Office of the
Auditor General
of British Columbia

November 2023

Summary Financial Statements Audit: Supporting the Role of MLAs

Office of the Auditor General of British Columbia

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The Honourable Raj Chouhan
Speaker of the Legislative Assembly
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Dear Mr. Speaker:

I have the honour to transmit to the Speaker of the Legislative Assembly of British Columbia the report, *Summary Financial Statements Audit: Supporting the Role of MLAs*.

Under Section 11(1) of the *Auditor General Act*, my office is required to report on whether the province's Summary Financial Statements are presented fairly in accordance with Canadian generally accepted accounting principles.

This report, issued under Section 11(8) of the *Auditor General Act*, speaks to the results of our financial audit of the Summary Financial Statements and related audit work.

Michael A. Pickup, FCPA, FCA
Auditor General of British Columbia
Victoria, B.C.

November 2023

Contents

The Office of the Auditor General of British Columbia acknowledges with respect that we conduct our work on Coast Salish territories. Primarily, this is on the Lekwungen-speaking people's (Esquimalt and Songhees) traditional lands, now known as Victoria, and the W̱SÁNEĆ people's (Pauquachin, Tsartlip, Tsawout and Tseycum) traditional lands, now known as Saanich.

Report at a glance

Why we did this report

- We are required, by law, to report to the Legislative Assembly whether government's "financial statements are fairly presented in accordance with generally accepted accounting principles."
- This report explains our audit of the 2022/23 Summary Financial Statements.
- This report gives MLAs – specifically the public accounts committee – a tool for scrutinizing the $80 billion of government financial activity last year.

We qualified our independent auditor's report: why it matters

- We qualified our audit report because of three significant areas (material misstatements) where government's financial statements don't adhere to Canadian Public Sector Accounting Standards.
- Qualified audit reports are rare.
- MLAs using the statements to assess accountability and for decision making can't depend on the accuracy of them without considering the misstatements.
- Other accounting errors were identified and reported to the comptroller general. The resulting corrections added $134 million to the surplus.
- We have issued a qualified Independent Auditor's Report in each of the past 16 years with 38 material misstatements over that period.

The three material misstatements

1. Accounting for revenues subject to restrictions

- Money from the federal government (or other non-provincial sources) for a specific purpose, such as a new hospital, is a "restricted contribution."
- The Canadian standards require the money be counted as revenue as soon as the hospital has been built.
- B.C. reports it differently, instead counting a portion each year as revenue across the entire life of the hospital.
- It means B.C. appears to have greater financial obligations than it actually does.
- As a result, last year's revenues were understated by $6.97 billion. Net liabilities were overstated by $6.97 billion.

2. Future financial commitments are understated

- The Summary Financial Statements don't disclose all the money government is committed, under contract, to spend in the future.
- Disclosures for these types of future expenses are understated by about $4.9 billion.
- This means MLAs don't have the full picture of the money already committed to be spent in future budgets.

3. Accounting for the BC First Nations Gaming Revenue Sharing Agreement

- The financial statements don't include gaming revenues earned and transferred under the BC First Nations Gaming Revenue Sharing Agreement.
- Revenues and expenses were each understated by $113.6 million in the Consolidated Statement of Operations.
- Government's reporting of this transaction isn't transparent: it doesn't show all revenues received and amounts paid under the agreement.
- This means MLAs have an incomplete presentation of the money government takes in and spends.

Report at a glance *(continued)*

Impact

- The material misstatements call attention to the reliability of information for economic decision-making.
- MLAs may base decisions on reported assets and liabilities, and how much money will be generated in the future. It's vital to record all transactions and estimates accurately.
- Restricted revenues and future contract obligations affect government's spending decisions.

Key audit matters

- Key audit matters include areas that are difficult to audit, such as complex accounting estimates that are subject to a high degree of uncertainty.
- Our Independent Auditor's Report includes four key audit matters:
  1. Estimates of personal and corporate income taxation revenues.
  2. Valuation of plan assets and pension benefits for pension plans.
  3. Asset retirement obligations.
  4. Financial instruments.

Forthcoming report

- This is the first of two reports related to government's Summary Financial Statements and our qualified Independent Auditor's Report.
- The second report will discuss other audit items of interest to MLAs (e.g., income tax revenue estimates).
- Together, these two reports aim to enhance MLAs' understanding of government financial reporting as they carry out their role in ensuring accountability and transparency.

After reading the report, you may want to ask the following questions of government:

1. After 16 consecutive years of qualified Independent Auditor's Reports, why is the government willing to accept financial statements that do not follow Canadian Public Sector Accounting Standards?
2. What would it take for government to produce financial statements without qualifications?
3. What is government doing to reduce the number of errors that require adjustment?

Background

This report provides Members of the Legislative Assembly (MLAs) with essential information about the province's Summary Financial Statements (SFS), the Office of the Auditor General's annual audit of the financial statements, and our Independent Auditor's Report that appears at the front of the financial statements.

Each fiscal year, the Ministry of Finance produces the Public Accounts of the Government for the Province of B.C. It provides key accountability information about the province's finances and includes the SFS, prepared by the Office of the Comptroller General.

The SFS consolidates the revenues, expenses, assets and liabilities of the government reporting entity, or GRE. The GRE encompasses 23 ministries, over 15 special offices, and 141 organizations within government's control – such as health authorities, universities, and Crown corporations.

This year the financial statements present about $80 billion of annual expenses reported by public sector organizations. An important accountability tool, the financial statements allow for comparisons against the approved budget for the year.

Our office is required by the *Auditor General Act* to audit the SFS and report to the Legislative Assembly on whether the statements are fairly presented in accordance with generally accepted accounting principles. Our audit, the largest public sector audit in the province, involves auditor general staff and contractors. In 2023, it took more than 60,000 combined hours to complete. As well, audit work is done by numerous accounting firms throughout the province to audit individual government entities.

This is the first of two related reports on our financial audit work. Our second report will cover additional issues identified during our audit that were not included in our Independent Auditor's Report. For example, we describe challenges with auditing the estimate for income taxes and the implementation of new accounting standards.

Using the Summary Financial Statements

Why are the Summary Financial Statements important?

Government is accountable to all MLAs for how it manages the financial resources entrusted to it each year through the provincial budget.

The Summary Financial Statements reveal more than just the surplus or deficit. The financial statements, and the notes accompanying them, provide detailed information on the financial health of the province.

Our independent auditor's report informs MLAs about whether we believe the SFS fairly present the financial results of government in accordance with Public Sector Accounting Standards. Where we determine the information isn't fairly presented, our report explains why and provides information to help readers understand the impact.

Both of these components – the government's reporting on its finances and our Independent Auditor's Report – are required by legislation. They enable MLAs to make informed economic decisions.

What is the comptroller general's role in the Summary Financial Statements?

Under the *Financial Administration Act*, the comptroller general is responsible for preparing the Public Accounts.

