



Report of the Auditor General
of Québec
to the National Assembly
for 2015-2016

Audit of Financial Information
and Other Related Work

Highlights

Winter 2016

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The name of the entities was up-to-date as at January 27, 2016.

1 Introduction

- 1 The Auditor General of Québec publishes a separate report covering the audit of financial information and other related work every year.
- 2 The provisions of the *Auditor General Act* allow us to make the comments that we deem appropriate, especially with respect to:
 - financial statements, namely those of certain public bodies, including the government, and those of government agencies, 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 estimated expenditures 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 Nearly 50% of the Auditor General's financial resources are allocated to the audit of financial statements and other financial information. This report is published thanks to the expertise acquired by our staff in this regard. It mainly enables to inform parliamentarians on issues related to financial information, including the comments deemed necessary on compliance with laws, regulations and directives.

2 Pre-Election Report

4 On April 20, 2015, the National Assembly adopted the *Act mainly to implement certain provisions of the Budget Speech of 4 June 2014 and return to a balanced budget in 2015-2016*. The Act entrusts the Minister of Finance, before general election is held, with preparing and publishing a pre-election report presenting the state of public finances.

5 Moreover, the Act confers on the Auditor General the mandate of preparing a report which must include an opinion on the plausibility of the forecasts and assumptions presented in the pre-election report, as well as all comments that deem appropriate and that arise from the work completed on this matter. The Auditor General must also indicate in the report whether all the information and documents requested as part of this work were received.

6 The first pre-election report will be published in August 2018. Below are the important dates for each step leading up to the publication of the report, as provided for in various laws.

June 18, 2018	Transmission to the Auditor General of the pre-election report produced by the Minister of Finance
August 13, 2018	Transmission to the Minister of Finance of the Auditor General's opinion on the pre-election report
August 20, 2018	Transmission to the President of the National Assembly of the pre-election report, including the Auditor General's opinion, and publication by the Minister of Finance Transmission to the President of the National Assembly and publication of the Auditor General's detailed report on the pre-election report
August 29, 2018	Expiry of the Legislature and calling of the election
October 1, 2018	General election

7 The content of the pre-election report which will be published by the Minister of Finance is specified in the *Act respecting the Ministère des Finances*. This report must contain, with any necessary revisions:

- the economic forecasts and assumptions appearing in the Budget Plan presented in the most recent Budget Speech;
- the projected **components of the government's financial framework** appearing in the Budget Plan;
- the estimated expenditures, established in collaboration with the Chair of the Conseil du trésor and broken down by field of State activity;
- the reports required under section 15 of the *Balanced Budget Act*, namely the forecasts related to the achievement of a balanced budget and the stabilization reserve;

The components of the financial framework are the revenues and expenditures itemized by categories.

- the reports required under section 11 of the *Act to reduce the debt and establish the Generations Fund*, namely the forecasts related to the evolution of both the debt representing the accumulated deficits and the gross debt, the sums credited to the Generations Fund and any sums used to repay the gross debt.

The expenditures broken down by field of State activity are presented by major government mission:

- Health and Social Services;
- Education and Culture;
- Economy and Environment;
- Support for Individuals and Families;
- Administration and Justice.

8 In fact, the forecasts related to the components of the financial framework will be presented for five consecutive fiscal years, while those related to **expenditures broken down by field of State activity** will be presented for three consecutive fiscal years.

9 As for the new provisions of the *Auditor General Act*, they provide that our opinion on the plausibility of forecasts must cover at least the first three fiscal years reported on. Therefore, our work and opinion will cover the years 2018-2019 to 2020-2021, due to the significant uncertainty surrounding the evaluation of forecasts beyond three years.

10 Over the past months, we have put in place a team that is responsible for planning and undertaking work with regard to the pre-election report. Over time and as needed, resources will be added to this team. The experience acquired since 2013 during the two audits on Québec's Economic and Financial Update and during the audit concerning the change in the government's budget balance will also be very useful to us.

11 It is important to understand that the work we will carry out for this new mandate requires a particular approach. First, because the establishment of forecasts and assumptions requires a great deal of judgment, we need to acquire a sufficient level of confidence with regard to the process that leads to their determination so we can assess their degree of plausibility. Second, the size of the reporting entity covered by the report requires us to plan our work early in the process and to complete it over a long period.

