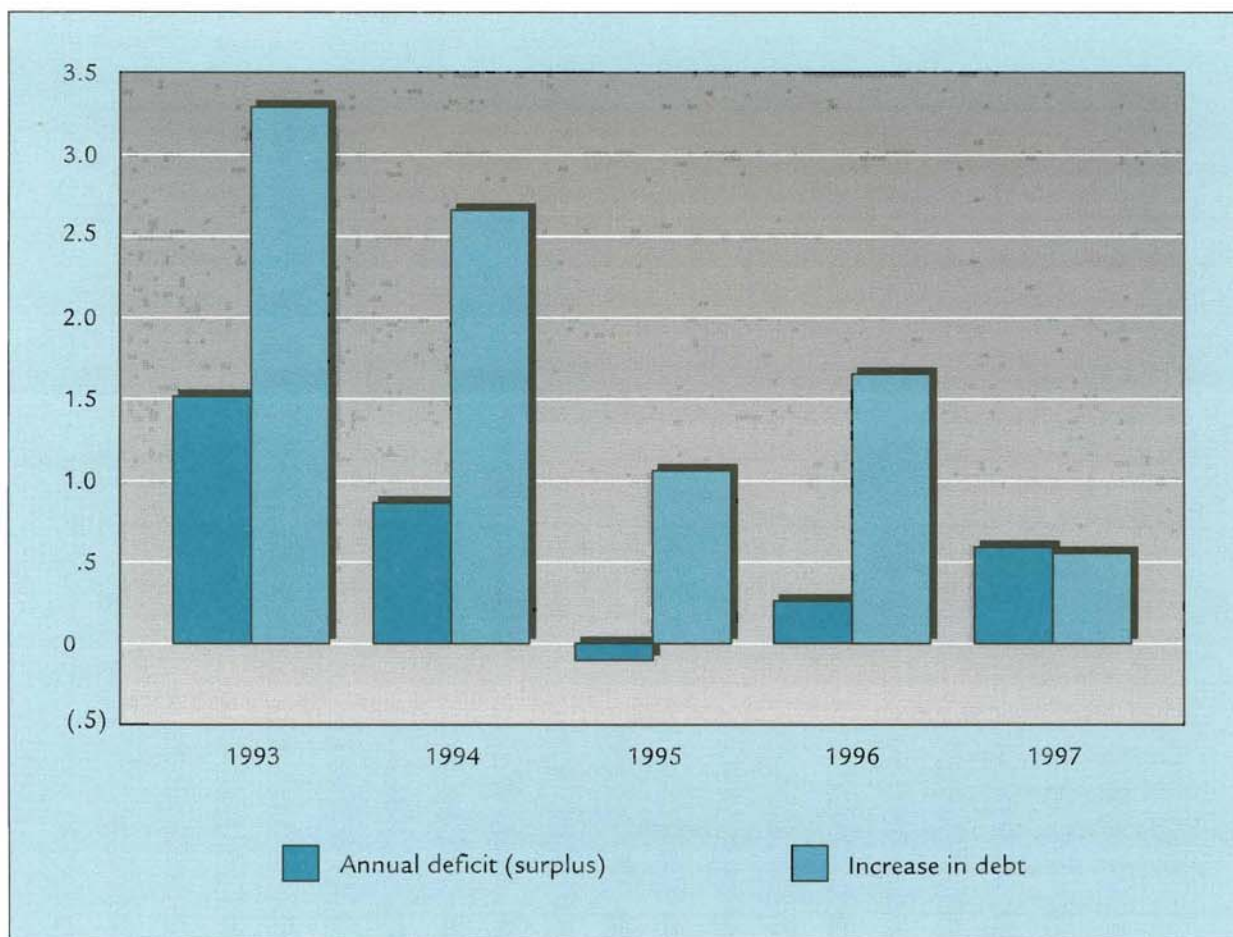
Exhibit 4.6 shows the annual change in total provincial debt compared to the annual deficit. The increase in debt is almost the same as the annual deficit for 1997. In addition to borrowing \$555 million during 1997, the government also drew down \$795 million of funds it borrowed and kept unused (warehouse borrowing). Warehouse borrowing increased the total debt during 1996, but was not put to use until 1997.

Exhibit 4.7 shows the increase in provincial debt, providing a breakdown of the changes in direct debt, warehouse debt, government agency debt, and third-party guaranteed debt during the 1996/97 fiscal year. A complete statement of changes in debt would include a listing of the sources and uses of current borrowings, such as debt repayment, financing of annual operating deficit, lending, warehousing, and capital spending. During the year, \$306 million of debt was removed as a result of the defeasance of debt of the Greater Vancouver Sewerage and Drainage District and the Greater Vancouver Water District. As discussed last year in our report, the debt

Exhibit 4.6

Deficit Compared to Debt

Annual deficit (surplus) compared to the annual increase in total provincial debt, 1993 to 1997 (\$ Billions)



Source: The Public Accounts. Deficit (surplus) figures have been restated to conform to the entity basis used in this report.

was transferred from the Province to the Municipal Financing Authority. The government has started annually providing some information about changes in debt. We encourage it to continue, and to improve, the reporting of those changes.

Financial Well-being of the Province

As more money goes to pay the interest on debt, less money is left over to pay for government programs such as health care, education, and social services. This "crowding out" effect can seriously hamper fiscal decision-making and become an obstacle to government meeting its program objectives.

Exhibit 4.7

Changes in Total Provincial Debt

Detailed list of change in total provincial debt in the 1996/97 fiscal year (\$ Millions)

	Debt as at March 31, 1997	Debt as at March 31, 1996	Increase/ (Decrease) in Debt
Direct debt of Consolidated Revenue Fund	11,031	10,237	794
Debt of Warehouse Borrowing Program	100	895	(795)
Debt of government agencies			
BC Transportation Financing Authority	921	590	331
British Columbia Assessment Authority	6	7	(1)
British Columbia Buildings Corporation	736	719	17
British Columbia Ferry Corporation	685	502	183
British Columbia Housing Management Commission	41	25	16
British Columbia Hydro and Power Authority	7,477	7,592	(115)
British Columbia Lottery Corporation	4	5	(1)
British Columbia Railway Company	412	346	66
British Columbia Systems Corporation	19	22	(3)
British Columbia Transit	1,538	1,506	32
Capital Project Certificate of Approval Program	172	311	(139)
Columbia Power Corporation	51	0	51
Columbia Basin Trust	48	0	48
Educational Institutions	1,530	1,436	94
Greater Vancouver Sewerage and Drainage District	0	175	(175)
Greater Vancouver Water District	0	131	(131)
Improvement Districts	3	3	0
Liquor Distribution Branch	3	3	0
Pacific National Exhibition	3	2	1
Pacific Racing Association	6	6	0
Provincial Rental Housing Corporation	111	99	12
Regional Hospital Districts	1,415	1,359	56
School Districts	2,789	2,516	273
Victoria Line	2	2	0
	17,972	17,357	615
Third-party guaranteed debt	228	287	(59)
Total provincial debt	29,331	28,776	555

Source: The Public Accounts; Ministry of Finance and Corporate Relations, Debt Management Branch

The government would like to pay the lowest amount possible for interest on debt. One of the programs used for this efficient management of the debt is called "warehousing." Warehousing involves borrowing money before it is required and investing it, preferably at a higher rate of interest, until it is needed. Warehousing is most effective when the government expects borrowing costs to increase in the near future. This could be due to rising interest rates or to potential instability in borrowing markets which could make it difficult to obtain funds when required.

At the end of the 1996/97 fiscal year, the government had \$100 million in warehouse debt (in 1995/96 it was \$895 million). The Summary Financial Statements of the Province show the warehouse debt liability and its associated investment assets separately. This accounting treatment is appropriate because of the potential risks associated with a possible decrease in the market value of the temporary investments purchased using warehoused monies and, we think, should be continued. Though it is included in the Province's total debt, the warehoused debt is not included in calculating the taxpayer-supported measures and indicators. We agree with the government that it is appropriate to adjust for the warehousing debt, its borrowing cost, and any income it earned while awaiting its final use. This treatment ensures that measures taken by the government to reduce the cost of borrowing are reflected accurately by the Province's taxpayer-supported debt indicators.

Two indicators of the Province's financial well-being are the "interest bite" and "debt to Gross Domestic Product."

Interest Bite

The interest bite shows how much of each dollar of the Province's total revenue is used to pay for debt servicing costs. It is a ratio, calculated by dividing the total cost of borrowing into total revenue. Should an increasing portion of the revenues of the Province be used each year to pay interest on debt, less money would be left to provide services to taxpayers. Thus, the interest bite gives an indication of the fiscal flexibility of the Province.

We calculated the interest bite of the Province to be approximately 7.8 cents in 1997 (compared to 8.6 cents in 1996). This means that the rate of increase in revenue has been higher than the rate of increase in debt servicing costs. The government has reported the interest bite for 1996/97 as 8.0 cents per dollar. The slight difference is due to accounting for the S.U.C.H. sectors.

Debt to Gross Domestic Product

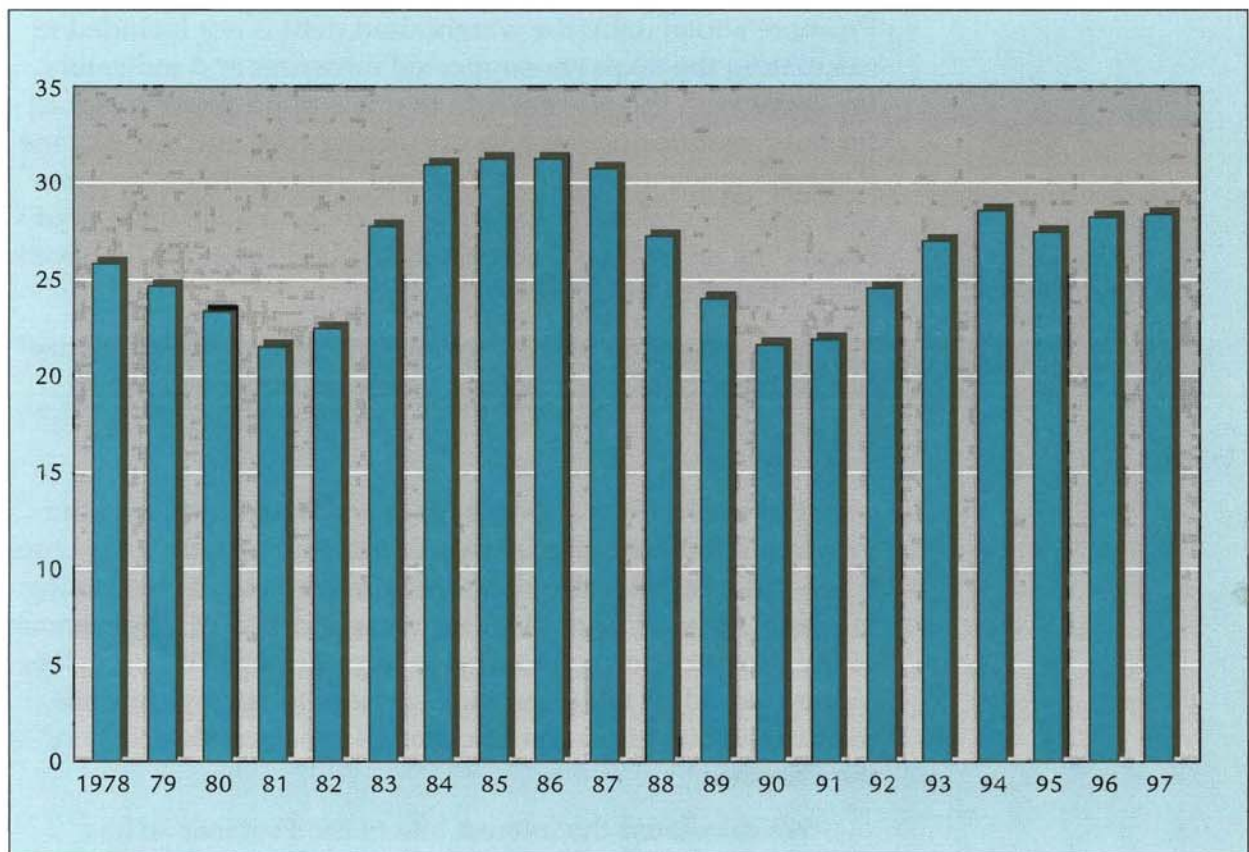
The Province's ability to service its debt relates primarily to both its economy and the magnitude of its debt. Gross Domestic Product (GDP) is a calculation of economic production. The debt to GDP indicator compares total net debt outstanding at yearend to the annual GDP of the Province. Exhibit 4.8 shows the total net debt of the Province as a percentage of GDP for the 20 years ending March 31, 1997.

The debt to GDP ratio has increased by 0.1% between 1996 and 1997, which shows that debt increased at a slightly faster rate than the provincial economy grew during the 1996/97 fiscal year.

Exhibit 4.8

Debt to Gross Domestic Product (GDP) Ratio

Provincial debt as a percentage of GDP in British Columbia, 1978 to 1997



Source: The Public Accounts and Ministry of Finance and Corporate Relations for debt; B.C. Statistics for B.C. GDP

Cost of Debt Servicing

The cost of debt servicing, or the Province's cost of borrowing money, represents the interest paid on debt plus incidental costs associated with the administration of debt, less investment income from sinking funds.

The Summary Financial Statements for the 1996/97 fiscal year reported the annual debt servicing expense as \$2,219 million (compared to \$2,352 million in 1995/96). This is not, however, the Province's total cost of debt servicing because it does not include government enterprises and the S.U.C.H. sectors. By adding these costs to those reported in the Summary Financial Statements, the total cost of debt servicing would be \$2,416 million in 1996/97 (\$2,636 million in 1995/96).

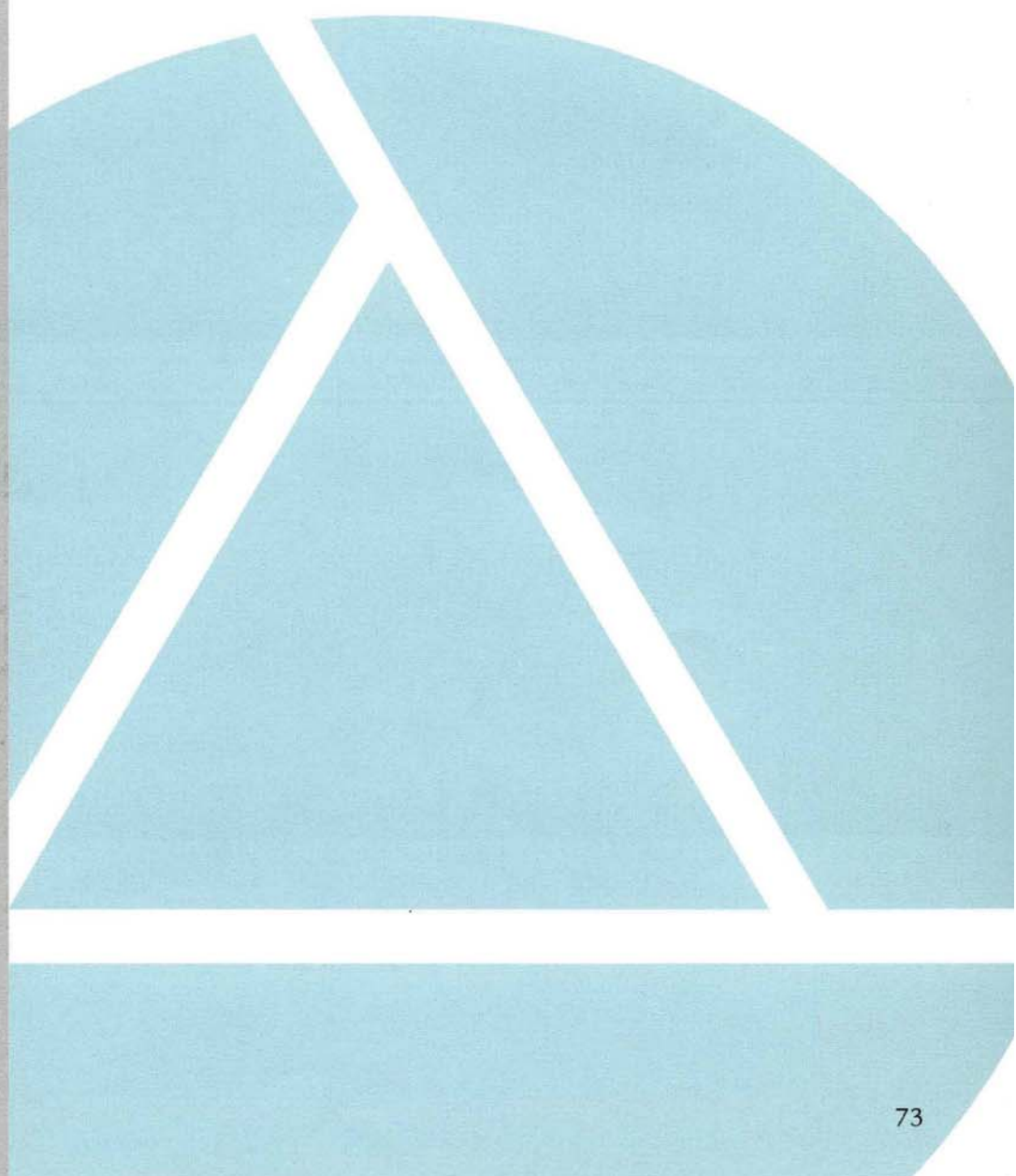
Conclusion

We are pleased to note that the government intends to continue to report on the public debt, disclosing key measures and indicators on debt. However, we are disappointed that the Debt Statistics 1996/97 report was not published along with the Public Accounts, as in prior years.

We believe that there is still room for improvement in the reporting of changes in debt. We also believe that the government should provide a better explanation of assumptions to support its new financial management plan, and discuss contingencies should significant assumptions fail to be realized. As well, reporting of debt for joint ventures and other alternative financing methods should reflect the substance of the transactions.



financial highlights



financial highlights

In this section, we highlight financial information to provide a background to, and serve as a point of reference for, our comments on the state of the Province's debt and deficit. We include these comments in keeping with the direction provided by section 11(1) of the *Auditor General Act*.

In the 1995/96 fiscal year, the government expanded the composition of the summary reporting entity to include health care organizations, regional hospital districts, universities, colleges and institutes, and school districts. It also changed its accounting policies to phase in capitalizing tangible capital assets and amortizing them over their useful lives.

In the 1996/97 fiscal year, the government reversed its position and decided to exclude those bodies referred to above from the summary reporting entity. And, although tangible capital assets are still being capitalized in the Province's financial statements, the government revised its capitalization schedule in 1996/97 and postponed the recording of infrastructure assets and acquired land held by the Consolidated Revenue Fund.

Financial data are taken from the summary level financial statements included in the Public Accounts of the relevant years. To provide consistent bases for comparison between the last five years, financial results of 1993 to 1995 have been restated to take into account subsequent changes in government accounting policies.

As in previous years, financial data are not adjusted for changes in the Consumer Price Index (CPI). Population figures are from statistics as at July 1 of each year. Otherwise, all "year" references in this section apply to the fiscal year ended March 31 of the year noted.

The Auditor General's Report on the 1996/97 Summary Financial Statements of the Province contains three reservations. This means that, to understand the Province's financial results for that year, the reader should consider information from the Summary Financial Statements together with matters referred to in the Auditor General's report on those statements. For the purpose of this section we have adjusted the 1996/97 Summary Financial Statements to reflect the effects of these reservations.

In its 1997 Budget, the government committed to reducing the deficit and moving to a balanced budget by 1998/99. The government reported that a slower-than-expected economic growth of 0.5% in 1996 (down from 2.7% in 1995) and a shortfall in revenue from the natural resources sector were two of the factors causing a deficit for the year. For 1997, the government projected an overall economic growth of 2.2%, resulting in some 40,000 new jobs in British Columbia. On the basis of these expectations, the government is setting as its 1997/98 target the goal of reducing its deficit by about half of what it was in 1996/97.

Revenue

Taxes remain the most significant source of revenue for the government of British Columbia. Last year, they accounted for 55 cents of every dollar of the provincial revenue. Compared with all other taxes, personal taxes have had the highest dollar increase over the past five years, increasing by \$1,077 million, or 25.6%.

For the year 1997, the largest percentage increase in revenue by main source was in "natural resources." These increased 7.8% from \$2,478 million in 1996 to \$2,671 million in 1997.

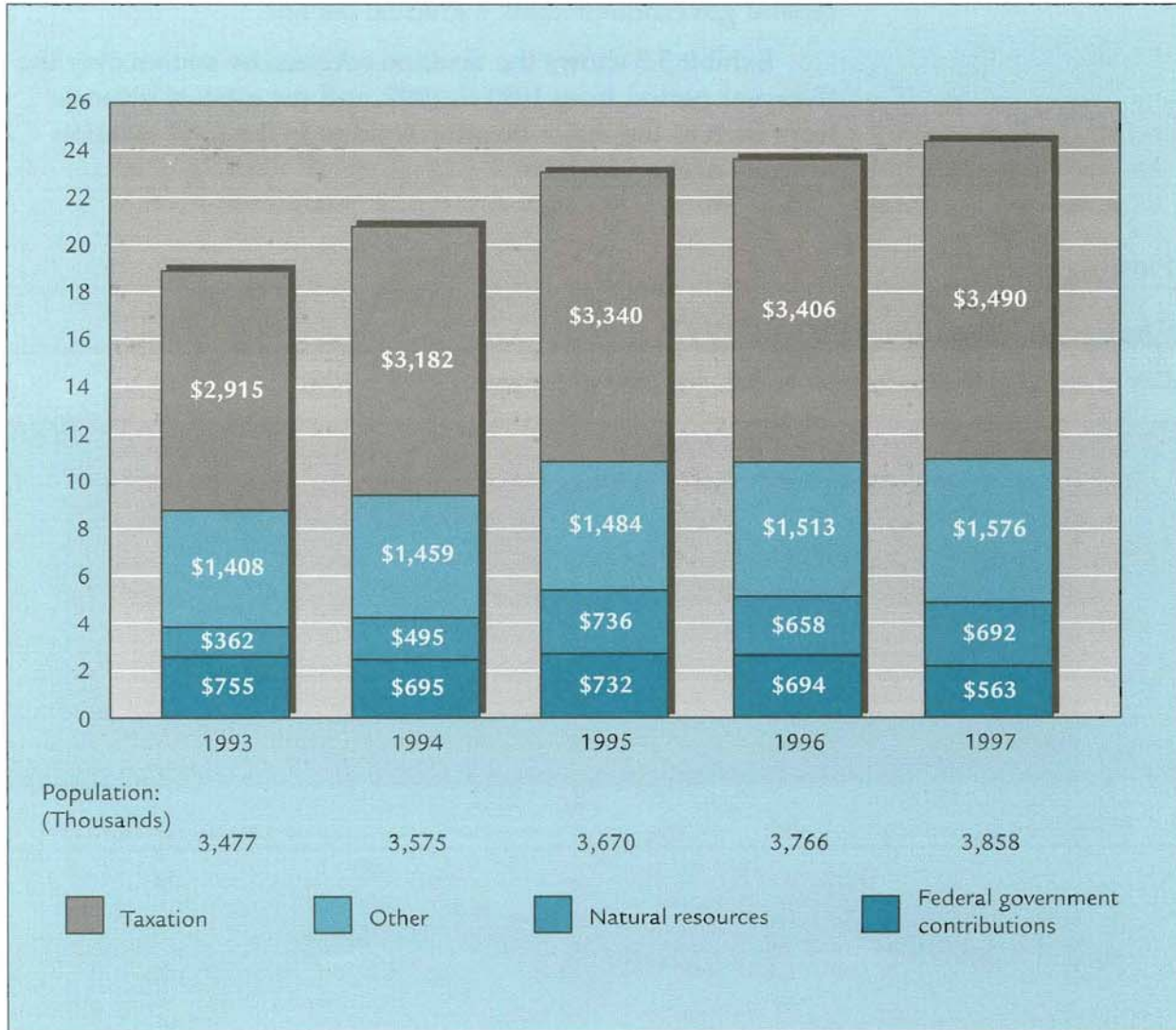
Exhibit 5.1 shows total revenue of the Province in each of the years 1993 to 1997. Taxation revenue has increased significantly from \$10,135 million in 1993 to \$13,463 million in 1997. Expressed in other terms, this means that the average taxation revenue generated by each resident of British Columbia (per capita revenue) has increased from \$2,915 in 1993 to \$3,490 in 1997.

The revenue category referred to as "other" includes all fee and license collections, earnings from investments, contributions from government enterprises, recovery of monies from sources outside government, and some miscellaneous revenue.

Exhibit 5.1

Revenues, 1993 to 1997

Total (\$ Billions) and per capita revenue by main sources over the past two years



Source: The Public Accounts (restated) for financial figures; Statistics Canada for population statistics as at July 1

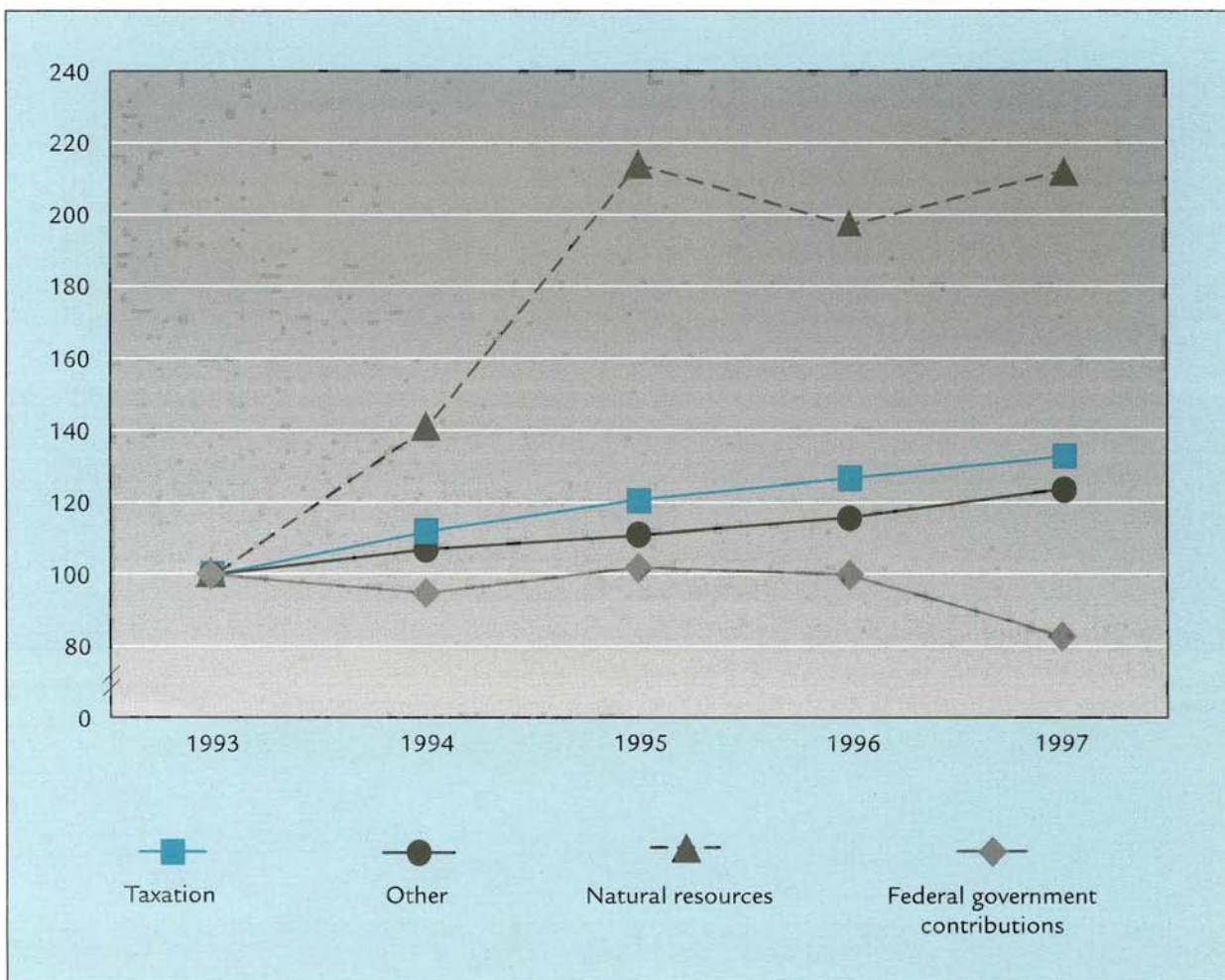
Exhibit 5.2 shows the rate of change in revenue over the last five years by main sources. The base year in this exhibit is 1993. Revenue for each main source in the four years that follow 1993 has been shown as a percentage of the base year. Natural resource revenue has grown significantly over the last five years. During the same period, contributions from the federal government show a gradual decline.

Exhibit 5.3 shows the taxation revenue by source over the five-year period from 1993 to 1997, and the ratio of revenue from each of the major taxation sources to the total taxation revenue of the Province.

Exhibit 5.2

Change in Revenues, 1993 to 1997

Rate of change in revenue by main sources, over the past five years (1993 = 100)



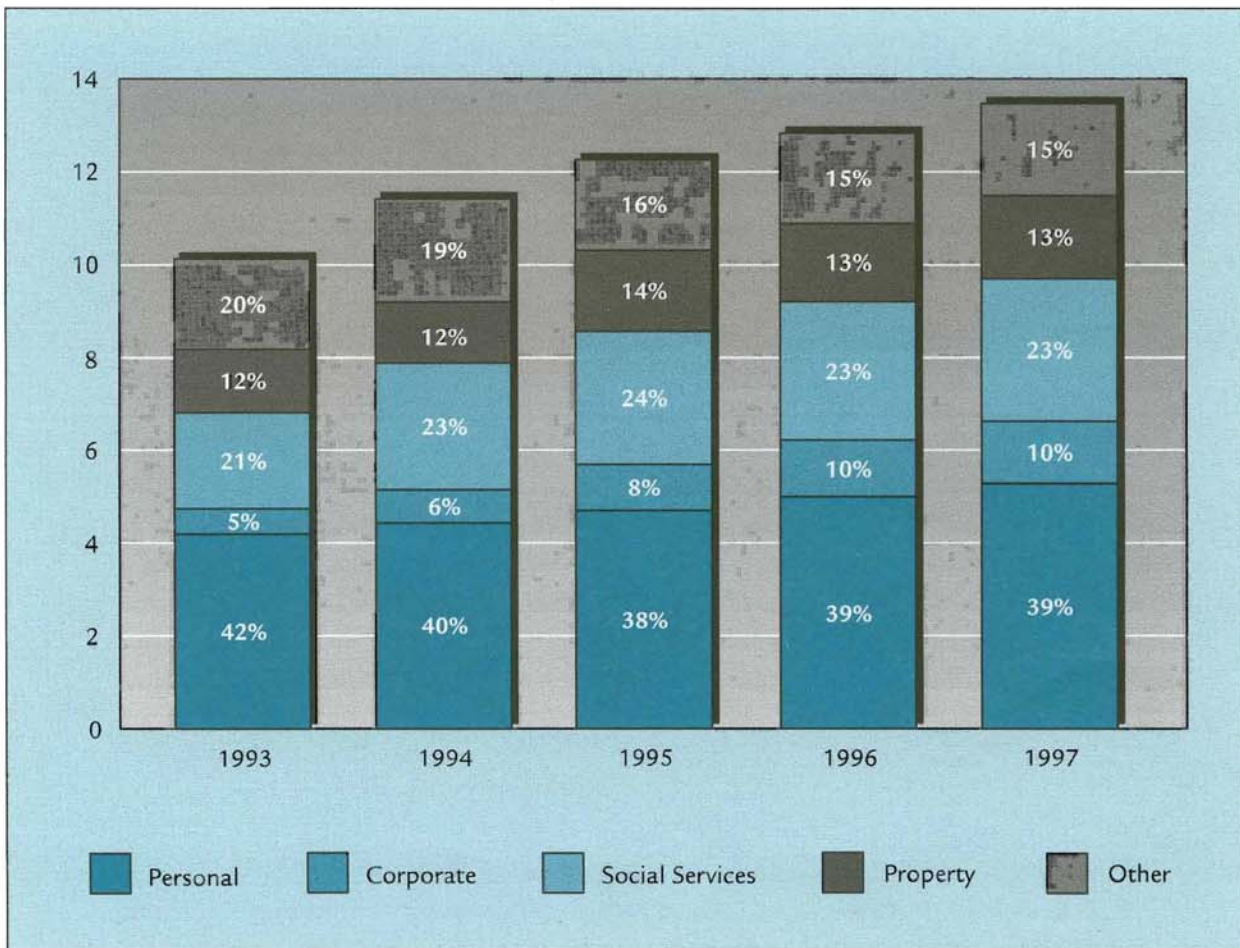
Source: The Public Accounts (restated)

The government collects taxes from many sources. The most important of these taxes include those relating to personal and corporate income, property, and sales. In the figures presented in Exhibit 5.3, the taxes denoted as coming from property include residential, business, and rural property taxes. The social services tax is more commonly known as the provincial sales tax. The "other" source includes property transfer, fuel, tobacco, and insurance premium taxes, in addition to hotel room, corporation capital, and horse racing taxes.

Exhibit 5.3

Taxation Revenue, 1993 to 1997

Total, and percentage of total, taxation revenue by source over the past five years (\$ Billions)



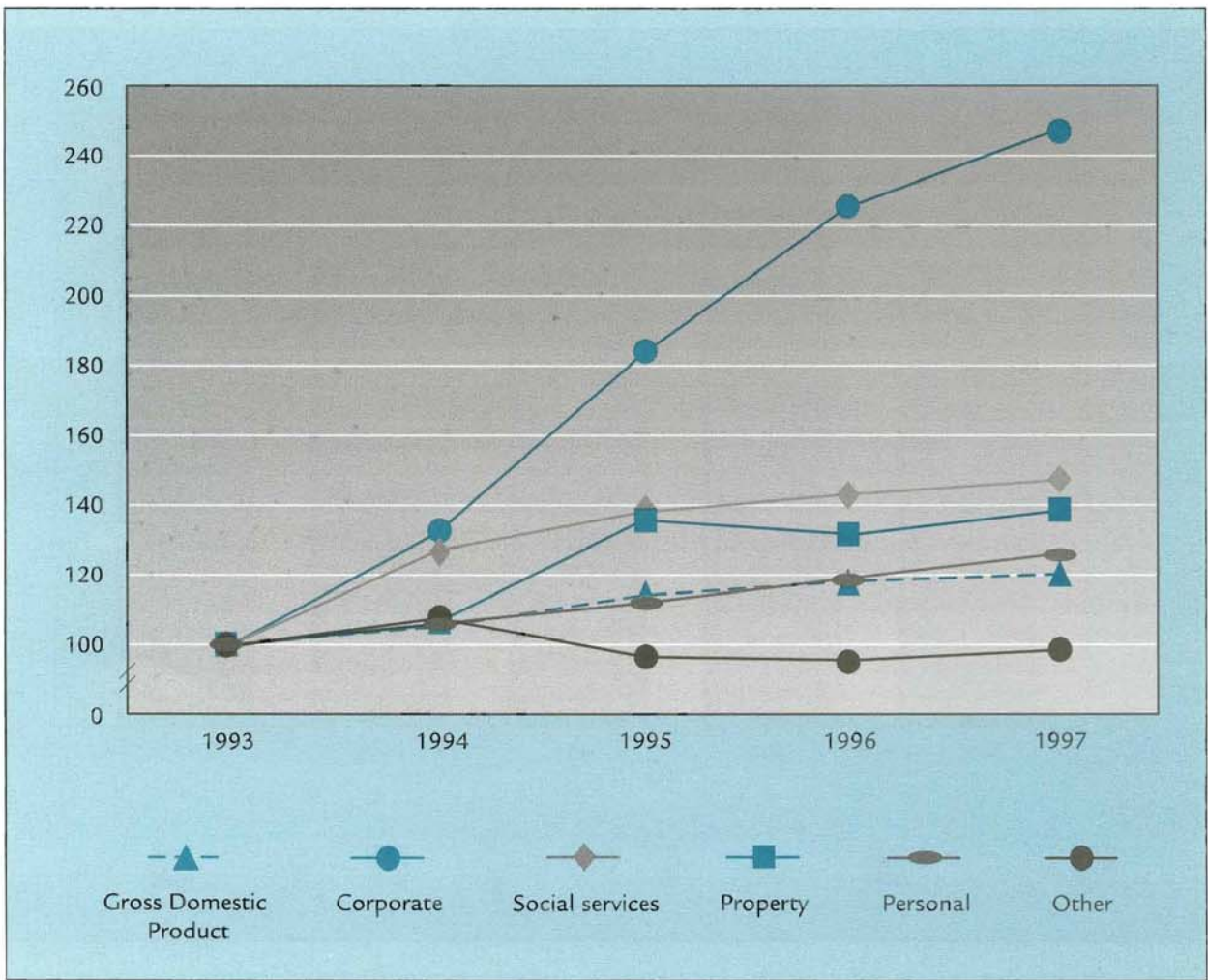
Source: The Public Accounts (restated)

Exhibit 5.4 shows the rate of growth in major categories of taxation revenue compared with the rate of growth in the Province's Gross Domestic Product (GDP) over the years 1993 to 1997. The GDP is used in this exhibit as an indicator of the Province's economy. As in Exhibit 5.2, 1993 is taken as the base year for the comparison. The GDP data are for each calendar year ended in the respective government fiscal year. Significant growth in corporate taxes over the last five years is clearly evident in Exhibit 5.4.

Exhibit 5.4

Change in Taxation Revenue, 1993 to 1997

Rate of change in taxation revenue by major categories, compared to Gross Domestic Product (1993 = 100)



Source: The Public Accounts (restated)

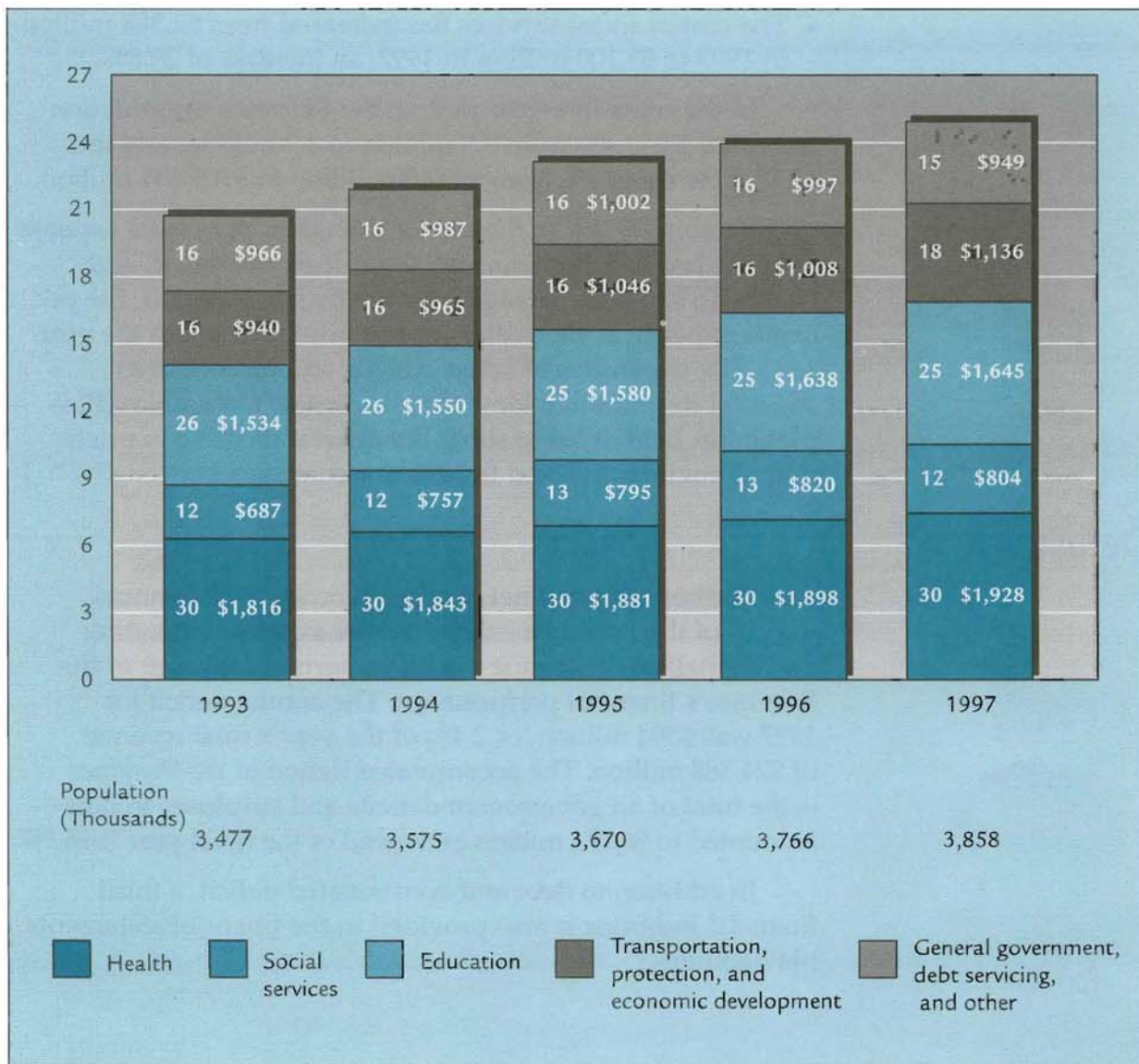
Expense

Exhibit 5.5 shows the Province's total expense from 1993 to 1997. Expense is divided into five groups based on "functions." The three major functions—health, social services, and education—are shown separately. Transportation, protection, and economic development functions are grouped, as are the general government, debt servicing, and all other

Exhibit 5.5

Expenses, 1993 to 1997

Total (\$ Billions), percentage of total, and per capita expenses by function group



Source: The Public Accounts (restated)

functions. Exhibit 5.5 also provides information on average expense per resident of British Columbia (per capita expense) in each function group. For each group, the percentage of expense in that group to the total government expense is also shown.

