
The "Entity Question" in the Public Accounts of British Columbia

by Russ Francis

This article looks at a recent controversy in British Columbia over the format of the Public Accounts in that province. The heart of the issue is whether the summary financial statements – the most detailed listing of the government's financial position – should include schools, universities, colleges and hospitals (the so-called SUCH sector).

Just how much information should be included in a province's annual Public Accounts? A bitter debate on this question raged last summer and fall at meetings of the British Columbia legislature's Public Accounts Committee, chaired by Deputy Opposition Leader, Fred Gingell. As of the end of last November, it appeared that B.C. Auditor General George Morfitt would preface the Public Accounts for the 1996-97 fiscal year with an adverse audit opinion, on the grounds that they "do not present fairly the financial position and results of operations of the government," to use the words that Mr. Morfitt employed at a meeting of the committee on July 29, 1997.¹

Entity Expanded for 1995-96

The 1995-96 Public Accounts, for the first time, included schools, universities, colleges and hospitals in the summary financial statements, and the Auditor General praised the government for doing so. At the time, there were 75 school districts, 120 health care organizations and related corporations, 29 regional hospital districts, and 25 colleges, institutes and universities.

We are pleased to see that, after consideration of the issue over the years and discussion with our Office, the government has broadened its financial reporting entity.

This means that all organizations that are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the legislature, and are owned or controlled by the government, are now included in the government's financial statements."²

The B.C. Auditor General argued that according to the recommendations of the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants, the government reporting entity should include organizations that are:

- accountable to the government
- owned or controlled by the government

School boards, colleges, institutes, universities and health authorities meet both of these criteria said Mr. Morfitt, and hence should be listed in the summary financial statements.

According to the government's explanation of the reporting entity in the 1995/96 *Public Accounts*:

These financial statements include the accounts of organizations which are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the Legislature,³ and are owned or controlled by the government.

It is interesting to note that it is not a matter of whether the financial information is published at all. Under the *Financial Information Act*, these organizations, as well as municipalities, are required to publish annually an even

Russ Francis is news editor of Monday Magazine in Victoria.

more detailed listing of their finances – including, for instance, payments made to all employees which exceed \$50,000 annually.

However, they are not centrally available – even the B.C. Legislative Library does not keep copies of all of them. The Auditor General regarded the fact that the information is scattered throughout hundreds of publications as significant. As he put it to the committee:

I don't think it's reasonable to expect the public or members of the assembly to plow through all of those documents and try and get an overview of what the government is into and what it does.⁴

Reduced Entity for 1996-97

Following the May, 1996 provincial election, which returned the NDP to power with a reduced majority, the new Minister of Finance, in a letter dated April 22, 1997, told Public Accounts Committee Chair Fred Gingell that he wanted the entity question reviewed.

Until the issue was resolved, the government would revert to its previous policy of including the Consolidated Revenue Fund, the Crown corporations and the Capital Financing Authorities in the summary financial statements – but not schools, universities, colleges and hospitals. (The "SUCH" sector)

Although the expanded entity is recommended by the Auditor General I am concerned that the accountability, budgetary and other issues associated with the expanded entity need to be more fully addressed.⁵

The Deputy Minister of Finance, Gerry Armstrong, held stronger views on the topic. In a letter to the Auditor General dated August 15, 1997, he commented on the Auditor General's use of the PSAAB recommendations.

[T]he entity question is a public policy issue, with the potential for real life impacts on government funded programs. As such it should indeed be debated and decided by publicly elected officials rather than a self-selected group of technical accounting practitioners.⁶

He also criticized the Auditor General's claim-based on a survey by his office—that other Canadian jurisdictions plan to expand their entities to include some or all of the SUCH sector.

In our view, much of that agreement was in response to pressure from provincial auditors to conform to the expanded entity in the 1995/96 British Columbia Public Accounts. Now that British Columbia has decided to return to an entity without the SUCH sector, I would suggest that a number of other jurisdictions may also reconsider their plans.⁷

In their respective presentations to the committee last November, the Auditor General and Finance Ministry of-

ficials even disagreed as to what was the practice in other provinces. According to a chart provided the committee by the Auditor General, Nova Scotia was looking to expand its entity.⁸ But a similar table which the Finance Ministry presented to the committee said Nova Scotia planned no change.⁹

Political Overtones

While their Liberal colleagues generally backed the position of the Auditor General, NDP members of the Public Accounts Committee lined up behind Finance Ministry officials, including Comptroller General Alan Barnard, in supporting the return to a smaller entity. This is surprising because including the SUCH sector would have the effect of reducing the accumulated deficit by \$2.3 billion and its annual deficit by \$62 million.

The NDP government is under heavy criticism from the Opposition and business groups for the size of its debt – which now stands at more than \$30 billion – and for repeated failures to bring in a balanced budget.

For the fiscal year ending March 31, 1998, Finance Minister, Mr. Petter said on November 27, 1997 that the government expects a \$185 million deficit,¹⁰ which would be the NDP government's sixth consecutive deficit. Adding the SUCH sector would have moved the government closer to a balanced budget, which is arguably a necessary predecessor in political terms for the NDP to win a third consecutive term in office.

