



Report of the Auditor General
of Québec
to the National Assembly
for 2011-2012

Audit of Financial Information
and Other Related Work

Highlights

Winter 2012

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1 Introduction

1 For the third consecutive year, the Auditor General of Québec is publishing a separate report covering the audit of financial information and other related work.

2 The provisions of the *Auditor General Act* make it possible for me to make reports that concern:

- The financial statements of the government, its public bodies and its enterprises, as well as the accounting principles or policies according to which these statements were prepared;
- The form and content of financial information documents, such as the Expenditure Budget and the Public Accounts, tabled before the National Assembly or a Committee, as a basis for supervision over the use of public funds and other public property.

3 A little over 40% of the Auditor General's annual budget is allocated to the audit of financial statements and other financial information. Like my predecessor, I consider that it is important to inform parliamentarians on subjects specifically related to this kind of information.

2 Interim Term

4 On December 1, 2011, the President of the National Assembly appointed me to the position of Acting Auditor General until the Assembly names a new Auditor General.

5 I am honoured to substitute on an interim basis Mr. Lachance, who held the position for a little over seven years. I offer my full cooperation to the members of the National Assembly to help them in exercising parliamentary control over activities related to governmental administration.

3 Québec's Financial Position

3.1 Balanced Budget

6 The 2009-2010 budget, published in March 2009, showed a significant deterioration in the public finances of the Government of Québec. In the wake of that budget, the government presented a Plan to Restore Fiscal Balance. Since then, the plan has been updated five times.

7 The changes made to the plan in the last year make it possible to see that actual and estimated program expenditures for the period from 2010 to 2014 exceed the estimates in the initial plan. For example, for the first year of the plan, which was 2010-2011, actual program expenditures, determined on a comparable basis, were \$2 billion higher than the estimates made in March 2009.

8 For the five-year period ending March 31, 2014, \$9.3 billion for program expenditures have been added as a result of changes made to the plan since March 2009, including \$4.1 billion resulting from changes made last year.

9 In spite of this increase in program expenditures, the government is keeping its objective to return to a balanced budget in 2013-2014. In this respect, we can point out that the efforts made began to bear fruit in 2010-2011, when both program expenditures and consolidated expenditures began to be brought down.

10 Furthermore, the government specified the measures that it intends to take to return to a balanced budget. However, this volume shows that there remains some degree of uncertainty with respect to the contribution being made by few measures implemented to reach the objective. We can mention, for example, to what extent tax recovery targets are a major challenge. Chapter 9 of this volume provides more detailed information in this regard.

11 In addition, ups and downs in the global economy, productivity, availability of labour in the context of an aging population, the uncertainty surrounding increasing health costs and changes made to Canadian Public Sector Accounting Standards for recording government transfers are factors that will require regular adjustments to the government's plan to restore fiscal balance.

12 Moreover, as my predecessor mentioned last year, the government must monitor not only its program expenditures, but also the growing expenditures of the 495 entities included in its reporting entity.

13 In the last two years, the government has taken steps to improve the information that it publishes. I have observed that the budget documents contain three-year estimates made on a consolidated basis. In addition, the government has begun to present information on the same basis in its Monthly Reports on Financial Transactions. These improvements will facilitate the work of parliamentarians by making it possible for them to follow, in a timely manner, changes in expenditures as a whole.

14 In Chapter 10 of this volume, I take stock of the application of the provisions of the *Act to implement certain provisions of the Budget Speech of 30 March 2010, reduce the debt and return to a balanced budget in 2013-2014* (S.Q. 2010, c. 20), which is intended to control some expenditures of non-budget-funded bodies. It appears that the information of subject entities and collected by the government on the application of the legislative provisions to reduce expenditures for publicity, training and travel, as well as other administrative expenses, does not make it possible for the government to be correctly informed. In this regard, accountability reporting suffers.

3.2 Québec's Indebtedness

15 For the last four years, the Auditor General of Québec has been interested in issues related to Québec's public sector indebtedness. As can be seen in the 2011-2012 budget documents, Québec is still in first place among all Canadian governments for the level of indebtedness, regardless of how indebtedness is defined.

16 Furthermore, the *Act to reduce the debt and establish the Generations Fund* sets debt reduction objectives. For fiscal year 2025-2026, gross debt is limited to 45% of the gross domestic product (GDP), and the debt corresponding to the accumulated deficits is limited to 17% of GDP. These objectives are evidence of the desire expressed by parliamentarians to reduce Québec's level of indebtedness.

17 In this context, I believe that it is relevant to continue the efforts undertaken to inform parliamentarians on this important and complex aspect of Québec's financial situation.

18 The ratio of gross debt to GDP increased from 53.6% as at March 31, 2010, to 54.3% as at March 31, 2011. In addition, according to the government's most recent estimates, that ratio will continue to increase and reach a record level of 55.6% of GDP in 2013 and then begin to fall as of 2014.

19 The estimate of gross debt as at March 31, 2015, has been revised upward by \$10 billion in the last year and a half. On the one hand, this situation will create additional pressure on debt servicing and, on the other hand, it will increase the efforts that will have to be made beyond that date to reach the objective set in the Act for 2025-2026.

20 For its part, although the five-year estimates for the debt corresponding to the accumulated deficits has been revised upwards, the ratio of the debt corresponding to the accumulated deficits to GDP has begun to fall; it came down from 36.1% to 35.2% in the last year, which is a drop of 0.9%. The government's estimates show that a falling trend line for the ratio should continue until 2015, when it will reach 30.2% of GDP.

21 The expected decline until 2015 is slightly less rapid than what was estimated in March 2010. In addition, current estimates for the accumulated deficits do not take into account the accounting changes that will be implemented in the next few years. Furthermore, I show in Chapter 7 of this volume that these estimates will have to be revised to take into account the impact of implementing International Financial Reporting Standards (IFRS) at Hydro-Québec. Thus, an additional amount of \$3.3 billion that was not included in the most recent economic documents published by the government will be added to the accumulated deficits in the coming year. The implementation of changes made to the accounting standards for government transfers that will come into force on April 1, 2012, will also increase the estimated accumulated deficits. The information currently available makes it possible to estimate that the impact of standards provisions affecting transferring governments, that is, governments that provide financial assistance, will be at least \$7.5 billion. In the coming years, this large amount will be added to the government's accumulated deficits, thereby increasing the efforts to be made to reach the targets set in the Act.

22 As mentioned above, the deadline set in the Act for reaching debt reduction targets is 2025-2026. These are long-term targets. Sustained efforts and strict monitoring will be required to reach them. In this context, I recommend to the Ministère des Finances du Québec (MFQ) that intermediate objectives be set for the purposes of management and accountability reporting. In essence, intermediate objectives are milestones for the ultimate objective. They will make it possible to assess progress and provide an opportunity to make changes in a timely manner, if need be.

Contractual Obligations and Environmental Liabilities

23 This year, in the chapter on issues related to indebtedness, I have again presented a picture of the various obligations that currently are not shown as debts in the government's consolidated financial statements. My point of view is that they are implicit, current or future debts for the Québec public sector.

24 In this respect, I draw the attention of the parliamentarians to the growth in contractual obligations assumed by the Government of Québec. Totalling \$40.9 billion as at March 31, 2011, these obligations have jumped 19.9% in the last year. They are now 12.8% of GDP. Public-private partnership (PPP) contracts account for more than half of this increase. I present a picture of these contracts in Chapter 11 of this volume.

25 Finally, Chapter 8 shows that the application of the changes made to the accounting standards for government transfers will result in some contractual obligations being recorded in the government's debts and in its expenditures. For the purposes of illustration, Schedule 1 shows the impact of the retroactive application of the new standard on an existing program. From now on, it will be necessary to determine when the government has lost its discretion to proceed with transfers. In this respect, it must be pointed out that the calculation of the government's indebtedness made by my predecessor, Mr. Renaud Lachance, like that of some rating agencies, took into account the contractual obligations for which the government has clearly lost its discretion. Thus, the rigorous application of the new standards will require those who prepare financial statements to provide a true picture of the government's indebtedness.