In each of the last five years, health, education, and social services combined have accounted for an average of 68% of the total expenses of the Province:

- Health costs have increased from \$6,315 million in 1993 to \$7,439 million in 1997, an increase of 17.8%.
- The cost to the Province of educating our students has increased from \$5,335 million in 1993 to \$6,347 million in 1997, an increase of 19.0%.
- The cost of social services has increased from \$2,388 million in 1993 to \$3,100 million in 1997, an increase of 29.8%.

In the same five-year period, the Province's population increased by 11.4% from 3.5 million to 3.9 million, and its GDP grew by 19.5% from \$86,698 million to \$103,631 million.

Exhibit 5.6 shows the rate of change in per capita expense over the last five years for social services, education, and health. To show the change over the five-year period, the per capita expense in each category has been indexed to the year 1993. The expense is in actual dollars and has not been adjusted for inflation. However, the British Columbia CPI is plotted in Exhibit 5.6 to show the general increase in prices in the Province, indexed to 1993, for comparison.

Deficit

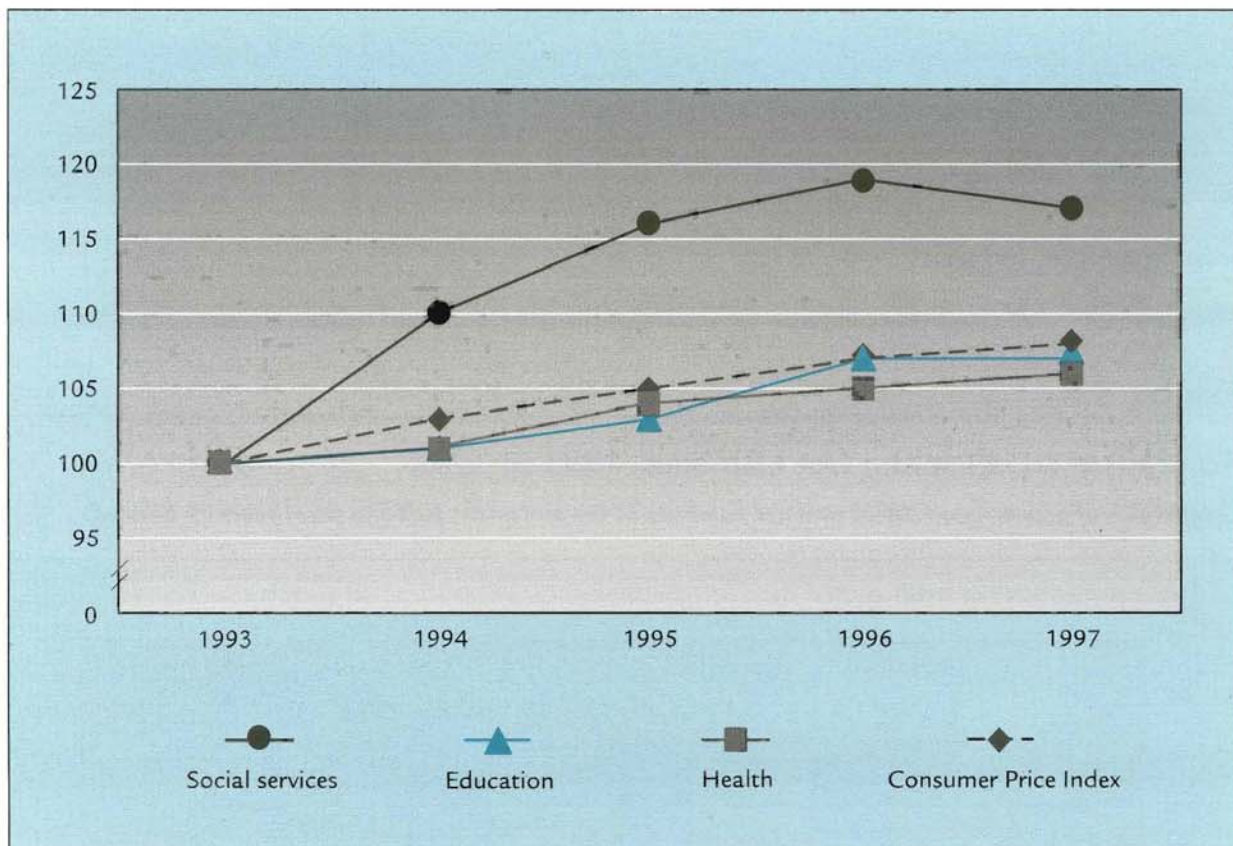
The consolidated net expense (known as the annual deficit) of the Province—the excess of expense (operating and capital) over revenue—is an important indicator of the Province's financial performance. The annual deficit for 1997 was \$594 million, or 2.4% of the year's total revenue of \$24,388 million. The accumulated deficit of the Province—the total of all government deficits and surpluses to date—amounted to \$6,774 million at the end of the fiscal year 1996/97.

In addition to debt and accumulated deficit, a third financial indicator is also provided in the financial statements: net liabilities.

Exhibit 5.6

Change in Expenses, 1995 to 1996

Rate of change in per capita expenses for social services, education, and health, and in the Consumer Price Index (1993 = 100)



Source: The Public Accounts (restated) for financial figures; Statistics Canada for population statistics as at July 1

The term “net liabilities” represents the difference between total liabilities and financial assets. In order to pay liabilities when they come due, the Province may have to finance this difference by ensuring that future operating revenues exceed expenses (i.e., there is a surplus), borrowing funds (i.e., assuming additional debt), selling off assets, or undertaking a combination of these. The net liability amount is an indicator of the Province’s financial indebtedness.

Exhibit 5.7

Accumulated Deficit, 1993 to 1997

Accumulated deficit over the past five years (\$ Millions)

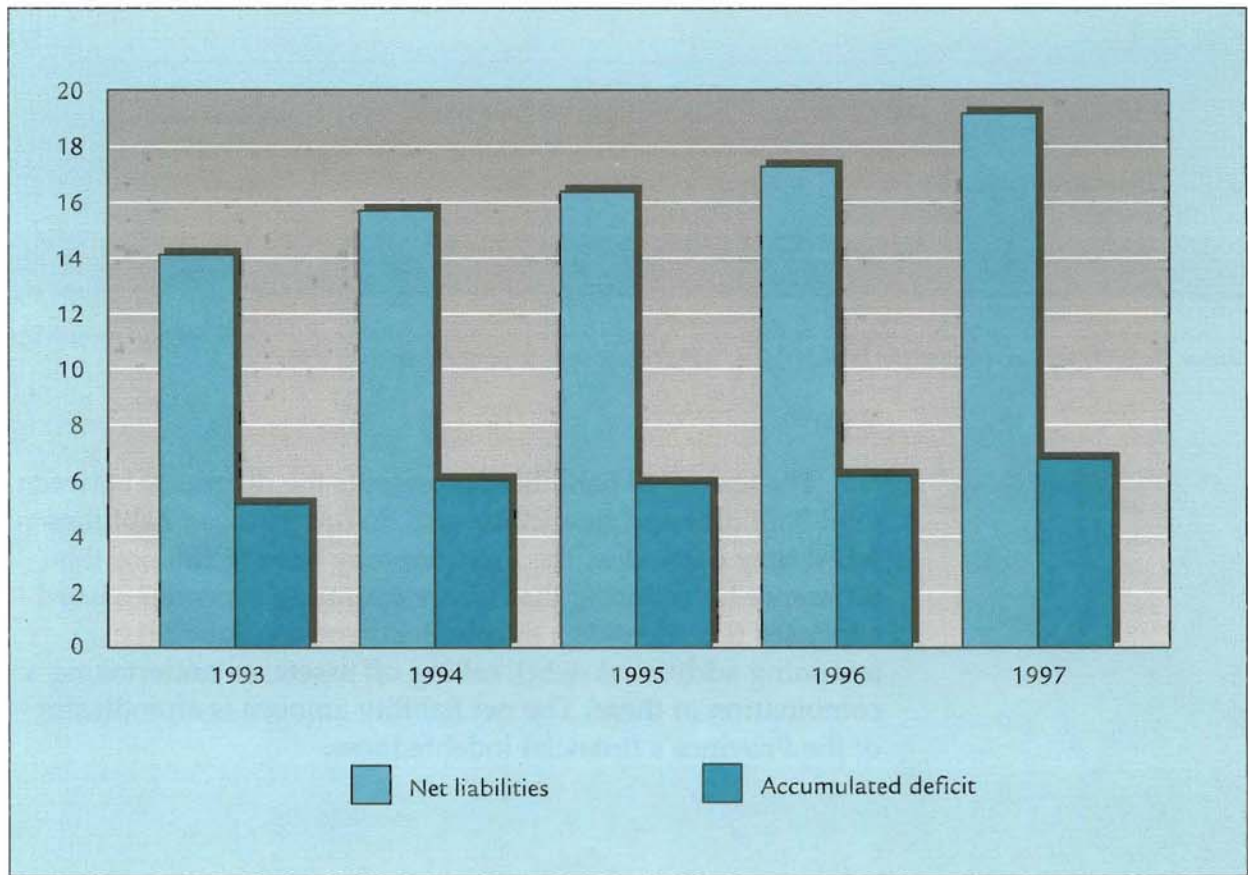
Year ended March 31	1993	1994	1995	1996	1997
Accumulated deficit, beginning of year	(3,644)	(5,161)	(6,025)	(5,919)	(6,180)
Surplus (deficit) for year	(1,517)	(864)	106	(261)	(594)
Accumulated deficit, end of year	(5,161)	(6,025)	(5,919)	(6,180)	(6,774)

Source: The Public Accounts (restated)

Exhibit 5.8

Accumulated Deficit and Net Liabilities, 1993 to 1997

Comparison of accumulated deficit and net liabilities at the end of the past five fiscal years (\$ Billions)



Source: The Public Accounts (restated)

Exhibit 5.7 shows changes in British Columbia's accumulated deficit over the past five years.

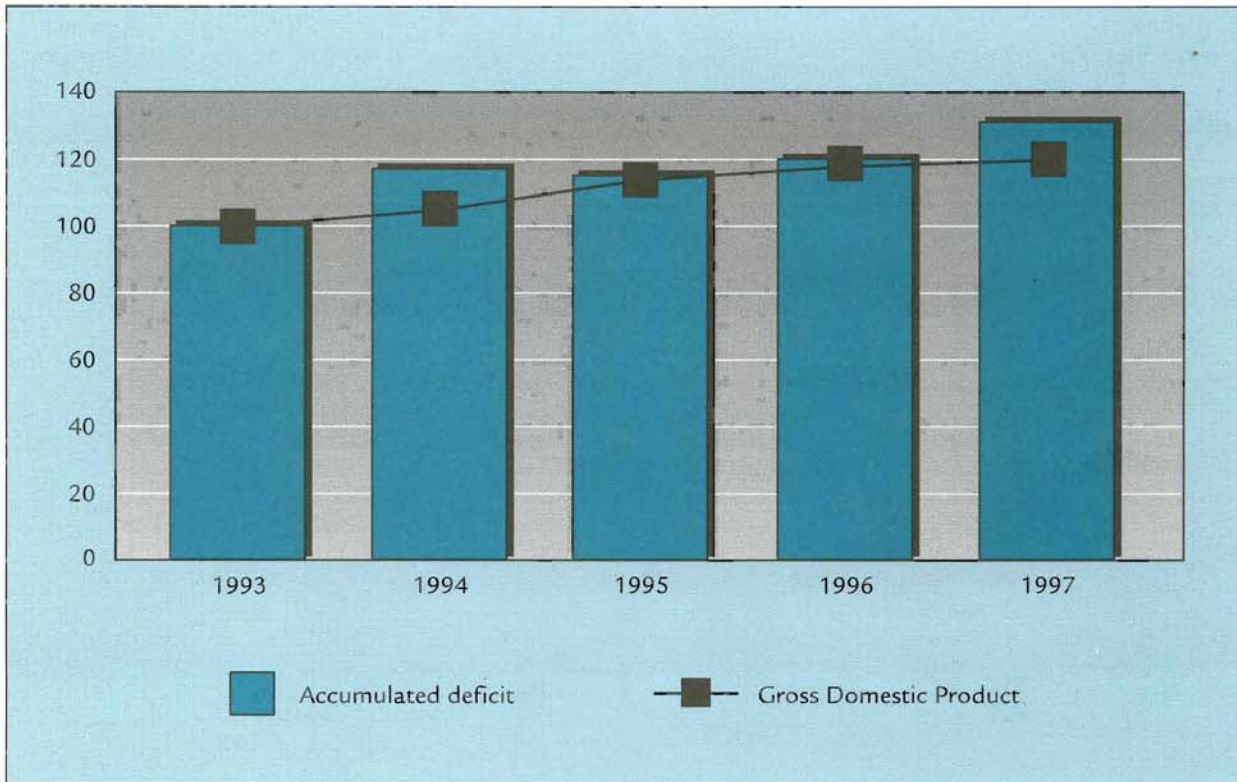
Exhibit 5.8 provides information on the accumulated deficit and net liabilities over the past five years. During this period, the accumulated deficit increased by 31.3% from \$5,161 million in 1993 to \$6,774 million in 1997, and the net liabilities increased by 36.2% from \$14,083 million in 1993 to \$19,182 million in 1997.

Exhibit 5.9 shows the rate of change in the Province's GDP compared with the rate of change in accumulated deficit at each fiscal year end, 1993 to 1997, indexed to 1993. During the last five years, the accumulated deficit increased by 31.3%, compared to the GDP, which increased by 19.5% and the population by 11.4%.

Exhibit 5.9

Accumulated Deficit and Gross Domestic Product (GDP), 1993 to 1997

Rate of change in accumulated deficit and in GDP (1993 = 100)



Source: The Public Accounts (restated)

Exhibit 5.10 shows the annual result of operations compared to the growth in the provincial economy represented by the percentage change in GDP from the previous year. There was a 19.5% growth in the economy from 1993 to 1997. In the same period, the annual result of operations of the government improved from a deficit of \$1,517 million in 1993 to a deficit of \$594 million in 1997.

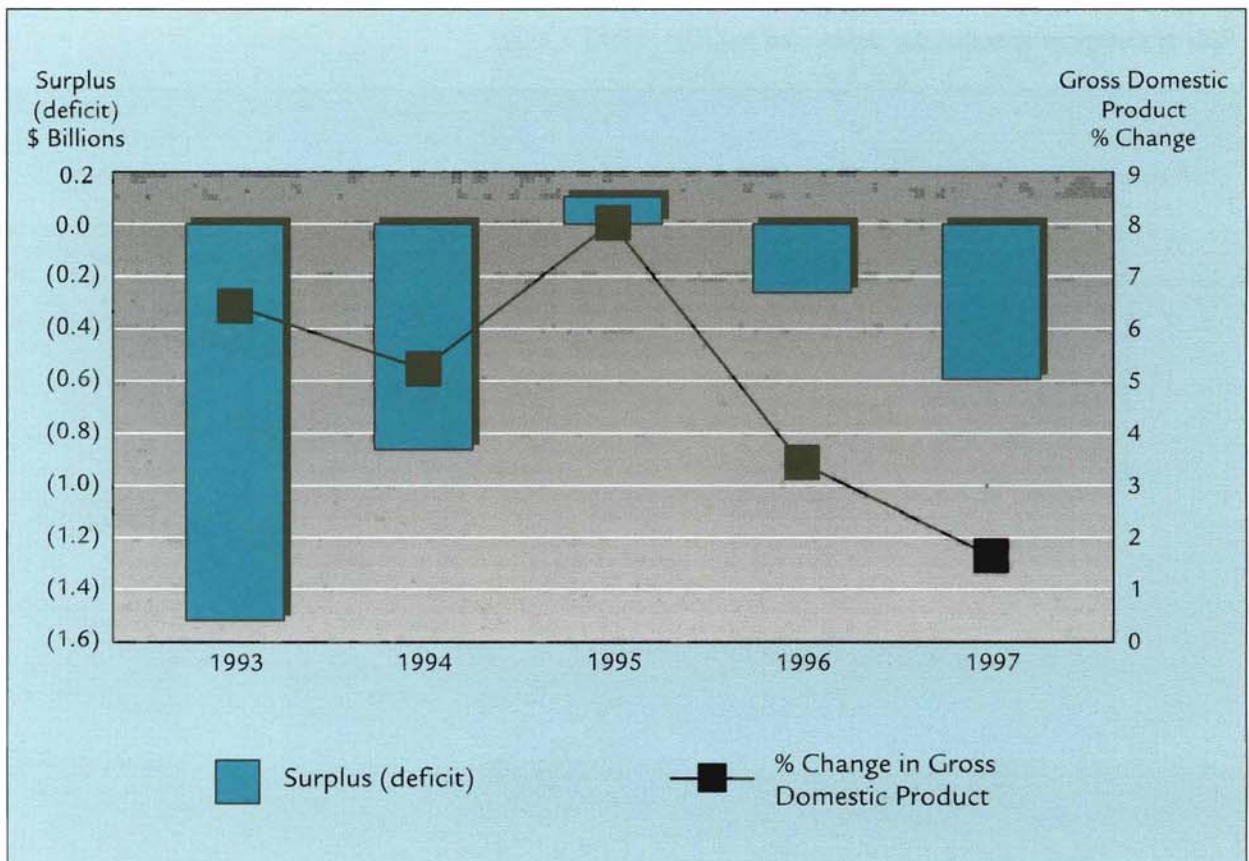
Public Debt

The Province has been borrowing in the capital market for three purposes: first, for its own current needs; second, for its own anticipated needs in the future; and third, to lend funds through its Fiscal Agency Loan Program to various government and other public sector entities. Entities receiving funds through this loan program, and which will repay these

Exhibit 5.10

Annual Surplus (Deficit) and Gross Domestic Product (GDP), 1993 to 1997

Annual deficit compared to percentage change in GDP for each of the past five years



Source: The Public Accounts (restated)

funds through their operations, include British Columbia Railway Company, British Columbia Hydro and Power Authority, Greater Vancouver Sewerage and Drainage District, and the Greater Vancouver Water District.

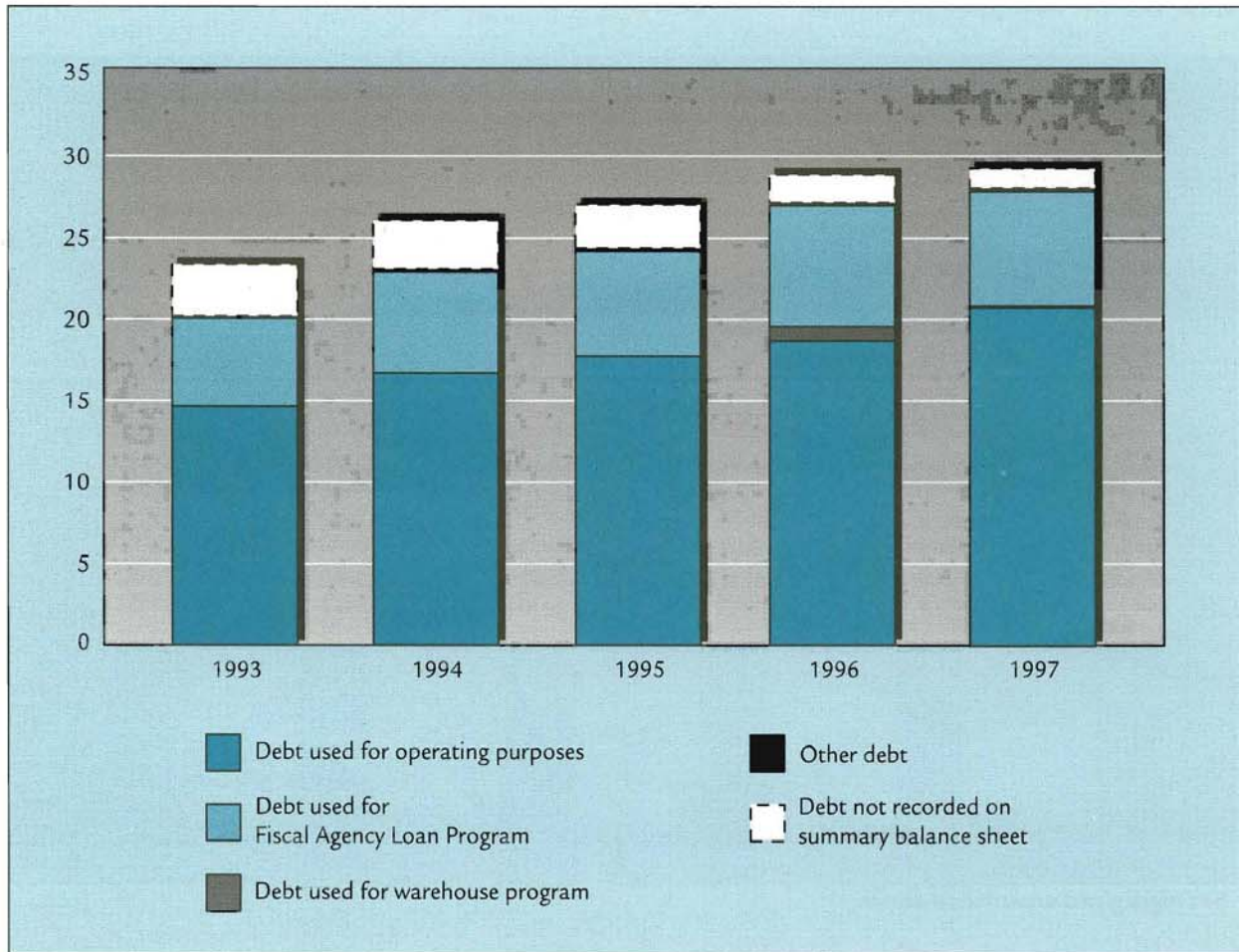
Further comments on the provincial debt can be found under "Provincial Debt: Comments on Its Reporting" on page 57.

Exhibit 5.11 shows the amount of public debt, including amounts borrowed by the Crown enterprises included in the government reporting entity from sources outside the government (not recorded in the Summary Financial

Exhibit 5.11

Total Public Debt, 1993 to 1997

Debt by category, including debt not recorded on the summary balance sheet, over the past five fiscal years (\$ Billions)



Source: The Public Accounts (restated)

Statements), at March 31 for each of the years 1993 to 1997. During the last five years, the total funds borrowed by the Province increased from \$23,399 million in 1993 to \$29,331 million in 1997, an increase of 25.4%.

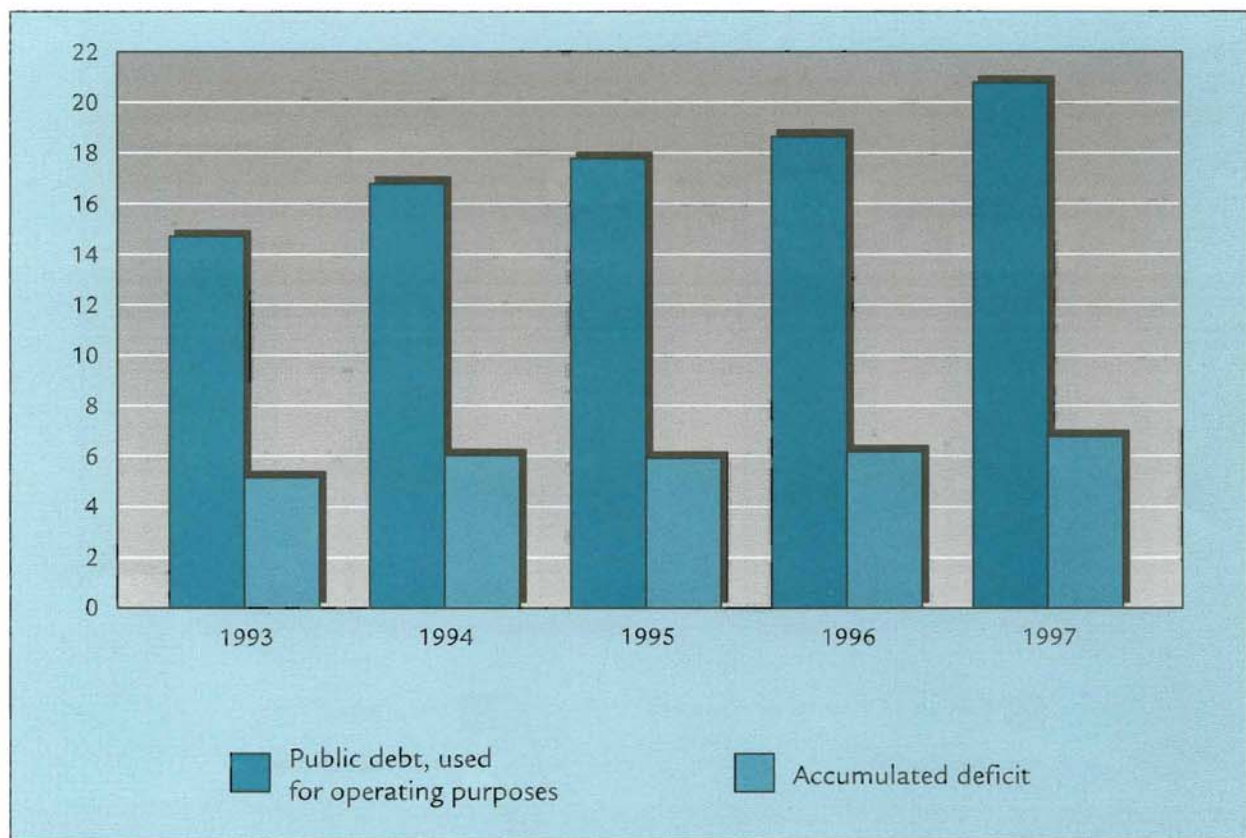
Exhibit 5.12 shows the balance of monies borrowed for government “operating purposes” at the end of each of the last five years, compared with the accumulated deficit balances at the same dates.

In government financial reporting, debt used for “operating purposes” means monies borrowed for use in all aspects of operation of ministries and all fully consolidated government organizations, including acquisition of assets.

Exhibit 5.12

Operating Debt and Accumulated Deficit, 1993 to 1997

Comparison of public debt used for operating purposes¹ and the accumulated deficit at the end of each of the past five fiscal years (\$ Billions)



¹See highlighted explanation above.

Source: The Public Accounts (restated)

The Province's debt for operating purposes exceeds the accumulated deficit. In addition to financing its operating deficits, the government uses borrowed funds for other purposes, such as purchasing or developing tangible capital assets or financing increases in temporary investments.





internal control and other reviews

internal control and other reviews

“Control comprises those elements of an organization (including its resources, systems, processes, culture, structure and tasks) that, taken together, support people in the achievement of the organization’s objectives.”

The Criteria of Control Board, Canadian Institute of Chartered Accountants

Introduction

Reliance on effective controls—those established by management to support the success of the organization—make eminent sense to an auditor. Reliable controls provide the auditor with the confidence that a risk of errors occurring is low, and that if they occur they will likely be detected quickly. In an environment such as this, the auditor can usually provide his or her audit assurance with less detailed testing of individual transactions. This is the essence of an efficient audit.

In our financial auditing, we have moved increasingly away from extensive and costly transaction-based examinations to more focused, risk-based evaluations. We have been able to do this where we note that government places appropriate emphasis on controls, including those over resources, systems, processes, organizational culture, structure, and tasks.

Only by constantly familiarizing ourselves with all aspects of government’s business, and methodically assessing the risk of errors occurring and the effectiveness of controls to prevent and detect errors, are we able to determine how much we can rely on controls. Both maintaining sufficient knowledge of government’s business and evaluating controls are therefore integral parts of our financial auditing. In this section we report to the members of Legislative Assembly and the public on matters of interest resulting from these tasks.

This year we again comment on a topic that has significant control implications for years to come. It is:

New Corporate Accounting System:

Updatepage 95

We also include three reports of our specifically planned review of controls in ministries. These are:

Government Financial and Other Information Systems, and the Year 2000 Deadline	page 105
Corporate Human Resource Information and Payroll System	page 141
Forest Credit Management Review (Ministry of Forests)	page 155

This year we also reviewed, at the request of Legal Services Society, several issues related to the Society's operations. With the Society's consent, we reproduce here the executive summary of matters we reported to the management of the Societypage 177

new corporate accounting system: update

This is the fifth consecutive year in which we have reported on the Corporate Accounting System (CAS). This report covers a 12-month period up to November 1997. During this time, an improved version of CAS (version 2.0) was implemented and twice upgraded (versions 2.1 and 2.2). Also, five new ministries and agencies implemented CAS. However, no significant new accounting functions have been added since our last report. Accordingly, for this update, we did not carry out any new testing, but rely on interviews with, and documents provided by, CAS and ministry staff.

In our last report on the Public Accounts, which was issued in April 1997, we again expressed concern over the slow progress in the planned replacement of the Central Batching System (CBS) with CAS. The old system, as we noted then, requires technology that will soon be obsolete. It also cannot handle transactions dated 2000 or beyond.

Although CAS accounting functions have not been changed, CAS project management has taken significant steps in the past year to reduce the serious risk of failure in the Province's accounting and reporting capabilities—a concern that we have raised repeatedly. While the entire CAS project is estimated to require another three to five years to complete, continued improvements and the government's awareness of the date rollover problem have made the new system an especially attractive alternative to the CBS. While significant work remains to be done, CAS appears to have laid the foundations to become an effective corporate accounting system.

Background

The CAS project was approved to go ahead in 1989. It was to develop an accounting, reporting, and financial management system to record and process the government's financial transactions and produce financial reports. When completed, it will include five fully integrated modules: general ledger, accounts receivable/revenue, accounts payable/purchase order, asset management, and project cost management. Originally, CAS was to use the Walker Integrated Interactive software, which had the capacity to cope with the varying programs and system structures at use within government ministries. The general ledger and accounts payable modules currently in operation use this software.

Developed in 1978, the CBS is a collection of custom-written programs that are used to process expenditure transactions, make payments, and update the government's general ledger. The CBS is obsolete and cannot cope with dates of 2000 and beyond. As a short-term solution, development of an interface between ministry financial systems and CAS was approved, with the expectation that eventually all ministries will implement CAS as a long-term solution. This interface system will also provide a long-term solution for those ministry systems, other than financial accounting, which are required to interface with CAS. An immediate priority of government, therefore, is to ensure that all ministry systems are compatible with, and able to use, the "CAS Generic Interface" before April 1, 1999.

While much of CAS focus has been on preparing for the year 2000, work has also continued towards bringing the system to all of government.

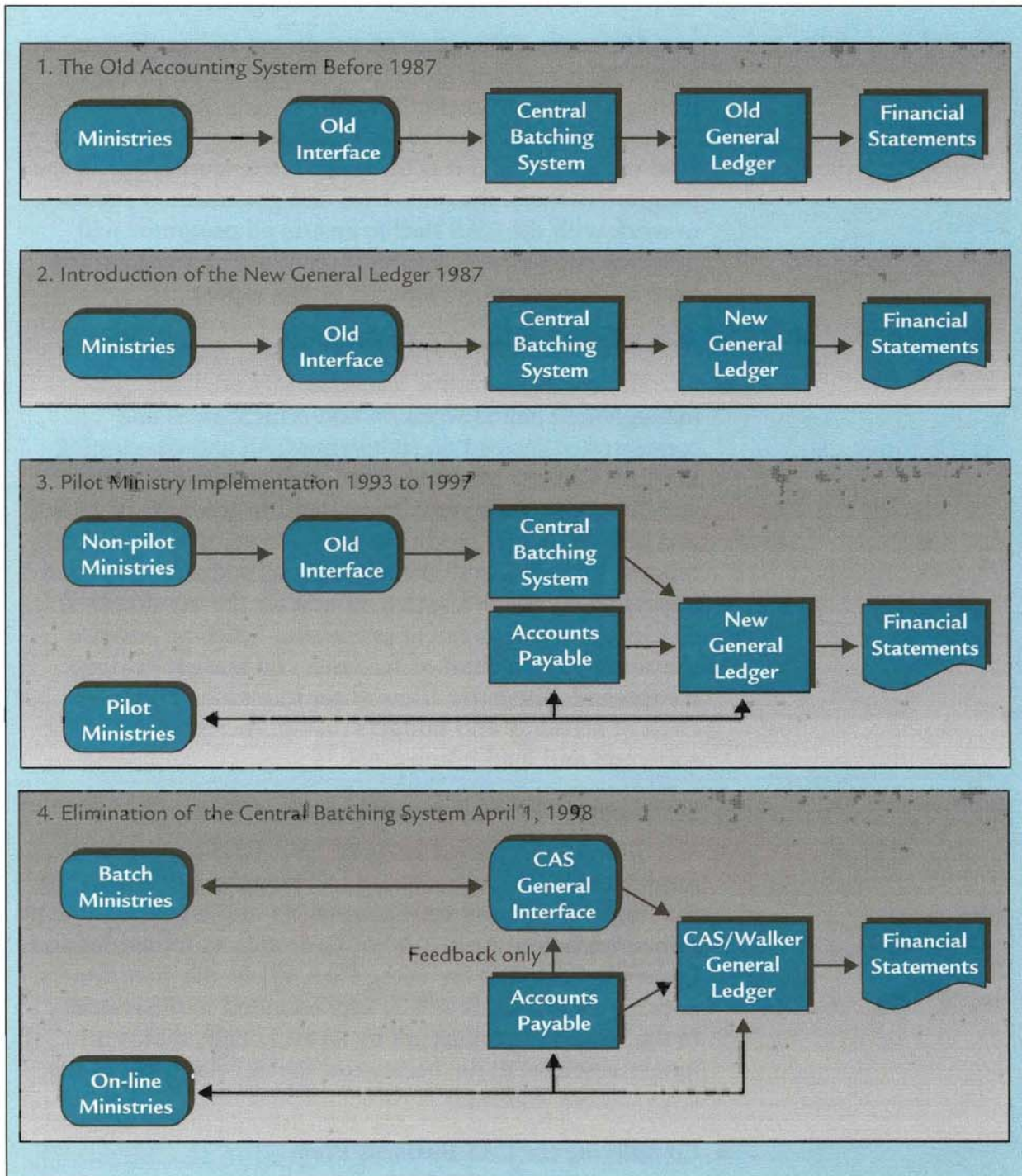
Exhibit 6.1 provides a summary of the system conversion over the past number of years.

Developments Since Our Last Report

As we noted last year, an internal report on the CAS initiative, referred to as the "CAS Independent Review," was released in October 1996 and forwarded to the CAS stakeholders for comments. Four of the significant recommendations were to: replace the CBS through the CAS Generic Interface; reduce the scope of the current phase of the project; develop a flexible plan for implementation in the remaining ministries; and complete detailed business requirements for all ministries.

Exhibit 6.1

Corporate Accounting System Conversion



Source: Information obtained from the CAS initiative office

- ***Implementing the CAS Generic Interface***

Development of the CAS Generic Interface has been completed and the project is currently in the refining and testing stage. Implementation for this critical application is set for April 1, 1998, when it will effectively replace the CBS.

However, although CAS programs are certified to be Year 2000 compliant, this is not the case for all programs throughout government that will provide input to CAS. The interface will reject all transactions that are not Year 2000 compliant, and it is therefore the responsibility of the program owners, the ministries and government agencies, to work with the CAS staff to ensure all programs will interface successfully. Information about preparations for Year 2000 appears on page 105 of this report.

- ***Reducing the Scope of CAS***

In keeping with this recommendation, CAS management halted work on non-critical areas and concentrated instead on stabilizing CAS and developing the CAS Generic Interface. The new version of CAS has stabilized operations and improved the accounts payable and general ledger modules and the commitment and reporting capabilities. The subsequent upgrades included improved access and search criteria for the vendor files, a redesign of the payment processing function, and the introduction of a chart of accounts and budget loading component. The latter allows user ministries to create a chart of accounts and budgets (using Microsoft or similar software) and load it into CAS.

- ***Developing a Flexible Implementation Plan***

When we reported in April 1997, CAS had been implemented in six ministries and government bodies. At that time, the government planned to implement CAS in all ministries before April 1, 1999. Currently 11 ministries and government bodies are using CAS. While the government anticipates that CAS will be implemented in the majority of the remaining ministries by April 1, 1999, that is no longer essential to do, because of the development of the CAS Generic Interface.

- ***Completing the CAS Business Plan***

In February 1997, the CAS Executive Steering Committee approved a multi-year CAS business plan. One of the key priorities identified in the business plan was to define users' business requirements and endeavour to meet them. During

1997, CAS personnel have been working with the ministries to achieve this. The project is currently moving towards providing additional functions required by the Forests and Transportation and Highways ministries in order to implement the system by April 1, 1999. A Request for Proposal has been issued which includes project accounting and expanded commitment management functions, both of which are important to these ministries. The Request for Proposal also includes asset management, which is important for government's move towards capitalization of assets.

Phase II of CAS

In October 1997, a Request for Proposal was issued to seek developers for the next phase of CAS. This phase will bring in project accounting, additional commitment management features, and asset management. At the same time, it will provide a foundation for the functions to be added in the next phase, and the integration of the whole. The goal is to increase the available accounting functions that the system can offer users, and to bring the system a step closer to the original strategic objectives of CAS. A prototype version of Phase II is to be available by June 30, 1998, as the Forests and Transportation and Highways ministries must make a decision by then about whether they will implement CAS as their accounting system or modify their existing systems to make them Year 2000 compliant. Exhibit 6.2 provides an overview of the progressive approach to configuration and implementation of the system. It shows the current high level model, and a suggested Phase II scenario anticipated to take place by June 30, 1998.

Developers of Phase II will not be restricted to the Walker Integrated Interactive software. However, neither will the current CAS/Walker software be immediately displaced by another application. CAS/Walker is a stable environment capable of processing current and expected volumes of transactions, and its use will continue for reporting, consolidation, and payment requests.

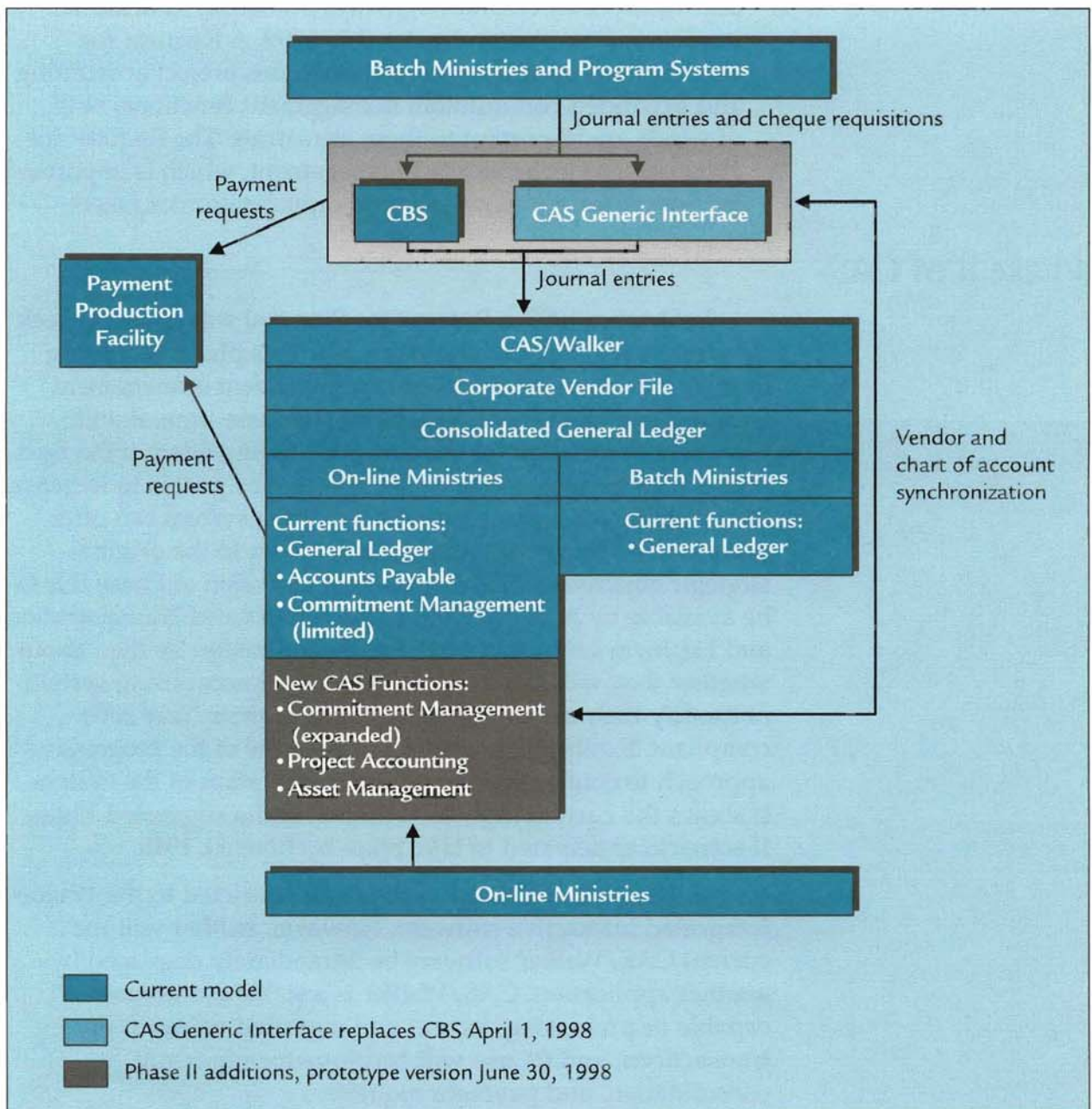
Update on Concerns Raised in Our Previous Report

CAS Generic Interface

In our last report we recommended that work should start immediately on the interface in order to ensure that it would be fully developed, tested, and operational before April 1, 1999. As noted above, this interface has been developed and is currently being tested. It is scheduled for full implementation on April 1, 1998.