12 To help us evaluate the scope and extent of our work, we have contacted the legislative auditors of other administrations that have conducted work of a comparable nature. For instance, discussions were held with the Office of the Auditor General of Ontario, which will publish for the third time in 2018 a report concerning the pre-election report on Ontario's finances. This information sharing, which we started during our previous mandates and which we plan on maintaining over the course of the coming years, will allow us to leverage best practices in this area.

13 We have therefore established a strategy to be able to provide our opinion on the pre-election report in 2018. This strategy involves two phases, namely the evaluation of the budget process in the years preceding the preparation of the pre-election report and the assessment of the plausibility of forecasts and assumptions that will be presented in the report.

14 In the fall of 2015, we presented the chosen strategy to the Ministère des Finances and the Secrétariat du Conseil du trésor, which are the main stakeholders in the budget process. We stressed to them the importance of good collaboration from all parties throughout our entire mandate, notably to respect established deadlines.

15 The first phase of our work has started, and will continue until 2018. It covers the budget process of several entities included in the government's reporting entity (departments, bodies and special funds). Among other things, our evaluation consists of ensuring that the process is efficient and rigorous and that it fosters quality in the information published.

16 We are currently conducting work of this nature with the Ministère de l'Éducation, de l'Enseignement supérieur et de la Recherche (MEESR) and the Ministère du Travail, de l'Emploi et de la Solidarité sociale. Other departments, bodies or special funds will be added over the coming months.

17 As our work progresses, we will make the recommendations which we deem necessary to ensure that the budget process leading up to the production of the pre-election report in 2018 will be of high quality. These recommendations will first be addressed to the entities concerned. Depending on the importance of the deficiencies detected, they may also be included in one of our reports to the National Assembly.

18 In addition, we plan to assess, throughout the duration of our work, the implementation of the 17 recommendations we made during our three previous mandates on economic and financial forecasts, in order to report on their degree of application in the detailed report that we will produce in 2018.

19 The work of the second phase pertaining to the assessment of the pre-election report will start in the spring of 2018. In this regard, the budget process evaluation that we will have previously conducted will also allow us to better identify risks and improve our strategy for this second phase, so that a maximum amount of work may be completed within a short time frame, namely from the moment the Minister of Finance provides us with the pre-election report to the transmission of our opinion on the report.

3 Government's Consolidated Financial Statements and Other Elements of Interest

20 When I became Auditor General, I familiarized myself with the whole issue of government transfers. After carrying out various types of work and collecting several comments in this regard, I come to the same conclusions as my predecessor. Thus, for the third consecutive year, the auditor's report on the government's consolidated financial statements includes a qualification concerning the recognition of government transfers. This qualification arises from a difference of opinion between the Auditor General and the Ministère des Finances du Québec concerning the interpretation of the accounting standard on government transfers. Within the profession, the interpretation made of this standard by different financial information preparers and different accounting firms also varies. Chapter 2 addresses this topic, among other things.

21 Over the past year, the Public Sector Accounting Board (PSAB) gathered information on the challenges related to the application of this standard, examined a draft summary of feedback received and discussed the next steps. It plans to continue the discussions that were started and to finalize the feedback statement at its March 2016 meeting. The Auditor General will attentively follow the PSAB's work on the matter.

22 In other respects, Hydro-Québec made the choice to apply US generally accepted accounting principles for its financial statements. Yet, for the purposes of the government's consolidated financial statements, government enterprises with rate-regulated activities, such as Hydro-Québec, had to adopt the International Financial Reporting Standards (IFRS) starting on January 1, 2015 (with retroactive treatment). Until December 31, 2014, the enterprise's financial statements were prepared according to Canadian generally accepted accounting principles as set out in Part V of the *CPA Canada Handbook – Accounting*. Due to certain significant variances between the different sets of standards, the value of the government's investment in this enterprise had to be adjusted in accordance with the IFRS as at March 31, 2015 and 2014 for the government's consolidated financial statements. Therefore, the government's net debt and accumulated deficits increased by \$4.6 billion as at April 1, 2013.

4 Monthly Report on Financial Transactions

23 The monthly report on financial transactions published by the Ministère des Finances is a key document of the budget cycle. Among other things, it aims to evaluate the achievement of the government's forecasts throughout the year by putting the results obtained into perspective with these forecasts. The objective is to increase the transparency of public finances.

24 The production of this report also aims to improve governance and reporting, strengthen management, foster more informed decision making and increase public trust.

