



# Report of the Auditor General of Québec to the National Assembly for 2012-2013

Audit of Financial Information  
and Other Related Work

Highlights

Winter 2013





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## **1 Introduction**

- 1 For the fourth 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 comments that I deem appropriate with respect to:
  - 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.
- 4 In the last year, I had the opportunity to enquire with some parliamentarians about their interest in this separate report. They expressed their desire for me to continue doing the work I have done in previous years.
- 5 I am of the opinion that it is important to inform parliamentarians on various subjects related to financial information. I therefore plan on meeting the expectations that were expressed and continuing to produce this type of report each year.

## 2 Québec's Financial Position

### 2.1 Balanced Budget

6 In 2009, following a significant deterioration in the Government of Québec's public finances, the *Balanced Budget Act* was amended. As such, the government can record budgetary deficits until 2012-2013 inclusive. However, the Act requires objectives to be set to decrease budgetary deficits for 2011-2012 and 2012-2013. Set in March 2011 during the Budget Speech, these objectives are \$3.8 billion for 2011-2012 and \$1.5 billion for 2012-013. The Act also stipulates that balance between revenues and expenditures, established in accordance with the government's accounting policies, must be reached in 2013-2014.

7 To respect the Act, the government developed a plan to restore fiscal balance in March 2009. The government's strategy to achieve a balanced budget has since been modified seven times. The various modifications made in the past four years have enabled Québec's changing socio-economic position to be taken into account and new planned actions to re-balance public finances to be specified, if any.

8 In the fall of 2012, the new government produced the 2013-2014 budget, and the objective of restoring balance as provided in the Act remains. From this perspective, strict monitoring of expenditure increases, more specifically program expenditures, must be exercised. As a result, I continue to believe that parliamentarians will benefit from being informed on the changes in expenditures.

9 In this volume, I present my work on program expenditures, which was done in particular to compare them to the forecasts given in the initial Plan to restore fiscal balance that was developed in March 2009. I also put into perspective the new government's expenditure forecasts, and I compare them to the plan's data to have a complete picture of their changes to date.

10 I consider it extremely important to strictly monitor the growth of expenditures as a whole, since the modification of historical trends in this regard requires sustained efforts. A large part of government expenditures are difficult to cut back in the short-term. They are what some call the "costs of the system." These costs result from previous actions or from laws that bind the government and limit its leeway. They cannot be eliminated quickly without legislative amendments or without financial consequences. For example, the government is restricted by its level of indebtedness. It can act to ensure the efficient management of its debt, but its room to manoeuvre to reduce financial expenses is limited.



11 For the first three years of the Plan to Restore Fiscal Balance, namely from 2009-2010 to 2011-2012, actual program expenditures, determined on a comparable basis, are \$6.1 billion higher than the forecasts made in March 2009. For the five-year period ending March 31, 2014, \$10.3 billion for program expenditures has been added since March 2009, including \$1 billion resulting from changes made in the last year.

12 However, note that the increase in program expenditures began to be brought down in 2010-2011 and in 2011-2012, relative to the historical average of the past 10 years. Even better, I have observed a dip in the growth of consolidated expenditures.

13 In its budget tabled November 20, 2012, the government stated it would stay its course in restoring fiscal balance in 2013-2014, despite a downward revision to the economic outlook. It expects an annual surplus of \$1.039 million in 2013-2014, which gives it the leeway to comply with the *Balanced Budget Act*. In fact, in 2013-2014, compliance with the Act will be assessed using the annual results determined in the financial statements.

14 Beginning in 2014-2015, the notion of balance as determined by the Act will be measured differently, namely with the budget balance calculated according to the Act's provisions, as before 2013-2014. The government will, in particular, have to remove the results of the Generations Fund from its annual results published in the financial statements. Thus, its growing annual surpluses, planned for the coming years, will not contribute to achieving the balanced budget prescribed by the Act.

15 Otherwise, in February 2013, the government tabled a bill to amend the *Balanced Budget Act* to enable it to meet the deficit objective of \$1.5 billion for 2012-2013. This amendment allows Hydro-Québec's estimated \$1.8 billion loss, which comes from the closure of the nuclear power plant, Gentilly-2, to be excluded from the budget balance calculation provided for in the Act. The bill also amends the *Hydro-Québec Act*; additional annual payments of \$215 million will be made to the Generations Fund from 2017-2018 to 2043-2044. The government estimates that these amounts will correspond to Hydro-Québec's future savings following the closure of the nuclear power plant.

16 I take careful note of the government's intentions. I will continue to be vigilant about compliance with the *Balanced Budget Act* and the quality of reporting in that regard, because it is a cornerstone in the management of public finances.



## 2.2 Québec's Indebtedness

17 For the last five years, the Auditor General of Québec has been interested in issues related to Québec's public sector indebtedness. As can be seen in the 2013-2014 budget documents, Québec is still in first place among all Canadian governments for the level of indebtedness, regardless of how indebtedness is defined.

18 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 representing accumulated deficits is limited to 17% of the GDP. These objectives are evidence of the desire expressed by parliamentarians to reduce Québec's level of indebtedness.

19 In this context, I believe it is relevant to inform parliamentarians on this important and complex aspect of Québec's financial situation.

### Debt-Reduction Objectives

20 This past year, Statistics Canada revised its method of calculating GDP. Compared to the previous calculating method, this revision raised Québec's nominal GDP. Because Québec's indebtedness ratios are measured as a function of the GDP, they have to be revised downward. Therefore, as at March 31, 2012, the gross debt-to-GDP ratio improved by 1.6%, dropping from 54.6% to 53%. Without this methodological revision, the gross debt would have to be lower by \$5.4 billion to achieve such a ratio.

21 Statistics Canada's new calculation method has raised Québec's GDP but has no influence on real economic growth nor on taxpayers' ability to pay. It has also reduced the gross debt-to-GDP ratio by 2% as at March 31, 2010, which is significant. Would the objectives set in the Act adopted in June 2010 have been the same if the effects of the new calculation method had been taken into account? Should the objectives be revised? I encourage parliamentarians to begin a reflection on this.

