

2018-19

Financial Reporting Manual

For School Divisions

Ministry of Education: Education Funding Branch
Last Updated: February 2019

I. Introduction

The intention of this manual is to assist boards of education in meeting their accountability requirements. *The Education Act, 1995* holds boards of education (boards) accountable to residents of the school division and to the Minister of Education for the effective and affordable delivery of education services. The act sets out various accountability mechanisms including annual reports and independent audits.

This document is primarily concerned with the audited financial statements, management information, and other year-end reporting requirements that are part of this accountability mechanism.

II. Audit Requirements

II.1 Audit Reports

The following audit reports are required by the minister:

1. Audited financial statements prepared in accordance with Canadian public sector accounting standards for other government organizations as established by the Public Sector Accounting Board (PSAB) and as published by the Chartered Professional Accountants of Canada (CPA Canada);
2. Audit report on the effectiveness of internal control systems (internal control opinion);
3. Audit report on compliance with legislative and related authorities (legislative compliance opinion); and
4. Audit report on loss of public money due to negligence, omission, fraud, default or mistakes committed by school division employees and others.

II.2 Purpose of the Annual Audit

The annual audit and audit reports provide assurance to the minister, the residents of the school division, the board and other users on:

- the reliability of the financial statements prepared by management (i.e. financial statements present fairly);
- the effectiveness of internal control to safeguard public resources, prepare reliable financial reports and conduct activities in accordance with legislative authorities; and
- compliance with legislative and related authorities, including directives issued by the ministry.

II.3 Unmodified Audit Opinion

It is the expectation of the minister that school divisions will receive an unmodified audit opinion on their financial statements.

Modifications to audit opinions (e.g. qualified, adverse, disclaimer) are considered unusual occurrences that should not be taken lightly. They represent issues that the auditor considers so significant that, if uncorrected, might mislead a financial statement user.

An auditor must modify the opinion if:

- the financial statements are materially affected by a departure from generally accepted accounting principles - GAAP (e.g. inappropriate accounting treatment, inappropriate valuation of an item, failure to appropriately disclose essential information, etc.); or
- the auditor is unable to obtain sufficient appropriate audit evidence to determine whether there has been a GAAP departure (scope limitation).

In the event that the potential for a modified audit opinion arises, a school division should:

- Immediately contact and consult with the ministry; and
- Promptly address any deficiency causing a modification of the audit report.

II.4 Appointment of Auditor

Section 85(1)(s) of *The Education Act, 1995* requires the board of education to appoint an auditor to audit the books and accounts of the board of education at least once in each fiscal year.

Auditor Independence and Qualifications

Auditor independence means that the auditor is able to conduct its work on an impartial basis, free from bias and conflicts of interest. Independence of the auditor is a critical factor to providing the Ministry of Education and other users of the financial statements with assurance that the information in the statements has been presented fairly and for ensuring public confidence in the fiscal accountability of the school division.

Accordingly, to ensure the independence of a school division's auditor, the Act specifically prohibits from being appointed as auditor any person:

- who is then, or was during the preceding year, a member of the board of education;*
- who is then, or was during the preceding year, chief financial officer of the school division;*
- who has then, or had during the preceding year, an interest in a contract made by the board of education other than in a contract appointing that person as auditor;*
or
- who is then or was during the preceding year, employed by the board of education in any capacity except that of auditor.*

Additionally, to ensure the professional qualifications of the auditor and that the audit will be conducted in compliance with generally accepted auditing standards of the CPA Canada Assurance Handbook, clause 85(1)(s) of the Act requires the board of education to appoint an auditor “*who is a member in good standing of an accounting profession... ” recognized pursuant to The Management Accountants Act, The Certified General Accountants Act, 1994 or The Chartered Accountants Act, 1986*”.