25 CPA Canada's public sector statements of recommended practice mention the main qualitative characteristics of information that must be taken into account in various publications in order for those publications to be useful to different users. Therefore, we evaluated the extent to which the information contained in the monthly report on financial transactions possesses these fundamental qualitative characteristics.

26 We also analyzed the monthly report with regard to the practices observed in other administrations and the best practices for budget transparency recommended by the Organisation for Economic Co-operation and Development. In this regard, Québec is the only Canadian province that publishes reports on a monthly basis, as recommended by this organization.

27 However, the results of our work, which are published in Chapter 3, show that the time frame for publishing the monthly report is long. In addition, some of the elements that we observed reduce the accuracy and comparability of the data. These elements make it difficult to evaluate the achievement of the government's budget forecasts during the year. Thus, an enhancement of the monthly report is necessary in terms of the quality and sufficiency of information, particularly with regard to the education network and the health and social services network. Among other things, this enhancement should further help parliamentarians in the exercise of their power of supervision.

5 Remuneration of Executives in the Université du Québec Network

28 Chapter 4 concerns the compliance of the remuneration paid to executives of the Université du Québec network with 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*. This Act notably limits the percentage increase in the salary that can be granted for the period from April 1, 2010, to March 31, 2015, and prohibits any additional performance-based remuneration.

29 As at April 30, 2015, the five network institutions that we audited had 146 executives whose remuneration totalled nearly \$18 million. We noted derogations to the law in four of those institutions, and the significance of those derogations varies according to each institution's interpretation of the law. In total, the derogations represent a little over \$800,000.

30 Among these derogations, we can mention situations in which the remuneration granted to executives exceeded the maximum of their salary scale. Likewise, certain executives at one institution benefitted from a lump-sum amount that represents a form of additional performance-based remuneration, and others received higher remuneration following a reclassification of their position into a higher category without sufficient justification being provided.

31 Furthermore, the MEESR has not implemented control mechanisms to detect situations that do not comply with the law.

6 Education Network

32 Chapter 5 presents the progress accomplished in the implementation of recommendations we made to the MEESR in 2010-2011 and 2012-2013. It also presents a portrait of the financial position of the entities in the education network.

33 Notably, these recommendations pertain to the entities' adherence to legal and regulatory requirements for budgets and financial results. Other recommendations arise from the financial audit work we conducted within this network. Four recommendations which we followed up on gave rise to satisfactory progress and three to unsatisfactory progress.

34 Furthermore, the financial position of school boards has continued to deteriorate since our previous work. For the 2014-2015 fiscal year, school boards incurred a total annual deficit of \$45 million, and more than two thirds posted an annual deficit.

35 As for the financial position of CEGEPs, it has improved since 2011-2012. In fact, CEGEPs recorded an overall annual surplus for the 2012-2013 to 2014-2015 fiscal years, compared to a deficit for the 2010-2011 and 2011-2012 fiscal years. Despite this improvement, 44% of CEGEPs still posted an annual deficit in 2014-2015.

36 As for universities, the strong increase in the fund balances or in the net assets presented in their financial statements arises mainly from the application of a new accounting standard and from other elements. Without the impact of this new standard and the other elements, the financial position of universities would have been different, as they have accumulated a deficiency of revenue over expenses of nearly half a billion dollars over the past three fiscal years.

37 Therefore, the financial position of entities in the education network requires attention.

7 Health and Social Services Network

38 The health and social services network represents a significant portion of government activities. By itself, it represented more than 38% of the Government of Québec's expenditures for the fiscal year ended March 31, 2015. Thus, considering its importance, we conduct the audit of certain health care institutions as well as audit work related to the government's consolidated financial statements every year.

39 Chapter 6 covers the follow-up of 16 recommendations from previous years and includes new recommendations that were made following our audit work.

40 The *Act to provide for balanced budgets in the public health and social services network* requires that health care institutions present a balanced financial result that corresponds to the total of the operating fund and the capital assets fund.

41 As at March 31, 2015, 53% of the institutions (95 out of 180) had a deficit and therefore did not comply with the law. In addition, in more than 44% of the institutions (80 out of 180), the board of directors approved a deficit budget for the fiscal year ended March 31, 2015, which also contravenes the law. This is very worrisome, as the deficit situations that persist for several years now raise questions on the oversight of this law by the Department.

42 Furthermore, on February 9, 2015, the government gave assent to the *Act to modify the organization and governance of the health and social services network, in particular by abolishing the regional agencies*.

43 Due to this reorganization, the network, which used to have 196 institutions and agencies, now includes 34 institutions since April 1, 2015.

