

Annual Report

2014/15

Covering the period April 1, 2014 through March 31, 2015



**AUDITOR GENERAL FOR
LOCAL GOVERNMENT**

Annual Report

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Auditor General for Local Government

British Columbia



MESSAGE FROM THE ACTING AUDITOR GENERAL FOR LOCAL GOVERNMENT

As the Acting Auditor General for Local Government I am pleased to release the annual report of the Office of the Auditor General for Local Government, covering the period from April 1, 2014 through March 31, 2015. Although I was not appointed until after the end of this reporting period, this Annual Report fulfills the requirements in Section 25 of the *AGLG Act* to report on the office's activities and the progress made in relation to the goals, objectives and measures set out in last year's service plan. As per the Act, the audited financial statements for 2014/15 are included in this report.

The annual report is a valuable tool to reflect on the office's accomplishments and challenges over the last year, and the plans the office is now developing to address those challenges and move the office forward to carry out its important mandate.

It is clear the office did not achieve its main objective of delivering on its planned release of audit reports. This has impacted the office's credibility and it is extremely important that this be corrected going forward. There is much work to do, but at the same time there is also much promise if the planned reports can be released on a much more timely basis.

Our [2015/16 – 2017/18 Annual Service Plan](#) sets out the work we will undertake over the next year to reflect on the office's work to date and identify specific measures we can institute to improve the office's outcomes in the future.

In the 2014/15 fiscal year two reports were released: City of Rossland-Learnings from Capital Procurement Projects and Asset Management Programs, Part 1 (April 2014) and Part 2 (March 2015), and Corporation of Delta-Achieving Value for Money from Operational Procurement (March 2015).

During 2014/15 the office delivered on some of its other objectives. The office made strides in developing and improving operational, administrative and financial internal policies. The office underwent its first financial audit, which resulted in a positive auditor's opinion. The office shared findings and recommendations from completed audits and advice in the Perspectives booklet [Oversight of Capital Project Planning & Procurement](#) with local governments and other stakeholders at events and meetings throughout the year. Progress was also made towards completing an audit guide and the office's internal audit manual although neither were completed.

MESSAGE FROM THE ACTING AUDITOR GENERAL FOR LOCAL GOVERNMENT

This annual report measures our performance against the service plan objectives and targets from last year. As the vast majority of these set out activities as opposed to numerical targets, the report describes what was achieved using the categories of Achieved, Partially Achieved or Not Achieved. In the future we would like to introduce new measures and targets that are far more quantifiable.

I would like to thank the office's staff for their commitment to this office through what has been a difficult time and to thank the local governments for their cooperation and support in what will now be a year of transition for the office.

I also want to thank the Audit Council for its continued support of the office and its staff. We are working closely with the Audit Council, benefitting from its expertise and guidance to improve our work and the office's outcomes in the future. Again, while the task ahead is challenging, it is also one that is filled with opportunity.

A handwritten signature in black ink, appearing to read 'Arn van Iersel', written in a cursive style.

Arn van Iersel, CPA, FCGA
Acting Auditor General for Local Government



Audit Council members from left to right: Anthony Ariganello (Chair), Donalda MacDonald, Lisa Payne, Rick Heney, Tim Wood

MESSAGE FROM THE CHAIR OF THE AUDIT COUNCIL

The Audit Council's primary role is to review and monitor the performance of the AGLG. Under the *Auditor General for Local Government Act*, one of the vehicles for carrying out that responsibility is to provide a statement for the annual report about the AGLG's exercise of powers and performance of duties in respect of the annual service plan.

2014/15 was a difficult year for the Office of the AGLG and the Audit Council, culminating in the removal of the AGLG. As identified in this report, a number of the performance measures established in the AGLG's 2014/15 – 2016/17 service plan were not achieved or were partially achieved. It is the opinion of the Audit Council that this Annual Report presents a factual accounting of the Office of the AGLG's activities and accomplishments in 2014/15.

The completion and publication of performance audit reports is the AGLG's raison d'être. As in 2013/14, the target for completing performance audits was not achieved. Two audit reports and one Perspectives Series report were issued, against a target of 17 audit reports. In addition, a number of the foundational elements required for the Office to be successful were only partially or not achieved. There is also room for improvement with regard to stakeholder relations and engagement with local governments.

The Audit Council recognizes that the credibility of the Office of the AGLG has been damaged by its performance to date. Restoring that credibility is our highest priority. To that end, we are heartened by the work that the Acting AGLG has undertaken since assuming the role in April 2015. The Audit Council fully supports the actions taken by Arn van Iersel to put the Office on a stronger footing. Many of those actions are identified in the 2015/16 – 2017/18 service plan that was published in May 2015.

In addition, the Audit Council is working collaboratively with the Acting AGLG to implement the recommendations of the independent review of the Office of the AGLG that was completed in April 2015. Finally, we have embarked on a process to recruit a new permanent AGLG.

The Audit Council is firmly focused on the future, with the goal of helping to ensure that the AGLG fulfills its important mandate of providing local governments with objective information and relevant advice that will assist them in their accountability to their communities. As the Office of the AGLG regroups and refocuses, the Audit Council believes that local governments and other stakeholders will see value from the Office's activities.

On behalf of the Audit Council,

Anthony Ariganello, CPA, FCGA
Chair, Audit Council

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BRITISH COLUMBIA'S AUDITOR GENERAL FOR LOCAL GOVERNMENT

Purpose and Mandate

The *Auditor General for Local Government Act* establishes the AGLG's purpose and mandate:

To conduct performance audits of the operations of local governments in order to provide local governments with objective information and relevant advice that will assist them in their accountability to their communities for the stewardship of public assets and the achievement of value for money in their operations.