The *Budget Transparency and Accountability Act* (BTAA) outlines the required contents of the Public Accounts (including the SFS). The act requires the comptroller general to prepare the Public Accounts according to generally accepted accounting principles (GAAP), which are set out for senior governments in the Canadian Public Sector Accounting Standards (PSAS).

The BTAA requires the Minister of Finance to make public the Public Accounts for the previous fiscal year by August 31 in each year.

The BTAA allows Treasury Board to create regulations that include alternate standards or guidelines that modify GAAP and require the Public Accounts to be prepared in accordance "with the accounting policies as established by Treasury Board." Therefore, if Treasury Board creates such a regulation, government reporting must conform to it.

In 2011, government adopted a Treasury Board regulation directing taxpayer-supported government entities on how to account for restricted contributions (see: B.C. Reg. 198.2011). The accounting policy set out in this regulation doesn't match the requirements of Canadian PSAS, meaning it does not conform with GAAP. This accounting policy obscures government's financial results, to the detriment of MLAs and other users of the financial statements.

The impact of this regulation is discussed below (see "Our Independent Auditor's Report on the 2022/23 Summary Financial Statements" on page 10).

What's the auditor general's role in the Summary Financial Statements?

Under the *Auditor General Act*, the auditor general reports to the Legislative Assembly on the SFS and whether they are presented fairly in accordance with generally accepted accounting principles. For the B.C. government, these principles are the Canadian Public Sector Accounting Standards. The auditor general's Independent Auditor's Report is included in the SFS.

This report is prepared for the Legislative Assembly to provide information on our audit of the SFS and to explain where government's financial statements have not been prepared in accordance with generally accepted accounting principles for senior governments in Canada. Further, as it will be referred to the Select Standing Committee on Public Accounts for review, it provides an opportunity for the committee to ask questions about government's financial statements.

The auditor general's responsibilities for the audit of the SFS are described in more detail in the Independent Auditor's Report, attached as Appendix A on page 20.

Understanding our audit of the Summary Financial Statements

What does our audit involve?

Our audit of the Summary Financial Statements is the largest financial audit in B.C. It involves more than 70 of our staff and contractors. In 2023, it required more than 60,000 combined hours to complete, in addition to the work of private sector auditing firms.

What does the Independent Auditor's Report represent?

The Independent Auditor's Report tells MLAs whether the SFS are:

- presented fairly in accordance with generally accepted accounting principles (Canadian Public Sector Accounting Standards); and
- free from material misstatement (a significant error or omission that, if uncorrected, could mislead users of the financial statements) due to error or fraud.

Our Independent Auditor's Report on the 2022/23 Summary Financial Statements

For the year ended March 31, 2023, the Independent Auditor's Report (Appendix A) includes a qualified opinion. This is the 16th consecutive year we have noted material misstatements in the SFS. Appendix B lists the material misstatements included in the Independent Auditor's Reports over the last two decades.

We have concluded that the 2022/23 SFS, as presented, shouldn't be relied upon without considering the impacts of the three material misstatements noted in our Independent Auditor's Report.

Public corporations (corporations that are publicly traded on a securities exchange) are required to have unqualified audit reports annually. In British Columbia, if a public corporation were given a qualified audit report, the BC Securities Commission would normally place a "cease trade" order against it. The public corporation then runs the risk of being delisted by the stock exchange on which it is traded.

While Canadian governments aren't subject to public corporation reporting requirements, ideally, governments' financial statements should be fairly presented in accordance with Canadian PSAS and receive audit reports without qualifications. In the last five years, aside from B.C., there were only two other senior governments in Canada that received qualified audit reports on their consolidated financial statements.

Governments have a high degree of responsibility for stewardship of public funds and assets and should be held to a higher standard of accountability to maintain the public's trust.

We are concerned about the quality of the financial reporting and the impact this has on the credibility of government.

The material misstatements

The auditor general found three material misstatements, explained below.

1. Accounting for restricted contributions

For the 12th year in a row, the Independent Auditor's Report identified a material misstatement related to government's accounting treatment for funds received for restricted purposes, such as for building a hospital. Its reporting doesn't conform with Canadian Public Sector Accounting Standards.

For funding received for capital assets, government's treatment has the effect of smoothing revenues over the life of the asset. They match revenues with the annual depreciation expense for the asset and reduce the swing in revenues from year to year.

Government's approach makes it easier for government to balance revenues and expenses in a fiscal year.

For example, if the federal government gives a B.C. health authority funding to build a hospital that's estimated to have a life of 40 years, that money must be used to build the hospital. Canadian PSAS require organizations to recognize the funds received from the federal government as revenue when the hospital is built.

At that point, government has fulfilled its obligation related to the contribution. However, B.C.'s regulation requires organizations to recognize the revenue over the 40-year life of the hospital, not when construction is completed.

One key indicator of government performance is net liabilities. Net liabilities are government's financial assets less its liabilities. Net liabilities measure how much government must raise as revenue in the future to pay for its liabilities.

B.C.'s error in the SFS causes the net liabilities figure to be overstated by $6.97 billion. That means government's financial reporting makes it look like the province would have to raise $6.97 billion more in revenue to pay for its obligations than is actually the case.

This misstatement has accumulated since 2012. Under Canadian PSAS, when a previously known error is not corrected by government, it's required to be adjusted in its entirety in the current year. Government isn't allowed to go back and restate previous financial statements.

Accounting for restricted contributions by organizations in the government reporting entity

Many of the organizations that are consolidated in the Summary Financial Statements, such as universities and health authorities, account for restricted contributions in accordance with a Treasury Board regulation. As a result, instead of an audit report that states the accounting is in accordance with Canadian PSAS, the entity receives a report that either states that it is not or receives a compliance audit report.

The compliance audit report states that the organizations' financial statements have been prepared in accordance with provisions of Section 23.1 of the *Budget Transparency and Accountability Act*. In these cases, auditors will usually include an "emphasis of matter" paragraph drawing attention to the fact that the organization is preparing their financial statements in accordance with this financial reporting framework and not Canadian PSAS.

As a result, for 2022/23, 104 of the 141 organizations receiving separate independent auditor's reports received compliance audit reports (meaning they followed the Treasury Board regulation related to the deferral of restricted contributions).

See **Appendix C** for an example of the language included in compliance audit report opinions and emphasis of matter paragraphs and in the "Basis of Accounting" notes to the financial statements, as well as a list of the organizations that received a compliance audit report.

If government had been appropriately accounting for restricted contributions, financial results would have looked different over the last dozen years that the related accounting standard has been in place.

The table below shows the impact of the misstatement on the province's surplus or deficit each year since 2012. For all years except 2020, government would have shown a greater surplus (or lower deficit) because revenues would have been higher than reported. In one year (2013), the adjustment would have turned a deficit (of $1,146 million) into a surplus (of $1,530 million). That's $2,676 million in additional revenue that government has not reported and therefore was not held accountable for in 2013. For 2023, this was $490 million in additional revenue.