26 These obligations, which have been growing faster than the GDP in the last five years, are an increasingly significant limit on the flexibility that will be available to reduce public expenditures in the coming years. In fact, sooner or later, they will be paid and recorded in the government's expenditures. I encourage the government to closely monitor their progression and to reinforce the accountability reporting related to them.

27 Furthermore, environmental liabilities have also increased significantly in recent years. A total of \$3,169 million was added between 2007 and 2011. It is clear that the efforts undertaken to itemize contaminated land and give the best possible picture of the government's debt deserve to be recognized. In regard to accounting rigour, there is still work to be done to obtain more precise data. The estimation of environmental liabilities is no small task. It requires experts, time and money. I encourage the government to continue its efforts so that it can properly inform parliamentarians on the extent of this debt.

28 Beyond the difficulty of evaluating the debt related to environmental liabilities, Chapter 3 points out that very little rehabilitation work, amounting to only \$108 million, has been carried out since 2007. However, more than \$1.4 billion worth of work is listed as a priority by government departments, bodies, institutions of the networks and special funds. Carrying out that work will put pressure on gross debt. Environmental liabilities, even if they appear in the statement of financial position of the government's consolidated financial statements, are not taken into account in the calculation of gross debt. However, the government will have to obtain liquidities to be able to finance rehabilitation work, which will contribute to increasing gross debt, and those sums will be added to the burden that will have to be borne by Québec taxpayers in the coming years.

4 Expenditures Approval Process

29 First, I want to say that Canadian Public Sector Accounting Standards are intended to give the most accurate picture possible of a government's financial situation. Accounting is not limited to operations that require formal budget approval. Therefore, the Canadian Public Sector Accounting Standards provide that "transactions and events are accounted for and presented in a manner that conveys their substance rather than necessarily their legal or other form. The substance of transactions and events may not always be consistent with that apparent from their legal or other form. To determine the substance of a transaction or event, it may be necessary to consider a group of related knowledgeable and independent observers would concur that it is in agreement with the actual underlying transaction or event with a reasonable degree of precision."

30 The aim of Canadian accounting is neither legal nor political; it is economic and financial. Consequently, even if an expenditure or borrowing by a government mandatary has not received all the authorizations provided for in the governmental management framework, the financial statements must include the expenditure or borrowing if the government's only realistic option is to honour the obligation. Furthermore, in such a situation, the Canadian Public Sector Accounting Standards provide that "[f]inancial statements should disclose information to show where a government has exceeded its revenue, borrowing, investing, expense or expenditure authority limits."

31 Last year, we had several discussions with representatives of the Ministère des Finances on the National Assembly's power to approve appropriations. That power is a fundamental competency granted to it by the *Constitution Act, 1867*.

32 In 2011, an important step was taken when the National Assembly passed the *Act respecting mainly the implementation of certain provisions of the Budget Speech of 17 March 2011 and the enactment of the Act to establish the Northern Plan Fund* (S.Q. 2011, c. 18). The Act provides that the expenditures and investments made by the special funds will, as of April 1, 2012, be subject to parliamentary control.

33 The funds' expenditures are continually increasing, and the funds are often financed by taxes and other types of rates that could just as well be paid into the Consolidated Revenue Fund. Furthermore, there is a rather thin line separating expenditures recorded in a fund rather than a government department. I am pleased that the Act was passed, and I will closely monitor its implementation, which should contribute to improving parliamentary control.

34 It is my opinion that other improvements should be made to the appropriations approval process to better define the power given to the government and its representatives to grant subsidies. In analyzing the interpretation to be given to the new accounting standard for government transfers, a difference of opinion has arisen between the Ministère des Finances and the institution that I direct. First, it must be pointed out that in the area of government transfers, the practice in Québec differs in some ways from the practice of other Canadian governments.

35 Throughout Canada, including Québec, the granting of subsidies by a government arises from an enabling authority provided for in laws and regulations. The various approval processes are similar. However, with respect to payment authorization under an appropriation act, I have observed that Québec's historical budgetary practice differs from that of Canada and Ontario.

36 In Québec, when subsidies are granted by the government for capital projects under its enabling authority, the required appropriations are requested from the National Assembly, and most of the time, they are voted by the Assembly on the basis of a payment schedule agreed upon with the recipients, which usually corresponds to the recipients' debt service schedule.

37 In Ontario and at the federal level, the appropriations needed to be able to pay subsidies for capital projects are linked to project realization. Thus, each year, the appropriations are voted by parliament by taking into account the estimated amount for the eligible work that will be carried out by the recipients following the government's exercise of its enabling authority to grant subsidies. Unlike the practice in Québec, appropriations are not, therefore, voted on the basis of the recipients' schedules for annual service on their capital project financing debt.

38 As a result of Ontario's and the federal government's practice, commitments for which the government has lost its discretion are approved. Therefore, appropriations are voted in a timely manner, that is, at the time when a legitimate expectation of receiving a transfer was created for the recipient.

39 Usually, as a consequence of the method currently used in Québec, numerous steps are taken before it becomes necessary to obtain appropriations for the payment of financial assistance:

- Contracts covering the grant of financial assistance are signed by the parties;
- Public notice confirming the assistance is given;
- The eligible costs are incurred and paid by the recipient;
- The recipient obtains long-term financing.

- 40 For an existing program, Schedule 2 shows the main authorization steps related to the grant of a transfer to finance capital projects in Québec.
- 41 There is good reason to ask whether the government's approach is compatible with a management framework that requires a minister or an organization's director to be sure, before making a financial commitment, that the appropriations allocated are sufficient, in order to respect good faith requirements when the contract is made.
- 42 With respect to the application of the new accounting standard for government transfers, the Ministère des Finances is of the opinion that, except in the case where subsidies are granted directly from permanent appropriations, a payment authorization under an appropriations act must always be obtained before recording the expenditures and debts resulting from a subsidy contract. If we follow the logic of this interpretation, it matters little that the recipient has made all the eligible expenditures in accordance with the agreement concluded – for example when a municipality improves its water pipes – that a funding agreement has been made and that a considerable number of government authorizations have been given; those actions are not sufficient for the government to acknowledge the expenditures and the resulting debt.
- 43 However, the new accounting standard provides that a transfer authorization has been given when the government exercises its enabling authority, that is, when it makes a decision in accordance with the legislative and regulatory provisions of the management framework to which the decision is subject, and that decision clearly establishes that the government has lost its discretion to avoid making the transfer.
- 44 The accounting standard explicitly provides that a government that grants a subsidy "can have a liability in advance of receiving the authority to pay." In other words, the actions taken by a government prior to receiving the authority to pay may be sufficient to consider that it has authorized the subsidy. Therefore, an analysis must be made to determine whether such actions created a legitimate expectation for the recipient that gives the government no other realistic option but to respect its obligation.
- 45 Let us remember that financial statements are intended to present a true picture of a government's financial situation and, consequently, of its indebtedness at a given time. Therefore, several Canadian Public Sector Accounting Standards provide that a government may be required to acknowledge an expenditure even before the payment authorization has been recognized by an appropriations act. This is consistent with the objective that financial statements include in the expenditures of a given fiscal year, the decrease in government economic resources that are the result of its activities, its operations and the events that occurred during the fiscal year.

46 In this regard, it is interesting to mention that section 25 of the *Financial Administration Act* takes into account the fact that expenditures may be recorded in the financial statements before appropriations have been granted for that purpose. In such a situation, the Act provides that such appropriations must be voted in the following year.

47 Table 1 shows that over the last five years, in accordance with this section of the Act, significant amounts have been recorded in the financial statements without any prior appropriations being voted.

**Table 1 Excess expenditures and other costs over appropriations
(in millions of dollars)**

	2011	2010	2009	2008	2007
Remunerations	9	10	–	–	–
Operations	34	34	–	–	–
Transfers	329	595	248	220	219
Loans, investments, advances and others	1,410	683	170	293	772
Allocations to a special fund	–	–	–	121	–
Total as at 31 March	1,782	1,322	418	634	991

48 Every year, all these excess expenditures have been the subject of a report by the Deputy Minister of Finance and the Comptroller of Finance in Volume 2 of the Public Accounts. Among these excess expenditures, amounts totalling \$1,611 million for transfer expenditures were recorded in the financial statements between 2007 and 2011 before any payment authorization was recognized by an appropriations act. Practically all the excess expenditures under the item “Loans, investments, advances and others” were the result of recording a provision for unforeseen environmental liability.