Exhibit 6.2

Phase II Prototype – High Level Model



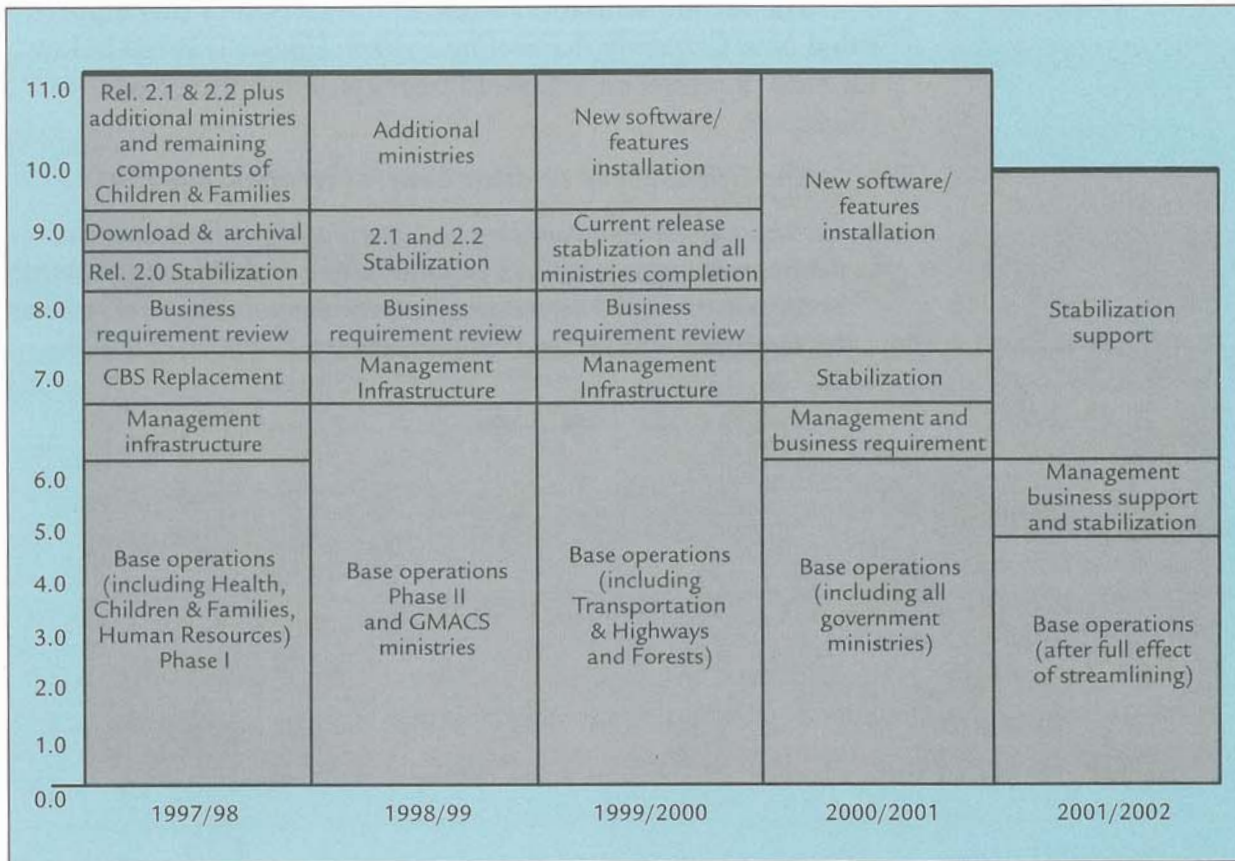
Source: Information from Request for Proposal issued October 1997

Long-term Funding

In our previous report we also recommended that a long-term funding arrangement be sought, to allow uninterrupted financing for the project. Given the short time frame proposed to complete the project, and the request for proposal issued in October 1997, availability of adequate funding remains a concern.

Exhibit 6.3

CAS Business Plan – Multi-year Corporate Funding Projections



Source: CAS Initiative office

Total funding for this project to March 31, 1997, is over \$40 million. Approximately \$11 million has been approved for the 1997/98 fiscal year. Funding for this project covers normal operating costs of the CBS and CAS, as well as development, procurement, and implementation costs.

Exhibit 6.3 sets out an estimate of the remaining cost of implementing a fully functioning CAS across government.

We recommend that continued strategic planning and monitoring of the successive development phases of the Corporate Accounting System be undertaken, and that improvements to the government's accounting, management and control systems be adequately funded on a long-term basis.



summary of recommendations

The recommendation made in the section of this report titled *New Corporate Accounting System: Update* is listed below for ease of reference. It should be regarded in the context of the report.

The Office of the Auditor General recommends that:

- *Continued strategic planning and monitoring of the successive development phases of CAS be undertaken, and that improvements to the government's accounting, management and control systems be adequately funded on a long-term basis.*



response of the ministry of finance and corporate relations and CAS executive steering committee

Because of the significant effect that the CAS Initiative continues to have on government financial accounting processes and reporting, it is critical that it remains accountable to its government-wide stakeholder community, and that it be effectively monitored by executive representatives of this community, as well as independently, by the Office of the Auditor General. We are pleased to report that the inter-ministry CAS Executive Steering Committee is actively managing the project and supports the overall direction.

The current report on CAS by the Office of the Auditor General represents a well-informed and objective review of the status of the Initiative, and a positive commentary as to how past problems have been addressed. As stated in the report, the Initiative has achieved considerable progress since the previous review, by stabilizing its operational components and extending its application to 5 additional ministries/agencies in the past year. To clarify the CAS cost figure included in the report, however, approximately half of this amount represents ongoing operational expenses of the corporate accounting systems, which would have been expended in any event, with the remaining half being true development.

As indicated, the next major hurdle faced by CAS is to eliminate the Year 2000 business disruption threat to government's accounting systems. The elimination of the old Central Batching System is on target, and procurement of new software, to meet the critical business needs of the ministries of Transportation and Highways and Forests and provision of a government-wide Asset Management facility are now underway. Initial implementation will concentrate on the Year 2000 risk elimination in all corporate and ministry feeder systems by no later than April 1999.

We would like to express our appreciation to the Office of the Auditor General for their continued interest and positive review, and for their ongoing support to continued and assured funding which we also feel is critical for the ongoing success of the CAS Initiative.



government financial and other information systems, and the year 2000 deadline

A review of the government's progress in preparing its financial and other information systems to handle the Year 2000 problem

Review Purpose and Scope

The "Year 2000 problem" has occurred because old computer programs generally used only two digits to identify the year. To reduce data entry time, storage space and processing time, the century was not entered. Therefore, when the programs must work outside the range of 1900-1999 in performing date-arithmetic operations, comparing date fields, or sorting by date fields, the resulting calculations could be wrong. The problem can exist in both mainframe or microcomputer hardware and software and computer firmware (application software embedded in a computer).

If not corrected, the Year 2000 problem could mean not only errors in calculations, but complete failure of some government financial systems. The deadline for modification before the Year 2000 depends on each system, but in most cases the deadline will be March 31, 1999, as the government's fiscal year begins April 1 and the changes need to be made for the government's 1999/2000 fiscal year.

As the auditors of government, we wanted to provide assurance to the Legislative Assembly and the public that work to correct the Year 2000 problem is under way, and that controls on which the government relies in safeguarding public funds will not be jeopardized. This is our second in a series of public reports commenting on how far along the government is in making the necessary system changes. We are planning to continue reporting on this important cross-government issue in the coming years. As time and resources allow, we will include in our work in-depth reviews of systems that are replaced or significantly repaired, to ensure critical controls have not been put at risk. We encourage the internal audit teams of each ministry to do likewise.

This year we conducted an overall review of ministry systems affected by the Year 2000 problem, and looked in

more detail at systems in six major program areas. Our review was done between September and November 1997, and did not include government agencies and Crown corporations. Part 1 of this report summarizes our assessment of the progress of government activities in resolving the Year 2000 problem. Part 2 summarizes our assessment of work done by ministries so far on six important financial systems.

Overall Assessment of the Year 2000 Initiative Across Government

In the few years remaining, much of the Year 2000 work is still to be done. Many significant financial and other information systems within the ministries are not yet Year 2000 compliant. As at October 1997, the list included such systems as the social services tax system, the medical services registration and premium billing system, the medical services claims system, the system for Pharmacare, the forest timber sales system, and the guaranteed income assistance system. All of these are classified as "mission critical," which indicates their importance to the success of the government's operations.

In general, the government is proactive and has a good, well-structured and well-organized approach to resolving the Year 2000 problem. Already, based on the work done so far, some applications are certified compliant. Others have been renovated and are in the process of being tested.

Ministries should have all their systems Year 2000 compliant by the start of one full business cycle before 2000. This would allow time to address any unanticipated difficulties before the critical date. For most financial systems, this desirable deadline is the beginning of the 1998/99 fiscal year. However, the majority of ministries report that they will not be Year 2000 compliant by then. The expected date for each ministry to be compliant is shown in Exhibit 7.1.

Ministry plans to deal with the Year 2000 problem are still being revised, as more systems are identified and risks associated with them assessed. Many ministries have only completed the first phase of their plan. This means that they have assessed the situation with reference to risks associated with each of their identified systems, and decided on the most suitable course of action for each one or major component of it. Renovation, repair, minor alteration, or "no action" are common choices, though in some cases it may be more advantageous to develop an intermediary system to enable the existing one to cope with the problem until a more permanent solution is found.

Exhibit 7.1

Expected Date for Year 2000 Compliance, by Ministry

Many ministries report that they will not be able to resolve the Year 2000 problem by the desirable deadline of March 31, 1998

Ministry	Expected Date for Compliance
Aboriginal Affairs	1998/99 fiscal year
Agriculture, Fisheries and Food	Second quarter of 1999
Attorney General	Mid-1999
Education, Skills and Training/Labour	1998
Employment and Investment	1998/99 fiscal year
Environment, Lands and Parks	N/A (to be defined in the 3-year plan being developed)
Finance and Corporate Relations	December 1998 (Vary, depending on priorities, resources available)
Forests	Mid-1999
Health	March 31, 1999 (priority financial systems) June 30, 1999 (priority non-financial systems) December 31, 1999 (low priority systems)
Human Resources/Children and Families	End of 1998 (August 1998 for major financial systems)
Municipal Affairs and Housing	December 1998
Small Business, Tourism and Culture	December 1998 (priority systems, 80-90% of total systems affected)
Transportation and Highways	December 31, 1999 (however some of the systems may not be compliant if resources are not sufficient)
Women's Equality	March 31, 1998

Source: Office of the Auditor General survey, October 1997

As ministries complete renovating or repairing their systems, testing and validation of these systems will be critical to their success in fixing the problem. At the time of our review, ministries expressed concern that the existing shared facilities and tools available for testing and validation may not be sufficient when deadline pressures build up. The ministries with a heavy Year 2000 workload recognize possible slippage of planned completion dates due to anticipated shortages in skilled personnel and possible funding constraints. Many systems may only become ready for testing close to the deadline.

Where a mission-critical system is not ready for testing in time, it is essential that a contingency plan be available to

minimize the risk of failure. Not many ministries have thought to build a contingent condition in their plan to fall back on if things did not work out as desired. There is a general optimism that all which is planned will be done.

We recommend that, for the ministries planning to achieve Year 2000 compliance in 1999, staffing and funding demands be reassessed now, as it will be more difficult to secure appropriate resources close to January 1, 2000.

We also recommend that ministries secure access to adequate testing tools and facilities soon to avoid delays when their systems become ready to be tested.

We further recommend that, where it looks likely that the Year 2000 compliance may not be achieved in time, ministries place more emphasis on developing a contingency plan to minimize the risk of failure.

Overall Assessment of Major Systems Reviewed This Year

We reviewed the progress in identifying and correcting the Year 2000 problems associated with six major financial systems. So far, projects responsible for these systems have addressed the Year 2000 problem adequately. Following is a summary of the progress for each system.

The Corporate Accounting System (CAS) is intended to be the government's main accounting, reporting, and financial management system. The software used by CAS has been certified Year 2000 compliant by the vendor and compliance testing is expected to be completed by July 1998. A connecting interface system has been developed and is being tested to ensure it is Year 2000 compliant.

The Corporate Human Resource Information and Payroll System (CHIPS) keeps track of human resource information and leave entitlements, and processes government payroll. The main application software used in developing CHIPS is certified by the vendor to be Year 2000 compliant. The environment within which CHIPS operates is not Year 2000 compliant. The expected date for Year 2000 compliance of all components is September 1998.

The systems for social service tax of the Ministry of Finance and Corporate Relations are used for the collection and recording of this tax. Many of them need to become Year 2000 compliant. To satisfy this with other management information needs simultaneously, the ministry has initiated

two separate projects. The "1999 Fixes Project" will act as a contingency to patch the existing systems to prevent failures due to the Year 2000. The "CTB21 Project" will replace existing revenue systems with a Year 2000 compliant integrated system. Work was about to begin on the contingency project in November 1997, and a completion date of December 31, 1998 had been set.

The Harvest Database System of the Ministry of Forests handles the calculation of stumpage billing and royalties earned from timber sales. A plan has been developed to make this system Year 2000 compliant, and its implementation is under way. The deadline set by the ministry for completion of work is January 1, 1999.

The Claims System of the Medical Services Plan processes over 90% of the billing for services of British Columbia's physicians and other health care providers. A plan is in place for this system to be Year 2000 compliant by March 31, 1999. In November 1997, the system's conversion was on schedule and financial and human resources were believed to be adequate for meeting the completion deadline.

The BC Benefits Program Computer System of the Ministry of Human Resources that processes payment of guaranteed income assistance is not Year 2000 compliant. A plan is established to address this problem, and the ministry has set August 1998 as the deadline for completion of the work.



Background

What Is the Year 2000 Problem?

Historically, computer programs made use of dates represented by only two digits for the year. The century was not entered. This was an important programming technique, as it reduced data entry, storage space and processing time. However, since these programs cannot differentiate between year 1900 and 2000, incorrect results may be produced when the programs perform date-arithmetic operations, compare date fields, or sort by date fields.

To change all systems involving mainframe computers and microcomputers so that they accept a four-digit year format is an enormous task. Many of these "legacy" systems are relatively old and are written in computer languages no longer used by modern programmers. The scarcity of skilled human resources to carry out the work is a world-wide concern of governments as well as the private sector businesses. Further complication arises because governments and private businesses have to modify their programs while still using them to support their current activities. These challenges are often collectively referred to as the Year 2000 problem.

Why Is the Year 2000 significant?

The Year 2000 problem can result in errors in calculations or the complete failure of some government financial systems. For example, errors could be produced when dates are used to calculate a person's age for eligibility to a pension, health care, or social assistance benefit. Or, if the field that signifies the expiry date for data files is left blank, the program may interpret the blank to mean the two zeros indicating the Year 2000, and wipe off irreplaceable data. The problem is further complicated since some computer systems will not recognize the Year 2000 as a leap year.

The deadline for modifying computer programs cannot be changed. In most cases that means March 31, 1999, as the government's fiscal year begins April 1. Date conversion should be completed in time to allow changes to be adequately tested before the deadline.

The Year 2000 problem extends beyond mainframe and microcomputer hardware and software. Other types of date-dependent devices are affected too. Within government, every computing or electronic regulating device—for example, building security systems, heating and air conditioning systems, elevators, and office equipment such as printers, photocopiers and fax machines—may all be affected. Of a more

serious nature are the many process control systems used in health care facilities. These include radiology equipment, processing equipment, and other mission-critical hardware components that use date-sensitive computer chips for processing. Many of these may not be Year 2000 compliant.

To successfully resolve the Year 2000 problem, the government must secure sufficient resources to allow ministries to develop, implement and test solutions. Because the resources for this work may be scarce, it is important to make sure that what resources do exist are applied to significant programs first. It is equally important to be realistic and think ahead about contingencies.

The Objective and Coverage of Our Review

While dealing with the Year 2000 problem, the government must continue to provide its service to the public and maintain appropriate control over its operations. Our responsibility is to provide assurance to the Legislative Assembly and the public that this work is being done without jeopardizing the controls on which the government relies in safeguarding public funds, and that the results of the operations will be properly accounted for.

Over the few years that it will take to resolve the problem, we will focus on the progress of the ministries in identifying and correcting this problem, especially as it relates to financial systems. This year we surveyed all ministries to gain a broad understanding of the progress. We used this survey as the base for an overall assessment of the status of ministry systems affected by the Year 2000 problem. In addition to this cross-government assessment, we looked closely at the work in progress in six specific program areas. These are outlined in Exhibit 7.2.

Which specific aspects of the progress did we assess?

There is no shortage of information about the Year 2000 initiatives in Canada and abroad. A study of the literature dealing with the Year 2000 problem highlights a number of key issues that must be addressed. These are:

- awareness of the Year 2000 problem;
- assessments of risk;
- action planning;
- adequacy of resources allocation;
- strategies for testing, validation and conversion; and
- monitoring of progress.

Exhibit 7.2

List of Information Systems Selected for Detailed Review

We looked at the work in progress on two corporate, two revenue, and two expenditure systems for their compliance with the Year 2000

<i>Function/Program</i>	<i>Ministry</i>	<i>Dollars Processed (\$ Billions)</i>	<i>Systems Identified</i>
Corporate Accounting	Finance and Corporate Relations	>80	Corporate Accounting System (CAS)
Corporate Payroll	Finance and Corporate Relations	2.2	Corporate Human Resource Information and Payroll System (CHIPS)
Social Services Tax	Finance and Corporate Relations	3.1	Social Services Tax System
Timber Sales	Forests	1.5	Forests Harvest Database System
Medical Services Plan	Health	1.7	MSP Claims System
Social Assistance	Human Resources	1.2	BC Benefits Program System

Source: The Public Accounts for amounts

According to the government's plan each ministry should have completed the following activities at the time of our review:

- compiled an inventory of all components likely to be affected by the Year 2000;
- analyzed the inventory and identified those components that will be affected;
- performed an impact analysis, categorizing each system according to its importance to the ministry and the Year 2000 exposure level;
- prioritized required work and developed a schedule and budget;
- considered contingency plans;
- decided whether it was going to repair or replace affected components; and
- ensured that any components it was considering buying are Year 2000 compliant, and included a suitable clause in its standard purchasing contract.

We sent a questionnaire to each ministry to survey its progress in meeting these requirements. As needed, we further contacted ministries to review the accuracy of their responses. We designed our questionnaire to assist us in measuring how

well, across government, the key issues outlined above have been addressed. In addition to the survey responses we received from each ministry, we collected information from the Chair of the Year 2000 Implementation Task Force, ministry representatives on the Task Force, senior management in the ministries, and other Provincial Audit Offices. Where provided, we also reviewed the inventory of systems prepared by each ministry and the impact assessment for each system; the Year 2000 plan prepared by each ministry; and reports on Year 2000 compliance issued by other legislative auditors in Canada and abroad.

Because this report does not result from an audit, we have not expressed an audit opinion on the information we gathered.

How Is the Government Organized to Deal With the Year 2000 Problem?

In dealing with the Year 2000 problem, the government has established the following roles and responsibilities:

- The Chief Information Officer has the responsibility of overseeing government efforts to ensure systems are Year 2000 compliant.
- The Information, Science and Technology Agency is to provide a corporate perspective on government Year 2000 activities.
- The Advisory Council on Information Management is to collect Year 2000 testing and processing requirements on shared platforms, and pass on the information to the Information Technology Services Division.
- The Information Technology Services Division is to provide the ministries with adequate testing and production operating environments, along with available conversion tools.
- The Ministry Executive Financial Officers are to provide leadership and take responsibility for Year 2000 initiatives in their ministry.
- The Ministry Information Systems Branches are to carry out initiatives to make all ministry systems (and forms) Year 2000 compliant.
- Treasury Board is to provide fiscal advice and support to ensure that ministry systems become Year 2000 compliant in a timely manner.

How does the Information, Science and Technology Agency deal with its Year 2000 responsibilities?

The Information, Science and Technology Agency (ISTA) is a central agency reporting to the Chief Information Officer, with a mandate to improve government processes through the better management of information and application technology. Its role, with regard to the Year 2000 problem, is to recommend an appropriate framework to ensure service to the public is not disrupted and unwarranted expense to government does not occur. In 1996, ISTA established a Year 2000 Implementation Task Force (Task Force) to address all aspects of the problem and serve as a primary contact for Year 2000 information and support.

The Chair of the Task Force has responsibility for:

- coordinating government's plans and activities for the Year 2000,
- identifying cross-government common information technology infrastructure,
- identifying tool requirements, and
- monitoring and reporting, through the Chief Information Officer to government senior management, on overall government progress in solving the Year 2000 problem.

A project coordinator from each ministry represents the ministry in the Task Force. The Task Force members regularly share information and lessons learned about their ministry's Year 2000 projects.

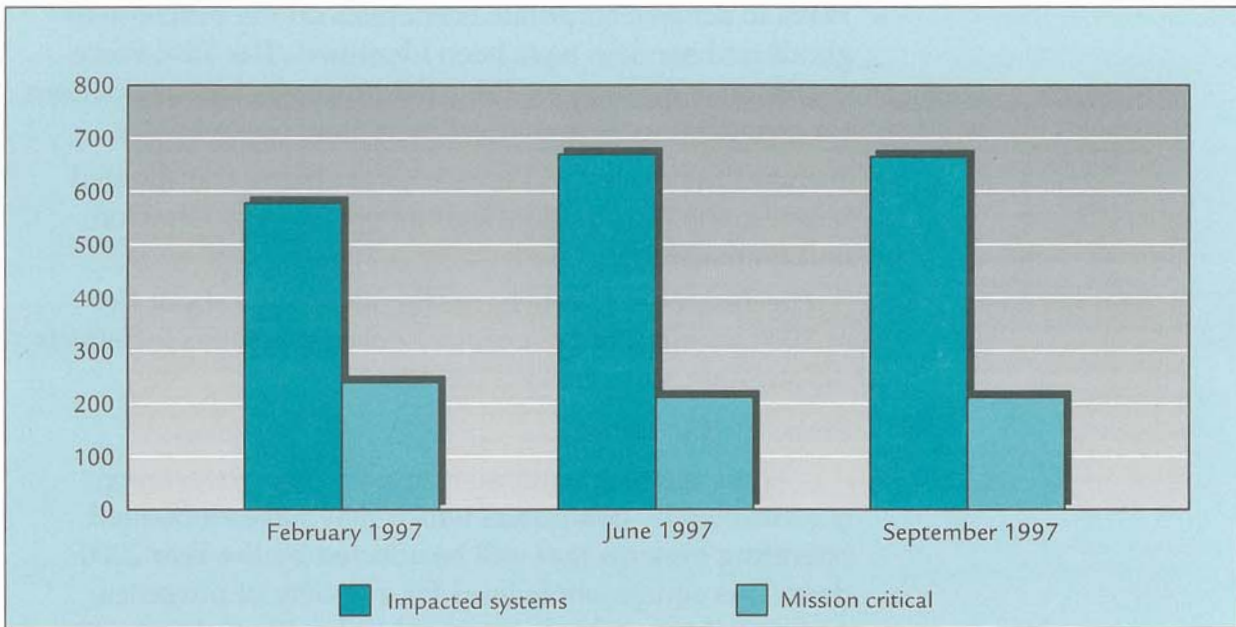
Since being established the Task Force has undertaken the following initiatives:

- A Year 2000 compliance definition has been adopted for government.
- A government-wide inventory of computer applications has been taken to determine the scope of the government's Year 2000 problem (see Exhibit 7.3).
- A preliminary estimate of costs and workload was made. (see Exhibit 7.4).
- A communication role has been assumed to make all government personnel, employees, and Cabinet members aware of the Year 2000 problem.
- A Web site "bulletin board" has been established to communicate Year 2000 information to all ministries.
- A uniform "date" standard was established.

Exhibit 7.3

Systems Affected by the Year 2000

Of all systems affected by the Year 2000 problem, approximately one-third are mission critical

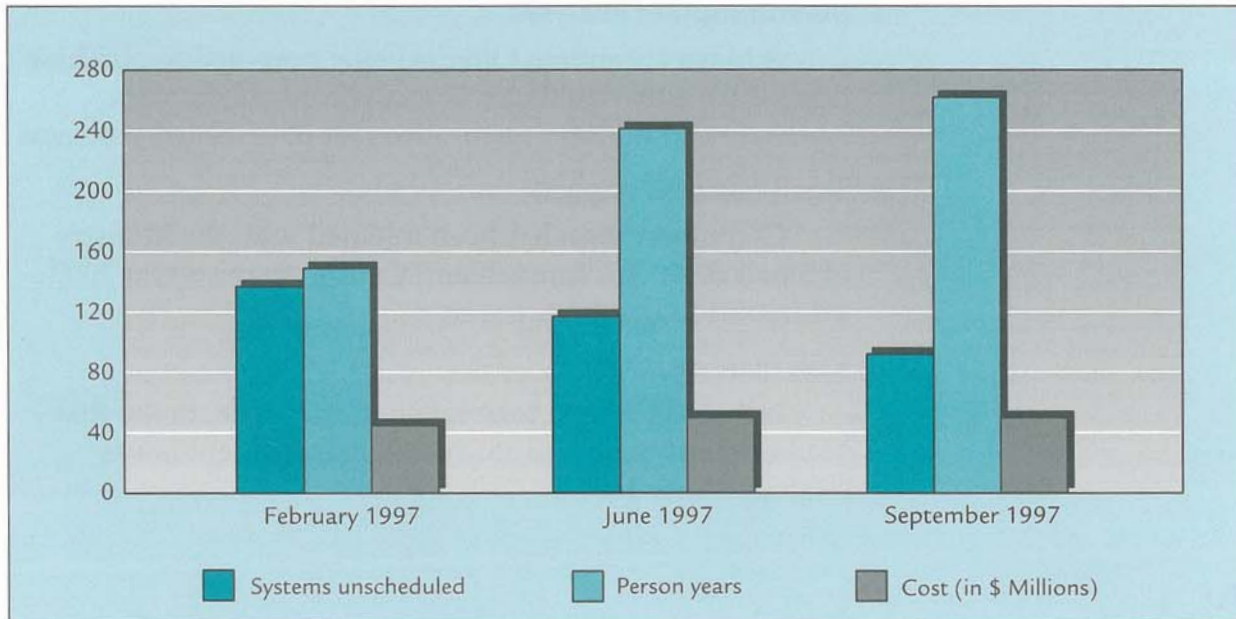


Source: Year 2000 Implementation Task Force

Exhibit 7.4

Estimation of Resources Required to Correct the Year 2000 Problem

The September 1997 estimates show the anticipated workload to be over 250 person-years (\$ Millions)



Source: Year 2000 Implementation Task Force

- Quarterly "Year 2000 Application Inventory Progress Reports" by ministry have been issued.
- "Quarterly Task Force Reports" have been distributed to senior management within government.
- Ways to achieve corporate economies on the purchase of goods and services have been identified. The Task Force coordinates Request for Proposal processes and evaluations for Year 2000 tools that affect more than one ministry.
- Testing timeframes and schedules are being coordinated between the Information Technology Services Division and ministries.

The Task Force's role in raising awareness about the Year 2000 problem in government goes far beyond the effects on application software and includes:

- Embedded systems:

Some modern equipment used by the government is controlled by computers which may have embedded operating systems that will be affected by the Year 2000 date. This equipment is used for a variety of purposes, and its failure could threaten public health, public safety and the environment. Awareness has been raised within the ministries. They have been asked for an assessment of the costs to make their business equipment Year 2000 compliant. Also, discussions have been initiated with British Columbia Buildings Corporation to identify the scope of the problem regarding the Year 2000 compliance of building-related systems under its management.

- Microcomputer analysis:

A Master Standing Offer is being prepared to purchase licenses for software that will analyze microcomputer hardware and ministry applications for date-related problems.

- Small business impact:

Communication has been initiated with the Ministry of Small Business, Tourism and Culture to raise Year 2000 awareness in the private sector.

- Risk management:

Initial steps have been taken to partner with the Risk Management Branch to study risk management issues related to Year 2000.

- Legal issues:

Legal advice has been sought from the Legal Services Branch of the Ministry of Attorney General to analyze possible implications to government of Year 2000.

How does the Information Technology Services Division deal with its responsibilities?

The Information Technology and Services Division (ITSD) provides much of the government's computer operations, network, and security services. It is responsible for ensuring that the mainframe computers and their operating software are Year 2000 compliant. It must also provide ministries with an adequate testing environment and proper conversion tools when ministries are ready for them. Ministries need this testing environment for two purposes. First, to test existing systems when they become Year 2000 compliant; and second, to test the purchased applications.

According to projections presented by ministries, the capacity of the ITSD testing environment, which currently meets ministries' requirements, will soon become significantly inadequate. The division recognizes that delays in correcting and testing high-risk ministry systems could result in increased cost and risk of failure. A Request for Proposal for increasing the data storage infrastructure on the "MVS" testing environment was put on hold by the government until mid-December, resulting in a four-week delay in the acquisition. The prospects of being unable to provide adequate capacity on this ITSD testing environment, especially when we know that 38% of mission-critical systems depend on it, is alarming.

To ensure all purchased applications are Year 2000 compliant, the ITSD has been compiling a list of vendors that supply both hardware and software products to the government. Vendors are being contacted about the Year 2000 impact on their products. Some vendors have told the ITSD that the delivery of their Year 2000 compliant products will be late.

Part 1. Assessment of the Year 2000 Initiative Across Government

Awareness of the Year 2000 Problem

The Year 2000 problem is as much a managerial as a technical challenge. For ministries with mission-critical applications, success or failure will largely depend on the quality of their program management and executive leadership. It is important that ministry executives understand the impact of the matter and communicate it to employees. In most ministries, we found that awareness of the Year 2000 problem had been raised at the executive, management, end user, and systems developer levels. In many ministries, an Information Technology Steering Committee provides executive support.

Overall responsibility for ensuring that government is Year 2000 compliant has been delegated to the Chief Information Officer, but at a ministry level, the Executive Financial Officers are responsible for bringing their ministry applications up to Year 2000 compliance.

The starting date of Year 2000 efforts varies across the government. Provincial Treasury, where work began in 1985, was the first to recognize the potential impact of the Year 2000 problem. Most ministries started their Year 2000 efforts in 1996. However, for the four ministries that began in early 1997, little time remains to address the problem.

Assessments of Risk

An inventory and subsequent assessment of all systems are necessary to allow sound decisions to be made on how to achieve Year 2000 compliance. The inventory should capture information on programs and their programming languages. It should also state whether the program is custom-designed or an off-the-shelf software; should list hardware with internal clocks, archived data, and other date dependent equipment; and should specify users of each application, including any external users.

In addition to their own inventory, ministries should inventory all external data exchanges as well. Even if a ministry has made its own systems Year 2000 compliant, its operations may fail if systems are contaminated by incorrect data entering from external sources. The ministry may have to develop appropriate filters to maintain the integrity of systems and the data within them.

We found that all ministries except two had completed an inventory. Of those that had completed inventories, however, not all had included lists of their off-the-shelf software and most had not inventoried archived data and other date-dependent equipment. Some ministries had also not identified external users in their systems inventory.

Once the inventory of systems was made, ministries should have decided whether each system is Year 2000 compliant or needs to be converted, replaced, or retired. The possible effect of failure of each system must be established and verified. Those systems considered most critical should then be given the highest priority when scheduling the conversion effort. To establish a conversion schedule and allocate resources, it is essential to consider both the impact on the business if the system fails, and the anticipated failure date.

All ministries, except three, have completed their risk assessments for non-compliant systems. In ministries that have completed risk assessments, three have not specified anticipated failure dates.

Of the 658 systems identified as sensitive to the problem, 210 are considered high risk. Of these high-risk systems, 84 are financial systems. At the time of our review, only 16 of these financial systems had been made compliant (see Exhibit 7.5).

Our survey indicated that most ministries had informally evaluated their vulnerability to external organizations that have not modified their systems for the Year 2000 problem. One ministry was in a process of analyzing its vulnerability, and expected to be completed by January 31, 1998. Another ministry was having the analysis conducted by a contractor. Two ministries reported that they do not exchange any data that would be affected by the problem.

Among the ministries that had analyzed dependencies on data from external sources, four ministries had not yet contacted the entities with which data is exchanged.

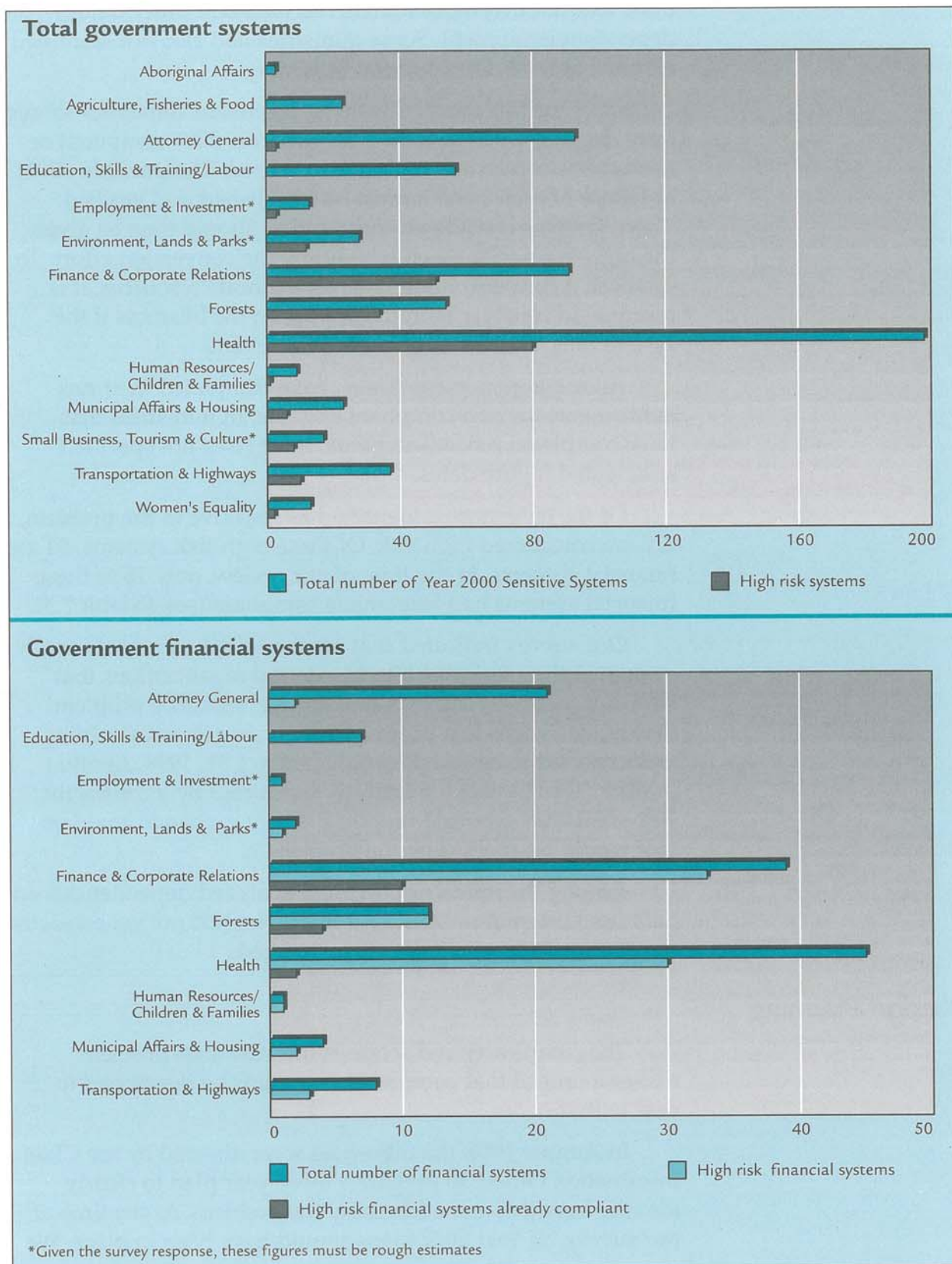
Action Planning

The complexity and scope of the Year 2000 problem makes it crucial that comprehensive plans be developed to deal with it.

In August 1996, the ministries were directed by the Chief Information Officer to prepare a three-year plan to clearly identify how they are addressing the problem. At the time of our survey, all Year 2000 plans should have been in place. We

Exhibit 7.5

High-Risk Systems Sensitive to the Year 2000



Source: Year 2000 Implementation Task Force Second Quarterly Report, October 10, 1997

found that three ministries were still working on their plans, but expected to have them in place by December 1997, March 31, 1998, and mid 1998, respectively.

Three other ministries with none or only a few high priority applications sensitive to the problem had included Year 2000 projects in their regular systems development or maintenance plans. This appears reasonable.

We found that most ministries have prioritized their Year 2000 non-compliant systems. One has prioritized only its major systems; another has prioritized only its strategic applications. One ministry is hiring a contractor to perform this work.

Systems failure can be very costly. Therefore, proper contingency plans to back up the Year 2000 turnover should be prepared in the event that:

- systems to be renovated could not be completed,
- replacement systems are not available,
- systems fail to operate as intended, or
- data received from external entities is not Year 2000 compliant.

Such plans should identify alternatives that would ensure the continuity of core business processes even if a system failed.

In their responses to our survey, the ministries generally expressed optimism that their implementation of repaired or new systems will be successful. In most cases, however, they had not developed contingency plans, often considering it too early to do so. Two assumptions were common:

1. If Year 2000 changes are implemented at least six months before January 1, 2000, there will be enough time to make additional modifications.
2. Regular reviews conducted to evaluate the urgency of having alternate strategies will suffice.

At the time of our review, only three ministries reported that contingency plans were being developed.

Adequacy of Resources Allocation

Projects to address the Year 2000 problem require considerable resources in terms of dollars and people. Some ministries have already reported difficulties with securing appropriate resources. If not attended to, these difficulties could hinder the process of making some important systems Year 2000 compliant by January 1, 2000.

In its September quarterly report, the Task Force estimated the total cost of making all ministry systems Year 2000 compliant at \$50 million and 11,508 person-weeks of work. A breakdown of these costs by ministry is shown in Exhibit 7.6. Responses to our October survey indicated that September estimates had increased in some ministries. We expect that costs will be even higher when systems not included in current inventories are identified.

Our survey highlighted two key concerns: 1) the difficulty in acquiring or retaining technical staff with the appropriate background and experience to work on Year 2000 projects; and 2) the difficulty in securing funding for the Year 2000 projects.

Exhibit 7.6

Cost Estimate of Year 2000 Activities by Ministry, as at September 10, 1997

Costs may rise if more systems are identified for inclusion in the existing inventory (\$ Thousands)

Ministry	Cost Estimate ⁽¹⁾
Aboriginal Affairs	0
Agriculture, Fisheries and Food	96
Attorney General	380
Education, Skills and Training/Labour	360
Employment & Investment	461
Environment, Lands and Parks	895
Finance and Corporate Relations	25,295
Forests	966
Health	10,143
Human Resources/Children & Families	3,998
Municipal Affairs and Housing	19
Small Business, Tourism and Culture	100
Transportation and Highways	2,556
Women's Equality	8
	45,277
Test MVS Platform	4,267
Microcomputer Software	500
Total	50,044

⁽¹⁾Because ministries are still developing their Year 2000 plans, their estimates may change.

Source: Year 2000 Implementation Task Force Quarterly Report, October 1997

We found clear evidence of these concerns:

- One ministry reported that it did not expect all of its Year 2000 sensitive systems to be compliant by January 1, 2000, unless funding was approved to hire contractors with the necessary skills—if they could be found. One of its alternatives is to abandon repairs on additional applications.
- Three ministries reported problems finding qualified staff or contractors.
- One ministry reported losing trained staff and indicated that it may not have enough people who understand the ministry's complex applications.
- All except one ministry reported that they planned to use contracted consultants to perform Year 2000 work for them. Some of these contracts were still in the Request for Proposal stage.
- Three ministries reported budget concerns. These ministries are using funds from their existing 1997/98 base budget allocations and are not expecting to receive new funding.

At present projections of need, the Task Force has estimated a funding shortage of \$20 million for ministries to complete their Year 2000 projects.

Strategies for Testing, Validation, and Conversion

According to an independent consultant working on the Year 2000 problem, validation and testing of converted or replaced systems may consume up to 40-50% of the time and resources dedicated to the overall initiative.

It is important that test facilities be clearly identified and their availability ensured. Ministry Year 2000 plans should include sufficient time for testing, and contingency plans should recognize unanticipated schedule delays.

The ministries reported that they have developed or are developing their testing plans and have identified requirements for the Year 2000 test facilities. Some ministries will be using their own Year 2000 tools and facilities; others will be sharing tools and test facilities, such as those provided by the ITSD. Careful coordination of testing schedules is clearly important to ensure that time is available to meet planned deadlines by ministries.

To ensure shared tools and facilities will be provided to all who need them, an Application Scheduling Form has been developed and made available on the Year 2000 Website. Applicants can enter information required by the ITSD to coordinate testing, software requirements, and capacity planning.

The "MVS" is a major information technology mainframe environment. Approximately 38% of the high-risk ministry systems run in this environment. The ITSD has built Year 2000 test platforms for the forward-date testing that ministries must do to ensure their systems are Year 2000 compliant. However, both the ministries and the ITSD have reservations as to the accuracy of the projected capacity required for testing. This is because the Year 2000 testing is unique and has not been carried out before. Any shortage in the testing capacity could result in increased costs and a growing risk of failure for these systems. We think it is critical that the ITSD regularly review capacity usage, and that the Chief Information Officer and Treasury Board be supportive in responding to requests for increased capacity.

Monitoring of Progress

Unless closely monitored, system development often takes longer and costs more than planned. For the Year 2000 projects, unfortunately, time cannot be extended. Program monitoring, therefore, must be rigorous.

The Chief Information Officer receives quarterly reports from the Task Force. They are also distributed to all Assistant Deputy Ministers, members of the Advisory Council on Information Management, and the Treasury Board Secretary. The Task Force prepares the reports based on the inventory of systems and progress report submitted by each ministry. Each report provides an account of government-wide Year 2000 activities; describes ministries' accomplishments in the last quarter, activities planned for the next quarter, and problems encountered; and includes Task Force recommendations. It also indicates how many systems are of high, medium or low risk, lists the number of applications already renovated and in progress, and provides an estimate of person effort and funding requirements.

With the exception of two ministries, we found that all other ministries have reporting procedures in place to monitor Year 2000 projects, and their senior management receives project updates. The two remaining ministries report their Year 2000 work to senior management as part of their regular updates on system maintenance activities.

Embedded systems

Some modern equipment used by the government is controlled by computers that may be embedded with operating systems that will be affected by the Year 2000 date. Embedded operating systems are devices used to control, monitor, or assist the operation of equipment or machinery. The simplest device consists of a single microprocessor chip that has been preprogrammed to perform only a single function or set of functions, sometimes on a set time schedule.