Changes in surplus/(deficit) over the last 12 years if GAAP had been followed ($ millions):

	Surplus/(Deficit) as reported	Adjustment to correct misstatement	Corrected Surplus/ (Deficit)
2012	(1,840)	279	(1,561)
2013	(1,146)	2,676	1,530
2014	353	879	1,232
2015	1,683	407	2,090
2016	730	1	731
2017	2,737	864	3,601
2018	301	220	521
2019	1,535	412	1,947
2020	(321)	(55)	(376)
2021	(5,468)	299	(5,169)
2022	1,306	497	1,803
2023	704	490	1,194

The second table shows the impact of the misstatement on the province's net liabilities balance each year since 2012. Since 2014 the net liabilities have been overstated by at least 10%. This consistent overstatement makes it look like government needs to raise more revenue to settle liabilities than is actually the case.

Change in reported net liabilities over the last 12 years if GAAP had been followed ($ millions):

	Net Liabilities as reported	Overstatement of Liabilities	Corrected Net Liabilities
2012	35,973	279	35,694
2013	38,136	2,955	35,181
2014	38,777	3,834	34,943
2015	38,902	4,241	34,661
2016	39,635	4,242	35,393
2017	37,795	5,106	32,689
2018	41,869	5,326	36,543
2019	42,134	5,739	36,395
2020	45,351	5,684	39,667
2021	53,159	5,983	47,176
2022	55,784	6,480	49,304
2023	60,679	6,969	53,710

2. Future financial commitments are understated

For the second year in a row, the Independent Auditor's Report includes a qualification related to incomplete disclosure of contractual obligations. This year, we found that government didn't disclose over $4.9 billion of contractual obligations in their contingent liabilities and contractual obligations note to the SFS (Note 28).

Government's incomplete disclosure of future contractual obligations lacks transparency because it doesn't give MLAs a complete picture of the money government has already committed to spending in future years. As a result, MLAs may not have all the information required for holding government accountable for the commitments they've made and for making decisions about the province's finances.

Under Canadian PSAS, contractual obligations that commit the government to certain expenditures for a considerable period into the future must be disclosed in the statements. This is so financial statement users will be able to understand the nature and extent to which the government's resources are already committed and so that government can be held accountable for the commitments they've made.

The cumulative effect of these omitted contract amounts represents a material misstatement in the financial statement disclosures. The following table estimates the effect of these missing contracts on the contingent liabilities and contractual obligations disclosed in the financial statements.

Understatement of contractual obligations disclosure
($ millions for Consolidated Revenue Fund, and taxpayer-supported Crown corporations and agencies[1])

2024	2025	2026	2027	2028	2029 and beyond	TOTAL
987	604	455	427	384	2,070	4,927

1 As defined in the Summary Financial Statements

3. Accounting for the BC First Nations Gaming Revenue Sharing Agreement

This qualification is also included in the Independent Auditor's Report for the second year in a row and represents a misstatement in how government accounts for monies paid to First Nations under the *Gaming Control Act*.

In 2020, the province entered the long-term BC First Nations Gaming Revenue Sharing and Financial Agreement. As directed in the *Gaming Control Act*, this agreement requires 7% of the annual net income of the British Columbia Lottery Corporation to be paid to the BC First Nations Gaming Revenue Sharing Limited Partnership.

The amount paid to First Nations under this agreement has not been recorded in the SFS. The revenue collected is not reported by government and the expense paid to the First Nations is not reported.

As a result, the financial statements are incomplete and lack transparency because they don't show the full amount of revenues earned and expenses incurred by government in the year. For the fiscal year ended March 31, 2023, revenues and expenses were understated by $113.6 million in the consolidated statement of operations.

Key audit matters

The Independent Auditor's Report also includes four key audit matters – areas that are difficult to audit, such as complex accounting estimates that are subject to a high degree of uncertainty.

This section of our report provides information about the significant risks and difficult areas to audit this year and the procedures we performed to address them.

Estimate of personal and corporate income taxation revenues

Personal income tax and corporate income tax are two of government's largest tax revenue streams, more than $17.3 billion and $9.2 billion (Note 29 to the SFS) for fiscal 2023. Precise revenue figures for these streams can't be determined until many months after the fiscal year ends. Therefore, government must estimate the revenues based on the best information available.

Both estimates are complex and include several inputs and assumptions. For the current year, our audit included ensuring the estimates incorporated the information received in the most recent tax sharing statements received from the federal government in late July.

Audit work to address this key audit matter included:

- assessing the appropriateness of the use of the July tax sharing statements in determining the estimate;
- performing a retrospective review to determine the accuracy of the model;
- performing work to ensure underlying data supporting management's estimate is correct;
- testing the accuracy of management's calculations supporting the estimate; and
- developing an estimate range to assess management's estimate against.

An auditor's specialist was engaged to assist with the audit of these complex estimates.

In our second report, we will talk about the importance of reliable estimates of income tax revenues.

Valuation of plan assets and pension benefits for pension plans

The government participates in four joint-trusteed pension plans that include a joint defined benefit component for the majority of B.C. public service workers. To be able to pay out pension plan benefits to employees in the future, the employers and employees contribute to the pension plans.

Government discloses the value of pension fund assets and the accrued benefit obligation of each pension plan in the notes to the financial statements. This year, the plans' estimated assets and accrued benefit obligations both exceeded $89 billion (Note 17 to the SFS).

Market-related value is used for valuing plan assets. When observable market data (like a stock price) is not available, management must estimate the value of these assets by other means, a process that involves significant judgment.

Government relies on a third-party actuarial specialist to estimate the expected value of future payments related to its employee pension plans. These calculations rely on significant government economic and demographic assumptions. Even small changes in the underlying assumptions can have a big impact on this amount and the related financial statement disclosures.

Audit work to address this key audit matter included:

- performing procedures to rely on the pension plan auditor's reports for the plan assets used in the estimates, as well as their work over the data provided by management to the actuary for making the estimate;
- assessing the qualifications of management's actuarial expert;
- gaining an understanding of the assumptions and methods used by the actuary in determining the accrued benefit obligation for pension benefits;
- obtaining the actuarial report, audited pension plan financial statements and other supporting documentation to test management's assumptions, calculations and journal entries for pension accounting; and
- assessing the financial statement disclosures and presentation to determine whether they are in accordance with the standards.

Asset retirement obligations

In the current year, government was required to adopt the new Canadian public sector accounting standard for asset retirement obligations (PS 3280 Asset Retirement Obligations). Liabilities for obligations related to the retirement of assets (for example, legal requirements to remove hazardous materials such as asbestos when renovating or demolishing an old building) weren't previously required to be recorded, so the implementation of this standard was complex and required a significant amount of work. As of March 31, 2023, government recorded $1.87 billion (Note 12 to the SFS) in asset retirement obligations.

The adoption of this standard required government to identify tangible capital assets with required retirement activities, estimate the cost to complete retirement activities, and determine when retirement activities will occur. This process was complex and required significant judgment and assumptions to be made.