22 These questions seem especially important since these objectives were also set in a context in which accounting standards are changing. For example, the current calculation of gross debt does not take into account certain contractual obligations that, in my opinion, clearly represent a government debt. These obligations will serve to repay financial market borrowings by third parties to acquire fixed assets subsidized by the government. The application of a new

accounting standard for government transfers will require that they be recorded in the government's financial statements for the fiscal year ended March 31, 2013. Therefore, these obligations would be included in the government's accumulated deficits, but not its gross debt calculation. Would it not be appropriate for all debts to be taken into account in the government's indebtedness ratios?

23 In the fiscal year ended March 31, 2012, gross debt rose by 5.7%, or nearly \$10 billion, and was \$183.4 billion as at March 31, 2012. This growth was greater than that of the economy according to the GDP (4.7%). This puts pressure on the debt service, which grew similar to the gross debt in 2011-2012.

24 Chapter 6, which presents certain stakes related to indebtedness, shows that Québec uses a greater portion of its revenues for its debt service than the four other Canadian provinces with the highest net debt-to-GDP ratios in Canada. In addition, the government's forecasts for the coming years indicate that the debt service will increase more significantly than other expenditures or revenues.

25 Also, the debt representing accumulated deficits as a function of GDP, which was 33% as at March 31, 2012, dropped for a second straight year. The government's forecasts show that the downward trend should continue until 2016 and that the ratio should reach 29.1% of the GDP.

26 Current forecasts for accumulated deficits must, however, be revised to take into account future accounting changes.

27 In Chapter 2, I explain that the Accounting Standards Board's deadline for entities with rate-regulated activities, such as Hydro-Québec, to implement International Financial Reporting Standards (IFRS) was pushed back a year. The transition deadline to apply IFRS is now January 1, 2015.

28 Given this, the true impact for Hydro-Québec of implementing IFRS could be very different than what is currently estimated. In its 2013-2014 budget plan, the government raised the March 31, 2014 accumulated deficits by an estimated \$3.3 billion to take that impact into account. However, according to the forecast based on Hydro-Québec's audited financial statements as at December 31, 2011, that amount is now approximately \$5.1 billion, which represents a \$1.8 billion increase from the amount given in the November 2012 budget.

29 In addition, changes made to the accounting standard for government transfers will increase the estimated accumulated deficits. The government estimated their impact to be \$1.2 billion as at April 1, 2012. I interpret the impact to be underestimated by at least \$7.2 billion. I address this difference in the section on government transfers.

30 In the coming years, large sums may be added to the Government of Québec's accumulated deficits, which will require additional efforts to be made to reach the objectives set forth in the Act.

31 As mentioned above, the *Act to reduce the debt and establish the Generations Fund* stipulates that debt-reduction objectives must be reached by 2025-2026. These are very long-term objectives. In this context, I reiterate my recommendation to the Ministère des Finances et de l'Économie, which is that intermediate objectives be set for the purposes of management and accountability reporting. This is a matter of sound management practices. Intermediate objectives would greatly serve to assess progress and, if need be, to make changes in a timely manner. Given that, they serve as milestones in achieving the anticipated results.

## Contractual Obligations

32 In the chapter on stakes related to indebtedness, I again present 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 some of these obligations are implicit, current or future debts for the Québec public sector.

33 In this respect, I once again draw the attention of the parliamentarians to the growth in the government's contractual obligations. These obligations, which total \$45.4 billion as at March 31, 2012, excluding interests as at March 31, 2012, have grown by 10.5% during the fiscal year then ended and by 20.4% during the previous fiscal year. In fact, they more than doubled in the last five years. They were as at March 31, 2012, 13.1% of the GDP. Public-private partnership contracts are the main explanation of this growth for the last fiscal year.

34 I believe that the government's reporting with regard to this form of indebtedness must be improved. Not all appropriations for contractual obligations are approved by the National Assembly when the government enters into a contract. The obligations are usually not submitted for parliamentary control except in the year when disbursements are scheduled.

35 More than half of contractual obligations arise from commitments the government made to pay subsidies over several years. Contracts to this effect are signed. In some cases, eligible expenditures were even made by the subsidy recipients. Last year, I invited the government to begin a reflection so that the budget process will make it possible for Québec parliamentarians to debate the approval of appropriations for these obligations in a timely manner, that is, before actions taken by the government cause it to lose its discretionary power. I reiterate that invitation.

36 Contractual obligations, which have been growing faster than the GDP, are increasingly limiting the flexibility that will be available to reduce public expenditures in the coming years. In fact, sooner or later, the obligations will be paid and recorded in the government's expenditures. I believe that the government needs to closely monitor their progression and to reinforce the accountability related to them.

## 3 Government Transfers

37 Chapter 2, which deals with the audit of the government's consolidated financial statements, takes stock of our difference of opinion with the government regarding the new accounting standard for government transfers that is applicable to the fiscal year ending March 31, 2013.

38 The events of the last year have not allowed us to align our respective positions. The government considers that it cannot record its government transfers in its accounts as long as sufficient appropriations have not been voted. I do not share this interpretation of the new standard in light of the conceptual framework that currently guides the Canadian Public Sector Accounting Standards (CPSAS). The objective of a conceptual framework is to facilitate the consistent and logical formulation of standards and provide a basis for the use of judgment in resolving accounting issues. When exercising judgment, the auditor must refer to the applicable conceptual framework. As such, it is still my opinion that the liability must be recorded when the commitment made by the government leaves it no other realistic option than to honour it. The government's interpretation does not lend itself to the accurate presentation of the financial situation, in particular that of its indebtedness.

39 The government's budgetary practice consists in paying certain subsidies for fixed assets over a number of years. Thus, subsidy recipients often have to borrow to finance the acquisition of the fixed assets while waiting to receive the subsidies they were promised by contract. To date, the government has recorded its subsidy expenditure and submitted it to the annual appropriations vote following the subsidy payment schedule, regardless of the fact that the subsidized fixed asset has long been acquired or entirely constructed.

