OFFICE OF THE
Auditor General
of British Columbia

Observations on Financial Reporting:

Audit Findings Report on the 2008/09 Summary Financial Statements

October 2009

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OFFICE OF THE
Auditor General
of British Columbia

LOCATION:
8 Bastion Square
Victoria, British Columbia
V8V 1X4

OFFICE HOURS:
Monday to Friday
8:30 a.m. – 4:30 p.m.

TELEPHONE:
250 387-6803
Toll free through Enquiry BC at: 1 800 663-7867
In Vancouver dial: 604 660-2421

FAX: 250 387-1230

E-MAIL: bcauditor@bcauditor.com

WEBSITE:
This report and others are available at our website, which also contains further information about the Office: www.bcauditor.com

OFFICE OF THE
Auditor General
of British Columbia

8 Bastion Square
Victoria, British Columbia
Canada V8V 1X4
Telephone: 250 387-6803
Facsimile: 250 387-1230
Website: www.bcauditor.com

The Honourable Bill Barisoff
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
V8V 1X4

Dear Sir:

I have the honour to transmit herewith to the Legislative Assembly of British Columbia my 2009/2010 Report 3: Observations on Financial Reporting: *Audit Findings Report on the 2008/09 Summary Financial Statements*.

John Doyle, MBA, CA
Auditor General of British Columbia

Victoria, British Columbia
October 2009

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

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Auditor General's Comments

John Doyle
Auditor General

My audit opinion on the Summary Financial Statements is a significant annual output of my Office. This is the largest financial statement audit carried out in British Columbia, involving the collection and spending of tens of billions of dollars in about 150 separate government organizations. It consumes thousands of hours of my staff's time, and that of many private sector auditors who carry out their work in support of my opinion on government's consolidated financial statements. This audit work is also the basis for issues discussed in this annual report on government's Summary Financial Statements.

My audit opinion for the 2008/09 fiscal year contains three audit reservations—areas where the financial statements are significantly not in compliance with Canadian generally accepted accounting principles. Although of significant concern to me, it is still an improvement over the six audit reservations and one scope limitation that were included in my audit opinion last year. Two of this year's audit reservations are issues carried forward from last year, while one is new.

Audit reservations are unusual and should not be taken lightly. They represent issues that the auditor considers so significant that, if uncorrected, might mislead a financial statement user. I have included explanations of the three audit reservations in this report, as well as the improvements government made in its accounting and reporting that allowed me to remove some of last year's qualifications.

Although government has made some progress in reporting on its stewardship of public resources to the people of British Columbia, there is still much that can be improved upon. This report includes a number of recommendations to government that will improve its accounting and reporting of financial statement transactions. It also includes some explanations of issues that were encountered during the annual audit that I believe will be of interest to legislators and the public.

Looking ahead, Canadian accounting standards are radically changing. While most private sector companies are moving to the use of International Financial Reporting Standards in 2011, it is not as clear which standards will be applied by government organizations.

Auditor General's Comments

This is a unique opportunity for government to stand back and take a fresh look at its financial accounting and reporting. In my view, financial statements should allow a financial story to be told to the reader. At the moment, the Summary Financial Statements do not provide a very clear picture of the full nature and extent of government's financial affairs.

Although government generally meets the current minimum accounting and reporting standards, in my opinion it should be standing on this bar and not hanging from it. This would be consistent with the long-standing principles of transparency and accountability that government has espoused.

I urge government to improve all of the financial accountability information it provides to legislators and the public. Preparing and publishing ministry-level financial statements would be a step in the right direction.

In closing, I wish to thank all staff in my Office and in private sector audit firms who assisted in the audit of British Columbia's 2008/09 Summary Financial Statements.

John Doyle, MBA, CA
Auditor General of British Columbia

Victoria, British Columbia
October 2009

Audit Team

Bill Gilhooly, Assistant Auditor General
Peter Bourne, Executive Director
Geoff Stagg, Manager
Chris Jones, Auditor
Brian Urquhart, Senior Associate

Executive Summary

Executive Summary

Introduction

This report is written to inform legislators and the public about the Auditor General's opinion on government's 2008/09 Summary Financial Statements, and discuss our significant audit findings. It is also intended to recognize and encourage improved practices in government's financial reporting and management.

We discuss a number of the issues encountered during the audit, and provide a glimpse into the changes in future accounting and auditing standards in Canada. For the second year, we have highlighted issues and recommendations from the financial statement audits of each government entity included in the Summary Financial Statements.

Audit opinion reservations related to the 2008/09 Summary Financial Statements

During our audit of the Summary Financial Statements for the year ending March 31, 2009, we discussed a number of significant issues with government, many of which were resolved satisfactorily. More than 30 monetary adjustments to the Summary Financial Statements were made by government at our request, and a number of other adjustments were made to disclosures in the financial statement notes and schedules.

However, government disagreed with our application of Canadian GAAP and did not adjust some significant items in its financial statements. As a result, the Auditor General expressed three audit reservations in his audit opinion for departures from Canadian Generally Accepted Accounting Principles (GAAP).

Two of this year's reservations were also included as reservations last year. First, oil and natural gas producer's royalty credits are being netted inappropriately from revenue, rather than being reported as expenses. Second, government is not recording liabilities for deep well credits owed to oil and gas producers. These departures from GAAP affect government's bottom line, since revenues and expenses are significantly misstated.

The third reservation this year is the improper consolidation into the Summary Financial Statements of the Transportation Investment Corporation (TI Corp). Consolidating TI Corp using the modified equity method rather than the line-by-line consolidation method causes significant differences in financial statement balances.

Had the three reservations been corrected, the surplus for 2008/09 would have been $8 million, not $78 million as reported by government. These reservations are discussed in detail in the main body of this report.

An unreserved, or "clean" audit opinion does not signify that a set of financial statements are free of all possible errors, or have better quality disclosures of financial results or condition. However, while financial statements with audit reservations do not necessarily indicate serious problems, they should also not be taken lightly. While these reservations are of concern, the Summary Financial Statements are otherwise fairly presented according to Canadian standards.

2007/08 audit opinion reservations removed in 2008/09

Five audit reservations were removed from last year's opinion. The reservations removed include:

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.

In the first reservation, we obtained more information from government that enabled us to remove the audit scope limitation. The second reservation involved a transaction that did not occur again this year. In the remaining three reservations, government corrected the departures from Canadian GAAP that were noted in the Auditor General's opinion last year.

Executive Summary

Other issues related to the 2008/09 Public Accounts

In this report we discuss a number of topics related to government's Public Accounts. These are found under headings related to auditing, accounting, financial statement disclosure, the government reporting entity, compliance with acts and regulations, and financial management.

For a number of issues, we provide recommendations to government that will improve the quality of future Summary Financial Statements, and government's accountability to legislators and the public. The recommendations related to these issues are in addition to those implicit in the audit opinion reservations. Topics that include recommendations include:

- *Accounting for First Nations settlement costs* — government needs to review its accounting for First Nations transactions to ensure they are in accordance with GAAP. Although not material this year, future transactions could result in audit reservations in the Auditor General's opinion on the Summary Financial Statements.
- *Accounting for inherited Crown land* — when valued, land should be recorded as an increase to accumulated surplus/(deficit), not revenue.
- *Warehouse debt disclosure* — warehouse debt should be disclosed as taxpayer-supported debt, not self-supported debt.
- *Complete disclosure of prior year adjustments* — prior year adjustments require additional disclosure.
- *Disclosure of contractual obligation*s — contractual obligations should include additional disclosures, and a lower threshold should be used when accumulating the information.
- *Direct method of cash flows* — government should present its statement of cash flows using the direct method, not the indirect method.
- *Authority to borrow* — ministry staff should maintain an ongoing record of amounts authorized to borrow. Government should consider further legislative mechanisms related to borrowing.

- *Comparing budget information to the Summary Financial Statements* — additional budget disclosures should be presented in the Estimates, in the Summary Financial Statements, and in the financial statements of government organizations.
- *Ministry financial statements* — ministries should prepare financial statements for their areas of responsibility.

We also discuss other issues of interest, without specific recommendations. These topics include:

- *Materiality and adjusting misstatements—qualitative considerations;*
- *The hierarchy of generally accepted accounting principles;*
- *Consistent accounting for impaired investments is needed;*
- *The effects of rate regulation on the Summary Financial Statements;*
- *Accounting for financial instruments—differing accounting policies;*
- *Accounting for payments for the 2010 Olympic security costs;*
- *Accounting for carbon neutrality;*
- *Pension plan accounting and disclosures;*
- *The government reporting entity—what's in and what's out?;*
- *Auditing for compliance with Acts and regulations;*
- *Accelerated capital spending;*
- *Working capital management.*

Although this list of topics does not include specific recommendations, they do provide insight into, and information about, government's Public Accounts.

Management letters: A wealth of information

The Summary Financial Statements bring together the financial performance of 147 separate government organizations and the Consolidated Revenue Fund. All but one of these is audited individually by either the Auditor General's Office or by private sector auditors. In planning and performing these audits, auditors follow professional standards in considering risks in internal controls over financial disclosure, financial management, and the governance and accountability relationships in these organizations.

Executive Summary

Risks and internal control weaknesses found during a financial statement audit are brought to management's attention by the entity's external auditor in a "management letter" document. It is management's responsibility to weigh the costs of implementing recommended control improvements against the benefits that will be achieved. Each auditor is also required to include this management letter, including management's proposed actions, in a communication to the audit committee or governing board, where the issues are usually discussed. As part of the audit process, auditors generally follow-up all actions planned by management to ensure the control deficiencies are remedied. The results are included in the annual reporting process to the audit committees or governing boards.

Of the 147 organizations included in the government reporting entity, government's 19 ministries, plus the Office of the Comptroller General, 90% received management letters for the 2008/09 audit cycle. Of these 151 management letters, 70% had audit findings, resulting in 463 issues and recommendations, while the remaining 30% had letters noting no findings. In this report, we categorize the management letter issues into 13 control deficiency areas.

This is the second year we have included a summary of these management letters to highlight potential risk areas and to assist organizations in improving their own controls.

The future of accounting and auditing standards in Canada

The Public Sector Accounting Board (PSAB) establishes generally accepted accounting principles for governments and government organizations. Governments are required to follow the PSAB *Accounting Handbook* for preparing their Summary Financial Statements. However, government organizations are not subject to the same requirement. At present, a few government organizations follow PSAB standards, some use private sector standards, and many use not-for-profit accounting standards.

The Canadian Institute of Chartered Accountants (CICA) Accounting Standards Board announced that Canadian private sector accounting standards will converge with International Financial Reporting Standards (IFRS) beginning January 1, 2011. At this point, it appears that government business enterprises will use IFRS accounting standards, but it is not clear which financial reporting standards other government organizations will follow.

New auditing standards are also being implemented in Canada by the CICA Auditing and Assurance Standards Board. The new Canadian Audit Standards, which are essentially identical to International Standards on Auditing, take effect December 15, 2009.

In this report, we also discuss two new accounting standards that are in the consultation stage at PSAB. These proposed standards may affect government's accounting for tax revenues and for government transfers of monetary assets or tangible capital assets to individuals, organizations or other governments.

Detailed Report

Introduction

Purpose of the report

The Public Accounts document is issued annually by government to report on its financial performance. Included in the Public Accounts is government's consolidated Summary Financial Statements.

This report is issued by the Auditor General to the Legislative Assembly each year to provide information and recommendations about the quality of the government's Public Accounts. This report also informs Members of the Legislative Assembly and the public about the Auditor General's opinion on the Summary Financial Statements. This year, for the second year in a row, that opinion contains a number of reservations.

The Comptroller General states in the introduction to the Public Accounts that "British Columbia is committed to providing and ensuring strong public sector reporting." This report helps government meet that commitment by noting where changes would enhance the quality of government's financial reporting. We also make note of future changes in significant accounting standards that will affect the Summary Financial Statements.

In addition, the report highlights the more significant audit findings from the work of our Office and of the private sector firms that audited the entities consolidated in the 2008/09 Summary Financial Statements. For the second year we have gathered issues and recommendations from the audit of all government entities' financial statements, and have highlighted some of the themes in this report.

Background of the report

In British Columbia, the Budget Transparency and Accountability Act requires government to follow Canadian Generally Accepted Accounting Principles (GAAP) in the budgeting, accounting and preparation of its Summary Financial Statements.

As an independent Officer of the Legislature, the Auditor General reports on government's financial management and accountability practices, and provides recommendations to improve them. Our annual audit of the Summary Financial Statements of the Province of British Columbia is a significant focus of the Office.

Introduction

The audited Summary Financial Statements are included in government's Public Accounts (available online at www.fin.gov.bc.ca/ocg/pa/08_09/PublicAccounts.pdf). The Public Accounts also include unaudited information, such as government's discussion and analysis of its financial results, and information about the Consolidated Revenue Fund.

This report is based on the result of audit work done between August 2008 and July 2009 by about 80 staff and contractors of our Office on the audit of the Summary Financial Statements. It is also based on the result of the audit work done by the Office and many private sector accounting firms on the government organizations that are included in the government reporting entity.

Canadian generally accepted accounting principles (GAAP)

Government is a large organization with significant flows of money and complex transactions. It is therefore essential that the accounting policies chosen to record and report those transactions reflect best practices for making the financial information understandable and conveying the substance of what actually happened. This can be accomplished by following Canadian generally accepted accounting principles (GAAP)

In Canada, accounting standards for governments are issued by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). Further guidance, if required for accounting transactions not covered by PSAB, exists in the accounting standards issued by the Accounting Standards Board of the CICA for publicly traded and privately owned companies. Together, these standards are referred to as Canadian GAAP.

In those unusual situations not specifically covered by Canadian GAAP, guidance on appropriate accounting policies can also be obtained from standards issued by bodies empowered to do so in other jurisdictions[1]. However, when a Canadian jurisdiction looks to other sources of GAAP, it must be sure to choose policies that are consistent with this country's GAAP and with PSAB's conceptual framework for accounting standards.

[1] Examples include the Government Accounting Standards Board and Financial Accounting Standards Board in the U.S., as well as the International Accounting Standards Board.

Introduction

Reporting in accordance with Canadian GAAP should result in government financial statements that follow best practices. The financial statements should:

- provide an accounting of the full nature and extent of the financial affairs and resources that government controls, including those related to the activities of its agencies and enterprises;
- describe government's financial position in a way that is useful for evaluating government's ability to finance its activities, meet its liabilities and commitments, and provide future services;
- describe the changes in government's financial position, showing the sources, allocation and consumption of government's resources, the way government's activities affected its net debt and the way government financed its activities; and
- demonstrate the accountability of government for the resources, obligations and financial affairs for which it is responsible.

Composition of and auditing the government reporting entity

The Summary Financial Statements as at March 31, 2009, are a consolidation of 147 government organizations (Exhibit 1), plus the Consolidated Revenue Fund which is composed of 19 ministries and eight Officers of the Legislature. Some of the 147 government organizations in Exhibit 1 are themselves the consolidation of several other subsidiary organizations; therefore, the actual number of audits carried out is much greater than the number of organizations listed in Exhibit 1. All of these together make up the "government reporting entity"—and sets the scene for a very large and complicated accounting and audit process.

Introduction

Exhibit 1

Government entities, by type, in the government reporting entity, 2008/09

Entity type	Number of entities
Colleges	16
School districts	60
Universities	11
Health authorities	6
Hospital societies	10
Regional authorities	2
Crown corporations	41
Other organizations	1
Total	**147**

Source: Derived from the reporting entity schedule in the 2008/09 Summary Financial Statements.

Government's financial reporting framework

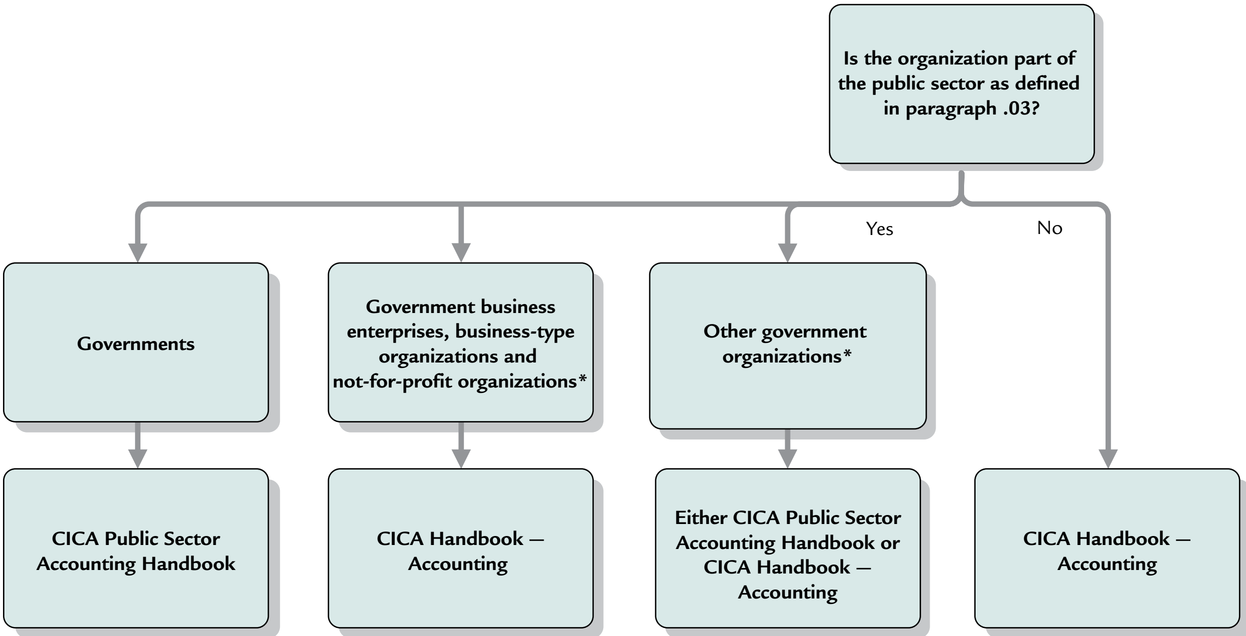
Under British Columbia law, the Province's financial statements must be publicly reported in accordance with Canadian GAAP.