We did not intend to include these systems in our assessment of the work in progress in British Columbia to resolve the Year 2000 problem. However, we have learned that most ministries have not assessed the Year 2000 risk of failure for equipment containing embedded systems. In our opinion, such systems may present significant problems. Their failure could disrupt business operations, pose a threat to the environment and the health and safety of people, and even result in legal difficulties. We understand that the government has started some initiatives to raise awareness of the problem and assist ministries in getting these systems Year 2000 compliant.

We believe that a cross-government assessment of progress in this area must be done.

Part 2. Detailed Review of Specific Year 2000 Projects

During October and November 1997, we reviewed the progress in identifying and correcting the Year 2000 problems associated with six major financial systems. We selected two systems each from corporate functions, expense programs, and revenue programs. Once these systems are made Year 2000 compliant, we plan to evaluate them to ensure no significant control has been compromised as a result of the work.

The Corporate Accounting System

The Corporate Accounting System (CAS) is intended to be the government's main accounting, reporting, and financial management system. It currently processes general ledger, accounts payable, and commitment management transactions.

The CAS project seems to be addressing the Year 2000 problem adequately, and plans to be compliant by April 1, 1998. However, the implementation of CAS is still under way. Therefore, since not all ministries would be online by April 1, 1998, the CAS project must develop a connecting system to translate data received from other financial accounting systems into a CAS-acceptable format. This connecting system, called the CAS Generic Interface (CGI), has been developed recently and is being tested to ensure it is Year 2000 compliant. It is necessary, however, that the ministries using the interface make all their existing financial accounting systems compatible with it by April 1, 1998, and their program systems supporting services fully Year 2000 compliant by April 1, 1999.

Detailed Analysis

The government's plan is that CAS will eliminate the Central Batching System (CBS), an obsolete system used to process expenditure transactions, make payments, and update the government's general ledger. The CBS uses technology that is neither supportable any longer at a reasonable cost nor Year 2000 compliant.

For financial accounting, ministries currently use one or a combination of the following systems:

- the "old" batch system, which updates the Walker general ledger and makes payments for the ministries that use the CBS; and
- the "new" CAS system, which maintains the general ledger and processes purchase orders, invoices, and payments for on-line ministries.

The CBS will be phased out on April 1, 1998. It will be retained only to close out the 1997/98 fiscal year. The CAS Generic Interface will eliminate the need for the CBS on March 31, 1998, by allowing both "old technology" and "new technology" to interface with CAS.

Testing of the connecting system is under way to ensure it is Year 2000 compliant. It will not interface with programs that do not have a four-digit year code. As of November 1997, six ministries were on-line with CAS and did not need to interface through the connecting system. The other ministries must either develop code that will translate data from their financial applications into the interface's Year 2000 format by March 31, 1998, or join the on-line CAS ministries.

Walker, the software used by CAS, has been certified Year 2000 compliant by the vendor and is being tested to ensure compliance in various environments. The CAS team is expecting to complete the Walker validation by July 1998. We have also commented on CAS on page 95 of this report.

The Corporate Human Resource Information and Payroll System

The Corporate Human Resource Information and Payroll System (CHIPS) keeps track of human resource information and employee leave entitlements, and processes payroll for approximately 34,000 government employees.

While the main application software used in developing CHIPS is certified by the vendor, PeopleSoft, Inc. to be Year 2000 compliant, testing, validation and conversion of CHIPS have not yet been completed. The operating environment within which CHIPS operates is not Year 2000 compliant.

Detailed Analysis

The latest version of the CHIPS software was installed in November 1997. Planning has already started for implementing the next release. CHIPS uses an application software from PeopleSoft, Inc. The vendor certifies that all its products are Year 2000 compliant. At the date of our review, the Year 2000 testing of CHIPS application software was under way.

The operating system used by CHIPS is not Year 2000 compliant, and required enhancements are now being done. The expected date for the operating system to be certified compliant is May 1998.

Other non-Year 2000 compliant products used in the CHIPS operating environment have also been identified. These are expected to become compliant in September 1998.

We have reported on the system's internal control separately in this report on page 141.

The Social Services Tax System

The *Social Service Tax Act* imposes a tax on all tangible personal property and specified services purchased within British Columbia or imported for use. There are approximately 96,000 social service tax vendor accounts, with about 65,000 tax returns filed each month. In the fiscal year 1996/97, the Province collected \$3.1 billion in revenue from social service tax.

The Consumer Tax Branch of the Revenue Division of the Ministry of Finance and Corporate Relations is responsible for administering and enforcing this tax. Many of the computer applications used by the branch for the collection and recording of social service tax are not Year 2000 compliant.

The Revenue Division recognized the need to address the Year 2000 problem in 1995. At the same time, it identified two other factors affecting the collection and recording of provincial taxation revenue: the technological obsolescence of existing systems, and the insufficiency of managerial information. The solution for the Revenue Division was to initiate a project to evaluate the alternatives available to overcome all of these inhibiting factors. A Project Steering Committee was formed to ensure the project meets the needs of all stakeholders. The Assistant Deputy Minister of the Revenue Division is the executive sponsor of the project.

To overcome the Year 2000 problems identified, the Revenue Division decided to work on two separate projects. The "CTB21 Project" will replace existing revenue systems with a Year 2000 compliant integrated system. The "1999 Fixes Project" will act as a contingency to patch the existing systems to prevent failures due to the Year 2000.

Initially, the objective of the 1999 Fixes Project was only to prevent any system failures before the Year 2000. Management is well aware of the risks inherent in replacing a system, and has developed a contingency plan to protect the organization in the event of project delays. The scope of the 1999 Fixes Project has been expanded to ensure existing systems remain operational beyond December 1999. Management estimates the cost of the 1999 Fixes Project at \$1.2 million.

Detailed Analysis

The Revenue Division has established two separate projects. The CTB21 Project will address management's information requirements by replacing existing revenue systems with a Year 2000 compliant integrated system. The 1999 Fixes Project will act as a contingency to patch the existing systems and prevent any system failures before and after the Year 2000.

The CTB21 Project began in the fiscal year 1996/97. This project is to be developed in three phases, shown in Exhibit 7.7.

CTB21 phase 2 is scheduled to be complete by the end of fiscal 1997/98. The phase 2 contractor must provide the following strategies and plans for phase 3:

- application development plan,
- implementation strategy and plan,
- testing strategy and plan, and
- acceptance and training strategy and plan.

As the information for the implementation plan was in the development stage at the time of our review, we could not complete an evaluation of this area at this time.

The start of CTB21 phase 3 is scheduled to overlap with the finish of phase 2. This timeline will give the project approximately two years to meet the December 31, 1999 deadline. However, the deliverables from Phase 2 of the CTB21 project will determine if any additional resources are required to successfully meet the project deadline. Consultants are to perform most of the work.

Exhibit 7.7

CTB21 Project Schedule

The timeline for the three phases of the project

	Work Performed	Status
Phase 1	Feasibility Study	Completed February 1997
Phase 2	Business Redesign and Systems Requirement Definition	In progress (began June 1997)
Phase 3	Design, Construction and Implementation	In planning

At the time of our review, a contract was not in place for phase 3 of the project. Because the project deadline coincides with the Year 2000 deadline, delays may affect the ability of the contractor to complete the project by the required deadline.

The 1999 Fixes Project

The initial strategy for the CTB21 Project did not include a contingency plan. However, the Revenue Division recognized the need for such a plan to safeguard the organization in the event of system failures. It therefore expanded the scope of the 1999 Fixes Project to ensure systems remain operational beyond December 31, 1999. With the existing systems operational into the next century, the Consumer Tax Branch and Revenue Administration Branch will be able to continue to collect and account for social service tax without any disruption.

The timeline for completion of the 1999 Fixes Project is December 31, 1998. This deadline is set so that the existing systems will function for any forward dating. At the time of our review in November 1997, a project strategy was being developed and work was to begin. The project is staffed with a combination of consultants, CTB21 team members, and Revenue Information System Branch staff.

The CTB21 team has identified the following risks within the 1999 Fixes Project:

- the lack of availability of qualified resources: staff and contractors;
- the rising prices demanded for Year 2000 work; and
- the fact that the project method does not meet the government's Year 2000 compliance standard.

To respond to the first two risks, the ministry has committed its support for staffing and financial costs. Given the short-term life of any applications fixed under the contingency project, however, the CTB21 team has determined that the methods proposed for fixing existing systems are the most cost-effective.

The Forest Harvest Database System

The Ministry of Forests is responsible for managing British Columbia's wood fiber resources. As part of doing this, it is responsible for billing and collecting stumpage revenue on behalf of the Province. Calculation of stumpage billing and royalties earned from timber sales, is handled by the ministry's Harvest Database System (HDBS).

The HDBS is not Year 2000 compliant. This poses a significant problem because the HDBS is the main source of information the ministry uses to determine the billings for timber sales. If it is not made Year 2000 compliant by the required deadline, there will be a delay in the collection of stumpage revenue, resulting in cash flow problems and a possible loss in interest revenue. This could be critical, given that the ministry collects \$1.5 billion in stumpage revenue per year.

To meet the government's Year 2000 compliance standard, the system would have to correctly process date/time values beyond the Year 2000, with no practical limitation on the range of dates supported. All dates would have to be converted to an eight-digit format to include the century. Instead, the ministry has decided that, rather than following the government's compliance standard, it will make this system Year 2000 "capable" using a technique called "sliding window." This technique handles two-digit year dates and properly determines which century a date belongs to.

The Year 2000 plan has been developed and its implementation is under way. However, at the time of our review it was one month behind schedule. The availability of qualified technical staff is also a problem that has to be dealt with by senior management, to ensure that the HDBS is made Year 2000 compatible by January 1, 1999.

The HDBS interfaces with many other systems. This puts it at risk if the other systems are not Year 2000 compliant. The billing calculations, for example, could suffer if required information were not received by HDBS. The HDBS group is not monitoring the progress of these other systems. Nevertheless, because these systems are within the Ministry of Forests, we trust that the ministry Year 2000 team is monitoring their progress.

Detailed Analysis

To ensure that the HDBS is Year 2000 compliant in time, senior management has set the following objectives for conversion:

- to develop an appropriate, cost-effective strategy for converting the HDBS so that it correctly processes dates beyond the Year 2000;
- to make the HDBS Year 2000 capable before January 1, 1999; and
- to minimize change to other systems dependent on the HDBS by preserving the six-digit date format.

The ministry has also decided to make the existing HDBS, which is an old application, capable of handling the Year 2000. The implication of this strategy is that this legacy system will not strictly adhere to government Year 2000 compliance standards, but instead will result in an application that is capable of processing dates beyond the Year 2000 at a greatly reduced cost.

To meet its objectives, management has established a project team with clear roles and responsibilities. Total resources estimated for the project team to convert the HDBS is \$400,000 and 234 person-weeks. This estimate is based on the assumption that there will be no change to the system throughout the project. The project must be fully staffed to remain on schedule.

The project plan is designed and approved for the HDBS and implementation is currently under way. The plan is made up of four phases:

1. initiate project
2. convert HDBS legacy software
3. test HDBS for Year 2000 capability
4. roll out certified software to production

Phase 1 is now complete. It involved collecting and reviewing background documents, finalizing a Year 2000 tool set, determining a conversion strategy, and preparing a project charter. This phase also involved obtaining an inventory of all applications to ensure they are all converted.

Phases 2 through 4 are going on now. The conversion is being done in sections; therefore the phases will be overlapping. The schedule is to have all sections Year 2000 capable by the required date of January 1, 1999.

January 1, 1999, is set as the deadline because forest tenures are granted for each fiscal year before the year begins. Tenures for the 1999/2000 fiscal year will therefore have to be entered into the system before the fiscal year begins, so that billings can be determined. However, this is not the case with all tenures. The ministry has already received some for the 1999/2000 fiscal year. The HDBS team plans to deal with these tenures manually until the system is Year 2000 capable. As the ministry approaches the Year 2000, of course, processing these tenures manually could become an arduous task.

The keys to successful implementation include pre-testing the system adequately and conducting a post-implementation review to ensure the system is operating correctly. The project

plan estimates the testing phase to take up 50% of the total effort required for the conversion.

Separate development and test environments are required by the plan. This allows the programming staff to develop code in an isolated environment. Work can be efficiently carried out without the potential to destroy test or production data. A separate test environment also enables the simulation of system tests at future points in time, without affecting the production environment.

Implementation of the system also includes a validation phase to ensure the repaired system is running as required. This phase includes a post-implementation review and an opportunity to make any adjustments to the system.

So far, no obstacle has hampered the planned progress. At this stage, however, the shortage of adequately skilled people seems to be a potential issue. The HDDBS is experiencing a very high rate of staff turnover, and difficulty in competing for contractors.

The MSP Claims Systems

The Medical Services Plan (MSP) pays physicians and other health care providers for most medical services provided to the residents of British Columbia. The plan operates under the *Medical and Health Care Services Act* and is administered by the Medical Services Commission of British Columbia.

The MSP Claims System processes over 90% of the services billed through the plan. Claims for payment of services are received from over 3,600 locations around the province and processed centrally at the Ministry of Health. These payments amount to approximately \$1.7 billion annually. Most practitioners bill MSP by means of the Teleplan system, a computer network for transferring claims data. All claims are validated electronically to reduce the risk of improper billing. Accepted claims are paid semi-monthly.

The MSP Claims System is not Year 2000 compliant; its compliance deadline is March 31, 1999. This means that full conversion testing and implementation must be completed before then.

Under the system, physicians and other health care providers are paid for services they perform. If the system fails, MSP would resort to another system developed for emergency payment. However, that backup system cannot determine the practitioners' payments with accuracy, because it uses an averaging formula of past claims.

At the time of our review in November 1997, the MSP Claims System conversion was on schedule, financial and human resources were adequate, and no significant obstacles had been encountered. If the ministry's project management and executive leadership stays unchanged and the resources adequate, we are confident that conversion will be successful.

Detailed Analysis

The Ministry of Health initiated its Year 2000 project in February 1996. It identified the need for outside consultants and issued two Requests for Proposal. The contracts for all Ministry of Health conversion services and products were awarded in March 1997. Conversion services for the MSP Claims System are to occur in two phases:

Phase 1 – Planning and Assessment

(completed August 31, 1997); and

Phase 2 – Design, Construction, Testing, and Implementation
(initiated in August 1997 and planned to be completed by December 31, 1998).

The ministry's Year 2000 three-year plan was to be developed in Phase 1. The completed plan was submitted to the Information, Science and Technology Agency in September 1997. To oversee the Year 2000 project, and to guide the conversion process, a Project Steering Committee and a Year 2000 Project Team have been established. The Information Management Steering Committee reviews the project progress. In addition, a Year 2000 Working Committee has been established to ensure that all ministry products, services, application programs, equipment, and forms continue to function after December 31, 1999. The funding estimate of \$10.9 million for the ministry's Year 2000 initiatives has been approved.

The ministry's three-year plan outlines an impact analysis, a Year 2000 strategy, and a critical path for achieving compliance by December 1998. It also includes recommendations for non-compliant embedded systems, and testing and implementation recommendations.

Threats to the successful implementation of the plan have been identified. The major risks relate to shortages in:

- human resources,
- time and funding, and
- facilities to test applications.

As the effects of non-compliance on the ministry's business functions could be severe, the ministry intends to

begin the MSP Claims System conversion as soon as possible. To perform this conversion, it has estimated that 320 person-weeks are required at a cost of approximately \$1.3 million. Resources are allocated to conversion, and the Year 2000 project manager will monitor the status of the project every two weeks until completion.

The MSP Claims System has been broken down into 15 subsystems. Most of these subsystems will have to be repaired to handle the effects of the Year 2000. A few will have to be completely rewritten. The ministry has developed proper processes, and has acquired tools that will be used for each claims subsystem conversion.

Specific individuals have been given the responsibility for certifying and approving of procedures, schedules, and compliance. These individuals are knowledgeable about the Year 2000 compliance definitions and the specific subsystem that is being converted. They will be required to certify that the subsystems have been accepted as Year 2000 compliant after they have been thoroughly tested by the users.

The ministry is already feeling the impact of the Year 2000 problem, and has taken steps to facilitate the date problems being encountered in the MSP claims area.

The BC Benefits Program System

Under the *BC Benefits (Income Assistance) Act* and the *Disability Benefits Program Act*, the Ministry of Human Resources makes in the order of 350,000 financial transactions per month. This includes payments for income support to some 175,000 income assistance and disability benefits cases, as well as payments to child care providers for some 50,000 children.

The computer system that processes these payments is referred to as the BC Benefits Program System (BPS). It is used by over 2,000 ministry staff and controls approximately \$140 million in payments per month. The ministry has determined that the current BPS is not Year 2000 compliant.

Failure of the BPS would be a serious matter, not only to the people who rely on income support, but to the government in whom public confidence could suffer. The Ministry of Human Resources has established a project plan to address this problem. Although it is only in its early implementation phase, we think progress to date seems satisfactory.

Our survey indicates that ministry senior management is aware of the Year 2000 problem, and strong communication lines have been established through steering committees and

monthly status reports. A thorough risk assessment has been completed and the importance of this project has been recognized. The ministry's plan is well thought out and detailed. A project timeline consistent with the implementation plan has been drawn and is being followed closely.

At the time of our review, necessary resources had been allocated to the work, but a contingency plan was not in place. The ministry's success in making the BPS Year 2000 compliant will largely depend on management's planning and ability to properly implement the Year 2000 strategy.

Detailed Analysis

A consulting group was contracted in January 1997 to implement a Year 2000 project plan for the BPS. The first step performed was a "High-Level Impact Assessment." This was completed in April 1997, and included the development of:

- a communication plan,
- an impact analysis,
- Year 2000 compliance guidelines,
- an application portfolio including initial inventories, and
- conversion, release, migration and testing strategies.

The first objective during the second step was to complete a Master Project Plan. It was produced by the end of June 1997. This document provides a plan for the Conversion Phase and includes a detailed project schedule and estimate of effort and resources required to convert the ministry's computer systems. To perform the conversion of the BPS and related systems, it is estimated that 1,313 person weeks are required at a cost of approximately \$3.7 million. This cost is to be shared with the Ministry for Children and Families, as they also use the systems. The planned completion date of the conversion of the ministry's computer systems is December 31, 1998.

A Steering Group Committee consisting of ministry executive and chaired by the Assistant Deputy Minister, Finance and Management Services, was formed in November 1997 to meet monthly. Similarly, a Working Group consisting of Directors of each of the divisions was formed at the end of November 1997. Our survey indicates that the Ministry of Human Resources is doing an adequate job of ensuring awareness of the Year 2000 problem among senior management and ministry staff.

Staffing for this project was initially a concern, as appropriate skill levels were difficult to attract. Adequate staff have now been retained. Another concern raised was the decision turnaround time. This concern has been addressed by the implementation of a "decision information request process" which has successfully decreased time between decisions.

Function testing, which involves a mini system test, has a completion date of May 1, 1998. A complete test of the converted BPS is scheduled to begin May 1, 1998, and will take between six and eight weeks to complete.

Controls are in place to ensure all manufacturers, vendors, and third-party suppliers of products are certifying that their products are Year 2000 compliant. In addition, all ministry hardware and software licenses are now being documented for Year 2000 compliance, and mechanisms are being developed to reduce the dependency on the timing of the changes concerning third parties.

The timeline associated with the Year 2000 project seems to be accurate, as all goals have been met to date. As the work on the BPS is scheduled to be completed in August 1998, the ministry has not contemplated a contingency plan.



summary of recommendations

Recommendations made in the section of this report titled *Government Financial and Other Information Systems, and the Year 2000 Deadline* are listed below for ease of reference. They should be regarded in the context of the report.

The Office of the Auditor General recommends that:

Overall Assessment of the Year 2000 Initiative Across Government

- *For the ministries planning to achieve Year 2000 compliance in 1999, staffing and funding demands be reassessed now, as it will be more difficult to secure appropriate resources close to January 1, 2000.*
- *Ministries secure access to adequate testing tools and facilities soon to avoid delays when their systems become ready to be tested.*
- *Where it looks likely that the Year 2000 compliance may not be achieved in time, ministries place more emphasis on developing a contingency plan to minimize the risk of failure.*



government-wide response

During the review we received comments from the Information, Science and Technology Agency (ISTA) and the Ministries of Finance and Corporate Relations, Forests, Health, and Human Resources on matters referred to in this review.

As these comments are reflected in the report, ISTA and ministries felt no response was necessary.



corporate human resource information and payroll system

A review of special leaves, benefits, and supplementary salary costs

Review Purpose and Scope

This review looks at the initiation, calculation, and recording of non-routine payroll transactions processed through the new Corporate Human Resource Information and Payroll System (CHIPS). This system is designed to maintain human resource information, track leave management entitlements and transactions, and process payroll for approximately 34,000 government employees.

In 1997, a post-implementation review of CHIPS was performed by the Internal Audit Branch of the Office of the Comptroller General. Included as part of the review was an assessment of the system's control framework. The review concluded that while the control framework for the most part is effective in managing risks, ministries need to strengthen controls in their operations related to CHIPS, particularly with respect to their monitoring and review functions.

The purpose of our review was to supplement, rather than duplicate, the work performed by the Internal Audit Branch. Accordingly, we looked in detail at some of the higher risk non-routine transactions processed during the 1996 calendar year, such as special leaves, non-standard benefits, and supplementary salary allowances. We reviewed these transactions primarily for accuracy and validity, including the processes in place to minimize the risk of error or fraud occurring and remaining undetected. We also reviewed the work done by the Internal Audit Branch on the control framework for CHIPS and performed such additional work as we considered necessary to enable us to report on these controls.

Overall Conclusion

Based on our review of the work done by the Internal Audit Branch and our review and testing of the application controls and non-routine transactions in CHIPS, we concluded that the control framework provides reasonable assurance that only valid payroll transactions are processed and in the correct amount. However, although the overall control environment provides reasonable assurance that any significant number of errors in non-routine payroll transactions will be detected, improvements to control procedures are needed at the ministry level. Our testing found instances of unauthorized transactions, coding errors, data entry errors, and inconsistent practices. While the sample transactions we examined did not lead to our noting any but minor errors, we think the opportunity exists for larger errors to occur. Because of this risk we believe that ministries need to strengthen their authorization, monitoring, and review procedures, and to develop policies and procedures that specify functions and responsibilities as they relate to CHIPS.



Background

Post-Implementation Review of CHIPS

On December 27, 1995, the Public Service Employee Relations Commission implemented the payroll part of CHIPS, a system that was designed to maintain human resource information, track leave management entitlements and transactions, and process payroll for government employees. Currently, CHIPS processes "employee benefits" as well as "payroll" and provides information used for managing employees, positions, and leave entitlements. Once fully implemented, CHIPS will also support human resource management functions such as the recruitment and selection of employees, the monitoring of employee numbers, the training and development of staff, and labour relations.

CHIPS is administered centrally by the CHIPS Office, within the Public Service Employee Relations Commission. The office provides business and technical support and training, and is responsible for the centralized processing of CHIPS data. Individual ministries are responsible for all data entry, reporting, and the review and monitoring of CHIPS transactions.

In our 1996/97 Report on the 1995/96 Public Accounts, we discussed our intention to report on the adequacy of the financial and processing controls of CHIPS during 1997/98. In the meantime, the Internal Audit Branch (the branch) of the Office of the Comptroller General conducted, a post-implementation review of CHIPS jointly with KPMG, Chartered Accountants. This review focused largely on the financial and processing controls incorporated into the new payroll system.

We reviewed the work done to support the branch's report, and also carried out tests and other work needed to assess conclusions reached in the report. We therefore decided not to conduct our own evaluation at this time. Instead we chose to supplement the report findings with our own review of a selection of non-routine payroll transactions currently processed through CHIPS, and an assessment of the control procedures established by ministries for ensuring their validity and accuracy.

Our review of CHIPS focussed on the application controls in place at the ministry level. Application control procedures, whether they are manual procedures that use computer-produced output for the exercise of these procedures or are

automated control procedures contained within computer programs, depend on the reliability of the general environmental controls in place. General environmental controls, such as the segregation of duties, physical security, electronic access and back-up recovery, were assessed and reported by the branch in its post-implementation review. We have relied on this assessment in our evaluation of the control procedures in place at the ministry level.

We first reviewed and assessed the general application controls in place for the processing of standard payroll transactions and followed this with a review and assessment of controls specifically in place for non-routine transactions.

Conclusions – General Application Controls

The following is a summary of our conclusions, which concur with those of the branch, in respect to the general application controls. Our conclusions on controls with respect to non-routine transactions follow in the next section.

1. In ministries, duties between human resource functions and payroll leave functions are not always segregated. When the same person can create an employee record, effect payment, and receive the cheques and payment advices, there is an opportunity for staff to enter unauthorized transactions and redirect payroll payments.
2. Ministry management relies on a review process, referred to as “pay confirm,” to detect and stop unauthorized transactions before data is submitted to produce the payroll. The effectiveness of this control relies on the consistent review by experienced and competent staff. However, guidance is limited on the appropriate procedures to be followed for this review. Also, since there is a risk that pay clerks might enter further changes into CHIPS later in the process, the exception reports must be reviewed to detect unauthorized transactions.
3. Risk of inaccurate data also exists because there are many processes and calculations in CHIPS that must be performed manually, such as those for overtime, compensatory time, rates of pay, and adjustments of vacation and leave time. Many of the manual calculations will cease if the time and labour module is implemented. However, in the interim the risk should be addressed. There is a need for human resources and payroll personnel to consistently review source data entry documents to ensure the validity, accuracy, and completeness of the transactions.

4. To detect incomplete, inaccurate, or unauthorized recording and processing, CHIPS generates audit reports. As for transactions, this control procedure is effective only if reports are reviewed regularly and staff is adequately trained. In fact, the reviews of CHIPS reports are not carried out completely and consistently. Furthermore, appointment and spending authorities do not regularly review and approve the human resources correction requests, and ministries have not yet completely defined the extent of human resources and payroll reviews.

Our Review of Non-Routine Leaves and Benefits, and Supplementary Salary Costs

Among the non-routine payroll transactions we examined were certain types of leaves, benefits and supplementary salary costs.

Employee Leaves

Employee leaves, as shown in Exhibit 8.1, represent a significant cost to government. They can be divided into two groups. The first is standard leaves, which are allocated to a time bank at the beginning of the calendar year and subsequently drawn down over the year. They are based on collective agreements, position, and length of service of the employee, and consequently do not pose any specific audit concerns.

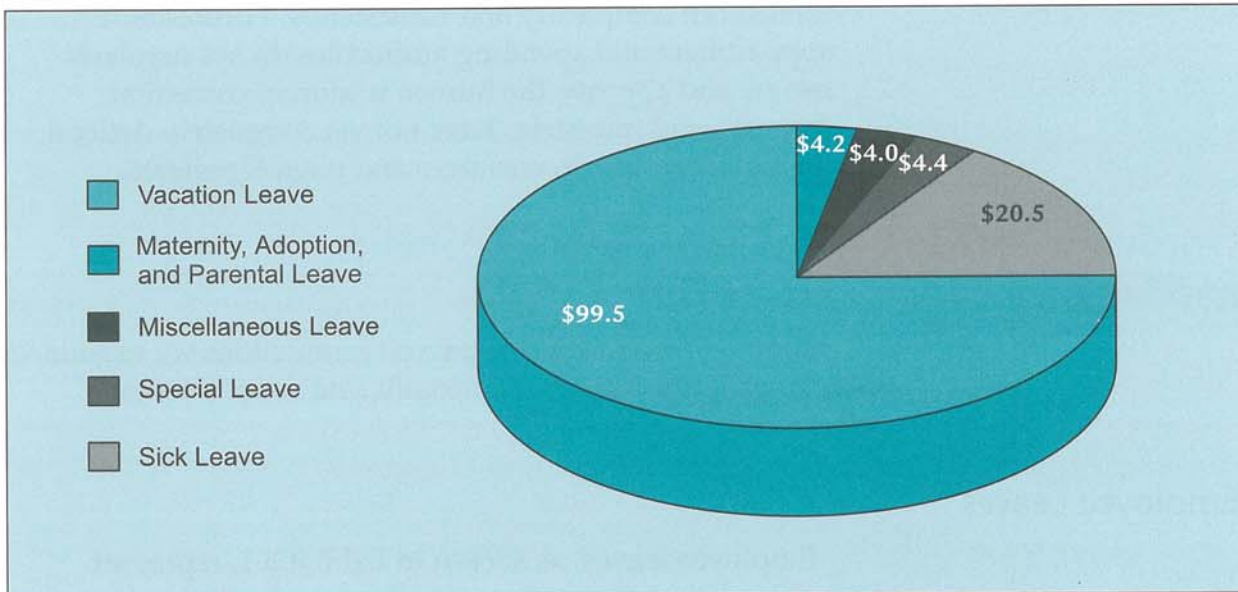
The second group is designated non-routine leaves. These require special approval or a specific event to occur before the employee is entitled. Also, depending on the leave type within this group, restrictions are placed on the extent of entitlement in any calendar year. For our review, we divided this type of leave into three categories: special leaves, miscellaneous leaves and maternity/adoption/parental leaves. The number of hours taken as non-routine leaves during 1996 is shown in Exhibit 8.2.

Our approach in reviewing non-routine employee leaves was to test the accuracy and validity of a sample of family illness leave and parental leave transactions. These two types of leave represent approximately 25% of the dollar value of non-routine leaves annually. In addition, we tested the aggregate "70 hour rule" (employees are generally entitled to a maximum of 70 hours of special leave in a calendar year) by extracting all employees who exceeded 70 hours of special leave in calendar 1996.

Exhibit 8.1

Government Leaves During the 1996 Calendar Year

(\$ Millions)



Source: 1996 CHIPS payroll transactions

Exhibit 8.2

Number of Hours Taken as Non-Routine Leaves (in Thousands)

Special Leaves	204
Miscellaneous Leaves	169
Maternity/Adoption/Parental Leaves	716

Source: 1996 CHIPS payroll transactions

Employee Benefits

Employee benefits refer to remuneration provided to employees in addition to salary or wages. They are entitlements of all employees, whether full-time or part-time and regardless of employment classification or level. Standard benefits, such as medical, extended health and dental, pensions, and long-term disability, are a significant cost to the Province. In 1996/97, they were estimated at \$346.6 million (Exhibit 8.3).

Exhibit 8.3

Employee Benefits, 1996/97

(\$ Millions)

Health Plans:	
Extended Health and Dental Benefits	46.5
Medical Services Plan	31.3
Insurance Plans:	
Group Insurance	8.5
Long Term Disability	23.5
Pension Plans:	
Provincial Pensions	134.1
Members of the Legislative Assembly Superannuation	.3
Death and Retiring Benefits	2.5
Employee Assistance Program Administration	.6
Statutory Benefits:	
Employment Insurance	52.5
Canada Pension	34.1
Workers' Compensation	9.2
Miscellaneous Statutory Items	3.5
Non-Standard Benefits	9.9
Total Benefits:	356.5

Source: 1996/1997 Estimates

Non-standard benefits, while not as great a cost to the Province (estimated \$9.9 million in 1996/97), have a higher inherent risk of error than standard benefits. The reason is that they are initiated manually at the ministry level. Accordingly, we decided to test for accuracy and validity a sample of transactions of the Health and Welfare Allowance, a non-standard benefit provided to auxiliary employees in lieu of health and welfare benefits provided to regular employees (approximately \$2.7 million in 1996).

Supplementary Salary Costs and Overtime

Supplementary salary costs represent additional wages paid to employees for either statutory or negotiated contract requirements. These types of payroll costs, approximately \$27 million in 1996, such as substitution pay, salary protection wages, and isolation allowances, are processed for each employee on an individual basis and consequently have a higher inherent risk of error than non-discretionary general benefits.

We tested the accuracy and validity of a sample of isolation allowance, substitution pay, and overtime pay transactions. Isolation allowances are a non-discretionary cost paid to employees based on the location of the employee's permanent job headquarters. Substitution pay is granted when an employee is designated to perform principal duties or temporarily substitute for someone in a higher paying position. Overtime, approximately \$25 million in 1996, is work performed by an employee in excess or outside of the regularly scheduled hours of work.

Findings

An organization's framework of policies and control procedures should provide reasonable assurance to management that transactions processed by a system are complete, accurate, and valid. Because controls in a computer environment consist of a series of procedures to reduce the risk of error or fraud, decisions about which control techniques would be most effective are difficult and must consider the entire operating environment. This is particularly true for decisions about whether to implement preventive controls (such as procedures programmed into the computer) or detective controls (such as monitoring and review procedures).

CHIPS places a higher reliance on detective controls (for example, monitoring and reviewing data and transactions) than on preventive controls (for example, system edits and electronic approvals). The main reason is the high cost of the latter, including modifying the program logic when upgrades are made to the software. Therefore it is critical that ministries establish control procedures that will detect errors or irregularities should they occur. What we found in our review was that controls to detect errors or irregularities with respect to non-routine payroll transactions generally were either not present or not working effectively.

Our detailed tests of non-routine payroll transactions found a number of unauthorized transactions, coding errors,

data entry errors and inconsistencies in the practices and application of policies. These occurred in most types of non-routine transactions reviewed and, although not significant individually in dollar terms, the frequency and extent suggest improvements are required. Specifically, we believe improvements are necessary to controls with respect to authorization, review, and monitoring of non-routine transactions. Each of these is discussed below.

Authorization of Payroll Transactions

An effective authorization process is necessary to ensure that only valid leaves are granted and benefits provided. The primary responsibility for the initiation and authorization of payroll transactions resides with individual ministries.

Our review found that authorization procedures were carried out inconsistently from ministry to ministry. For example, depending on the ministry, approval for special leaves was being performed by supervisors, human resource personnel, spending authorities, or a non-designated person. In some ministries, the potential number of individuals who authorize special leave is very large, with the result that those responsible for processing leave transactions cannot—and do not bother—to verify the approval signature. This significantly increases the risk of invalid leaves being granted.

We believe that not enough importance is given to authorization procedures for transactions such as leaves, where there is no specific appropriation of funds. For example, it is generally left up to the individual ministries to decide whether they want spending authorities on leave approvals. In fact, there is a cost to the Province for the granting of leaves, either through loss of production or the cost to replace the employee who is away on leave. We believe that ministries should be as diligent in approving non-cash transactions, such as special leaves, as they are in approving expenditure appropriations.

We recommend that ministries develop authorization policies and procedures to provide assurance that all payroll transactions are valid.

Review of Transactions

We found that ministries are performing little or no review on non-routine transaction data entered into the payroll system. For example, leave forms, which are typically initiated by employees who are not always familiar with the correct codes to enter, are not being reviewed by either the approval

signatory or the employee entering the transaction into the system. In some instances, we found that the code was left blank by both the employee and the signatory and was subsequently incorrectly completed by the data entry personnel. Because few preventive controls are embedded into the system software, we think it is necessary that ministries have compensating manual procedures in place to prevent coding errors from being entered.

We recommend that ministries ensure that review procedures are in place to reduce the risk of data being entered erroneously into CHIPS.

One type of effective review procedure we suggest is the requirement that all payroll/leave transactions be subject to a periodic review before being entered into CHIPS.

Monitoring of Transactions

We also found little or no evidence of ministries monitoring the data processed by CHIPS. For example, in our testing of Health and Welfare Allowances, we found a number of instances where employees, in addition to receiving the allowance, were also receiving regular health and welfare benefits. This was occurring when employees had reached the 1,827 hours of work limit and became eligible to receive regular benefits.

One effective method to detect this kind of error is to generate exception reports that list unusual transactions. CHIPS has the capacity to generate both routine and customized reports. We noted that payroll personnel did not generally know how to review or interpret reports produced by the system, or were not aware of the existence of certain reporting capabilities of the system. Furthermore, although a CHIPS Reporting User Group was formed to assist ministries in learning about customized reports, the benefits have not accrued to all ministries. Many of the reports, particularly the customized reports, require some knowledge to generate and a number of ministries do not have the required expertise to use this important function.

We recommend that ministries identify and develop reports to assist ministry payroll personnel effectively monitor transactions and activities processed in CHIPS. Reports should be designed to list exceptions and unusual transactions, particularly those related to non-routine transactions.

Documented Policies and Procedures

Where reports were produced, we found that there was often confusion in the ministries over who was responsible for reviewing them and what procedures should be carried out. Policies specifying responsibilities and review procedures, such as the extent of review required, the process to track errors, and the sign-off procedures, were lacking at the ministry level. In our opinion, these policies need to be developed and documented to ensure that effective review and monitoring is carried out on a timely basis to detect errors or irregularities.

We recommend that ministries develop and document policies and procedures for reviewing reports produced by CHIPS.



summary of recommendations

Recommendations made in the section of this report titled *Corporate Human Resource Information and Payroll System* are listed below for ease of reference. They should be regarded in the context of the report.

The Office of the Auditor General recommends that:

- *Ministries develop authorization policies and procedures to provide assurance that all payroll transactions are valid.*
- *Ministries ensure that review procedures are in place to reduce the risk of data being entered erroneously into CHIPS.*
- *Ministries identify and develop reports to assist ministry payroll personnel effectively monitor transactions and activities processed in CHIPS. Reports should be designed to list exceptions and unusual transactions, particularly those related to non-routine transactions.*
- *Ministries develop and document policies and procedures for reviewing reports produced by CHIPS.*



government-wide response

During the review we received comments from the Public Service Employee Relations Commission (PSERC) and the CHIPS Office on matters referred to in this review.

As these comments are reflected in the report, PSERC and the CHIPS Office felt no response was necessary.



forest credit management review

A review of controls over credit management in the Ministry of Forests

Review Purpose and Scope

This is our second report on the revenue system of the Ministry of Forests. The first report, issued with the Report on the 1995/96 Public Accounts, concentrated on determining whether only trees authorized to be cut were cut and whether all cut timber was billed.

This review assesses whether the Ministry of Forests has designed an effective credit management system. We focused on how the ministry:

- assesses the risks associated with granting credit to successful licensee applicants;
- attempts to protect the value of the accounts receivable;
- determines the collection terms granted;
- monitors its accounts receivable to ensure delinquent accounts are identified promptly; and
- collects its accounts receivable.

We conducted our review between February and April 1997. In doing so, we visited all six regional offices. We obtained information by examining available documents and files and by interviewing ministry staff at the regional offices and in Revenue Branch at Headquarters. Our review concentrated on those accounts receivable arising from regular stumpage billings.

Overall Conclusions

We concluded that, in general, the ministry has built strong controls into its credit management system. The controls provide assurance that the processing—of invoices issued and of payments received—is complete and accurate. In addition, we concluded that the ministry's collection techniques are effective, although the ministry could implement additional controls to further reduce the Province's risk of revenue loss.



Introduction

Our previous review of the revenue system, reported in the Report on the 1995/96 Public Accounts, looked at whether there was risk of:

- unauthorized timber harvesting;
- inaccurate measurement, grading and reporting of timber harvested; and
- incomplete and inaccurate invoices.

Our conclusions from that review are summarized in Exhibit 9.1.

In that work, we examined the revenue cycle to the point in time when the ministry invoices for the trees that were cut (stumpage). In this second review, we examine the system in place to ensure the invoice is accurately recorded as receivable and subsequently collected.

In 1996/97, the Ministry of Forests billed approximately \$1.8 billion for harvested timber. This represents the third largest source of revenue to the government. Much of this timber, around 80%, is sold to major forest companies. The

Exhibit 9.1

Summary of the First “Report on the Forest Revenue System”

The overall objective of our report was to assess whether the system of internal controls provided reasonable assurance that:

- timber harvested was being properly authorized by the ministry;
- timber harvested by forest companies was being accurately measured, graded, and reported for billing purposes; and
- data was being collected, summarized, and input accurately into the ministry’s harvest database system, resulting in complete and accurate invoices.

We concluded that the ministry’s internal control activities do provide assurance that only approved licensees are authorized to harvest timber and that invoices are accurately produced from data supplied to the ministry.

However, despite the ministry’s many positive steps in this area, we remained concerned that the data supplied to the ministry might not be complete and accurate. We believed the ministry could implement additional controls and procedures in the key functional areas of harvesting, transporting, and scaling timber to further reduce the risk of revenue loss by the Province.

The complete report, including the ministry’s response, is available on the Internet at:
<http://www.oag.bc.ca/pubs/1996-97/report-6/toc.htm>

remainder is sold to a number of smaller operators under the Small Business Forest Enterprise Program (SBFEP). Because all the timber is sold on credit, it is critical that the ministry have an effective credit management system.

The ministry's accounts receivable management (ARM) system tracks over 2,700 stumpage accounts. In 1996/97, the ministry produced over 80,000 stumpage invoices. The balance of accounts receivable in 1996/97 ranged, at different times during this year, from \$167 million to \$553 million. These balances included invoices issued up to the end of a particular month plus "unbilled scale," timber scaled before the end of the month but not yet invoiced. This ranged from \$51 million to \$260 million. At March 31, 1997, the ministry had a provision for doubtful accounts of \$18.9 million or 3.5% of accounts receivable.

In recent years, the ministry has taken many steps to address the management of its accounts receivable. It has, for example:

- staffed collection officer positions;
- introduced a new ARM System in November 1992, and updated it in 1996;
- issued a Collections Procedure Manual in November 1992; and
- performed internal reviews of the monitoring and controlling of accounts receivable and collections.

Nonetheless, the objectives of the SBFEP, by exposing the ministry to different risks than those associated with major licensees, present unique problems for credit management. The SBFEP was designed to open forestry opportunities to smaller operators and value-added producers who might not otherwise have the resources to harvest Crown timber. Sales in the program are made through a competitive sealed tender process—a process that does not consider the ability, or inability, of the applicant to make the required payments. In 1996/97, there were 2,300 registrants in the SBFEP, who accounted for \$331 million (18%) of the total \$1.8 billion in stumpage revenue.

The ministry has chosen a combination of centralized and decentralized operations to manage its accounts receivable. Collection is decentralized, with each of the six regions and Revenue Branch responsible for initiating collection action on overdue accounts. A total of seven Collection Officers in the regions report to their respective Regional Manager. Functions such as drafting policy and

procedures, post write-off collection actions and preparing submissions for the write-off of accounts are centralized in Revenue Branch.

This arrangement generally works well. There is good client rapport because regional business conditions are considered in deciding collection actions, and there is good communication between Collection Officers and district staff. At the same time, Revenue Branch is able to monitor collection activities.