The *Act* defines local governments as including municipalities, regional districts, greater boards, commissions, corporations or other organizations that are financially controlled by one or more municipalities, regional districts or greater boards and any other local body that may be prescribed by regulation.

During 2014/15, 190 municipalities, regional districts and greater boards fell under this definition, along with more than 200 associated boards and entities.

Governance

Although our office is funded by the Province of British Columbia for its core responsibilities as set out in the *Act* and must adhere to the Province's core administrative policies, the AGLG carries out our performance audits with functional independence from government. This is evidenced by:

- The AGLG is appointed by the Lieutenant Governor in Council on the recommendation of the Minister after considering the recommendation of the Audit Council.
- The Audit Council is responsible for reviewing and monitoring the performance of the AGLG.
- Our budget is allocated by the Legislature through a separate voted appropriation.
- The AGLG has sole discretion to select the audits the office carries out, subject to our annual service plan.
- AGLG reports and recommendations are issued without ministerial or other government approvals.
- As a qualified auditor, the AGLG functions with professional independence and standards.
- There are clearly defined limits on the government's ability to suspend or remove the AGLG from office.

Role of the Audit Council

The Audit Council is provided for under the *Auditor General for Local Government Act* and was first appointed by the Government of British Columbia in April of 2012.

The *Act* says that the Council shall include at least five individuals with knowledge, skills, education or experience in fields such as accounting, auditing, governance of the Province, local and regional governance or another area set out in regulation. It plays a key role in monitoring the effectiveness of the office of the AGLG and supporting the independence of the office.

The Audit Council recommends to the Minister of Community, Sport and Cultural Development the appointment of the AGLG and reviews and monitors the AGLG's performance. The Audit Council assists the AGLG in maintaining its accountability for all British Columbians.

The Audit Council also provides comments on our draft service plan, annual report and performance audit reports, thereby contributing to the AGLG's effectiveness and helping to bring the greatest possible value to local governments and taxpayers.

We will work closely with the Audit Council, taking advantage of the experience, skills and expertise of its membership and considering them to be trusted advisors.

STRATEGIC FRAMEWORK

Focus, Goals & Supporting Objectives

Outcomes

1

Establishing and Maintaining the Office

Strengthen the Foundation for Our Success

Develop our team and build a learning organization that seeks to continually improve.

Based on professional standards, establish our working relationships and protocols.

Enhance our office infrastructure and processes.

Pursue the enactment of regulations, when appropriate, to permit the AGLG to enter into agreements with local governments to perform ad hoc performance audits of operations on a cost recovery basis.

- » The AGLG operates in an efficient and fiscally responsible manner, making effective use of its resources to carry out its mandate in line with B.C. Government core policies and procedures.
- » The AGLG is a learning organization that supports staff training and development and learns from its own performance in meeting its goals and objectives.
- » The AGLG annual service plans and annual reports are considered useful examples of meaningful and transparent reporting.

2

Assisting Local Governments

Provide Local Governments with Objective, Helpful Advice

Engage and consult with local governments, other stakeholders and expert practitioners in the development of audit themes.

Identify and develop guidelines, principles and standards for performance auditing of B.C. local governments.

Prepare for and plan performance audits based on audit themes.

Conduct examinations and studies in accordance with professional standards.

Provide recommendations that are practical and relevant.

Being balanced in our reporting where we point out things that are working well as well as what needs improvement.

- » Audited local governments implement recommendations from AGLG performance audits.
- » AGLG performance audits and AGLG Perspectives series publications help local governments discover opportunities to enhance their performance in safeguarding assets and achieving value-for-money in operations.
- » Local governments across B.C. adopt recommended practices and use self-assessment tools and other AGLG resources developed through performance audits.
- » Local governments request to be included in an audit.
- » The AGLG produces reports and other documents that are consistently in accordance with professional standards, confirmed through peer review.

3

Communicating Well

Provide Accessible Information to Local Governments, Stakeholders and the Public

Ensure the timely release of service plans and annual reports.

Develop and distribute information on audit themes, performance audits and processes.

Provide outreach and education on the role of the AGLG.

Develop and implement communication plans for interacting with local governments and other stakeholders.

- » Local governments and key stakeholders recognize the AGLG as a valuable resource.
- » The AGLG website is viewed as a trusted and objective source of information on local government operations and recommended practices.
- » Local governments and citizens find our reports and other information to be straightforward and easily understandable.

4

Staying on Top of Issues that Matter

Respond Effectively and in a Timely Way to Emerging Issues Affecting Local Governments

Establish and implement processes to monitor and track potential emerging issues that may affect local governments in B.C.

Respond in a timely way to include significant issues that emerge in our audit planning.

- » Local governments consider the AGLG's audit themes and topics to be relevant, meaningful and appropriate.
- » AGLG audit reports, recommended practices and related tools assist local governments in addressing emerging issues and/or mitigating key risks.

OUR OVERALL PERFORMANCE

We recognize the office has significantly under-performed in the delivery of the 18 audits first set out in our 2013 audit plan. As noted earlier only two audit reports (City of Rossland Parts 1 and 2, and a report for the Corporation of Delta) and one Perspectives booklet were released during the 2014/15 fiscal year. The office had initially planned the release of up to 17 reports (18 less the Rossland Part 1 report) for the 2014/15 fiscal year but this was unrealistic. This has caused a loss of credibility for the office and during 2015 we will review the number of performance audits that can reasonably be completed in a given year, and adjust the targets if doing so is appropriate. Similarly, we will assess the timelines associated with completing a performance audit to ensure they are realistic while maintaining our audit quality consistent with Canadian auditing standards.