In the public sector, entities can report their financial results using either PSAB accounting standards or those issued in the CICA *Accounting Handbook*. Within the CICA *Accounting Handbook*, entities have a choice of reporting under the standards for private sector entities or not-for-profit organizations. Therefore organizations within government could report their individual financial statements using PSAB, private sector or not-for-profit standards.

PSAB requires government entities to use selection criteria to determine which GAAP basis of reporting they will follow in recording their financial activity and preparing their financial statements (Exhibit 2).

Exhibit 2

Canadian GAAP basis for preparing public sector financial statements



* PSAB reserves the right to recommend additional or different information to meet the special circumstances of government organizations.

Paragraph .03 states: "For purposes of applying these standards, "public sector" refers to federal, provincial, territorial and local governments, government organizations, government partnerships and school boards."

Source: Introduction to Public Sector Accounting Standards

The accounting and audit process

Each government organization is required to prepare annual financial statements, which are then audited by either the Auditor General or another audit firm (see Appendix 4). The 147 audited financial statements are combined with the audited accounts of the Consolidated Revenue Fund to create the consolidated Summary Financial Statements that the Auditor General then audits and provides an audit opinion on.

Exhibit 3 shows how all of the 147 government organizations are grouped into sectors of similar business activity and are consolidated into the Summary Financial Statements.

These nine sectors are the basis for the segmented reporting prepared by government, and which provide support for the Summary Financial Statements (refer to the Public Accounts, pages 82 to 89). What may not be readily apparent to the reader, however, is that not all government entities are consolidated in the same manner.

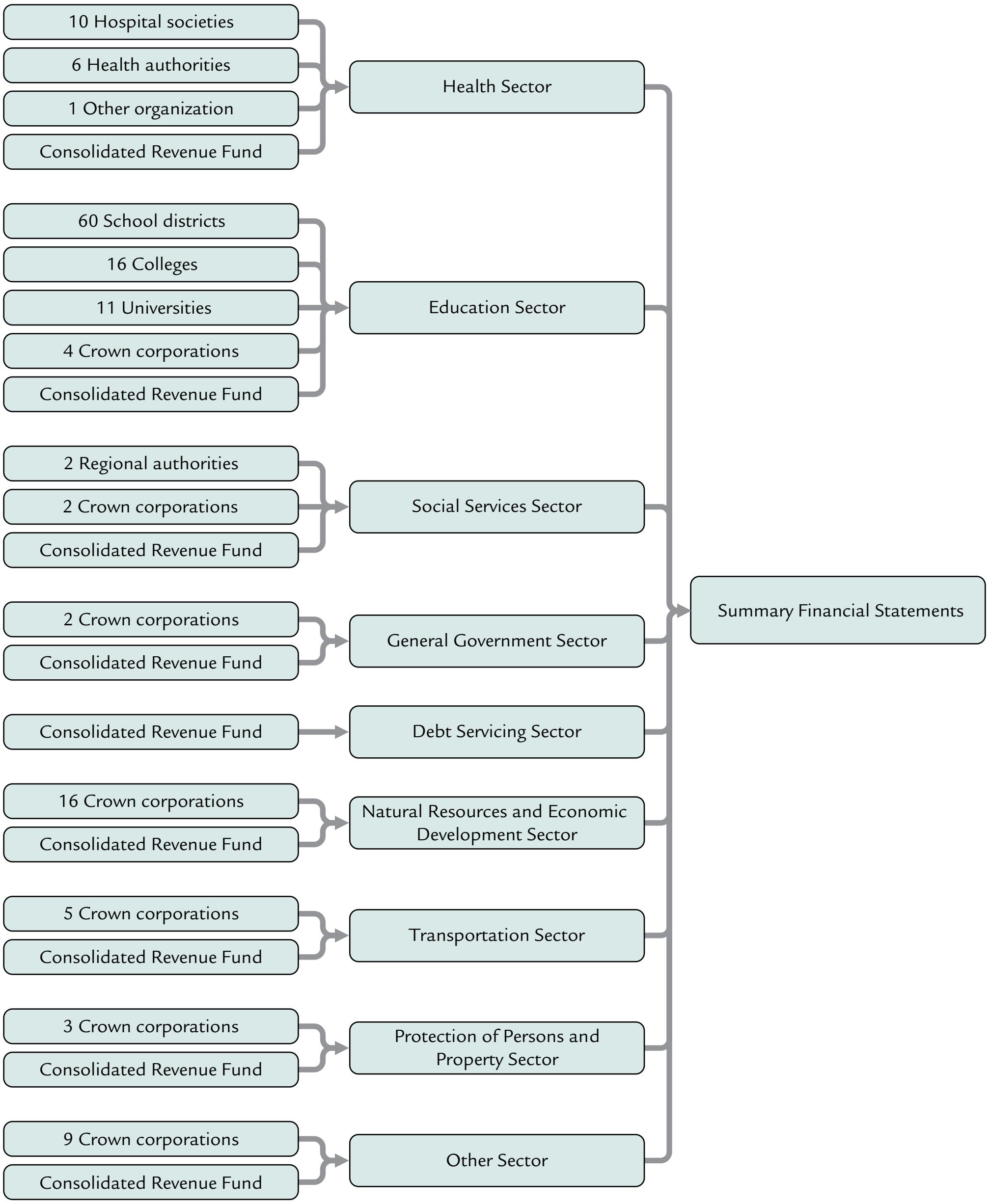
Most organizations (137 out of 147) are included in the Summary Financial Statements using a line-by-line consolidation method. Under this method, the accounting policies of each individual organization are made to conform to the accounting policies in the Summary Financial Statements. Transactions with all other organizations included in the Summary Financial Statements are eliminated. Each financial statement line is then added together to come to the total in the Summary Financial Statements.

Canadian GAAP allows certain government organizations to be included in the Summary Financial Statements using what is called the "modified equity" method of consolidation. This consolidation method is reserved for those government entities that meet certain criteria. In short, these "government business enterprises" (GBEs) must be self-supporting and must earn their revenues from outside of government.

Ten GBEs have been consolidated using the modified equity method (see Appendix 4, footnote 3). Under the modified equity consolidation method, the accounting policies of the GBEs are not changed to conform to the policies in the Summary Financial Statements. In addition, only the *profits* earned in transactions with other government organizations are eliminated upon consolidation, not the entire transaction. Finally, only the net income and the net equity of GBEs are recorded in the Summary Financial Statements, not each financial statement line item.

Exhibit 3

Consolidation of government organizations into the Summary Financial Statements, 2008/09



Note: See Appendix 4 for breakdown of sector by government organization.

Source: Derived from the reporting entity schedule in the 2008/09 Summary Financial Statements.

Introduction

Auditing the Summary Financial Statements

Under the Auditor General Act, the Auditor General must report each year, in accordance with Canadian generally accepted auditing standards (GAAS), to the Legislative Assembly on the Summary Financial Statements.

A foundational principle of GAAS is that auditors must have sufficient knowledge and understanding of the operations of the organizations they audit, including any organizations that are consolidated in the financial statements being audited. The auditors must also be able to determine whether the information contained in the consolidated financial statements is complete and has been fairly presented.

To meet GAAS, the Auditor General prepares a financial statement audit coverage plan (this annual plan is on our website at www.bcauditor.com/about/audit-coverage-plans). The plan is prepared for review and approval by the Select Standing Committee on the Public Accounts and is designed to ensure the Auditor General maintains sufficient audit coverage related to the audit of the Summary Financial Statements.

Knowledge can be obtained by directly auditing individual organizations or by developing an audit coverage plan that relies on the work of other auditors who have been appointed to audit the individual organizations that will be consolidated.

Our audit coverage plan is developed to ensure that the Auditor General's direct audit coverage is broad enough to allow a sufficient depth of involvement in significant issues in government organizations and across sectors. It also allows the Auditor General to provide, through varying levels of staff involvement with the audits carried out by other auditors, a government-wide perspective on significant accounting issues in government organizations and across sectors.

Although many government entities are audited by private sector auditors, the Auditor General is able to express an opinion on the Summary Financial Statements through his knowledge of, and reliance on, their work.

2008/09 Summary Financial Statement Audit Opinion Reservations

An auditor's role in informing users of departures from Canadian GAAP

An auditor must express a reservation of opinion if the financial statements are affected by a departure from GAAP, or if he or she is unable to obtain sufficient appropriate audit evidence to determine whether there has been a GAAP departure (this is usually referred to as a "scope limitation").

A departure from GAAP may occur when the financial statements are prepared using an inappropriate accounting treatment, when there is an inappropriate valuation of an item in the financial statements, when there is a failure to disclose essential information or information is presented in an inappropriate manner. In any of these cases, the auditor's reporting objective is to inform the reader about a departure from GAAP that materially affects the financial statements. A reservation of opinion is the method of achieving this objective.

In considering whether a reservation is necessary, the auditor considers the materiality of the misstated items individually and in aggregate, in relation to the financial statements as a whole. A reservation would not be made for an immaterial misstatement.

An auditor is required to determine materiality based on his or her perception of the needs of users. However, because it is difficult to predict with certainty who those users will be — or, indeed, even what the specific needs of the known users are — the materiality decision ultimately becomes a matter for the auditor's professional judgement. Materiality is not a fine line where one dollar less is not material or one dollar more is material. Rather, it is an area between what is very likely not material and what is very likely material.

Making that determination of what is and what is not material also involves qualitative as well as quantitative considerations. Disclosing complete and appropriate information — that is, being open and transparent about the balances and transactions in the financial statements — is just as important as ensuring the precision of the numbers. Hence, an auditor may express a reservation on a lack of disclosure, something that will have no impact on the reported surplus or deficit in the financial statements.

2008/09 Summary Financial Statement Audit Opinion Reservations

The auditor works with management with the aim of being able to form an unqualified opinion, and reports to management on the items found that, in the auditor's view, need to be corrected. If material items are not corrected, the auditor expresses a reservation in the audit opinion. For items that are not material but also not corrected, the auditor totals them and if, at the end of the audit, those items are collectively determined to be material, then the auditor asks management to make further adjustments to reduce the total dollar amount of unadjusted items. If management makes no adjustment, that also causes the auditor to express a reservation in the audit opinion.

Audit adjustments and reservations

In our audit of the Summary Financial Statements for the year ending March 31, 2009, we discussed a number of significant issues with government, many of which were resolved satisfactorily.

However, government disagreed with our application of Canadian GAAP and did not adjust a number of other items in the financial statements and notes. The Auditor General therefore expressed three reservations in his audit opinion for departures from Canadian GAAP. The effect of these reservations on the statement of financial position and the results of operations is shown in Exhibit 4. Had the adjustments been made, the surplus for 2008/09 would have been $8 million, not the $78 million reported by government.

2008/09 Summary Financial Statement Audit Opinion Reservations

Exhibit 4

Impact of the Auditor General's audit reservations on the Summary Financial Statements for the year ended March 31, 2009 ($ million)

	As reported	Audit adjustment required	As corrected
Financial assets	$ 31,733	$ (117)	$ 31,616
Liabilities	56,273	215	56,488
(Net liabilities)	(24,540)	(332)	(24,872)
Non-financial assets	31,459	203	31,662
Accumulated surplus	$ 6,919	$ (129)	$ 6,790
Revenue	$ 38,328	$ 605	$ 38,933
Expense	38,250	675	38,925
Surplus for the year	$ 78	$ (70)	$ 8

2008/09 audit opinion reservations

Full consolidation of the Transportation Investment Corporation

The government has consolidated the Transportation Investment Corporation (TI Corp) using the modified equity method — a method that would be appropriate if TI Corp was a government business enterprise. In our opinion, however, TI Corp does not yet qualify as a government business enterprise and so should be fully consolidated.

Had it been fully consolidated, all of its assets, liabilities, revenues and expenditures would have been included in the Summary Financial Statements. Instead, being consolidated using the modified equity method means that only the government's investment in TI Corp, amounts owed to and by TI Corp, and the net loss have been included. The result has been understating cash by $51 million, understating tangible capital assets by $203 million, understating accounts payable and accrued liabilities by $98 million, and overstating equity in self-supported Crown corporations by $142 million. Also, had it been fully consolidated, there would be changes in the notes to the financial statements — that is, contractual obligations totalling $2,327 million would be classified as being for taxpayer-supported Crown corporations instead of for self-supported Crown corporations.

When TI Corp was created, it was given the purpose of doing business related to delivering, managing, operating, tolling or funding transportation projects. Its first project is the Port Mann Highway Improvement, which includes the Port Mann Bridge and improvements to Highway 1.

In forming our opinion, the government provided to us information about the future construction plans and projections of revenue and expense for TI Corp. The projections are based on estimates of future costs and traffic volumes. We have not audited the information.

For a corporation to qualify as a government business enterprise, Canadian GAAP requires the organization to:

(a) be a separate legal entity with the power to contract in its own name and that can sue and be sued;

(b) have been delegated the financial and operational authority to carry on a business;

(c) as its principal activity, sell goods and services to individuals and organizations outside of the government reporting entity; and

(d) in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity.

In our view, TI Corp currently has the characteristics of (a) and (b), but not of (c) and (d).

The service that government will sell to the public is the use of the Port Mann Bridge. However, government projects the bridge will not be ready for use until 2013/14. Therefore the government will not begin the collection of tolls and will not be in compliance with requirement (c) until that date.

The requirement in (d) that TI Corp maintains its operations and meets its liabilities using revenue from sources outside of government in effect means that it must be profitable. These profits can then be used by TI Corp to retire its debt. TI Corp cannot rely on sales to, or subsidies in cash or kind from, other parts of government. According to government's projections TI Corp will not maintain a profitable status for a decade—beginning in 2018/19. Therefore requirement (d) has not yet been met.

Only when TI Corp meets all of the requirements (a) through (d) can it be consolidated into the Summary Financial Statements using the modified equity method.

We have included a reservation in our audit opinion on the Summary Financial Statements for 2008/09 because TI Corp does not yet meet the definition of a government business enterprise. Still, we will review the situation annually as TI Corp may qualify as a government business enterprise in the future.

Provision for deep-well credits, and recording of oil and natural gas producers' royalty credits

Both last year and this year, we asked the government to record a provision for deep-well credits that have been earned but not claimed, and to record the incentives granted to oil and natural gas producers as expenses instead of deducting the incentives from revenues, as required by Canadian GAAP. The government has decided to do neither of these, and so we have included two reservations in our audit opinion.

Deep-well credits are earned by oil and gas producers when they drill a well that qualifies as a deep well. The producers notify government of the depth of the well that has been drilled, and then the government calculates the credit earned as a result and issues a certificate to the producers. Government also keeps its own record of the amount of the credit for each well. When production starts, government calculates a monthly amount of royalty payable on the production from that well and applies the credits earned to reduce the royalty. The remaining credits are carried forward to be applied against future production royalties (payable monthly) from that well. Although the credits can only be used for royalties from the specific well, they are transferable to different owners if ownership of the well changes.

Canadian GAAP requires that liabilities be recorded when they are incurred. In our opinion, a liability exists once the producer has drilled the well, although government will not know about it until a return notifying government of the deep-well drilling has been filed. At that point, government cannot avoid paying the credit (by allowing it to be deducted from the future royalty payments). Although there may be some uncertainty about when government will have to act on the liability, its existence is clear. In fact, the full amount of the $59 million that we considered should have been recorded at March 31, 2008, was claimed by the producers during 2008/09.

The total amount of earned and unclaimed credits at March 31, 2009, was $129 million.

This deep-well credits program is one of a number of incentives that government provides to oil and natural gas producers. Others programs provide credits for road construction and summer drilling, and to induce activity in marginal, ultra-marginal and low-production wells.

These incentives are being deducted from oil and gas royalty revenues in the Summary Financial Statements.

According to Canadian GAAP, financial statements should disclose the gross amounts of revenues, to ensure that the total magnitude is reflected in the financial statements. Such information is necessary for understanding and assessing the financial impact of a government's revenue-raising capability and for enhancing legislative control.

Similarly, financial statements should disclose the gross amounts of expenses so that the total magnitude of a government's consumption or reduction of economic resources in the period is reflected in the financial statements. Such information is helpful in understanding and assessing the cost of government services, programs and, in this case, incentives.

Although Canadian GAAP allows credits to be deducted from taxes, these royalties are in the nature of an exchange transaction rather than a non-exchange transaction (taxes), given that the producers are paying for the extraction of the oil and gas public assets. In our view, therefore, the credits deducted from the royalties should be added back and shown as expenses instead of being deducted from revenues.

The amount of the credits deducted from revenues in 2009 (rather than being shown as expenses) was $599 million — the amount by which revenues for 2008/2009 has been understated.

This $599 million includes $59 million of deep-well credits that should have been expensed in 2007/08, but does not include the $129 million of deep-well credits that should have been expensed in 2008/09. So, the amount by which expenses are understated in 2008/09 is $669 million.

Taken together, the net effect of these two reservations is that liabilities are understated by $129 million, revenues are understated by $599 million, and expenses are understated by $669 million.