Credit Management Risks

In planning our review, we identified risks faced in a credit management system. These include the risk that:

- decisions will be made without appropriate analysis or with an analysis that will vary from location to location;
- the credit management function will not operate in a cost-effective manner;
- decision-makers will not be provided with sufficient, timely and relevant information on which to base their decisions;
- the trade credit terms offered by the ministry to its clients (that is, the period for which the credit is granted) will result in excessive carrying costs to the Province;
- collection activity will be ineffective or inefficient; and
- monitoring of relevant costs will not be sufficient to allow the effectiveness of policy and its implementation to be gauged, or the performance measured by region, by program or by type of account.

These risks are addressed in the following sections of our report. We have arranged our findings under the headings "Application for Credit," "Organization of the Credit Function," "Accounts Receivable Management Information System," "Trade and Credit Terms," "Collections," and "Monitoring."

Application for Credit

Most organizations that supply credit use an application process to assess the credit worthiness of potential customers and thereby minimize the risk of bad debt losses. In the absence of an application process, other tools would be required to mitigate this risk.

Conclusion

The ministry does not require credit applications from its clients nor does it perform credit checks. We concluded that little benefit would result in setting up formal credit application procedures, as the ministry generally has a history of satisfactory performance with its clients and much of the timber is sold to major companies.

The ministry does not require its SBFEP licensees to provide financial and legal information. We believe that some information should be collected and that the appropriate time for this is before the awarding of a timber sale.

Findings

We were informed that collection efforts are often hindered by the lack of information on file about many of the clients. Such a problem results in delays in collection actions and increases the risk of uncollectable accounts.

The best way to address this is to ensure that adequate information is obtained when a client becomes the successful bidder on a SBFEP timber sale. Examples of useful information would include: banking information; names of the companies that the applicant is involved with; specific financial information, including assets owned; and if the client has an unresolved debt with the Crown.

This information could also be used to assess the collection risks associated with the potential license holder. Common indications of risk include:

- a bid price so high that the likelihood of the high bidder making a profit on the license, and of paying the resulting receivable, is seriously in doubt;
- an applicant associated with others having outstanding accounts or previous bad debts with the ministry;
- an applicant with no attachable assets;
- a third-party applicant that acts on behalf of operators who are precluded from gaining access to the SBFEP; and
- a sale which could be awarded, logged, and the wood sold prior to the first billing becoming overdue.

We were informed of instances where the ministry reluctantly awarded timber sales to individuals who, under different trade names, had defaulted on previous sales. Also, sales had been awarded to individuals where the bid price was so high that the viability of the sale was in serious doubt.

These individuals met the criteria under the tender process and ministry staff felt they had no alternative but to award the sales. In such cases, the ministry should have the discretion not to award the sales to the highest bidder.

We recommend that:

- *the ministry introduce a policy that requires, prior to all Small Business Forest Enterprise Program timber sales, certain basic legal and financial information be provided to the ministry; and*
- *the ministry should determine if there is legislative discretion in the awarding of timber sales. If not, amendments should be sought to enable discretion in defined situations.*

Organization of the Credit Function

Organizing the credit management function requires the ministry to assign authority and responsibility in a way that will achieve the most effective results possible. It has three options to do this: centralized, decentralized or a combination of the two. The extent to which authority is centralized depends on the size and complexity of the operations.

Clearly assigning authority and responsibility reduces the risk that:

- approval authorities for account write-offs and repayment agreements will be ill-defined;
- staffing levels will be inadequate or the staff may not possess appropriate skills and training; and
- non-compliance with credit management policies and procedures will occur.

Conclusion

We concluded that the authority levels for account write-offs and repayment agreements are appropriate. However, we believe that approval of the repayment agreements should be linked to an appropriate dollar level as well as time span.

We also concluded that the ministry should consider whether formalized, ongoing training would be desirable for credit management staff.

Finally, we concluded that if review processes currently in place were maintained and the peer review process formalized, inconsistencies in procedures and policies could be prevented.

Findings

Approval Authorities

A key element in the control of public money is the assignment of authority and responsibility. This assignment should include designated dollar levels of authority. Levels of authority place accountability, promote objectivity, and ensure control.

In general, we found that the ministry's policies and procedures clearly specify the duties and responsibilities of employees and the timing and content of reporting to the various levels of management. We also found that the ministry follows the government-wide policies and procedures manuals related to the write-off of bad debts, and that authority levels and controls are appropriate and strong.

Repayment agreements are frequently used collection tools. They are schedules of payments that incorporate the client's cash flow abilities. Formal agreements are legal documents signed by both parties. If licensees have an unpaid balance with the ministry, they cannot obtain a new cutting permit unless there is a formal repayment agreement in place.

The authority level for the approval of a repayment agreement varies according to the length of the agreement. The Regional Manager approves all repayment agreements, but agreements of more than one year must also be approved by the Director of Revenue Branch. We considered these authority levels to be appropriate. However, we feel that approval of repayment agreements should be tied to dollar level as well as time period.

Staffing

Our review indicated that collection actions appeared timely and appropriate. However, based on our discussions with ministry personnel, we believe the ministry should assess whether the staff, at various levels in the credit management function, have sufficient training opportunities to enable ongoing reviews and updating of required skills.

Consistency

Given the decentralized structure of the ministry, it is important that policies and procedures attempt to ensure consistency in practices throughout the province. We found that local logging conditions and business practices were being considered by staff in determining collection actions. We also

found that the ministry has various means of reviewing for consistency in approach between regions.

The ministry has recently instituted audits of the regional collections done by Revenue Branch collections staff. They are to occur every two years. The first of these audits occurred in late 1996. It provided an excellent training opportunity for regional staff and we encourage the regular scheduling of future audits. Also, two regions have started an informal "peer review" process in which the two collection officers receive feedback on the quality of their work and information on successful procedures. We feel that these reviews could contribute greatly to achieving consistency and effectiveness in collections work throughout the province, particularly if they were planned on a more formal basis, with specified goals and procedures. Other means of achieving consistency include having:

- the Collection Manager review regional collection actions on-line or through summary reports;
- senior management in the Regions review monthly collection reports;
- branch management review collection reports on a regular basis; and
- Revenue Branch review and approve lien requests.

If these methods are maintained, we feel the ministry would have sufficient assurance that its policies and procedures are consistently followed.

We recommend that:

- *the current policy of the Revenue Branch, concerning the review and approval of repayment agreements with a term of more than one year, be extended to apply also to agreements above a certain dollar amount;*
- *the annual audits be used as a means of ensuring consistent collection actions between all Forest Regions; and*
- *the ministry consider introducing a formalized, ongoing training program for credit management staff.*

Accounts Receivable Management Information System

Information systems in the accounts receivable and collections functions should be designed and implemented to provide sufficient, relevant and timely information, to enable personnel to perform their assigned responsibilities. They should ensure that:

- systems cannot be accessed by unauthorized users;
- information processing is accurate and complete;
- information generated for review contains all necessary information and is provided to appropriate levels in the ministry;
- historical information on license applicants is available to those employees responsible for evaluating applications; and
- collection actions are documented.

Conclusion

Controls over systems access in the ministry are strong, as are the controls over the accuracy and completeness of accounts receivable. The use of processing control totals is prevalent and review of entries is appropriate. Also appropriate is the information produced for review by ministry management, as well as the levels of review. The main problem, as mentioned in the "Application for Credit" section of this report is the lack of basic personal and financial licensee information.

Findings

Restricted Access

Access by regional staff to receivables and collection records is restricted by Revenue Branch, with the access privileges being determined on a "need-to-know" basis. This limited granting of access not only helps keep records secure, it also acts as a control to ensure segregation of duties.

Reports

The quality of management's decisions is as good as the information on which they are based. It is therefore critical that management be provided with sufficient, relevant, and timely information.

Every region regularly reports the status of its accounts receivables to regional management. We found that the reports are manually prepared, different from region to region, and limited to reporting on individual overdue accounts. The reports are reviewed by regional management and forwarded

to the collections section at Revenue Branch on a monthly basis. A summary report is prepared for Branch management. Also monthly, the Revenue Branch generates aged accounts receivable listings by region.

We noted that the regions' monthly reports:

- do not include information on relevant ratios and trends;
- are not standardized, therefore making meaningful comparisons difficult;
- are not system-generated to reduce the inefficiency of manual preparation; and
- because they are limited to past due accounts, do not have an "early warning" section to highlight potential future problems.

Ratio and trend information is required so that the performance of collections staff can be monitored and compared. To be useful and relevant, this ratio and trend information should be divided into SBFEP and major licensee accounts receivable. Such information would help the ministry identify changes in circumstances and, as a result, improve its budgeting and ability to implement corrective action. It would also allow the measurement of the collection performance of the individual regions.

A common measure of performance is DSO (days sales outstanding), a measure of the average period it takes to recover a receivable (Exhibit 9.2). A 1993 internal ministry report stated that DSO had been cut in half since the introduction of collections staff in 1991—a change that dramatically improved ministry cash flow and reduced the costs of carrying large receivable balances. Since that report, however, the ministry has not continued to examine the changes in DSO.

In the next section of this report, we discuss DSO further.

We recommend that:

- *Revenue Branch determine the information it wants the Forest Regions to report, and then standardize the monthly region reports and pursue means of having these reports system-generated rather than manually prepared;*
- *the monthly reports to regional management not be limited to past-due accounts, and that the addition of an "early warning" feature containing high-risk accounts be considered; and*

- *the monthly reports include appropriate ratios and trends for the measurement of collection performance, with the ratios presented on comparable short-term and long-term bases so that trends can be highlighted and examined.*

Exhibit 9.2

Days Sales Outstanding (DSO)

DSO is a measure of outstanding accounts receivable quantified in sales days. It serves as a valuable yardstick for assessing the performance of the credit and collections function. Total DSO is calculated as:

$$\text{DSO} = \frac{\text{Total account receivable}}{\text{Credit sales during period}} \times \text{Number of days in period}$$

The following is an illustration of the DSO calculation using data from the ministry for March 1997.

Total ministry revenue for March (per government central accounting system)	\$ 255,813,974
Aged accounts receivable (per the ministry ARM system):	
Current	301,230,307
Past-due (greater than 28 days)	50,594,995
Unbilled scale (scaled in March but not billed until later)	185,274,538
Total receivable as at March 31, 1997	<u>\$ 537,099,840</u>

Based on this data the DSO for March would be calculated as follows:

$$\begin{aligned} \text{Total DSO} &= \frac{\$537,099,840}{\$255,813,974} \times 28 = 59 \text{ DSO} \\ \text{Best DSO} &= \frac{(\$301,230,307 + \$185,274,538)}{\$255,813,974} \times 28 = 53 \text{ DSO} \\ \text{Past-due DSO} &= \frac{\$50,594,995}{\$255,813,974} \times 28 = 6 \text{ DSO} \end{aligned}$$

Using only current receivables in the above equation yields the "Best DSO." In a perfect world, this would be equal to the standard terms of sale offered (or the number of days after a statement is issued and before interest is charged), in the ministry's case 21 days. The difference between this 21 days and the 53 Best DSO calculated is the time lag between the scaling of timber and the production of a statement.

On average for March, delinquent receivables were paid six days after the due date (Past-Due DSO). The sum of the Best DSO and Past-Due DSO equals the Total DSO.

Various analyses can be done with DSO:

- DSO by customer type can be used to highlight high-risk customers. The ministry could break customers down by small and major licensee, protection billing, etc.
- DSO trend analysis can highlight long-term patterns in receivables and collection performance.
- DSO by geographic region can allow the Collections Manager to monitor collection performance in a decentralized structure, such as the Ministry of Forests.
- DSO targets can be set for regions and customer types and later compared to actual results.

Trade and Credit Terms

The government has cash requirements that must be met. If the cash is not received at the time of scaling, then it may have to be obtained through borrowing. That means there is a financing (“or carrying”) cost associated with credit sales. For stumpage revenue, the carrying cost arises between the time timber is scaled and the time the subsequent receivable is collected. We looked to see whether:

- the carrying cost related to terms of sale is unreasonably high; and
- the time lag from scale date to collection date is excessive.

Conclusion

We concluded that the carrying costs of the ministry’s accounts receivable are significant and that the time lag, from scale date to collection date, should be reduced when it is practicable to do so.

Findings

Terms of Sale

Our previous review of the ministry’s revenue system found that 90% of the harvested timber reported is billed within the normal billing cycle of the ministry. However, this normal billing cycle is longer than one might think (Exhibit 9.3).

The ministry has reduced the time it takes to collect receivables by adopting cyclical billing, introducing the Collection Officer positions, encouraging the use of Electronic Data Interchange (EDI), and increasing the interest charged on overdue accounts. Still, we found that the time between the scaling of timber and payment of stumpage for that timber can be considerable.

The ministry records an accounts receivable when the scale data is input into the ARM system. This can be two to six weeks after the timber is scaled. The scale data, not yet recorded as an account receivable, is referred to as “unbilled scale.” In 1996/97, unbilled scale averaged \$147 million. Consequently, any analysis of the billing cycle should include the unbilled scale to ensure the true size of the receivable is considered.

Exhibit 9.3

The Billing Cycle

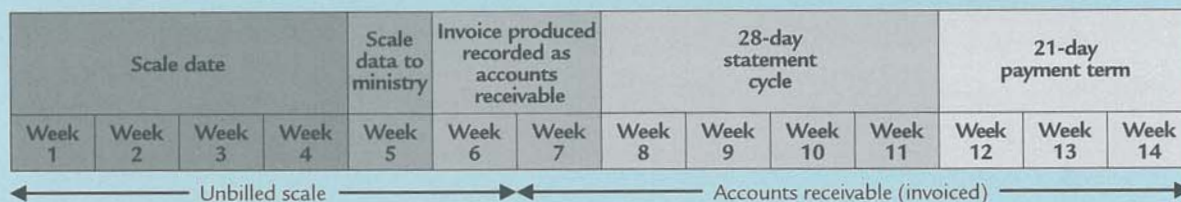
The Ministry of Forests stumpage billing system is complex. The ministry invoices timber using pre-determined stumpage rates per cubic meter. Therefore, the volume of cut timber must be measured (scaled) in cubic meters. Scalers work for industry and are required to report scale data to the ministry by the 10th day of each calendar month.

The scale data is forwarded to Headquarters in Victoria for processing. In most cases this is a manual process, in which scale returns are forward to Victoria. It takes the ministry approximately five days to get scale returns to Victoria (about 37% of the volume is submitted using EDI, reducing mailing time). Once all scale data is entered into ministry computers manually or by EDI, an invoice is produced and mailed to the licensee. This takes approximately another five days. However, the invoice is not a demand for payment. Licensees do not have to pay until they receive a statement.

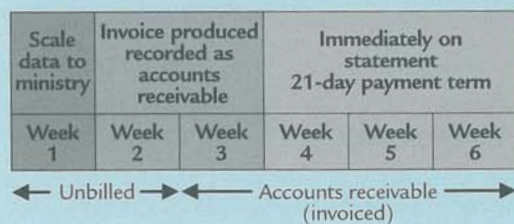
Statements for each customer are produced on a 28-day cycle. To smooth the workload for the ministry, licensees are divided into four billing cycles. Every 7-day period, statements are run for a group of accounts. A statement contains all invoices from the preceding 28 days for each timber mark. The licensee then has 21 days from the statement date to remit the stumpage. Past 21 days, interest is charged on the entire balance at the prime rate plus 3%.

The following diagrams show the worst—and best—case scenarios of the time it can take between a load being scaled and the ministry receiving payment. The worst scenario would occur if a load of timber were scaled on the first day of the calendar month. This load would not be reported to the ministry until five weeks later. Additional delay would occur if the invoice were not included on a statement until the next full 28-day cycle. The best scenario would occur if a load of timber were scaled on the last day of the month. This would be reported one week later to the ministry. Time would be further reduced if the invoice were produced in time to be included on the last week of the 28-day statement cycle. The result is it that the approximate range is 42 to 98 days before payment is due for a load of timber.

Worst scenario



Best scenario

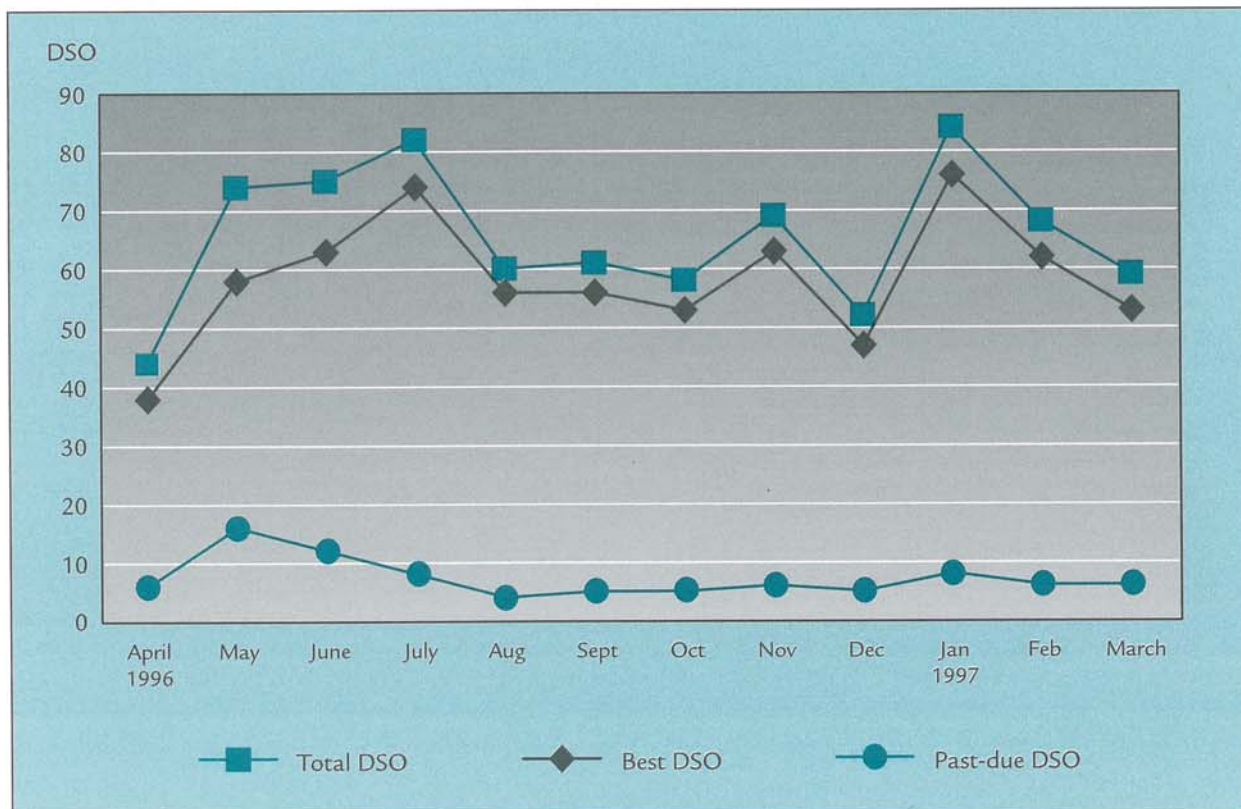


In the previous section, we noted that DSO measures the average period to collect accounts receivable. Exhibit 9.4 shows our calculation of DSO by month for 1996/97, including billed and unbilled scale. The Total DSO averaged 65 days in 1997. The Best DSO (the average period to recover current accounts receivable) averaged 58 days. What this tells us is that, on average, the length of the ministry billing cycle from the time a load of logs is scaled to the time the respective payment for that load is due is 58 days. Also, delinquent accounts are outstanding an average of 7 days (Total DSO less Best DSO).

Electronic Data Interchange (EDI) is currently used to transfer scale data directly from some scale sites into ministry computers. The transfer by EDI covers about 37% of the total volume of timber scaled. The transfer is done, in most cases, on the 10th day of the month following the scale date. Although the scale data is sent no earlier than under the manual system, it arrives at the ministry earlier. The result is savings through enhanced cash flow and reduced costs. The use of EDI could further reduce the period between the time of scale and the time of data transfer to the ministry. It could also be expanded

Exhibit 9.4

1996/97 Days Sales Outstanding (DSO)



to more scale sites, leading to additional reductions in data entry costs, postage costs, and (as discussed in the next section) carrying costs. To our knowledge, the ministry has not identified what cost savings might result from EDI, nor has it attempted to measure them.

Carrying Costs

An effective credit management system should assess the carrying cost of accounts receivable. Knowledge of these costs assists in determining the effectiveness of the collections system. Calculating the carrying costs can assist the ministry in:

- analyzing the desirability of increasing use of EDI to forward scale data for processing; and
- assessing the total costs associated with programs such as the SBFEP, which must operate on a true cost recovery basis.

Including unbilled scale, the average receivable balance of the ministry in 1996/97 was \$347 million. The cost of carrying this receivable balance was the opportunity cost of having to finance an average reduction in cash flow to the Province of \$347 million. The average cost of borrowing for the Province in 1996/97 was 7.6%. At this rate, the estimated carrying cost of the ministry's receivables for that year was \$26 million.

We recommend that the ministry:

- *where practicable, reduce the time lag between scale date and due date; and*
- *identify and quantify the cost savings related to the introduction of Electronic Data Interchange, and explore ways to expand its use further.*

Collections

The aim of collections is to maximize cash flow by collecting receivables as quickly as possible and by reducing bad debt losses as much as possible. An effective collection process is based on knowledge of the customer, the external environment, and use of alternative collection procedures.

Conclusion

We found that the ministry has a systematic, timely and efficient process of collecting accounts receivable. The collection techniques used are appropriate and effective, but improvements in the areas of negotiated settlements and legal support would enhance collection efforts.

Findings

The collection process begins as soon as an account becomes delinquent. If payment is not recorded in the ARM system by the 21st day after the statement date, the account is forwarded automatically to the "collections review list" on the Collections System (COL). The respective regional Collections Officer reviews the collections review list and determines what action is appropriate. In most cases an initial overdue notice is sent to the customer. If payment is not received in the next few weeks, a second letter is sent to the customer, warning that legal action is imminent and suspending additional rights under the *Forest Act*.

If the account remains unpaid, the Collection Officer has several legislative tools available to assist in collection. Exhibit 9.5 briefly describes the main legislative remedies the ministry can use.

One tool not available to the ministry is that of "forgiving" a portion of the amount owing. Only in very limited circumstances might this be done, in cases where "great public inconvenience, great injustice or great hardship to a person has occurred or is likely to occur." Under these circumstances, the ministry can apply to Cabinet for authorization to remit the debt. Remission eliminates the debt and the government's right to collect.

We believe that the ability to negotiate settlements and forgive part of an amount owing could facilitate collection of a debt that otherwise would be left entirely outstanding. Such actions would be particularly useful where interest charges have significantly increased the original debt. According to ministry collections staff, this lack of authority to negotiate has led to delays in collection and loss of revenue.

Needed are legislative amendments that would enable the ministry to apply to the Minister of Finance for remission authority on a debt-by-debt basis. This would provide the ministry with flexibility in the matter and ensure that the controls, which exist for other remissions, would be retained.

Other Collection Tools

One region arranges to bill the mills that purchase the timber harvested by SBFEP licensees. The mills withhold the stumpage due from their payments to the licensees and then remit the stumpage to the ministry. Such pre-sale arrangements can be beneficial to the mill and in most cases would not inconvenience the licensee. Where the licensee, the mill, and

Exhibit 9.5

Legislative Collection Tools

Legislation	Explanation:
<p>Sec. 81 Forest Act - Eligibility</p>	<ul style="list-style-type: none"> ■ Allows the ministry to refuse, or attach special conditions to, a cutting permit if stumpage is outstanding. ■ Cutting permits are not granted to a licensee who is indebted to the ministry unless a formal repayment agreement is agreed to.
<p>Sec. 130 Forest Act - Lien</p>	<ul style="list-style-type: none"> ■ If a licensee defaults in the payment of stumpage, the ministry may file a lien on all timber products and chattels owned by the licensee. ■ The certificate carries the same power as a court order and also affects the credit rating of the debtor.
<p>Sec. 131 Forest Act - Person acquiring or dealing in timber responsible for payment</p>	<ul style="list-style-type: none"> ■ A person who acquires timber on which stumpage has not been paid must pay to the ministry all money outstanding in respect of the timber.
<p>Sec. 115 Forest Practices Code of British Columbia Act - Forfeiture of timber</p>	<ul style="list-style-type: none"> ■ The ministry may seize timber products on which the government has a lien under Sec.130 of the <i>Forest Act</i>.
<p>Sec. 38 Financial Administration Act - Set-off of amounts owed</p>	<ul style="list-style-type: none"> ■ The Province may retain money otherwise payable to a licensee to set off unpaid debt.
<p>Sec. 83 Financial Administration Act - Demand on third party</p>	<ul style="list-style-type: none"> ■ If a third party owes money to a licensee in default, the ministry can demand all or part of the money, payable to the licensee, directly from the third party.
<p>Sec. 204 Land Title Act - Registration of debt to the government as a charge</p>	<ul style="list-style-type: none"> ■ The ministry may register the licensee's debt against the licensee's land.

the ministry are agreeable, such arrangements should be considered as they also protect the ministry from bad debt losses.

Legal Support

Collection can often be accomplished through correspondence, repayment agreements, or the threat of legal action. In some cases, however, legal action may escalate to the stage where the only course remaining to the collector is the seizure and sale of assets. This requires legal support. Collection Officers in the regions and in Revenue Branch told us that the lack of legal support they receive is a major cause of collection delays. Without the required support, they noted, increased legal pressure may be delayed to the point where successful collection is threatened.

We recommend that the ministry:

- *pursue amendments to the regulations that would make debt incurred under the Forest Act eligible for remission, in cases where remission is in the best financial interests of the Province;*
- *consider using pre-sale arrangements (having the mill withhold stumpage) in those cases where it would not cause inefficiencies or hardship to the licensee; and*
- *evaluate the current level of legal support and determine whether additional support is required.*

Monitoring

The ministry should monitor the costs that are affected by its credit management policies to gauge the effectiveness of these policies. Output measurements should be in place to enable the Ministry to assess credit function effectiveness by region and program.

Conclusion

The ministry does not have a formal, analytical approach to monitoring its collection process.

Findings

One major purpose of monitoring is to gauge the effectiveness of credit policy and its implementation. The ministry should have formalized programs for monitoring and analyzing short- and long-term collection performance. Without such programs, it cannot identify if, when, how, or where the collection effort has gone astray. Nor can it compare performance over time or between regions.

The ministry does not quantify the performance of the regions' collection efforts and does not attempt to compare performance in dollar terms or by type of sale (SBFEP or majors). We believe that output measures should be developed and used so that this can be done. Some quantitative measures can be obtained by comparing current results to historical norms. Trends can be established by using the internal approach and, if a change is made in the organization or operation of the credit function, the results of the change can be quantitatively examined. As an example, when the ministry introduced regional Collection Officers, the days sales outstanding was reduced by half.

Other measures that could be used for benchmarking purposes include: aging schedules; percentage of bad debt expenses; and DSO.

We recommend that the ministry establish performance measures so that the performance of the regions can be quantitatively compared, preferably by program (Small Business Forest Enterprise Program and major licensees).



summary of recommendations

Recommendations made in the section of this report titled *Forest Credit Management Review* are listed below for ease of reference. They should be regarded in the context of the report.

The Office of the Auditor General recommends that:

- *The ministry introduce a policy that requires, prior to all Small Business Forest Enterprise Program timber sales, certain basic legal and financial information be provided to the ministry.*
- *The ministry should determine if there is legislative discretion in the awarding of timber sales. If not, amendments should be sought to enable discretion in defined situations.*
- *The current policy of the Revenue Branch, concerning the review and approval of repayment agreements with a term of more than one year, be extended to apply also to agreements above a certain dollar amount.*
- *The annual audits be used as a means of ensuring consistent collection actions between all Forest Regions.*
- *The ministry consider introducing a formalized, ongoing training program for credit management staff.*
- *Revenue Branch determine the information it wants the Forest Regions to report, and then standardize the monthly region reports and pursue means of having these reports system-generated rather than manually prepared.*
- *The monthly reports to regional management not be limited to past-due accounts, and that the addition of an "early warning" feature containing high-risk accounts be considered.*
- *The monthly reports include appropriate ratios and trends for the measurement of collection performance, with the ratios presented on comparable short-term and long-term bases so that trends can be highlighted and examined.*
- *Where practicable, reduce the time lag between scale date and due date.*

- *Identify and quantify the cost savings related to the introduction of Electronic Data Interchange, and explore ways to expand its use further.*
- *Pursue amendments to the regulations that would make debt incurred under the Forest Act eligible for remission, in cases where remission is in the best financial interests of the Province.*
- *Consider using pre-sale arrangements (having the mill withhold stumpage) in those cases where it would not cause inefficiencies or hardship to the licensee.*
- *Evaluate the current level of legal support and determine whether additional support is required.*
- *The ministry establish performance measures so that the performance of the regions can be quantitatively compared, preferably by program (Small Business Forest Enterprise Program and major licensees).*



response of the ministry of forests

The ministry is pleased with the findings of the Auditor General and will address all of the recommendations, implementing them directly or on a trial basis. The ministry intends to continue to make improvements in the revenue system and finds the work of the Auditor General of value in achieving this objective.



legal services society

A review of the Society's mandate, the accountability relationship between the Ministry of Attorney General and the Legal Services Society, the planning process, and various issues relating to financial and general control processes

Introduction

In 1996/97, our Office carried out a review of several issues at the Legal Services Society. The following executive summary from the management report explains our findings.

Background

The Legal Services Society (the Society) provides legal aid to eligible applicants and legal education to all British Columbians.

Over the past several years, the Society has experienced growing and changing demands for its services, increasing costs to provide these services, and significant pressure from government to cap the amount spent on delivery.

Between 1990/91 and 1995/96, the cost of legal aid increased from \$42 million to \$102 million—an increase of over 140%. A major contributor to this increase was the doubling of the rates (the tariff) paid to private bar lawyers in 1991.

Although the Society has taken numerous measures to control costs, it continues to run deficits. The Ministry of Attorney General (the ministry) is concerned about this problem.

In the summer of 1996 the Society and the ministry requested the Office of the Auditor General to review 13 specific issues relating to: the Society's mandate, the accountability relationship between the ministry and the Society, and the financial and general control processes in the Society.

Reported here is our independent assessment of these issues.

Mandate

The *Legal Services Society Act* describes the Society's mandate, spelling out both the services it may provide (which are very broad) and the services it must provide. These requirements have been further refined by case law. We concluded that the services identified in the Society's current policies are within its mandate. Where the Society does provide services outside its mandate, it does so at the request of the Ministry of Attorney General.



Accountability and Planning Process

Accountability

Our review of the Society's accountability to government highlights issues related to both the governance and accountability arrangements between the two parties. With respect to governance, we believe that the existing process is lacking in the areas of control and direction. Government first of all needs to develop a governance model that appropriately reflects its responsibility for seeing that public policy is carried out. To do this the government needs to reassess its relationship with, and responsibility for, the board of directors and the means by which it provides direction to the board.

With respect to accountability, we recommend that the Society develop a framework that embraces the principles of the government-wide accountability initiative currently under way in the British Columbia public sector. This means that the Society needs to establish and report its strategic goals, intended results, performance measures and targets, and actual results. Ideally, accountability will focus on organizational and program results as well as financial results. This way, government and the Legislative Assembly will have the necessary information to make an informed assessment on all aspects of the Society's performance.

Planning

Our review of the Society's planning processes highlights the need for it to implement a formal, ongoing strategic planning process that produces a long-term strategic and financial plan and, in turn, an annual business plan and budget. We suggest that these plans be included in a corporate planning document that is provided to government before the start of the Society's fiscal year.

We also believe that alternative funding instruments should be sought by government to accommodate the demand-driven nature of most of the Society's services. We suggest government consider such options as multi-year funding or special reserves.

Communication and consultation between the ministry and the Society could be also improved and we suggest that a liaison committee be established for this purpose. We recommend that the planning processes of the ministry and the Society be integrated and synchronized to help ensure that the output of one process provides input to the other.

Financial and General Operations

Budgeting

The Society has developed a complex budgeting model that takes into account volume, average case costs, and billing patterns in order to project future expenditures. We concluded that the inputs to this budget model were not unreasonable, although the model had understated expenditures in the past five years. However, we also believe that refinements to the existing model are necessary to make it more accurate.

Analysis of Major Increases and Decreases in Expenditures

We were unable to conclude as to the completeness of the explanations for major cost increases or decreases, as annual comparisons of the original budget to actual by expenditure categories and an explanation of the major differences were not readily available.

Review of Complaints and Client Appeals on Eligibility

The Society has structured and well-documented policies and procedures for handling complaints and eligibility appeals. However, because the process for complaints is internal to the Society, this may create a perception that it lacks independence. We recommend that the Society explore with the Ombudsman a process where complainants who are not satisfied can have their complaints and the Society's findings reviewed by that Office.

Eligibility Concerns

We compared the financial eligibility levels used by the Society with those of other service providers in British Columbia. The social programs we looked at each determined financial eligibility differently and, although it was difficult to make direct comparisons, we believe the Society's eligibility levels are reasonable.

To help the Society's field office staff ensure consistent application of the financial eligibility rules and coverage rules, the Society has developed a new Case Management System. The system calculates, among other things, applicants' net income and determines their financial eligibility for legal aid.

Headquarters Administration Expenditures

Administrative expenditures have increased over the past five years, mainly due to the implementation of the recommendations in the 1992 Deloitte and Touche review and the development of new computer systems.

We compared the administrative expenditures of the Society to those of legal aid agencies in other provinces. Because of the lack of consistency in what is included or excluded in these expenditures across the country, we could not conclude on the reasonableness or unreasonableness of the Society's expenditures compared to those of offices in other provinces.

Audit of Tariff Payments

We reviewed audit activities in the Tariff Department and Audit and Investigation Department and concluded that they are effective and result in the recovery of incorrect tariff charges. However, the level of resources currently available in the Audit and Investigation Department for auditing work results in less than 8% of total tariffs billed being audited. We think the Society should review the level of audit work being carried out and determine if there is a cost/benefit to increasing audit coverage.





updated responses
to last year's internal
control and other
reviews

updated responses to last year's internal control and other reviews

Ministry of Finance and Corporate Relations

New Corporate Accounting System: Update

Page 95 of this report contains this year's comments on CAS, in a section titled *New Corporate Accounting System: Update*. Because of the significant effect that CAS will have on government financial accounting processes and reporting, we believe it is important that we monitor the system as it is being developed. A response from the Chair of the CAS Executive Steering Committee is included with that report, on page 103.



Ministry of Employment and Investment Information, Science and Technology Agency

Government Information Systems and the Year 2000 Problem

Page 105 of this report contains our follow-up review of the Year 2000 Problem, in a section titled *Government Financial and Other Information Systems, and the Year 2000 Deadline*. Because of the significant effect that the Year 2000 initiative will have on government computer systems we report on the progress of this initiative annually.



Ministry of Employment and Investment

Build BC Special Account

A review of controls over expenditures from the Build BC Special Account

Last year we reported on the Build BC Special Account up to March 31, 1996. There has been little activity within the Special Account since then. Funds allocated to programs within the Special Account, excluding Community Projects, were \$3.1 million in 1996/97 and nil in 1997/98.

No new projects have been approved since the release of our last report.



Ministry of Forests

Forest Revenue System

A review of controls over the stumpage revenue process for harvested Crown timber

In our review, we identified eleven recommendations for improvement to the stumpage revenue process.

Status:

The ministry has developed action plans for each of the Auditor General's recommendations and progress is being made on the implementation of those action plans. The ministry plans to complete this work over the next year and will provide information on the progress of management in implementing the recommendations at that time.



audit of financial
statements of
government entities,
trust funds, and other
organizations

audit of financial statements of government entities, trust funds, and other organizations

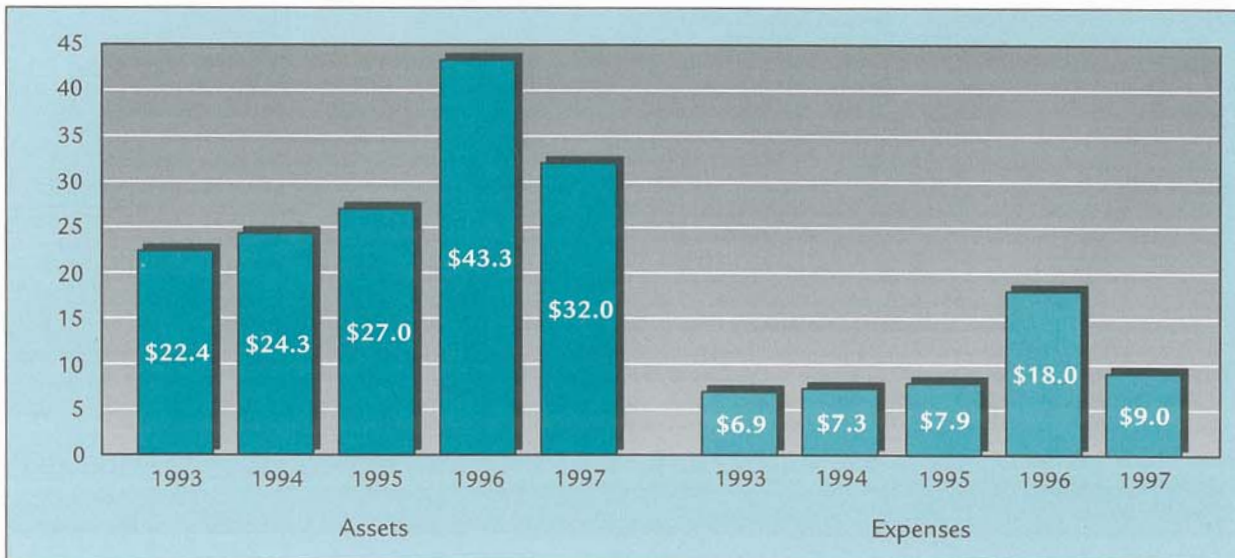
Changes in the 1996/97 Fiscal Year's Government Financial Reporting Entity

The Summary Financial Statements of the Province for the 1996/97 fiscal year include the results of much fewer government organizations than in the prior year. In the 1995/96 fiscal year, the composition of the government's reporting entity was significantly expanded to include the health care organizations, regional hospital districts, universities, colleges and institutes, and school districts. However, in the 1996/97 fiscal year, the government decided to exclude these organizations from the summary reporting entity. Consequently, the 1996/97 Summary Financial Statements include only the results of the financial activities and operations of the Consolidated Revenue Fund and 43 other government organizations and enterprises.

Exhibit 10.1

Changes in Assets and Expenses

Assets and expenses of government entities, 1993 to 1997 (\$ Billions)



Source: Financial statements of government entities

In the 1996/97 fiscal year, the assets and expenses of these 43 government organizations and enterprises (collectively referred to in this section as government entities) amounted to \$32.0 billion and \$9.0 billion, respectively. Exhibit 10.1 shows the assets and expenses of the government entities reported in the Summary Financial Statements of the Province from 1993 to 1997.

All changes to the summary reporting entity are summarized in the *Audit of the Financial Statements of the Province* on page 29 of this report.

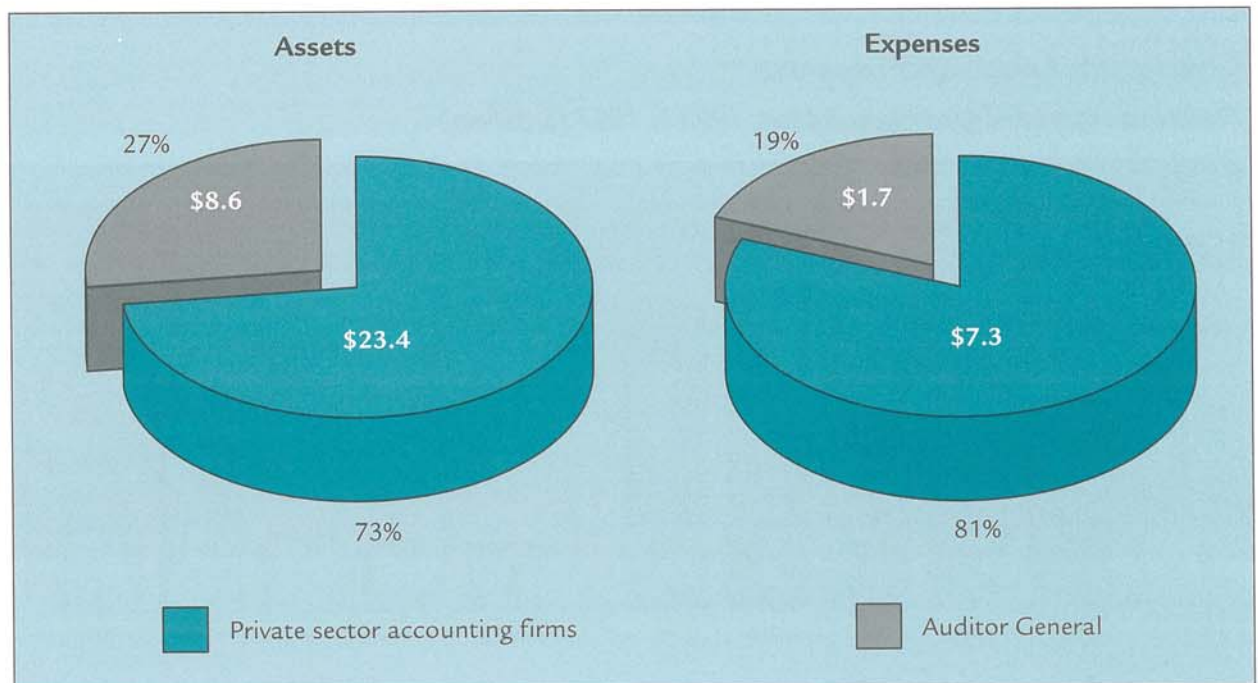
Auditors of Government Entities

Exhibit 10.2 shows, for the government entities included in the 1996/97 Summary Financial Statements of the Province, the asset and expense amounts audited by private sector accounting firms and those audited by the Auditor General. Private sector accounting firms audited 28 government entities, which had combined assets and expenses of \$23.4 billion and

Exhibit 10.2

Distribution of Financial Statement Attest Audits

Asset and expenses amounts audited by private sector accounting firms and by the Auditor General (for government entities), 1996/97 (\$ Billions)



Source: The Public Accounts

\$7.3 billion, respectively. The Auditor General audited 15 such entities, with total assets of \$8.6 billion and expenses of \$1.7 billion.