II.5 Authority of the Provincial Auditor

The Provincial Auditor is the auditor of the accounts of the Government of Saskatchewan. *The Provincial Auditor Act* creates an independent officer of the Legislative Assembly called the Provincial Auditor. Section 11 of *The Provincial Auditor Act* gives the Provincial Auditor the responsibility, authority, and independence to examine all accounts related to public money and to report her findings to the Legislative Assembly.

When the Legislative Assembly approved changes to *The Education Act, 1995* in April 2009, the accounts of school divisions became part of the accounts of the Government of Saskatchewan. Since that time, the financial results of school divisions have been included in the government’s provincial budget and summary financial statements which reflect the school divisions belong to the Government of Saskatchewan.

The Provincial Auditor intends to fulfill her responsibilities as the Legislative Assembly's auditor by being involved in school divisions’ audits and relying on the work and reports of the school divisions’ appointed auditors. This will include participation of senior staff of the Office of the Provincial Auditor (OPA) in audit planning, resolving key issues, and agreeing on auditors’ reports. The Provincial Auditor also performs certain direct procedures such as reviewing all board and board committee minutes and attachments. The Provincial Auditor will formally communicate with school divisions regarding her involvement with school division audits.

The Provincial Auditor intends to follow the recommendations of the *Task Force on Roles, Responsibilities and Duties of Auditors* (http://auditor.sk.ca/pub/downloads/report_roles-responsibilities.pdf).

II.6 Submitting the Audited Financial Statements to the Ministry

In accordance with section 282 of the Act, a board of education or the conseil scolaire must submit their financial statements to the ministry in accordance with the form and the timelines determined by the minister.

Section 283 of the Act requires the financial statements be submitted to the minister and tabled in the Legislative Assembly within the timelines specified in *The Executive Government Administration Act* (refer to section 13(1) - Laying Documents Before The Assembly for details).

Refer to **Appendix A** for the Audit Planning Schedule and reporting timelines.

III. Annual Financial Statements

III.1 Basis of Accounting

School divisions are required to prepare their annual financial statements in accordance with Canadian public sector accounting standards for other government organizations as established by the Public Sector Accounting Board (PSAB) and as published by the Chartered Professional Accountants of Canada (CPA Canada).

III.2 Sources of Generally Accepted Accounting Principles (GAAP)

PS 1150 defines GAAP and identifies the sources of GAAP as follows:

GAAP, per PS 1150(3), encompass broad principles and conventions of general application, as well as rules and procedures that determine accepted accounting practices at a particular time. It also states that: **Primary sources of GAAP** are, in descending order of authority:

- (i) standards in sections PS 1201-PS 3510;
- (ii) Public Sector Guidelines; and,
- (iii) appendices and illustrative material of those pronouncements described in (i) and (ii) above.

Statements of Recommended Practice (SORPs) are issued by PSAB to enhance decision- making and accountability by improving the understandability of reports issued in the public sector. However, SORPs *do not* form part of GAAP (PS 1150.17).

When selecting appropriate accounting policies, school divisions should exercise professional judgment and should adopt policies that are consistent with specific GAAP standards whenever available. When GAAP does not address a specific item, school divisions should adopt accounting policies and disclosures that are consistent with (PS 1150.04-.05):

- the primary sources of GAAP; and
- the application of the concepts described in Financial Statement Concepts, section PS 1000.

This Financial Reporting Manual includes:

- A summary of PSAB standards, guidelines and SORPs are included in **Appendix C** for reference purposes; and
- A PSAB Checklist is in **Appendix D** to assist school divisions in preparing their financial statements in accordance with PSAB standards. It is recommended that school divisions purchase a subscription to the CPA Canada Standards and Guidance Collection. Subscriptions can be purchased at www.knotia.ca/store/handbook-cicaweb.

III.3 Ministry of Education Guidelines

From time to time, the ministry issues guidelines to provide additional guidance in the interpretation and application of GAAP for school divisions. School division compliance with these guidelines is required.