Audit work to address this key audit matter included:

- assessing government's approach to the adoption of the standard to ensure it was appropriate and in compliance with the standards;
- assessing the appropriateness of government's methodology, data, and assumptions to estimate the cost of retirement activities;
- ensuring there was appropriate evidence, such as expert reports to support the estimates;
- performing procedures to evaluate the completeness and accuracy of identified tangible capital assets with required retirement activities; and
- assessing the financial statement presentation and disclosure of asset retirement obligations for compliance with the standard.

Financial instruments

Effective for the current year, government adopted a suite of Canadian Public Sector Accounting Standards related to financial instruments. As described in Note 1(d) to the SFS, government's financial instruments include cash, receivables, investments, payables and debt, as well as derivative instruments such as cross-currency swaps, interest rate swaps, and forward foreign exchange contracts.

Government has over $90 billion in long-term debt. Government hedges the risks that arise related to their debt borrowing using derivative instruments. These new standards are designed to provide financial statement users with information about how the instruments are measured, and the extent to which government is exposed to risks arising from the financial instruments it holds.

These standards require government to present a new statement called the "statement of remeasurement gains and losses." It's designed to show gains and losses associated with changes in the value of financial instruments from one period to the next, along with any changes resulting from financial instrument transactions that occurred during the period.

The standards also require government to include key disclosures relating to its financial instruments to help financial statement users understand the level of subjectivity associated with their measurement.

Further, government is required to make certain disclosures related to the risk exposure associated with their use of financial instruments, including disclosures relating to liquidity risk, interest rate risk, foreign exchange risk, credit risk and other market risks (Note 20 to the SFS).

The valuation of financial instruments is complex and involves significant judgments and estimates. There are extensive disclosure requirements regarding the risks associated with government's use of these instruments.

Audit work to address this key audit matter included:

- assessing government's accounting policy for compliance with the standards;
- evaluating the completeness of the financial instruments;
- assessing the appropriateness of government's methodology, data, and assumptions to value derivative financial instruments;
- assessing significant contracts for embedded derivatives;
- reviewing documents to assess the appropriateness of the new statement of remeasurement gains and losses; and
- assessing the financial statement presentation and disclosure of financial instruments in accordance with these new standards.

An auditor's specialist was engaged to assist with the audit of fair values of the derivative financial instruments.

In our second report, we will talk about some of the challenges we saw in government's implementation of the new asset retirement obligations and financial instruments standards.

How does our audit add value?

During our audit of the Summary Financial Statements, we sometimes find misstatements in amounts, classifications, presentations, or disclosures. These items may arise from errors or fraud. If the total value of identified misstatements is significant, they will affect the quality and reliability of the SFS.

When we identify misstatements, we bring them to government's attention and request that they be corrected.

This year, our audit found misstatements which required various adjustments to correct the financial statements. The tables below summarize the adjusted misstatements we identified and government corrected along with adjustments to financial statement disclosures.

These adjustments increased the annual provincial surplus by $133.7 million, based on a number of adjustments (up and down), with the largest adjustment to the surplus coming close to $123 million.

The details of these adjustments are included in Appendix D.

Our audit also identified a number of adjustments to note disclosures that we brought to government's attention. The disclosure changes made by government, as a result of our audit are listed in Appendix E.

We also found and reported misstatements that government did not correct. The total audit differences identified are summarized in the table below. Certain items are considered significant and are included as a material misstatement noted in our qualified Independent Auditor's Report. The remaining uncorrected differences were not sufficient to result in any further impact to our audit report.

Summary of audit differences identified during the audit of the 2022/23 Summary Financial Statements

Type	Number identified	Outcome of Finding		
		Corrected	Uncorrected	Qualifications (included in Uncorrected)
Monetary	27	10	17	2
Presentations and disclosure	26	9	17	1
Total	**53**	**19**	**34**	**3**

We also provide recommendations to management if we find improvements that could be made to its systems and processes in areas such as oversight and accountability results, internal control over financial management, management of information and related technology or performance reporting.

Final thoughts

We have carried out the requirements of our mandate under Section 11(1) of the *Auditor General Act* for the fiscal year 2022/23 and reported the results of that work through our Independent Audit Report on the Summary Financial Statements.

As noted in the Independent Audit Report and in this report, there's room for improvement in what government reported in the SFS in order to be fully in accordance with Canadian Pubic Sector Accounting Standards (i.e., generally accepted accounting principles for senior governments in Canada).

We would like to see the government of B.C. produce financial statements that fully conform with Canadian PSAS.

We hope this report helps MLAs understand the reliability of the information reported in the SFS.

Response to report from the Office of the Comptroller General

The Public Accounts are government's main accountability document to the public. The annual release of the Public Accounts satisfies the legislative requirements to report publicly on the financial matters of government including reporting government's actual results compared to the approved Budget and confirming compliance with legislated authorities.

The Public Accounts include government's audited Summary Financial Statements. The Province of British Columbia prepares its financial statements in accordance with the *Budget Transparency and Accountability Act (BTAA)* which, together with other relevant legislation, establishes the government's accountability framework for financial reporting. There is currently one regulation under the BTAA that is required to address consistency in the application of Canadian public sector accounting standards across the government's reporting entity.

In their opinion on the 2022/23 Summary Financial Statements, the Auditor General identified three audit qualifications that are outlined in this report.

Deferral of Revenues

Government is responsible for establishing accounting policies that are in the public interest. The Province continues to maintain its policy of recognizing restricted contributions in the same period that programs and services are delivered because it best meets the objective of public accountability, first defined in the report of the Budget Process Review Panel in 1999.

We are unable to agree with the recommendation of the auditor because adopting that change would result in budget and actual results no longer being directly comparable, restricted contributions no longer being disclosed as a provincial obligation for future service delivery, and future program spending being artificially constrained during economic downturns when services are most urgently needed.

During this past year, the Public Sector Accounting Standards Board issued enhanced standards that continue to confirm that the province's recognition of these non-financial liabilities is appropriate under their standards.

Accounting for BC First Nations Gaming Revenue Sharing Arrangement

In 2019, amendments to the *Gaming Control Act* established a long–term source of funding for indigenous governments by designating 7% of BC Lottery net income as revenue of First Nations. Government's reported revenue does not include the First Nations' portion because legislation has conveyed the right to this revenue to First Nations.

We are unable to agree with the Auditor General's recommendation to include revenue that is collected on behalf of First Nations because it is inconsistent with the accounting standards issued by the Public Sector Accounting Board.

Contractual Obligation Disclosure

The auditor's third reservation proposes disclosing future payments under the gaming revenue sharing arrangement as a contractual obligation. We are unable to agree with the Auditor General's recommendation because the future payments do not meet the definition of a contractual obligation in the public sector accounting standards. Current disclosure in the Public Accounts includes all significant and material obligations under contract or agreement that will result in a future expense.