In addition to the government entities included in the Summary Financial Statements, the Auditor General audited a further 48 organizations with assets of \$69.8 billion and expenses (including financing transactions) of \$36.2 billion. Among these were 32 trust funds, including pension and superannuation plans, and investment funds administered by the government.

Appendix B of this report lists all government entities audited by the Auditor General, as well as other organizations and trust funds audited by the Auditor General which are not included in the Summary Financial Statements of the Province.

Appendix C lists the government entities that are included in the Summary Financial Statements and whose financial statements were audited by the private sector accounting firms.



Auditor's Reports

Both management and auditors have responsibilities associated with an entity's financial statements. Management is responsible for preparing the financial statements, establishing their form and content, and determining the accounting policies that are appropriate for the organization's activities. The auditor's responsibility is to express an opinion as to whether the financial statements present fairly, in all material respects, the financial position and operating results of the entity and are in accordance with appropriate accounting principles.

Where the auditor finds that the financial statements are not in accordance with appropriate accounting principles and the exception is considered to be material, the auditor must include a reservation in his or her report. During this past year, the auditor's report on the financial statements of a publicly funded university included in the Public Accounts contained such a reservation.



Accounting Standards for Government Organizations

In our last year's report on the Public Accounts, we commented on accounting standards for not-for-profit entities. These standards are very important and relevant to many funded agencies in the government environment. Some of these agencies have already adopted the new standards and others are planning to do so in the 1997/98 fiscal year. The Canadian Institute of Chartered Accountants (CICA) requires these standards to be adopted by organizations for their fiscal year starting on or after April 1, 1997. In our report next year we will provide a commentary on the level of compliance with these standards.



Financial Statement Comparability in the Public Sector

The absence of consistent accounting principles can lead to a lack of comparability between similar organizations within the public sector and between them and those in the private sector. The ability to make such comparison provides important information to users as to the performance of an organization.

For there to be consistent and comparable information between similar organizations, the basis of accounting needs to be consistent. The CICA standards provide alternative accounting treatments, but both the boards and the funding ministries of organizations need to be fully informed as to the choices that are available. The boards will want to choose the alternatives that best portray the activities of the entities, while the funding ministry will want to ensure consistency between entities in reporting those activities. As the chief accounting officer of the government, the Comptroller General's advice should be sought in this process.

The Auditor General, as the auditor of the government, works with both the funding ministries and the Office of the Comptroller General to encourage appropriate financial reporting throughout all government sectors.



Memorandum of Understanding with the Minister of Finance and Corporate Relations

The provisions of the Memorandum of Understanding between the Minister of Finance and Corporate Relations and the Auditor General are designed to provide a rational audit process that allows the Auditor General to fulfil the duties imposed by the *Auditor General Act*.

The Memorandum goes some way to rationalize who should perform the financial statement audits of government organizations, and gives the Auditor General the opportunity to provide guidance to private sector auditors. In the Memorandum, the Minister has agreed that the auditor selection process will reflect the judgments of the Auditor General with respect to:

- the persons appointed as auditor;
- the nature and extent of the audit work undertaken; and
- the standards adhered to in conducting the audit.

The Memorandum applies to audit appointments requiring the approval of the Minister, and also to appointments made by an Order-in-Council. These include almost all Crown corporations, the colleges, 11 regional health boards, and 34 community health councils. It is supported by an implementation plan which provides for the Auditor General to become auditor to some organizations, and for him to relinquish other audits to the private sector. New audits assumed by the Office enable us to increase our knowledge of government organizations and audit issues relating to them. Audits taken on are returned to the private sector on a rotational basis over a five-year period.

As of December 1997, after two years of implementation, the Office employed agents for the audits of the British Columbia Building Corporation (BCBC), the British Columbia Authority Assessment, Provincial Capital Commission, Creston Valley Wildlife Management Authority Trust Fund, and British Columbia Institute of Technology which, except for BCBC, were previously audited directly by our Office. We relinquished the audit of British Columbia Health Research Foundation and assumed the direct audits of BC Transportation Financing Authority and Kwantlen College.

These changes resulted in an overall reduction in the direct financial audit work carried out by the Office, and enabled us to meet our increased oversight and management assistance role.

As part of this role, we provide not only the Minister but also management with advice as to the appointment of auditors. At the start of the auditor appointment process, we advise about the various factors to be included in the Request for Proposal that goes to audit firms and we review the draft request and offer suggestions for improvement. We then review the process undertaken by the government organization, analyze the short list of suggested auditors, and provide our advice on the audit appointment to the Minister of Finance and Corporate Relations.

The Auditor General must also report on the government's financial statements and examine other financial information included in the Public Accounts. This information is drawn from the financial statements of all the government entities. In this work, we rely on the reports and work of the auditors of these entities. We must take reasonable care to assure ourselves that our reliance on other auditors is justified. We do this by meeting with the private sector auditors and reviewing their working papers to the extent we consider necessary.

The result is that this process is providing us with a good understanding of the nature of the audit work being undertaken in the public sector, which in turn will help us provide further advice to the Minister and the Legislative Assembly about audit issues.



appendices



appendix a

Financial Statement Audit Objectives and Methodology, Office of the Auditor General

Purposes of Financial Statement Audits

An independent audit of financial statements has several purposes. The main one is to add credibility to the statements, thus enhancing their value to the ultimate users. Evidence of this is provided in the form of an Auditor's Report which accompanies the financial statements, and in which the auditor's opinion expresses whether the statements are presented fairly in accordance with an appropriate, disclosed basis of accounting.

Another benefit of such an annual audit is that its very existence provides a constant stimulus to an organization to ensure sound financial management. In addition, the auditor is frequently able to provide helpful assistance and advice to an organization as a direct result of findings developed during the audit.

Reporting the Results of Audits

As noted above, a financial statement audit results in the issuance of a report on those statements. These reports are addressed to whoever appointed or engaged the auditor to do the work, such as the organization's owner, the shareholders, or some appropriate representative of those with a stake in the organization. In the case of the government financial statements examined by this Office, the Auditor General addresses his or her reports to the Legislative Assembly. The reports issued on the statements of Crown corporations and other government organizations are addressed to various parties, according to applicable appointment or engagement arrangements.

The Auditor's Report constitutes the auditor's professional opinion on the financial statements, and usually consists of three paragraphs.

The first paragraph identifies the financial statements that have been audited. It also points out that the statements are the responsibility of management, and that the auditor's responsibility is to express an opinion on the statements.

Next is the “scope” paragraph, which describes the nature and extent of the auditor’s work and the degree of assurance that the Auditor’s Report provides. Also, it refers to generally accepted auditing standards and describes some of the important procedures which the auditor undertakes.

The third paragraph, frequently referred to as the “opinion” paragraph, contains the auditor’s conclusion based on the audit conducted.

If the auditor is unable to provide an opinion without reservation on the financial statements, the report must include another paragraph. In that paragraph, which would appear between the scope and the opinion paragraphs, the auditor advises the reader as to the reasons for the reservation, and the effects or possible effects on the financial statements of the matters giving rise to the reservation.

Finally, should the auditor wish to present additional information or explanations concerning the financial statements—information that does not constitute a reservation in the audit opinion—this will appear in a further, explanatory paragraph to the report.

Auditing Standards

When undertaking examination procedures for the purpose of expressing an opinion on financial statements, auditors are expected to comply with established professional standards, referred to as generally accepted auditing standards. The principal source of these standards in Canada is the Canadian Institute of Chartered Accountants (CICA).

Generally accepted auditing standards consist of three main areas. There are general requirements that the auditor be properly qualified to conduct and report on an audit, and that he or she carry out the duties with an objective state of mind. Further standards outline the key technical elements to be observed in the conduct of an audit. Finally, reporting standards set out the essential framework of the Auditor’s Report on the financial statements.

In addition to these broad standards, the CICA makes other, more detailed, recommendations related to matters of auditing practice. As well, the CICA, through its Public Sector Accounting and Auditing Board, makes recommendations that relate specifically to the audit of entities in the public sector.

Application of the Standards

We carry out extensive examinations of the accounts and records maintained by the ministries and central agencies of government, and by the Crown corporations and other public bodies of which the Auditor General is the auditor.

Also, with respect to Crown corporations which are audited by other auditors and which form part of the Province's Summary Financial Statements, we obtain various information and assurances from those other auditors which enable us to rely on their work in conducting our audit of the government's accounts. This information is supplemented by periodic reviews by our staff of those auditors' working paper files and audit procedures.

Throughout these examinations, the Office of the Auditor General complies with all prescribed auditing standards in the conduct of its work. It must be realized, however, that the Auditor General's opinion on a set of financial statements does not guarantee the absolute accuracy of those statements. In the audit of any large organization it is neither feasible nor economically desirable to examine every transaction. Instead, the auditor, using knowledge of an organization's business, methods of operation, and systems of internal control, assesses the risk of error occurring and then designs audit procedures to provide reasonable assurance that any errors contained in the financial statements are not, in total, significant enough to mislead the reader as to the organization's financial position or results of operations.

When determining the nature and extent of work required to provide such assurance, we consider two main factors: *materiality*, which is expressed in dollar terms, and *overall audit assurance*, expressed in percentage terms.

- *Materiality* relates to the aggregate dollar amount which, if in error, would affect the substance of the information reported in the financial statements, to the extent that a knowledgeable reader's judgment, based on the information contained in the statements, would be influenced.

In our audit of the Province's financial statements we have assumed that an error in the current year's deficit in excess of one-half of 1% of the gross expense of the government would be considered material. For our audits of government organizations, materiality is established based on the nature of the organization and an appropriate percentage, or combination of percentages, of expenditure, assets, or surplus/deficit.

- *Overall audit assurance* represents, in percentage terms, how certain the auditor wants to be that the audit will discover error in the financial statements which, in total, exceeds materiality, should such total error exist.

In our audit of the Province's financial statements, we planned our work so as to achieve an overall audit assurance of 95% that the audit would detect error in excess of materiality. For our audits of other government organizations, our planned overall audit assurance ranges between 95% and 97.5%. In choosing the level of assurance, we consider factors such as the expectations of the users of the financial statements and the nature of the audit evidence available.

In planning our audits of financial statements, we exercise professional judgment in determining the application of these two key factors. Professional judgment is influenced by our knowledge of the requirements of readers of the financial statements, and by what is generally accepted as being appropriate by auditors of similar organizations.



appendix b

Reports, Entities, and Trust Funds Audited by the Auditor General for the 1996/97 Fiscal Year

In addition to auditing the Summary Financial Statements of the Province and the Consolidated Revenue Fund Financial Statements the Auditor General is the Auditor of:

Government Reports

Debt Statistics Information

Summary of Provincial Net Debt

Key Indicators of Provincial Debt

Summary of Key Benchmarks

Internal Control Objectives for the Investment System

The Office of the Chief Investment Officer

Entities Included in the Summary Financial Statements

British Columbia Assessment Authority

British Columbia Buildings Corporation

British Columbia Educational Institutions

Capital Financing Authority

British Columbia Enterprise Corporation

British Columbia Liquor Distribution Branch¹

British Columbia Regional Hospital Districts

Financing Authority

British Columbia School Districts Capital Financing Authority

British Columbia Securities Commission

Columbia Power Corporation

Creston Valley Wildlife Management Authority Trust Fund

Duke Point Development Limited

Forest Renewal BC

Health Facilities Association of British Columbia

Provincial Capital Commission

W.L.C. Developments Ltd.

¹Branch of Ministry of Attorney General

Other Entities

British Columbia Institute of Technology
Canadian HIV Trials Network
Legal Services Society
Provincial Employees' Community Services Fund
Royal Roads University
SF Univentures Corporation
Simon Fraser University
The Cedar Lodge Society
University of British Columbia
University of Northern British Columbia
University of Victoria
University Foundations:
 Foundation for the University of Victoria
 Simon Fraser University Foundation
 The University of British Columbia Foundation
 University of Northern British Columbia Foundation
University of Northern British Columbia Pension Plan

Trust Funds

BC Rail Ltd. Pension Plan
British Columbia Hydro and Power Authority Pension Plan
British Columbia Public Service Long Term Disability Plan
College Pension Plan
Members of the Legislative Assembly Superannuation Account
Municipal Pension Plan
Province of British Columbia Pooled Investment Portfolios:
 Active Canadian Equity Fund
 Active U.S. Equity Fund
 British Columbia Focus Fund
 Canadian Money Market Fund ST1
 Canadian Money Market Fund ST2
 U.S. Dollar Money Market Fund ST3

Canadian Corporate Bond Fund
Construction Mortgage Fund
Customized U.S. Equity Fund
Fixed Term Mortgage Fund
Indexed Canadian Equity Fund
Indexed Government Bond Fund
Managed International Equity Fund
Passive International Equity Fund
Pension Bond Fund
Private Placement Fund 1995
Private Placement Fund 1996
Realpool Investment Fund
S & P 500 Index Equity Fund
Short Term Bond Fund
TSE 100 Index Equity Fund
Public Service Pension Plan
Teachers' Pension Plan
Westel Telecommunications Ltd. Pension Plan
Workers' Compensation Board of British Columbia
Workers' Compensation Board Superannuation Plan



appendix c

Government Entities and Trust Funds Audited by Private Sector Auditors, or Unaudited, and Whose Financial Statements Are Included in the 1996/97 Public Accounts

Entities Included in the Summary Financial Statements

B.C. Community Financial Services Corporation
B.C. Festival of the Arts Society
B.C. Games Society
B.C. Health Care Risk Management Society
B.C. Pavilion Corporation
BC Transportation Financing Authority
British Columbia Ferry Corporation
British Columbia Health Research Foundation
British Columbia Heritage Trust
British Columbia Housing Management Commission
British Columbia Hydro and Power Authority
British Columbia Lottery Corporation
British Columbia Railway Company
British Columbia Rapid Transit Company Ltd.
British Columbia Systems Corporation
British Columbia Trade Development Corporation
British Columbia Transit
Columbia Basin Trust
Discovery Enterprises Inc.
Downtown Revitalization Program Society of British Columbia
First Peoples' Heritage, Language and Cultural Council
Insurance Corporation of British Columbia
Okanagan Valley Tree Fruit Authority
Pacific National Exhibition

Provincial Rental Housing Corporation
Science Council of British Columbia
Victoria Line Ltd.
West Coast Express Limited

Other Entities

111 Health care organizations
39 Regional hospital districts
4 Regional health boards
1 Community health councils
75 School districts
21 Colleges and advanced education institutes

Trust Fund

Credit Union Deposit Insurance Corporation
of British Columbia



appendix d

Excerpts From the October 1997 Briefing Book by the Auditor General on the Government Reporting Entity

The material that forms Appendix D is from a briefing book prepared by the Auditor General of British Columbia for the October 1997 hearing of the Select Standing Committee on the Public Accounts. The purpose of the briefing book was to clarify issues raised by members of the Committee and to assist in its deliberations.

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The Government Reporting Entity



Purpose

In 1997, following the government's decision to remove from its 1996/97 financial statements a number of organizations that had been included in the 1995/96 government reporting entity, the Select Standing Committee on Public Accounts was asked by the Minister of Finance and Corporate Relations to consider the matter of the scope of the Province's Summary Financial Statements. This briefing book is intended to clarify issues raised by members of the Committee and to assist it in its ongoing deliberations.

Introduction

In 1995/96, the government formally acknowledged that schools, colleges, universities and various health sector organizations do comprise part of government—that is, they are accountable to, and are either owned or controlled by, the provincial government. Accordingly, these entities were included, for the first time, in the Province's Summary Financial Statements for 1995/96.

The Summary Financial Statements are meant to provide a full accounting of government's overall financial performance. If the public and Legislative Assembly are to assess the full size, growth and impact of government, the Summary Financial Statements must be inclusive of all the operations of government. In my *Report on the 1995/96 Public Accounts*, I commended the government for expanding the Summary Financial Statements to include schools, colleges, universities and various health sector organizations.

The Summary Financial Statements for 1996/97, however, will not be inclusive of all the operations of government. The government has made clear its intention to exclude schools, colleges, universities and much of the health sector from its accounting. Having made this decision, the government has also requested that the Select Standing Committee on Public Accounts consider the criteria on which the Summary Financial Statements should be based.

This briefing book addresses those criteria and provides background information for the Select Standing Committee on Public Accounts to assess the issues raised. In particular, it includes:

- information addressing the importance of the Summary Financial Statements as a vehicle for demonstrating the government's accountability to the Legislative Assembly;
- the standards generally accepted by governments in determining which organizations to include in the reporting entity;
- an analysis of the government's relationship to organizations that could be considered for inclusion;
- an analysis of the financial impacts; and
- comments as to the Auditor General's statutory responsibility as auditor of the government's financial statements.

What is the purpose of the Summary Financial Statements?

Governments carry out policies and deliver services through various entities. Some are organizational and accounting entities (such as ministries or special funds and accounts) through which government directly performs its executive function; others are separate corporate entities, such as Crown corporations or school boards, to which financial power and operational management has been delegated. Government, however, retains an oversight role and is able to exercise its policy direction through these corporate entities. It is the government that initiates organizational legislation, appoints or approves boards of directors and, with the approval of the Legislative Assembly, provides corporate entities with their financial resources. *And it is government, through its ownership and control, that bears the ultimate responsibility for such entities—for their financial affairs and for the way in which public resources are invested in and employed by them.*

Power and authority is provided to all entities through the government, *acting with the approval of the Legislative Assembly.* Government retains a degree of control and/or ownership over these entities, but is, at the same time, accountable to the Assembly for the way in which the entities use public funds. This accountability is fulfilled in two ways: through the financial statements of individual entities and through the government's summary financial statements.

The financial statements of individual government entities are provided to the Legislative Assembly, and constitute important accountability reports by each entity's management. However, these statements do not provide legislators, investors and other groups with a clear overview of the full range of financial activities for which the government is responsible. *Only the government is able to provide the Legislative Assembly with this financial overview and it does so through the Summary Financial Statements.*

The Summary Financial Statements of a government are intended to provide clear and informative information to legislators and to those outside of government about the government's *financial performance overall.* To account for

its financial performance in this broad sense, the Summary Financial Statements must incorporate information about the Consolidated Revenue Fund—central government, in other words—as well as those entities that are outside the Consolidated Revenue Fund, such as Crown corporations, schools, colleges, universities and health authorities.

Why are they important and necessary?

The Summary Financial Statements are general purpose in that they serve the needs of a variety of users including analysts, investors, bond-raters, lenders, special interest groups and others. The government uses the statements to report on its stewardship and if the financial statements are not complete—that is, they do not include all the entities for which it exercises accountability, control or ownership—then government's accounting for its stewardship will be incomplete. Clearly, the form and content of government's financial reports, and its financial statements in particular, will significantly affect the public's understanding of the financial performance of government.

Legislators and the public may not necessarily refer directly to the Summary Financial Statements of the Province, but the financial reports they do use are usually based on information taken from the financial statements. Governments produce many kinds of financial reports, such as debt statistics, financial statements of individuals funds and groups of funds, and organizations within the reporting entity as well as special purpose reports designed to meet the needs of specific users. However, *it is the Summary Financial Statements that provide the complete framework for government financial reporting.*

What is meant by “Government Reporting Entity”?

“Government reporting entity” is a term used to describe the full extent of those organizations whose financial performance should be included in the Summary Financial Statements of the Province. The Summary Financial Statements are the principal means of communicating financial information about the performance of government as a whole to a variety of users. Therefore, the government reporting entity encompasses those organizations which are accountable to the government and which the government owns or controls.

The Government Reporting Entity in British Columbia

Since 1981, the Summary Financial Statements have reflected the transactions of central government and of the Crown corporations owned and operated by the provincial government. Crown corporations were included because they were accountable to and owned or controlled by the government.

In 1995/96, the government re-examined its reporting entity and, based on the same criteria as was used in Crown corporations and other government organizations, included:

- 75 school districts;
- 120 health care organizations and related corporations;
- 29 regional hospital districts; and
- 25 universities, colleges and institutes.

The government also stated in the *1995/96 Public Accounts of British Columbia* that these entities “are primarily dependent on provincial government support for their continued existence. In addition, people believe that education and health care delivery are the ultimate responsibility of the provincial government.”

Who determines the scope of the Government Reporting Entity?

In a democratic system of government, the government is given the authority and responsibility to govern and manage public resources. But this is provided in the context of the government's being accountable to the Legislative Assembly for the way in which it exercises its authority. Part of that accountability requires government to provide the public and their elected representatives with a *clear and complete picture* of where government stands financially. To do so, the Summary Financial Statements of the Province must reflect the organizations for which government is accountable and for which it exercises control or ownership.

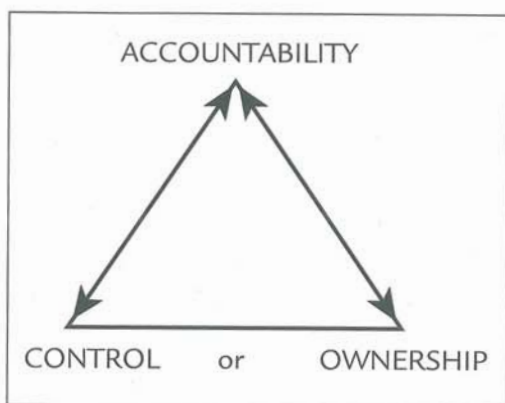
The Role of the Legislative Assembly and of Government: The reality is that government—through Treasury Board—will decide which organizations comprise the government reporting entity and, in turn, will be included in the Summary Financial Statements of the Province. *But the decision does not rest with government alone.* While government decides on the information it will report in order to manage its affairs on a daily basis, in the larger context of governance and accountability, the public and Legislative Assembly have the ultimate right to determine what information is required for a full accounting from government—and government is obliged to provide that information.

The Role of the Auditor General of British Columbia: In granting government authority to administer the financial affairs and resources of the public, the Legislative Assembly has also delegated to government the responsibility for setting accounting policies. The Auditor General's responsibility is to provide the Legislative Assembly with *independent assurance* that the government's accounting policies and their application have resulted in fair presentation of its financial performance—in other words, that the Summary Financial Statements are inclusive and representative of all the operations of government. In providing such advice, the Auditor General is guided by the accounting policies of the federal, provincial and territorial governments in Canada and by the recommendations of the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants.

The Role of the Public Sector Accounting and Auditing Board (PSAAB): The Public Sector Accounting and Auditing Board provides governments and their auditors with guidance and standards that are intended to improve and harmonize public sector financial reporting, accounting and auditing practices. The Board has issued a number of accounting recommendations over the years, and its guidance has formed the basis for much of the federal, provincial and territorial financial reporting that we see today. Its recommendation on the scope of the government reporting entity is the result of several years of discussions, exposure drafts and consultations with senior government and other professional financial officials from across the country. It was, in part, as a result of these discussions that the government of British Columbia expanded the government reporting entity in 1995/96 to include schools, colleges, universities and various health sector organizations.

How is the scope of the Government Reporting Entity determined?

The scope of the government reporting entity should be determined in a manner which ensures that the Summary Financial Statements provide a *comprehensive yet understandable overview of government and its responsibilities*. The prevailing view, as recommended by PSAAB, is that the government reporting entity should include organizations that are *both accountable to and owned or controlled by government*.



The principles of accountability, ownership and control are important because they provide consistency in the way the government reporting entity is determined across Canada. *However, this does not mean that the same organizations will be included in the reporting entity in all jurisdictions. The decision to include an organization will depend on the degree of accountability, ownership or control that exists, and this may vary from one jurisdiction to another.*

What is meant by “accountability”?

“Accountability” is described in terms of being answerable for management’s overall actions, operations and administration of an organization’s financial affairs and resources. This goes beyond the requirement to demonstrate compliance with funding arrangements or government regulations. Neither financial dependence on government “nor regulation by government is, by itself, sufficient to find that an organization is accountable. Conversely, the existence of funding sources other than the government is not sufficient to find that an organization is *not* accountable.

For an organization to be held accountable, the government must have the ability to stipulate:

not only the quantity and quality of required service or product outputs the organization must deliver;

but also how the money is spent—*how* the organization conducts its overall financial affairs, *how* it employs its resources, and *how* it meets required quality standards.

What is meant by “control”?

“Control” is the authority to determine the financial and operating policies of an organization without:

requiring the consent of others;

or

changing existing legislative provisions.

Evidence of control includes legislation that provides government with the authority to determine the revenue-raising or expenditure and resource allocation policies of an organization, or to appoint a majority of an organization’s governing board or its senior management. *The ability to exercise, rather than the actual exercise of, such authority determines whether control exists.*

What is meant by “ownership”?

“Ownership” is described in terms of government having created or acquired an organization *and*:

having title to share capital sufficient to appoint at least a majority of the members of the board of directors,

or

having an on-going right of access to an organization’s net assets.

Legislation which provides for the transfer of an organization’s net assets to government only on the dissolution of the organization is *not* sufficient to establish ownership.

What should be the scope of BC's Government Reporting Entity?

If we apply the principles of "accountability and control" or "accountability and ownership" to British Columbia, based on legislative provisions, it appears that schools, colleges, and the health sector should be included in the government reporting entity. For universities, it is less clear. Municipalities, funded agencies and contracted agencies would be excluded. Our analysis is summarized below.

	Accountable	Controlled	Owned
School Boards	✓	✓	X
Colleges and Institutes	✓	✓	✓
Universities:			
- UBC, SFU, and UVic	✓	?	X
- UNBC	✓	✓	X
- Royal Roads	✓	✓	X
- Technical university	✓	✓	X
Health Authorities	✓	✓	X
Municipalities	✓	X	X
Funded and Contracted agencies	X	X	X

The following indicators are provided to illustrate the ways in which each organization is accountable to and owned or controlled by the provincial government in British Columbia.

School Boards:

✓ Accountable

- for overall administration of financial affairs and resources
- must provide an annual plan regarding operational effectiveness
- required to provide financial statements on annual basis
- cannot incur operating deficit without prior government approval

✓ Controlled

- government is charged with maintenance and management of all provincial school operations under the *School Act*
- government allocates funds as it sees fit
- boards must budget and spend according to government direction
- accounting practices must be in accordance with government direction

Colleges:

✓ Accountable

- must evaluate programs and operations on an ongoing basis and report to the Minister on request
- must submit an annual report to the Minister
- required to provide financial statements on annual basis
- cannot incur operating deficit without prior government approval
- a public administrator may be appointed to discharge the powers, duties and functions of a board

✓ Owned

- each institution is, for all its purposes, an agent of the government; its powers may be exercised only as an agent of the government

✓ Controlled

- 8 of 14 board members appointed by government
- government establishes policy and directives for education and training in colleges
- government establishes educational, training, operational, administrative, management and other standards
- must establish the accounting and information systems the Minister considers necessary

Universities

✓ Accountable

- universities required to provide financial statements on annual basis
- cannot incur operating deficit without prior government approval

✓ Controlled

- government controls or influences appointment of a majority of the board of governors
- government controls major capital decisions
- newer universities are subject to additional accountability requirements and greater control than well-established universities

Health Authorities

✓ Accountable

- government can establish provincial standards for health services and the services that must be provided in a region or community
- grants to a board or council are conditional on compliance with provincial standards and provision of specified health services
- each board or council must provide an annual report on its operations and finances to government
- required to provide financial statements on annual basis
- cannot incur operating deficit without prior government approval
- a public administrator may be appointed to discharge the powers, duties and functions of a council or board

✓ Controlled

- appointment process controlled by government
- priorities determined by government
- regulations of the Minister prevail over those of the health authority

Municipalities

✓ Accountable

- can be held accountable to government for the administration of their financial affairs

X Owned

- municipalities are corporations without shares; government does not have title to a majority of the organization's shares or to its net assets

X Controlled

- government controls many of the financial management processes and transactions of municipalities but the degree of control is limited
- municipalities are not controlled by government, in that government does not:
 - appoint a majority of the "governing board" or senior management; nor
 - determine revenue-raising, expenditure and resource allocation policies of the municipalities

Funded and Contracted Agencies

Non-government agencies, such as private businesses and societies, may receive government funding which helps support their activities; others, by contrast, deliver programs and services, on behalf of the government, on a contractual basis. However, these agencies—whether they are contracted or not—retain the choice as to whether they will or will not do business with the government and they are able to negotiate with government their terms and conditions. Consequently, government does not exercise sufficient control or have ownership of these agencies to be able to include them in the government reporting entity.

What is the impact of including or not including organizations in the Government Reporting Entity?

Including the financial results of schools, universities, colleges and the health sector in the reporting entity will show:

- the capital assets invested by the government in the health and education sectors;
- sources of revenue, such as fees or licenses, that are not funded through the Consolidated Revenue Fund but which are necessary for the organizations to deliver their programs; and
- the extent of, and changes in, revenue received from other than the Consolidated Revenue Fund.

This additional financial information is necessary in understanding the extent of, and trends in, the government's capital needs and its reliance on other revenue sources to deliver health and education programs.

Assets and Liabilities:

	Include \$ Millions	Exclude \$ Millions	Increase (Decrease) \$ Millions
Liabilities	34,050	33,051	999
Financial Assets	16,924	15,916	1,008
Tangible Capital Assets	11,135	4,089	7,046
Accumulated Deficit	5,991	13,046	(7,055)

Financial assets and liabilities would both increase by approximately \$1 billion to reflect the inclusion of cash, investments and accounts payable.

Tangible capital assets would increase by \$7 billion and the net deficiency would decrease to reflect the Province's investment in schools, hospitals and advanced education institutes.

Revenue and Expenses

	Include \$ Millions	Exclude \$ Millions	Increase (Decrease) \$ Millions
Revenue	23,616	22,505	1,111
Expenses	23,959	29,910	1,049

Revenue increases would result from the inclusion of such items as patient fees, tuition fees, and other usage charges used by the schools, universities, colleges and health sector organization to fund the \$1 billion increase in salaries and other operating costs required to deliver their programs.

What is the trend across Canada?

Periodic Review. Organizations change over time and so do their governance structures. That is why, periodically, the application of the PSAAB principles—not the principles themselves—are reviewed by various governments across Canada.

Reporting Entities Across Canada will Differ. The reporting entity will differ from one jurisdiction to another for two reasons: (1) the state of accountability and control or ownership will vary, depending on the legislative provisions and activities of each organization; and (2) the provinces and the federal government are at different stages of implementation in applying the principles.

The principles of accountability and control or ownership are a useful tool for ensuring consistency and logic in the way the government reporting entity is determined within each jurisdiction in Canada. This does not mean that the same organizations will form part of the reporting entity in all provinces, however. The reporting entity will differ from one jurisdiction to another because an organization's relationship with government—its accountability, control and ownership—may differ. Consequently, comparisons with other provinces or with the federal government as to which organizations are included or excluded is not particularly meaningful.

Who accepts PSAAB and its principles of accountability and control or ownership?

PSAAB is Widely Accepted Across Canada. The Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants was established in 1981 to improve and harmonize public sector accounting and auditing practice. Its creation followed extensive consultation with federal and provincial governments and legislative auditors, and an in-depth study of government financial reporting.

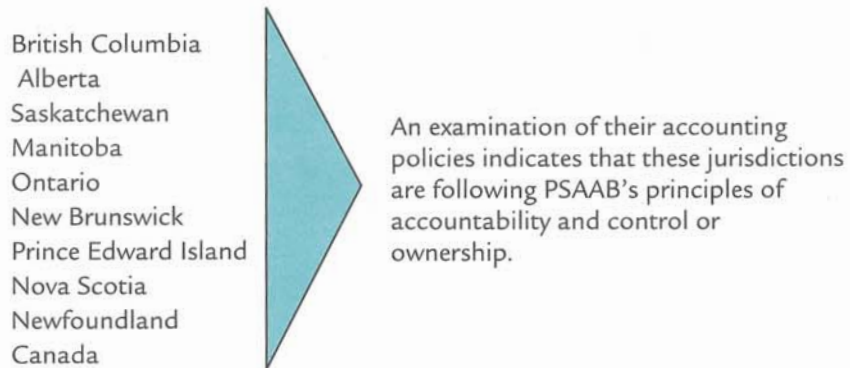
That study found wide disparities in government reporting practices. Government financial statements often reported fragmented and incomplete information, leaving out major operating units and liabilities. Furthermore, similar transactions were being reported very differently from one government to another. Consequently, information contained in the financial statements was inadequate for decision-making, accountability and comparison with others. What was needed were accounting standards for financial reporting in the public sector.

Government differs from business in its objectives and in the nature of its operations. These differences need to be reflected in the financials statements that governments produce to report on their financial condition and results of operations. PSAAB recognizes such differences in the standards it sets for financial reporting in the public sector. As a result of its work, governments now follow generally accepted accounting principles in reporting on their financial performance.

PSAAB's process for setting standards is highly regarded because of its integrity and the opportunity it offers those affected to provide input. Standards are developed by those people knowledgeable about and affected by them: deputy ministers, assistant deputy ministers, comptrollers, auditors general, municipal finance officers and executives of government organizations. Two-thirds of the members of PSAAB and its task forces are selected from among those responsible for government financial reporting and auditing. This helps ensure that PSAAB's accounting standards are indeed appropriate for governments. And today, with few exceptions, the federal and provincial governments look to

PSAAB and the standards it has set in preparing their financial statements.

Accountability and Control or Ownership is Widely Accepted.
 PSAAB's principles of accountability and control or ownership are also accepted by the federal and all provincial governments except Quebec:



Similar organizations are not necessarily in the government reporting entity in each province; their inclusion depends on the degree of accountability, control and ownership which exists. Although PSAAB guidance in this area is fairly new, governments across Canada have been examining the government reporting entity within their jurisdiction, using the PSAAB principles of accountability and control or ownership. The trend, as is evident from the following chart, is toward expanding the government reporting entity.

Organizations within the Government Reporting Entity across Canada,
Status October 1997:

Province	Schools	Colleges	Universities	Health Authorities	Trend in the Government Reporting Entity
British Columbia	under review				<
Alberta					=
Saskatchewan	✍	✓	✍	✓	>
Manitoba	✍	✓	✓	*	>
Ontario	✍				=
Quebec	no summary financial statements				
New Brunswick	✓	✓	X	✍	>
Prince Edward Island	✓	X	X	✓	>
Nova Scotia	✍	✍	✍	✍	>
Newfoundland	✍	✓	✍	✓	>
✓ included in the government reporting entity				>	expanding
X do not meet criteria				<	contracting
* plans for inclusion in the government reporting entity				=	no change
✍ under study					

Alberta

At present, the inclusion of universities, colleges and institutes, regional health authorities, and school boards in the summary financial statements is still under review. Departmental and ministry financial statements have been qualified by the Auditor General for failing to include these organizations.

Saskatchewan

Summary financial statements were issued in 1996/97. The criteria for including particular organizations was based on the principles of accountability, control and ownership. The three largest health authorities are included in the summary

financial statements. These three authorities account for approximately 60% of the Health Sector. For those authorities not yet included, differences between the grant expenditures of the CRF and full consolidation, are considered errors by the Provincial Auditor. In 1996/97, community colleges were included in the summary financial statements for the first time. The government's degree of control over school boards and universities is currently being considered; at present they are not included.

Manitoba

Summary financial statements were issued in 1995/96. Colleges and universities are included, but not hospitals or school boards. Hospitals are likely to be included in 1996/97, and discussion about school boards are ongoing.

Ontario

The Ministry of Finance is taking another look at inclusion of school boards in light of new legislation in Ontario that has just passed first reading. This legislation gives the Province more direct control over the school boards.

New Brunswick

Colleges and schools are included in the government reporting entity as they are part of ministries. Hospitals are excluded but are being considered for inclusion. Some members of the Legislature's Crown Corporations Committee are questioning why hospitals are not subject to this review as government organizations. Universities are currently not being considered for inclusion as they are not owned or controlled.

Prince Edward Island

Schools were included for the first time in the 1996/97 summary financial statements. The government does not believe universities meet the criteria for inclusion, and that they are independent of the government. Hospitals are included.

Nova Scotia

The government currently publishes financial statements in which only five commercial entities are included. The government is now reviewing the composition of the government reporting entity, using PSAAB criteria.

Newfoundland

Colleges are included in the summary financial statements, and hospitals are to be included in the 1996/97 statements, although there are some problems getting the necessary information from the hospitals. If hospitals are not included, it will be because the information was not ready in time. Universities and school boards will be included if they meet PSAAB criteria. Decisions on universities is not yet made, and the responsibility for school boards is in a state of flux.

What are the issues to be considered by the Auditor General?

Role and Responsibility of the Auditor General. Legislation requires the government to report to the Legislative Assembly on the financial results and position of the Province, which it does through its financial statements. The Auditor General's responsibility to the Legislative Assembly is to provide it with an independent assessment as to the fairness and reliability of the government's financial statements.

Two criteria must be met for the Auditor General to issue a favourable opinion. The statement must:

- (1) present fairly the financial results for a fiscal period and the status of the government's performance at a particular point in time; and
- (2) be prepared using the most appropriate basis of accounting for fair presentation and disclosure.

Determining Fair Presentation of the Financial Statements. To determine what constitutes fair presentation, the Auditor General looks beyond the government's own accounting policies to those of other governments in Canada and elsewhere. The Auditor General is also guided, as are other legislative auditors, by the authoritative pronouncements and standards of the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants. These standards are issued only after extensive consultation over a number of years with government officials and legislative auditors representing all federal and provincial jurisdictions.

A key aspect of fair presentation which the Auditor General must consider is the extent to which government has fully accounted for its reporting entity. To make this assessment, the Auditor General applies the principles of accountability and control or ownership—principles proposed by PSAAB and now followed by many governments in Canada. Whether an organization should be considered part of the government reporting entity will depend on its relationship with the provincial government—the degree of accountability, control or ownership which exists.

Determining what has changed from Fiscal Year 1995/96. In British Columbia in 1995/96, after lengthy discussion and consultation with the Auditor General and others, the government modified the government reporting entity to include organizations in the education and health sectors. This change was reflected in its Summary Financial Statements for 1995/96 and, in the Auditor General's opinion, the statements did present fairly the financial performance of the government.

For 1996/97, the government has decided to remove funded agencies in the education and health sectors from its Summary Financial Statements. Reducing the government reporting entity in this way, when there has been no significant change in the degree of accountability, control or ownership to justify such exclusion, will result in Summary Financial Statements that are incomplete and, therefore, misleading.

In attesting to the fairness and reliability of the 1996/97 Summary Financial Statements, the Auditor General will need to consider whether the government's relationship with the schools, universities, colleges and the health sector has changed significantly from 1995/96 to 1996/97. If it has not, and the government excludes funded agencies in the education and health sectors from its 1996/97 Summary Financial Statements, the Auditor General will have to qualify the financial statements.



appendix e

Excerpts from the 1996/97 Public Accounts

The material that forms Appendix E is from the Public Accounts of British Columbia for the fiscal year ended March 31, 1997. It consists of the Summary Financial Statements of the province and the Auditor General's Report on them.

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Report of the Auditor General of British Columbia

SUMMARY FINANCIAL STATEMENTS PROVINCE OF BRITISH COLUMBIA

*To the Legislative Assembly
of the Province of British Columbia
Parliament Buildings
Victoria, British Columbia*

I have audited the statement of financial position of the *Province of British Columbia* as at March 31, 1997 and the statements of operations and changes in cash and temporary investments for the year then ended. These financial statements are the responsibility of the government. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. In the conduct of my audit, I have received all the information and explanations I have required.

Reservations

1. In preparing this year's statements, the government has excluded the regional hospital districts, public health care organizations, universities, colleges and institutes, and school districts. Exclusion of these organizations, though clearly stated in note 1 to these statements, is an exception to the government's general accounting policies governing the summary reporting entity. Those policies provide for the inclusion in the Summary Financial Statements of organizations which are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the Legislature, and are owned or controlled by the government. The above-noted organizations meet these criteria for inclusion and, accordingly, should be consolidated into these financial statements, as they were in 1996.

AUDITOR GENERAL'S REPORT
SUMMARY FINANCIAL STATEMENTS
PROVINCE OF BRITISH COLUMBIA

Had the regional hospital districts, public health care organizations, universities, colleges and institutes, and school districts been included in these statements, the total financial assets as at March 31, 1997 would increase by \$1,165 million (\$1,008 million for 1996), and total liabilities as at March 31, 1997 would increase by \$1,247 million (\$1,067 million for 1996), resulting in an increase of \$82 million (\$59 million for 1996) in net liabilities as at March 31, 1997. Similarly, there would be an increase in revenue for the year ended March 31, 1997 of \$1,189 million (\$1,111 million for 1996), and an increase in expense for the year ended March 31, 1997 of \$1,040 million (\$1,049 million for 1996), resulting in a decrease in annual net operating expense of \$149 million for the year ended March 31, 1997 (\$62 million for 1996). The exclusion from the reporting entity of the regional hospital districts, public health care organizations, universities, colleges and institutes, and school districts also affect many other significant components of the financial statements, as outlined in the schedule of impact of change in reporting entity included in these statements.

2. The government, by presenting, outside of its net deficiency, the amounts described in the statement of financial position as "loans for the purchase of assets, recoverable through future appropriations", has reported these amounts, in effect, as assets of the Province. These loans do not have the necessary characteristics of assets, and should be accounted for as an expense of the Province of the period in which each loan was incurred.

Had the above-noted loans been expensed, the net deficiency as at March 31, 1997 would increase by \$4,964 million (\$4,710 million for 1996). Also, the expense for the year ended March 31, 1997 would increase by \$254 million (\$390 million for 1996), resulting in a similar increase in the consolidated net expense for the year.

3. Capitalization of tangible capital assets is proceeding on a phased-in basis. During the transitional period, which started with the 1995/96 fiscal year, groups of assets for which estimated or actual values have been ascertained are to be capitalized. Land purchased, or otherwise acquired for value consideration, is recorded in these financial statements as a capitalized asset group, except for the ascertained value of land that is held by the Consolidated Revenue Fund. Land value should include the ascertained value of the land held by the Consolidated Revenue Fund, as was the case in 1996.