While the office did not meet important targets on the delivery of audit reports, progress was made in other areas. Although not yet published, a considerable amount of work was done with respect to the outstanding audits. Hopefully this can now be used as the basis for improving performance in 2015/16. Work was done on developing and improving the office's internal policies and procedures to meet the office's operational, administrative and financial requirements and support the performance audit process. A considerable amount of work was also done towards completing an audit guide for local governments that sets out many of our guidelines, principles and standards. The office also continued to work on its audit manual to make it an effective tool for our audit teams to help ensure we follow best practices in the conduct of our audit work. The audit manual still needs to be completed.

The office did not pursue the enactment of regulations to permit the AGLG to enter into agreements with local governments to perform ad hoc as requested performance audits of their operations on a cost recovery basis. As stated in the [2015/16 – 2017/18 Annual Service Plan](#), this is not an immediate priority and will only be considered when the office has matured and is effectively delivering on its core business.

Over the next year, we will look closely at the office's operations, examine the potential for expanded provision of support services from provincial government agencies and assess the balance between internal staff resources and the use of contractors for specialist activities as well as opportunities that may exist to rely on others for administrative support while maintaining our independence. In all of this, we look forward to working closely with the Audit Council, using it as a trusted advisor and source of expertise on issues relating to how we do our work.

As noted earlier, the majority of 2014/15 objectives and targets were planned activities as opposed to quantifiable measures. This is something we wish to change going forward, revising our measures to include both planned activities and quantifiable measures such as the number of audit hours and audit cost. To do this we need to improve the office's systems, which is an objective set out for 2015/16 in our current service plan.

As noted earlier, for our assessment of our 2014/15 performance on the goals, objectives and performance measures set for the year, we use the terms Achieved, Partially Achieved or Not Achieved.

GOALS, OBJECTIVES AND PERFORMANCE MEASURES FOR 2014/15

Establishing and Maintaining the Office

Goal 1: Strengthen the Foundation for Our Success

Performance Measure 1.1: Level of Practice

Measure

Self-assessment of level of practice relative to appropriate standards, followed by peer review

2014/15 Annual Service Plan Target	2014/15 Performance Results
Plan for peer review on a cyclical basis	Not Achieved
Review findings of self-assessment/peer review and develop/implement an action plan as required for continuous improvement	Not Achieved
Supporting Objective 1: Develop our team and build a learning organization that seeks to continually improve.	Partially Achieved
Supporting Objective 2: Based on professional standards, establish our working relationships and protocols.	Partially Achieved

Goal 1: Strengthen the Foundation for Our Success

Performance Measure 1.2: Operational, Administrative and Financial Infrastructure

Measure

Implementation of core operational, administrative and financial policies and procedures

2014/15 Annual Service Plan Target	2014/15 Performance Results
Develop, review and update administrative and financial policies and procedures consistent with Provincial core policies and procedures	Partially Achieved
Review and update audit-related policies and procedures as required, based on recommended practices from other jurisdictions and Canadian Standards for Quality Control	Partially Achieved
Develop a solid foundation to support a positive outcome in the annual audit of our financial statements	Achieved
Supporting Objective 3: Enhance our office infrastructure and processes.	Partially Achieved

* No Performance Measure

Supporting Objective 4: Pursue the enactment of regulations, when appropriate, to permit the AGLG to enter into agreements with local governments to perform ad hoc performance audits of operations on a cost recovery basis.	Not Achieved
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Discussion of Results

Goal 1: Strengthen the Foundation for Our Success

During 2014/15 the office continued to develop internal policies and procedures to meet the office's operational, administrative and financial requirements and support the performance audit process. While we made substantial additions, more work continues in the development of internal policies and procedures to support the office. Over the past year, the AGLG followed a resourcing plan that included recruiting staff and continuing to contract additional resources as needed to support our corporate and audit activities, including using the expertise from audit advisory committees. During 2015/16 we will assess the office's balance between internal staff resources and the use of contractors for specialist activities as well as opportunities that may exist to rely on others for administrative support while maintaining our independence. We also worked with the Audit Council, as prescribed in the AGLG Act, on our audit reports, service plan and annual report. Moving forward, we will work more closely with the Audit Council, including implementing the recommendations of the [*Report on the Governance and Operations of the Auditor General for Local Government*](#).

2014/15 was also the first year the office had a full audit of its financial statements completed as required in Section 10 of the AGLG Act. The statements received an unmodified auditor's opinion meaning that they did not find any significant issues.

A significant amount of work was done towards developing a memorandum of understanding and service level agreements with a provincial government ministry for our finance and back office administrative needs. In 2015/16 we will build on this work and examine the potential for expanded provision of support services from provincial government agencies to determine whether this could assist us in devoting a higher proportion of our resources to audit work.

Over the year we built on the initial audit manual work, bringing the manual close to completion in 2014/15. Work on the manual will continue in 2015/16. The audit manual helps the office ensure that we follow best practices in the conduct of our audit work.

We did not conduct a self-assessment or plan for a peer review during 2015/16. This work is only appropriate to commence once the office has completed a number of audits and has matured. As set out in our current service plan, beginning in 2015/16 we will plan for peer review on a three year cyclical basis (to start in 2017/18).

We did not pursue the enactment of regulations to permit the AGLG to enter into agreements with local governments to perform ad hoc performance audits of operations on a cost recovery basis. As the office progresses in the future, we may consider requesting the enactment of such a regulation. However, this is not an immediate priority and will only be considered when the office has matured and is effectively delivering on its core business.