A listing of ministry guidelines is provided in **Appendix F**. Copies of these guidelines can be accessed at: <http://www.saskatchewan.ca/government/education-and-child-care-facility-administration/services-for-school-administrators/school-division-financial-administration#ministry-guidelines>.

III.4 Chart of Accounts (COA)

School divisions are required to use the School Division Chart of Accounts and descriptions, as approved by the ministry, for the classification of revenues, expense, assets, liabilities and accumulated surplus in the annual financial statements and other financial reporting to the ministry. The chart of accounts and descriptions are consistent with GAAP established by PSAB.

The COA is available on the government website at the following link: <http://www.saskatchewan.ca/government/education-and-child-care-facility-administration/services-for-school-administrators/school-division-financial-administration#chart-of-accounts>.

III.5 Annual Audited Financial Statements

The annual audited financial statements are comprised of the following:

- GAAP financial statements (PS 1201):
 - 1) Statement of Financial Position
 - 2) Statement of Operations and Accumulated Surplus from Operations
 - 3) Statement of Remeasurement Gains and Losses
 - 4) Statement of Change in Net Financial Assets (Net Debt)
 - 5) Statement of Cash Flow
- Notes to the Financial Statements
- Schedules to the Financial Statements
 - Schedule A: Supplementary Details of Revenues
 - Schedule B: Supplementary Details of Expenses
 - Schedule C: Supplementary Details of Tangible Capital Assets
 - Schedule D: Non-Cash Items Included in Surplus/Deficit
 - Schedule E: Net Change in Non-Cash Operating Activities
 - Schedule F: Restructuring

Sample financial statements, schedules and notes are provided in **Appendix B**.

IV. Other Reporting Requirements

IV.1 Annual Reports

Sub-section 283(1) of *The Education Act, 1995* requires boards of education and the conseil scolaire to submit the following annual reports to the minister:

- (a) a report on activities for the preceding fiscal year;
- (b) a financial statement showing the business; and
- (c) any other information that the minister directs

Sub-section 283(2) requires the minister to lay before the Legislative Assembly each report and financial statement submitted to the minister pursuant to this section in accordance with Section 13 of *The Executive Government Administration Act*.

The Executive Government Administration Act:

Clause 13(1)(a) of *The Executive Government Administration Act* requires boards of education and the conseil scolaire to submit their annual reports to the minister at least 30 days before the documents must be laid before the Assembly (i.e. within 90 days of the August 31 year-end, by November 29).

Sub-section 13(2) of *The Executive Government Administration Act* requires the minister to lay the annual reports of boards of education and the conseil scolaire before the Legislative Assembly within 120 days after the end of the reporting period (i.e. by December 29, considering year end date of August 31).

IV.2 Ministry of Finance Summary Financial Statement Consolidation Schedules

School divisions are consolidated in the Government of Saskatchewan Summary Financial Statements. To facilitate this consolidation, school divisions must complete the Consolidation Procedures and schedules as directed by the Provincial Comptroller's Office.

The information that school divisions are required to provide is determined by the Provincial Comptroller's Office and includes:

- the school division's August 31 audited financial statements;
- details of significant events and transactions during the period between the school division's fiscal year end (August 31) and the provincial government's fiscal year end (March 31), referred to as the "intervening period" or the "stub period"; and,
- summary financial statement consolidation schedules which include information regarding specific balances and transactions, including those with other organization within the provincial government's reporting entity (see **Appendix G**).

Strict compliance with the timelines specified by the Provincial Comptroller's Office is essential to ensuring that the school division does not impact the provincial government's ability to meet its own fiscal accountability requirements.

IV.3 Other Reporting Requirements

In accordance with various provisions in *The Education Act, 1995*, school divisions are required to prepare any reports as may be required from time to time by the minister.

An electronic copy or a link to your financial statements will be included in the Compendium of Financial Statements, which is posted on the Ministry of Finance website at <http://www.publications.gov.sk.ca/deplist.cfm?d=15&c=268>.