... 3



AUDITOR GENERAL'S REPORT
SUMMARY FINANCIAL STATEMENTS
PROVINCE OF BRITISH COLUMBIA

Had the ascertained value of land held by the Consolidated Revenue Fund been included in these statements, the tangible capital assets would increase, and the net deficiency would decrease, as at March 31, 1997 by \$735 million (\$710 million for 1996). Also, the net operating expense for the year ended March 31, 1997 would decrease by \$25 million (\$8 million for 1996).

The changes referred to in these reservations, taken together, have the following effects as at March 31, 1997: total financial assets would increase by \$1,165 million to \$16,328 million, total liabilities would increase by \$1,247 million to \$35,510 million, tangible capital assets would increase by \$8,228 million to \$12,408 million, and net deficiency would decrease by \$3,182 million to \$6,774 million. The revenue for the year ended March 31, 1997 would increase by \$1,189 million to \$24,388 million; and, for the year then ended expense would increase by \$1,015 million to \$24,929 million and consolidated net expense would decrease by \$174 million to \$594 million.

Opinion

I report in accordance with Section 10 of the *Auditor General Act* RSBC 1996 chapter 23. In my opinion, except for the effects on the financial statements of the matters referred to in the preceding reservation paragraphs, these financial statements present fairly, in all material respects, the financial position of the Province as at March 31, 1997, and the results of its operations and the changes in its cash and temporary investments for the year then ended, in accordance with the stated accounting policies as set out in note 1 to these financial statements applied on a basis consistent with that of the preceding year.



Victoria, British Columbia

July 18, 1997



Statement of Responsibility for the Summary Financial Statements of the Province of British Columbia

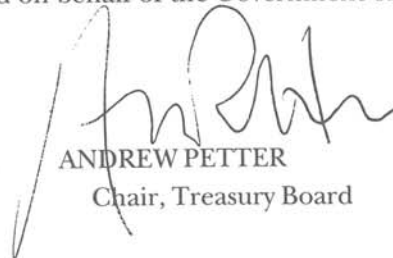
Responsibility for the integrity and objectivity of the Summary Financial Statements of the Province of British Columbia rests with the government. These financial statements are prepared by the Comptroller General under the direction of the Treasury Board, in accordance with the government's stated accounting policies. The fiscal year of the government is from April 1 to March 31 of the following year.

To fulfill its accounting and reporting responsibilities, the government maintains systems of financial management and internal control. These systems give due consideration to costs, benefits and risks, and are designed to provide reasonable assurance that transactions are properly authorized by the Legislative Assembly, are executed in accordance with prescribed regulations and are properly recorded. This is done to maintain accountability of public money and safeguard the assets and properties of the Province of British Columbia under government administration. The Comptroller General of British Columbia maintains the accounts of British Columbia, a centralized record of the government's financial transactions, and obtains additional information as required from ministries, agencies and Crown corporations to meet accounting and reporting requirements.

The Auditor General of British Columbia provides an independent opinion on the financial statements prepared by the government. The duties of the Auditor General in that respect are contained in section 7 of the *Auditor General Act*.

Annually, the financial statements are tabled in the Legislature as part of the Public Accounts, and are referred to the Standing Committee on Public Accounts of the Legislative Assembly. The Standing Committee on Public Accounts reports to the Legislative Assembly on the results of its examination together with any recommendations it may have with respect to the financial statements and accompanying audit opinions.

Approved on behalf of the Government of the Province of British Columbia:



ANDREW PETTER
Chair, Treasury Board

Summary Financial Statements
Statement of Financial Position
as at March 31, 1997

	Note	In Millions	
		1997	1996
		\$	\$
Liabilities			
Accounts payable and accrued liabilities	3	2,517	2,403
Due to other governments.....	4	177	211
Due to Crown corporations, agencies and funds	5	129	113
Deferred revenue	6	547	487
Unfunded pension liabilities.....	7	2,863	2,889
Public debt, used for Warehouse Program investments	8	100	895
Public debt, used for government operating purposes.....	9	15,291	13,379
Public debt, used for loans under the Fiscal Agency Loan Program	10	12,525	12,660
Other debt.....	11	114	101
		34,263	33,138
Financial Assets			
Cash and temporary investments	12	1,098	857
Warehouse Program investments.....	13	100	895
Accounts receivable	14	2,158	2,055
Inventories.....	15	47	63
Due from other governments.....	16	557	655
Equity in government enterprises.....	17	2,975	2,964
Loans, advances and mortgages receivable	18	157	144
Other investments.....	19	288	168
Loans for purchase of assets, recoverable from agencies.....	20	7,561	7,950
Other assets	21	222	165
		15,163	15,916
Net liabilities		19,100	17,222
Net liabilities represented by:			
Loans for purchase of assets, recoverable through future appropriations	22	4,964	4,710
Tangible capital assets	23	4,180	3,324
Net deficiency	24	9,956	9,188
Net liabilities		19,100	17,222
Contingencies and commitments	25		

The accompanying notes and supplementary statements are an integral part of these financial statements.

Prepared in accordance with the accounting policies as determined by
Treasury Board.


ALAN J. BARNARD
Comptroller General

Summary Financial Statements
Statement of Operations
for the Fiscal Year Ended March 31, 1997

	In Millions	
	1997	1996
Revenue	\$	\$
Taxation (Note 26)	13,346	12,715
Natural resources	2,671	2,478
Fees and licences	2,003	1,664
Investment earnings	570	610
Miscellaneous	440	521
Contributions from government enterprises	1,141	954
Contributions from the federal government.....	2,050	2,468
Recoveries	978	1,095
Total revenue	23,199	22,505
Expense		
Health	7,121	6,810
Social services	3,100	3,087
Education.....	5,773	5,487
Protection of persons and property	982	988
Transportation.....	1,889	1,469
Natural resources and economic development.....	1,512	1,341
Other.....	1,000	1,148
General government	318	236
Debt servicing	2,219	2,352
Total operating expense (Note 27)	23,914	22,918
Net operating expense for the year	(715)	(413)
Non-Operating Transactions		
Increase (decrease) in unremitted earnings of government enterprises (Note 17) ..	(53)	82
Consolidated Net (Expense) for the Year (Note 29).....	(768)	(331)

The accompanying notes and supplementary statements are an integral part of these financial statements.

Summary Financial Statements
Statement of Changes in Cash and Temporary Investments
for the Fiscal Year Ended March 31, 1997

	In Millions			1996
	1997			
	Receipts	Disburse-	Net	Net
	\$	ments	\$	\$
		\$		
Operating Transactions				
Consolidated Net Expense for the year			(768)	(331)
Non-cash items included in consolidated net expense:				
Amortization of tangible capital assets			234	172
Amortization of public debt deferred revenues and deferred charges			25	33
Concessionary loan adjustments (decreases)			(2)	(13)
Valuation adjustments			47	58
Accounts receivable (increases)			(135)	(104)
Inventories decreases			16	
Due from other governments decreases (increases) ...			98	(76)
Equity in government enterprises (increases)			(15)	(25)
Other assets decreases (increases)			(57)	(1)
Accounts payable increases (decreases)			114	(187)
Due to other governments (decreases)			(34)	(44)
Due to Crown corporations, agencies and funds increases.			16	21
Unfunded pension liabilities decreases			(26)	(25)
Items applicable to future operations increases			72	25
Cash (used for) operations			(415)	(497)
Investment Transactions				
Tangible capital assets—net (acquisitions)		1,090	(1,090)	(360)
Loans, advances and mortgages receivable—net (issues) .	59	81	(22)	(43)
Other investments—net disposal gain (loss)		120	(120)	476
Cash derived from (used for) investments	59	1,291	(1,232)	73
Total financing (requirements)			(1,647)	(424)
Financing Transactions¹				
Other debt increases	13		13	5
Public debt increases	22,645	21,723	922	2,682
Derived from (used for) Warehouse Program investments ..		(795)	795	(895)
Derived from (used for) Fiscal Agency Loan Program	(10,625)	(10,783)	158	(1,308)
Cash derived from financing	12,033	10,145	1,888	484
Increase in cash and temporary investments			241	60
Balance—beginning of year			857	797
Balance—end of year			1,098	857

¹Financing transaction receipts are from debt issues and disbursements are for debt repayments.

The accompanying notes and supplementary statements are an integral part of these financial statements.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1997

1. Significant Accounting Policies

(a) REPORTING ENTITY

These financial statements include the accounts of organizations which are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the Legislature, and are owned or controlled by the government. Health care organizations, regional hospital districts, universities, colleges and institutes and school districts are excluded.

A list of organizations included in these consolidated financial statements may be found on A49–A50.

Trusts administered by the government or a government organization are excluded from the government reporting entity.

(b) PRINCIPLES OF CONSOLIDATION

The accounts of the organizations, except those designated as government enterprises, are consolidated after adjusting them to a basis consistent with the accounting policies described below. Inter-organization accounts and transactions are eliminated upon consolidation.

A government enterprise is an organization that:

- (i) is a separate legal entity with the power to contract in its own name and that can sue or be sued
- (ii) has been delegated the financial and operational authority to carry on a business
- (iii) sells goods and services to individuals and organizations outside the government reporting entity as its principal activity
- (iv) can, in the normal course of its operation, maintain its operations and meet its liabilities from revenue received from sources outside the government reporting entity.

Government enterprises are recorded on the modified equity basis. Under this basis, the government's investment is initially recorded at cost and adjusted annually to include the net earnings/losses and other net equity changes of the enterprise without adjusting them to conform with the accounting policies described below. Since the government ensures the ongoing activities of government enterprises, full account is taken of losses in these enterprises, even when the cumulative losses exceed the original investment.

Inter-enterprise accounts and transactions are not eliminated. However, profit elements included in such transactions, including certain increases in contributed surplus, are eliminated.

No adjustments are made for organizations whose fiscal year-ends are different from the government's fiscal year-end of March 31, unless the effect of an adjustment would be significant to the consolidated operating results.

(c) BASIS OF ACCOUNTING AND SPECIFIC POLICIES

The government's Summary Financial Statements are prepared in accordance with the accounting policies described below and, except as explained in Note 2, on a basis consistent with that of the preceding year. For these financial statements, the gross basis of accounting is followed; in particular, recoveries are reported as revenue.

BASIS OF ACCOUNTING

The accrual basis of accounting is used, which is specifically expressed as follows:

Revenue

All revenues are recorded on an accrual basis except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable. The exception is corporation income tax, which is recorded on a cash basis.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1997—Continued

Tax credits/offsets are accrued on the same basis as the associated tax revenues.

Expense

All expenses are recorded for goods and/or services received during the year.

Grants (which include forgivable loans) are recorded as expenses when disbursement of the funds has been authorized.

Contributions are recorded as expenses at the earlier of:

- (i) the date payment has been authorized or
- (ii) the date on which performance conditions are achieved by the recipient under provisions of a statute, contract or agreement.

Authorized contributions relating to retroactive wage settlements are recorded as expenses of the period during which the services were provided.

Acquisitions of capitalized tangible capital assets are recorded as assets and the cost is amortized over the useful life of the assets. Tangible capital assets that are excluded from capitalization are expensed in the year of acquisition.

Assets

Assets are economic resources controlled by government as a result of past transactions and events from which future economic benefits may be obtained.

Assets have three essential characteristics:

- (i) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide services
- (ii) the government can control access to the benefit
- (iii) the transaction or event giving rise to the government's right to, or control of, the benefit has already occurred.

Assets are recorded to the extent that they represent cash and claims upon outside parties; items held for resale to outside parties; a prepaid expense; deferred charge; or, tangible capital assets acquired as a result of events and transactions prior to the year-end.

In September 1995, Treasury Board approved a policy to proceed on the capitalization of tangible capital assets using a phased-in or "step-by-step" approach. The approved process is to capitalize and amortize those groups of assets for which estimated or actual values can be readily ascertained. The process of establishing the completeness and reasonableness of the records and proceeding with the capitalization of additional groups of assets is ongoing.

Tangible capital assets are physical assets that are acquired, constructed or developed and:

- (i) are held for use in the production or supply of goods and services
- (ii) have useful lives extending beyond an accounting period and are intended to be used on a continuing basis
- (iii) are not intended for sale in the ordinary course of operations.

Tangible capital assets do not include:

- (i) inventories held for resale (including land)
- (ii) assets acquired by Right, such as Crown lands, forests, water and mineral resources
- (iii) assets paid for by other parties, such as the federal government.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1997—Continued

Liabilities

All liabilities are recorded to the extent that they represent claims payable to outside parties as a result of events and transactions prior to the year-end, including: probable losses on loan guarantees issued by the government; contingent liabilities when it is likely a liability exists and the amount of the liability can be reasonably determined on an individual or portfolio basis; and, unfunded pension liabilities.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate prevailing at the year-end. Foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction unless hedged by forward contracts that specify the rate of exchange. Adjustments to revenue or expense transactions arising as a result of foreign currency translation are credited or charged to operations at the time the adjustments arise. Unrealized foreign currency gains and losses on long-term, fixed-term monetary assets and liabilities are reported as deferred charges and amortized over the remaining terms of the related items on a straight-line basis.

Non-monetary assets and liabilities are translated at historical rates of exchange.

Derivative Financial Instruments

The province is a party to financial instruments with off-balance sheet risk, either to hedge against the risks associated with fluctuations in foreign currency exchange rates or to manage risks associated with interest rate fluctuations. Foreign currency contracts are used to convert the liability for foreign currency borrowings and associated costs into Canadian or US dollars. Interest rate contracts are used to vary the amounts and periods for which interest rates on borrowings are fixed or floating.

Foreign exchange contracts include forward and future contracts, swap agreements and options. Interest rate contracts include forward rate agreements, future contracts, swap agreements and options on swaps, and deferred rate-setting agreements.

Off-balance sheet position data is given in the form of nominal principal amounts outstanding.

Concessionary Loans and Mortgages

Loans and mortgages that are made at a rate of interest below the government's borrowing rate for an equivalent term are considered concessionary. Concessionary loans and mortgages are recorded at their net present value (net of grant component) less any provision required for doubtful collection. Present value discounts are recorded as grant expenses.

Principal repayments of concessionary loans and mortgages will be applied to the reduced loan or mortgage balance (net present value) and recorded as revenue (recovery of a grant) when received.

Valuation Allowances

Valuation allowances, such as provisions for doubtful accounts and provisions for reduction in value of investments, are included as expenses on the Statement of Operations. Personal income tax, corporation income tax and property tax are recorded net of tax credits and adjustments that are based on revised assessments of actual tax revenue of previous taxation years. Tax credits and adjustments are not considered valuation allowances.

SPECIFIC POLICIES

Accounts Payable and Accrued Liabilities

All amounts payable (including any trade payables to government enterprises) for work performed, goods supplied, services known to have been rendered or for charges incurred in accordance with the terms of a contract are recorded as part of the expenses of the fiscal year.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1997—Continued

Due to Other Governments

Amounts due to other governments represent liabilities incurred due to advances and loans from other governments.

Due to Crown Corporations, Agencies and Funds

Amounts due to Crown corporations, agencies and funds represent liabilities incurred, other than trade payables, which are payable in the following year.

Deferred Revenue

Deferred revenue represents amounts received or receivable prior to the year-end relating to revenue that will be earned in subsequent fiscal years.

Unfunded Pension Liabilities

Unfunded pension liabilities represent the unfunded portion of pensions to be provided to public sector employees. The percentage of the unfunded portion of certain statutory pension plans, which are funded by the province, is included. The amount is calculated using the Accrued Benefit Actuarial Cost Method. Pension fund surplus balances are not included.

Changes in the unfunded liability for pension plans which arise as a result of estimation adjustments due to experience gains and losses and changes in actuarial assumptions are amortized over the expected average remaining service life of the related employee group. Gains or losses arising as a result of plan amendments are recognized in full in the year of amendment.

Public Debt

Public debt represents direct debt obligations of the Province of British Columbia, including amounts used for government operating purposes, the Fiscal Agency Loan Program and the Warehouse Program. These obligations are recorded at principal less unamortized discounts and sinking fund balances where applicable.

The Fiscal Agency Loan Program represents debt obligations incurred for the purpose of re-lending to authorized government bodies. The amounts will then be repaid through the operations of the agencies or through amounts advanced to the agencies by the government from future appropriations.

The Warehouse Program represents debt incurred at beneficial terms to provide for anticipated future needs of government and the Fiscal Agency Loan Program. Proceeds are invested until funds are needed. Swaps may be transacted for hedging the debt issued, to ensure that funds are available at prevailing market rates of interest at the time the monies are needed.

The Matched Book Program is designed to take advantage of arbitrage opportunities available in the market where the province may borrow at a given interest rate and invest proceeds at a higher interest rate, subject to profit targets and investment quality parameters. Interest payments and interest income may be swapped to effectively lock-in the interest rate spread.

Discounts are amortized on a true constant yield basis. Unamortized discount on bonds called and refinanced is amortized over the remaining life of the old debt, or the life of the new debt, whichever is shorter.

When it has been determined that there are sufficient securities to satisfy scheduled interest and principal payments for a bond issue, the sinking fund assets are transferred to the province and are set aside in an irrevocable defeased trust account. The province legally assumes responsibility for all future interest and principal payments. The debt and the related securities used to extinguish the debt are removed from the province's Statement of Financial Position. The debt is considered extinguished for financial reporting purposes.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1997—Continued

Other Debt

Other debt represents debt obligations owed to external organizations including Canada Mortgage and Housing Corporation, various financial institutions, and financiers of capital leases.

Cash and Temporary Investments

Cash balances are shown after deducting outstanding cheques issued prior to the year-end.

Temporary investments include short-term investments recorded at the lower of cost or market value. Temporary investments consist mainly of units in the Province of British Columbia Pooled Investment Portfolio money market funds. Units are carried at the lower of cost of acquisition adjusted by income attributed to the units, or market value.

Warehouse Program Investments

Warehouse Program investments include investments held within the Warehouse Borrowing Program. Temporary investments within this program are short-term investments recorded at the lower of cost or market value.

Accounts Receivable

All amounts receivable (including any trade receivables from government enterprises) at the year-end for work performed, goods supplied and/or services rendered are recorded as revenue or recoveries of the fiscal year. Valuation allowances are provided where collectibility is considered doubtful.

Inventories

Inventories comprise items held for resale and are recorded at the lower of cost or net realizable value. Inventories of supplies are charged to the respective programs when the cost is incurred.

Property consists of land which has been purchased, or for which development costs have been incurred, that is held for ultimate resale or lease to outside parties. It is recorded at the lower of cost or net realizable value.

Due from Other Governments

Amounts due from other governments include loans and advances outstanding at the year-end.

Equity in Government Enterprises

Equity in government enterprises represents the government's investment (including long-term advances) in those government enterprises at cost, adjusted for increases and decreases in the investees' net assets.

Loans, Advances, and Mortgages Receivable

Loans and advances are recorded at cost less adjustment for any prolonged impairment in value. Mortgages receivable are secured by real estate and are repayable over periods ranging up to thirty years. Valuation allowances are made when collectibility is considered doubtful.

Other Investments

Other investments are recorded at the lower of cost of acquisition adjusted by attributed income, or market value.

Fiscal Agency Loan Program

The Fiscal Agency Loan Program consists of loans made to government bodies, and cash and temporary investments set aside for the specific purpose of loaning to government bodies. Loans are recorded at maturity value less unamortized discounts and sinking fund balances. Discounts are amortized on a true constant yield basis.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1997—Continued

These loans are made for the acquisition of capital assets to be used in the delivery of commercial services or government funded programs where the service life of the acquired asset is longer than the term of the loan.

Loans recoverable from self-supporting government enterprises are recorded as financial assets. Loans recoverable from organizations dependent on funds provided out of government appropriations are reported separately.

Other Assets

Other assets include prepaid program costs. Prepaid program costs represent expenditures made during the fiscal year for work to be performed, goods to be supplied, services to be rendered or contractual obligations to be fulfilled by outside parties in a subsequent fiscal year. These costs also include inventories of operating materials held in the Purchasing Commission and Queen's Printer warehouses pending distribution in a subsequent fiscal year.

Also included in other assets are certain deferred charges.

Tangible Capital Assets

Tangible capital assets, including work-in-progress, are recorded at historical cost.

Estimated cost is used to record existing tangible capital assets when actual cost is unknown.

Tangible capital asset costs include all costs directly attributable to the acquisition, construction, development, installation or betterment of the tangible capital asset.

All significant tangible assets of government organizations and operations have been capitalized with the exception of land held by the Consolidated Revenue Fund and highway infrastructure. Government tangible capital assets also include computer software.

Costs incurred which lengthen the remaining life of the related asset (replacements) are charged to the asset's accumulated amortization account.

A lease which transfers substantially all the benefits and risks incident to ownership of property to the province (capital lease) is recorded as a tangible capital asset and a liability at the inception of the lease. The lesser of the present value of the minimum lease payments and the fair value of the property, at the beginning of the lease, is recorded as the cost and the liability.

The recorded cost, less the residual value, is amortized over the estimated useful life of the assets. Tangible capital assets are accounted for and reported in Note 23. The annual amortization of the costs of tangible capital assets is allocated to the functions or major programs that employ those assets.

Guaranteed Debt

Guaranteed debt represents that debt of municipalities and other local governments, private enterprises and individuals, and debt and minority interests of provincial Crown corporations, which has been explicitly guaranteed or indemnified by the government, under the authority of a statute, as to net principal or redemption provisions. Valuation allowances are made when probable losses can be reasonably estimated.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1997—Continued

A valuation allowance provision is established to provide for the probable losses on loan guarantees issued by the government. The amount of the provision is determined by the loss experience of the guarantee program and is sufficient to meet the expected payout of the guarantee to the lender. The provision is recorded as an expense in the year the guarantee is issued and is adjusted as necessary to ensure it equals the expected payout of the guarantee.

Gains and Losses on Disposal of Tangible Capital Assets

Gains arising from the initial valuation and capitalization of existing tangible capital assets are accounted for as a component of net deficiency.

Gains and losses from the disposal of tangible capital assets (being the difference between net disposal proceeds and the net carrying value) are accounted for each year as a component of net revenue. Gains and losses on disposal of tangible capital assets are reflected in operating results since the gain or loss is, in substance, an adjustment to amortization previously charged.

Commitments

Commitments represent future obligations of the government and government organizations and enterprises for capital contracts and extraordinary program commitments, to the extent of contracts and agreements in place at the year-end.

2. 1997 Change in Accounting Policies

In fiscal 1996/97, the government reverted to the entity in place for the 1994/95 Public Accounts. If the government had retained the 1995/96 reporting entity by including the health care organizations, regional hospital districts, universities, colleges and institutes and school districts, the total revenue would have increased by \$1,189 million, and total operating expense by \$1,040 million. The consolidated operating expense would have decreased by \$149 million. Assets would have increased by \$1,165 million, and liabilities by \$1,247 million. The net liabilities would have increased by \$82 million. The increase in the amount of net liabilities is represented by the elimination of the loans for the purchase of assets, recoverable through future appropriations of \$4,964 million, an increase in the net book value of tangible capital assets of \$7,493 million and a decrease in net deficiency of \$2,447 million. See A64–A65.

Due to concerns over the ability to implement the capitalization and amortization of tangible capital assets, Treasury Board has established a policy which extends the implementation period for the capitalization of assets and restricts the broadening of assets capitalized in the 1996/97 fiscal year to those groups of assets already recorded. Land recorded in the Consolidated Revenue Fund, except for property held for resale, is removed until such time as all land holdings can be identified and historical cost determined. Reversal of land capitalized in 1995/96 and the reduction in the threshold limits used for capitalizing computer hardware and software and buildings in the Consolidated Revenue Fund Financial Statements, results in a decrease in tangible capital assets of \$696 million and an increase in expenses of \$8 million for the year. The opening value of tangible capital assets for April 1, 1995 was reduced by \$688 million.

A change in accounting treatment for British Columbia Ferry Corporation occurred in 1996/97 because it continues to be dependent on government subsidies. Accordingly, in 1996/97, it is now fully consolidated rather than recorded on the modified equity basis. Since this change is not considered a change in accounting policy, 1995/96 figures were not restated. This change resulted in an increase in liabilities of \$136 million, assets (including tangible capital assets) of \$136 million, total revenue of \$354 million and total expense of \$436 million and a decrease in unremitted earnings of government enterprises of \$82 million for 1996/97.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1997—Continued

3. Accounts Payable and Accrued Liabilities

	In Millions	
	1997	1996
	\$	\$
Trade accounts payable and other liabilities	1,113	1,105
Accrued interest on public debt	715	720
Accrued employee leave entitlements	197	152
Other accrued estimated liabilities ¹	492	426
	2,517	2,403

¹Includes pending litigation, provision for clean up of Expo land site, provision for guaranteed debt payout and other miscellaneous accrued claims; also includes adjustments to 1996. See Note 3 of the Consolidated Revenue Fund Financial Statements for details.

4. Due to Other Governments

	In Millions	
	1997	1996
	\$	\$
Government of Canada:		
Current	41	47
Long-term	1	2
Provincial governments:		
Current	6	8
Local governments: ¹		
Current	56	51
Long-term	73	103
	177	211

¹Local governments are municipal units established by the provincial government. They include regional and metropolitan municipalities, cities, towns, townships, districts, rural municipalities and villages.

5. Due to Crown Corporations, Agencies and Funds

	In Millions	
	1997	1996
	\$	\$
British Columbia Ferry Corporation		2
British Columbia Hydro and Power Authority		1
British Columbia Liquor Distribution Branch	11	10
Columbia Power Corporation	27	3
Legal Services Society		6
Post secondary education institutions	47	43
Trust funds	44	48
	129	113

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1997—Continued

6. Deferred Revenue

	In Millions	
	1997	1996
	\$	\$
Medical Services Plan premiums	55	56
Motor vehicle licences and permits	142	133
Petroleum, natural gas and minerals, leases and fees	24	23
Water rentals and recording fees	84	69
Miscellaneous	242	206
	547	487

7. Unfunded Pension Liabilities¹

	In Millions	
	1997	1996
	\$	\$
Public Service Pension Plan ²	335	363
Members of the Legislative Assembly Superannuation Plan ²	7	7
Municipal Superannuation Plan ³	742	740
Teachers' Pension Plan ⁴	1,779	1,779
	2,863	2,889

¹The audited financial statements of each pension plan listed may be found in the Trust Funds Financial Statements section of the Public Accounts.

²The initial unfunded pension liability of \$445 million was based on an actuarial valuation of the Public Service Pension Plan for March 31, 1990, plus an estimated amount for Members of the Legislative Assembly Superannuation Plan. As a result of an actuarial valuation done as of March 31, 1993, the outstanding liability was estimated at \$146 million, a decrease of \$299 million. The reduction of the estimated liability resulted from pension fund gains and changes in actuarial assumptions. This estimation adjustment is being amortized over the expected average remaining service life of the related employee group (12 years). For the actuarial valuation as at March 31, 1996, the outstanding surplus was estimated at \$209 million. As provided for under the *Pension (Public Service) Act*, recommended by the actuary, and approved by the Public Service Pension Advisory Board, the surplus will be refunded over a 15-year period to the employers. The refund amount will be calculated annually and refunded quarterly. The 1996/97 refund amount is \$16.9 million. The unfunded liability increased by \$9.9 million as at March 31, 1997, for the Special Retirement Incentive Program. A further adjustment of \$13 million is required to amortize the original unfunded liability of \$140 million over the expected average remaining service life of the related employee group, (now 11 years). As a result of these adjustments, expenses are reduced by \$38 million (1996: \$25 million). The unamortized portion of the estimation adjustment as at March 31, 1997 is \$326 million (March 31, 1996: \$224 million).

³This amount is a prorated portion (70%) of the total Municipal Superannuation Plan liability of \$1,081 million. The amount recognized by the Province of British Columbia represents the portion of active plan membership made up of schools, colleges and health care employees. An actuarial valuation is performed on the Municipal Superannuation Plan every three years. The latest valuation was made as of December 31, 1994. At that valuation, net assets were \$5,526 million (1991: \$4,153 million), and liabilities for accrued pension benefits were \$6,607 million (1991: \$5,210 million), with a net deficiency of \$1,081 million (1991: \$1,057 million). The unamortized portion of the estimation adjustment as of December 31, 1994 is \$17 million which is being amortized over the expected average remaining service life of the related employee group (10.7 years). As a result of this adjustment, expenses are increased by \$1.6 million. The unamortized portion of the estimation adjustment as of March 31, 1997 is \$15.4 million.

⁴An actuarial valuation is performed on the Teachers' Pension Plan every three years. The latest valuation was made as of December 31, 1993. At that valuation, net assets were \$3,931 million, liabilities for accrued pension benefits were \$5,709 million, resulting in a net deficiency of \$1,779 million (1990: \$1,937 million).

**Notes to Summary Financial Statements
for the Fiscal Year Ended March 31, 1997—Continued**

8. Public Debt, Used for Warehouse Program Investments

		In Millions					
		1997			1996		
	Year of Maturity	Canadian Dollar Debt \$	Foreign Denomi- nated Debt (CDN\$) \$	Total Canadian Dollars \$	Weighted Average Coupon Rate Percent	Total Canadian Dollars \$	Weighted Average Coupon Rate Percent
Notes and bonds.....	1997-1998						
	1998-1999					795	6.75
	1999-2000						
	2000-2001						
	2001-2002						
	2002-2007	100		100	9.25	100	9.25
Total debt issued at face value.....		<u>100</u>	<u>0</u>	<u>100</u>	9.25	<u>895</u>	7.03

The aggregate amount of payments estimated to be required in each of the next five fiscal years to meet retirement provisions is nil. Proceeds from Warehouse Program issues are held as Warehouse Program assets until they are offlent.

Subsequent to March 31, 1997, debt in the amount of \$100 million was offlent.

Additional information on Public Debt can be found on page A60.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1997—Continued

9. Public Debt, Used for Government Operating Purposes

		In Millions					
		1997			1996		
Year of Maturity	Canadian Dollar Debt \$	Foreign Denomi- nated Debt (CDN\$) \$	Total Canadian Dollars \$	Weighted Average Coupon Rate Percent	Total Canadian Dollars \$	Weighted Average Coupon Rate Percent	
Short-term promissory notes.....	1996-1997				510		
	1997-1998	751	264	1,015			
		751	264	1,015	510		
Notes, bonds and debentures.....	1996-1997				1,235	8.41	
	1997-1998	1,664	231	1,895	7.70	1,862	
	1998-1999	2,224	403	2,627	7.41	1,903	
	1999-2000	600	1,003	1,603	4.63	878	
	2000-2001	1,207	61	1,268	10.33	1,156	
	2001-2002	1,237	197	1,434	7.74	886	
	2002-2007	2,542	1,996	4,538	7.47	3,728	
	2007-2012	1,150		1,150	9.62	1,070	
	2012-2017	334		334	8.90	334	
	2017-2022	20		20	10.60	20	
	2022-2027	1,132		1,132	8.57	1,553	
	2027-2032	50		50	7.50		
	2099	3		3		7	
		12,163	3,891	16,054	7.72	14,632	
Total debt issued at face value.....		12,914	4,155	17,069		15,142	
<i>Less:</i>							
sinking funds				(1,664)		(1,614)	
				15,405		13,528	
unamortized discount.....				(112)		(149)	
				15,293		13,379	
amount held in the Consolidated Revenue Fund.....				(2)			
				<u>15,291</u>		<u>13,379</u>	

Short-term Promissory Notes

Promissory notes outstanding at March 31, 1997, mature at various dates to March 5, 1998, at a weighted average interest rate of 3.26%. During the year, \$8,500 million in notes were issued at interest rates which varied between 2.55% and 5.43%.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1997—Continued

9. Public Debt, Used for Government Operating Purposes—Continued

Notes, Bonds and Debentures

Debentures Issued to the Canada Pension Plan

Balances in Canadian dollars include \$823 million (1996: \$866 million) at a weighted average interest rate of 11.87%. These debentures mature at various dates from March 10, 2000 to June 10, 2012, with interest rates varying between 9.04% and 16.10%. These debentures are redeemable in whole or in part before maturity, on six months' prior notice, at the option of the Minister of Finance of Canada, subject to certain restrictions. During the year, no Canada Pension Plan debentures were issued. Under the Canada Pension Plan legislation, any significant amendment to benefits or contributions requires the approval of the legislature of two-thirds of the provinces. When Canada Pension Plan contributions exceed benefits, these excess funds are loaned to the provinces in proportion by residents of the respective provinces.

Special Features

Balances include 5.40% debentures, due December 4, 2026, totalling \$90 million Canadian (1996: nil). The holders have a put option which, if exercised, would result in the bond maturing on December 4, 2002. If the option is not exercised, the bond will be redeemed for \$112 million (1996: nil) on December 4, 2026, and the coupon rate on the bond will be 7.00% for the period December 5, 2002 to December 4, 2026.

Included in foreign denominated debt are dual currency bonds issued in yen, totalling 58,365 million yen (1996: nil), and repayable in US dollars totalling \$479 million US (1996: nil). The bonds have been hedged to \$641 million Canadian (1996: nil), and mature at dates from September 9, 1999 to February 29, 2000.

Defeasances

At March 31, 1997, sufficient securities had been set aside in an irrevocable trust to satisfy the scheduled interest and principal payment requirements of \$103 million Canadian (1996: \$41 million Canadian). The related debt is considered extinguished for financial reporting purposes.

The aggregate amounts of payments estimated to be required in each of the next five fiscal years to meet the sinking fund and retirement provisions are:

	In Millions Canadian Funds
	\$
1998	1,917
1999	2,606
2000	1,691
2001	1,071
2002	1,235

Additional information on Public Debt can be found on page A60–A62.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1997—Continued

10. Public Debt, Used for Loans under the Fiscal Agency Loan Program

		In Millions				
		1997			1996	
Year of Maturity	Canadian Dollar Debt \$	Foreign Denominated Debt (CDN\$) \$	Total Canadian Dollars \$	Weighted Average Coupon Rate Percent	Total Canadian Dollars \$	Weighted Average Coupon Rate Percent
Short-term promissory notes.....	1996-1997				1,845	
	1997-1998	524	1,001	1,525		
		524	1,001	1,525	1,845	
Notes, bonds and debentures.....	1996-1997				144	8.95
	1997-1998	143	190	333	5.02	6.75
	1998-1999	144		144	8.24	8.54
	1999-2000	390	606	996	4.89	6.94
	2000-2001	272		272	11.78	10.99
	2001-2002	1,044		1,044	11.14	10.95
	2002-2007	2,756	521	3,277	9.21	9.27
	2007-2012	1,796		1,796	10.09	10.05
	2012-2017	2,169		2,169	8.52	8.52
	2017-2022	666		666	10.46	10.48
	2022-2027	1,478	692	2,170	7.79	7.76
	2027-2032					
	2032-2037		415	415	7.25	
		10,858	2,424	13,282	8.75	12,917
Total debt issued at face value.....		11,382	3,425	14,807		14,762
<i>Less:</i>						
sinking funds				(2,170)		(1,991)
				12,637		12,771
unamortized discount.....				(112)		(111)
				12,525		12,660

Short-term Promissory Notes

Promissory notes outstanding at March 31, 1997, mature at various dates to January 26, 1998, at a weighted average interest rate of 4.36%. During the year, \$9,274 million in notes were issued at interest rates which varied between 2.55% and 5.42%.

Notes, Bonds and Debentures

Debentures issued to the Canada Pension Plan

Balances in Canadian dollars include \$3,132 million (1996: \$3,282 million) at a weighted average interest rate of 11.59%. These debentures mature at various dates from November 9, 1999, to July 10, 2012, with interest rates varying between 9.04% and 17.51%.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1997—Continued

10. Public Debt, Used for Loans under the Fiscal Agency Loan Program—Continued

These debentures are redeemable in whole or in part before maturity, on six months' prior notice, at the option of the Minister of Finance of Canada, subject to certain restrictions. During the year, no Canada Pension Plan debentures were issued. Under the Canada Pension Plan legislation, any significant amendment to benefits or contributions requires the approval of the legislature of two-thirds of the provinces. When Canada Pension Plan contributions exceed benefits, these excess funds are loaned to the provinces in proportion by residents of the respective provinces.

Special Features

Balances include 5.40% debentures, due December 4, 2026, totalling \$10 million Canadian (1996: nil). The holders have a put option which, if exercised, would result in the bond maturing on December 4, 2002. If the option is not exercised, the bond will be redeemed for \$13 million (1996: nil) on December 4, 2026, and the coupon rate of the bond will be 7.00% for the period December 5, 2002, to December 4, 2026.

Balances include 9.75% debentures, due May 15, 2001, totalling \$284 million Canadian (1996: \$300 million Canadian) which are exchangeable at the holders' option for an equal principal amount of 9.95% debentures due May 15, 2021, during the period March 15 to April 15 of each year from 1997 to 1999, inclusive. Included in foreign denominated debt are dual currency bonds issued in yen, totalling 18,635 million yen (1996: nil), and repayable in US dollars totalling \$149 million US (1996: nil). The bonds have been hedged to \$200 million Canadian (1996: nil), and mature on February 29, 2002.

Defeasances

At March 31, 1997, sufficient securities had been set aside in an irrevocable trust to satisfy the scheduled interest and principal payment requirements of \$797 million Canadian (1996: \$555 million Canadian). The related debt is considered extinguished for financial reporting purposes.

The aggregate amount of payments estimated to be required in each of the next five fiscal years to meet sinking fund and retirements provisions are:

	In Millions Canadian Funds
	\$
1998	526
1999	281
2000	1,132
2001	173
2002	767

Subsequent to March 31, 1997, a total of \$41 million Canadian of 9.75% debentures, due May 15, 2001, were exchanged for an equal principal amount of 9.95% debentures due May 15, 2021.

Additional information on Public Debt can be found on page A62–A63.

**Notes to Summary Financial Statements
for the Fiscal Year Ended March 31, 1997—Continued**

11. Other Debt

	In Millions	
	1997	1996
	\$	\$
Bank loans.....	71	58
Mortgages	43	43
	114	101

12. Cash and Temporary Investments

	In Millions	
	1997	1996
	\$	\$
Cash (cheques issued in excess of funds on deposit)	(125)	(152)
Temporary investments.....	1,223	1,009
	1,098	857

13. Warehouse Program Investments

	In Millions	
	1997	1996
	\$	\$
Temporary investments.....	101	914
Deferred charges		6
	101	920
<i>Less:</i> accrued interest payable	(1)	(25)
	100	895

Subsequent to March 31, 1997, net assets in the amount of \$100 million were transferred when the corresponding debt was transferred to Public Debt, used for the Fiscal Agency Loan Program.

**Notes to Summary Financial Statements
for the Fiscal Year Ended March 31, 1997—Continued**

14. Accounts Receivable

	In Millions	
	1997	1996
	\$	\$
Taxes receivable	1,561	1,467
Trade accounts receivable	414	340
Accrued interest	343	393
Crown corporations and agencies	109	24
	<u>2,427</u>	<u>2,224</u>
<i>Less:</i> provision for doubtful accounts	(269)	(169)
	<u><u>2,158</u></u>	<u><u>2,055</u></u>

15. Inventories

	In Millions	
	1997	1996
	\$	\$
Properties for resale	44	62
Other	3	1
	<u>47</u>	<u>63</u>

16. Due from Other Governments

	In Millions	
	1997	1996
	\$	\$
Government of Canada:		
Current	520	625
Long-term	1	
Provincial governments:		
Current	12	12
Local governments: ¹		
Current	24	18
	<u>557</u>	<u>655</u>

¹Local governments are municipal units established by the provincial government. They include regional and metropolitan municipalities, cities, towns, townships, districts, rural municipalities and villages.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1997—Continued

17. Equity in Government Enterprises¹

	In Millions			1996
	1997			
Investments and Amounts Due	Unremitted Earnings	Total	Total	
\$	\$	\$	\$	
B.C. Community Financial Services Corporation	6		6	7
British Columbia Ferry Corporation ²			0	149
British Columbia Hydro and Power Authority.....	280	1,202	1,482	1,257
British Columbia Lottery Corporation	15		15	15
British Columbia Railway Company	258	870	1,128	1,089
Columbia Power Corporation.....	102	1	103	52
Insurance Corporation of British Columbia.....		212	212	367
Provincial Capital Commission		15	15	15
W.L.C. Developments Ltd		14	14	13
	661	2,314	2,975	2,964

Change in Equity in Government Enterprises

	In Millions			1996
	1997			
Investments and Amounts Due	Unremitted Earnings	Total	Total	
\$	\$	\$	\$	
Balance—beginning of year	450	2,514	2,964	2,950
Increase (decrease) for the year ³	211	(200)	11	14
Balance—end of year.....	661	2,314	2,975	2,964

¹See A57–A59 for details.

²British Columbia Ferry Corporation (BCFC) no longer meets the criteria of a government enterprise and is no longer consolidated using the modified equity basis. BCFC is fully consolidated in the 1997 Summary Financial Statements.

³The decrease in unremitted earnings includes \$149 million for fully consolidating the British Columbia Ferry Corporation.

18. Loans, Advances and Mortgages Receivable

	In Millions	
	1997	1996
	\$	\$
Loans and advances.....	275	257
Mortgages receivable.....	27	32
	302	289
Less: provision for doubtful accounts	(145)	(145)
	157	144

**Notes to Summary Financial Statements
for the Fiscal Year Ended March 31, 1997—Continued**

19. Other Investments

	In Millions	
	1997	1996
	\$	\$
Investments	288	168

20. Loans for Purchase of Assets, Recoverable from Agencies

	In Millions	
	1997	1996
	\$	\$
British Columbia Ferry Corporation		462
British Columbia Hydro and Power Authority	6,641	6,288
British Columbia Railway Company	375	309
Columbia Power Corporation	3	
Greater Vancouver Sewerage and Drainage District		175
Greater Vancouver Water District		131
Improvement districts	3	3
Pacific Racing Association	6	6
Post secondary education institutions	154	167
Regional hospital districts	379	409
	7,561	7,950

21. Other Assets

	In Millions	
	1997	1996
	\$	\$
Prepaid program costs	83	60
Deferred charges	139	105
	222	165

**22. Loans for Purchase of Assets, Recoverable
through Future Appropriations**

	In Millions	
	1997	1996
	\$	\$
Capital Project Certificate of Approval Program	171	285
Post secondary education institutions	1,345	1,240
Regional hospital districts	677	678
School districts	2,771	2,507
	4,964	4,710

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1997—Continued

23. Tangible Capital Assets¹

	In Millions			1996
	1997		Net Book Value	
	Cost	Accumulated Amortization		Value
	\$	\$	\$	\$
Land held by government organizations	406		406	386
Buildings.....	2,048	646	1,402	1,283
Specialized equipment	2,891	852	2,039	1,449
Other	765	432	333	206
	6,110	1,930	4,180	3,324

¹The estimated useful lives of the more common tangible capital assets are: land (indefinite); buildings (20 to 50 years); specialized equipment (10 to 40 years); other includes—automobiles (5 years), EDP equipment and software (3 to 10 years), furniture and other equipment (8 to 20 years).