2007/08 Audit Opinion Reservations Removed in 2008/2009

2007/08 audit opinion reservations removed

The Auditor General removed five audit reservations from last year's opinion. In one case, we were able to obtain more information from government; a second case involved a transaction that did not occur this year; and in the other three cases, the government agreed with us and corrected the departures from Canadian GAAP that we had noted last year.

Scope limitation on BC Timber Sales program resource roads

In 2007/08, we were not able to satisfactorily audit the estimate of the carrying value of the resource roads constructed under the BC Timber Sales program. Although we tried to obtain the necessary information, government was not able to provide us with adequate audit evidence before the audit reporting date. In 2008/09, the government was able to provide more details and we were able to do sufficient audit work that we could remove our scope limitation.

Failure to recognize a portion of a First Nation settlement

In 2007/08, the government entered into an agreement with the Musqueam First Nation that included the transfer of land formerly held by the Greater Vancouver Regional District (GVRD). This land was valued at approximately $175 million.

The government considered that the transfer occurred between the GVRD and the Musqueam First Nation (despite the GVRD not being a signatory to the agreement) and therefore did not record the transfer of the land in its Summary Financial Statements. We included a reservation in our opinion as a result of this transaction.

Government has not corrected this error; however, no similar transactions took place during 2008/09 so we did not need to include a reservation in our opinion for another year.

Failure to disclose information about lease liabilities

Canadian GAAP requires that liabilities related to leased tangible capital assets be disclosed separately on the statement of financial position, and that other information, such as future minimum lease payments, interest rates, expiry dates, purchase options and renewal terms, be disclosed.

2007/08 Audit Opinion Reservations Removed in 2008/09

Although the government has not met all of these requirements, it agrees that Canadian GAAP does require the additional disclosure and it has made some improvements to what is disclosed. As well, the government has said it will further improve the presentation next year.

Inappropriate classification of highway land

In 2007/08, land used for highways was classified as "highway infrastructure" instead of land. As well, the notes to the Summary Financial Statements said that highway infrastructure had a useful life of between 15 and 40 years, which is not true for the land.

In 2008/09, the government has reclassified the highway land into the "land" classification, and so we removed the reservation from our audit opinion.

Failure to disclose the amount of loan guarantees

In 2007/08, the government disclosed the existence of loan guarantees that were shared 50/50 with the Government of Canada related to negotiation support loans provided to First Nations, but it did not disclose the amount of these loan guarantees as required by Canadian GAAP. The guarantees totalled $343 million.

In 2008/09, the government disclosed the amount of the guarantees, which now total $371 million, and so we removed the reservation from our audit opinion.

Other Issues Related to the 2008/09 Summary Financial Statements

Auditing Issues

Materiality and adjusting misstatements—qualitative considerations

The concept of materiality recognizes that some matters, either individually or in the aggregate, are important if financial statements are to be presented fairly in accordance with generally accepted accounting principles. However, materiality is not a fine line where one dollar less is not material or one dollar more is material. It represents a grey area between what is very likely not material and what is very likely material.

The auditor will ordinarily apply a percentage numerical threshold as an initial step in assessing materiality (for example, half a percent of expenses). Typically, if the misstatements found by the audit are less than materiality, individually or in aggregate, no adjustment would be needed.

However, the auditor cannot rely solely on a quantitative assessment without exercising professional judgement in considering the qualitative factors that might affect the determination of materiality for a particular audit. Misstatements of relatively small amounts may have a material effect on the financial picture presented in the financial statements. For example, small misstatements that:

- change a deficit into a surplus (or vice versa);
- alter a trend, such that something that was increasing over the years now shows a decrease; or
- change a key ratio;

would have a bigger impact than their monetary size.

In 2008/09, for instance, the government's revised forecast for the fiscal year projected total expenses of $38,405 million. At that level, we would usually consider that misstatements of less than $190 million would not be adjusted. However, the government also projected a $50 million surplus for same year. Clearly, a misstatement that would increase expenses by $60 million and turn the surplus into a deficit is material in this context. The same would be true if the total of all misstatements taken together would increase expenses by $60 million.

Other Issues Related to the 2008/09 Summary Financial Statements

As the audit progresses, we advise government of the misstatements that we have found, which allows government the opportunity to correct them. Near the end of the audit, we review all of the unadjusted misstatements to determine whether any is individually material or whether some in combination are material. We request that management adjust any material ones. Otherwise, we may qualify our audit opinion. If the total of the misstatements is material, then we ask management to adjust some of the more significant ones so that the remaining total is not material. If no adjustment is made, again we may qualify our audit opinion.

Accounting Issues

The hierarchy of generally accepted accounting principles (GAAP)

Although government has stated it has a commitment to strong public reporting, this does not mean there will always be agreement between what government reports and the auditors who assess that information.

Financial statement accounting and reporting are not exact sciences. In many cases the accounting and reporting requirements are very clear, but professional judgement may still be required in assessing both the dollar value of a transaction and how best to disclose it. Estimates are often used in accounting, and the amount of disclosure concerning a transaction or account balance can also require professional judgement to determine its significance to financial statement readers.

As discussed on page 13, government is required by legislation to use generally accepted accounting principles (GAAP) when producing the Summary Financial Statements.

We also discussed what defines Canadian GAAP on page 14. Briefly, accounting standards for government are issued by the Public Sector Accounting Board (PSAB), which is part of the Canadian Institute of Chartered Accountants (CICA). If guidance in the PSAB Handbook is absent or not clear, then it is accepted practice to use private sector or not-for-profit guidance prepared by the CICA. Other resources we look to for guidance include those of the International Accounting Standards Board (IASB), International Public Sector Accounting Standards Board (IPSASB) and the U.S. Financial Accounting Standards Board (FASB).

Other Issues Related to the 2008/09 Summary Financial Statements

While it may be convenient to refer to other Canadian jurisdictions to observe how they account for, or disclose, a transaction, it does not mean that the accounting is therefore "generally accepted" and it may not result in the "strong public sector reporting" strived for by the Province of British Columbia.

Regardless of the source used, as auditors we are confident that our suggestions for accounting and reporting are well founded in the hierarchy of Canadian GAAP.

Canadian GAAP will be undergoing some change in the next several years. We refer to those potential changes in the section called "The Future of Accounting and Auditing Standards" on page 73 of the report.

Accounting for First Nations settlement costs

Treaty negotiations between the Province, Canada and First Nations have been ongoing since the BC Treaty Process was established in 1992. Treaty negotiations are a multi-stage process that culminate with the implementation of a treaty that defines the unique rights of First Nations (as protected under the Canadian Constitution) and, effectively, settles outstanding aboriginal land claims.

The final sequence of events leading up to a treaty is as follows:

- The negotiators for the three parties reach a final agreement and initial it.
- The First Nation votes on ratification.
- If the agreement is ratified, then the Province passes legislation to authorize the government to sign the agreement.
- The First Nation, the Province and the federal government sign the agreement.
- The federal government passes legislation.
- The Final Agreement is implemented (for example, Orders-in-Council are passed to bring all the legislation into force) and the treaty comes into effect.

In 2007, negotiators initialled final agreements with the Tsawwassen and Maa-nulth First Nations.

Other Issues Related to the 2008/09 Summary Financial Statements

The Tsawwassen final agreement was ratified by the First Nation in July 2007. The Province passed enabling legislation in November 2007, and it was signed in December 2007. The federal parliament passed enabling legislation in June 2008. The parties had agreed that the treaty would come into effect in April 2009.

The Maa-nulth final agreement was ratified by the First Nation in October 2007. Enabling legislation was passed by the Province in November 2007. In July 2008 the Province and four of the five bands involved signed the agreement. In April 2009, the final band and the federal government signed the agreement and federal legislation was passed in June 2009.

Four other First Nations are currently negotiating final agreements.

At issue is when the Province should recognize its liabilities arising from a treaty.

In last year's report we recommended that government review the accounting for First Nations settlement transactions. They did so, and came to the conclusion that no liability can arise until the federal parliament has passed the legislation, since only the federal parliament has the authority to enact a treaty and the Province cannot be liable for something that does not yet exist.

We disagree with government's conclusion. In our view, the liability arises at the date the province signs the final agreement. Although the federal parliament will not yet have passed the enabling legislation, at that point the province cannot unilaterally decline to fulfill its obligations under the agreement.

We asked the government to give accounting recognition to the Tsawwassen final agreement at March 31, 2008, however it declined to do so. Instead, government recorded the transaction once it had been ratified by all three parties. As a result, the amounts were recorded in June 2008, when the federal government passed the legislation. As both the Province and the First Nations had signed the final agreement, we thought that the amounts should have been recorded. The amounts involved were not material in relation to the Summary Financial Statement totals, however, so we did not qualify our 2008 audit opinion for this omission.

Other Issues Related to the 2008/09 Summary Financial Statements

We also asked the government to give accounting recognition to the Maa-nulth treaty at March 31, 2009. At that point, although not all of the bands had signed, the Province had signed and the likelihood of the final band signing was certain — which it did on April 9, 2009 — and so in our view the treaty should have been given accounting recognition. As with the Tsawwassen final agreement in the previous year, the Province declined. In note 37, the government indicated that their $32 million commitment related to the Maa-nulth agreement will be expensed starting in 2009/10.

We included the differences in our schedule of unadjusted errors, which in total were not material in relation to the Summary Financial Statement totals, so we did not qualify our 2009 audit opinion for this omission.

Recommendation 1

We recommend that the government again review its accounting policy with respect to the settlement of First Nations transactions to ensure the policy is in accordance with Canadian GAAP.

Accounting for inherited Crown land

Accounting for land has been the subject of discussion between this Office and the Office of the Comptroller General for several years. Accounting for land has improved over the years; however, there are still disagreements over the proper recognition and accounting methods to be used when accounting for land.

Government first began to capitalize land — that is, recognize land as an asset — in the mid-1990s. Since that time, government has recorded land that it has purchased or otherwise improved. This includes land under resource roads, highways, buildings, parks and other non-depreciable land parcels. However, land inherited by government is not recognized by government in its financial statements. This is in keeping with Canadian GAAP, which states that lands inherited by the Province of British Columbia (meaning inherited from the former British Columbia Crown colony in 1871) are not given accounting recognition as land assets in the Summary Financial Statements because the costs, benefits and economic value of these inherited Crown lands cannot be reasonably quantified. Government's accounting policy is to capitalize these lands at a nominal value of $1.

From time to time, some of this land may be sold or given away as free Crown grants (for example, for use by municipal governments as parkland or for other services). When government decides to do this, measuring its value becomes possible because the land is being used to meet the needs of government for some form of transaction with a third party. Accordingly, government values the land and recognizes its existence and its disposal in its financial statements.

While we agree with recognizing the land, we disagree with the way in which government is accounting for that recognition—namely, by recording revenue equal to the value of the land. When the land is given away as a grant, the government writes off the land, recording an expense. (If the land is sold, the land is written off as a cost of sale and the sale proceeds are recorded as revenue.) This accounting results in no net impact on the government's statement of operations since the expense recorded when the land is given away is offset by the revenue recorded when the land is recognized. This accounting portrays the government to be in no better or no worse a position after having disposed of the Crown land. However, the effect of the free Crown grant is that the government has given away something of value, and in effect is worse off than it was before the transaction occurred.

Revenues (including gains) are defined by Canadian GAAP as increases in economic resources, either by way of increases of assets or decreases of liabilities, resulting from the operations, transactions and events of the accounting period. The government has not gained an asset by recognizing the Crown land: the land is already owned by the Province because it was inherited through the right of the Crown. Therefore, we do not agree that the recognition of Crown land can result in revenue (a gain) to the Province when there is no net change in government's economic position.

In our opinion, the value of the land should be recognized in the government's financial statements as a credit to the accumulated surplus/(deficit) balance, and not as a credit to revenue.

In recent years, the amount of land used in transactions has not been material, and so we have made no reference to these differences in our audit report.

Recommendation 2
We recommend that when inherited Crown land is valued, the change in value be recorded in accordance with Canadian GAAP as a credit to accumulated surplus/(deficit) and not to revenue.

Other Issues Related to the 2008/09 Summary Financial Statements

Consistent accounting for impaired investments is needed

The impairment of investment values was a topic of discussion in many government organizations during 2008/09. The drop in value of the stock market and the resulting "credit crunch" caused investment losses in many government organizations. While stock values have improved and somewhat stabilized since March 31, 2009, there continues to be some trepidation around the short-term market outlook.

One of the accounting issues we encountered was related to ensuring that investment losses are reported on a consistent basis across government. Investments are held within the Consolidated Revenue Fund and in universities, health authorities and many other government organizations.

Temporary investments are recorded at the lower of cost and market value, and we found no issues related to the valuation of these investments.

Long-term portfolio investments, on the other hand, are carried at cost (book value) in the Summary Financial Statements. Unless the investment market value has declined below cost and the impairment is considered to be other than temporary, then no adjustment should be made to the recorded value. Some judgement is required to determine whether or not the long-term investment value is impaired.

Only a few long-term investments were deemed to be impaired in the Summary Financial Statements. Note 31 disclosed the impairment of $38 million in asset-backed commercial paper (ABCP) in 2008/09. The valuation of these investments has been problematic for some time because they were linked to U.S. subprime mortgages. As well, $2 million held in Lehman Brothers bonds was also written down after that company's bankruptcy. We agree with the write down of both of those investments. A $19 million impairment in the Children's Education Fund was also recorded.

The Children's Education Fund is a pool of investments set aside to fund post-secondary education scholarships for children recently born or adopted in British Columbia. The investments will not be required for about 15 years, when the first eligible children graduate from high school.

Although there were many other investments across government, and the market value was less than book value by almost $200 million (see note 9 of the Summary Financial Statements), only the three investments noted above were written down by government. We believe the write down of the Children's Education Fund was not done on a basis consistent with government's other investments.

Had the government not written down the investments, the investment assets and the net surplus for the year would have been higher by $19 million. This $19 million was included in our schedule of unadjusted errors, which in total were not material in relation to the Summary Financial Statement totals, so we did not qualify our 2009 audit opinion for this omission.

The effects of rate regulation on the Summary Financial Statements

The purpose of rate regulation is twofold:

- to ensure that ratepayers receive safe, reliable and non-discriminatory energy services at fair rates from the utilities; and
- to ensure that shareholders of those utilities are afforded a reasonable opportunity to earn a fair return on their invested capital.

Meeting these two goals is the mission of the British Columbia Utilities Commission, which is the agency in British Columbia responsible for administering the Utilities Commission Act.

Rate regulation can not only determine the prices that a company can charge, but it can also allow a company to defer and amortise over a number of years those costs that would otherwise have been expensed in one year.

Three Crown corporations are regulated by the Utilities Commission: BC Hydro, the BC Transmission Corporation, and the Insurance Corporation of British Columbia (ICBC). All three are included in the Summary Financial Statements using the modified equity method of consolidation. Therefore any rate-regulated accounting policies used by these entities would not be conformed to the accounting policies of general government.

Other Issues Related to the 2008/09 Summary Financial Statements

The net effect of rate regulation in 2008/09 has been to increase the net earnings of self-supported Crown corporations, and thus the surplus recorded in the Summary Financial Statements, by $440 million (and by $139 million in 2007/08). Note 36 of the Summary Financial Statements discloses the effects of rate regulation of BC Hydro, which makes up almost all of this total — an increase in its net earnings by $438 million in 2009 and $142 million in 2008.

The Utilities Commission, although independent of BC Hydro, the BC Transmission Corporation and ICBC, is nonetheless a provincial agency. Its members are appointed by the government through the Lieutenant Governor in Council and the Commission is subject to direction from the Lieutenant Governor in Council. In the coming year we plan to look at whether such direction has had a material impact on the earnings reported in the Summary Financial Statements.

Accounting for financial instruments — differing accounting policies

A financial instrument is defined as a contract that results in one party owning a financial asset and another party having a liability or an equity instrument. In general terms, financial instruments consist of investments held by one party (for example stocks and bonds) and the debt or shares issued by another party.

Many government organizations follow the CICA *Accounting Handbook* as opposed to PSAB. Under PSAB most investment assets are recorded at cost. Under the CICA *Accounting Handbook*, most investments are recorded on the balance sheet at their fair value. Any adjustments to fair value from one year to the next are either recorded directly in the income statement as revenue or expense, or are recorded as an adjustment after net income, called "other comprehensive income."

When government organizations are consolidated in the Summary Financial Statements, adjustments are made to conform their accounting to the policies in the Summary Financial Statements, reversing any unrealized gains or losses that have been recorded in net income or other comprehensive income. The exception is for self-supported Crown corporations, which are consolidated using the modified equity method of accounting.

Other Issues Related to the 2008/09 Summary Financial Statements

Under the modified equity method, the government records only its investment in the self-supported Crown corporation and the corporation's net earnings (or loss) for the year, and no adjustment is made for different accounting policies. However, PSAB requires that any other comprehensive income recorded by the corporation not be included as part of the government's surplus or deficit for the year, but instead be recorded as a change in equity. The government has correctly disclosed the $432 million other comprehensive loss of the modified equity enterprises as a $432 million reduction of equity in note 24 of the Summary Financial Statements.

Accounting for payments for the 2010 Olympic security costs

When the government prepared its budget for the 2010 Olympic and Paralympic Winter Games, the security costs were to be split 50/50 with the federal government. British Columbia's share was estimated at $87.5 million. In our report on the estimates related to Vancouver's bid to host the games, issued in January 2003, and in a second report issued in September 2006 on the cost estimates, we raised a concern that this might not be sufficient in light of inflation and the fact that the plans of the RCMP (who are responsible for security) had not been finalized.