Assisting Local Governments

Goal 2: Provide Local Governments with Objective, Helpful Advice

Performance Measure 2: Publishing Performance Audit Reports

Measure

Reports published

2014/15 Annual Service Plan Target	2014/15 Performance Results
Updated audit plan	Achieved
Up to 17 reports delivered, subject to appropriations received	Not Achieved
Supporting Objective 1: Engage and consult with local governments, other stakeholders and expert practitioners in the development of audit themes.	Achieved
Supporting Objective 2: Identify and develop guidelines, principles and standards for performance auditing of B.C. local governments.	Partially Achieved
Supporting Objective 3: Prepare for and plan performance audits based on audit themes.	Partially Achieved
Supporting Objective 4: Conduct examinations and studies in accordance with professional standards.	Achieved
Supporting Objective 5: Provide recommendations that are practical and relevant.	Achieved

Discussion of Results

Goal 2: Provide Local Governments with Objective, Helpful Advice

The office did not meet its performance audit release target set out for 2014/15 and did not complete the remaining 17 performance audits announced in 2013. The initial audit plan released in 2013 was overly optimistic in terms of how much work could be completed in a given timeframe. Significant delays were encountered in completing audit work, resulting in the office failing to meet its commitments in terms of performance audit reporting timelines. The office misjudged its ability to generate efficiencies by simultaneously conducting several audits of different local governments on the same topic. The office was also overly reliant on contracted resources in attempting to carry out 18 performance audits at the same time.

During 2015, we will review the number of performance audits that can reasonably be completed in a given year and adjust the targets accordingly. We will also assess the timelines associated with taking on a performance audit to ensure they are realistic. Finally, we will review our planned future performance audits and our review will consider the value of additional AGLG Perspectives booklets, which have considerable potential to provide a wide range of local governments with useful tools and advice on issues relating to the AGLG's performance audit work.

During 2014/15, the office released two audit reports:

- Part one and part two reports on the City of Rossland on the topic *Learnings from Local Government Capital Procurement Projects and Asset Management Programs*.
- A report on the Corporation of Delta on the topic *Achieving Value for Money* in Operational Procurement.

In the summary of local government comments included in the reports, both Rossland and Delta indicated they intend to implement the recommendations from the audit. Rossland also developed a detailed action plan to address the recommendations in the part one report. Their action plan was included in the report.

The office also released the AGLG Perspectives booklet *Oversight of Capital Project Planning & Procurement* which includes key considerations for local government council and board members. One local government has shared a self-assessment based on this booklet with the office.

Work continued on the remaining performance audits first set out in the office's initial audit plan. A report on the District of Sechelt on the topic *Learnings from Local Government Capital Procurement Projects and Asset Management Programs* was published just after fiscal year end in April 2015. Much of the examination and reporting phase audit work for Sechelt was conducted during 2014/15.

Goal 2: Provide Local Governments with Objective, Helpful Advice

While the office began to plan for Audit Topic 6 (Performance and Oversight of Fire Services) and Audit Topic 7 (Performance in Building Permitting and Inspections), the plan will need to be revisited. Based on the office's experience to date, we are considering reducing the number of auditees under each audit topic down to a more manageable two or three audits. This means the planned work for all future planned topics including Audit Topic 4 (Local Government's Role in Ensuring Clean Drinking Water) and Audit Topic 5 (Managing the Inherent Risks of Limited Human Resources within Small Local Governments) also needs to be re-examined in terms of which are the highest priority audits, based on an assessment of risk and other factors. In addition, there needs to be more consideration of the balance between audit and Perspectives booklets which may have broader applicability and use. Going forward it seems to be more realistic to have the office produce a combination of three audit reports and two Perspectives booklets per year.

The office did engage and consult with local governments and other stakeholders at events and meetings throughout the year which helped inform our audit planning. This provided opportunities for the office to share the findings and recommendations in our audit reports and the advice included in our Perspectives booklet.

During 2015/16 we intend to complete the AGLG performance audit guide for local governments that sets out many of our guidelines, principles and standards. Much of the work in developing this resource has been completed over the past year.

Communicating Well

Goal 3: Provide Accessible Information to Local Governments, Stakeholders and the Public

Performance Measure 3.1: Publishing Annual Service Plan and Annual Report

Measure

Timely publication of service plans and annual reports

2014/15 Annual Service Plan Target	2014/15 Performance Results
Publish service plan prior to the end of the previous fiscal year (by March 31, 2014)	Achieved
Publish annual report within 90 days of receiving AGLG audited financial statements	Achieved
Supporting Objective 1: Ensure the timely release of service plans and annual reports.	Achieved

Goal 3: Provide Accessible Information to Local Governments, Stakeholders and the Public

Performance Measure 3.2: Engaging with Local Governments

Measure

Extent of engagement with local governments, citizens and other stakeholders

2014/15 Annual Service Plan Target	2014/15 Performance Results
Continued systematic meetings with local governments and tours of local government operations	Partially Achieved
Meetings with stakeholders	Achieved
Publication of performance audit resources and AGLG Perspectives Series booklets	Partially Achieved
Supporting Objective 2: Develop and distribute information on audit themes, performance audits and processes.	Achieved
Supporting Objective 3: Provide outreach and education on the role of the AGLG.	Achieved
Supporting Objective 4: Develop and implement communication plans for interacting with local governments and other stakeholders.	Partially Achieved

Goal 3: Provide Accessible Information to Local Governments, Stakeholders and the Public

Performance Measure 3.3: Correspondence Service Standards

Measure

Correspondence service standards

2014/15 Annual Service Plan Target	2014/15 Performance Results
Respond to all past correspondence by September 2014	Achieved
Respond to newly arriving correspondence with a meaningful response to 50% within 90 days and 70% within 6 months	Not Achieved
Review correspondence processes	Partially Achieved

Discussion of Results

Goal 3: Provide Accessible Information to Local Governments, Stakeholders and the Public

During 2014/15, we continued to engage with local governments, stakeholders and media to explain the role and mandate of the office and the performance audit process in addition to sharing the findings and recommendations of our completed performance audits and our Perspectives booklet. We heard from local government representatives and other stakeholders at events and meetings and continued to learn about the priorities of local governments and their communities across B.C.