44 We will pay special attention to this reengineering over the coming years. To this effect, we notably undertook audit work on the financial statements of a new institution stemming from the reorganization of the network, namely the Centre intégré de santé et de services sociaux de Chaudière-Appalaches, for the fiscal year ending March 31, 2016.

8 Green Fund – Follow-Up on the Recommendations

45 At the request of the Committee on Public Administration, the Sustainable Development Commissioner carried out in 2015 the follow-up on the value-for-money audit entitled *Green Fund: Management and Financial Assistance*. This audit was included in the *Report of the Sustainable Development Commissioner* that was tabled in the National Assembly in June 2014.

46 Our follow-up concerned the Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques (MDDELCC) and the Ministère des Transports du Québec (MTQ), the two departments that were invited to the Committee hearing held in the fall of 2014 regarding the audit report.

47 Both departments undertook actions to follow up on all the recommendations made during the initial audit. However, the progress is deemed unsatisfactory for most of the recommendations that we made to the MDDELCC and the MTQ, and for both recommendations that the Committee made to the MDDELCC. In addition, the departments have fallen behind schedule in the implementation of their action plan.

48 The results of this follow-up are published in a separate report.

Highlights

Work Objective

The purpose of our work was to express an opinion on the government's consolidated financial statements in accordance with the *Auditor General Act* and Canadian generally accepted auditing standards.

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 www.vgq.qc.ca.

Audit and Related Work Results

The following are some of the findings of our work.

For the third consecutive year, the government's consolidated financial statements respect, with one exception, the Canadian Public Sector Accounting Standards. This exception arises from a difference of opinion concerning the interpretation of the accounting standard on government transfers. According to our estimates, as at March 31, 2015, the net debt was understated by \$9.2 billion and the accumulated deficit was understated by the same amount, while the annual surplus was overstated by \$670 million. Moreover, considering the absence of information enabling the identification of the work completed at the end of the fiscal year for contractual obligations totalling \$2.9 billion, we have not been able to determine the additional adjustments to be made to these amounts.

Legislative changes adopted in April 2015 resolved the situation regarding the *Balanced Budget Act*. The situation of non-compliance was raised in the auditor's report that accompanied the government's consolidated financial statements for the 2013-2014 fiscal year. Thus, those financial statements and those for the 2014-2015 fiscal year are now compliant with the Act.

Significant adjustments to the value of the government's investment in Hydro-Québec were required to make this value compliant with the International Financial Reporting Standards (IFRS). Thus, the government's net debt and accumulated deficit increased by \$4.6 billion as at April 1, 2013.

The initial application of Section PS 3260, Liability for Contaminated Sites, had no significant impact on the evaluation and recognition of the government's environmental liability. This liability, which was \$3.2 billion as at March 31, 2015, has not varied significantly since the end of the survey of contaminated sites, i.e., since March 31, 2011.

Recommendations

The Auditor General has made recommendations to the Comptroller of Finance, the Ministère des Finances du Québec and the Agence du revenu du Québec. They are all shown to the right.

The audited entities had the opportunity to comment on the report; their comments can be found in the *Commentaires des entités auditées* Section.

We want to point out that the Agence du revenu accepted the recommendation it received. The Comptroller of Finance did not accept the recommendation formulated to it. As for the Ministère des Finances, it did not accept the recommendation regarding the inclusion of the Société nationale du cheval de course in the government's reporting entity. It also disagrees with the need to audit the financial statements of the fiscal year ended March 28, 2012.

The recommendations reiterated below arise from the findings of our previous reports entitled *Audit of Financial Information and Other Related Work*. If applicable, in Section 5 of this chapter, we describe the actions taken by the entities to follow up on these recommendations.

Recommendation reiterated to the Comptroller of Finance

Review its accounting policy consisting of amortizing costs related to interplan transfers.

Recommendations reiterated to the Ministère des Finances du Québec

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

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 reiterated to the Agence du revenu du Québec

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

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Work Objectives

The monthly report on financial transactions is a document that puts into perspective the results obtained during the year with the government's forecasts. It aims to ensure more regular follow-up and reporting on the government's financial position and to increase the transparency of public finances.

The objectives of our audit were as follows:

- obtain the assurance that a rigorous process is in place to foster good reporting through the monthly report with regard to the follow-up of budget forecasts;
- obtain the assurance that the degree of reliability of the financial data contained in the monthly report is reasonable;
- obtain the assurance that the information presented in the monthly report is comprehensible, relevant and comparable, and that it adequately informs users about the achievement of budget forecasts.