40 As a result of this budgetary practice, parliamentary control cannot be exercised in a timely manner. In this regard, I noted that parliamentarians were sometimes called to vote appropriations for subsidy expenditures that concerned ended programs. Additionally, given that the entities that receive subsidies do not usually benefit from the same market conditions as the Government of Québec, its budgetary practice results in additional costs for all or some of Québec's taxpayers.

41 Because of my mandate under the law and my role as auditor of the government's consolidated financial statements, I have the responsibility of ensuring that the government's chosen accounting policies present a fair portrait of public finances to parliamentarians and to the population of Québec. In addition, my role also consists in sharing my observations and findings to encourage the sound management of public funds.

42 The government announced that it plans on passing legislation to specify that, in terms of applying the new accounting standard, government transfers cannot be considered as authorized by the government as long as sufficient appropriations have not been voted.

43 As I stated last year, the CPSAS specify that transactions and events must be accounted for and presented in a manner that conveys their substance rather than necessarily their legal form. To judge this substance, it may be necessary to consider a group of related transactions and events as a whole. The aim of Canadian accounting is neither legal nor political; it is economic and financial.

44 Therefore, the fact that the government specifies in legislation its interpretation of the standard does not change the economic substance of the transactions made. The government is indebted to third parties, and it acknowledges that it has to pay that debt. Consequently, this debt must be taken into account in its financial position. As I did last year, I offer the Ministère des Finances et de l'Économie my full cooperation so that it can carry out all the changes required in a structured and methodical way in the coming years.

## **4 Change in Responsibilities**

45 The last year was characterized by numerous changes to the responsibilities assigned to certain entities included in the government's reporting entity. Two of these changes are harmful to accurate financial reporting.

### **4.1 Programme de la taxe fédérale sur l'essence et de la contribution du Québec**

46 On March 28, 2012, the government transferred to the Ministère des Affaires municipales, des Régions et de l'Occupation du territoire (MAMROT) and to the Ministère des Transports du Québec (MTQ) part of the Programme de la taxe fédérale sur l'essence et de la contribution du Québec for 2010-2013. This program, which involves contributions from the federal government and Government of Québec, ends December 31, 2013.

47 The federal contribution and part of the Québec contribution which are, according to the program's terms, paid in cash will continue to be assumed and paid by the Société de financement des infrastructures locales (SOFIL). However, the Québec contribution to be paid in the long term will now be supported by the MAMROT and the MTQ.

48 As indicated in government documents, the objective of this change is to defer the recording of expenditures and liabilities in the government's financial statements, based on the government's current interpretation of the new accounting standard for government transfers. The SOFIL must therefore account for all subsidy-related expenditures as soon as work by subsidy recipients is complete because these subsidies are not voted on by parliamentarians at the annual appropriations vote. However, the MAMROT and the MTQ must record these expenditures when the sufficient appropriations are voted, namely following the subsidy payment schedule.

49 Previously, all program transactions were presented in the SOFIL's financial statements. In my opinion, parliamentarians and the population should be able to consult a program's complete financial information in one place and when convenient. This may even be considered the essence of results-based management.

50 How can a program's results be measured if information on the costs incurred is spread across the financial statements of three entities and if the program's resulting expenditures extend 10 or 20 years past the program's end? Can an entity feel accountable under these circumstances?



51 The Québec and federal governments have agreed by contract to contribute to the program. Municipalities can thus perform construction and repair work on drinking water and wastewater infrastructure as well as road work. This work will generate economic benefits during its execution. As such, the economic and financial substance requires that the Government of Québec record its contribution, whether paid or not, when the work eligible for a subsidy is complete.

52 The government's interpretation of the accounting standard leads to a different treatment depending on whether the programs are administered by a budget-funded body or a non-budget-funded body. This difference in treatment which opens the door to the transferring of responsibility undermines the quality of financial reporting.

## 4.2 Dossier de santé du Québec

53 In Chapter 4, I explain that the transfer of certain assets making up the Dossier de santé du Québec has created losses in some entities at no fault of those entities.

54 These changes do not encourage the accountability of governance authorities with regard to the financial performance presented in their financial statements. In recent years, many audit committee members expressed concern over certain accounting entries dictated by the government that they were unable to control. For example, during the transfer of certain Dossier de santé du Québec components, the Agence de la santé et des services sociaux de Montréal was attributed a \$38 million loss for which it was in no way responsible, while the Régie de l'assurance maladie du Québec received this asset as a donation.

55 In addition, numerous asset transfers from one entity to another in this matter make them difficult to monitor, especially since the assets are intangible. Chapter 4 illustrates the case of the PANORAMA project, renamed SI-PMI after its scope was changed. Asset ownership and the related funding will now be accounted for in the financial statements of three bodies, while project governance is centralized within the Ministère de la Santé et des Services sociaux, and with the project ultimately to be used by the Institut national de santé publique du Québec.

## 5 Government's Consolidated Financial Statements: Governance

56 The incorporating acts of public bodies and government enterprises usually provide for the formation of a board of directors and an audit committee responsible for monitoring the financial information process. The entity's management, on the other hand, is responsible for managing the entity's activities and preparing financial statements that reflect the financial position and the results of activities.

57 The responsibility of hearing the Auditor General on the results of his mission, of examining the financial statements and of recommending their approval to the board of directors usually falls to the audit committee, which is made up of one or more individuals who are external to the entity and independent.

58 This governance structure with two levels, namely the separation of the monitoring and management functions, ensures the independent and objective follow-up of the auditor's recommendations and observations. Also, because of his collaboration with the audit committee, the auditor can improve certain deficiencies he noted in the financial information process during his mission.

### 5.1 Role of Parliamentarians

59 The governance surrounding the production of the government's consolidated financial statements is different than that for the bodies and enterprises included in its reporting entity. The monitoring and management functions, that is, the preparation of financial statements and their approval, fall to the Ministère des Finances et de l'Économie. In fact, the *Financial Administration Act* provides that the Comptroller of Finance prepare, on behalf of the Minister, the government's consolidated financial statements which are then presented to the National Assembly.