Carl Fischer
Comptroller General
Province of British Columbia

Appendix A: Independent Auditor's Report

Office of the
Auditor General
of British Columbia

Independent Auditor's Report

To the Legislative Assembly of the Province of British Columbia:

Qualified Opinion

I have audited the Summary Financial Statements of the Government of the Province of British Columbia ("government") using my staff and resources. The Engagement Leader, Molly Pearce, CPA, CA is responsible for this audit and its performance. The Summary Financial Statements of government comprise the consolidated statement of financial position as at March 31, 2023, and the consolidated statements of operations, change in net liabilities, remeasurement gains and losses and cash flows for the year then ended, and notes to the Summary Financial Statements including a summary of significant accounting policies.

In my opinion, except for the effects of the matters described in the basis for qualified opinion section of my report, the Summary Financial Statements present fairly, in all material respects, the financial position of government as at March 31, 2023, and the results of its operations, change in its net liabilities, remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Qualified Opinion

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Summary Financial Statements* section of my report. I am independent of government in accordance with the ethical requirements that are relevant to my audit of the Summary Financial Statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements.

Deferral of Revenues

Government's accounting treatment for funds received from other governments, and for externally restricted funds received from non-government sources, is to initially record them as deferred revenue (a liability) and then recognize revenue in the statement of operations either on the same basis as the related expenditures occur or, in the case of funds for the purchase or construction of capital assets, to recognize revenue on the same basis as the related assets are amortized.

Under Canadian public sector accounting standards, government's method of accounting for contributions is only appropriate in circumstances where the funding meets the definition of a liability. Otherwise, the appropriate accounting treatment is to record contributions as revenue when they are received or receivable. In my opinion, certain contributions from others do not meet the definition of a liability, and as such government's method of accounting for those contributions represents a departure from Canadian public sector accounting standards.

This departure has existed since the inception of the standard, which applies to periods beginning on or after April 1, 2012. Had government made an adjustment to correct for this departure in the current year, the liability for deferred revenue as at March 31, 2023 would have been lower by $6.97 billion, contribution revenue, surplus for the year, and accumulated surplus would have been higher by $6.97 billion, and net liabilities would have been lower by $6.97 billion.

Incomplete Contractual Obligations Disclosure

Under Canadian public sector accounting standards, contractual obligations that commit government to make certain expenditures, for a considerable period into the future, are required to be disclosed so that financial statement users understand the nature and extent to which government's resources are already committed to meet its future obligations. The Summary Financial Statements do not provide the required disclosures in relation to certain contracts, such as many contracts below the $50 million threshold noted in Note 28 – Contingent Liabilities and Contractual Obligations as well as larger contracts such as the obligation to the BC First Nations Gaming Revenue Sharing Limited Partnership (see following qualification). In my opinion, this represents a departure from Canadian public sector accounting standards. The following table, derived from historical information and management's records, sets out the estimated effect of this departure on Note 28 – Contingent Liabilities and Contractual Obligations.

Understatement of Contractual Obligations	In Millions						
	2024 $	2025 $	2026 $	2027 $	2028 $	2029 and beyond $	Total $
Consolidated Revenue Fund and Taxpayer-supported Crown corporations and agencies	987	604	455	427	384	2,070	4,927

BC First Nations Gaming Revenue Sharing Agreement Accounting Treatment

On October 31, 2019, amendments to the *Gaming Control Act* (the Act) added Division 4 – First Nations Revenue Sharing. On September 16, 2020, the Province of British Columbia entered into the Long-Term BC First Nations Gaming Revenue Sharing and Financial Agreement (the Agreement) which sets out the administrative mechanism for implementing the amendments to the Act. Both the amendments and the Agreement set out the direction to pay 7% of the net income of British Columbia Lottery Corporation (BCLC) to the BC First Nations Gaming Revenue Sharing Limited Partnership (the Partnership) each year for 23 years commencing in 2022.

Under Canadian public sector accounting standards, this arrangement should be accounted for on a gross basis, whereby, the net income of BCLC should be included in the revenue of government and the transfer of 7% of the BCLC net income made to the Partnership should be recorded as a government transfer expense. Note disclosures associated with this transaction should reflect this accounting treatment. Government's Summary Financial Statements have accounted for this transaction on a net basis. As a result, neither the revenues nor the expenses have been reflected on the statement of operations. Note 39 – Dedicated Revenues describes the transaction as a "flow-through" arrangement. In my opinion, government's method of accounting for the Agreement, and the disclosure in Note 39 – Dedicated Revenues, represents a departure from Canadian public sector accounting standards.

The effect of this departure is an understatement of both revenues and expenses on the statement of operations in the current year of $113.6 million, and an inaccurate characterization of this transaction as a "flow-through" arrangement in Note 39. Additionally, the Agreement represents a contractual obligation that should be included in Note 28 – Contingent Liabilities and Contractual Obligations (see previous qualification).

Office of the **Auditor General** of British Columbia

LEGISLATIVE ASSEMBLY OF THE PROVINCE OF BRITISH COLUMBIA
Independent Auditor's Report

Key Audit Matters

Key audit matters are those that, in my professional judgment, were of most significance in my audit of the Summary Financial Statements of the current period. These matters were addressed in the context of my audit of the Summary Financial Statements as a whole and in forming my opinion thereon and I do not provide a separate opinion on these matters. In addition to the matters described in the basis for qualified opinion section, I have determined the matters described below to be the key audit matters to be communicated in my report.

Estimate of Personal and Corporate Income Taxation Revenue

Personal and corporate income tax are two of government's largest tax revenue streams, estimated at more than $17.3 billion and $9.2 billion respectively, for fiscal 2023. These two revenue streams are included in Note 29 – Taxation Revenue with further information included in Note 2 - Measurement Uncertainty.

Personal and corporate income tax revenue in a fiscal year is derived from management's estimate of income tax for two separate calendar years. For the fiscal year ending March 31, 2023, government records nine months of revenue for calendar year 2022 and three months of revenue for calendar year 2023. However, the tax assessments for the 2022 calendar year will not be finalized until many months later, and the 2023 tax assessments won't be available until one year later. This means precise income tax revenue figures cannot be determined until at least 21 months after the fiscal year-end date. As a result, government is required to estimate these revenues based on the best information available at the time of reporting. For the current year, this included ensuring the estimates incorporated information received in the most recent tax sharing statements received in late July. Both the estimates are complex and include several inputs and assumptions and as a result have collectively been identified as a key audit matter.

Audit work to address this key audit matter included assessing the appropriateness of the methods used to make the estimates and performing a retrospective review to evaluate the accuracy of the models used. Audit work was also performed work to ensure the underlying data supporting management's estimates is correct, testing the accuracy of management's calculations supporting the estimates and developing range estimates to assess management's estimates against. Audit procedures also included a review of the estimates for indications of management bias, an evaluation of the quality of the measurement uncertainty disclosure in the Summary Financial Statements and obtaining written representations from management related to estimates.

An auditor's specialist was engaged to assist with the audit of these complex estimates.