Our work was carried out among the Ministère des Finances du Québec (MFQ).

The Report is available at www.vgq.qc.ca.

Audit Results

The following are the principal findings of our audit concerning the monthly report on financial transactions.

Many good practices were identified in the production process of the monthly report, but improvements remain necessary. Many adequate controls are in place to detect errors or inconsistencies in the financial data received from entities every month. However, these controls are incomplete, which does not make it possible to ensure an optimal degree of data reliability. For example, no a posteriori work is performed among the entities. In addition, the entities need to be made more aware of the importance related to the quality of the data they send to the MFQ, because the assessment of the degree of precision required in the preparation of the data can vary from one entity to the other. Finally, due to the financial importance of the education network and the health and social services network (\$39 billion in expenditures in 2014-2015), their actual data should be used instead of their forecast data.

An enhancement of the monthly report is desirable in terms of the quality and sufficiency of information, in order to increase its value for different users. Possible improvements include presenting the data in the same format as that used in the consolidated financial statements, publishing forecasts for the same period as the actual data and adding sufficient explanations. The information currently provided makes it difficult for users to draw adequate conclusions on the degree to which forecasts are achieved and to understand significant variations over time. In this regard, we identified several good practices in the periodic reports of other administrations, which represent avenues for improvement.

The average time frame for publishing the monthly report is long, which reduces the report's usefulness. Over the past four completed fiscal years, the time frame was about 90 days following the end of the concerned period. This is a relatively long time frame if we compare it to that of the periodic reports produced by the reviewed administrations over their last available completed fiscal year (11 to 74 days). Moreover, it exceeds the time frames recommended by various organizations that promote good practices or set standards for periodic reporting.

The continual improvement process needs to be strengthened so that the monthly report provides users with the most useful and relevant management information possible. The improvements needed concern the periodic assessment of user needs, the watch over the periodic reports of other administrations and the overall assessment of the reliability of the monthly report.

Recommendations

The Auditor General has made recommendations to the MFQ. They are all shown to the right.

The audited entity had the opportunity to comment on the report; its comments can be found in the *Commentaires de l'entité vérifiée* Section.

We want to point out that it accepted the recommendations, except for the recommendation on the improvement related to the degree of comparability of the information published in the monthly report.

Recommendations to the Department

- 1 Enhance the production process of the monthly report on financial transactions to improve the quality of financial data:**
 - by increasing the awareness of entities and guiding them in the methods they use;
 - by improving quality controls, for example through a posteriori work and additional analyses.
- 2 Increase the reliability and precision of the information presented in the monthly report on financial transactions:**
 - by integrating into the report the actual data of the most important entities, including the data of the institutions in the education network and the health and social services network, in collaboration with the concerned departments;
 - by developing new means of improving the separation of periods and of taking significant year-end adjustments into account as early as possible;
 - by ensuring that all contingency reserves are justified.
- 3 Improve the degree of comparability of the information published in the monthly report on financial transactions, notably:**
 - by presenting the information in a format comparable to that used in the government's consolidated financial statements (information consolidated line by line for consolidated entities);
 - by including in the report additional data to put actual results into perspective with, for example, the revised forecasts or forecasts for a comparable period.
- 4 Make the data published in the monthly report easier to understand by providing explanations for significant variations and any other necessary element.**
- 5 Reduce the time frame for publishing the monthly report so that it is made public in a timely manner.**
- 6 Strengthen the watch over best practices in information disclosure and the overall and periodic assessment of the reliability of the financial data presented in the monthly report.**

Highlights

Work Objectives

The Université du Québec (UQ) is a network made up of 10 university institutions and a head office, which supports collaboration and coordination between the institutions.

As at April 30, 2015, this network had 409 executives, including 54 senior executives, whose remuneration totalled \$49.1 million.

The objectives of our work were to obtain the assurance that:

- the institutions of the UQ network respect the legislation that applies to the remuneration of senior executives and other executives;
- the Ministère de l'Éducation, de l'Enseignement supérieur et de la Recherche (MEESR) conducts an appropriate follow-up of compliance with the legislation governing the remuneration of senior executives and other executives of universities.

The Report is available at www.vgq.qc.ca.

Audit Results

The following are the principal findings of our audit concerning the remuneration of executives in the UQ network.