60 In this context, the role of parliamentarians is important since they are the only ones able to ensure an independent follow-up of the Auditor General's recommendations. They can take on some of the responsibilities of an audit committee.

61 The *Standing Orders of the National Assembly* provide the specific mandates of certain parliamentary committees. For example, the Committee on Public Administration has the following three main responsibilities:

- examining all financial commitments equal to or exceeding \$25,000 of every department and body whose appropriations are voted by the National Assembly;

- hearing the deputy ministers or chief executive officers of public bodies with regard to their administrative management;
- hearing the Auditor General with respect to his annual report to the National Assembly.

62 However, the standing orders do not require a parliamentary committee to study the Government of Québec's consolidated financial statements or the Auditor General's findings concerning those statements.

63 Elsewhere in Canada, the functions of parliamentary committees are not uniform. However, I observed certain practices that Québec could draw inspiration from in terms of monitoring consolidated financial statements.

64 For example, the Public Accounts of Canada are submitted to the Standing Committee on Public Accounts as soon as they are tabled in the House of Commons. In line with its mandate, this committee studies the Public Accounts and examines the deficiencies of a financial and accounting nature that are highlighted in the Auditor General's report. At the end of its study, it can make recommendations to the federal government with a view to improving the administrative and financial methods and controls of the departments and bodies.

65 The province of Ontario also has a standing committee on public accounts. The committee is authorized to study the Auditor General's report and the Public Accounts and to share its observations, opinions and recommendations with the Legislative Assembly.

## **5.2 Canadian Council of Public Accounts Committees**

66 In Canada, the Canadian Council of Public Accounts Committees (CCPAC) is made up of legislators and staff from federal, provincial and territorial public accounts committees. Its aims are:

- to facilitate the exchange of information, opinion and experience relating to public accounts committees and to discuss matters of mutual interest to the membership;
- to improve the quality and performance of public accounts committees in Canada to ensure that taxpayers are getting value for money;
- to work with auditors general so as to improve the effectiveness of both the auditors and the public accounts committees;
- to work with individuals and organizations knowledgeable about matters of concern to public accounts committees;
- to educate the elected members, the media and the general public as to the purposes and activities of public accounts committees.

<sup>67</sup> The Committee on Public Administration represents Québec in the CCPAC. The CCPAC meets annually and invites the Canadian Council of Legislative Auditors to its exchanges. In recent years, many topics have been discussed, including environmental auditing and how auditors general and members of public accounts committees work together to improve the production of Public Accounts.

<sup>68</sup> Although this yearly meeting is a valuable opportunity for legislative auditors and parliamentarians to discuss, it does not allow for the follow-up of the recommendations that a given province's auditor general has made concerning the audit of the government's financial statements.

<sup>69</sup> In this context, I consider that parliamentarians can play an important role in the governance surrounding the production and approval of the government's consolidated financial statements. I make myself available to them so that they study them in greater depth. In addition, to ensure sound governance and quality reporting, I invite them to give the responsibility of studying the Public Accounts to the Committee on Public Administration or another parliamentary committee, as they see fit.

## 6 Joint Audit

70 Section 160 of the *Act respecting the governance of state-owned enterprises*, which came into force in 2006, introduced the concept of joint audit. The Act provides that the books and accounts of certain state-owned enterprises be audited jointly each year by the Auditor General and an external auditor appointed by the government.

71 In July 2012, following a request by the Ministère des Finances et de l'Économie, a team from the École nationale d'administration publique (ENAP) published a qualitative assessment on the application of this Act. In its assessment, many recommendations were made, including:

[Translation] Limiting joint audit to the following state-owned enterprises: Hydro-Québec, the Caisse de dépôt et placement du Québec, the Société des alcools du Québec and Investissement Québec. We propose removing the other state-owned enterprises from the list of state-owned enterprises subject to joint audit given in the *Act respecting the governance of state-owned enterprises*, such as the Société de l'assurance automobile du Québec and Loto-Québec.

Revising the appointment procedure for private firms chosen to perform the joint audit with the Auditor General. The 4 state-owned enterprises subject to joint audit should proceed with a public call for tenders for these services for a maximum duration of five consecutive years among qualified accounting firms. The call for tenders with prices would enable competition between accounting firms to act as auditor jointly with the Auditor General, and only the least expensive firm would be chosen to respond to the government order in council.

72 My predecessor and I have highlighted on several occasions the high costs associated with this type of audit. Following ENAP's qualitative assessment and in the context of the budgetary rigour defined for all public sector entities, it seems appropriate to me to again raise awareness about this issue among parliamentarians.

73 As such, I support the recommendation concerning the appointment procedure for private firms. I am convinced that having firms compete to perform joint audits through a call for tender process will generate savings. This recommendation has already largely been followed because I note that all current joint auditors, with the exception of those for Hydro-Québec, were appointed following a call for tender process. However, I would like to add some comments about the recommendation to limit joint audit to Hydro-Québec, the Caisse de dépôt et placement du Québec, the Société des alcools du Québec and Investissement Québec.

## 6.1 Hydro-Québec

74 Since 2010, three joint auditors now review Hydro-Québec's financial statements, namely two private firms and the Auditor General. This situation is rare. It requires the three auditors to take full responsibility for the reliability of the financial statements in their entirety. In compliance with the Canadian Auditing Standards, each auditor reviews the work done by the two others. Furthermore, the three auditors must work jointly on various steps in the auditing process. This situation creates inevitable overlapping of some of the work and requires increased coordination.

75 When the Auditor General became joint auditor, it may have seemed normal to have a transition period involving the two former private firms. However, after three years, this situation raises strong questions.

76 In the last year, the government renewed the mandate of one of the two private firms auditing Hydro-Québec's financial statements for three additional years, namely from 2013 to 2015, without a call for tenders. As for the other firm, its current mandate will end after the audit of the fiscal year ended December 31, 2013.