49 Furthermore, the *Act respecting mainly the implementation of certain provisions of the Budget Speech of 17 March 2011 and the enactment of the Act to establish the Northern Plan Fund* (S.Q. 2011, c. 18) also provides that as of April 1, 2012, expenditures from special funds for a given year may exceed the expenditures authorized by parliamentarians for that year. The Act provides that in such cases, the excess expenditures and investments over the amounts authorized must be submitted for parliamentary approval for the fiscal year following the one in which the excess amount was recognized.

50 The opening in the Act for recording expenditures before appropriations have been voted by parliament has been used continually in recent years, but I am of the opinion that this must remain an exception. Therefore, as a first step, I encourage the government, with respect for the role of parliamentarians, to ensure that it obtains the budgetary appropriations needed for an adequate application of the new standard for government transfers.

51 As a second step, a reflection should get under way promptly so that the budget process will make it possible for Québec parliamentarians, like those in Ontario and the federal government, to debate the allocation of subsidies to recipients in a timely manner, that is, before actions taken by the government cause it to lose its discretion. Currently, voting appropriations after contracts are made by the government and eligible expenditures are incurred by recipients has the effect of considerably limiting parliamentarians' flexibility. In fact, they are called to vote appropriations a posteriori to pay for commitments already contracted by the government.

52 It is reasonable to believe that a refusal by the National Assembly to vote appropriations would not have the effect of relieving the government of its commitments, but only of suspending the binding effect of them until it has the appropriations needed to provide for them or until it is expressly relieved by an act. In other words, from the accounting point of view, in such a situation, there would be two options:

- The debt's repayment terms and conditions could be changed, which would have no effect on the amount of the debt recorded in the financial statements;
- The passage of a new act could reduce the amount of the debt, which would result in recording a gain, thus reflecting the decision of parliament.

53 The current appropriation process means, on the one hand, that the government must obtain sufficient appropriations before its departments and budget-funded bodies acquire capital assets, regardless of the fact that the government must borrow to pay for them. On the other hand, these same departments and budget-funded bodies do not have to have sufficient appropriations prior to the grant of financial assistance for acquiring capital assets; such appropriations will be needed only at the time of the repayment of the debt's capital and interest.

54 The position of the Ministère des Finances that appropriations must be voted to consider that an expenditure has been approved appears difficult to apply. In fact, accounting standards require that the recipient obtain assurances that the promised subsidy has been authorized by the government before it is recorded in the recipient's accounts. How could a recipient or a lending institution assess to what extent appropriations were available when they receive a letter from a government department indicating that a project is eligible and that financial assistance in a given amount will be paid to them by the government?

55 Furthermore, how could the government's position be reconciled with the fact that, to date, the auditors of recipient entities, like those of municipalities, have always considered that subsidies obtained from the government for eligible expenditures had been authorized based on the government's actions. Could an appropriations vote call into question commitments made by the government for a recipient and the latter's lending institution to the extent that it would not record the debt in its financial statements? For me, it seems dangerous to go down that road.

56 Finally, how could we explain that, on the one hand, the government acknowledges that it must assume its environmental liabilities by recording them in its debt and, on the other hand, not record in its consolidated financial statements the debt arising from its contractual obligations to subsidy recipients who have made eligible expenditures in full respect for the conditions in their contract?

57 In conclusion on this issue, because of the stakes involved, I consider it to be imperative that the consolidated financial statements give the truest picture possible of the size of the government's indebtedness. For me, as for my predecessors, it is important to contribute to improve the exercise of democracy. That is why I believe that parliamentarians should have the power to debate, in a timely manner, the commitments made by the government that constitute an accounting debt and thus contribute to increasing Québec's indebtedness. The new standard for government transfers gives us the opportunity to improve the quality of financial information and the current budget management process.

58 I recognize that the application of the new standard for government transfers will have significant repercussions, not only on the government's financial statements, but also on the way in which budget process is carried out. Therefore, I offer the Ministère des Finances my full cooperation so that it can carry out all the changes required in a structured and methodical way in the coming years.

5 Other Work Arising from Audit Engagements

59 The National Assembly has entrusted me with the responsibility of auditing each year, alone or jointly with private firms, more than 200 financial statements, including those of the government. Moreover, since June 2008, I have had the powers needed to carry out audits of the ledgers and accounts of some institutions in the health and social services network and the education network, to the extent that I deem required. My presence in the various entities makes it possible for me to identify elements likely to be of interest to parliamentarians and thus contribute to the control that they exercise over public funds. In Chapters 2 to 7 of this volume, I present these elements. In addition, in Chapter 12, I give a brief overview of the 351 recommendations that I made to the managers of 56 entities from October 1, 2010, to September 30, 2011.

60 In light of the work that I have carried out in the past year, I have found that the numerous changes made to accounting standards and administrative structures (creation, merger, abolition of entities) contribute to complicate the understanding of the entities' financial situation and make it more difficult to analyze historical data determined on more than one basis.

61 I am convinced, overall, that the adoption of the new standards will make it possible to improve the quality of accountability reporting. However, in the short-term, during the transition period, I find that more effort has to be made to produce financial data and make it possible for users to properly interpret them. In producing this volume, I hope to contribute to improving parliamentarians' understanding of the impact of these changes on the financial situation of some entities. From this perspective, I explain, in Chapter 7, the impact of the adoption of the International Financial Reporting Standards by Hydro-Québec and the Société générale de financement.

6 Sensitive Information

62 In February 2011, in the Auditor General's volume on financial audits and other related work, my predecessor mentioned that he had undertaken pilot projects concerning sensitive information in several entities. This type of information mainly concerns expenditures related to administrators and managers (remuneration and benefits, function expenditures, travel and other expenditures) as well as expenditures related to contract awards.

63 By that initiative, I hope not only to contribute to parliamentary control, but also to warn against some practices that could be harmful to the image of the public sector. To do so, I obtain assurances that expenditures are carefully regulated, that mechanisms for controlling them are in place and that they are subject to sound management by the audited entity.

64 Therefore, during the last year, I carried out work related to sensitive information, and I followed up on the findings made with respect to the two pilot projects in 2010. This work revealed shortcomings, particularly with regard to contract management and the management of the expenditures of senior officers and the benefits granted to them.

65 My work on sensitive information made it possible for me to find that improvements should be made, for two entities, to the contract awarding process and more specifically to the assessment of needs step. That step is important for deciding, in a timely manner, whether a call for tenders is required under the rules in effect. I also observed that contract records management in one entity had major deficiencies (absence of documents and analyses supporting decisions).

66 In some cases, I also noted that improvements were needed to regulate the expenditures of senior officers and the benefits granted to them. For example, in three entities, I found that for some of the expenditures examined, suitable vouchers and information required to justify some amounts claimed and paid were not available.

67 With respect to benefits granted to senior officers, I found that in accordance with their internal policies, the Société du Grand Théâtre de Québec and the Société de la Place des Arts de Montréal make available to the members of the board of directors, the president and chief executive officer and employees, without charge, tickets for the shows that these entities present. Furthermore, these bodies provide free or reduced-fee parking to some of those persons. Under current tax rules, those benefits could be deemed taxable indirect remuneration. Therefore, I encourage those two entities to carry out an analysis of the taxation ramifications of these policies and make any necessary corrections.