From 2010-2011 to 2014-2015, four of the five UQ network institutions audited granted their executives an amount that is non-compliant with the legislation, representing a little over \$800,000.

- The École de technologie supérieure (ÉTS), the Institut national de la recherche scientifique (INRS), the Université du Québec à Chicoutimi (UQAC) and the Université du Québec à Rimouski (UQAR) granted certain executives a remuneration higher than the maximum amount of salary scales, the bonuses and the allowances increased according to the rates prescribed by law. This remuneration totals \$559,000.
- The ÉTS granted some of its executives a lump-sum amount that represents a form of additional performance-based remuneration, which is prohibited by law. These amounts total \$134,000.
- Six ÉTS executives who had reached the maximum of the salary scale for their category saw their position reclassified into a higher category without sufficient justification being provided. This is similar to a salary increase higher than the prescribed rate. The additional remuneration that was paid to them totals \$125,000.

No performance bonuses were granted to the heads of the institutions that were audited regarding the 2010-2011 to 2014-2015 financial years, as required by law. For the 2009-2010 financial year, institution heads in the network received performance bonuses of \$161,000 because they were considered not subject to the prohibition of bonuses, a prohibition that applied to specifically targeted incumbents of executive positions. This situation raised questions about the methods used for determining some of the conditions of employment that apply to institution heads, in particular those related to the awarding of bonuses.

The MEESR's follow-up on the respect of the legislation concerning the remuneration of university executives is insufficient. No control mechanism has been put in place to detect non-compliant situations. The Department's interventions are generally limited to the problematic situations brought to its attention.

Recommendations

The Auditor General has made recommendations to the ÉTS, the INRS, the UQ, the UQAC, the UQAR and the MEESR. They are all shown to the right.

The audited entities had the opportunity to comment on the report; their comments can be found in the *Commentaires des entités vérifiées* Section.

We want to point out that they accepted all the recommendations. However, some comments of the ÉTS and the INRS have generated a reaction from us, which follows those comments.

Recommendations to the École de technologie supérieure, the Institut national de la recherche scientifique, the Université du Québec à Chicoutimi and the Université du Québec à Rimouski

- 1 Ensure that the remuneration granted to senior executives and other executives complies with the legislative framework.**
- 2 Assess the relevance of recovering the amounts overpaid and document the decision made.**

Recommendation to the Université du Québec

- 3 Clarify the non-salary conditions of employment that apply to institution heads in its network by obtaining relevant government opinions, more particularly for conditions related to premiums and performance bonuses.**

Recommendation to the Ministère de l'Éducation, de l'Enseignement supérieur et de la Recherche

- 4 Implement follow-up mechanisms related to compliance with the legislation governing the remuneration of senior executives and other executives of universities.**
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Work Objectives

Our work, which was performed among the Ministère de l'Éducation, de l'Enseignement supérieur et de la Recherche (MEESR), had the following objectives:

- follow up on recommendations made to the Department in the *Audit of Financial Information and Other Related Work* volumes published in winter 2011 and winter 2013;
- present an updated portrait of the financial position of entities in the education network.

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 www.vgq.qc.ca.

Work Results

The following are the principal findings of our follow-up on the recommendations and the portrait of the financial position of entities in the education network.

The school boards still do not adhere to all of the set requirements, particularly with regard to their financial results. A substantial number of school boards (12 in 2012-2013, 18 in 2013-2014 and 14 in 2014-2015) recorded a deficit above the limit permitted by the budgetary rules without having obtained authorization from the Department.

Overall, the financial position of school boards has continued to deteriorate. In 2014-2015, they incurred a total annual deficit of \$45 million. For that same fiscal year, two thirds of school boards posted an annual deficit, which is an increase of 44% since 2011-2012.

In the college network, an increase in compliance with budgetary and financial requirements was observed. For the 2013-2014 to 2015-2016 fiscal years, all CEGEPs submitted a budget, in accordance with the *General and Vocational Colleges Act*. Moreover, only one CEGEP did not comply with the requirements of this Act by posting a deficit fund balance in its financial statements for the 2012-2013 to 2014-2015 fiscal years.

The financial position of CEGEPs has improved since 2011-2012. CEGEPs recorded an overall annual surplus for the 2012-2013 to 2014-2015 fiscal years, compared to a deficit for the two previous fiscal years. However, the number of CEGEPs that posted an annual deficit in 2014-2015 doubled compared to the number reported in 2013-2014.