## 6.2 Caisse de dépôt et placement du Québec, Investissement Québec and Société des alcools du Québec

77 The ENAP working group justifies its recommendation for limiting joint audit to four state-owned enterprises. It mentions that "[translation] these state-owned enterprises borrow from abroad or make large transactions on national or international markets, which requires financial statements that comply with IFRS."

78 It is important for me to state again that the Auditor General has the independence and expertise needed to complete this type of audit. For example, the entire responsibility of auditing the financial statements of the Caisse de dépôt et placement du Québec was given to the Auditor General until 2009. In addition, I audited over 200 financial statements last year, including several that are prepared in accordance with IFRS. The Auditor General is also responsible for auditing the financial statements of one of the largest borrowers on foreign markets in Québec, namely those of the government.

79 In terms of Investissement Québec and the Société des alcools du Québec, they do not borrow on foreign markets. Based on my experience from recent years, the audit work of these two enterprises, because of their nature and scope, can easily be performed and at a lower cost by a single auditor.





## 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 express 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.

This chapter constitutes a derivative communication under Canadian Auditing Standards arising from the financial statement audit performed according to the Canadian generally accepted auditing standards.

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.

**The closure of the nuclear power plant, Gentilly-2, requires changes to the *Balanced Budget Act*.** The closure has resulted in an increase of \$1.8 billion in the originally planned deficit balance (\$1.5 billion), which brings the balance to \$3.3 billion and results in the government's non-compliance with the Act's current requirements. A bill was tabled in February 2013 to exclude the impact of this closure on the 2012-2013 budget balance.

**Gross debt is understated following an unjustified change to the accounting practice applied to public-private partnerships (PPP).** The Comptroller of Finance reviewed his position and changed the accounting of amounts related to the Saint-Lambert residential and long-term care centre (CHSLD) agreement. It is now his opinion that neither the assets nor the debt related to the CHSLD should be shown in the statement of financial position. We do not share this new point of view. The change resulted in the government's assets and gross debt being understated by \$28.2 million as at March 31, 2012. The Comptroller of Finance also indicated his intent to revise in 2012-2013 the accounting treatment applied to other PPP agreements that have been concluded to date.

**The interpretation of the enabling authority to authorize an expenditure concerning government transfers remains a matter of difference of opinion between the Auditor General and the government.** The government claims that the enabling authority is exercised during the annual appropriations vote by parliamentarians and that consequently, it belongs only to the National Assembly. We consider that parliamentarians can delegate this authority to government representatives through various legislative and regulatory provisions and that these representatives are therefore authorized to negotiate and enter into valid contracts.

**Changes made to the entities included in the government's reporting entity affect the segment disclosures presented in the appendices to its consolidated financial statements.** Where activities are restructured, the chosen method of segmentation alters the significance of the disclosure in question and makes analyzing trends of the performance of different segments difficult.

## Recommendations

The Auditor General has made recommendations to the Comptroller of Finance, the Ministère des Finances et de l'Économie and the Agence du revenu du Québec. All of them are shown to the right.

The audited entity and entities in question had the opportunity to comment on these recommendations; their comments can be found in the *Commentaires de l'entité audité et des entités visées* Section. We want to point out that they accepted all of the recommendations, except the Ministère des Finances et de l'Économie for the one concerning the inclusion of the Société nationale du cheval de course in the government's reporting entity.

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 in part to the Ministère des Finances et de l'Économie

- 2 Include the Société nationale du cheval de course in the government's reporting entity (for financial transactions made between its creation and its dissolution).**

Recommendation to the Ministère des Finances et de l'Économie

- 3 Produce the financial statements of the Société nationale du cheval de course for the fiscal year ended December 31, 2011, and the year ended March 28, 2012, so they can be submitted to the Minister, accompanied by the independent auditor's report.**

Recommendation to the Agence du revenu du Québec

- 4 Perform a reconciliation of the amounts provided and the receivables later collected to ensure that the method used to determine the allowance for doubtful accounts gives the best estimate possible.**

## 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.

**Agence du revenu du Québec.** Since 2006, the year in which the provisional administration of unclaimed property (also called property under provisional administration) was transferred to the Agence, the deadline provided for producing the financial statements for such property has not once been respected. Given the deficiencies in internal control and the significant loss of accounting and financial expertise, the Agence decided to suspend production of these financial statements as at December 31, 2009, 2010 and 2011, in order to put corrective measures in place.

Furthermore, the amounts attributed to the unclaimed property for the fiscal years ended on December 31, 2010 and 2011, appear in the Agence's financial statements (activities of an administrative nature) as activities of a fiduciary nature. Given their size, a qualification was added in the independent auditor's report attached to these financial statements stating that the information in question could not be audited, due to a lack of sufficient and appropriate evidence.

**Montreal University Health Centre (CHUM).** From 2002-2003 to 2010-2011, the proceeds of the disposition (\$19 million) of the commercial component of the CHUM's Direction des ressources technologiques was presented as deferred revenue in the fund balance statement of the Fund for Special Uses, which was abolished in 2011-2012. The proceeds of the disposition should have been recorded in the 2002-2003 fiscal year results, thereby reducing the accumulated deficits, or have been the subject of, with the approval of the institution's board of directors and of the Ministère de la Santé et des Services sociaux, a reserve created with the accumulated surpluses and presented in the statement of accumulated surpluses (deficits).

**Commission administrative des régimes de retraite et d'assurances.** The actuarial valuations regarding the Pension Plan of Peace Officers in Correctional Services (PPPOCS) were not produced within the deadlines required by law (the frequency specified is at least every three years). This situation was, however, resolved after our opinion was expressed in the audit report on the financial statements as at December 31, 2011.

**Conservatoire de musique et d'art dramatique du Québec.** The Conservatoire made payments or assumed obligations whose cost exceeded the sums available, which is contrary to its incorporating act. The accumulated deficit of \$6.1 million as at June 30, 2012, is evidence of this.