Financial Instruments and Related Standards

Effective for the current year, government adopted a suite of public sector accounting standards related to financial instruments. These standards include PS3450: Financial Instruments, PS3041: Portfolio Investments, PS2601: Foreign Currency Translation, and PS1201: Financial Statement Presentation. As described in Note 1(d), government's financial instruments include cash, receivables, investments, payables and debt, as well as derivative instruments such as cross-currency swaps, interest rate swaps, and forward foreign exchange contracts. Government has over $90 billion in long-term debt. Government hedges the risks that arise related to their debt borrowing using the aforementioned derivative instruments. Financial instruments can be difficult to measure and can expose government to risks. These standards are designed to provide financial statement users with information about how the instruments were measured, and the extent to which government is exposed to risks arising from the financial instruments it holds.

These accounting standards require government to present a new statement called the statement of remeasurement gains and losses, which is designed to show gains and losses associated with changes in the value of financial instruments from one period to the next, along with any changes resulting from financial instrument transactions that occurred during the period. These standards also require government to include key disclosures relating to its financial instruments, such as the fair value for

Office of the Auditor General of British Columbia

government's $7.5 billion investments, distinguishing between three categories of measurement to help financial statement users understand the level of subjectivity associated with their measurement. Furthermore, government is required to make certain disclosures related to the risk exposure associated with their use of financial instruments, including disclosures relating to liquidity risk, interest rate risk, foreign exchange risk, credit risk and other market risks. The valuation of financial instruments is complex and involves significant judgments and estimates, and there are extensive disclosure requirements on the risks associated with government's use of these instruments. As a result, the adoption of these standards has been identified as a key audit matter.

Audit work to address this key audit matter included assessing government's accounting policy for compliance with these standards, evaluating the completeness of the scoped in financial instruments, assessing the appropriateness of government's methodology, data, and assumptions to value derivative financial instruments, assessing significant contracts for embedded derivatives, reviewing documents to assess the appropriateness of the new statement of remeasurement gains and losses, and evaluating the presentation and disclosure of financial instruments in accordance with the requirements of Canadian public sector accounting standards.

An auditor's specialist was engaged to assist with the audit of fair values of the derivative financial instruments.

Valuation of Plan Assets and Pension Benefits for Pension Plans

Government participates in four jointly trusteed pension plans that include a joint defined benefit component for most British Columbia public servants. The estimated plan assets and accrued benefit obligations of these plans both exceed $89 billion.

Pension plan accounting values plan assets at market-related value for funded plans. Market-related value is derived from the fair value of plan assets reported in the pension plan financial statements. When observable market data is not available for investments, estimates of fair value are required. Fair value estimates require significant management judgment.

Government relies on a third-party actuarial specialist to estimate the accrued benefit obligation and other information for financial statement note disclosures. These calculations rely on management's assumptions for significant economic and demographic assumptions.

Valuing pension benefits is a complex area requiring significant judgement and estimates. Given the magnitude of the accrued benefit obligation, small changes to the long-term assumptions can have a material impact on the liability, or asset, and expenses. As a result, pension plan accounting has been identified as a key audit matter.

Audit work to address this key audit matter included performing procedures to rely on the pension plan auditor's reports for the plan assets used in the estimates, as well as their work over the data provided by management to the actuary for making the estimate. Audit work also included assessing the qualifications of management's actuarial expert, gaining an understanding of the assumptions and methods used by the actuary in determining the accrued benefit obligation for pension benefits, obtaining the actuarial report, audited pension plan financial statements and other supporting documentation to test management's assumptions, calculations and journal entries for pension accounting and evaluating the presentation and disclosure of pension plans in accordance with the requirements of Canadian public sector accounting standards.

Office of the
Auditor General
of British Columbia

Asset Retirement Obligations

Effective for the current year, government adopted the new public sector accounting standard PS3280: Asset Retirement Obligations. This new standard requires government to record a liability for obligations related to the retirement of assets. It defines which retirement activities should be accrued for, establishes when to recognize the liability, how to measure asset retirement obligations, and provides requirements for financial statement presentation and disclosure. As at March 31, 2023, government recorded $1.87 billion in asset retirement obligations, with $1.7 billion reported for the prior year which has been restated.

The Summary Financial Statements provide information about the impact of the implementation of this new standard in Note 1(e) changes in accounting policy – Adoption of Public Sector Accounting Standards PS 3280, Asset Retirement Obligations. Further information is included in note 1(d) significant accounting policies – Asset Retirement Obligations, Note 12 - Accounts Payable and Accrued Liabilities and Note 36 - Asset Retirement Obligations.

The adoption of this standard required government to identify tangible capital assets with retirement activities meeting the definition of an asset retirement obligation, estimate the cost to complete retirement activities, and determine when retirement activities will occur. This process was complex and required significant judgment and assumptions and as a result, has been identified as a key audit matter.

Audit work to address this key audit matter included assessing government's accounting policy for asset retirement obligations, evaluating the completeness and accuracy of identified tangible capital assets with qualifying retirement activities, assessing the appropriateness of government's methodology, data, and assumptions to estimate the cost of retirement activities, and evaluating the presentation and disclosure of asset retirement obligations in accordance with the requirements of Canadian public sector accounting standards. This also included assessing the qualifications and work of government's experts engaged to assist in the estimation process.

Other accompanying information

Government is responsible for the information they report in the annual Public Accounts. My opinion on the Summary Financial Statements does not cover other information included in the annual Public Accounts that accompanies the Summary Financial Statements and, except for my independent auditor's report on the debt-related statements, I do not express any form of assurance conclusion thereon.

In connection with my audit of the Summary Financial Statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Summary Financial Statements, or my knowledge obtained during the audit or otherwise appears to be materially misstated.

Prior to the date of my auditor's report, I obtained a copy of the Public Accounts. If, based on the work I have performed on the other information, I conclude that there is a material misstatement therein, I am required to report that fact in this auditor's report.

As described in the basis for qualified opinion section above, I believe there are material misstatements in government's accounting for deferral of revenues. I have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the annual report affected by this departure from Canadian public sector accounting standards.

Responsibilities of Treasury Board for the Summary Financial Statements

The Treasury Board of British Columbia is responsible for the oversight of the financial reporting process including the approval of significant accounting policies. The Comptroller General of British Columbia (comptroller general) is responsible for the preparation and fair presentation of the Summary Financial Statements in accordance with the *Budget Transparency and Accountability Act*, and for such internal control as the comptroller general determines is necessary to enable the preparation of the Summary Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Summary Financial Statements, the comptroller general is responsible for assessing government's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting when government will continue its operations for the foreseeable future.