Despite a strong increase in the fund balances or in the net assets of universities since 2011-2012, the financial position of universities is not completely under control. This increase arises mainly from the application of a new accounting standard and from other elements. In reality, for the 2012-2013 to 2014-2015 fiscal years, universities recorded a deficiency of revenue over expenses of \$500 million excluding the effect of adjustments.

Two other recommendations arising from our financial audit work have not sufficiently progressed since 2012-2013. On one hand, for the year ended April 30, 2015, the Université du Québec did not produce its consolidated financial statements within the time allotted in its constitutive act. On the other hand, the Department has not yet determined any terms of repayment for the subsidies payable to entities in the network for sick leaves and vacations.

Recommendations

The Auditor General has made recommendations to the MEESR. They are all shown to the right.

The audited entity had the opportunity to comment on the report; its comments can be found in the *Commentaires de l'entité auditée* Section.

We want to point out that it accepted all the recommendations.

The recommendations reiterated below arise from the findings made in our previous reports entitled *Audit of Financial Information and Other Related Work*. If applicable, in Sections 3 and 4 of this chapter, we describe the actions taken by the entity to follow up on these recommendations.

Recommendations reiterated to the Department

- 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.**
 - 2 Take the steps needed to ensure that the Université du Québec produces its consolidated financial statements within the time allotted in its constitutive act.**
 - 3 Determine terms of repayment (disbursement) for the subsidies payable to the institutions for sick leaves and vacations.**
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Work Objective

The purpose of our audit concerning the health and social services network is to ensure 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.

This chapter comprises a follow-up on the recommendations made to the MSSS in our *Audit of Financial Information and Other Related Work* report published in winter 2013, as well as some new findings and recommendations arising from our audit work for the 2013-2014 and 2014-2015 fiscal years.

It 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 www.vgq.qc.ca.

Audit Results

The following are the principal findings of our audit concerning the health and social services network.

The directives sent by the MSSS to guide the identification of contractual obligations give too much latitude to institutions. These obligations, which are presented as a note in the government's consolidated financial statements as at March 31, 2014 and 2015, are overstated, since they include, without sufficient justification, agreement renewals for intermediate and family-type facilities that offer support services to keep users in the community.

Accounting of research incidental activities is inadequate. Several institutions do not comply with the Canadian Public Sector Accounting Standards, which has the effect of distorting the picture of their financial statements concerning the treatment of revenues.

The Act to provide for balanced budgets in the public health and social services network, which has been in force for several years, is still not complied with by many institutions. Among the 180 institutions in the health network, 95 posted deficits totalling \$117 million for the fiscal year ended March 31, 2015. Over half of those institutions presented a deficit budget in their financial statements approved by their board of directors.

The assets of Québec Health Record (QHR), which are divided and accounted for among several network entities, do not promote sound management or adequate reporting. These network entities are QHR asset owners and receive the associated funding, without, however, necessarily being responsible for the operation or management of those assets.

Recommendations

The Auditor General has made recommendations to the MSSS. They are all shown to the right.

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

The recommendations reiterated below arise from the findings of our previous reports entitled *Audit of Financial Information and Other Related Work*. If applicable, in the various sections of this chapter, we describe the actions taken by the entity to follow up on these recommendations.

Recommendations reiterated to the Department

- 1** Amend existing regulations so as to specify the mandate of outside auditors in line with the new Canadian Auditing Standards.
- 2** 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.
- 3** Confirm in a timely manner the amount of the subsidies granted to the institutions so that revenues are recorded by these institutions in the correct fiscal year.
- 5** Ensure that research activities conducted by the institutions are accounted for in the annual financial reports following the established standards.
- 6** Pursue its efforts to bring the public institutions of the health and social services network into compliance with the law by having balanced budgets.
- 7** 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*.
- 9** Ensure that the ownership of any system is conferred to the entity in charge of its management and maintenance: operations, maintenance, update, protection, etc., to establish a link between the financial results and governance of those assets.

Recommendations to the Department

- 4** Specify its directives for the assessment of contractual obligations towards intermediate and family-type facilities, in relation to agreement renewals.
 - 8** Ensure that public institutions present in their financial statements a budget approved by their board of directors in which expenditures and revenues are balanced.
-

Highlights

Work Objective

Each year and pursuant to its mandate, the Auditor General of Québec audits the financial statements of several public-sector entities.

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

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 www.vgq.qc.ca.

Audits Results

The following are some of the principal findings of our work.