## 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.

Recommendations reiterated to the Agence du revenu du Québec (also called Revenu Québec)

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

Recommendation to the Montreal University Health Centre

- 3 Resolve the situation concerning the proceeds of the disposition of CHUM-Informatique in order to respect the spirit of the *Act to provide for balanced budgets in the public health and social services network*, to respect the framework agreement for returning to balanced budgets entered into with the Agence de la santé et des services sociaux de Montréal and to comply with the Canadian Public Sector Accounting Standards.**

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

- 4 Ensure that the scope of section 126 of the *Act respecting the Pension Plan of Peace Officers in Correctional Services* is clarified with regard to actuarial valuations and take the measures necessary to respect the Act in this regard.**

Recommendation reiterated to the Commission de la construction du Québec

- 5 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

- 6 Take the steps necessary to respect section 57 of its incorporating act.**

## 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 2011-2012 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.

This chapter constitutes a derivative communication under Canadian Auditing Standards arising from the financial statement audit performed according to the Canadian generally accepted auditing standards.

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

### Work Results

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

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**Increase in the number of auditor's reports on institutions with modified opinions.** As at March 31, 2012, independent auditors still had to make two "shared" qualifications in their opinion of the financial statements of all institutions where one of the situations applied. Furthermore, they issued modified opinions that involved restrictions other than the two above-mentioned shared qualifications for the 14 institutions. Last year, we noted five.

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**Twelve years after the *Act to provide for balanced budgets in the public health and social services network* came into force, that balance has not yet been achieved by all institutions.** As at March 31, 2012, 36 institutions posted deficits totalling \$112 million. Furthermore, the Department's practice of authorizing deficit targets for institutions is tantamount to authorizing the institutions to violate the Act.

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**Poorly accounted research incidental activities.** Management at some institutions use different methods to remove these activities from their financial results. The accounting practices adopted by some institutions unduly postpone the recording of research revenues. The information given in the annual financial report does not accurately present the transactions of this activity sector.

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**Fund to Finance Health and Social Services Institutions (FINESSS) – Beneficiaries not included in the Act.** An amount of \$91 million was allocated to beneficiaries not included among those mentioned in the Act in force as at March 31, 2012. It provides that money taken out of the FINESSS must be paid to the institutions.

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**Dossier de santé du Québec (DSQ): the scattering of assets does not encourage entities' accountability with regard to their financial results.** Many changes were made to DSQ components during the 2011-2012 fiscal year. The ownership and funding of DSQ assets were divided and accounted for among several entities, which were not necessarily involved in the operation or management of those assets. As such, the entities are not accountable for all of the transactions recorded in their financial statements. For example, during the transfer of assets, the Agence de la santé et des services sociaux (ASSS) de Montréal was attributed a \$38 million loss for which it was in no way responsible, while the Régie de l'assurance maladie du Québec (RAMQ) received this asset as a donation.

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## Recommendations

The Auditor General has made recommendations to the MSSS. They are shown in part 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** Provide institutions with all the information they need to be in compliance with the standards to which they are subject for the preparation of their financial statements.
- 3** 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.
- 4** 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.
- 10** Comply with legislation with respect to the designation of the beneficiaries of Fund monies.
- 12** Pursue its efforts to bring the public institutions of the health and social services network into compliance with the law by having balanced budgets.
- 13** 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.

### Recommendations to the Department

- 5** Ensure that the institutions and agencies adequately disclosure all their contractual obligations.
- 7** Implement an action plan to resolve the problems encountered during the consolidation of the network.
- 8** Improve the supervision of research activities to ensure that a comprehensive picture is obtained of the financial transactions made by the institutions of the health and social services network in the research sector.
- 9** Ensure that research activities conducted by the institutions are accounted for in the annual financial reports following the established standards.
- 14** Take the measures needed to ensure that all stakeholders involved uniformly determine compliance with the *Act to provide for balanced budgets in the public health and social services network*.
- 15** Ensure that the ownership of any system is conferred to the entity in charge of its management and maintenance: operations, maintenance, updates, protection, etc., to establish a link between the financial results and governance of those assets.

## Highlights

### Work Objectives

This chapter contains:

- a portrait of the financial position of public education network institutions;
- the follow-up on recommendations made in last year's report;
- the qualifications and other information arising from the audits carried out within the institutions.

Our work was performed among institutions from the network, the Ministère de l'Éducation, du Loisir et du Sport (MELS) and the Ministère de l'Enseignement supérieur, de la Recherche, de la Science et de la Technologie (MESRST).

This chapter constitutes a derivative communication under Canadian Auditing Standards arising from the financial statement audit performed according to the Canadian generally accepted auditing standards.

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

### Work Results

We present here the principal findings of our audit concerning the financial position and reporting of education network entities.

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**Increase in the number of school boards with a deficit.** As at June 30, 2012, the school boards together had an accumulated surplus of close to a billion dollars. However, the number of school boards that ended their fiscal year with an annual deficit went from 12 in 2009-2010 to 34 in 2011-2012.

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**Unauthorized deficits for some school boards.** For the 2009-2010 to 2011-2012 fiscal years, some school boards recorded an annual deficit above the limit permitted by the budget rules without obtaining the required authorization from the MELS.

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**Some CEGEPs non-compliant with the law.** For the 2009-2010 to 2011-2012 fiscal years, three CEGEPs did not meet the requirements of their incorporating act, as they presented an accumulated deficit in their financial statements.

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**Subsidy conditional on achieving a balanced budget given to universities without a truly balanced budget.** Despite an annual deficit and negative fund balances (namely accumulated deficits) in its financial statements, a university can be granted a subsidy conditional on achieving a balanced budget.

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**Deadline for producing financial statements not met by the universities.** Many universities still have not met the deadlines for producing their financial statements. In October 2012, only 7 out of 19 universities had submitted their financial statements to the MESRST. They were required to do so no later than September 30.

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**The Université du Québec à Montréal (UQAM) lacks rigour in the financial statement preparation process.** The large number of misstatements found during our audit work of financial statements reveals deficiencies in the financial information management and disclosure process. In addition, the deadline for submitting financial statements prescribed by the MESRST was not respected.

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## Recommendations

The Auditor General has made recommendations to the MELS, the MESRST and the UQAM. 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 the *Commentaires des entités auditées* Section. We want to point out that they accepted all of the recommendations.