68 I intend to continue my work on sensitive information in certain entities during the coming year.

Schedules

Schedule 1 Government Transfers – Illustration of the Impact of Retroactively Applying the New Accounting Standard

Schedule 2 Illustration of the Main Authorization Steps for Granting a Transfer to Finance Capital Asset Acquisitions

Abbreviations

GDP	Gross domestic product	MFQ	Ministère des Finances du Québec
IFRS	International Financial Reporting Standards	PPP	Public-private partnership
MAMROT	Ministère des Affaires municipales, des Régions et de l'Occupation du territoire	PRECO	Programme de renouvellement des conduites d'eau potable et d'eaux usées

Schedule 1 Government Transfers – Illustration of the Impact of Retroactively Applying the New Accounting Standard

Government recording¹ of operations related to the Programme de renouvellement des conduites d'eau potable et d'eaux usées (PRECO) (in millions of dollars)

Action	Current standard		New standard ²		
	Contractual obligations ³	Transfer expenditures	Contractual obligations ²	Transfer expenditures	Liabilities
2010-2011 operations					
Authorization of financial assistance for the proposed capital projects					
Capital	350	-	350	-	-
Performance of eligible work by the recipient					
Capital	-	-	(300)	300	300
Interest	-	-	-	6	6
Periodic financial assistance payments					
Capital	(2)	2	-	-	(2)
Interest	-	6	-	-	(6)
Total 2010-2011	348	8	50	306	298
2011-2012 operations					
Performance of eligible work by the recipient					
Capital	-	-	(50)	50	50
Interest	-	-	-	17	17
Periodic financial assistance payments					
Capital	(26)	26	-	-	(26)
Interest	-	17	-	-	(17)
Total 2011-2012	(26)	43	(50)	67	24
Cumulative total as at March 31, 2012	322	51	-	373	322

1. For the purpose of this illustration, we made the following three assumptions:

The total program envelope of \$350 million is used and authorized as at March 31, 2011;

All the recipient's work is complete as at October 31, 2011 (including the work valued at \$300 million that was completed as at March 31, 2011);

The total annual periodic payments of financial assistance correspond to the appropriations shown in the budget program.

2. Application of the new accounting standard is required as of April 1, 2012.

3. The contractual obligations are shown in the notes to the consolidated financial statements.

Schedule 2 Illustration of the Main Authorization Steps for Granting a Transfer to Finance Capital Asset Acquisitions

Program: Programme de renouvellement des conduites d'eau potable et d'eaux usées (PRECO)

Department: Ministère des Affaires municipales, des Régions et de l'Occupation du territoire (MAMROT)

Purpose of the program: Make it possible for municipalities to repair or replace drinking water and waste water pipes with financial assistance from the Government of Québec.

Date	Document	Action by the National Assembly, the government or the recipient
N/A	MAMROT Act (R.S.Q., chapter M-22.1)	<p>Power giving authorization to the Minister to sign agreements</p> <p>Section 17.7 provides that the Minister may, in the exercise of the Minister's responsibilities, enter into an agreement according to law with any government other than that of Québec. He may also enter into an agreement with any person, association, partnership or body concerning any matter under the jurisdiction of the Minister.</p>
February 2009	Decision of the Conseil du trésor (CT 207333)	<p>Program authorization by the Conseil du trésor</p> <p>Approval for allocation of a financial aid envelope of \$350 million (excluding interest) from the Québec Infrastructures Plan to set up PRECO.</p> <p>Approval of the rules and standards for the program (the guide).</p> <p>Relevant excerpts from the guide, revised in February 2010 (translation):</p> <p>Section 7: Terms and conditions for assistance payments</p> <p>The portion of the financial assistance provided by the Government of Canada will be paid in cash.</p> <p>The portion of the financial assistance provided by the Government of Québec will be paid in cash where it is less than \$100,000. Where it is \$100,000 or more, it will be paid over a 10-year period plus the financing cost arising from the cost of money at the time of the project's financing. The first payment may be made on the anniversary of the financing following the date of the approval by MAMROT of the final declaration of performance of the eligible work by the municipality and accompanied with an external auditor's certificate.</p> <p>Section 13: Duration of the program</p> <p>All eligible work must be completed by December 31, 2010. However, an extension of the period for carrying out eligible work until October 31, 2011, is possible provided certain conditions set by the federal government are met. The municipalities have been advised of those conditions, and the municipalities who wished to take advantage of them met them prior to January 31, 2011.</p>
June 2009	Cabinet decision (Order in Council 633-2009)	<p>Authorization of the signing of the federal-provincial agreement</p> <p>Excerpt from the Order in Council (translation): "It is hereby ordered... that the agreement between the Government of Québec and the Government of Canada on the Programme de renouvellement des conduites d'eau potable et d'eaux usées (PRECO), which will, in substance, be in conformity with the draft that accompanies the ministerial recommendation be approved...."</p>
June 2009	Canada-Québec agreement made under the Infrastructure Stimulus Fund with respect to PRECO	<p>Signing of the federal-provincial agreement</p> <p>Signing of the agreement by the MAMROT Minister, the Minister responsible for Canadian Intergovernmental Affairs and Reform of Democratic Institutions as well as the federal Minister of Transport, Infrastructure and Communities. The agreement provides for a contribution of \$350 million by each government (excluding interest for Québec).</p>

Date	Document	Action by the National Assembly, the government or the recipient
March 2010	2010-2011 Expenditure Budget Volume II – Estimates of the departments and agencies	Allocation of appropriations to PRECO for 2010-2011 Tabling of the 2010-2011 Expenditure Budget in the National Assembly by the President of the Conseil du trésor, which shows transfer appropriations of \$7.7 million for PRECO.
May 2010	Bill 98 (S.Q. 2010, c. 6) <i>Appropriation Act No. 2, 2010-2011</i>	Adoption of total appropriations for 2010-2011 by the National Assembly National Assembly authorization to pay, from the Consolidated Revenue Fund for fiscal year 2010-2011, a maximum sum of \$35.2 billion, not including appropriations already authorized by <i>Appropriation Act No. 1</i> (\$15.5 billion), for a total of \$50.7 billion.
October 2010	Decision of the Conseil du trésor (CT 209405)	Authorization of the 2010-2011 PRECO budget program MAMROT authorization of the budget program for transfer expenditures, which includes \$7.7 million for PRECO.
Until March 31, 2011	Letter of commitment to the recipient municipalities sent by the MAMROT Minister Memorandums of understanding between MAMROT and the municipalities Long-term financial agreements between recipients and a financial institution Letters confirming the financial assistance to be paid sent by the MAMROT Minister	Authorization of subsidies for proposed capital asset projects Letters to the municipalities confirming: <ul style="list-style-type: none"> ▪ The projects deemed eligible for financial assistance under PRECO; ▪ The portion of the financial assistance provided by the Government of Québec; ▪ That a memorandum of understanding to determine the work eligible for financial assistance and the terms and conditions for assistance payments would be sent shortly. Signing of memorandums of understanding by the Minister The purpose of the memorandums is to set the obligations of the Minister and the recipients with respect to payments of financial assistance by the Minister for carrying out the infrastructure work provided for in the agreements, provided the Government of Canada and the Government of Québec adopt the required budget appropriations. Receipt of long-term financing by the municipalities from a financial institution Financial assistance confirmations and the terms and conditions of payment to the municipalities Following validation of the eligible work, transmission of a letter confirming financial assistance to the recipient that mentions: <ul style="list-style-type: none"> ▪ The amount of costs eligible for financial assistance; ▪ The amount of financial assistance to be granted (capital); ▪ The interest rate of the financial assistance to take into account the cost of money; ▪ The period during which the subsidy will be paid.
March 2011	2011-2012 Expenditure Budget Volume II – Estimates of the departments and agencies	Allocation of appropriations for PRECO 2011-2012 A sum of \$38.4 million.
May 2011	Bill 8 (S.Q. 2011, c. 4) <i>Appropriation Act No. 2, 2011-2012</i>	Adoption of total appropriations for 2011-2012 by the National Assembly A maximum sum of \$35.4 billion, not including appropriations already authorized by <i>Appropriation Act No. 1</i> (\$16.4 billion), for a total of \$51.8 billion.
September 2011	Decision of the Conseil du trésor (CT 210589)	Authorization of the 2011-2012 PRECO budget program A sum of \$42.7 million. Appropriations of \$38.4 million voted for the program, to which are added transferred appropriations of \$4.5 million, for a total of \$42.7 million in adjusted appropriations.
Until October 31, 2011	Long-term financial agreements between recipients and a financial institution	Obtaining long-term financing by the municipalities from a financial institution
No later than October 31, 2011	Letters confirming the financial assistance to be paid sent by the MAMROT Minister	Financial assistance confirmations and the terms and conditions of payment to the municipalities

Highlights

Work Objectives

The preparation and audit of the government's consolidated financial statements require a great deal of effort. The purpose of our work was to issue an opinion on the financial statements in accordance with the *Auditor General Act* and Canadian Generally Accepted Auditing Standards. In addition, we wanted to highlight the findings that we consider of interest to the parliamentarians.