Health and social services network and education network. We identified modified opinions concerning the accounting standard for government transfers. According to the independent auditors, these modified opinions are the result of inadequate application of that standard.

In the health and social services network, a common qualification related to the buildings leased from the Société québécoise des infrastructures was included in the independent auditor's report of 12 agencies and 103 institutions as at March 31, 2015. The Department did not provide them with the information they need to be in compliance with the accounting standards. Moreover, for a fourth consecutive year, there is an increase in the number of modified opinions in this network, which is a source of concern.

As for the education network, the Université du Québec à Montréal disbursed to members of the administrative personnel lump-sum amounts totalling \$403,296 during the financial year ended April 30, 2015, which was not permitted by law. Our independent auditor's report presents this situation in a non-compliance paragraph.

Commission administrative des régimes de retraite et d'assurances. As at December 31, 2014, the Retirement Plan for Mayors and Councillors of Municipalities had \$2.6 million in net assets to meet its obligations, which represented \$9.9 million. If no action is taken, the plan's assets will likely be exhausted in 2017. The act respecting this plan does not specify who will assume the payment of benefits once the assets are exhausted.

Economic Development Fund. As at March 31, 2015, the Fund did not properly record the provision for losses on loans in the form of financial contributions repayable through royalties; this provision was for \$345 million. Furthermore, we were unable to obtain sufficient appropriate audit evidence to determine by what amount this provision was overstated. We therefore included a qualification in our independent auditor's report.

Recommendations

The Auditor General has made recommendations to the audited entities and the concerned entity. They are all shown to the right.

The audited entities and the concerned entity had the opportunity to comment on the report; their comments can be found in the *Commentaires de l'entité auditée* or *Commentaires de l'entité visée* sections.

We want to point out that they accepted all the recommendations.

The recommendations reiterated below arise from the findings of our previous reports entitled *Audit of Financial Information and Other Related Work*. If applicable, in the various sections of this chapter, we describe the actions taken by the entities to follow up on these recommendations.

Recommendations reiterated to the Ministère de la Santé et des Services sociaux

- 1 Provide institutions [agencies and public institutions prior to April 1, 2015] 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.**
- 2 Carry out a follow-up with entities in the health and social services network to ensure they put in place appropriate measures to solve the problems that led to qualifications in the auditors' reports.**

Recommendation reiterated to the Agence du revenu du Québec

- 3 Meet the legal deadline for producing the financial statements for unclaimed property.**

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.**

Recommendation reiterated to the Institut de la statistique du Québec

- 6 Take the steps necessary to respect section 38 of its incorporating act.**

Recommendation to the Economic Development Fund

- 5 Adequately establish its provision for losses on loans in the form of financial contributions repayable through royalties according to the Canadian public sector accounting standards by taking the following actions, among others:**
 - review its methodology while integrating the notion of discounting in order to properly evaluate net recoverable value;
 - obtain from client enterprises recent cash flow projections for royalties, and use them;
 - validate the reasonableness of the underlying assumptions of projections established by client enterprises to fully assess the risks and document this work.

Recommendation to the Société nationale de l'amiante

- 7 Finalize the liquidation and dissolution process of the Société, as soon as possible.**
-

Faits saillants

Work Objectives

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 November 1, 2014, to October 31, 2015;
- the recommendations that it made to entities under its authority and that are published in its report to the National Assembly entitled *Audit of Financial Information and Other Related Work* (winter 2015).

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 www.vgq.qc.ca.

Work Results

The following are our principal findings concerning the recommendations included in the reports to the National Assembly and the reports to those charged with governance and management.

Overall, the recommendation application rate dropped in 2014-2015, falling from 65% last year to 54% in 2014-2015, whereas it was increasing during the three previous periods. Despite the measures put forth by the Auditor General to increase the application rate such as requesting action plans from entities, sending reports faster following the completion of our work and presenting our findings to those charged with governance, there is still room for improvement. Other measures must therefore be implemented in the coming years.

The majority of the recommendations made or followed up on in 2014-2015 concern three subjects. The problematic subjects are: the closing process and preparation of financial statements, access rights and profiles management, and respect for policies, directives and procedures. This situation is similar to that of last year.

The total number of entities targeted by our recommendations has increased over the past four years. However, on a more positive note, we note that the number of entities that received new recommendations has decreased, falling from 50 last year to 36 in 2014-2015.



Significance of the Logo

An easy-to-recognize building, the 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.

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