Amidst media reports that the security costs might reach $1 billion, British Columbia renegotiated the security agreement. In January 2009, Canada agreed to assume responsibility for the security costs, in return for which British Columbia agreed to pay the balance of the $87.5 million to Canada by March 31, 2009 (because some payments towards security costs had already been made). British Columbia also agreed to forgo $165 million of infrastructure funding that it would otherwise receive from Canada.

This has been disclosed in note 25(c) of the Summary Financial Statements. The payment of the $63.7 million balance of the $87.5 million was expensed in 2008/09.

While the $165 million was forgone as infrastructure payments from the federal government, it was still, in substance, a payment for Olympic security costs. Accordingly, the government added it to the total commitment disclosed in note 25(c). In our view, this amount should be recorded as an expense at March 31, 2010, since at that point the Olympics will be over and the security costs will have been incurred.

We are waiting to hear from the government as to how it intends to account for this transaction.

Other Issues Related to the 2008/09 Summary Financial Statements

Accounting for carbon neutrality

Recently, government has devoted time and resources to the concept of creating a "green economy" for the province through its Climate Action Plan.

In 2007 government passed the Greenhouse Gas Reduction Targets Act. One of the requirements of that Act is for each public sector organization to become carbon neutral by 2010. Carbon neutrality involves measuring operational greenhouse gas emissions, reducing those where possible, and offsetting the remainder through the purchase of carbon offsets.

Government also created a new Crown corporation in March 2008 called the Pacific Carbon Trust (PCT). The purpose of PCT is to acquire greenhouse gas offsets on behalf of: the Government of British Columbia; all other public sector organizations to which the Greenhouse Gas Reduction Targets Act applies; and any other public agency, company or individual resident in British Columbia who the trust has agreed to serve.

Carbon offsets are a relatively new creation. They are a vehicle for private and public sector organizations to ensure their overall carbon emissions stay within certain pre-determined levels. In effect, this allows organizations to pay for the excess carbon emissions they produce by purchasing what are known as "green" carbon credits, or carbon offsets.

Carbon credits are created by companies through a number of means, including the implementation of sustainable green activities that enhance the environment, and carbon emission reduction activities. Carbon offsets can also be obtained from companies that produce fewer carbon emissions than what they had been allocated. Trading in carbon offsets has begun, creating a new, sophisticated market for these products, along with the inherent gains and losses associated with a free market trading system.

Along with the advent of carbon offset trading, there have arisen a number of other issues. One of these is ensuring that the carbon offsets have been "certified"—that is, that the offsets being traded are independently assured to be of substance, including assurance that the same offsets are not being sold or used more than once. There are also emerging issues concerning how organizations will account for these carbon offsets.

Other Issues Related to the 2008/09 Summary Financial Statements

Pacific Carbon Trust began purchasing carbon offsets in the 2009/10 fiscal year. They plan to charge a fee to other government organizations to ensure that government as a whole is carbon neutral.

The recognition, measurement and valuation of carbon offsets is a new area for public sector accounting. As part of the process of acquiring carbon offsets, government will need to consider the impact of the accounting for these offsets in the financial statements of PCT, each of the organizations required to purchase carbon offsets, and in the Summary Financial Statements as a whole.

Summary Financial Statement disclosure issues

Warehouse debt disclosure

Warehouse debt is a government program that takes advantage of market opportunities to borrow in advance of future requirements. These funds are invested until they are needed by the government or its Crown corporations and agencies.

At March 31, 2009, for the first time in a number of years, there was warehouse debt outstanding at the year-end. It totalled just over $2 billion.

The government states in its accounting policies that debt of the warehouse borrowing program is included with self-supported debt, and the amount is disclosed in note 18. The government maintains that including warehouse debt with self-supported debt is reasonable because, as the funds borrowed are invested, the investment returns fund the interest payable on the debt.

In our view, the warehouse debt would be more appropriately disclosed as taxpayer-supported debt. It is rare that the investment earnings are more than the expense, and so there is a net carrying cost that gets passed on to whichever organization the debt is allocated to. This means the warehouse debt is not completely self-supporting. As well, the warehouse debt is often allocated for use by central government or by government organizations that are not self-supporting.

Recommendation 3

We recommend that the debt of the warehouse borrowing program be included with taxpayer-supported debt and not self-supported debt.

Other Issues Related to the 2008/09 Summary Financial Statements

Complete disclosure of prior year adjustments

When the prior year numbers in the financial statements are changed, as the result of prior year adjustments, Canadian GAAP requires that both the fact and effect of the change be disclosed.

The government believes that it achieves this with the disclosures in note 24 of the Summary Financial Statements. In our view, however, this is insufficient since it only discloses the effect of the change on the prior period equity balance or on the prior year surplus or deficit.

For example, the note discloses that opening equity has been increased by $87 million for recognition of mineral tax revenue on the accrual basis, but nowhere is it disclosed that this also means that receivables for the prior year have been increased by $87 million. Similarly, the note discloses a decrease in the opening equity of $63 million to record an estimation error in the 2005 Long Term Disability actuarial valuation, but what is not apparent is that prepaid program costs were decreased by $39 million and accrued liabilities increased by $34 million.

As well, some of the adjustments made to the prior year numbers have no impact on equity, so there is no disclosure of them in note 24. For example, receivables have increased by $20 million and deferred revenue by $15 million, while investments have decreased by $5 million as a result of the reclassification of deferred land lease revenue.

Recommendation 4

We recommend that, when prior year numbers have been restated, government draw attention to the restated numbers with appropriate referencing and make full disclosure of the changes that have taken place.

Disclosure of contractual obligations

Beginning with the 2005/06 Summary Financial Statements, government has been increasing the disclosure of its contractual obligations. A contractual obligation is a legally binding commitment government enters into, requiring it to make payments in future years. Examples are leases of buildings and equipment, contracts for services such as payroll, and various P3 (public-private partnership) agreements that government has entered into. Under Canadian GAAP, disclosure of significant contractual obligations is required, with details such as a description of the obligation's nature and the extent and timing of the related expenditures.

The disclosure that government provides in the Summary Financial Statements is the total amount of the contractual obligations by sector.

In our view, government could improve its disclosure of contractual obligations in the Summary Financial Statements by providing a comparative amount for the total column and giving additional details of the types of obligations. This would be in keeping with Canadian GAAP objectives for financial statements—namely, that information provided in the financial statements should be useful for evaluating the government's ability to finance its activities and to meet its liabilities and contractual obligations, and for evaluating government's ability to provide future services.

For example, in the schedule of contractual obligations there is a contract for provincial policing that ranges between $262 and $272 million per year between 2010 and 2012. However there is nothing listed beyond 2012. It would be helpful to know whether or not the government intends to continue providing these services and incurring similar expenses into the future.

In previous reports, we have suggested segregating the obligations related to capital expenditures from those for operating expenditures, and adding summary descriptions of the significant components of each line item in the note. Adding these further details would help readers understand the types of obligations government is committed to. As well, separating capital from operating commitments makes it easier for readers to assess the impacts of the two types of commitment in future years.

In 2008/09, government has provided additional details in an unaudited schedule available on its public accounts website (www.fin.gov.bc.ca/ocg/pa/08_09/Contractual_Obligations.pdf). This schedule details each organization that has the obligations and gives a brief description of what the obligation is. We think this would be useful information to include in the Summary Financial Statements.

Recommendation 5

We recommend that government include additional information about the nature of the contractual obligations in the Summary Financial Statements.

Other Issues Related to the 2008/09 Summary Financial Statements

For disclosure purposes, the Province has assessed "significant contractual obligations" to mean those over $50 million. We believe this threshold should be removed or at least reduced when government is gathering contractual obligation information from entities. In some years, for example, individual obligations below $50 million from the 60 school districts are significant when totalled (although in 2008/09, the total was $31 million). In our view, only after all contractual obligation information has been gathered from all entities should an assessment of significance for disclosure be made. Taking this approach would eliminate the risk of sizeable contractual obligations going unreported in the Summary Financial Statements.

Recommendation 6

We recommend that government use a lower cut-off for reporting contractual obligations in the Summary Financial Statements.

Direct method of cash flows

A statement of cash flow reports the effects of a government's activities on its cash resources by showing how a government financed its activities in the accounting period and met its cash requirements.

There are two methods for reporting cash flows — the direct method and the indirect method. With the direct method, the major classes of gross cash receipts and gross cash payments related to operating activities are disclosed. For example, the statement would report cash received from taxes, natural resource revenues, the federal government and others, as well as payments made for salaries, transfers and so on. With the indirect method, cash used in or available from operations would be calculated by adjusting the surplus or deficit for the accounting period for the effects of non-cash items included in the surplus/deficit and for any accruals of past or future operating cash receipts or payments.

Canadian GAAP encourages governments to report cash flows using the direct method because that method provides information that may be useful in estimating future cash flows — information that is not available under the indirect method. However, of the senior governments in Canada, only the Northwest Territories, Nunavut and Yukon use the direct method.

British Columbia contemplated using the direct method for the 2009 financial statements. Because no arrangements had been made to collect the necessary information from ministries and other government organizations (a process expected to take two years to put in place), the government proposed to estimate some of the figures required. It first prepared a 2008 statement of cash flows on the direct method basis, using estimates for some of the figures, and gave this to us to review. While we support the move to the direct method, and have urged government to do this in the past, we decided that the use of estimates was too imprecise and we asked the government to collect the necessary information from ministries and organizations before moving to the direct method.

The result is that the 2009 Summary Financial Statements have a cash flow statement prepared using the indirect method.

Nevertheless, we commend the government for its efforts and continue to encourage government to arrange to collect the necessary information for preparing a cash flow statement using the direct method.

Recommendation 7

We recommend that government present its statement of cash flow using the direct method.

Pension plan accounting and disclosures

We have reported in previous years that government is not in full compliance with the Canadian GAAP disclosure requirements in the Summary Financial Statements for its public sector employee pension plans. Particular items that continue not to be disclosed include: the market value of plan assets at the beginning and end of period, current period benefit cost (current year expense), the components of the retirement benefits interest expense for the year and the amount of benefits paid during the year.

The need for these disclosures will be heightened in the coming year because one or more of the plans could be in an accounting deficit position at year-end. This is not certain as the accounting position will not be known until the results of the latest full actuarial valuations are known. For the current and prior years, the plans were in an accounting surplus position. As provisions in the plans stipulate that government has no formal claim to surpluses, there has been no recognition in the statement of financial position for the net position of the plans. However, recognition will be required if the plans are in a deficit position and, if so, there will be an even greater need to provide full disclosure for users.

Government reporting entity issues

The government reporting entity—what's in and what's out?

One of the first questions governments must answer when creating their consolidated financial statements is: *which entities should be included in the financial statements?*

The composition of the government reporting entity is one of the most important aspects of the Summary Financial Statements. The inadvertent exclusion of an entity from being consolidated could cause the financial statements to be materially misstated. As well, as described on page 16 of this report, government must also determine how an organization is to be consolidated. There are three options: a line-by-line (full) consolidation method as is done for most government organizations; a modified equity method as is done for government business enterprises; and a proportionate line-by-line consolidation method as is done for Canadian Blood Services, the BC government's sole government partnership.

Since 2004/05 British Columbia has consistently consolidated the SUCH sector — schools, universities, colleges and health entities — into the Summary Financial Statements. For several years leading up to 2004/05, the Auditor General had qualified his audit opinion on the Summary Financial Statements because of the exclusion of the SUCH sector from the government reporting entity.

Canadian accounting standards use a number of criteria as described in handbook section PS1300 to determine whether or not the government controls an organization. For example, the criteria to determine if control exists includes whether government has the power to: appoint the governing board of the organization; access assets or give direction as to their use; unilaterally dissolve the organization; appoint key personnel; determine the mission or mandate of the organization; establish policies; and restrict the revenue-generating capacity of the organization.

Other Issues Related to the 2008/09 Summary Financial Statements

In practice, it is not always clear whether or not an entity should be included in the consolidated financial statements. Asking if control exists does not always generate a simple yes or no answer because there are varying degrees of control that can be present. However, in the end, control is a question of fact. To determine whether an organization is included or excluded from the government reporting entity, a conclusion must first be drawn as to whether or not control exists.

Canadian businesses following the CICA Handbook use different criteria to determine whether or not a company should be consolidated into a parent organization. The International Accounting Standards Board and the International Public Sector Accounting Standards Board also use somewhat different criteria for determining which entities should be consolidated.

As auditors, we are mindful of the composition of the Summary Financial Statements. Over the last several years, the British Columbia government has created independently controlled organizations that render services previously provided by government. On a regular basis we consider whether these organizations continue to be independent of government.

One significant example of this—and an entity that has garnered much discussion in the press over the last year—is British Columbia Ferry Services Inc.. Other examples include the BC Investment Management Corporation, BC Pension Corporation, Business Practices and Consumer Protection Authority, BC Safety Authority and the Land Title and Survey Authority. As well, there are entities that have never been part of government, but whose existence now means we must consider whether or not they should be consolidated into the Summary Financial Statements. Examples of such entities include VANOC, the 2010 Olympics organizing committee, and TransLink, the entity responsible for transportation in the Lower Mainland.

In all cases we determined that, for the 2008/09 fiscal year, it was appropriate that the organizations be excluded from the government reporting entity.

We continue to monitor events and issues that may tip the scale toward government having control over these entities and which would therefore result in their needing to be consolidated into government's Summary Financial Statements. In particular, we shall be watching the review of BC Ferries and TransLink that was announced by the government at the end of July 2009.

Other Issues Related to the 2008/09 Summary Financial Statements

Compliance with authorities issues

Auditing for compliance with Acts and regulations

It is the role of Members of the Legislative Assembly to debate and pass new laws in the province. Given this role, we are certain that the MLAs—and the public they speak for—are interested in knowing whether government is in compliance with its own Acts and regulations.

Auditing for compliance with Acts and regulations is not a role that is required of the Auditor General. Although in some provinces the auditors do provide assurance over certain aspects of compliance with the law, this is not a requirement of the Auditor General in British Columbia. Neither is the Auditor General prohibited, however, from auditing for compliance. In fact, section 8 of the Auditor General Act allows the Auditor General to report to the Legislative Assembly any issues he or she feels is appropriate, including compliance with Acts and regulations.

During our financial statement audits, we obtain a representation from management stating whether they are aware of any non-compliance with laws and regulation. Although this does not qualify as an audit per se, the formal representation does give us some comfort that the entity in question is operating in compliance with authorities.

When we do come across instances where we believe management has not been in compliance with relevant laws or regulations, we report this to the appropriate level of management, to the Legislature or to both.

In the section titled "Management letters – a wealth of information" starting on page 57 of this report, we draw attention to eight management letters in 2008/09 that relate to non-compliance with laws and regulations.

In the following section we discuss the authority for government borrowing.

Authority to borrow

The Province borrows money under the authority of the Financial Administration Act, through an Order-in-Council signed by the Lieutenant Governor of British Columbia.

Other Issues Related to the 2008/09 Summary Financial Statements

Under the Act, the government may borrow money for the efficient management of the Consolidated Revenue Fund. This may include investing money for the benefit of the government, repaying any securities that become repayable, or making a lawfully authorized disbursement from the Consolidated Revenue Fund. The government may also borrow money for the purpose of lending money to government bodies.

In practice, government generally issues one or two Orders-in-Council per year. Ministry of Finance staff estimate the amount of borrowing required over the next period, and a maximum amount of borrowing is recorded on the Order-in-Council. Some Orders-in-Council allow debt to be issued one time; others allow a certain amount of revolving debt to be outstanding at any one time.

During our audit, we asked Ministry of Finance staff whether they maintain a record of the current amount the ministry is authorized to borrow on behalf of government. While our audit confirmed that all recent debt issued had been authorized, it was apparent to us that ministry staff do not keep a record of all outstanding authorizations under which they may borrow.

Ministry staff appear to have the authority, through the ongoing issuance of Orders-in-Council, to borrow in excess of what government currently requires, or expects, to be borrowed. Thus, if ministry staff do not keep track of the amount of allowable borrowing, debt could be issued in an amount greater than what is expected by government and the Lieutenant Governor. There also seems to be no mechanism for the government, through the Lieutenant Governor in Council, to rescind any authority to borrow.

In our view there is a gap in accountability between government, the Legislature, and the ministry staff authorized to borrow on behalf of government. The costs of borrowing are examined and voted on during the annual Estimates debate, but the amount of borrowing is not. As well, although the vote for "management of the public funds and debt" is included in the Estimates debate, the Financial Administration Act provides a statutory authorization for the government to make payment from the consolidated revenue fund, regardless of the voted amount, for debt requirements.

While we believe it is appropriate to have statutory authority to make payments related to debt, there does not appear to be adequate accountability over the amounts that ministry staff have authority to borrow.

Recommendation 8

We recommend that ministry staff keep an ongoing record of the amounts they are authorized to borrow. Government should consider providing a mechanism for legislative debate over the amount it intends to borrow, and implementing a mechanism to rescind previous, unused, authorities to borrow.

Financial management issues

Accelerated capital spending

Government's three-year budget and fiscal plan published in February 2009 showed it was planning to accelerate about $2 billion in planned capital investments over the next three years. Some of these funds are from cost-sharing arrangements for spending from the federal government on acceleration programs under its Economic Action Plan. The Province also indicated that it planned to accelerate an additional $401 million in capital investments from within its existing plan starting at the end of October 2008.

The main reasons given for setting these accelerated spending initiatives as new priorities were to keep citizens working and provide some stimulus to the economy.