The Report is available at <http://www.vgq.qc.ca>.

Audit and Related Work Results

We present here the principal findings of the work concerning the government's consolidated financial statements.

Our opinion is unqualified and without comment. As at March 31, 2011 and for a fifth year in a row, the government's consolidated financial statements were prepared in accordance with Canadian Public Sector Accounting Standards for the public sector and the government's accounting policies.

The size of the reporting entity has a direct impact on the efforts required to prepare the consolidated financial statements. As at March 31, 2011, Québec had almost 500 entities in its reporting entity. Therefore, it had to invest considerable time and resources to obtain their accountability reports in a timely manner.

The consolidated entities must feel involved in the production of the government's financial statements. It is important for them to understand the main steps and to take into account the issues that can have an impact on the production of a reliable document in a timely manner. However, numerous corrections are required following the submission of erroneous data by the consolidated entities.

The process for preparing the segment disclosures presented in the government's financial statements carries a risk of errors. The new guidelines underlying the production of segment disclosures are not fully applied by the Comptroller of Finance. This situation increases the risk of presenting an erroneous financial performance for the segments.

The consolidation of institutions of the health and social services and the education networks results in duplication of work. The departments concerned must collect and update data already submitted to the Comptroller of Finance, also processed by him and available in his systems. Consequently, it would be appropriate to think of a better way to share information and improve efficiency.

Recommendations

The Auditor General has made recommendations to the Comptroller of Finance and the Ministère des Finances du Québec. All of them are shown to the right.

The audited entity (the Comptroller of Finance is an integral part of the Ministère des Finances) had the opportunity to comment on these recommendations; its comments can be found in the *Commentaires de l'entité auditée* section. We want to point out that it accepted all of the recommendations.

Recommendation reiterated to the Comptroller of Finance, to be implemented with the government departments responsible for the networks

- 1 Improve internal controls related to the consolidation process for the networks (efficiency, sharing and coordination).**

Recommendation reiterated to the Comptroller of Finance

- 3 Continue and implement his project to computerize the collection of supplemental information to favor efficiency and reduce the risk of errors related to the input and manipulation of large volumes of data.**

Recommendation reiterated to the Comptroller of Finance, to be implemented in collaboration with the consolidated entities

- 4 Strengthen internal controls related to the collection of supplemental information to ensure that it obtains reliable information at the source.**

Recommendation to the Comptroller of Finance

- 2 Take the steps needed so that all adjusting entries made in the RAPFIN system are adequate from their creation.**

Highlights

Work Objective

Environmental liability has been a topic of interest for several years.

This is a government obligation resulting from the remediation of contaminated land under its responsibility or probably under its responsibility. This liability represents a high cost that must be borne by the government and whose evaluation is a challenge for those who prepare consolidated financial statements.

The Report is available at <http://www.vgq.qc.ca>.

Work Results

We present here the principal observations that we made during our work concerning environmental liability.

Determining environmental liability had a significant impact on the government's consolidated financial statements. A sum of \$3,264 million in environmental liability was directly added to the accumulated deficits during the last five years.

Orphan sites constitute a large portion of this liability, that is, 71% as at March 31, 2011. These are sites for which those responsible for contamination are unknown, untraceable, insolvent or refuse to assume their responsibilities.

Estimating the cost of remediation work is a major challenge in determining environmental liability. A margin of error is included in the estimation of land remediation costs to take into account the uncertainty surrounding their evaluation. The margin of error is 32% (\$1,001 million) of the environmental liability as at March 31, 2011.

The first public sector accounting standard for environmental liability will come into effect on April 1, 2014. Although the government's current practices are close to the new standard, some changes will be required.

Highlights

Work Objective

Each year and pursuant to his mandate, the Auditor General of Québec audits the financial statements of several public-sector entities. This work deals with the financial statements of the government, its agencies and its enterprises, as well as the financial statements or reports of some institutions in the health and social services and the education networks.

This chapter presents the modified opinions, findings, recommendations, cases of non-compliance as well as the other elements arising from our work over the past year that deserve to be brought to the attention of the National Assembly.

The Report is available at <http://www.vgq.qc.ca>.

Audit Results

We present here findings of our work.

Commission administrative des régimes de retraite et d'assurances.

Following implementation of the financial component of the Renouvellement et intégration des systèmes essentiels (RISE) project, the reconciliations of the bank accounts used to receive member contributions from the various pension plans and pay pension benefits to beneficiaries were not completed in 2010.

As a result of cash-flow control deficiencies, the average month-end balances of bank accounts in 2010 were \$27.4 million, compared with \$11.9 million in 2009. The delay in transferring sums to the Caisse de dépôt et placement du Québec resulted in lower returns for the plans.

Conservatoire de musique et d'art dramatique du Québec.

For a second straight year, the Conservatoire made payments or assumed obligations whose cost exceeded the sums available, which is contrary to its incorporating act. The accumulated deficit of \$5.7 million as at June 30, 2011, is evidence of this.

Revenu Québec – Direction principale des biens non réclamés.

For the fiscal year ended December 31, 2009, we detected serious internal control deficiencies related to the transaction recording and the preparation of financial statements for property under provisional administration.

Because of these deficiencies and the significant loss of accounting and financial expertise, Revenu Québec decided to suspend production of the financial statements for property under provisional administration as at December 31, 2009 in order to put corrective measures in place.

Recommendations

The Auditor General has made recommendations to the audited entities. All of them are shown to the right.

The audited entities had the opportunity to comment on these recommendations; their comments can be found in each *Commentaires de l'entité auditée* section.

We want to point out that they accepted all of the recommendations, except the Ministère des Finances du Québec for the one concerning the Société nationale du cheval de course.

Recommendations to the Commission administrative des régimes de retraite et d'assurances

- 1 Take the actions needed to correct the situation [with respect to unexplained differences between the operations recorded in its financial statements and the data in bank statements].**
- 2 Review its reconciliation process so that all differences are explained and adjusted in a timely manner.**

Recommendation reiterated to the Commission de la construction du Québec

- 3 Respect the provisions of the *Supplemental Pension Plans Act* to which it is subject.**

Recommendation reiterated to the Conservatoire de musique et d'art dramatique du Québec

- 4 Take the steps necessary to respect section 57 of its incorporating act during the next fiscal year.**

Recommendations reiterated to Revenu Québec – Direction principale des biens non réclamés

- 5 Strengthen the year-end closing process for financial statements covering unclaimed property under provisional administration and acquire the systems and tools needed to ensure the production of reliable and relevant financial information.**
- 6 Meet the legal deadline for producing the financial statements for unclaimed property under provisional administration.**

Recommendation reiterated to the Ministère des Finances du Québec concerning the Société nationale du cheval de course

- 7 Revise the accounting status of the Société nationale du cheval de course to include it in the government's reporting entity.**

Highlights

Work Objective

The purpose of our audit concerning the health and social services network was to obtain assurance of the reliability of the financial information provided by the Ministère de la Santé et des

Services sociaux (MSSS), the network's institutions and agencies, some associated undertakings and the special funds.

In this chapter, we present the results of our audit for fiscal year 2010-2011 and the recommendations arising from it. We also follow up on the recommendations made last year and discuss some elements that deserve to be brought to the attention of parliamentarians.

The Report is available at <http://www.vgq.qc.ca>.

Audit Results

We present here the principal findings of our audit concerning the health and social services network.

