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Transfer Payments and
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MEMORANDUM TO: Superintendents of Business

FROM: Wayne Burtnyk
Director
Transfer Payments and Financial Reporting Branch

DATE: November 5, 2004

SUBJECT: **Audit Reports and Additional Instructions for Reporting 2003-04 Financial Statements**

Following the information sessions on the 2003/04 financial statements that were recently held, we have met with a workgroup of school board auditors that the Institute of Chartered Accountants of Ontario put together to address a consistent approach on audit reports for 2003/04 and to discuss other reporting issues relating to 2003/04.

The purpose of this memorandum is to share the outcome of the discussion and provide further reporting clarifications on the 2003/04 financial statements.

Audit Reports for 2003/04

As you know, delaying the consolidation of school funds to 2004/05 will result in many boards having a qualified audit report for 2003/04. I am pleased to enclose herewith sample audit reports that the workgroup has prepared for board auditors to use as appropriate. These reports address the following three possible situations:

1. Boards consolidate school funds without any audit scope limitation (Example A)
2. Boards consolidate school funds but there are audit scope limitations relating to revenues generated from fundraising activities at the school level (Example B)
3. Boards do not consolidate school funds (Example C)

Audit Reports for 2004/05 and subsequent years

I understand that school boards have already initiated a considerable amount of work with their schools to get the proper reporting structure and controls in place for 2004/05. The issue of a possible scope limitation for audit purposes in 2004-05 and subsequent years was discussed by the workgroup. It is the expectation of the province that boards will work with their auditors to review existing controls in place at their schools relating to school funds. Boards will be required to identify fundraising activities that generate revenues that are material in relation to the operations of the boards, and ensure that adequate controls are in place to fairly report on those funds with the objective of avoiding any qualification in their report as they fully implement PSAB in 2004-05.

Illustrative Notes

Some changes have been made to the set of illustrative notes that were provided in the PSAB Training Materials as follows:

- Management responsibility for the Financial Statements

This note will be removed out of the illustrative notes. A management responsibility letter would be required distinct from the notes.

- Significant Accounting Policies

The wording of the introductory paragraph had been revised and in the case of financial statements where school generated funds have not been included (example C) the paragraph includes reference to ministry requirements for these funds to be included by 2004-05.

- Adoption of Public Sector Accounting Recommendations

The opening paragraph has been revised to address comparative figures and school generated funds.

- Amounts to be recovered in future years

The revised note now includes separate disclosure of payments for EI and CPP that are included in the Amounts to be recovered in future years (see below).

Revised note disclosures relating to the above are attached to this memo.

EI and CPP – previously recorded as a prepaid expense

Further to the e-mail from Marie Li on the survey of boards that have reported prepaid amounts for EI and CPP since the 1998 short year, I am pleased to advise you that boards will be allowed to address these amounts in the operating fund over a number of years.

Under GAAP, the full amount of EI and CPP payments must be recognized in the period paid. Affected boards will be required to restate the amounts shown in the Statement of Financial Position so that these amounts are not included as Prepaid expenses. However, an amount not exceeding the previously reported "prepaid" amount at the end of 2002-03 may be reported as an "amount to be recovered" at the end of 2002-03 and 2003-04. The ministry forms and instructions have been updated to allow for this treatment of EI and CPP payments previously deferred to the subsequent year.

Of the boards impacted by this, some indicated that they will address the reported prepayment in 2003/04 while others have requested that the ministry give them time to address this so as to minimize the budgetary pressure. Boards are required to start addressing this through their operating fund as early as possible and must have fully addressed the prepayment by 2006/07 or earlier. The illustrative note disclosure has been revised to disclose the amount of EI and CPP prepayment included in the Amounts to be recovered.

Published Financial Statements and Notes

Boards continue to be required under subsection 252(2) of the Education Act to publish their financial statements and audit Report.

As a minimum this should include the Statement of Financial Position, Statement of Financial Activities, Statement of Changes in Financial Position, the Auditor's Report, and all notes and schedules integral to the Financial Statements.

In addition boards are required to publish their annual report.

Boards are required to send by e-mail attachment an electronic copy of their notes to the financial statements to their Ministry Finance Officer.



Wayne Burtnyk
Director
Transfer Payments and Financial Reporting Branch

cc. Directors of Education

Attachment