We informed government that, while we share its concerns about these difficult economic times, a "fast-tracking" response should not be at the expense of due process, value-for-money for taxpayers, and accountability through reporting of the results. Accelerating projects can introduce risks that put timelines ahead of other important considerations such as cost and quality.

Our expectation is that all of the expenditures related to these initiatives will comply with required legislation, procurement processes, and accountability frameworks, and that appropriate support will be given for the decisions, outlining the objectives, risks and analysis of costs and benefits.

We plan to carry out additional audit work over the next three years to ensure that government's existing procurement and financial management processes related to these initiatives have been appropriately followed.

Other Issues Related to the 2008/09 Summary Financial Statements

Working capital management

In many ways, government needs to be run like a business to remain viable. Funds come in from many sources in the tens of billions of dollars each year, and are paid out in roughly the same amount, to provide many different services and goods.

Government, just like any business large or small, needs to manage its cash balances effectively, ensuring there is sufficient cash available to meet day-to-day needs. Surplus cash needs to be put to use appropriately until needed, such as in debt repayment or short-term investment holdings.

Two of the key flows affecting cash balances are amounts due to government (accounts receivable) and amounts government owes (accounts payable). Ensuring accounts receivable are collected in a timely manner will help government to maintain strong cash balances. Effective management of cash, accounts receivable and accounts payable — collectively referred to as working capital — are key to ensuring government can keep running smoothly.

Government must also provide funds to cover long-term capital investments and operating deficits when they occur, in which case it issues short- or long-term debt. How well cash balances are managed can have a significant influence on borrowing requirements and the costs of servicing debt.

The Summary Financial Statements provide some of the main figures readers need to assess how well government is managing its working capital. Key ratios and trends can be developed to assess government's performance overall, and whether its position is improving or deteriorating. The section at the front of the Public Accounts, titled "Financial Statement Discussion and Analysis Report", includes some of this information.

At March 31, 2009, the government had over $7 billion of cash and temporary and warehouse program investments. Is $7 billion in cash and short term investments an appropriate amount to hold? For each $1 billion in debt, government paid approximately $54 million in interest costs in 2008/09. If $3 billion or $4 billion was a more appropriate amount of cash on hand, government's interest costs would be less by $150 to $200 million.

Other Issues Related to the 2008/09 Summary Financial Statements

While government may have earned some investment income on these cash balances, the revenues are not likely to cover the additional interest expenses incurred.

School districts are an example of one area that government should examine more closely. While school districts have been known to desire more funding for operations, in total they held $1 billion in cash and investments at March 31, 2009—an average of more than $16 million in each of the 60 school districts. It may be that one of the undesired consequences of government's balanced budget legislation is that government is pushing funds out to the school districts that they are not permitted to utilise—only accumulate.

Government's working capital management is an issue we will be reviewing in the coming months.

Comparing budget information to the Summary Financial Statements

Canadian GAAP requires that government provide a comparison of its budgeted revenues and expenses to the actual figures in its annual financial statements. Government does this at the highest level, in its consolidated Summary Financial Statements. However, the composition of government's annual Budget and Estimates does not allow for many comparisons of the budget-to-actual figures at a more detailed level. Government should provide this information in order for the public to be able to properly assess its performance.

Government, in its Consolidated Revenue Fund Extracts and its CRF Supplementary Schedules documents, does provide information to compare the ministry and voted appropriations to their actual expenses. However, there is no information that compares the budget-to-actual figures of the individual organizations and the sectors that make up the Summary Financial Statements. Therefore, we are unable to determine how the organizations and sectors performed against budget.

The Summary Financial Statements are a consolidation of 19 ministries and 147 separate government entities. Each organization should have a budget to properly guide its operations for the year, and which would therefore provide a basis of comparison between its budget and the actual financial statement figures. Most organizations do not, because they report under the CICA *Accounting Handbook* rather than PSAB, and the

CICA *Accounting Handbook* does not require that a budget-to-actual comparison be presented.

Within the Summary Financial Statements, the 166 ministries and organizations are grouped into nine sectors, including health, education, social services and transportation. We think that when government prepares its annual Budget and Estimates, it should have at its disposal the necessary budget information to compile and report the information in a more detailed manner. At present, government does not report the budget in a way that allows a comparison of sector budgets to actual figures. Rather, government provides detailed information on the ministries and other voted appropriations, but only summarized information of the 147 government entities and summarized expenses by sector and function.

The Budget and Estimates are very important documents in the chain of accountability of government to the public. These documents should provide information that will allow the public to see how government plans to obtain its revenues and incur expenses. Much of the activity of government occurs outside of the voted appropriations, in schools and hospitals, and the detailed revenue and expense budgets for much of government are not reflected in the information currently provided by government.

Recommendation 9

We recommend that government improve its Budget and Estimates documents to include full, line-by-line budget information for each of the sectors reported in the Summary Financial Statements, and to include the budget-to-actual information in the Summary Financial Statements.

We also recommend that government provide budget information in the financial statements of organizations that make up the Summary Financial Statements.

Ministry financial statements

Although all government organizations in British Columbia prepare separate financial statements, individual government ministries in British Columbia do not, as is the practice in most other provinces (the exception is Alberta).

In our view, separate financial statements for individual ministries would improve the government's accountability. Prepared on a consolidated basis, including the organizations each ministry is responsible for, these financial statements would give a more complete picture of the sector and thus allow a better understanding of the performance and financial management in the sector. In turn, this would enhance the validity of the performance measures currently included in the ministry service plan reports.

Recommendation 10

We recommend that government require individual ministries to prepare consolidated financial statements that include the financial results of the organizations they are responsible for.

Management letters — a wealth of information

Management letters

From August 2008 to July 2009, staff and contractors from our Office and from many private sector accounting firms audited the financial statements of all government entities that are included in the government reporting entity. 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. Findings related to the risks identified are then brought to management's attention with recommendations in a document referred to as a management letter. (It is a CICA standard that significant findings be communicated to management by the auditor.)

It is management's responsibility to weigh the costs of implementing recommended control improvements against the benefits that will be achieved, and to implement those recommendations it considers beneficial. The findings presented in management letters are significant and our Office believes that the letters should be considered by management as soon as possible.

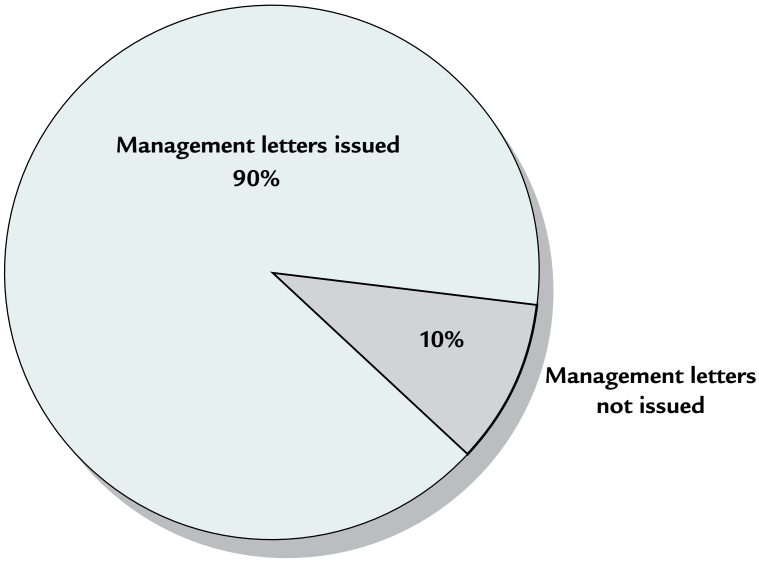
Our Office expects management letters to be issued each year to all government organizations in the government reporting entity (166 entities)[2], plus the Office of the Comptroller General. Therefore, the total number of management letters expected to be issued for 2008/09 is 167. At the time we were writing this report in July 2009, 90% (151) had been issued (Exhibit 5).

2 The government reporting entity consists of 147 government entities (see Exhibit 1), plus 19 ministries.

Management letters — a wealth of information

Exhibit 5

Management letters issued during 2008/09



	2007/08	2008/09
Total number of management letters issued:	142	151
Total number of management letters not issued at the time of this report:	19	16
Total number of government organization management letters expected:	161	167

Informing management about items identified during the financial statement audit is a by-product of the audit work. It is not part of the process of obtaining sufficient, appropriate audit evidence to support the content of the auditor's report on the financial statements. Consequently, management letters do not have to be released with the auditor's report on the financial statements. It is a generally accepted practice for the auditor to present the management letter findings to the audit committee, with management present. It is also common for management to provide a written response to the management letter points. Therefore, the audit committee has an opportunity to understand the issue from the perspective of both the auditors and management, and is informed of the actions management will take as a result of the management letter. Delays in issuing a management letter could result from an audit committee not meeting during the summer or from an auditor needing to follow up on an issue that does not impact the release of the financial statements. This might explain why not all management letters of government reporting entities had been released in time for us to review them for this report.

Management letter issues raised in 2008/09

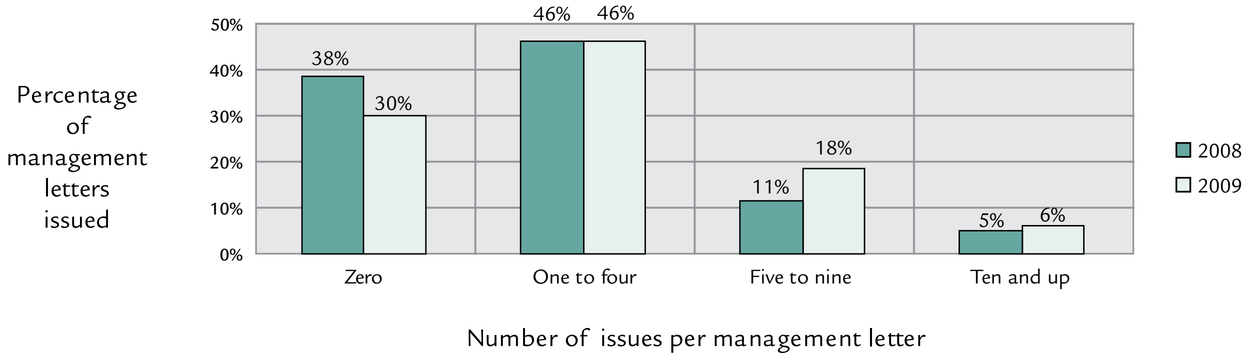
The 151 management letters issued to date for the 2008/09 fiscal year include a total of 463 issues and recommendations. Of the 463 issues, 359 pertain to new control concerns identified in the current year's audit. The remaining 104 issues pertain to items identified in the prior year's audit that were not addressed (or were only partially addressed) by management during the current fiscal year. It is troubling to us that management has not yet resolved so many issues brought forward by their auditors.

These management letter issues focus mainly on improving the areas of governance and accountability, financial management and disclosure, and information technology. We found that 115 (76%) of the 151 management letters issued contain fewer than five issues, including 46 (30%) letters that reported no issues at all. Of the remaining 36 (24%) letters, nine had 10 or more issues — and one had more than 25 (see Exhibit 6).

Management letters — a wealth of information

Exhibit 6

Number of issues in each management letter, 2007/08 and 2008/2009



	2007/08	2008/09
Government entities with:		
No management letter issues:	54	46
1 to 4 management letter issues:	65	69
5 to 9 management letter issues:	16	27
10 or more management letter issues:	7	9
Total number of management letters issued:	142	151

This is the second year we have compiled management letter information for this report. In last year's report we disclosed the 13 areas of control concern that arose most often in government entities' management letters. In reviewing and preparing this year's report, we note that several of last year's control concerns recur as themes in this year's management letters. For those areas that do not appear as a recurring theme, one can conclude that management has adequately addressed the issues and that the theme is no longer prevalent.

Exhibit 7 provides a list of the control concerns we identified last year, by area, with an indication of whether or not they were found to be a recurring concern in this year's management letters. These themes identify the most common control concerns noted in government entities' management letters.

Exhibit 7

Prior year management letter themes, by area, and their continuance in 2008/09

Area	2007/08 Management Letter Themes	Continuing Concern in 2008/09?
Governance and Accountability	Governance practices	√
	Assurance for use of service providers	×
Financial Management and Disclosure	Documentation and communication of contracts	√
	Understanding of management authorization levels	√
	Documentation for disaster recovery plans	√
	Use of cash basis of accounting	×
	Account reconciliations	√
	Asset management procedures and the accuracy of financial data	√
	Review of reports	√
	Segregation of duties	√
	Capital asset policies	×
Information Technology	System documentation and controls	√
	System security	√

Source: Office of the Auditor General of BC.

While three of the management letter themes have been removed for 2008/09, we also found three additional areas where control concerns were reported this year. New themes occurring in this report include:

- non-compliance with laws and regulations;
- inconsistent or inappropriate application of accounting policies; and
- inadequate compilation and retention of financial records.

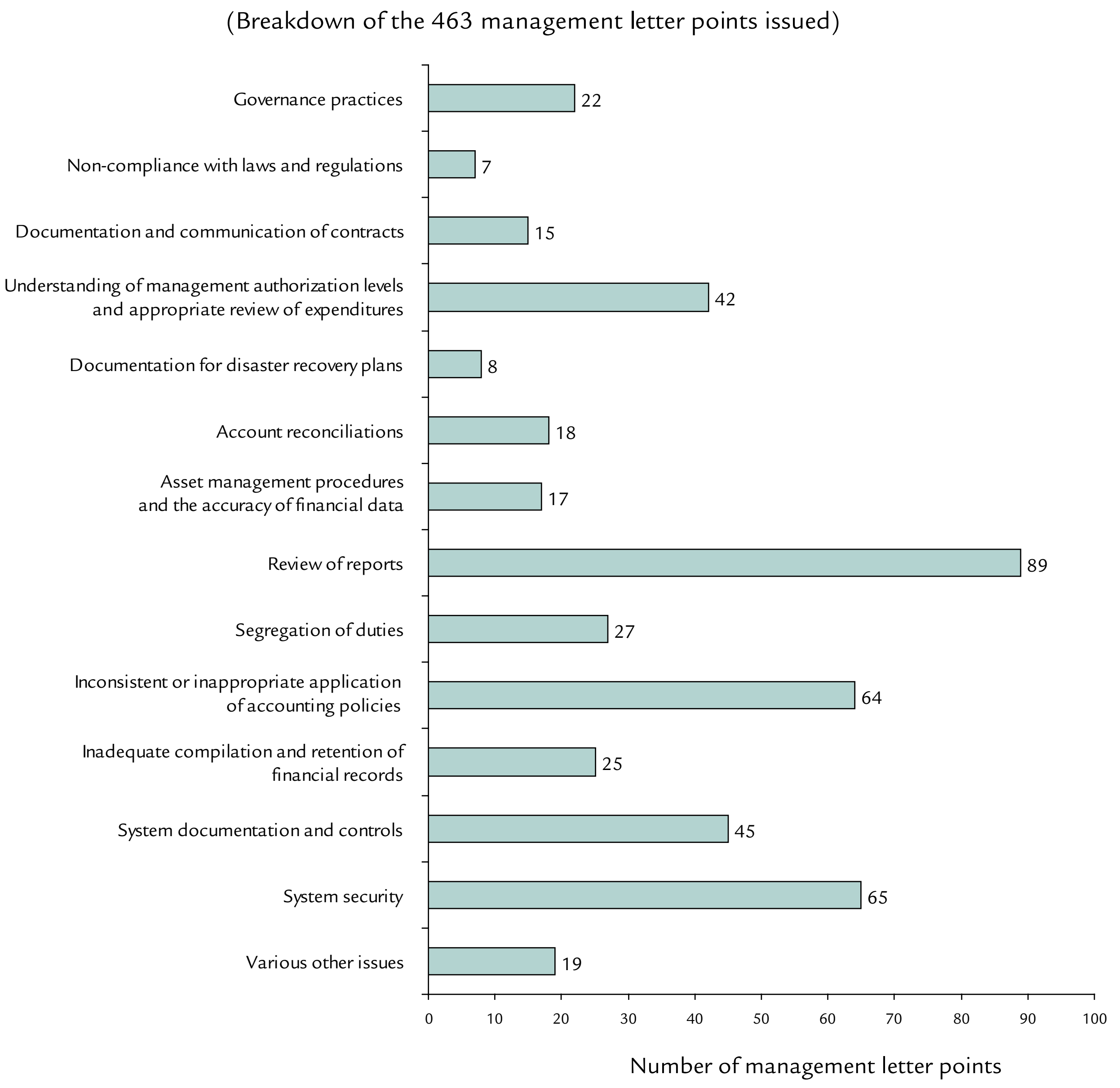
Management letter concerns over the first item—non-compliance with laws and regulations—have been included under the "governance and accountability" area. The second and third new themes are included under the "financial management and disclosure" area. Although it may do so, the audit process is not intended to disclose issues outside the financial statement process. Therefore, each organization needs to be vigilant in conducting its own review of possible issues such as those related to our report areas of financial management and disclosure, governance and accountability, and information technology. To help organizations identify potential risk areas, we summarize in the following sections the 463 management letter findings from the audits, highlighting those concerns that arose most often and have the greatest potential risk and impact. All government entities should examine these findings with a focus on improving their own controls.

Exhibit 8 shows the number of times each theme was encountered in the management letters.

Management letters—a wealth of information

Exhibit 8

Frequency of management letter themes, 2008/09



Source: Office of the Auditor General of BC.