Recommendations reiterated to the MESRST

- 5** Take the steps needed to ensure that the universities 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.
- 6** 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.

Recommendation reiterated to the MELS and to the MESRST

- 7** Determine terms of repayment (disbursement) for the subsidies payable to the institutions for sick leaves and vacations.

Recommendation to the MELS

- 1** Take the steps needed to ensure that all school boards meet the set requirements, in terms of both their budget and their financial results.

Recommendations to the MESRST

- 2** Take the steps needed to ensure that all CEGEPs meet the requirements set out in the *General and Vocational Colleges Act* and the *Régime budgétaire et financier des cégeps* with regard to the preparation of the annual budget and annual financial results.
- 3** Clarify the *Régime budgétaire et financier des cégeps* with regard to balanced budget requirements.
- 4** Revise the rules for granting universities the subsidy conditional on achieving a balanced budget so that the subsidy is granted only when a real financial balance is reached according to the audited financial statements.
- 11** Continue the implementation of measures to ensure the reliability of the data produced by the CEGEPs as at March 31.

Recommendations to the UQAM

- 8** Design and implement an efficient internal control system to prevent and detect misstatements in a timely manner.
- 9** Review the financial statements and supporting documents, and send them to the independent auditor in a timely manner so the audit can be completed within the proposed timeline.
- 10** Ensure that the financial statement preparation process allows for the schedule set forth by the Ministère de l'Enseignement supérieur, de la Recherche, de la Science et de la Technologie to be respected.

## Highlights

### Work Objective

Government debt is still a major topic in discussions on the government of Québec's public finances. The government has adopted objectives and measures to control the progression of its level of indebtedness.

Our work had an educational objective because the subject is complex, and both parliamentarians and the public need additional information to fully understand the government's level of indebtedness 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 of our work concerning the stakes related to the indebtedness of Québec's public sector.

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**The decrease of the gross debt-to-gross domestic product (GDP) ratio is based mainly on sustained economic growth.** As at March 31, 2012, the gross debt was \$183.4 billion and 53% of the GDP. According to the government's most recent five-year forecasts, the amount of gross debt should continue to rise, while the gross debt-to-GDP ratio should drop.

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**Debt-reduction objectives: the rate at which indebtedness ratios are reduced will have to accelerate.** By law, the levels of gross debt and debt representing accumulated deficits as percentages of the GDP cannot exceed 45% and 17% of the GDP respectively as at March 31, 2026. According to the most recent government forecasts, these levels will be 51.1% and 29.1% of the GDP respectively as at March 31, 2016, decreases of 0.5% and 5.4% of the GDP since the law came into force in 2010 (in 6 years). To achieve the 2026 objectives, these levels must be reduced respectively by another 6.1% and 12.1% of the GDP over the ten following years.

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**A debt service that is growing more quickly than incomes.** As at March 31, 2012, the debt service-to-income ratio was 10.9%. This ratio is higher than that of the four other Canadian provinces with the highest net debt-to-GDP ratios in Canada, which follows from the fact that Québec also has the highest indebtedness ratios.

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**Public entities that contract debt in their own name do not usually benefit from the same market conditions as the Government of Québec.** As a result, the government's choice to have these entities borrow to finance the part of the fixed asset cost that it will itself assume through subsidies results in an additional cost for all or some of Québec's taxpayers.

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**Substantial increase in contractual obligations. Those of the government increased by 75% in four years.** They total \$49.5 billion as at March 31, 2012, including the interest that he will assume. The \$4.3 billion increase in the last year is explained mainly by the construction contracts entered into through public-private partnerships.

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## Recommendations

The Auditor General has made recommendations to the Ministère des Finances et de l'Économie (MFEQ)

and the Comptroller of Finance. 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 the *Commentaires des entités auditées* Section.

We want to point out that they did not accept all of the recommendations.

As such, the reader will find our reaction following the comments of the Department.

Recommendation reiterated to the Ministère des Finances et de l'Économie

- 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.**

Recommendation to the Comptroller of Finance

- 2 Revise his method for extrapolating actuarial obligations to include a parameter for the benefits that are acquired in a non-uniform manner and to reflect this estimate in his retirement benefit expense.**

## Highlights

### Work Objective

During the last few years, the Auditor General has published analyses of program expenditures. The 2013-2014 budget was produced by a new government. The objective to restore fiscal balance in 2013-2014 remains. In this respect, both the former and new governments have, year after year, committed to controlling the growth of expenditures and, more specifically, that of program expenditures. We thought it appropriate to update the data already published on program expenditures to be able to assess their evolution since the initial commitments to restore fiscal balance were made.

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

### Work Results

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

**Special fund expenditures and doubtful accounts expense related to tax revenues excluded from program expenditures.** As with program expenditures, special fund expenditures are now subject to a parliamentary control. As such, they have been included in the Consolidated Revenue Fund since April 1, 2012. However, they are excluded from the composition of program expenditures. The doubtful accounts expense related to tax revenues is also excluded, even though the tax debts it is related to are part of the Consolidated Revenue Fund.

**Reaching the anticipated growth rates for program expenditures: important efforts needed.** The anticipated growth rates for program expenditures for the next two fiscal years based on the composition established in March 2009 are 2.6% and 3.1% respectively, which is below the average annual growth rates over seven years (4.8%) and the growth for fiscal year 2011-2012 (3.5%).

**Targets set in 2009 not reached.** For a third straight fiscal year, program expenditure growth was higher than the target, which was set at 3.2% in March 2009. On a comparable basis, this growth reached 3.5% in 2011-2012, and program expenditures exceeded the projections made in March 2009 by \$2.4 billion (from \$63.8 to \$66.2 billion). For the five-year period preceding the return to a balanced budget, namely from 2009-2010 to 2013-2014, program expenditures made and anticipated exceed overall the initial forecasts made in March 2009 by \$10.3 billion.