Following a change in the accounting framework in the network's institutions, the independent auditors had to note three qualifications in their report. The institutions prepared their annual financial reports in accordance with Canadian Public Sector Accounting Standards, except for the three deviations that resulted in qualifications in the independent audit report.

In light of the efforts made to prepare and audit the annual financial reports, questions arise as to their content and the use made of them. The institutions accumulate and produce a large quantity of financial and administrative data that appears in their annual financial reports. However, the MSSS and the agencies do not use that information in an optimal way. The production of financial analyses by the agencies is significantly delayed in some regions.

The MSSS, which is responsible for the Fund to Finance Health and Social Services Institutions, did not comply with certain legislative provisions that govern the Fund's management. On the one hand, the MSSS did not produce and submit at the prescribed time, that is, no later than June 2011, the Fund's financial statements for the year ended as at March 31, 2011, nor the management report for the same fiscal year. The management report attached to the financial statements was dated September 15, 2011.

On the other hand, section 11.5 of the *Act respecting the Ministère de la Santé et des Services sociaux* provides that the money taken out of the Fund is paid to the institutions. In this regard, \$77 million was allocated to beneficiaries not included among those mentioned in the Act.

By continuing to have deficits, several network institutions are not in compliance with the *Act to provide for balanced budgets in the public health and social services network*, which has been in force for 11 years. Although we have been recommending to the government since 2002-2003 that it pursue its efforts to bring the network's institutions into compliance with the Act, balanced budgets have still not been reached by all of the institutions.

In our opinion, the chronic failure to respect the Act since it came into force and the MSSS's trivialization of the situation are unacceptable. Setting deficit targets for institutions, although such deficits are prohibited by the Act, is tantamount to authorizing the institutions to violate the Act. This MSSS practice must be reviewed.

Recommendations

The Auditor General has made recommendations to the MSSS. All of them are shown to the right.

The audited entity had the opportunity to comment on these recommendations; its comments can be found in the *Commentaires de l'entité auditée* section. We want to point out that it accepted all of the recommendations.

Recommendations reiterated to the Department

- 1** Ensure that the value of the non-financial data collected by the institutions is greater than the costs incurred to compile them and disclose them to users.
- 6** Take the measures needed to identify all related party transactions and balances as at March 31 to eliminate them during consolidation of the financial statements.
- 7** Confirm in a timely manner the amount of the subsidies granted to the institutions so that revenues are recorded by the institution in the correct fiscal year.
- 8** Obtain in a timely manner the information needed to carry out rigorous financial monitoring of all subsidies granted.
- 9** Ensure that all institutions use an accounting and monitoring method for subsidies related to the financing of capital assets that takes into account the fact that some capital assets are not financed by the government.
- 13** Pursue its efforts to bring the public institutions of the health and social services network into compliance with the law by having balanced budgets.

Recommendations to the Department

- 2** Provide institutions with all the information they need to be in compliance with the standards to which they are subjected for the preparation of their financial statements.
 - 3** Take the steps required to make adjustments to prior fiscal years in the institutions' annual financial reports.
 - 4** Implement mechanisms to ensure a better use of the information collected on anomalies observed in the network.
 - 5** Take steps to ensure that the mandates given to independent auditors are in compliance with the rules currently in force.
 - 10** Produce and submit, in a timely manner, the financial statements and the annual management report of the Fund to Finance Health and Social Services Institutions.
 - 11** Specify how the sums in the Fund will be used.
 - 12** Comply with legislation with respect to the designation of the beneficiaries of Fund monies.
 - 14** Reassess its practice of authorizing deficit targets, which contravenes the *Act to provide for balanced budgets in the public health and social services network* and, if need be, take steps to have the Act amended.
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Highlights

Work Objective

Considering the importance of the education network in relation to the government's consolidated financial statements, we devoted a chapter to the network.

In it, we present the results of our audit on the education network for the 2010-2011 fiscal year and the ensuing recommendations. We also follow up on the recommendations made last year and discuss some elements that deserve to be brought to the attention of parliamentarians.

The Report is available at <http://www.vgq.qc.ca>.

Audit Results

We present here the principal findings of our audit concerning the education network.

Having a fiscal year end for school boards and CEGEPs (June 30), which is not the same as the government's, was questioned. Steps were begun to change the fiscal year end for CEGEPs from June 30 to March 31, as of 2013. The Ministère de l'Éducation, du Loisir et du Sport (MELS), in collaboration with the school boards, analyzed the advantages and disadvantages of changing their fiscal year end from June 30 to March 31. Following that work, it was decided to retain the June 30 date and thus the preparation of audited financial statements remains as at that date.

The quality of the financial information produced by the education network has improved. The institutions were more rigorous in their cut-off work. They also did a better job of identifying related party transactions and balances.

The universities did not meet the deadlines for producing their financial statements. The MELS made significant efforts to provide earlier the information required by the universities to produce their financial statements within the allotted time. In spite of that improvement, the universities were not able to produce their financial statements before the deadlines.

The budget rules for school boards were changed to take into account new accounting policies. Last year, the budget rules used to determine financing for network institutions had not been changed to take into account the financing effect of the harmonization of the accounting policies for those institutions with the accounting policies of the government (accounting reform). This year, a new measure was added to the budget rules for school boards for 2011-2012, which will make it possible to harmonize the financing of capital assets provided for in the accounting reform with the budget rules.

Recommendations

The Auditor General has made recommendations to the MELS. All of them are shown to the right.

The audited entity had the opportunity to comment on these recommendations; its comments can be found in the *Commentaires de l'entité auditée* section. We want to point out that it accepted all of the recommendations.

Recommendations reiterated to the Department

- 1** Take the steps needed in order to provide the universities all the information they need to produce their financial statements within the allotted time and, in the case of the Université du Québec, in time for consolidation with the government's financial statements.
 - 2** Regroup the audit mandates for CEGEPs.
 - 3** Determine the source of audit mandates and annually inform independent CEGEP auditors.
 - 4** Ensure that the audit mandates given next year take into account the requirements of the Canadian Auditing Standards that CEGEP auditors must follow.
 - 5** Ensure that all CEGEPs use an accounting and monitoring method for subsidies related to the financing of capital assets that takes into account the fact that some capital assets are not financed by the government.
 - 6** Determine terms of repayment (disbursement) for the subsidies payable to the institutions for sick leaves and vacations.
-

Highlights

Work Objective

Our objective is to inform parliamentarians of certain issues related to changes in accounting standards, both in Public Sector Accounting Standards and International Financial Reporting Standards (IFRS). The impact of these standards on the financial statements of the Société générale de financement du Québec (SGF) and Hydro-Québec is also presented.

The Report is available at <http://www.vgq.qc.ca>.

Work Results

We present here the principal observations concerning the development of accounting standards.

Accounting standards are currently undergoing significant changes. The presentation of net debt in the financial statements of government organizations is required for fiscal years ended on or after December 31, 2011. Furthermore, the addition of budget estimates for fiscal years ended on or after December 31, 2012, will make it possible for parliamentarians to more easily assess the actual performance of government organizations in relation to budget targets. Finally, the effect of the new chapter on financial instruments will require governments and government organizations to present a new statement entitled Statement of Remeasurement Gains and Losses.

Expenditures presented at present as revenue reductions will be recorded as expenditures. Under the new tax revenue standard, refundable tax credits may, in substance, constitute transfer payments. When the government applies the standard for the first time, the consolidated expenditures will increase significantly, by an amount corresponding to the refundable tax credits that meet the conditions being deemed to be transfer payments.

SGF's application of IFRS had an impact on the government's financial statements. As at April 1, 2010, this resulted in a \$158 million increase in the government's accumulated deficits. This adjustment is a result of the SGF's accumulated deficit of \$397 million and the reclassification of other elements of comprehensive income amounting to \$239 million. Therefore, these \$397 million will never be reflected in the government's future annual results. For 2010-2011, application of IFRS resulted in an increase of \$116 million in revenues from government enterprises.