While we met with many local government representatives and staff at events, such as the North Central Local Government Association Convention, Government Finance Officers Association of BC annual conference and Union of British Columbia Municipalities annual conference, we did not conduct any specific local governments meetings or tours of local government operations during 2014/15 outside of those currently under audit.

Responding to correspondence including letters and e-mail has been a continuing issue for the office. In 2014/15 we received 139 correspondence items. Over the past year we added additional resources to respond to the backlog of correspondence from 2013/14 and worked towards improving our response rate. The office continues to need to review its correspondence process to find efficiencies where possible. A more realistic and simplified target for responding to correspondence has been set for the 2015/16 fiscal year.

Staying on Top of Issues that Matter

Goal 4: Respond Effectively and in a Timely Way to Emerging Issues Affecting Local Governments

Performance Measure 4.1: Responding to Emerging Issues

Measure

Timely reporting on issues that emerge

2014/15 Annual Service Plan Target	2014/15 Performance Results
Redirect resources as required to respond to emerging issues	Partially Achieved
Update local governments on audit timelines affected by any emerging issues	Partially Achieved
Provide recommended practices and other tools to assist local governments in addressing emerging issues covered in an audit	Partially Achieved
Supporting Objective 1: Establish and implement processes to monitor and track potential emerging issues that may affect local governments in B.C.	Partially Achieved
Supporting Objective 2: Respond in a timely way to include significant issues that do emerge in our performance auditing.	Partially Achieved

Discussion of Results

Goal 4: Respond Effectively and in a Timely Way to Emerging Issues Affecting Local Governments

In April 2014 we published a part one audit report on the City of Rossland focusing on capital project procurement which addressed an emerging issue that came to light while conducting the audit in 2013/14. In response to this issue, we also published the Perspectives booklet *Oversight of Capital Project Planning & Procurement* in 2014/15 which includes key considerations for local government council and board members. We also continued to monitor and track emerging issues to inform our audit planning.

Despite the limited number of reports produced, the office has been focused on trying to fulfill its audit report commitments. This has meant that aside from emerging issues that were identified through the audit work, there has been little opportunity to consider these issues and discuss them with local governments. This is another item that needs to be addressed over the next year and needs to form part of the discussion around which planned audits to complete. As noted earlier, we are considering selecting fewer auditees under each of the topics identified.

AGLG CONTACT INFORMATION

The AGLG welcomes your feedback and comments. Contact us electronically using our website contact form on www.aglg.ca or email info@aglg.ca to share your questions or comments.

You may also contact us by telephone, fax or mail:

Phone: 604-930-7100

Fax: 604-930-7128

Mail: AGLG
201 - 10470 152nd Street
Surrey, BC
V3R 0Y3



Our Audited Financial Statements

MANAGEMENT DISCUSSION AND ANALYSIS

The *Auditor General for Local Government Act* requires the AGLG to prepare its own financial statements separate from the Summary Financial Statements of the Province of British Columbia (Province). This is the third year that the office of the AGLG has prepared its own financial statements, and the second year that these statements have been subjected to an external audit.

As part of the Province's reporting entity, the AGLG has key service relationships with other parts of government. The AGLG does not maintain a bank account or have title to its tangible capital assets. The Ministry of Community, Sport and Cultural Development maintains the books and records related to the AGLG's operating activities and amounts are charged through the Province's Consolidated Revenue Fund against the appropriation (Vote 51 in 2014/15) for the AGLG.

The balance reported in the financial statements for "Due from Consolidated Revenue Fund" represents amounts that will be recovered from the CRF against the AGLG appropriation to pay for accounts payable and accrued liabilities.

Tangible capital assets, premises and equipment rental, and other services are provided by Shared Services BC who also holds nominal title to tangible capital assets for which the AGLG has beneficial ownership. IM/IT tangible capital assets are an exception as these assets are provided by Shared Services BC under an equipment rental arrangement that does not pass the risks and rewards of ownership to the AGLG. As such, IM/IT tangible capital assets are not reported by the AGLG and related rental charges are expensed as incurred. There were no additions to tangible capital assets for the 2014/15 fiscal year. Tangible capital asset funding repayable represents amounts repayable by the AGLG to Shared Services BC under the terms of the agreement with Shared Services BC.

Operations for the year were very close to plan. We spent \$2,561,765 of our maximum allowable appropriation of \$2,600,000 representing a difference of \$38,235. Because of the timing difference between the amortization of the AGLG's leasehold improvements, and the payments made to Shared Services B.C., the AGLG had a surplus of \$25,304 relative to its operating appropriation used in 2014/15.

As shown in Note 8 to the financial statements, the vast majority of expenses were for third party contractors (\$922,304) and staff salaries (\$1,138,065). Over 90% of payments to third party contractors and approximately 60% of salaries are performance audit related.

The Notes to the Financial Statements provide further explanation of transactions and balances reported in the Financial Statements. They also explain the nature and details of the spending between related parties within the Province that impacts the AGLG.

A key accountability report to stakeholders during 2014/15 was the 2014/15 - 2016/17 Annual Service Plan. Actual performance against this plan is provided in the 2014/15 Annual Report being released with these financial statements. In the 2014/15 fiscal year, two audit reports were released: City of Rossland - Learnings from Capital Procurement Projects and Asset Management Programs, Part 1 (April 2014) and Part 2 (March 2015), and Corporation of Delta - Achieving Value for Money from Operational Procurement (March 2015). The office also released the Perspective booklet "Oversight of Capital Project Planning & Procurement" in 2014/15.

An Audit Council is established under the *Auditor General for Local Government Act*. In addition to recommending the appointment, suspension or removal of the AGLG, the Audit Council reviews and monitors the performance of the AGLG. In 2014/15, the Audit Council, spent approximately \$24,000.