**Modified composition of consolidated expenditures.** Starting in 2012-2013, because of a new accounting standard that came into force, consolidated expenditures will include expenditures financed by the tax system, which are similar to transfer expenditures. However, although they are like transfers and are made by the Consolidated Revenue Fund, they will continue to be excluded from program expenditures. In fact, the government decided to consider them in a separate reporting sector called "expenditures financed by the tax system."

**Reaching the anticipated growth rates for consolidated expenditures: important challenge.** The growth rates for consolidated expenditures as a whole, including expenditures financed by the tax system, are projected at 2.8% and 2.3% for the 2012-2013 and 2013-2014 fiscal years, while the average annual rates over seven years is 5%, and the growth for fiscal year 2011-2012 is 3.2%. However, we note that in 2010-2011 and in 2011-2012, there was a dip in the historical trend of program expenditure and consolidated expenditure growth.



## 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, 2011, to September 30, 2012.

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 work concerning the reports to those charged with governance and management.

**The recommendation application rate for 2011-2012 fell slightly to 58%, from a rate of 60% in the two preceding years.** For the period from October 1, 2011, to September 30, 2012, there were 327 recommendations made in the 43 reports we compiled. Among them, 109 were submitted for the first time in 2011-2012, whereas 218 others concerned earlier periods. The latter group was the subject of a follow-up that enabled us to determine to what extent the entities had followed up on our recommendations and led us to the application rate of 58%.

**From 2010-2011 to 2011-2012, the distribution of the recommendation application rate per recommendation category among the three categories also fluctuated slightly.** The recommendation application rate concerning the management and the disclosure of financial information fluctuated most, dropping 6%, from 63% to 57%. There was little change in the rate related to governance and responsibility for financial information, which went from 68% to 66%. The recommendation application rate for the category concerning information technology management (55%) was about the same as the 2010-2011 rate (53%).

**Seventy percent of the 218 recommendations that were the subject of a follow-up in 2011-2012 came from 17 of the 38 audited entities.** These 17 entities did not achieve the 75% target application rate given in the Auditor General of Québec's strategic orientations. However, 15 other entities showed a 100% application rate.

**The recommendation application rate varies greatly depending on the year of origin.** Note that for 2008 and 2009 recommendations, the rate was less than 40%. Note also that the rate was barely 55% for older recommendations, namely those that were submitted regarding the 2004 to 2007 fiscal years. In addition, note that the recommendations submitted in 2010 and 2011 had a satisfactory application rate, namely 76% and 74% respectively.





## Highlights

### Work Objectives

Information technology general controls (ITGCs) are crucial to the financial statement preparation process. This chapter therefore aims, on the one hand, to better grasp the importance for the audited entities to apply the related recommendations and, on the other hand, to understand the ITGC auditing process that leads to the communication of deficiencies related to information technology management in a report to those charged with governance and management.

As a first step, we position ITGCs within the financial statement preparation process. Then, we summarily present the ITGC audit approach applied by the Auditor General of Québec (AGQ) within the framework of the annual attestation of financial statements, as well as the standards expected of the audited entities. Based on a portrait of recommendations affecting different ITGC-related subjects made over the past few years, we conclude the chapter by presenting the importance of applying them for the entities.

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

### Work Results

We present here the principal elements of our work on the audit of information technology general controls as part of financial statement attestation.

**ITGCs are one of the foundations of the internal control of an entity, based on the fact that they affect the entire production process of the audited entities' financial statements.** The close relationship between the two make it so that the reliability of the functioning of ITGCs guarantees the acceptable level of confidence that we are able to grant to all controls related to computer applications and the technological infrastructure that supports them throughout a fiscal year.

**Based on the ITGC audit approach adopted at the AGQ, we pay special attention to controls related to the management of the development and maintenance of systems, the management of access rights and profiles, as well as the management of security parameters, because of their major impact on the integrity of financial data.** Any significant deficiency in one of the key ITGC-related controls represents a major risk in that regard, often preventing the use of a financial statement auditing strategy based on computer controls, which results in a recommendation in a report to those charged with governance and management.

**Despite the high risk to the integrity of the data, the entities delay applying our recommendations related to information technology (IT) management, though they do adhere to them.** The recommendation application rate for IT management has remained low (53 to 55%) over the past three years.

**A large part of our recommendations related to IT management concern the Centre de services partagés du Québec (CSPQ).** This situation can be explained by the diversity of its systems and technological infrastructures, as well as the scope of its clientele. As it was aware of this problem, the Centre has already undertaken concrete actions to remedy by December 31, 2013, the majority of the deficiencies mentioned in our reports. We will pay special attention to them over the coming years.



## Highlights

### Work Objective

The Caisse de dépôt et placement du Québec managed, as at December 31, 2012, net assets of \$176 billion. This amount consisted of 38 individual funds belonging to 28 different depositors.

The Auditor General of Québec has acquired in-depth knowledge of this organization. We thought it relevant to present to parliamentarians an overview of its investments, their management and the relationship between the organization and its clients, and to delineate the Auditor General's role as financial auditor.

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

### Principal subjects covered by the chapter

We present here the principal subjects discussed in our chapter on the activities of the Caisse.

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**Management through specialized portfolios.** The Caisse is made up of 17 specialized portfolios, which allows for the diversification needed to achieve depositors' objectives while respecting their investment policy. The portfolios consist of investments that have common features, such as immovables, shares, bonds and private investments.

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**Depositors, clients of the Caisse.** The depositors, namely the entities investing cash assets with the Caisse, all come from Québec's public sector. The majority of the sums invested with the Caisse come from government pension plans.

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**Investments that respect investment policies.** Depositors must produce an investment policy that indicates the division of their investments between the various specialized portfolios. The Caisse is required to respect these policies and to regularly communicate the progress of investments to depositors. The relationship between the Caisse and its depositors is therefore similar to that between mutual fund managers and their investors.

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**The Auditor General's role as an independent auditor.** The Auditor General of Québec is required, each year and jointly with a private firm, to audit the financial statements of the Caisse. The purpose of this audit is to deliver an independent audit report on each of the financial statements of the 17 specialized portfolios and 38 individual funds.

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## 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.

This publication  
was produced by



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