Emerging Issues Task Force

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Issue Short Heading: Year End Audit Issues

Issue Category:
_ Membership issue
_ Government (Provincial)
_ Government (Federal)
_ PSAB
X Other

Issue Description:

As the province of Alberta continues to experience economic changes, it is increasingly clear that local governments must re-evaluate their fiscal plans in order to meet these changing demands. Several issues that have immerged requiring additional attention by local governments include provincial grant funding, tangible capital assets, contaminated sites, and budgeting. These matters are significant because they represent meaningful parts of a government body's financial statements having fiscal consequences that directly impact decisions about upcoming strategic plans. The following memorandum will provide a brief overview of the noted potential issues and highlight areas that may warrant further consideration for each municipality.

Issue commentary/research:

1. **Municipal Sustainability Initiative Grant / Basic Municipal Transportation Grant**

Effective January 1, 2014, the Basic Municipal Transportation Grant (BMTG) program was consolidated with the Municipal Sustainability Initiative Capital Grant (MSI) program[1]. It is critical that each municipality review the 2014 MSI capital program guidelines to reconcile and ensure each budget approved for the 2014 year under BMTG funding still meets the 2014 MSI capital requirements. This is important as some of the grant programs that were once included in the BMTG grant program may not be accepted under the consolidated MSI capital grant program. As a result, there may be significant and material implications on fiscal plans for future infrastructure and capital expenditure plans.

The 2014 MSI program guidelines can be found on the municipal affairs website: http://www.municipalaffairs.alberta.ca/municipalgrants-description.cfm?program_id=38

2. Tangible Capital Asset Policy

Effective January 1, 2009, all municipalities were required to adopt *PS 3150 – Tangible Capital Assets.* This accounting standard brought many changes with regards to how municipalities must account for assets presented within their financial statements. It has been five years since this standard was adopted and a review of each municipality's current tangible capital asset policy should be completed. Several questions to consider include:

- Are amortization rates reasonable based on actual useful lives?
- Have assets been fully amortized that still have significant useful life remaining?
- Do your amortization rates meet your current and future asset replacement program or future capital budgets

These assets represent significant expenditures to each municipality and should be evaluated and re-evaluated regularly to ensure that all estimates are well represented in financial statements.

3. Contaminated Sites

Effective January 1, 2015, all municipalities were required to adopt *PS – 3260 Liability for Contaminated Sites.* These accounting policies provided clarity on how to correctly report contaminated sites that exist within municipalities. Some questions to consider in establishing procedures for inclusion of contaminated site liabilities include:

- Has the municipality's land inventory been reviewed?
- Has a contaminated site policy been adopted (if applicable)?
- Have level one or two assessments been determined (if applicable)?
- Have discussions begun between the municipality and the auditor?

Unrecorded and under assessed liabilities can have costly consequences for each municipality which can all be avoided with the establishment of proper policies and procedures today.

As this is a new accounting standard, each municipality should prepare and complete the following for its subsequent year-end audit:

- Contaminated site policy(s)
- Current land inventory listing
- Historic and current descriptions of what land parcels were used for and their active status (i.e. active or non-active)
- Estimated resources required for potential reclamation of sites (i.e. level one or two assessments)

4. **Budget (Audited Actuals)**

Due to increasing demands for public accountability and transparency, the notion that municipal budgeted financial statements should be audited within their annual financial statements has become a hot topic. Under current PSAS requirements, many auditors believe budgeted figures should be presented as audited with assurance by the municipality's independent auditor. This change would provide better disclosure and more meaningful information for users of any municipality's financial statements.

Some questions to consider in implementing these changes include:

- Has the date of the initial budget approval been disclosed?
- Is the budget PSAS compliant? If not, has a reconciliation been made and in place to show PSAS compliance?
- If the operating or capital budget has been amended, do the financial statements reflect these changes?
- Do the financial statements reflect the initial budget? If changed, do they reflect the amended budget?

Additional planning and discussions with each municipality's auditor may be required to meet PSAS standards and provide enhanced information and improved transparency to financial statements.

Conclusion:

The intention of this memorandum was to highlight the above issues to initiate and help facilitate positive discussions within each municipality and to help keep pace with the ever evolving economic changes within our province and ever changing accounting standards.

References:

[1] Government of Alberta. (1995 – 2014). Program Information: Municipal Sustainability Initiative – Capital Description. Retrieved February 2, 2015 from http://www.municipalaffairs.alberta.ca/municipalgrants-description.cfm?program_id=38

Note: Direct inquiries, commentaries and questions to the GFOA Discussion Forum by clicking on this link: https://www.gfoa.ab.ca/forum/discussion/256/year-end-audit-issues. You will be taken directly to this conversation.