The reason for the reduced accumulated deficit is that though the government's liabilities would increase by almost one billion dollars and loans payable by \$4.7 billion, its assets would increase by more than \$8 billion. The annual deficit would decrease because the government takes in more from tuition fees, patient fees and other sources of SUCH revenue than it spends on items like professors' and nurses' salaries.¹¹

One argument advanced against the larger entity by Mr. Barnard, and NDP members of the Public Accounts Committee was that if schools, universities and health organizations are going to be included, why not municipalities? All four types of organizations are both accountable to and controlled by the government. For instance, the *Municipal Act* governs most B.C. municipalities and places strict limits on their powers, including how they raise and spend money. Yet adding B.C.'s 179 local governments would be a nightmare for Barnard and his Finance Ministry colleagues, and would make the summary financial statements unwieldy. Hence, goes the argument, the SUCH organizations should not be included. This is how NDP MLA Rick Kasper (Malahat-Juan de Fuca) put it.

I know the Ministry of Finance doesn't want to include municipalities; I know that for a fact. And I don't think you want to, either. But if we're going to take the standards or the criteria that are laid out through PSAAB as to how we determine what ownership, control and accountability mean, then we should really revisit this issue on the municipalities...¹²

The Auditor General, however, quoting from PSAAB material, rejected this argument:

While a province may have the authority to create a local government, that local government may be determining the level of taxation to be raised and the amount of debt it is willing to incur to finance the levels of services and capital expenditures. So, while the constitution may place the responsibility of municipal affairs on the province, it does not necessarily follow that the province should be held accountable for a municipality's financial position and results.¹³

Finance Ministry officials claimed there was another problem with expanding the reporting entity, beyond the fact that they would become too unwieldy.

The Finance Ministry was concerned about the relationship between the central government and organizations once removed such as schools and universities. As Assistant Deputy Finance Minister Trumpy put it:

The second set of arguments is around whether or not an expanded entity would lead to sort of more intrusive management of the broader public sector. Just to use an example, if the government were to have a budget which included the spending of all the post-secondary institutions and the universities, and the government at some point in the year decided that maybe revenues were weakening a little bit and that it had to do something on the spending side to achieve its budget targets, would we have a situation where the government would go to the post-secondary institutions ... and demand that they cut back spending when they have significant revenue sources that are non-government? What would be the behavioural implications of an expanded entity?¹⁴

The Auditor General, however, had an answer to this. How and what is reported in the Public Accounts cannot, according to him, affect the nature of the various relationships between the government and the organizations which it to some degree funds or controls.

Are there potentially negative behavioural issues from including these entities in the statements? My view is that excluding them presents accountability issues for the minister. If they are indeed accountable for how the schools are supposed to operate in this province, then they should be in. If they're not accountable, take them out. But just including the financial aspects of entities in the summary financial statements, I suggest, shouldn't drive negative behaviour.¹⁵

This argument was strengthened somewhat by new legislation. During its last session, the legislature

amended the *Municipal Act*, removing some of the provisions requiring local governments to seek the approval of the provincial government. As of last November 30, Mr. Morfitt had yet to make a final decision on whether to place an adverse audit opinion on B.C.'s Public Accounts.¹⁶

Despite the intensity of debate over their content, the B.C. Public Accounts are hardly a best seller. Of the 1,200 copies printed annually, only 150 are distributed outside the government itself, and many of those go to libraries and researchers. Nevertheless the debate will likely be followed by other jurisdictions considering changes to the format of the Estimates or the Public Accounts.

Notes

1. British Columbia, *Proceedings*, Select Standing Committee on Public Accounts, July 29, 1997, p. 402.
2. Auditor General of British Columbia, *1997 Annual Report*, p. 31.
3. Ministry of Finance and Corporate Relations, *1995/96 Public Accounts*, Vol. 1, Notes to Summary Financial Statements, p. A20.
4. British Columbia, *Proceedings*, Select Standing Committee on Public Accounts, November 4, 1997, p. 417.
5. Reprinted in: Auditor General of British Columbia, *The Government Reporting Entity - Briefing Book for the Select Standing Committee on Public Accounts*, October 1997.
6. *Ibid.*
7. *Ibid.*
8. Auditor General of British Columbia, *The Government Reporting Entity - Briefing Book for the Select Standing Committee on Public Accounts*, October 1997, p. 29.
9. Ministry of Finance, *The Reporting Entity of the Province of British Columbia - Presentation to the Select Standing Committee on Public Accounts*, November 4, 1997. (No page numbers)
10. Andrew Petter, Minister of Finance and Corporate Relations, *Press Release*, November 27, 1997.
11. Auditor General of British Columbia, *The Government Reporting Entity - Briefing Book for the Select Standing Committee on Public Accounts*, October 1997, pp. 21-22.
12. British Columbia, *Proceedings*, Select Standing Committee on Public Accounts, November 4, 1997, p. 429.
13. *Ibid.*, p. 429.
14. *Ibid.*, p. 415.
15. *Ibid.*, p. 435.
16. On December 18, 1997, the 1996-97 Public Accounts were released. In the Auditor General's report on the Summary Financial Statements, he listed three reservations, including one on the government's decision to exclude the SUCH organizations. See: Ministry of Finance and Corporate Relations, *1996/97 Public Accounts*, Report of the Auditor General of British Columbia, p. A16.