The multiyear transition to IFRS has affected Hydro-Québec's electricity rates. Consequently, we have observed rate increases of approximately 2% on April 1, 2009 and of 2.6% on April 1, 2010. The latter was a result of the change in the amortization method applied to fixed assets. Hence, the impact on revenues required for 2010 to 2019 represents a need of an additional \$791 million. This will result in pressures to increase electricity rates until 2016.

Hydro-Québec's retained earnings are affected by two major successive reductions. The January 1, 2010, retained earnings decreased by \$3.9 billion as a result of the change made to the amortization method applied to fixed assets. Furthermore, in the preparation of the opening balance sheet as at January 1, 2011, the transition to IFRS will result in a reduction of \$3.3 billion in retained earnings, related to accounting changes applicable to employee benefits. Over the long term, charges of \$7.2 billion will never appear in Hydro-Québec's future results, but increase the government's accumulated deficits by the same amount.

Highlights

Work Objective

The indebtedness of Québec's public sector has been a topic of interest for a number of years. The government has adopted measures and objectives to reduce indebtedness and ease the repayment burden of future generations.

Our work had an educational objective because the subject is complex, and both parliamentarians and the public need additional information to fully understand the size of the government's debt and how it changes over time.

The Report is available at <http://www.vgq.qc.ca>.

Work Results

We present here the principal findings or observations that we have done concerning issues related to the indebtedness of Québec's public sector.

For the purpose of calculating the gross debt, loans contracted by the Financing Fund to benefit entities outside the government's reporting entity are not taken into account. Such loans are taken into account where they are contracted by other entities, such as Financement-Québec (FQ). Thus, the government's gross debt as at March 31, 2011, includes an amount of \$1,208 million that corresponds to a loan contracted by FQ that will ultimately be assumed by Québec municipalities. If the Financing Fund had taken out the loan, this amount would not have been included in the government's gross debt.

The debt-reduction objectives (for gross debt and the debt representing accumulated deficits) set by law for 2025-2026 will require a sustained effort and rigorous monitoring. However, no intermediate objective has been set by the Ministère des Finances du Québec (MFQ) for the next 15 years. Thus, for example, as at March 31, 2011, the difference between the 54.3% ratio of the government's gross debt to the gross domestic product (GDP) and the 45% objective represents 9.3 percentage points of the GDP, or \$29.7 billion. The difference between the 35.2% ratio of the government's accumulated deficits to GDP and the 17% objective represents 18.2 percentage points of the GDP, or \$57.9 billion. In both cases, the difference is substantial. Furthermore, according to the latest government forecast, both gross debt and the accumulated deficits as at March 31, 2015, will be nearly \$10 billion and \$2.9 billion higher, respectively, than the forecasts made a year and a half earlier, in March 2010.

The government's contractual obligations have increased continually over the last five years. As at March 31, 2011, they were \$40.9 billion, which is an increase of \$6.8 billion (19.9%) compared with the previous year.

The new accounting standard for government transfers will have significant effects on the government's liabilities and on its accumulated deficits. If the standard had been applied, in anticipation and retroactively in 2010-2011, it would have had the effect, on the one hand, of increasing the government's accumulated deficits by at least \$7.5 billion as at March 31, 2011, and on the other hand, of increasing liabilities by at least \$5.3 billion as at the same date.

The accumulated deficits of entities carrying out activities of a fiduciary nature decreased over the last two years, with the exception of that of the Parental Insurance Fund (PIF), which has been continually increasing for the last five years.

Recommendation

The Auditor General has made a recommendation to the MFQ. It is shown to the right.

The entity had the opportunity to comment on this recommendation; its comments can be found in the *Commentaires de l'entité* section. We want to point out that it did not accept the recommendation.

Recommendation to the Department

- 1 Set intermediate debt-reduction objectives to be reached between now and 2025-2026 for reducing gross debt and the debt representing accumulated deficits for management and accountability reporting purposes.**
-

Highlights

Work Objective

During the last two years, the Auditor General has published analyses of program expenditures. Furthermore, Chapter 7 of the volume that covers audit of financial information and other related work, which was tabled to the National Assembly in February 2011 gives the remarks made by the Auditor General to the members of the Committee on Public Finance during the study of Bill. 128, which concerned special funds. Considering the importance of these two subjects for Québec's public finances, we thought it appropriate to continue our analysis. The Report is available at <http://www.vgq.qc.ca>.

Work Results

We present here the principal observations of our work concerning the Plan to Restore Fiscal Balance.

The government continually improves its financial information documents. The *Public Accounts 2010-2011* present the results of non-budget-funded bodies, including special funds, by sector. In addition, the *Budget Plan 2011-2012* and the October 2011 economic update give separately results and current and projected growth rates for expenditures in each sector. They also give the restated targets for prior years to take into account the new composition of program expenditures.

The composition of program expenditures can vary following legislative changes. As of April 1, 2012, special funds will be included in the Consolidated Revenue Fund. However, we note that the government chose to exclude from its definition of program expenditures the expenditures from special funds. In fact, only expenditures from the general fund will be considered to be program expenditures. However, like program expenditures, the expenditures from special funds will, from now on, be subject to parliamentary control. Furthermore, the creation of the Land Transportation Network Fund (FORT), the Fund to Finance Health and Social Services Institutions (FINESSS) and the Tax Administration Fund (FRAF), as well as the reclassification of the doubtful accounts expense related to tax revenues mean that expenditures which were previously program expenditures are no longer in that category.

Reaching the additional tax recovery targets set in the Plan to Restore Fiscal Balance while maintaining the doubtful accounts expense is a major challenge for the government. The expected total additional tax recovery for fiscal years 2010-2011 to 2013-2014 increased from \$2 billion to \$3.5 billion between March 2009 and March 2011. The efforts to reach these targets will have to be larger as certain recovery activities are subject to provisions. In spite of a doubtful accounts expense related to tax revenues of \$933 million in 2010-2011 and rising objectives in the fight against tax evasion and tax avoidance, the forecasts for fiscal years 2011-2012 to 2013-2014 put the doubtful accounts expense at \$850 million a year.

Reaching targets set for the rate of growth of program expenditures will require considerable efforts, especially since the expenditures will be larger than the amounts initially forecast. The anticipated growth targets for the next three fiscal years are, respectively, 1.9%, 1.6% and 1.9%, which is greatly below the average annual growth rates over 10 years (4.6%) and the rate for fiscal year 2011 (3%). Considerable efforts will also be needed with respect to consolidated expenditures. Their growth over the next three fiscal years will be 3.8%, 2.4% and 2.2%, whereas it was 4.8% from 2001-2002 to 2010-2011 and 3.5% for 2010-2011.

Highlights

Work Objective

The main purpose of our work was to analyze the follow-up and reporting on the measures in the *Act to implement certain provisions of the Budget Speech of 30 March 2010, reduce the debt and return to a balanced budget in 2013-2014*. One of the provisions of the Act requires some entities to adopt measures to reduce their expenses for advertising, travel and training, as well as other administrative operating expenses.

We examined the follow-up and reporting of the Secrétariat du Conseil du trésor (SCT), as well as the activities of the Ministère des Finances du Québec (MFQ) in relation to the roles and responsibilities that the latter has under the Act. We also examined the application of these measures by three entities subject to the Act that are of different sizes and natures.

The entities in the health and social services network, the education network and the universities were excluded from our work.

The Report is available at <http://www.vgq.qc.ca>.

Work Results

We present here the principal findings of our work concerning this Act.

More than half (51%) of the entities subject to the Act, that is, 33 out of 65, had their expense reduction policy approved by their board of directors or highest authority before September 30, 2010, which was the deadline for submitting expense reduction policies to the government.

To date, the government has not published any specific information on reduction measures in administrative operating expenses. Consequently, it is difficult to have a complete picture, for all of the entities subject to the Act, of the situation regarding these measures. The only information produced by the government and made available is the information published in the 2011-2012 budget documents (expenditure budget and budget plan), published respectively by the SCT and the MFQ, and the economic update given on October 25, 2011. In all cases, the results related to reduction measures for administrative operating expenses are incorporated with those related to other expense reduction measures provided for in the Plan to Restore Fiscal Balance, which prevented us from evaluating separately the savings achieved by the entities subject to the Act.