The Consolidated Revenue Fund is in the process of capitalizing all tangible capital assets. As yet highways and bridges and acquired land are not capitalized in the Consolidated Revenue Fund. Therefore, these tangible capital assets exclude: land held by the Consolidated Revenue Fund (amount not yet determined); highways and bridges held by the Consolidated Revenue Fund (amount not yet determined); and, highways and bridges held by BC Transportation Financing Authority (\$1,098 million).

24. Net Deficiency

	In Millions	
	1997	1996
	\$	\$
Net deficiency—beginning of year.....	9,188	8,787
Consolidated net expense for the year	768	331
Restatement of prior periods ¹		68
Other adjustments ²		2
Net deficiency—end of year	9,956	9,188

¹The restatement of prior periods is comprised of three adjustments. The first is due to a court decision regarding widows' Workers' Compensation benefits which increases liabilities relating to prior years' activities (\$12 million). The second relates to clean-up costs for contaminated gravel pits, salt storage areas and maintenance yards, and increases liabilities relating to prior years' activities (\$24 million). The third is a reversal of the College Pension Plan surplus, which increases the total unfunded pension liabilities (\$32 million).

²Adjustments required to conform to government accounting policies.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1997—Continued

25. Contingencies and Commitments

(a) GUARANTEED DEBT

	In Millions	
	1997	1996
	Net Outstanding \$	Net Outstanding \$
Municipalities and other local governments	3	4
Health and education	149	177
Economic development	98	160
Utilities	837	1,305
Total	1,087	1,646
<i>Less:</i>		
Amounts included as investments within the consolidated entity	(1)	(1)
Provision for probable payout	(31)	(38)
	1,055	1,607

(b) CONTINGENT LIABILITIES

(i) Litigation and Other Claims

The government is a defendant in legal actions and is involved in matters such as expropriation compensation disputes and tax assessment appeals. These matters may give rise to future liabilities.

These potential liabilities are accrued when it is likely that a liability exists and the amount of the liability can be reasonably estimated on an individual or portfolio basis (*See Note 3—Other accrued estimated liabilities*).

See Note 25 to the Consolidated Revenue Fund Financial Statements section of the Public Accounts for details.

(ii) Other Contingent Liabilities

The government also has contingent liabilities in the form of indemnities, indirect guarantees and outstanding claims. Where indemnities are for explicit quantifiable loans, the amounts are included in the provision for probable payout.

Under the *Criminal Injury Compensation Act*, the government is responsible for providing compensation to victims of crime in British Columbia, for offences described in the Act. A liability of \$75 million (1996: \$74 million) has been accrued based on the estimated cost of periodic future payments for claims.

The government operates and indemnifies pre-funded self-insurance programs to cover claims against school districts and colleges, hospitals and other health care agencies, and certain social service providers. A liability of \$38 million (1996: \$31 million) has been accrued based on the estimated ultimate cost of settling any outstanding claims.

Under current pension agreements, the government is responsible for payment of pensioners' Medical Services Plan and Extended Health Care premiums, which are recorded when due.

As at March 31, 1997, the Government of British Columbia and Alcan Aluminum Ltd had not reached a settlement on the outstanding issues relating to cancellation of the Kemano Completion Project in January 1995. On April 14, 1997, Alcan filed a writ and a statement of claim for damages. On August 5, 1997, the province and Alcan signed an agreement resolving all issues in connection with the legal action taken against the province by Alcan. The agreement will provide Alcan with a source of electric power to replace in part the potential electric power generated from the Kemano Completion Project.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1997—Continued

25. Contingencies and Commitments—Continued

The Insurance Corporation of British Columbia (ICBC) has had a continued erosion of its Rate Stabilization Reserve Fund during the year. This has been as a result of a freeze in automobile premiums, adverse claims during the year and the financial cost of a number of new initiatives currently under way and/or contemplated. ICBC's management is taking steps to mitigate this shortfall, therefore, the government's ultimate liability cannot be determined.

The BC Transportation Financing Authority has \$51 million in contingent liabilities resulting from claims outstanding from its capital projects.

The British Columbia Liquor Distribution Branch (BCLDB) is involved in two Supreme Court of British Columbia actions for the return of all provincial markup amounts paid by Canadian Airlines International Ltd and Air Canada. These airlines are alleging that monies paid to date to BCLDB were "paid under a unilateral mistake of law." BCLDB does not believe these claims have merit and any liability for the claims is not determinable.

(iii) Aboriginal Land Claims

The absence of treaties in British Columbia has resulted in a number of outstanding aboriginal land claims across the province. Some of these claims have resulted in litigation but most are being negotiated. The province's position on these claims is that, although the province recognizes aboriginal rights, including the inherent right of aboriginal people to self-government, the precise location, scope, and content of these rights should be established not through litigation but by means of tripartite negotiations involving the federal and provincial governments and aboriginal groups. The province anticipates that these negotiations will result in modern-day treaties defining the boundaries and nature of First Nations treaty settlement lands and rights and ensure a more stable environment for resource development in British Columbia.

The British Columbia Treaty Commission monitors the progress of treaty negotiations in British Columbia under a six stage negotiation process. The Treaty Commission began operating in December 1993. As of March 31, 1997, it had accepted 49 statements of intent to negotiate treaties from First Nations. Twenty-six of the 49 First Nations were in the Agreement in Principle stage of negotiations and 13 were in the Framework Agreement stage. The remaining 10 are in the Preparation stage.

On March 22, 1996, the provincial and federal governments reached an Agreement in Principle (AIP) with the Nisga'a in northwestern British Columbia. If a final agreement is negotiated which contains the same provisions as the AIP, the Nisga'a would receive from the province \$14.4 million in settlement costs over a period of years. The Nisga'a would also receive \$5.75 million from the province to purchase fishing vessels and licences. An estimate of third party compensation is not available at this time. Final negotiations to reach a settlement are now in progress. A final agreement is subject to ratification by the Nisga'a, the federal and provincial governments.

There are, currently, several major cases involving aboriginal rights before the Courts.

The Supreme Court of Canada will hear a very significant British Columbia case involving aboriginal rights, shortly. In this case, *Delgamuukw v. Her Majesty the Queen in Right of British Columbia and Attorney General of Canada*, the British Columbia Court of Appeal held that the Gitksan and Wet'suwet'en First Nations hold unextinguished, non-exclusive aboriginal rights over a large area of northern British Columbia. The British Columbia Court of Appeal however, dismissed the claim of the appellants for damages and for a declaration that they owned and have jurisdiction over the area in question. The appeal and cross-appeal were heard by the Supreme Court of Canada on June 16 and 17, 1997, but no decision has yet been made.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1997—Continued

25. Contingencies and Commitments—Continued

Currently before the Supreme Court of British Columbia is a potentially significant case in which a First Nation claims aboriginal rights on privately held land. This case, *Burns Lake Indian Band v. Brenda Fountain*, was the subject of mediation last year, and some settlement discussions are under way. These have not yet been concluded, and there remains potential that the matter could go to trial. The province is named as party in this litigation. No dates for trial have yet been set.

There is also a significant case on the question of Treaty 8 First Nations entitlements in British Columbia. In *McLeod Lake Band v. Her Majesty the Queen*, the McLeod Lake Band is claiming that it comes within the boundary of Treaty 8 and that the province is obligated to provide, to the federal government, land pursuant to the formula established in Treaty 8.

The interpretation of the rights granted under Treaty 8 is also the subject of another case—*Chief Bernie Metechaea (Halfway River First Nation) v. the Ministry of Forests and Canadian Forest Products Ltd.* In this case, the Halfway River Indian Band is challenging the issuance of a cutting permit by the Ministry of Forests of the province, on the basis that the cutting activity would be an interference with their Treaty 8 hunting and trapping rights. The case was heard in January 1997. Decision was reserved and has not yet been handed down.

(c) COMMITMENTS

The government has ongoing operational commitments to fund a variety of programs for public welfare including health, education, social services, protection of persons and properties, and management of natural resources. In addition, the government normally contracts out construction or maintenance of its roads, bridges and buildings. All these ongoing operational commitments are detailed in the Estimates published yearly and are not repeated in this note. Any significant non-operating commitments (less than five years duration costing more than \$50 million) and their completion costs are detailed in this note.

In accordance with an Agreement signed July 27, 1995, the province will invest \$50 million annually, for ten years, beginning the 1996/97 fiscal year, with the Columbia Power Corporation (the Corporation) and the Columbia Basin Trust (the Trust), for equity investment in power projects. The disbursement of the funds is controlled by Treasury Board through approval of individual project budgets and joint venture agreements. The payments in the first five years will be made to the Corporation and the payments in the second five years will be made to the Trust, except that the Trust will also receive a payment in the fifth year equal to one-half the book value of the hydro-electric expansion rights, and the payment to the Corporation in the fifth year will be reduced by an equal amount. At March 31, 1997, the book value of the expansion rights was \$102 million (1996: \$52 million).

On October 15, 1993, the government declared part of the Tatshenshini/Alsek region a class "A" provincial park. On August 18, 1995, the government, Geddes Resources Limited (the registered and beneficial owner of claims in that area), and Royal Oak Mines Inc, signed a Heads of Agreement. The agreement provided for compensation for lost mineral claims of \$29 million which have been paid and a conditional economic development grant (maximum \$137 million over 14 years) for development of a mine at another site. The economic development component is contingent on the corporation's fulfilling requirements in the development of a mine and is recorded as a liability as the relevant conditions are met. At this time, \$19 million have been accrued.

**Notes to Summary Financial Statements
for the Fiscal Year Ended March 31, 1997—Continued**

26. Taxation Revenue

	In Millions	
	1997	1996
	\$	\$
Personal income	5,289	4,992
Corporation income.....	1,347	1,225
Social service.....	3,063	2,986
Property	1,659	1,568
Other.....	1,988	1,944
Total taxation revenue	13,346	12,715

27. Expense by Group Account Classification

	In Millions	
	1997	1996
	\$	\$
Grants and contributions.....	15,825	15,251
Salaries and benefits.....	2,811	2,535
Operating costs.....	2,224	2,436
Amortization.....	234	172
Debt servicing	2,219	2,352
Other.....	601	172
Total operating expense	23,914	22,918

28. Expense Due to Valuation Allowances

	In Millions	
	1997	1996
	\$	\$
Accounts receivable.....	32	24
Investments in and amounts due from Crown corporations and agencies.....	4	11
Loans, advances and other mortgages receivable	11	23
	47	58

These amounts are included in expense and represent the write down of assets in the above categories.

**Notes to Summary Financial Statements
for the Fiscal Year Ended March 31, 1997—Continued**

29. Comparison of Planned and Actual Results

	In Millions				1996	
	1997		1997		1996	
	Revenue	Expense		Net		Net
	Budget	Budget	Actual	Budget	Actual	Actual
	\$	\$	\$	\$	\$	\$
Consolidated Revenue Fund.....	20,659	20,572	20,603	87	(352)	(369)
Health sector.....	219	220	216	(1)	(1)	(3)
Education sector.....	361	361	361	0	0	0
Natural resources and economic development sector.....	615	443	561	172	107	314
Transportation sector.....	1,237	1,222	1,220	15	(68)	33
Social services sector.....	168	171	187	(3)	(3)	(8)
Other sector.....	527	496	509	31	37	38
Adjustments ¹	(178)	(178)	257	(435)	(435)	(418)
	23,199	23,914	23,914	(715)	(715)	(413)
Organizations recorded on a modified equity basis—government enterprises.....	(53)	(53)	(53)	(53)	(53)	82
	23,146	23,914	23,914	(768)	(768)	(331)

¹Represents sectoral adjustments to conform to government accounting policies and to eliminate transactions that occurred between sectors, within sectors, and between sectors and the Consolidated Revenue Fund.

**Notes to Summary Financial Statements
for the Fiscal Year Ended March 31, 1997—Continued**

30. Reconciliation of Expense to Expenditure Basis of Accounting

	In Millions	
	1997	1996
	\$	\$
Statement of Operations:		
Consolidated Net (Expense) for the year	(768)	(331)
Amortization of tangible capital assets	234	172
Acquisition of tangible capital assets	(1,090)	(360)
Consolidated Net (Expenditure) for the year	<u>(1,624)</u>	<u>(519)</u>
Statement of Financial Position:		
Loans for purchase of assets, recoverable through future appropriations	4,964	4,710
Net deficiency (expenditure basis)	14,136	12,512
Net liabilities	<u>19,100</u>	<u>17,222</u>

31. Trust Funds

Amounts held and administered in trust by the government at the end of the fiscal year totalled \$41,500 million (1996: \$37,000 million). See Note 28 to the Consolidated Revenue Fund Financial Statements for further details.

32. Subsequent Events

On April 29, 1997, Victoria Line Ltd executed an agreement with an unrelated company, Victoria Ferry Ltd which will result in the Victoria Seattle ferry line being operated by Victoria Ferry Ltd. The agreement includes a five-year lease of the vessel owned by Victoria Line Ltd with an option given to Victoria Ferry Ltd to purchase the vessel after the third year but before the fifth year of the lease.

Summary Financial Statements
Statement of Organizations and Enterprises
for the Fiscal Year Ended March 31, 1997

GOVERNMENT ORGANIZATIONS
RECORDED ON A CONSOLIDATED BASIS

Consolidated Revenue Fund

Health Sector

B.C. Health Care Risk Management Society
British Columbia Health Research Foundation
British Columbia Regional Hospital Districts Financing Authority
Health Facilities Association of British Columbia

Education Sector

British Columbia Educational Institutions Capital Financing Authority
British Columbia School Districts Capital Financing Authority

Natural Resources and Economic Development Sector

B.C. Pavilion Corporation
B.C. Games Society
British Columbia Enterprise Corporation
British Columbia Securities Commission
British Columbia Trade Development Corporation
Columbia Basin Trust
Creston Valley Wildlife Management Authority Trust Fund
Discovery Enterprises Inc
Downtown Revitalization Program Society of British Columbia
Duke Point Development Limited
Forest Renewal BC
Okanagan Valley Tree Fruit Authority
Pacific National Exhibition
Science Council of British Columbia

Transportation Sector

BC Transportation Financing Authority
British Columbia Ferry Corporation¹
British Columbia Rapid Transit Company Ltd
British Columbia Transit
Victoria Line Ltd
West Coast Express Limited

Social Services Sector

British Columbia Housing Management Commission
Provincial Rental Housing Corporation

Summary Financial Statements
Statement of Organizations and Enterprises
for the Fiscal Year Ended March 31, 1997—Continued

GOVERNMENT ORGANIZATIONS
RECORDED ON A CONSOLIDATED BASIS—Continued

Other Sector

B.C. Festival of the Arts Society
British Columbia Assessment Authority
British Columbia Buildings Corporation
British Columbia Heritage Trust
British Columbia Systems Corporation
First Peoples' Heritage, Language and Culture Council

GOVERNMENT ENTERPRISES
RECORDED ON A MODIFIED EQUITY BASIS

B.C. Community Financial Services Corporation
British Columbia Hydro and Power Authority
British Columbia Liquor Distribution Branch
British Columbia Lottery Corporation
British Columbia Railway Company
Columbia Power Corporation
Insurance Corporation of British Columbia
Provincial Capital Commission
W.L.C. Developments Ltd

¹Previously recorded on a modified equity basis.

**Summary Financial Statements
Statement of Financial Position by Sector
as at March 31, 1997**

In Millions

	CRF ¹	Health	Education	Natural Resources	Transportation	Social Services	Other	Adjustments ²	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Liabilities									
Accounts payable and accrued liabilities.....	2,215	67	126	51	257	24	81	(304)	2,517
Due to other governments.....	175				1			1	177
Due to Crown corporations, agencies and funds.....	315			28				(214)	129
Due to the Province of British Columbia.....		14		153				(167)	547
Deferred revenue.....	436			9	25	101	18	(42)	2,863
Unfunded pension liabilities.....	2,863								
Public debt, used for Warehouse Program investments.....	100								100
Public debt, used for government operating purposes.....	11,031	304			3,140	47	768	1	15,291
Public debt, used for loans under the Fiscal Agency Loan Program.....	15,830	1,069	4,115	3		111		(8,489)	12,525
Other debt.....	32,965	1,454	4,241	244	3,423	283	867	(9,214)	34,263
Assets									
Cash and temporary investments.....	83	9		882	80	18	25	1	1,098
Warehouse Program investments.....	100								100
Accounts receivable.....	2,336	49	126	4	35	9	57	(458)	2,158
Inventories.....	41			5	1				47
Due from the Province of British Columbia.....		8		193				(201)	
Due from other governments.....	534				19	4			557
Equity in government enterprises.....	885							2,090	2,975
Loans, advances and mortgages receivable.....	287			21		32		(183)	157

Summary Financial Statements
Statement of Financial Position by Sector
as at March 31, 1997—Continued

	In Millions								
	CRF ¹	Health	Education	Natural Resources	Transportation	Social Services	Other	Adjustments ²	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Assets—Continued									
Other investments.....				77	10	17		184	288
Loans for purchase of assets, recoverable from agencies	10,333	392						(3,164)	7,561
Other assets.....	179	(4)		3	44	8	6	(14)	222
	14,778	454	126	1,185	189	88	88	(1,745)	15,163
Net liabilities.....	18,187	1,000	4,115	(941)	3,234	195	779	(7,469)	19,100
Net liabilities represented by:									
Loans for purchase of assets, recoverable through future appropriations	5,496	677	4,115					(5,324)	4,964
Tangible capital assets									
— cost.....	360			223	3,550	350	1,627		6,110
— accumulated amortization...	(166)			(61)	(1,012)	(62)	(629)		(1,930)
Net book value.....	194	0	0	162	2,538	288	998	0	4,180
Net (surplus) deficiency	12,497	323		(1,103)	696	(93)	(219)	(2,145)	9,956
Net liabilities.....	18,187	1,000	4,115	(941)	3,234	195	779	(7,469)	19,100

¹Consolidated Revenue Fund.

²Represents sectoral adjustments to conform to government accounting policies and to eliminate transactions between sectors, and between sectors and the Consolidated Revenue Fund.

**Summary Financial Statements
Statement of Operations by Sector
for the Fiscal Year Ended March 31, 1997**

In Millions

	CRF ¹	Health	Education	Natural Resources	Transportation	Social Services	Other	Adjustments ²	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue									
Taxation.....	13,244				190		56	(144)	13,346
Natural resources	2,671			485				(485)	2,671
Fees and licences.....	1,515			18	473	1		(4)	2,003
Investment earnings.....	133	112	361	42	25	3	2	(108)	570
Miscellaneous	215			64	400	31	54	(324)	440
Contributions from the provincial government/government enterprises.....	1,148	72		20	8	50	407	(564)	1,141
Contributions from the federal government	1,955				22	73			2,050
Recoveries.....	1,667							(689)	978
Total Revenue.....	22,548	184	361	629	1,118	158	519	(2,318)	23,199
Expense									
Grants and contributions.....	16,113	26		16	4	111	6	(451)	15,825
Salaries and benefits.....	2,159			37	509	18	87	1	2,811
Operating costs.....	1,856	8		482	637	9	255	(1,023)	2,224
Amortization.....	33			7	118	5	74	(3)	234
Debt servicing	951	139	361		237	5	60	466	2,219
Other.....	1,788	60		1	33	27		(1,308)	601
Total Operating Expense.....	22,900	233	361	543	1,538	175	482	(2,318)	23,914
Net Operating Revenue (Expense)	(352)	(49)	0	86	(420)	(17)	37	0	(715)

¹Consolidated Revenue Fund.

²Represents sectoral adjustments to conform to government accounting policies and to eliminate transactions between sectors, and between sectors and the Consolidated Revenue Fund.

**Summary Financial Statements
Statement of Financial Position by Sector
as at March 31, 1996—Continued**

In Millions

	CRF ¹	Health	Education	Natural Resources	Transportation	Social Services	Other	Adjustments ²	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Assets—Continued									
Loans for purchase of assets, recoverable from agencies	9,654	415						(2,119)	7,950
Other assets.....	139			4	3	8	11		165
	<u>14,461</u>	<u>482</u>	<u>117</u>	<u>909</u>	<u>143</u>	<u>87</u>	<u>80</u>	<u>(363)</u>	<u>15,916</u>
Net Liabilities	<u>17,392</u>	<u>949</u>	<u>3,747</u>	<u>(816)</u>	<u>2,148</u>	<u>171</u>	<u>788</u>	<u>(7,157)</u>	<u>17,222</u>
Net liabilities represented by:									
Loans for purchase of assets, recoverable through future appropriations	5,069	678	3,747					(4,784)	4,710
Tangible capital assets									
— cost.....	297			220	2,126	329	1,570		4,542
— accumulated amortization...	(119)			(58)	(413)	(57)	(571)		(1,218)
Net book value.....	178			162	1,713	272	999		3,324
Net (surplus) deficiency	12,145	271		(978)	435	(101)	(211)	(2,373)	9,188
Net liabilities.....	<u>17,392</u>	<u>949</u>	<u>3,747</u>	<u>(816)</u>	<u>2,148</u>	<u>171</u>	<u>788</u>	<u>(7,157)</u>	<u>17,222</u>

¹Consolidated Revenue Fund.

²Represents sectoral adjustments to conform to government accounting policies and to eliminate transactions between sectors, and between sectors and the Consolidated Revenue Fund.

Summary Financial Statements
Statement of Operations by Sector
for the Fiscal Year Ended March 31, 1996

In Millions

	CRF ¹	Health	Education	Natural Resources	Transportation	Social Services	Other	Adjustments ²	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue									
Taxation.....	12,510				149		56		12,715
Natural resources.....	2,026			452					2,478
Fees and licences.....	1,459			15	190				1,664
Investment earnings.....	167	113	363	38	27	5	21	(124)	610
Miscellaneous.....	277			74	353	32	100	(315)	521
Contributions from the provincial government/government enterprises...	968	52		36		51	359	(512)	954
Contributions from the federal government.....	2,394					74			2,468
Recoveries.....	2,190							(1,095)	1,095
Total Revenue.....	21,991	165	363	615	719	162	536	(2,046)	22,505
Expense									
Grants and contributions.....	15,541	7		35	2	106	4	(444)	15,251
Salaries and benefits.....	2,032			41	273	18	170	1	2,535
Operating costs.....	1,866	8		214	568	8	158	(386)	2,436
Amortization.....	24			8	62	4	74		172
Debt servicing.....	977	137	363		187	7	71	610	2,352
Other.....	1,906	62		5		25	2	(1,828)	172
Total Operating Expense.....	22,346	214	363	303	1,092	168	479	(2,047)	22,918
Net Operating Revenue (Expense)	(355)	(49)	0	312	(373)	(6)	57	1	(413)

¹Consolidated Revenue Fund.

²Represents sectoral adjustments to conform to government accounting policies and to eliminate transactions between sectors, and between sectors and the Consolidated Revenue Fund.

**Statement of Government Enterprises
Summary of Financial Position
as at March 31, 1997**

	In Millions							Total
	Utility	Insurance	Liquor	Trans- portation	Finance	Industry	Natural Resources	
	\$	\$	\$	\$	\$	\$	\$	\$
Assets								
Cash and temporary investments	46	4,896	9	1	78	13	5	5,048
Accounts receivable	406	126	16	62	14			624
Inventories	72		51			1		124
Loans and advances	27							27
Long-term investments	12							12
Tangible capital assets	9,254	133	13	1,543	15		11	10,969
Other assets	803	108		41	4			956
	10,620	5,263	89	1,647	111	14	16	17,760
Liabilities								
Accounts payable and accrued liabilities	514	3,815	86	122	86		1	4,624
Debt:								
— owing to government	6,689			354				7,043
— owing to others	916		3	39	4			962
— other long-term debt								
Deferred revenue	917	1,238						2,155
	9,036	5,053	89	515	90	0	1	14,784
Net assets	1,584	210	0	1,132	21	14	15	2,976
Adjustments and eliminations								
Unamortized gain on debt defeasance	(1)			(4)				(5)
Debt/equity financing	2	2						4
Equity in government enterprises 1996/97	1,585	212	0	1,128	21	14	15	2,975
Equity in government enterprises 1995/96	1,309	367	0	1,238	22	13	15	2,964

**Statement of Government Enterprises
Summary of Results of Operations
for the Fiscal Year Ended March 31, 1997**

	In Millions							
	Utility	Insurance	Liquor	Trans- portation	Finance	Industry	Natural Resources	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue								
From operations	2,418	2,624	1,543	421	873	2	3	7,884
Total Revenue	2,418	2,624	1,543	421	873	2	3	7,884
Expense								
From operations	2,078	2,779	956	385	607	1	3	6,809
Total Expense	2,078	2,779	956	385	607	1	3	6,809
Net earnings (losses) for the year 1996/97	340	(155)	587	36	266	1	0	1,075
Net earnings (losses) for the year 1995/96	150	62	567	8	244	10	0	1,041

**Statement of Equity in Government Enterprises
for the Fiscal Year Ended March 31, 1997**

	In Millions							
	Utility ¹	Insurance ²	Liquor ³	Trans- portation ⁴	Finance ⁵	Industry ⁶	Natural Resources ⁷	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Balance—beginning of year	1,309	367	0	1,238	22	13	15	2,964
Net earnings (losses) for the year	340	(155)	587	36	266	1		1,075
Dividends paid							0	
Capital transfers to government	(65)		(587)		(267)			(919)
Changes in adjustments and eliminations	1			(146)				(145)
Increase (decrease) in equity of government enter- prises	276	(155)	0	(110)	(1)	1	0	11
Balance—end of year	<u>1,585</u>	<u>212</u>	<u>0</u>	<u>1,128</u>	<u>21</u>	<u>14</u>	<u>15</u>	<u>2,975</u>

¹Utility—British Columbia Hydro and Power Authority and Columbia Power Corporation.

²Insurance—Insurance Corporation of British Columbia.

³Liquor—British Columbia Liquor Distribution Branch.

⁴Transportation—British Columbia Railway Company.

⁵Finance—B.C. Community Financial Services Corporation and British Columbia Lottery Corporation.

⁶Industry—W.L.C. Developments Ltd.

⁷Natural Resources—Provincial Capital Commission.

Summary Financial Statements
Supplementary Information on Public Debt
for the Fiscal Year Ended March 31, 1997
(Currency in Millions)

Public Debt, Used for Warehouse Program Investments	Maturity Date Range (Fiscal Year)	Number of Swaps	Nominal Amount CDN\$
Details of Hedging			
Type of Swap			
Interest Only:			
Fixed to Floating, CDN\$	2006	2	100

Interest rate swaps have been entered into by the province in order to effectively manage exposure to fluctuations in interest rates.

Public Debt, Used for Government Operating Purposes

	1997				1996	
	Subject to Hedges	Not Subject to Hedges	Total Foreign Denominated Debt	Before Hedging in CDN\$	After Hedging in CDN\$	Before Hedging in CDN\$
US\$	194	0	194	268	264	74
Notes, bonds and debentures						
CDN\$ hedged to US\$						(2)
US\$	470	650	1,120	1,550	1,512	1,483
Japanese Yen	110,700		110,700	1,239	1,358	758
French Franc	1,500		1,500	370	395	807
Swiss Franc	200		200	193	197	
Pound Sterling	200		200	456	429	
				3,808	3,891	2,241
						2,263

Notes, Bonds and Debentures

Balances outstanding in Canadian dollars include nil (1996: \$200 million) which have been hedged to nil US (1996: \$145 million US) through currency exchange agreements.

These balances were translated at the exchange rate prevailing at the year-end.

Sinking funds at March 31, 1997, totalling \$76 million US (1996: \$55 million US) act as a natural hedge of the US dollar debentures.

A variety of interest rate swaps and foreign currency swaps have been entered into by the province in order to effectively manage exposure to fluctuations in interest rates and foreign currency rates.

**Summary Financial Statements
Supplementary Information on Public Debt
for the Fiscal Year Ended March 31, 1997—Continued
(Currency in Millions)**

	Maturity Date Range (Fiscal Year)	Number of Swaps	Nominal Amount CDN\$	Nominal Amount US\$	Nominal Amount Japanese Yen	Nominal Amount French Francs	Nominal Amount Swiss Francs	Nominal Amount Pound Sterling
Details of Hedging								
Short-Term Promissory Notes								
Forward Foreign Currency Exchange Contracts	1998	13	265	194				
Notes, Bonds and Debentures								
Interest Only Swaps:								
Fixed to Floating, CDN\$	1998-2016	8	513					
Fixed to Floating, US\$	1999	1		300				
Floating to Fixed, CDN\$	1999	1	50					
Floating to Floating, US\$	2003	1		70				
Floating to Fixed, CDN\$	2000-2007	4	330					
Interest rates hedged		15	893	370				
Cross Currency, Principal and Interest Swaps:								
Fixed to Fixed, US\$—CDN\$	2003	1	120	100				
Fixed to Floating, Yen—CDN\$..	1998-2001	4	716		63,700			
Fixed to Floating, Yen—US\$	1998-2000	4		465	47,000			
Fixed to Floating, GBP—CDN\$..	2004	1	429					200
Fixed to Floating, CHF—CDN\$..	2002	1	197				200	
Fixed to Floating, FRF—US\$	2007	1		291		1500		
Floating to Floating, US\$—CDN\$	1998-2007	5	988	725				
Floating to Fixed, US\$—CDN\$..	1998-1999	2	542	401				
Cross Currency, principal hedged		19	2,992	1,982	110,700	1,500	200	200
Investments								
Interest Only Swaps:								
Fixed to Floating, CDN\$	2001	3	85					
Interest rates hedged		3	85					

**Summary Financial Statements
Supplementary Information on Public Debt
for the Fiscal Year Ended March 31, 1997—Continued**
(Currency in Millions)

Fair Value of Hedges

As at March 31, 1997, the fair value of forward foreign currency exchange contracts is \$1.3 million Canadian and the fair value of all currency and interest rate swaps is \$43 million Canadian.

Subsequent Event:

Subsequent to March 31, 1997, a Japanese yen note totalling 5,000 million yen, fully hedged to \$63 million Canadian was called. The related cross currency swap of notional amount, 5,000 million yen and \$46 million US was also called.

**Public Debt, Used for the Fiscal Agency
Loan Program**

	1997		1996		
	Subject to Hedges	Not Subject to Hedges	Total Foreign Denominated Debt	Before Hedging in CDN\$	After Hedging in CDN\$
Short-term Promissory notes	157	568	725	1,004	1,001
US\$					966
					967

Foreign Denominated Debt

Short-term Promissory notes

US\$

Short-term sinking funds at March 31, 1997, totalling \$239 million US (1996: \$228 million US) act as a natural hedge of the US dollar short-term promissory notes.

Notes, Bonds and Debentures

Balances outstanding in Canadian dollars include \$100 million (1996: \$100 million) which have been hedged to \$71 million US (1996: \$71 million US) through currency exchange agreements. These balances were translated at the exchange rate prevailing at the year end.

	1997		1996		
	Subject to Hedges	Not Subject to Hedges	Total Foreign Denominated Debt	Before Hedging in CDN\$	After Hedging in CDN\$
CDN\$ hedged to US\$		1,080	1,080	1,495	1,495
US\$	71,300		71,300	798	931
Japanese Yen				2,293	2,424
					(2)
					(4)
					1,108
					747
				1,805	1,851

Sinking funds at March 31, 1997, totalling \$15 million US (1996: \$8 million US) act as a natural hedge of the US dollar debentures.

A variety of interest rate swaps and foreign currency swaps have been entered into by the province in order to effectively manage exposure to fluctuations in interest rates and foreign currency rates.

Summary Financial Statements
Supplementary Information on Public Debt
for the Fiscal Year Ended March 31, 1997—Continued
(Currency in Millions)

Details of Hedging	Maturity Date Range (Fiscal Year)	Number of Swaps	Nominal Amount CDN\$	Nominal Amount US\$	Nominal Amount Japanese Yen	Nominal Amount French Francs	Nominal Amount Swiss Francs	Nominal Amount Pound Sterling
Short-Term Promissory Notes								
Forward Foreign Currency								
Exchange Contracts.....	1998	13	214	157				
Interest Only Swaps:								
Floating to Fixed, US\$.....	2003-2006	3		385				
Interest rates hedged.....		3	0	385				
Notes, Bonds and Debentures								
Interest Only Swaps:								
Fixed to Floating, CDN\$	1998-2002	10	1,150					
Floating to Floating, US\$	2003	1		30				
Floating to Fixed, CDN\$	1998-2000	2	150					
Interest rates hedged.....		13	1,300	30				
Cross Currency, Principal and Interest Swaps:								
Fixed to Fixed, CDN\$—US\$.....	2005	1	100	71				
Fixed to Floating, Yen—CDN\$...	1998-2000	4	730		56,300			
Floating to Floating, US\$—CDN\$	2005	1	69	50				
Floating to Floating, Yen—US\$..	2005	1		50				
Floating to Floating, Yen—CDN\$	2000-2005	2	132					
Cross Currency, principal hedged		9	1,031	171	71,300	0	0	0

Fair Value of Hedges

As at March 31, 1997, the fair value of forward foreign currency exchange contracts is \$1.4 million Canadian and the fair value of all currency and interest rate swaps is \$48 million Canadian.

Summary Financial Statements
Schedule of Impact of Change in Reporting Entity
on the Statement of Financial Position
as at March 31, 1997

	In Millions 1997				
	Summary Statements ¹ \$	S.U.C.H. ² \$	Adjust- ments ³ \$	Total ⁴ \$	Net Effect \$
Liabilities					
Accounts payable and accrued liabilities.....	2,517	1,154	(264)	3,407	890
Due to other governments	177	9		186	9
Due to Crown corporations, agencies and funds	129	8	(3)	134	5
Due to Province of British Columbia.....		149	(149)	0	0
Deferred revenue	547	261	(9)	799	252
Unfunded pension liabilities.....	2,863			2,863	0
Public debt, used for Warehouse Program in- vestments	100			100	0
Public debt, used for government operating purposes.....	15,291	5,483	14	20,788	5,497
Public debt, used for loans under the Fiscal Agency Loan Program	12,525	3	(5,500)	7,028	(5,497)
Other debt.....	114	89	2	205	91
	<u>34,263</u>	<u>7,156</u>	<u>(5,909)</u>	<u>35,510</u>	<u>1,247</u>
Financial Assets					
Cash and temporary investments	1,098	950		2,048	950
Warehouse Program investments.....	100			100	0
Accounts receivable	2,158	329	(295)	2,192	34
Inventories.....	47	71		118	71
Due from the Province of British Columbia ...		78	(78)	0	0
Due from other governments.....	557	32		589	32
Equity in government enterprises.....	2,975	0		2,975	0
Loans, advances and mortgages receivable	157	3		160	3
Other investments.....	288	573		861	573
Loans for purchase of assets, recoverable from agencies.....	7,561		(533)	7,028	(533)
Other assets	222	39	(4)	257	35
	<u>15,163</u>	<u>2,075</u>	<u>(910)</u>	<u>16,328</u>	<u>1,165</u>
Net liabilities.....	<u>19,100</u>	<u>5,081</u>	<u>(4,999)</u>	<u>19,182</u>	<u>82</u>
Net liabilities represented by:					
Loans for purchase of assets, recoverable through future appropriations.....	4,964		(4,964)	0	(4,964)
Tangible capital assets	4,180	7,496	(3)	11,673	7,493
Net deficiency.....	9,956	(2,415)	(32)	7,509	(2,447)
Net liabilities.....	<u>19,100</u>	<u>5,081</u>	<u>(4,999)</u>	<u>19,182</u>	<u>82</u>

¹ See Summary Financial Statements, Statement of Financial Position on page A21.

² Refers to School districts, Universities, Colleges and institutes, Health care organizations and regional hospital districts. It also includes adjustments to conform to government accounting policies and to eliminate transactions that occurred within the S.U.C.H. entities.

³ Represent adjustments to conform to government accounting policies and to eliminate transactions that occurred between the S.U.C.H. entities and other consolidated entities included in the Summary Financial Statements.

⁴ Represents Summary Financial Statements based on the 1995/96 reporting entity.

Summary Financial Statements
Schedule of Impact of Change in Reporting Entity
on the Statement of Operations
for the Fiscal Year Ended March 31, 1997

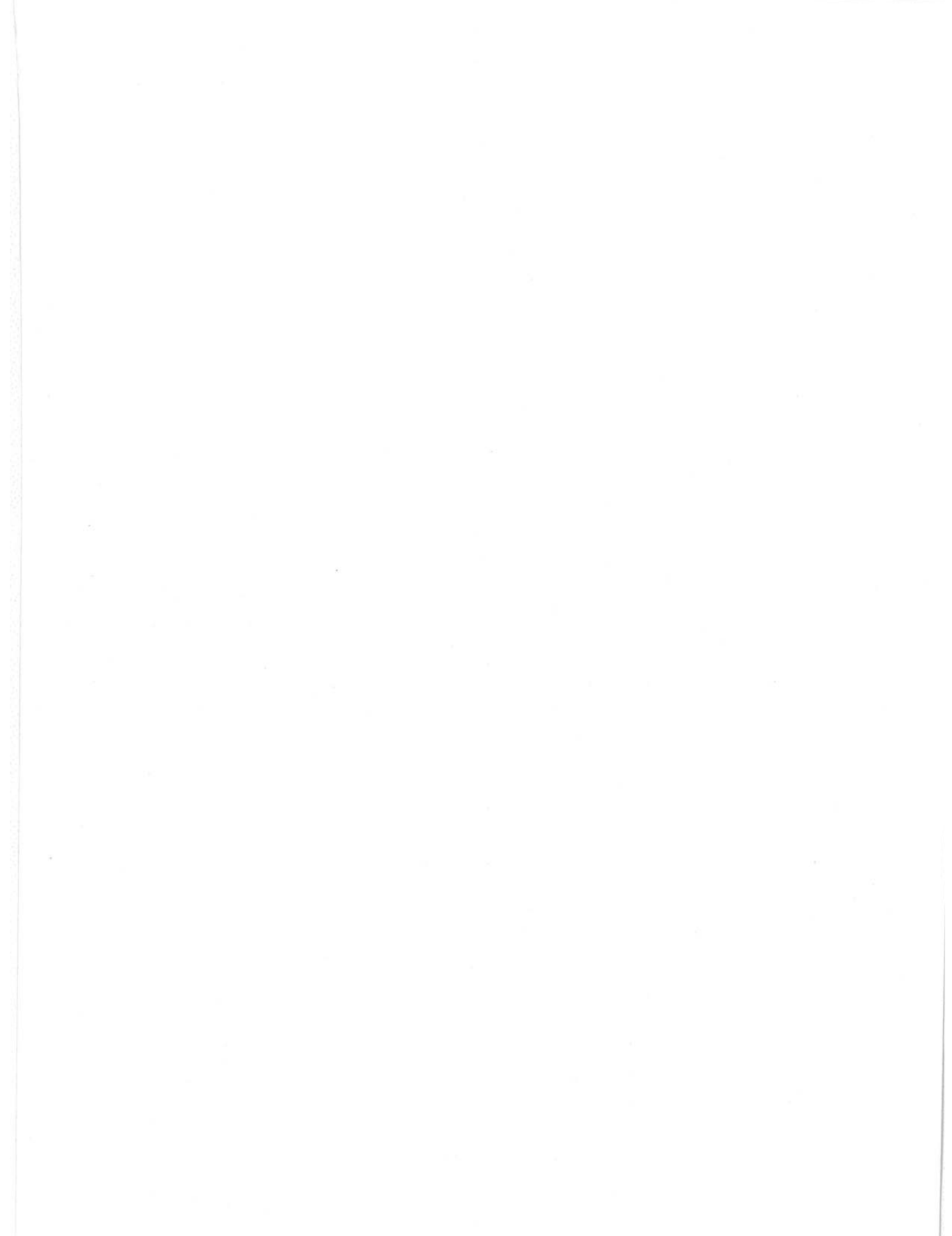
	In Millions 1997				
	Summary Statements ¹ \$	S.U.C.H. ² \$	Adjust- ments ³ \$	Totals ⁴ \$	Net Effect \$
Revenue					
Taxation.....	13,346	106	11	13,463	117
Natural resources	2,671			2,671	0
Fees and licences.....	2,003	646	(28)	2,621	618
Investment earnings.....	570	101	(474)	197	(373)
Miscellaneous	440	744	(9)	1,175	735
Contributions from government enterprises ..	1,141	8,425	(8,425)	1,141	0
Contributions from the federal government ..	2,050	126	(3)	2,173	123
Recoveries.....	978		(31)	947	(31)
Total revenue.....	23,199	10,148	(8,959)	24,388	1,189
Expense					
Health	7,121	3,527	(3,209)	7,439	318
Social services	3,100			3,100	0
Education	5,773	5,903	(5,329)	6,347	574
Protection of persons and property.....	982			982	0
Transportation	1,889			1,889	0
Natural resources and economic development	1,512			1,512	0
Other.....	1,000			1,000	0
General government.....	318			318	0
Debt servicing.....	2,219	652	(504)	2,367	148
Total operating expense.....	23,914	10,082	(9,042)	24,954	1,040
Net operating expense for the year.....	(715)	66	83	(566)	149
Non-Operating Transactions					
Increase (decrease) in unremitted earnings of government enterprises	(53)			(53)	
Consolidated Net (Expense) for the Year	(768)	66	83	(619)	149

¹ See Summary Financial Statements, Statement of Operations on page A22.

² Refers to School districts, Universities, Colleges and institutes, Health care organizations and regional hospital districts. It also includes adjustments to conform to government accounting policies and to eliminate transactions that occurred within the S.U.C.H. entities.

³ Represent adjustments to conform to government accounting policies and to eliminate transactions that occurred between the S.U.C.H. entities and other consolidated entities included in the Summary Financial Statements.

⁴ Represents Summary Financial Statements based on the 1995/1996 reporting entity.



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