

REPORT HIGHLIGHTS

October 29, 2009

Report Highlights: Audit of the 2008/09 Summary Financial Statements

This report informs legislators and the public about the Auditor General's opinion on government's 2008/09 Summary Financial Statements, and discusses significant audit findings. It also recognizes and encourages improved practices in government's financial reporting and management. Overall, government's Summary Financial Statements are presented fairly according to Canadian accounting standards. However, there are three areas where the financial statements are significantly not in compliance with these standards, resulting in three audit opinion reservations.

Audit opinion reservations for 2008/09

Audit reservations represent deviations from Canadian generally accepted accounting principles (GAAP) that might mislead a user of the financial statements. This year's report contains three audit reservations, of which the first two have been carried over from 2007/08:

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

Had these three reservations been reported correctly in the financial statements, the surplus for 2008/09 would have been \$8 million, not the \$78 million reported by government.

2007/08 audit opinion reservations removed in 2008/09

Five audit reservations from last year's opinion have been removed:

1. Scope limitation on BC Timber Sales program resource roads.
2. Failure to recognize a portion of a First Nation settlement.
3. Failure to disclose information about lease liabilities.
4. Inappropriate classification of highway land.
5. Failure to disclose the amount of loan guarantees.

For the first reservation, sufficient information was obtained from government to remove the scope limitation. The second reservation involved a transaction that did not occur this year. In the remaining three reservations, government corrected the departures from Canadian GAAP in this year's financial statements.

Recommendations to improve the quality of future financial statements

The report provides recommendations related to issues in addition to those implicit in the audit opinion reservations. These issues are:

- Accounting for First Nations settlement costs;
- Accounting for inherited Crown land;
- Warehouse debt disclosure;
- Complete disclosure of prior year adjustments;
- Disclosure of contractual obligations;
- Direct method of cash flows;
- Authority to borrow;
- Comparing budget information to the Summary Financial Statements; and
- Preparation of ministry financial statements.

Issues of interest

The report also discusses 12 issues of interest, without making specific recommendations. These topics include:

- the effects of rate regulation on the Summary Financial Statements;
- accounting for financial instruments;
- accounting for carbon neutrality;
- the government reporting entity – what's in and what's out?;
- accounting for payments for the 2010 Olympic security costs;
- working capital management; and
- accelerated capital spending.

Management letters: risks and internal control weaknesses

The Summary Financial Statements are a consolidation of the audited financial statements from 147 individual government organizations, 19 ministries and eight legislative offices. In planning and performing each audit, consideration is given to an entity's governance and accountability, and to internal control over areas such as financial management, disclosure and information technology. Risks identified in these areas are brought to the organization's attention through a management letter.

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

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A copy of the full report is available on our website at: www.bcauditor.com