

# **BACKGROUND**

For Immediate Release  
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## **Auditor General releases report on B.C.'s financial statements**

### **Report Highlights: Audit of the 2010/11 Summary Financial Statements**

This report informs legislators and the public about the Auditor General's opinion on government's 2010/11 Summary Financial Statements, and discusses significant audit findings. It also recognizes and encourages improved practices in government's financial reporting and management.

Overall, government's Summary Financial Statements are presented fairly according to Canadian accounting standards. However, there is one area where the financial statements are not in compliance with these standards, resulting in an audit opinion reservation. This reservation has been included as an audit opinion qualification each year since 2008/09.

### **Audit opinion reservation for 2010/11**

Audit reservations represent deviations from Canadian generally accepted accounting principles (GAAP) that might mislead a user of the financial statements. This year's audit reservation stems from the improper consolidation of the Transportation Investment Corporation, the Crown corporation responsible for constructing and managing the new Port Mann Bridge.

*Full consolidation of the Transportation Investment Corporation (TI Corp)*

Government should have consolidated the TI Corp into the Summary Financial Statements using the full line-by-line consolidation method (rather than the modified equity method) as it does not yet qualify as a government business enterprise.

Recording this entity correctly in the financial statements would have resulted in a number of changes to financial statement line items, however the overall deficit would have remained the same.

### **Other Key Issues**

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

- **Two reservations from 2009/10 remain uncorrected** and may result in audit opinion reservations in future years.
- **Changing accounting standards** across Canada will be a major challenge for organizations and require a significant investment to manage this change effectively.
- Government's use of **rate-regulated accounting** in light of these changing standards.
- **Government's response to changing accounting standards**, including a significant amendment to the *Budget Transparency and Accountability Act* that government may use to change their definition of generally accepted accounting principles.



## **Management Letters**

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

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

## **Recommendations to Improve Financial Reporting**

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

## **Issues of Interest**

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

- a discussion of which entities should be included in the financial statements;
- the role of management and the auditor in protecting government from fraud;
- working capital management;
- carbon neutrality in the public sector;
- the impact of early adoption of Public Sector Accounting Board standards on the BC Transportation Financing Authority; and
- accounting standard changes not yet implemented.

## **Accounting For and Auditing the Summary Financial Statements**

To help the public better understand how our Office audits the financial statements of an organization as large as the Province of British Columbia, we provide some background information on:

- the composition of the government reporting entity;
- government's financial reporting framework;
- the accounting consolidation process;
- how the Summary Financial Statements are audited;
- materiality and the auditor's role in informing users of departures from GAAP; and
- unadjusted errors.