At the end of 2014/15, the former AGLG was terminated and a new Acting AGLG was appointed on April 13, 2015. A new permanent AGLG is expected to be in place by the fall of 2015. The Province has also announced a number of potential changes to the AGLG legislation to strengthen accountability and improve overall performance of the AGLG.

STATEMENT OF MANAGEMENT RESPONSIBILITY

The financial statements of the Auditor General for Local Government (AGLG) are the responsibility of management and have been prepared in accordance with Canadian public sector accounting standards, consistently applied and appropriate in the circumstances. The preparation of financial statements necessarily involves the use of estimates which have been made using careful judgment. In management's opinion, the financial statements have been properly prepared within the framework of the accounting policies summarized in the financial statements and incorporate, within reasonable limits of materiality, all information available at June 22, 2015.

Management is also responsible for implementing and maintaining a system of internal control. Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training, and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility, and through communication programs aimed at ensuring that regulations, policies, standards and managerial authorities are understood throughout the AGLG.

Accounting information related to operating expenses is currently maintained by the Ministry of Community, Sport and Cultural Development with overall review by the AGLG. Asset information is maintained by Shared Services BC. The AGLG has confirmed the reliability of its financial data by conducting a number of corroborating procedures, including carrying out confirmations and other external checks to maintain a level of precision required for separate financial statement disclosures. Those procedures provide us with reasonable assurance regarding the integrity and objectivity of the information presented in the financial statements and make us confident that the AGLG has operated within its authorized limits and safeguarded its assets.

The financial statements for the 2014/15 year were audited by Deloitte LLP. Their independent auditor's report including their opinion follows on the next page. The external auditors were given full access to all books and records.



Arn van Iersel, CPA, FCGA
Acting Auditor General for Local Government

June 22, 2015

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS



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Independent Auditor's Report

To the Auditor General for Local Government and
the Minister of Community, Sport and Cultural Development, Province of British Columbia

We have audited the accompanying financial statements of the Auditor General for Local Government, which comprise the statement of financial position as at March 31, 2015, and the statements of operations, changes in net debt and cash flows for the year then ended, and the notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Auditor General for Local Government as at March 31, 2015 and its results of operations, changes in net debt and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Deloitte LLP

Chartered Accountants
June 22, 2015
Vancouver, British Columbia

STATEMENT OF FINANCIAL POSITION

Auditor General for Local Government

Statement of Financial Position

as at March 31, 2015

	Notes	2015	2014
FINANCIAL ASSETS			
Petty cash		\$ 200	\$ 200
Due from consolidated revenue fund	9	\$ 53,443	\$ 57,005
		\$ 55,643	\$ 57,205
LIABILITIES			
Accounts payable and accrued liabilities	9	\$ 53,643	\$ 57,205
Tangible capital asset funding repayable	3	\$ 156,081	\$ 253,554
		\$ 209,724	\$ 310,759
NET DEBT		\$ (156,081)	\$ (253,554)
NON-FINANCIAL ASSETS			
Tangible capital assets	4	\$ 181,385	\$ 253,554
		\$ 181,385	\$ 253,554
ACCUMULATED SURPLUS	5	\$ 25,304	\$ -

Commitments (Note 10)

The accompanying notes to the financial statements are an integral part of this financial statement.

STATEMENT OF OPERATIONS

Auditor General for Local Government

Statement of Operations

year ended March 31, 2015

		Budget	Actual	
	Notes	(Note 6)	2015	2014
REVENUES				
Operating appropriation	7	\$ 2,600,000	\$ 2,561,765	\$ 2,503,403
		\$ 2,600,000	\$ 2,561,765	\$ 2,503,403
EXPENSES				
	8			
Performance audits planning and conduct		\$ 1,015,888	\$ 1,517,039	\$ 1,467,690
Audit Council	11	\$ 35,000	\$ 23,387	\$ 16,761
Administration		\$ 1,549,112	\$ 996,035	\$ 1,018,952
		\$ 2,600,000	\$ 2,536,461	\$ 2,503,403
SURPLUS FOR THE YEAR		\$ -	\$ 25,304	\$ -

The accompanying notes to the financial statements are an integral part of this financial statement.

STATEMENT OF CHANGES IN NET DEBT

Auditor General for Local Government

Statement of Changes in Net Debt

year ended March 31, 2015

	Budget		Actual	
	(Note 6)	2015	2014	
SURPLUS FOR THE YEAR	\$ -	\$ 25,304	\$ -	\$ -
Acquisition of tangible capital assets	\$ -	\$ -	\$ (253,040)	\$ -
Amortization of tangible capital assets	\$ 97,473	\$ 72,169	\$ 55,299	\$ -
	\$ 97,473	\$ 72,169	\$ (197,741)	\$ -
Use of prepaid expenses	\$ -	\$ -	\$ 862	\$ -
	\$ -	\$ -	\$ 862	\$ -
Decrease (increase) in net debt	\$ 97,473	\$ 97,473	\$ (196,879)	\$ -
Net debt, beginning of year	\$ (253,554)	\$ (253,554)	\$ (56,675)	\$ -
Net debt, end of year	\$ (156,081)	\$ (156,081)	\$ (253,554)	\$ -

The accompanying notes to the financial statements are an integral part of this financial statement.

STATEMENT OF CASH FLOWS

Auditor General for Local Government

Statement of Cash Flows

year ended March 31, 2015

	2015	2014
OPERATING TRANSACTIONS		
Surplus for the year	\$ 25,304	\$ -
Items not requiring cash		
Amortization	\$ 72,169	\$ 55,299
	\$ 97,473	\$ 55,299
Change in non-cash operating items		
Due from consolidated revenue fund	\$ 3,562	\$ 52,809
Accounts payable and accrued liabilities	\$ (3,562)	\$ (53,671)
Prepaid expenses	\$ -	\$ 862
Cash provided by operating transactions	\$ 97,473	\$ 55,299
FINANCING TRANSACTIONS		
Repayment of tangible capital asset funding	\$ (97,473)	\$ (55,299)
	\$ (97,473)	\$ (55,299)
Net decrease in cash	\$ -	\$ -
Cash, beginning of year	\$ 200	\$ 200
Cash, end of year	\$ 200	\$ 200

The accompanying notes to the financial statements are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS

March 31, 2015

1. Nature of Operations

The office of the Auditor General for Local Government (AGLG) was established through the *Auditor General for Local Government Act* of the Province of British Columbia, which came into effect on April 25, 2012.