The reliability of the 2010-2011 results obtained from bodies other than budget-funded bodies was questioned by the SCT. Improvements are needed to obtain quality information and thus be able to make reports that bear directly on the measures referred to in the Act.

The information in the annual reports of the three selected entities is not uniform. For two of them, the Régie des installations olympiques (RIO) and the Société immobilière du Québec (SIQ), it was not possible to evaluate the results obtained with respect to the 25% reduction target for advertising, travel and training expenses.

Recommendations

The Auditor General has made recommendations to the SCT and the SIQ. All of them are shown to the right.

The entities had the opportunity to comment on the recommendations; their comments can be found in the *Commentaires des entités* section. We want to point out that they accepted all of the recommendations.

Recommendations to the Secrétariat

- 1 Ensure that it obtains from the entities subject to the Act, complete, high-quality information so as to be able to prepare annual reporting on the application of the reduction measures for administrative operating expenses.**
- 2 Provide guidelines to the entities subject to the Act to ensure uniformity for the information on the measures that is published in their annual reports.**

Recommendation to the Société

- 3 Use the actual 2009-2010 expenses to calculate the savings achieved for the purpose of annual reporting.**
-

Highlights

Work Objective

Currently, no Canadian Public Sector Accounting Standard specifically applies to transactions made for public-private partnerships (P3s). Since they generate significant government disbursements from public funds, we considered it appropriate, out of a concern for transparency, to present the impact of each P3 on the government's consolidated financial statements as at March 31, 2011. Our analysis is not intended to promote one method of carrying out public infrastructure projects over another or to call into question the accounting methods now in use.

The Report is available at <http://www.vgq.qc.ca>.

Work Results

We present here the principal observations of our work concerning public-private partnerships.

No Canadian Public Sector Accounting Standard specifically applies to P3s. The absence of specific P3 standards leaves significant room for professional judgment. In such a situation, it becomes necessary to carry out an in-depth analysis of the agreements to determine what accounting method is appropriate so as to give a good picture of the substance of the operation.

In its consolidated financial statements, the government records the assets and liabilities related to P3 agreements. The time when assets and liabilities are recognized depends on the transfer of the property's inherent risks and benefits.

Infrastructures built as P3s provide revenues to the partner or to the government or to both, depending on the terms and conditions of the agreements. The partner may receive revenues from the government, for example periodic payments, or from outside sources, such as the rental of commercial space for service areas. For its part, the government may receive revenues from the partner, for example royalties, or from outside sources, such as toll revenues.

Maintenance and operating expenses are set to cover a long period, which results in transferring, in part, to the partner the risk of variation of these expenses. However, that may make it possible to more rapidly record such expenses compared with the conventional method. Most agreements provide for periodic amounts that are usually equal and sometimes increased slightly to take inflation into account. When an asset is new, little or no maintenance is required at the beginning. Therefore, for some P3s, maintenance expenses may be paid in advance, which generally makes it possible to record them more rapidly compared with the conventional method. However, such advance payments do not apply to periodic payments for maintaining the P3 assets of the McGill University Health Centre (MUHC) and the Research Centre of the Montreal University Health Centre (CHUM).

P3 contractual obligations were \$7.2 billion as at March 31, 2011, which was more than double those of the previous fiscal year (\$3.5 billion). They break down as follows: \$2.6 billion for the future construction costs and \$4.6 billion for their maintenance and operation.

The government's outflows for P3s are estimated to be at least \$11.1 billion for coming years. However, some P3s will generate revenues for the government, which will make it possible to absorb a portion of those costs. These outflows will be allocated in particular to the payment of contributions, interest, maintenance and operation.

Highlights

Work Objective

This chapter gives an overview of the recommendations contained in the reports to those charged with governance and management that the Auditor General produced from October 1, 2010, to September 30, 2011.

During our audits, we observed deficiencies in internal control likely to result, in particular, in risks of errors in various areas. We informed the management of the audited entities and those charged with governance of those deficiencies.

The Report is available at <http://www.vgq.qc.ca>.

Work Results

We present here the principal observations of our audit concerning reports to those charged with governance and management.

The Canadian Institute of Chartered Accountants has adopted a new auditing standard. Entitled *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* (CAS 265), and applying to audit periods ended in or after December 2010, it provides that only significant deficiencies will be communicated to those charged with governance and management by means of a report to those charged with governance and management. This explains in large part the decrease in the number of recommendations from 2009-2010 (434) to 2010-2011 (351).

The recommendation application rate for 2010-2011 was 60%, the same rate as the previous year. For the period from October 1, 2010, to September 30, 2011, there were 351 recommendations made, in 56 reports. Among them, 113 were submitted for the first time in 2010-2011, whereas 238 others concerned earlier periods. We oversaw the implementation of the latter group, in order to determine to what extent the entities had followed up on our recommendations.

From 2009-2010 to 2010-2011, the distribution of the recommendation application rate among the three categories fluctuated significantly. In fact, the rate related to governance and responsibility for financial information increased from 51% to 68%. For the recommendations concerning management and disclosure of financial information, the rate was 63%, a decrease of 8% from 2009-2010. As for the category concerning the information technology management, the recommendation application rate (53%) is about the same as the 2009-2010 rate (54%).



Significance of the logo

An easy-to-recognize building, Parliament, where the National Assembly sits. It is this authority which has entrusted the Auditor General with his mission and to which he reports.

Three dynamic lines, illustrating:

- the three types of audits carried out by his staff, namely financial audits, audits of compliance with statutes, regulations, policies and directives, as well as value-for-money audits;
- the three elements that are examined during value-for-money work: economy, efficiency and effectiveness;
- the three fields – social, economic and environmental – related to the stakes concerning sustainable development.

A truly distinctive sign, the logo of the Auditor General clearly illustrates that this institution, which is in constant evolution, aims to assist elected members in their desire to ensure the sound management of public funds, for the benefit of the citizens of Québec.

Acting Auditor General



On November 29, 2011, the President of National Assembly appointed Mr. Michel Samson as Acting Auditor General of Québec.

Since January 1, 2008, Mr. Samson held the position of Assistant Auditor General. He was responsible for several teams of experts in charge of carrying out value-for-money audits with government entities, whose scope and vocation were highly varied. The projects that he conducted mainly concerns such areas as education, transportation, culture and finance. Moreover, since 2010, he supervised the general directorate that offers value-for-money audit advisory services for its staff.

It was in 1990 that this CA joined the staff of the Auditor General. He began by working as a professional for six years in Québec City, being mainly assigned to value-for-money audits. He went on to accept a senior management position at the Montréal office; the files on which he worked concerned both financial audits and management audits.

His commitment and versatility bore fruit. In 2003, he returned to Québec City where he would serve as senior director, overseeing some thirty employees up until 2005. He is credited with numerous reports, which take stock of the practices used in, and the financial information produced by the Administration. He was entrusted with key sectors, which allowed him to demonstrate his ability to successfully complete particularly demanding assignments. The main components of his mandate were related to education, justice, modernization of government management, and computer systems.

Over the last few years, Mr. Samson heads four auditing directorates specializing in value-for-money audits. He carried out a significant share of the audit engagements completed on behalf of the National Assembly. Moreover, since being hired, he has often participated in special audits or overseen their completion.

As for his other professional activities, this experienced manager has contributed to the efforts made by all Canadian legislative auditors to promote the quality of information on performance published in the public sector. In addition, he has hosted training sessions on value-for-money auditing (Institute of Internal Auditors, Morocco Audit Institution, etc.) on many occasions. Finally, he has been a member of numerous in-house committees, including the one responsible for the organization's strategic planning from 2000 to 2006.

Before joining the ranks of the Auditor General, Michel Samson worked for two accounting firms. As a partner, he carried out financial auditing work for small and medium-sized businesses in the manufacturing sector.

A member of the Ordre des comptables agréés du Québec since 1984, he holds a Bachelor's Degree in Business Administration and a Licence in Accounting Sciences, both of which he received from Université Laval in 1981.

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