Control concerns raised in management letters in 2008/09

The themes that were prevalent in government management letters during 2008/09 include:

Governance and accountability findings in 2008/09

Governance practices

Governance refers to the structures and processes by which organizations are directed, controlled and held to account. These are supported by guiding core principles of accountability, leadership, integrity, stewardship and transparency. Strong governance practices provide clear and ethical direction, anticipates risk, communicates effectively, and gives and receives feedback on performance. Weak governance is at the heart of many public sector failures and may lead to the loss of public trust.

There are several issues that are limiting the ability of some government entities to govern effectively. These include: policies that are not being reinforced or are missing; incomplete oversight of internal audit functions; unclear roles and responsibilities; lack of IT oversight; and, in two cases, an absence of a functioning board of directors. Five of the 22 weaknesses reported in 2008/09 were unresolved issues carried forward from prior year management letters.

To operate effectively and efficiently, government entities need to have an independent functioning board of directors (or equivalent) to implement correct and complete policies, procedures and controls and to ensure that the entity adheres to them. Clearly defined roles and responsibilities must also exist and be understood.

Non-compliance with laws and regulations

Organizations are subject to varying laws and regulations that are required to be adhered to through appropriate governance. If an organization fails to follow these laws and regulations, it could be subject to legal ramifications (such as fines or penalties), loss of public trust or, in a worst case scenario, a ceasing of operations of the entity because of non-compliance. It is the responsibility of an organization's governance board (or equivalent) to ensure that applicable laws and regulations are adhered to.

In 2008/09, the government entity management letters revealed seven control concerns. Some organizations were observed to be operating outside their particular charter or were not following Acts they are subject to. Other organizations had not taken the necessary steps to ensure that they are in compliance with Canada Revenue Agency's tax laws.

Non-compliance with laws and regulations is a serious issue. A government entity's board of directors (or equivalent) need to address these issues immediately and ensure controls are put in place to monitor compliance with laws and regulations on an ongoing basis.

Financial management and disclosure findings in 2008/09

Documentation and communication of contracts

A government entity establishes contracts with outside parties in order to provide or receive specific services related to its day-to-day business activities. In the absence of complete and specific contract documentation, discrepancies can arise in the interpretation of terms within the agreement. These discrepancies can hinder business relationships, cause inefficiencies in the overall business operations of government and lead to legal disputes.

In 2008/09, a number of issues were identified related to inadequate contract documentation and communication within many government entities. These issues included the absence of formal finalized contracts, lack of review of significant contracts to ensure accuracy and adherence to terms, and outdated, unclear and incomplete contract documentation. In addition to contracts executed with outside parties, internal contracts with employees were found in a few entities to be incomplete, unclear or missing altogether. Six of the 15 weaknesses reported were unresolved issues carried forward from prior year management letters. Government entities should ensure that adequate documentation and controls are in place when a contractual relationship exists between an entity and outside parties.

Understanding of management authorization levels and appropriate review of expenditures

Government entities implement policies and procedures to ensure that adequate control exists over the purchasing of goods and services. If proper authorization for expenditures is not followed within an organization, unauthorized purchasing and overspending — and possibly even fraud — may occur.

In 2008/09, deficient policies and procedures relating to the authorization of expenditures were found in a number of government entities. In some cases, expenditure authorization levels were not being adhered to, updated signing authority levels were not being followed, and payments were being made without appropriate authorization levels (that is, without dual signatures). Other management letters pointed out the absence of policies that would assist in eliminating unauthorized expenditures. In many cases, a lack of secondary review of expenditures and journal entries was noted, an oversight that could result in erroneous or unauthorized expenses being recorded on the financial statements. Five of the 42 weaknesses reported were unresolved issues carried forward from prior year management letters.

Government entities need to review their signing authority matrices and ensure they are applied consistently. Adequate review of expenditures is a control that helps eliminate unauthorized purchases and payments, and it should be implemented and continuously reviewed by all entities.

Documentation for disaster recovery plans

In the event of a major failure, emergency or disaster occurring in any government entity, appropriate procedures and documentation should be in place to minimize the loss of data and the disruption to public services. A disaster recovery plan assesses the risks of such an event and the effects it may have on the entity, and enables the entity to plan for and structure its current resources to minimize the potential interruption to government services or loss of data. This formal document should be reviewed on a regular basis and updated whenever a significant change to the business or operating system takes place.

In 2008/09, it was noted that eight government entities did not have disaster recovery plans in place. This control concern was most prevalent within the school district sector and was reported in multiple school district management letters. One of the eight weaknesses reported was an unresolved issue carried forward from prior year management letters.

Government entities need to be proactive in performing risk assessments with respect to business continuity and disaster recovery planning. Key processes, systems and required recovery times should be identified and used to drive the development of comprehensive disaster recovery plans.

Account reconciliations

Account reconciliations are a strong financial and operational control. An organization performs account reconciliations to ensure its transaction recording is complete and accurate, and to establish a control against potential fraud. The absence of adequate reconciliation procedures leaves an entity vulnerable to errors in financial accounts, which can lead to improper representation (and understanding) of past operating performance, erroneous future budgeting, and potential fraud opportunities.

In 2008/09, several entities across government were found to have reconciliation procedures that were either inadequate or non-existent. The inadequate account reconciliations identified during the year included deficiencies in: the structure of reconciliations; follow-up procedures for identified reconciling items (this was mostly prevalent in bank account reconciliations); and the periodic timeframe in which reconciliations were being performed. Three of the 18 weaknesses reported were unresolved issues carried forward from prior year management letters.

Government entities should ensure that account reconciliations are in place for key operational and financial accounts. The reconciliations need to be adequately structured, performed on a regular basis, and reviewed by management.

Asset management procedures and the accuracy of financial data

Strong asset management procedures help maintain an organization's level of proficiency in using its assets to meet its operational needs. An organization's operational assets include inventory and capital assets. Strong control over these assets requires strict policies and procedures over ordering, warehousing, safeguarding and financial measurement for reporting purposes.

In 2008/09, the 17 identified control concerns present in this area included several new control issues identified this fiscal year, along with seven control concerns identified in the past year that had not been addressed by management. Several of these control concerns surrounded inadequate control procedures over bookstore inventory at multiple educational institutions. A number of health organizations also had noted control deficiencies over their inventory count procedures. As well, two capital asset control concerns were noted, relating to the lack of procedures or systems established to track and manage capital assets.

Government entities need to ensure that adequate policies and procedures are in place to effectively manage their organizational assets. Strong asset management procedures facilitate efficient use and safeguarding of organizational assets and support accurate and complete financial reporting for these assets.

Review of reports

Internal reports (such as control or exception reports) are generated to inform staff and management of unusual activities and to mitigate operational risks. Government has a large reporting infrastructure in place to ensure operations are efficient and effective. If problems exist within this infrastructure, the potential for inefficiencies, errors and fraud increases. Strong policies and procedures over internal reports include review and sign-off by the appropriate personnel.

In 2008/09, there were a significant number of instances (89) across government where inadequate or incomplete policies and procedures over the review of reports (including event logs, transaction reports, expenditure reports, financial records, payroll reports and timesheets) were found. The most common themes were the lack of management review over internal reports and the deficient design of the internal report or the procedures surrounding it. There were 27 control concerns in this area from the past year that had not been addressed by management.

Government entities need to ensure that correct and timely report review practices are undertaken, and that report findings and recommendations are acted on in a timely manner.

Segregation of duties

Government entity operations are based on a great number of operational sequences. Given the large number of operational activities that are completed regularly, many operational controls are put in place to reduce the risk of fraud or error. A key operational control is the segregation of duties, which is accomplished by having critical functions (such as initiation, authorization, recording, reporting and custody of assets) performed independently of one another.

In 2008/09, there were 27 instances where insufficient segregation of duties was identified. Four of the weaknesses reported were unresolved issues carried forward from prior year management letters. Duties not segregated included financial, payroll, purchasing, and system development and maintenance processes.

Government entities should adopt appropriate segregation of duties policies, where applicable, to reduce the risk of fraud and error.

Inconsistent or inappropriate application of accounting policies

Government entities are required to follow a set of policies that dictate how information is presented and accounted for in their individual set of financial statements and for the consolidated financial statements of the government reporting entity as a whole. Accounting policies are set by each individual organization, but must adhere to Canadian generally accepted accounting principles (GAAP). This is the framework for the financial reporting process in Canada.

In the 2008/09 audit of government entities, 64 issues were noted in the management letters relating to inconsistent or inappropriate application of accounting policies. The most common issues were related to capitalization of expenditures (reliance on dollar value thresholds to determine capitalization or expenditure without considering future benefit), amortization of fixed assets (inaccurate calculation of first-year amortization), and revenue and expense recognition (performance criteria not met). Twelve of the 64 weaknesses reported were unresolved issues carried forward from prior year management letters.

The application of consistent and appropriate accounting policies helps guide an organization in its financial reporting process and ensures that the entity is adhering to GAAP. All recommendations made relating to deficient accounting policies need to be understood and addressed by the entities in a timely manner to ensure that financial information is complete and accurately reported in the Public Accounts.

Inadequate compilation and retention of financial records

Various policies and procedures are implemented within organizations to ensure that financial records are complete and properly retained to create an audit trail of operations. The compilation and retention of these records is an important control that provides evidence to verify the effective day-to-day operations of the entity.

In 2008/09, some organizations were not adequately preparing or documenting their financial transactions to address the additions and disposals of fixed assets. Fixed-asset continuity schedules are important financial records that ensure the accurate tracking of the use of capital assets. Some organizations were also found not to be preparing or retaining adequate personnel files to accurately track changes in vacation balances, pay changes or updates to required Canada Revenue Agency forms (such as TD1 forms). Other organizations did not have secured or organized financial records, which led to problems locating and producing financial records requested by the auditors.

The 25 management letter recommendations made to management were aimed at strengthening each organization's policies and procedures for these financial records, to ensure that accurate information is retained within the organization at all times. Four of the 25 recommendations were unresolved issues carried forward from prior year management letters.

Information technology (IT) findings in 2008/09

System documentation and controls

Government entities rely heavily on information technology systems to deliver services and manage financial information. Well-developed and well-designed systems are able to control data entry and data manipulations through error checking, controls and security. In addition, a strong information technology system should also be supported by clear and robust system documentation and user guides.

In 2008/09, there were 45 identified control concerns over information system documentation and controls across all government organizations. Eight of the weaknesses reported were unresolved issues carried forward from prior year management letters. Some of the more common control concerns identified:

- inadequate system design and control procedures, including lack of adequate system change controls;
- lack of adequate system documentation to support the understanding and use of the system by its users;
- lack of system controls to prevent duplicate transactions being processed; and
- lack of review of system event logs or exception reports which assist in identifying potential operational or financial issues.

To reduce operational and financial reporting risk, government entities need to maintain complete system documentation and ensure that adequate system controls are properly designed, implemented and adhered to.

System security

Government entities continue to invest heavily in information technology to assist in streamlining their operations. These IT systems and services require that the information processed be correct, which in turn requires that the data and the overall systems be secure. Without complete security, an increased risk of incorrect or fraudulent transactions exists.

In 2008/09, a total of 65 management letter issues were related to system security. In many entities, inadequate passwords were found (for example, lacking periodic changes and minimum length requirements). A lack of password complexity and expiration terms provides an opportunity for unauthorized access to the IT system. A large number of instances were also found of internal user access rights being inappropriate. Many entities do not have a periodic review process in place to check if employee access rights to areas of the IT system have been appropriately authorized or are warranted for the job function of individual users.

Inadequate controls over physical access to computers and the safeguarding of file server rooms were also found.

Eighteen of the 65 management letter recommendations made in the prior year have not been fully implemented and remained as an outstanding issue in the current year.

Government entities should follow and enforce proper and complete information technology security policies and procedures. Data contained within an organization needs to be secure from unauthorized access attempts. Management needs to continuously monitor access to IT systems from outside parties as well as regularly review access rights of all employees to ensure information is not manipulated, lost or stolen.

The Future of Accounting and Auditing Standards

Changing Accounting Standards

The Public Sector Accounting Board (PSAB) establishes generally accepted accounting principles (GAAP) for governments and government organizations. Governments are required to follow the PSAB *Accounting Handbook* for preparing their Summary Financial Statements. However, it is not clear at this time which financial reporting standards will be followed by government organizations in the future. PSAB is currently consulting with the accounting community on this matter through a series of consultation papers, known as exposure drafts, released earlier this year.

There are three different classes of government organizations in the public sector:

- government business enterprises (e.g., British Columbia Hydro and Power Authority and BC Lottery Corporation);
- government not-for-profit organizations (e.g., universities and health entities); and
- other government organizations (e.g., BC Assessment Authority and BC Pavilion Corporation).

All government business enterprises will be required to follow International Financial Reporting Standards (IFRS) when those standards become effective beginning January 1, 2011. However, it is not yet clear as to whether government not-for-profit organizations and other government organizations will be required to follow the PSAB Handbook or have an option to follow IFRS. This will be resolved in the coming year as PSAB completes its consultations.

Two other significant consultations are currently being done by PSAB with respect to accounting standards. One concerns the accounting for tax revenues, and the other the accounting for transfers given and received by government. A discussion of these two issues follows.

Tax Revenues

In March 2009, PSAB issued a re-exposure draft of a standard for accounting for tax revenues. Comments were requested by June 30, 2009, and PSAB plans to approve a final standard in September 2009. The intention is for a new standard to be applicable to fiscal years beginning on or after January 1, 2012, although early adoption is encouraged.

If the new standard follows the current exposure draft, one part of the new standard could affect how government accounts for certain expenditures. The standard would recognize two types of "expenditures" that are related to taxes:

- *Tax concessions*—These are preferential provisions of the tax law that are available only to taxpayers. They can include exemptions, deductions, deferrals and credits that affect the level and distribution of tax, and may include special tax rates. Tax concessions provide tax relief of taxes previously paid or currently owing and are seen as "forgone revenue."
- *Transfers made through a tax system*—These are financial benefits, provided or determined through a tax system, that are made for a purpose other than the relieving of taxes previously paid or currently owing.

In British Columbia, tax concessions would include the Film and Television Tax Credit program, which provides refundable tax credits to eligible corporations that produce eligible film or video productions in British Columbia. Transfers through the tax system would include the BC Family Bonus program, which provides non-taxable monthly payments to help low- and modest-income families with the cost of raising children under age 18.

The distinction between the two expenditure types is important because the exposure draft proposes that tax revenue should be recorded net of the tax concessions, but transfers made through the tax system should be shown separately as expenses. Currently, tax revenue is recorded net of both tax concessions and transfers through the tax system, except for a part of the BC Family Bonus expense, which is recorded as an expense. (The expense represents the estimate of the amount of the BC Family Bonus that is paid to those who do not pay income taxes.)

Most likely, the whole of the BC Family Bonus would qualify as a transfer made through the tax system and would need to be recorded as an expense. Other tax credits may need to be recorded as expenses as well. In 2008/09, the approximate total of the BC Family Bonus was $25 million.

Any tax credits recorded as expenses would need to be included in a voted appropriation.

Depending on the content of the final standard issued by PSAB, the government of British Columbia may need to amend how it accounts for certain tax revenues.

The Future of Accounting and Auditing Standards

Government transfers

In April 2009, PSAB issued a re-exposure draft of a standard for accounting for government transfers. Comments are requested by September 15, 2009. PSAB's intention is for the new standard to be applicable to transfers recognized on or after April 1, 2011, although early adoption is encouraged.

Government transfers are transfers of monetary assets or tangible capital assets from a government to an individual, organization or another government, for which the transferring government expects nothing in return.

Accounting for government transfers has been one of the most controversial projects undertaken by PSAB. The current accounting standard dates back to 1990. Since 2002, PSAB has issued a number of exposure drafts and re-exposure drafts aimed at reaching a consensus among users as to what the accounting rules for government transfers should be. It remains to be seen whether the current re-exposure draft will become the final standard or further changes will be necessary.

Some of the accounting issues that need to be resolved include:

- At what point may a transferring government record an expense? When authorization for a transfer requires a change in legislation, can the legislation be passed in the period after year-end but before the financial statements are issued? According to the re-exposure draft, a transferring government generally records an expense when the transfer is authorized and recipients have met any criteria for the receipt of the funds. The re-exposure draft says it is acceptable to pass the required legislation after year-end as long as government is demonstrably committed to the transfer at year-end.
- At what point should the recipient record the transfer as revenue? This question often becomes controversial when multi-year funding is provided by governments. There are differences in accounting for transfers noted in the exposure draft depending on whether the transfer received is for operating purposes or capital purposes, or whether the transfer is a tangible capital asset. Generally, the re-exposure draft says operating transfers are recorded as revenue unless a liability is created for the recipient, in which case the transfer is recorded as deferred revenue. Transfers for capital purposes and transfers

of tangible capital assets are initially recorded as a deferred capital contribution, and are recognized as revenue at the same rate as the amortization of the related capital asset.

The Province of British Columbia currently receives transfers from the federal government. These transfers are sometimes recorded as revenue in the statement of operations and sometimes as deferred revenue on the statement of financial position. The deferred revenue is recorded as revenue when the money is spent on its intended purpose. Some examples of government transfer revenue that the provincial government has deferred include funding for the BC Health Accord, the Community Development Trust, public transit, recruitment of police officers and programs to address pine beetle infestation.

Depending on the content of the final standard issued by PSAB, the government of British Columbia may need to amend its accounting policies for government transfers. Each significant government transfer is unique and accounting standards are not meant to cover every conceivable situation. Therefore, care will be needed to determine the appropriate accounting in each situation.