The AGLG was created to assist local governments in British Columbia in their accountabilities to their communities on their stewardship of assets and in their performance in achieving value for money in operations with due regard to economy, efficiency and effectiveness.

The AGLG is part of the reporting entity of the Province of British Columbia ("Province") and, as such, is related to all ministries of the Province as well as all Crown corporations and agencies.

Separate consolidated financial statements are prepared that report the combined operations of the government reporting entity of the Province.

As further described in Note 11, the administration of the AGLG works closely with other parts of the Province. Purchases of tangible capital assets, leases of premises, equipment rental and other services are provided through Shared Services BC (a government agency for procuring and supplying the technology, accommodation, products and services required by the Province).

The AGLG does not maintain a bank account and does not write cheques or process transfers for payments to staff and suppliers. These activities are undertaken by other parts of the Province and charged through the Consolidated Revenue Fund against the appropriation of the AGLG.

The Province and its ministries (and therefore the AGLG) are exempt from income taxes.

2. Significant Accounting Policies

These financial statements are prepared by management in accordance with Canadian Public Sector Accounting Standards established by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants Canada, and reflect the following significant accounting policies:

a. Non-financial assets

Non-Financial Assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

i. Tangible capital assets

The AGLG has the use of tangible capital assets for which Shared Services BC is the owner of record. Because AGLG has both the benefits and risks related to these assets, they have been recorded in these financial statements. Tangible capital assets are recorded at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets.

Cost includes overhead directly attributable to construction and development, as well as interest costs that are directly attributable to the acquisition or construction of the asset.

The cost, less estimated residual value, of tangible capital assets is amortized on a straight-line basis over their estimated useful lives as follows:

Leasehold Improvements	Lesser of 5 Years or the Lease Term
Furniture and Equipment	5 Years

Tangible capital assets are written down when conditions indicate that they no longer contribute to the AGLG's ability to provide services. Net write-downs, if any, are accounted for as expenses in the Statement of Operations.

ii. Prepaid expenses

Prepaid expenses include payments for goods and services that span the fiscal year end. As at March 31, 2015 and 2014, there was no balance of prepaid expenses.

b. Revenue recognition

i. Operating appropriations

Operating appropriations represent the expenditures funded from the Province to a maximum of the operating portion of the annual budget appropriation approved for the AGLG under separate vote less any other adjustments set by the Provincial Treasury Board.

ii. Services Provided without Charge

From time to time, the AGLG receives services from the Province's ministries or agencies without charge. These services are described in Note 11 to the financial statements but are not otherwise recorded in these financial statements.

c. Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

d. Employee future benefits

i. Pension Benefits

The employees and employers of the public service contribute to the Public Service Pension Plan (the "Plan"), a jointly trustee pension plan. The Public Service Pension Board of Trustees, representing Plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The Plan is a multi-employer contributory pension plan. Basic pension benefits are defined. The Plan has approximately 54,000 active plan members and approximately 42,000 retired plan members.

Every three years an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of plan funding. The latest valuation as at March 31, 2014, indicated an actuarial surplus of \$194 million for basic pension benefits. The actuary does not attribute portions of the unfunded liability or surplus to individual employers. The AGLG records benefit costs as charged by the BC Public Service Agency.

ii. Leave liability

Eligible employees are entitled to accumulate earned, unused vacation entitlement as provided under their terms of employment. In the fiscal year, the AGLG office incurred \$239,668 (2013/14 - \$193,980) in Employee Leave and Benefit Liability costs.

iii. Other benefits

Eligible employees are entitled to post-employment health care and other benefits as provided under their terms of employment. The cost of these benefits is accrued by the Province as employees render the services necessary to earn them.

e. Financial instruments

Financial instruments include petty cash, due from Consolidated Revenue Fund, accounts payable and tangible capital asset funding payable. The AGLG's financial instruments are carried at cost.

f. Measurement uncertainty

The preparation of financial statements in conformity with Canadian Public Sector Accounting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure, if any, of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues and expenses during the reporting period.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. As adjustments become necessary, they will be recognized in the financial statements in the period in which they become known. Measurement uncertainty exists in these financial statements. Allocation of expenses to different functional areas, determination of tangible capital assets capitalized from Shared Services BC, and the provision for estimated useful lives of tangible capital assets are the most significant areas where estimates are used.

Actual results could differ from these estimates.

3. Tangible Capital Asset Funding Repayable

		2015		2014	
Repayable to Shared Services BC	\$	156,081	\$	253,554	

The AGLG has funded its tangible capital asset acquisitions through Shared Services BC which is part of the Ministry of Technology, Innovation and Citizens' Services of the Province.

The terms of the funding require that the AGLG repay the amounts for furniture and equipment over a 5 year term and for the leasehold improvements (along with a one-time charge for administration) over a 3 year term. In addition, the repayment of the outstanding balance is required should there be any disposals and/or write-offs of the tangible capital assets.

There is no interest being charged on these amounts. Shared Services BC has ownership over these tangible capital assets as it is funded from their capital allocation.