Auditor's responsibilities for the audit of the Summary Financial Statements

My objectives are to obtain reasonable assurance about whether the Summary Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with generally accepted accounting principles, being public sector accounting standards for senior governments in Canada. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Summary Financial Statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the Summary Financial Statements, whether due to fraud or error; design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 government's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the comptroller general.
- Conclude on the appropriateness of the comptroller general's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on government's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the Summary Financial Statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause government to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Summary Financial Statements, including the disclosures, and whether the Summary Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

The audit of the Summary Financial Statements is a group audit engagement. As such I also obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the Summary Financial Statements. I am responsible for the direction, supervision and performance of the group audit and I remain solely responsible for my audit opinion.

LEGISLATIVE ASSEMBLY OF THE PROVINCE OF BRITISH COLUMBIA
Independent Auditor's Report

I communicate with the Chair of Treasury Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the Chair of Treasury Board with a statement that I have complied with relevant ethical requirements regarding independence, and communicated with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

Michael A. Pickup, FCPA, FCA
Auditor General of British Columbia

Victoria, British Columbia, Canada
August 22, 2023

Office of the Auditor General of British Columbia

Appendix B: Qualifications over the years

Year Ended March 31	Number of Qualifications	Reason for Qualifications
2004	1	Departure from GAAP: ▪ Inappropriate exclusion of schools, universities, colleges and institutes, and health care organizations from the reporting entity
2005	0	No qualification
2006	0	No qualification
2007	0	No qualification
2008	5	Scope limitation: ▪ Capital assets costs for constructing resource roads under the B.C. Timber Sales program Departures from GAAP: ▪ Failure to recognize a portion of a First Nation settlement ▪ Failure to provide for deep well credits ▪ Inappropriate netting of oil and natural gas producer royalty credits ▪ Inappropriate disclosure or failure to disclose essential information
2009	3	Departures from GAAP: ▪ Failure to fully consolidate the Transportation Investment Corporation ▪ Failure to provide for deep well credits ▪ Inappropriate netting of oil and natural gas producer royalty credits
2010	3	Departures from GAAP: ▪ Failure to fully consolidate the Transportation Investment Corporation ▪ Failure to provide for deep well credits ▪ Inappropriate netting of oil and natural gas producer royalty credits
2011	1	Departure from GAAP: ▪ Failure to fully consolidate the Transportation Investment Corporation
2012	4	Departures from GAAP: ▪ Failure to fully consolidate the Transportation Investment Corporation ▪ Failure to provide for earned natural gas producer royalty credits ▪ Inappropriate deferral of government transfers revenue ▪ Failure to disclose required government business enterprise financial information
2013	3	Departures from GAAP: ▪ Full consolidation of the Transportation Investment Corporation is required ▪ Inappropriate deferral of government transfers revenue ▪ Inappropriate deferral of restricted revenues

Year Ended March 31	Number of Qualifications	Reason for Qualifications
2014	2	Departures from GAAP: ▪ Inappropriate deferral of revenues ▪ Transportation Investment Corporation is now a government business enterprise
2015	1	Departure from GAAP: ▪ Inappropriate deferral of revenues
2016	1	Departure from GAAP: ▪ Inappropriate deferral of revenues
2017	3	Departures from GAAP: ▪ Inappropriate deferral of revenues ▪ Inappropriate use of modified equity basis of consolidation ▪ Inappropriate use of rate regulated accounting
2018	2	Departures from GAAP: ▪ Deferral of revenues ▪ Use of rate regulated accounting
2019	2	Departures from GAAP: ▪ Deferral of revenues ▪ Use of rate regulated accounting
2020	1	Departure from GAAP: ▪ Deferral of revenues
2021	1	Departure from GAAP: ▪ Deferral of revenues
2022	3	Departures from GAAP: ▪ Deferral of revenues ▪ Incomplete contractual obligations disclosure ▪ BC First Nations Revenue Sharing Agreement accounting treatment
2023	3	Departures from GAAP: ▪ Deferral of revenues ▪ Incomplete contractual obligations disclosure ▪ BC First Nations Revenue Sharing Agreement accounting treatment

Appendix C: Examples of wording in compliance audit reports and financial statement notes

Opinion paragraph

For organizations receiving a compliance audit report, the "opinion" paragraph of the Independent Auditor's Report includes wording that notes:

In our opinion, the accompanying financial statements are prepared, in all material respects, in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act *of the Province of British Columbia.*

Emphasis of Matter paragraph

The auditor usually adds an emphasis of matter paragraph in the Independent Auditor's Report that includes wording that notes:

We draw attention to Note X to the financial statements which describes the applicable financial reporting framework and the significant differences between that financial reporting framework and Canadian Public Sector Accounting Standards. Our opinion is not modified in respect of this matter.

Basis of Accounting note to the financial statements

The financial statements of organizations that account for restricted contributions in accordance with Treasury Board's regulation usually include a note explaining the basis of accounting used by the organization.

Basis of accounting:

The financial statements are prepared in accordance with Section 23.1 of the Budget Transparency and Accountability Act *of the Province of British Columbia supplemented by Regulations 257/2010 and 198/2011 issued by the Province of BC Treasury Board, referred to as the financial reporting framework ("the framework").*

The Budget Transparency and Accountability Act *requires that the financial statements be prepared in accordance with the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada, or if the Treasury Board makes a regulation, the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada as modified by the alternate standard or guideline or part thereof adopted in the regulation.*

Regulation 257/2010 requires all tax-payer supported organizations in the Schools, Universities, Colleges and Hospitals sectors to adopt Canadian public sector accounting standards ("PSAS") issued by the Canadian Public Sector Accounting Board ("PSAB") without any elections available for government not-for-profit organizations.

Regulation 198/2011 requires that restricted contributions received or receivable are to be reported as revenue depending on the nature of the restrictions on the use of the funds by the contributors as follows:

(i) Contributions for the purpose of acquiring or developing a depreciable tangible capital asset or contributions in the form of a depreciable tangible capital asset are recorded and referred to as deferred capital contributions and recognized in revenue at the same rate that amortization of the related tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal period during which the tangible capital asset is used to provide services. If the depreciable tangible capital asset funded by a deferred contribution is written down, a proportionate share of the deferred capital contribution is recognized as revenue during the same period.

(ii) Contributions externally restricted for specific purposes other than those for the acquisition or development of a depreciable tangible capital asset are recorded as deferred operating contributions or deferred research and designated contributions, and recognized in revenue in the year in which the stipulation or restriction on the contributions have been met by the Organization.

For BC tax-payer supported organizations, these contributions include government transfers and externally restricted contributions.

The accounting policy requirements under Regulation 198/2011 are significantly different from the requirements of PSAS which require that:

- *government transfers, which do not contain a stipulation that creates a liability, be recognized as revenue by the recipient when approved by the transferor and the eligibility criteria have been met in accordance with PS 3410, Government Transfers;*
- *externally restricted contributions be recognized as revenue in the period in which the resources are used for the purpose or purposes specified in accordance with PS 3100, Restricted Assets and Revenues; and*
- *deferred contributions meet the liability criteria in accordance with PS 3200, Liabilities.*

As a result, revenue recognized in the statement of operations and certain related deferred capital contributions would be recorded differently under PSAS.