New Canadian audit standards on the horizon

New Canadian auditing standards will soon affect all Canadian auditors. Auditing standards in Canada are the responsibility of the Canadian Institute of Chartered Accountants (CICA) Auditing and Assurance Standards Board. The new standards, referred to as Canadian Audit Standards (CAS), will be essentially identical to International Standards on Auditing, which are a set of high quality, globally accepted audit standards. The new standards will take effect for reporting periods beginning December 15, 2009.

Our current audit methodology is very close to that laid out in the new CAS and therefore we anticipate having to make only minimal adjustments to our audit processes going forward. We will be informing the entities we audit before we make any changes to our current audit approach that will affect them, such as the likelihood of collecting information we have not collected in the past.

Appendices

Appendix 1

Response from the Comptroller General

We appreciate the opportunity to respond to the Office of the Auditor General's comments. We remain committed to providing meaningful financial statements. To this end, we continue to report our financial statements in accordance with public sector generally accepted accounting principles (GAAP) which have been set by independent accounting standard setting bodies and are those accounting policies and applications that have been generally accepted by a majority of senior governments in Canada. Our key objectives in preparing the Public Accounts are to:

- Provide the right level of information to help users understand the current financial position of the province, and the government's annual operating results;
- Report consistently so that users can easily compare results between years; and
- Select accounting policies and apply accounting standards as consistently as possible with other jurisdictions in Canada.

In doing so, we are mindful that too much detail can obscure the informative value of the financial statements, that the cost of additional information should not be greater than the benefit received, and that to be useful, financial statements must be presented on a timely basis so that users have the benefit of reliable information that is relevant to their information needs. It is difficult to balance these objectives but we, like all other jurisdictions in Canada, have made great improvements in past years and continue to improve the quality of public sector financial reporting each year. We are committed to continued improvement in financial reporting and the feedback provided in this report provides valuable input to identify areas that would benefit from improvement.

In his opinion on the 2008/09 Public Accounts, the Auditor General identified three areas of reservation which are outlined in this report. While we disagreed with the Auditor General's recommended changes in the application of GAAP, we remain committed to further review of these suggestions with our colleagues in other jurisdictions, standard setting bodies and the accounting profession. Our objective is to ensure that public sector accounting standards and practices continue to evolve to meet the needs of the users of financial statements and remain generally accepted by practitioners in a majority of jurisdictions in Canada.

Appendix 1

Accounting relies very heavily on the use of professional judgement to determine what standards should apply to specific transactions or how information is best disclosed to inform the users of financial statements. Even though we may not agree on the application of accounting standards in every situation, we remain collectively committed to the ongoing study and debate with the Auditor General to achieve the best basis of financial reporting. We thank the Auditor General for the suggestions provided.

In his opinion on the 2008/09 Public Accounts, the Auditor General identified three areas of reservation where we did not agree on the application of accounting standards.

Reservations of Opinion

1. Basis of Consolidation of the Transportation Investment Corporation

We believe that the Transportation Investment Corporation is best disclosed as a government business enterprise (GBE) under the modified equity basis of consolidation. The defining element of a GBE is that it is able to maintain its own operations from revenues raised outside the government reporting entity. Unlike taxpayer supported organizations, GBE's do not receive subsidies from their parent governments. An organization does not have to generate an annual profit to be self-supporting.

The Transportation Investment Corporation will support its operations from toll revenue over the life of the program.

2. Provision for Deep Well Credits

Regulation provides for an allowable deduction on the royalties payable if the well is deeper than 2500 meters. The deduction is calculated based on the depth of the well and can be calculated when the well is drilled, even though the royalties will be payable only when the well produces, which could be in future accounting periods. Because the deduction is only relevant in the calculation of royalties attributable to a specific well when they occur, there is no amount payable to the producer at the financial statement date. We believe recording an amount payable related to the costs incurred by the producer would not be appropriate because the costs are not refundable; the only provision is for a deduction in the calculation of future royalty revenues.

Recording a liability for allowable deductions arising from deep wells would require an expense to be recorded in the current fiscal year and result in inflated revenues recorded in a subsequent fiscal year. This treatment would not represent the economic substance of the transaction because deductions are an integral part of the royalty which are only recognizable as revenue when the well produces, not when the well is drilled.

3. Oil and Natural Gas Producers' Royalty Credits

Royalty revenues have been reported net of allowable deductions in the calculation of royalties' payable since the inception of these programs. Allowable deductions are part of the pricing mechanism laid out in the legislation and regulations that determine how much royalty is payable. In cases where it is more expensive for producers to access the resource, the royalty rate must reflect that additional cost or it will be uneconomical for operators and no royalty revenue will be earned. In no situation would the amount of allowable deductions be received by the province.

All jurisdictions in Canada that have oil and gas exploration programs establish pricing mechanisms for royalties using allowable deductions to recognize the different costs related to specific situations. In every jurisdiction, royalties are reported net of those allowable deductions. It is generally accepted that revenue should be recognized when it has been earned and it is either realized or realizable. Amounts such as allowable deductions in the pricing of a royalty will never be realized, therefore, we believe they should not be recorded as revenue. Recording these amounts as revenue would imply that the revenue is available to service debt or for increased program spending and since the revenue will never be received, that is not the case.

The amount of allowable deductions to royalties is disclosed in footnote 2 of the Schedule of Net Revenue by Source, included in the Consolidated Revenue Fund Extracts section of the 2008/09 Public Accounts.

Appendix 1

Additional Observations and Recommendations

In addition to the reservations expressed in his opinion, the Auditor General also provides observations and recommendations in this report on areas of accounting or reporting that do not materially affect the financial statements.

First Nations Settlement Costs

We recommend that government again review its accounting policy with respect to the settlement of First Nations transactions to ensure the policy is in accordance with GAAP.

We have developed and implemented a provincial policy for the recognition and treatment of settlement agreements with First Nations and discussed the issue with the Auditor General. As noted by the Auditor General, this is a challenging area of accounting as there is no formal guidance in national or international accounting standards and the substance of transactions involving aboriginal rights and title is unique. In developing accounting policy for the recognition of modern treaty settlements, the province has looked to the body of guidance that is generally accepted accounting principles to determine how best to represent these transactions on a basis consistent with other agreements.

We believe that the cost of settlement agreements with First Nations should be recognized in the financial period that the Final Agreement is ratified by all parties. To recognize the transaction before it occurs, based on the expectation that it will occur, would not be consistent with the accounting principles that apply to similar contracts and agreements.

Accounting for Inherited Crown Land

We recommend that when inherited Crown Land is valued, the change in value be recorded in accordance with Canadian GAAP as a credit to accumulated surplus/(deficit) and not to revenue.

We disagree with the Auditor General's recommendation. Current public sector accounting standards recommend that Crown land should not be given accounting recognition as assets.

PS1000.55 When natural resources and Crown lands have been inherited by the government in right of the Crown and have not been *purchased, they are not given accounting recognition as assets in government financial statements. These items are not recognized as assets because the costs, benefits, and economic value of such items cannot be reasonably and verifiably quantified using existing methods.*

When a parcel of land is identified for transfer to a third party, circumstances have changed, the land is surveyed, and an estimate of its value can be made. We believe accounting standards define this as a change in estimate and require the change to be recorded on the prospective basis, meaning that both the write up in value and the cost of the transfer be recorded in revenue and expense in the current year. All jurisdictions in Canada that transfer Crown land follow this practice, which is consistent with the long standing policies of the province.

When the status of Crown land changes through conversion to some other use, or through a transfer to a third party, the value of land should be recognized in the financial statements. We agree the best available method of estimating the value of land should be used when it is appropriate to do so.

Warehouse Debt Disclosure

We recommend that the debt of the warehouse borrowing program be included with taxpayer supported debt and not self supported debt.

Warehouse Debt is presented and disclosed in the Public Accounts on a basis consistent with the province's stated accounting policy, and is clearly described in Note 1 to the financial statements. Accounting standards require the province to disclose the nature of debt, and the province has adopted and maintains the longstanding policy of describing the nature of its debt primarily as taxpayer-supported or self-supported. Once defined, accounting policies must be consistently applied to ensure financial statement users are able to compare the information from one year to the next.

The government has disclosed Warehouse Debt as self-supported debt in Public Accounts since the program was started in the early 1990's. There has been no change to the program and as a result, there is no compelling reason to change the classification of the debt. The value of Warehouse Debt principal is guaranteed by investment in money market instruments of the Government of Canada and Canadian, high investment grade financial institutions.

It has always been recognized that the investment returns on the pre-funded debt proceeds will rarely fully fund the interest payable on the debt. The Warehouse Debt Program fully passes on the net carrying cost to the client organization to whom the debt is allocated and therefore, the Warehouse Debt Program never incurs a loss.

Warehouse Program debt is consistent with the definition of self-supported debt because, as borrowing in advance of requirements, it is not funded by revenues received from taxpayers; it is funded by investment returns and the client organization to which the debt is allocated.

At the time of pre-borrowing for the Warehouse, it is not known whether a taxpayer-supported or self-supported client organization will draw debt from the program. It is therefore appropriate to make the final classification of the debt coincident with allocation of the debt to the client organization.

Complete Disclosure of Prior Year Adjustments

We recommend that when prior year numbers have been restated, government draw attention to the restated numbers with appropriate referencing and make full disclosure of the changes that have taken place.

All material prior year adjustments are disclosed in Note 24 on page 68 of the 2008/09 Public Accounts. We do not specifically notate columns "as restated" in the financial statements because the government reporting entity is very large and there are always adjustments to prior year amounts. Instead, we provide disclosure of changes to comparative figures in Note 33 on page 75 of the 2008/09 Public Accounts.

Disclosure of Contractual Obligations

We recommend that government include additional information about the nature of contractual obligations in the Summary Financial Statements.

We currently fulfill the requirements of GAAP in disclosing contractual obligations in our financial statements and have provided additional detailed disclosure for the 2008/09 fiscal year as supplemental information to the Public Accounts.

Contractual obligations are estimates of future payments under agreements which may include capital or operating elements or in some cases, both. Because the disclosure is of future payment obligations rather than future expense recognition, we believe it would be inconsistent with the way all other information in the financial statements is presented to represent them as separate capital and operating obligations.

Also, given the highly aggregated nature of the Summary Financial Statements, it would not be possible to provide interested users with sufficient information on the broad range of obligations across the government reporting entity. While more detailed information may be valuable to interested parties, the narrow context of financial statement disclosure may not provide the best vehicle for reporting detailed information.

We recommend that government use a lower cut-off for reporting contractual obligations in the Summary Financial Statements.

We do not believe it is practical to collect data on every long term contract that each of the organizations in the government reporting entity enters into. We have established a materiality level to ensure that each organization with single contracts or groups of similar contracts, totalling $50 million or more over the life of the contract, are included in the Contractual Obligations note.

We believe this is a practical and appropriate level of materiality for the disclosure of estimates of future obligations and will continue to use professional judgement to ensure material and significant future obligations are appropriately disclosed.

Direct Method of Cash Flows

We recommend that government present its statement of cash flow using the direct method.

We agree that the direct method of cash flows is preferable to the indirect method and have for several years worked with the Office of the Auditor General to determine whether the necessary information is available to prepare the statement. Presenting the Statement of Cash Flows on the direct method would require the allocation of some elements of accounts receivable and payable to revenue and expense streams. The Auditor General did not agree that this level of allocation, which we believe is reasonable and supportable, was appropriate for audit purposes. Since separately identifying these elements within the Chart of Accounts would be costly as well as technically difficult, and would serve no operational purpose, we are unable to present the Statement of Cash Flows on this basis at the present time.

Authority to Borrow

We recommend that ministry staff keep an ongoing record of the amounts they are authorized to borrow.

Ministry borrowing authorities are in the form of Orders in Council enacted under the *Financial Administration Act*. The ministry maintains records of all borrowing authorities that it intends to rely on and carefully tracks all transactions relevant to those authorities on its Debt Management System. In this way, the ministry can ensure that all provincial borrowings are within the available authority.

The ministry also maintains records relating to historical authorities that were never fully utilized or were based on a revolving structure but that the Ministry no longer intends to rely on for future transactions. The structure of many provincial borrowings require the support of legal opinion, which means that clear and unequivocal authorizations are needed, something that historical authorities would not provide. As securities issued under historical authorities may still be outstanding and trading in financial markets, they are generally not rescinded.

Government should consider providing a mechanism for legislative debate over the amount it intends to borrow, and implementing a mechanism to rescind previous, unused, authorities to borrow.

Government currently provides a mechanism for legislative debate over the amount it intends to borrow. The government's financing plans are described in its Annual Budget and Fiscal Plan, and the governments anticipated borrowing costs are included in the Estimates under the Management of Public Debt vote. As a result, the budget and estimates debates (along with the daily question period) all provide members of the Legislative Assembly with an opportunity to question the Minister of Finance about the ministry's debt management activities and plans.

To ensure accountability over the amounts borrowed by the province, the Minister of Finance is subject to the following specific reporting requirements as to government borrowing and related matters as set out in section 56(a) and 70(2) of the *Financial Administration Act*:

56 As soon as practicable after March 31 of each year, the Minister of Finance must lay before the Legislative Assembly a statement respecting the following:

(a) the amounts borrowed under section 51(1) and (2) since March 31 of the previous year, together with the rate of interest or yield to the investor, and the term and currency, of each borrowing;...

70 (2) A statement of the public debt outstanding at the end of the fiscal year and a summary of all borrowing transactions during the fiscal year under this Part must be included in the public accounts for that fiscal year.

Accelerated Capital Spending

Government has implemented a number of strategies to strengthen the capital management process to ensure policy requirements are met, reasonable due process is applied and value for money is provided for taxpayers. Expanded requirements for review and approval of business cases by government has been instituted for the $2 billion in accelerated infrastructure projects and is being expanded in 2009/10 for non-accelerated capital projects.

- For projects over $20 million, business cases are required and will be reviewed by CPS and TBS (and ministries) to support approval by government;
- For projects of $5-20 million, a business case is required and must be formally approved by the Deputy Minister responsible as a pre-requisite to funding approval by government; and,
- For projects less than $5 million, a simplified business case must be completed by the ministry or agency before commencement of the project.

The province has also expanded its program of independent audits and reviews of capital projects. These audits of capital projects will be undertaken in two parts. The first part will examine the pre-construction (planning) phases, including the development of business cases and the capital procurement processes; and, the second part will be a post-completion examination which can assess whether government obtained what it contracted for (value for money), and that adequate project risk management, monitoring and reporting processes were in place. In addition, existing requirements for independent reviews of compliance with the procurement requirements of the CAMF, using the Capital Procurement Checklist commenced in 2008, will continue.

Working Capital Management

Government agrees that cash and debt balances should be managed effectively and welcomes the Auditor General's plan to review working capital management.

Cash and debt are managed throughout the year to meet both operating requirements and to minimize debt service costs, while ensuring government has access to liquidity from the capital markets. There are occasions when access to liquidity is critical to ensuring government programs are able to continue, as was the case in FY 2008/09 and during the financial market crisis, prompting the decision to pre-borrow significant amounts of debt to support expected cash requirements for projects across the government reporting entity.

Government continuously works to minimize government debt service costs and reduce cash balances where appropriate. Cash and debt balances fluctuate throughout the year. The Auditor General's estimated savings related to a $3 billion or $4 billion reduction in borrowing is based on those amounts being outstanding for the entire fiscal year, which materially overstates the potential savings. The escalation of cash and debt balances to the approximate $7 billion balance occurred after the third quarter of FY 2008/09. This was the result of specific strategic pre-borrowing to ensure liquidity of the Province for the first quarter of FY 2009/10 in the environment of constricting capital markets.

The balance of the cash at year-end of $3.6 billion was held by entities across the broader public sector as a result of their operations and in support of their ongoing requirements. Government will be interested in the results of the Auditor General's review of cash balances in the school districts. However, a full examination needs to be completed before concluding that the cause of the cash accumulation is the province's balanced budget legislation. There may be many reasons for the large cash balances such as, the funding model required to support a large and diverse entity, or the nature and timing of funding requirements in extraordinary economic climates.

Comparing Budget Information to the Summary Financial Statements

We recommend that government improve its budget and estimates documents to include full, line by line budget information for each of the sectors reported in the Summary Financial Statements, and to include the budget to actual information in the Summary Financial Statements.

We agree that budget presentation can be further aligned with the way actual results are presented in the Public Accounts. Both the Budget and Estimates documents contain much of the detailed information that is presented in the Public Accounts. For example, in the September Budget Update the Operating Statement is included in Table 1.1 on page 7, further supported by the schedule of Revenue by Source in Table 1.3 on page 10 and the schedule of Expense by Ministry, Program and Agency in Table 1.4 on Page 11. The Budget document also include the schedule of Expense by Function in Table A8 on page 145, as well as the budgeted Statement of Financial Position in Table A15 and budgeted schedule of Changes in Financial Position in Table 15a on pages 158 and 159 respectively.

Full alignment between the Budget and Public Accounts is difficult to achieve because the Budget is forward looking and provides authority for spending to the individual organizations while the Public Accounts is backward looking and reports on the results of all the transactions at the summary level of the Government Reporting Entity. We will continue to improve alignment as we address the recommendations of the Budget Process Review Panel released in September 2009.

Ministry Financial Statements

We recommend that government require individual ministries to prepare consolidated financial statements showing the financial results of the organizations they are responsible for.

The Public Accounts are produced on a summary basis and are audited by the Auditor General. The Consolidated Revenue Fund

Supplementary Schedules are published along with the Public Accounts and include individual Ministry Appropriation Schedules that provide details of annual spending of each ministry, consistent with legislated requirements.