Future scheduled repayments and reductions are as follows:

	Shared Services		Deferred Charge		Total
2015/2016	\$	89,780	\$	7,693	\$ 97,473
2016/2017	\$	51,452	\$	3,846	\$ 55,298
2017/2018	\$	3,310	\$	-	\$ 3,310
	\$	144,542	\$	11,539	\$ 156,081

4. Tangible Capital Assets

	2015		
	Leasehold improvements	Furniture and equipment	Total
COST			
Opening and closing balance	\$ 253,040	\$ 65,605	\$ 318,645
Accumulated amortization			
Opening balance	\$ 42,173	\$ 22,918	\$ 65,091
Additions	\$ 59,043	\$ 13,126	\$ 72,169
Closing balance	\$ 101,216	\$ 36,044	\$ 137,260
NET BOOK VALUE	\$ 151,824	\$ 29,561	\$ 181,385

	2014		
	Leasehold improvements	Furniture and equipment	Total
COST			
Opening balance	\$ -	\$ 65,605	\$ 65,605
Additions	\$ 253,040	\$ -	\$ 253,040
	\$ 253,040	\$ 65,605	\$ 318,645
Accumulated amortization			
Opening balance	\$ -	\$ 9,792	\$ 9,792
Additions	\$ 42,173	\$ 13,126	\$ 55,299
Closing balance	\$ 42,173	\$ 22,918	\$ 65,091
NET BOOK VALUE	\$ 210,867	\$ 42,687	\$ 253,554

5. Accumulated Surplus

The AGLG has authority to spend to a maximum of its annual appropriation. Any under-spending lapses and cannot be carried forward to future years. In addition, the AGLG finances its tangible capital assets through Shared Services BC and has no source of additional capital funding.

The accumulated surplus arises from a difference in amortization of leasehold improvements and repayments of tangible capital asset funding to Shared Services BC for the leasehold improvements. This difference will reverse in future years.

6. Budget

Budget figures have been provided for comparison purposes and have been derived from the voted appropriations less any other adjustments approved by the Provincial Treasury Board for operating expenses and from capital funding authorized by Treasury Board. Reclassifications of certain budget categories were made in order to conform to PSAB presentation.

7. Legislative Appropriations

The AGLG is funded through annual legislative appropriations. Appropriations lapse at the end of each fiscal year unless provisions are made for carryover.

The following is a reconciliation of appropriations provided to current year appropriations used:

	2015	2014
Appropriations		
Voted - operating expenses	\$ 2,600,000	\$ 2,600,000
Total available	\$ 2,600,000	\$ 2,600,000
Lapsed amounts		
Lapsed appropriations	\$ 38,235	\$ 96,597
Total lapsed amounts	\$ 38,235	\$ 96,597
Appropriations used	\$ 2,561,765	\$ 2,503,403

8. Expenses by Object

	2015		2014	
Salaries and benefits	\$	1,138,065	\$	913,691
Consulting and professional services	\$	922,304	\$	988,010
Building occupancy	\$	175,779	\$	206,567
Amortization	\$	97,473	\$	55,301
Travel	\$	64,500	\$	134,411
Data operations	\$	62,144	\$	75,801
General office expenses	\$	41,135	\$	59,991
Audit council expenses	\$	23,387	\$	16,761
Legal expenses	\$	21,454	\$	32,489
Postage, printing and courier	\$	15,524	\$	20,381
	\$	2,561,765	\$	2,503,403

9. Financial Risk Management

The AGLG's financial instruments are not exposed to significant risk. They are measured at cost and include: petty cash, due from consolidated revenue fund and accounts payable and accrued liabilities.

Accounts payable and accrued liabilities consist of the following:

	2015		2014	
Fees on service contracts	\$	45,056	\$	53,288
Audit council expenses	\$	6,170	\$	2,495
Information systems expenses	\$	1,158	\$	-
Staff travel expenses	\$	988	\$	1,403
Other	\$	271	\$	19
	\$	53,643	\$	57,205

10. Commitments

Lease commitments

Shared Services BC leases office premises on behalf of the AGLG. The AGLG is responsible for this cost and, as such, is committed to leased premises until 2017. Future minimum lease payments for these office premises are as follows:

2015/2016	\$	184,600
2016/2017	\$	183,981
2017/2018	\$	46,385

11. Related party transactions

a. Audit Council

There were no payments made to AGLG Audit Council members other than in their capacity as Audit Council members. The secretariat function is funded by the Ministry of Community, Sport and Cultural Development.

	2015		2014	
Per-diem	\$	19,100	\$	10,350
Travel	\$	4,287	\$	6,411
	\$	23,387	\$	16,761

b. Province of British Columbia

Operating appropriations, capital funding authorized by Treasury Board and Amounts due from the Consolidated Revenue Fund are transactions with the Province in the ordinary course of business.

The AGLG is related to all entities in the Provincial Government Reporting Entity because of the common control by the Province. The AGLG transacts with other ministries or provincial agencies and incurred estimated expenses of \$626,697 (2013/14 \$672,142) in the normal course of operations for services including: web design, development and hosting, data operations, building occupancy, executive searches and general office expenses. These services were recorded at the exchange amount.

In 2014/15, the AGLG was charged for full legal services and employee benefits and leave accrual amounts. The AGLG office incurred \$27,264 (2013/14 - \$32,489) of legal service expenses and \$239,668 (2013/14 - \$210,148) of employee benefit and leave liability expenses. Among these costs, \$21,454 (2013/14 - \$32,489) of legal service fees and \$239,668 (2013/14 - \$193,980) of employee benefit and leave liability expenses were billed to AGLG. \$5,810 (2013/14 - \$Nil) in legal service fees were absorbed by the Ministry of Community, Sport and Cultural Development in 2014/15.

In addition, the AGLG's financial books and records are maintained by other ministries without charge, the value of which is not determinable. Similarly, insurance coverage for the AGLG is undertaken by the Province's self-insurance plan, the value of which is not determinable.



**AUDITOR GENERAL FOR
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