We do not agree that separate ministry consolidated financial statements would be significantly beneficial to users of the financial statements or that the benefits would exceed the time and cost required to prepare these schedules. Ministries are divisional elements of government and their constitution, as well as their responsibilities change frequently as the priorities of government change. They are established as discretionary administrative units without the authority or responsibility for the full scope of financial operations that are represented by financial statements. For example, ministries do not have separable responsibility for key financial elements, like debt or revenue, which would be attributable to an autonomous entity like a Crown agency. Comparability of any financial statements of these divisions between years could not be maintained on a consistent basis.

Separate ministry consolidated financial statements is also inconsistent with the Summary focus of public sector accounting standards which requires that financial statements of governments be prepared, including all transactions of the government reporting entity including ministries and Crown agencies. From a financial management perspective, separate ministry financial statements could lead to decision-making that is focussed on the strategic needs of individual ministries rather than the broader needs of government.

Management Letters

In his report, the Auditor General has provided overall comments on issues identified in 151 separate management letters to government and other government organizations included in the Summary Financial Statements.

The organizations that receive management letters work with their auditors to address any reported findings. Although the specific management letter findings only relate to individual organizations, they may identify issues that are important to all government organizations. The issues are reviewed from a government reporting entity perspective as part of our ongoing effort to improve financial management and governance practices across all organizations that are included in the Summary Financial Statements.

We believe the 2008/09 Public Accounts once again demonstrates government's commitment to transparent and accountable financial reporting that meets the information needs of our users. We thank the Office of the Auditor General for its continuing support in meeting this objective.

Cheryl Wenezenki-Yolland
Comptroller General of British Columbia

Appendix 2

Glossary

Accounting Standards Board

A board that is part of the CICA and has the authority to develop and establish standards and guidance governing financial accounting and reporting in Canada.

Canadian Institute of Chartered Accountants (CICA)

An independent body that conducts research into current business issues and supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government. It issues guidance on control and governance, publishes professional literature, develops continuing education programs and represents the Chartered Accountant profession nationally and internationally.

CICA Accounting Handbook

A collection of accounting standards and guidance for profit-oriented enterprises and not-for-profit organizations, issued by the CICA Accounting Standards Board.

Exchange and non-exchange transactions

In an exchange transaction, one party pays another and receives something in return, as with the purchase of goods, services or the right to do something. In a non-exchange transaction, the payee does not receive anything in return, as with taxes.

Financial Accounting Standards (FAS)

Accounting standards issued in the United States by the Financial Accounting Standards Board (FASB). The standards govern the preparation of financial reports and are officially recognized as authoritative by the (U.S.) Securities and Exchange Commission.

Generally accepted accounting principles (GAAP)

Accounting principles as laid down (in Canada) by the CICA and PSAB, to be followed in the preparation and presentation of financial statements.

Generally accepted auditing standards (GAAS)

Auditing standards laid down (in Canada) by the CICA to be followed by every audit practitioner who issues an audit opinion on a set of financial statements.

Government business enterprise

An organization that sells goods and services to individuals and organizations outside the government reporting entity as its principal activity, and that can, in the normal course of operations, cover its expenses from those sales. It is a separate legal entity with the power to contract in its own name and to sue and be sued. It also has the financial and operational authority to carry on a business.

Appendix 2

Government business-type organization

A government organization that has been delegated the financial and operational authority to carry on a business. It is a separate legal entity with the power to contract in its own name and that can sue and be sued. It also sells goods and services to individuals and organizations as its principal activity. Government business-type organizations may sell goods and services within the government reporting entity or they may rely on subsidies from the government or other organization in the government reporting entity to maintain their operations or meet their liabilities. Sales of goods and services do not include imposed fees and penalties, such as licences and fines.

Government not-for-profit organization

A government organization normally without transferable ownership interest, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose. Members, contributors and other resource providers of a not-for-profit organization do not, in such capacity, receive any financial return directly from the organization.

Government organizations

Organizations that are controlled by the government and included in the government reporting entity.

Government partnership

A contractual arrangement between the government and a party or parties outside the government reporting entity where the partners cooperate toward achieving significant clearly defined common goals, make a financial investment in the government partnership, share control of the decisions related to the financial and operating polices on an ongoing basis and share on an equitable basis, the significant risks and benefits associated with the operations.

Government reporting entity

The collection of organizations that are controlled by government.

Materiality

The condition of being material. A misstatement (or the aggregate of all misstatements) in financial statements is considered to be material if, in the light of surrounding circumstances, it is probable that the decision of a person who is relying on the financial statements, and who has a reasonable knowledge of business and economic activities, will be changed or influenced by such misstatement.

An auditor is required to determine materiality based on his or her perception of the needs of users. However, it is extremely difficult to predict with certainty who those users will be or, indeed, even what the specific needs of known users are. Consequently, the materiality decision ultimately becomes a matter for the auditor's professional judgement. Materiality is not a fine line where one dollar less is not material or one dollar more is material. Rather, it is a grey area between what is very likely not material and what is very likely material. Making that determination involves qualitative as well as quantitative considerations.

Modified equity

A method of consolidation whereby only the investment and earnings from the investment are recorded in the financial statements. This method is used to consolidate government business enterprises.

Non-exchange transaction

See exchange and non-exchange transactions.

Public Sector Accounting Board (PSAB)

A board that is part of the CICA and issues standards and guidance with respect to matters of accounting and financial reporting in the public sector.

Public Sector Accounting Handbook

A collection of accounting standards and guidance for the public sector, issued by the PSAB.

Reservation of (audit) opinion

When an auditor expresses a reservation in an audit opinion if the financial statements are materially affected by a departure from GAAP; or when the auditor is unable to obtain sufficient appropriate audit evidence to determine whether there has been a departure from GAAP concerning a material item (also referred to as a scope limitation). A reservation is also known as a "qualification".

Tangible capital assets

Non-financial assets having physical substance that:

i. are held for use in the production of supply of goods or services;
ii. have useful economic lives extending beyond an accounting period;
iii. and have been acquired to be used on a continuing basis.

Appendix 3

Current Status of the Auditor General's Recommendations on Prior Year Public Accounts

In our reports on the 2006/07 and 2007/2008 Public Accounts, we made a total of 36 recommendations. Four of the recommendations were made in both years, which therefore means that 32 recommendations were made in all. Of these 32 recommendations, 12 have been completed or substantially completed, four have been partially completed, six we have decided not to pursue at this time in our public report (some are reported to government in our annual management letter to the Comptroller General), and the ten that are still outstanding are listed below. Some of these outstanding recommendations are made again in this year's report.

Report	Auditor General Recommendations Not Yet Completed	Comment
Government's financial statement discussion and analysis		
2006/07 #1	We continue to recommend that government present a long-term trend analysis in the financial statement discussion and analysis (FSD&A) so that it can provide more context for discussing government's financial performance. In addition, we recommend that government cross-reference the FSD&A and the Financial and Economic Review.	Government added another year to make a 5-year trend analysis. However, it did not cross-reference between the Financial and Economic Review and its financial statement discussion and analysis in the Public Accounts.
2006/07 #2	We continue to recommend that government continue to expand its financial statement discussion and analysis (FSD&A) to better cover material financial risks and uncertainties and the challenges involved in their ongoing management.	No significant improvements noted in the 2008/09 financial statement discussion and analysis.
2006/07 #3	We continue to recommend that government adopt the use of the CICA-recommended measure of "government-to-government transfers to own-source revenue" for use in the financial statement discussion and analysis.	Government continues to use total revenue in its calculation of this vulnerability measure.

Appendix 3

Disclosure of contractual obligations

2006/07 #4 and 2007/08 #10	We continue to recommend that government disclose contractual obligations for operating expenditures and capital expenditures separately on a comparative basis, and include a summary description of the nature of the expenditures.	See discussion in this year's report.
2007/08 #11	We continue to recommend that the significance of contractual obligations be assessed only after information on all entities' contractual obligations have been collected.	See discussion in this year's report.

Disclosure of tangible capital assets under lease

2006/07 #9 and 2007/08 #1	We continue to recommend that capital lease related liabilities be disclosed separately to meet Canadian GAAP for leased tangible capital assets.	See discussion in this year's report.

Disclosure of material errors

2006/07 #11	We continue to recommend that when government corrects material errors in its financial statements, it also provide a description of the error and the effect of the correction, and that it head the prior period columns on the face of the financial statements "as restated."	Government said it does not follow this practice. We believe that it should be done for material prior year errors. See discussion in this year's report.

Oil and natural gas producers' royalty credits

2007/08 #3	We continue to recommend that government record royalty revenues on a gross basis as required by Canadian GAAP.	See discussion of qualifications in the Auditor General's opinion.

Appendix 3

Provision for deep-well credits

2007/08 #4	We continue to recommend that government accrue a liability for the deep-well credits as they are earned by the oil and gas producers, as required by Canadian GAAP.	See discussion of qualifications in the Auditor General's opinion.

Accounting for, and recognition of, inherited Crown land revaluations

2007/08 #7	We continue to recommend that when inherited Crown land is valued, the change in value be credited directly to accumulated surplus/(deficit) and not to revenue.	See discussion in this year's report.

Appendix 4

Ministries and Government Organizations Included in the 2008/09 Summary Financial Statements, and Their Auditors

Sector and Organization	Audited by: Auditor General	Audited by: Private Sector Auditors[1]
Consolidated Revenue Fund		
8 Legislative Offices	✓	
Ministry of Aboriginal Relations and Reconciliation	✓	
Ministry of Advanced Education	✓	
Ministry of Agriculture and Land	✓	
Ministry of Attorney General	✓	
Ministry of Children and Family Development	✓	
Ministry of Community Development	✓	
Ministry of Education	✓	
Ministry of Energy, Mines and Petroleum Resources	✓	
Ministry of Environment	✓	
Ministry of Finance	✓	
Ministry of Forests and Range	✓	
Ministry of Health	✓	
Ministry of Healthy Living and Sport	✓	
Ministry of Housing and Social Development	✓	
Ministry of Labour and Citizens' Services	✓	
Ministry of Public Safety and Solicitor General	✓	
Ministry of Small Business, Technology and Economic Development	✓	
Ministry of Tourism, Culture and the Arts	✓	
Ministry of Transportation and Infrastructure	✓	

Appendix 4

Sector and Organization	Audited by: Auditor General	Audited by: Private Sector Auditors[1]
Health Sector		
Bella Coola General Hospital		✓
Canadian Blood Services (government partnership)		✓
Fraser Health Authority		✓
Interior Health Authority		✓
Louis Brier Home and Hospital		✓
Menno Hospital		✓
Mount St. Mary Hospital		✓
Nisga'a Valley Health Authority		✓
Northern Health Authority		✓
Providence Health Care		✓
Provincial Health Services Authority		✓
R.W. Large Memorial Hospital		✓
St. Joseph's General Hospital		✓
St. Michael's Centre		✓
Vancouver Coastal Health Authority		✓
Vancouver Island Health Authority	✓	
Wrinch Memorial Hospital		✓

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Sector and Organization	Audited by: Auditor General	Audited by: Private Sector Auditors[1]
Education Sector		
British Columbia Institute of Technology		✓
Camosun College		✓
Capilano University		✓
College of New Caledonia		✓
College of the Rockies		✓
Douglas College		✓
Emily Carr University of Art and Design		✓
Industry Training Authority	✓	
Institute of Indigenous Government		✓
Justice Institute of British Columbia		✓
Knowledge Network Corporation		✓
Kwantlen Polytechnic University		✓
Langara College	✓	
Leading Edge Endowment Fund		✓
Nicola Valley Institute of Technology		✓
North Island College		✓
Northern Lights College		✓
Northwest Community College		✓
Okanagan College		✓
Okanagan University College		✓
Private Career Training Institutions Agency		✓
Royal Roads University		✓

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Sector and Organization	Audited by: Auditor General	Audited by: Private Sector Auditors[1]
School District No. 5 (South East Kootenay)		✓
School District No. 6 (Rocky Mountain)		✓
School District No. 8 (Kootenay Lake)		✓
School District No. 10 (Arrow Lakes)		✓
School District No. 19 (Revelstoke)		✓
School District No. 20 (Kootenay-Columbia)		✓
School District No. 22 (Vernon)		✓
School District No. 23 (Central Okanagan)		✓
School District No. 27 (Cariboo-Chilcotin)		✓
School District No. 28 (Quesnel)		✓
School District No. 33 (Chilliwack)		✓
School District No. 34 (Abbotsford)		✓
School District No. 35 (Langley)		✓
School District No. 36 (Surrey)		✓
School District No. 37 (Delta)		✓
School District No. 38 (Richmond)	✓	
School District No. 39 (Vancouver)		✓
School District No. 40 (New Westminster)		✓
School District No. 41 (Burnaby)		✓
School District No. 42 (Maple Ridge-Pitt Meadows)		✓
School District No. 43 (Coquitlam)		✓
School District No. 44 (North Vancouver)		✓
School District No. 45 (West Vancouver)		✓
School District No. 46 (Sunshine Coast)		✓

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Sector and Organization	Audited by: Auditor General	Audited by: Private Sector Auditors[1]
School District No. 47 (Powell River)		✓
School District No. 48 (Howe Sound)		✓
School District No. 49 (Central Coast)		✓
School District No. 50 (Haida Gwaii-Queen Charlotte)		✓
School District No. 51 (Boundary)		✓
School District No. 52 (Prince Rupert)		✓
School District No. 53 (Okanagan-Similkameen)		✓
School District No. 54 (Bulkley Valley)		✓
School District No. 57 (Prince George)		✓
School District No. 58 (Nicola-Similkameen)		✓
School District No. 59 (Peace River South)		✓
School District No. 60 (Peace River North)		✓
School District No. 61 (Greater Victoria)		✓
School District No. 62 (Sooke)		✓
School District No. 63 (Saanich)		✓
School District No. 64 (Gulf Islands)		✓
School District No. 67 (Okanagan-Skaha)		✓
School District No.68 (Nanaimo-Ladysmith)	✓	
School District No. 69 (Qualicum)		✓
School District No. 70 (Alberni)		✓
School District No. 71 (Comox Valley)		✓
School District No. 72 (Campbell River)		✓
School District No. 73 (Kamloops-Thompson)		✓

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Sector and Organization	Audited by: Auditor General	Audited by: Private Sector Auditors[1]
School District No. 74 (Gold Trail)		✓
School District No. 75 (Mission)		✓
School District No. 78 (Fraser-Cascade)		✓
School District No. 79 (Cowichan Valley)		✓
School District No. 81 (Fort Nelson)		✓
School District No. 82 (Coast Mountains)		✓
School District No. 83 (North Okanagan-Shuswap)		✓
School District No. 84 (Vancouver Island West)		✓
School District No. 85 (Vancouver Island North)		✓
School District No. 87 (Stikine)		✓
School District No. 91 (Nechako Lakes)		✓
School District No. 92 (Nisga'a)		✓
School District No. 93 (Francophone Education Authority)		✓
School District consolidation [2]	✓	
Selkirk College		✓
Simon Fraser University	✓	
Thompson Rivers University		✓
The University of British Columbia		✓
University of the Fraser Valley		✓
University of Northern British Columbia		✓
University of Victoria		✓

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Sector and Organization		Audited by: Auditor General	Audited by: Private Sector Auditors[1]
Vancouver Community College			✓
Vancouver Island University			✓
Natural Resources and Economic Development Sector			
BCIF Management Ltd	3	✓	
BC Immigrant Investment Fund Ltd		✓	
B.C. Pavilion Corporation		✓	
British Columbia Enterprise Corporation		✓	
British Columbia Hydro and Power Authority	3		✓
British Columbia Innovation Council			✓
British Columbia Transmission Corporation	3	✓	
Columbia Basin Trust			✓
Columbia Power Corporation	3	✓	
Creston Valley Wildlife Management Authority Trust Fund			✓
Forestry Innovation Investment Ltd		✓	
Nechako-Kitamaat Development Fund Society			✓
Oil and Gas Commission		✓	
Pacific Carbon Trust		✓	
Partnerships British Columbia Inc			✓
Tourism British Columbia		✓	

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Sector and Organization		Audited by: Auditor General	Private Sector Auditors[1]
Transportation Sector			
BC Transportation Financing Authority		✓	
British Columbia Railway Company	3		✓
British Columbia Transit			✓
Rapid Transit Project 2000 Ltd			✓
Transportation Investment Corporation	3	✓	
Social Services Sector			
Community Living British Columbia		✓	
Fraser Region Interim Aboriginal Authority		✓	
Legal Services Society			✓
Vancouver Island Aboriginal Transition Authority		✓	
Other Sector			
BC Games Society			✓
British Columbia Arts Council	4		
British Columbia Assessment Authority		✓	
British Columbia Housing Management Commission			✓
First Peoples' Heritage, Language and Culture Council			✓
Homeowner Protection Office			✓
Provincial Capital Commission	3		✓
Provincial Rental Housing Corporation			✓
The Royal British Columbia Museum Corporation			✓

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Sector and Organization		Audited by: Auditor General	Audited by: Private Sector Auditors[1]
Protection of Persons and Property			
British Columbia Securities Commission		✓	
Insurance Corporation of British Columbia	3		✓
Organized Crime Agency of British Columbia Society			✓
General Government Sector			
British Columbia Liquor Distribution Branch	3	✓	
British Columbia Lottery Corporation	3		✓

1 The Auditor General attends the Audit Committee meetings of a number of government organizations that are audited by private sector auditors.

2 The consolidation of school districts is prepared by the Ministry of Education to report the results as at March 31. (Individual school districts have a June 30 year-end.)

3 These organizations are accounted for by the government as self-supported Crown corporations and agencies (government business enterprises) and are recorded on a modified equity basis in the sector in which they are listed.

4 This entity is not audited.