Organizations that received a compliance audit report

- B.C. Pavilion Corporation
- BCNET
- British Columbia Institute of Technology
- British Columbia Public School Employers' Association
- British Columbia Transit
- Camosun College
- Capilano University
- Coast Mountain College
- College of New Caledonia
- College of the Rockies
- Columbia Basin Trust
- Community Living British Columbia
- Destination BC
- Douglas College
- Emily Carr University of Art and Design
- Forest Enhancement Society of BC
- Forestry Innovation Investment Ltd
- Fraser Health Authority
- Health Employers Association of British Columbia
- Interior Health Authority

- Justice Institute of British Columbia
- Knowledge Network Corporation
- Kwantlen Polytechnic University
- Langara College
- Legal Services Society
- Nicola Valley Institute of Technology
- Nisga'a Valley Health Authority
- North Island College
- Northern Health Authority
- Northern Lights College
- Okanagan College
- Organized Crime Agency of British Columbia Society
- Providence Health Care
- Provincial Rental Housing Corporation
- Royal Roads University
- Selkirk College
- Simon Fraser University
- Thompson Rivers University
- University of Northern British Columbia
- University of the Fraser Valley
- University of Victoria
- Vancouver Coastal Health Authority
- Vancouver Community College
- Vancouver Island Health Authority
- Vancouver Island University
- 59 school districts

Appendix D: Summary of adjusted audit differences

This table shows the impacts to the 2022/23 Summary Financial Statements of errors identified during our audit and corrected by government. Government's corrections of these errors resulted in an increase of $133.7 million to the reported surplus.

		Statement of Operations impact in $ millions		Statement of Financial Position impact in $ millions		
Description	**Accounts affected**	**Revenue (increased)/ decreased by**	**Expenses increased/ (decreased) by**	**Assets increased/ (decreased) by**	**Liabilities (increased)/ decreased by**	**Equity (increased)/ decreased by**
Correction of net presentation of derivative financial instruments	Derivative financial assets			663.0		
	Derivative financial liabilities				(663.0)	
Reclassification of revenue	Contributions from federal government	21.8				
	Miscellaneous revenue	(21.8)				
Correction of error made in proportionate consolidation of Canadian Blood Services	Temporary investments			42.0		
	Accounts payable and accrued liabilities				(44.0)	
	Investment Income	2.0				
Correction of funding to Health Employers Association of British Columbia that was not eliminated on consolidation	Accounts payable and accrued liabilities				123.0	
	Government transfer expense		(123.0)			
Correction of Ministry of Transportation calculation of the asset retirement liability balance on initial recognition which flowed through to fiscal year 2023	Asset retirement obligation				21.0	
	Accumulated surplus					(21.0)
Correction of accounts receivable that was not cleared after deposit was received, and incorrectly recorded as revenue	Accounts receivable			(16.4)		
	Revenue	16.4				

Description	Accounts affected	Statement of Operations impact in $ millions		Statement of Financial Position impact in $ millions		
		Revenue (increased)/ decreased by	Expenses increased/ (decreased) by	Assets increased/ (decreased) by	Liabilities (increased)/ decreased by	Equity (increased)/ decreased by
Correction of classification of debt issue costs recorded in other assets	Taxpayer supported debt				31.1	
	Other assets			(31.1)		
Correction of classification related to provincial sales tax	Accounts receivable			(41.8)		
	Accounts payable and accrued liabilities				41.8	
Correction of impact of assumption error for year-end accrual of mining and mineral revenue	Accounts receivable			15.3		
	Natural resource revenue	(15.3)				
Removal of stale dated cheques	Cash			22.9		
	Accounts payable and accrued liabilities				(9.1)	
	Miscellaneous revenue	(13.8)				
Total		**(10.7)**	**(123.0)**	**653.9**	**(499.2)**	**(21.0)**

Appendix E: Summary of disclosure adjustments

In addition to the monetary changes to the 2022/23 Summary Financial Statements in Appendix D, we identified the following areas for government to enhance its disclosures to meet Canadian Public Sector Accounting Standards. As a result of our work, government made these changes in their notes to the Summary Financial Statements.

Consolidated Statement of Remeasurement Gains and Losses

On April 1, 2022, government implemented PS 3450 Financial Instruments and related standards. These standards require government to prepare a statement of remeasurement gains and losses that present the accumulated remeasurement gains and losses at the beginning of the year (April 1, 2022), the unrealized gains and losses that arise during the year, and the amounts reclassified to the statement of operations, but these requirements were not met. The final version of the Summary Financial Statements has an updated statement of remeasurement gains and losses that now meets the required presentation of the standards.

Fair value hierarchy presentation and disclosure for investment financial instruments

Government has $7,530 million in investments. Canadian Public Sector Accounting Standards require government to disclose the measurement basis of these financial instruments distinguishing between Level 1, Level 2, and Level 3 of the fair value hierarchy and instruments measured at historical cost. Initially, government had not met these requirements. The final version of the Summary Financial Statements includes this information in the Supplementary Statement to the Summary Financial Statements Schedule of Investments. Further improvements to disclosures should be implemented in the next fiscal year's Summary Financial Statements.

Note 9 – Other Investments

Pooled investment portfolios in the narrative were $2,793 million, instead of $2,811 million and miscellaneous was $699 million, instead of $621 million.

There were numerical errors related to bonds:

1. For municipal, corporate and other bonds, the historical cost should be $138 million instead of $105 million
2. For provincial bonds, the historical costs should be $77 million instead of $63 million
3. For government of Canada bonds, the historical costs should be $17 million instead of $15 million

The final version of the Summary Financial Statements corrected the above items.

Note 12 – Accounts Payable and Accrued Liabilities

The 2021/22 fiscal year column had not been updated to reflect the asset retirement obligation reclassification from other accrued liabilities. The asset retirement obligations should have been $1,717 million (to agree with amount disclosed in note 36) and the other accrued estimated liabilities should have been $3,936 million.

This has been corrected.

Note 17 – Employee Pension Plans

The Municipal Pension Plan extrapolation did not include the 2023 extrapolation from the new post-2021 valuation balances. The figures disclosed only included the revised prior year amounts and unamortized actuarial gains and losses based on the new 2021 valuation.

This resulted in an understatement of the following in the Joint Trusteed Pension Plan accounting position table as follows:

- Asset benefit obligation – $2,200 million
- Plan assets – $2,475 million
- Surplus – $278 million
- Unamortized actual gains – $236 million
- Accrued asset – $42 million
- Provincial interest and valuation allowance – $21 million

This has been adjusted in the final extrapolation and the final disclosure in the Summary Financial Statements.

Note 20 – Risk Management and Derivative Financial Instruments

Government manages its debt borrowing risks through derivative financial instruments. Canadian Public Sector Accounting Standards require government to outline liquidity risks relating to derivative financial instruments by disclosing the expected net cashflows on existing contracts. Initially, government had not met these requirements. The final version of the Summary Financial Statements added a schedule for undiscounted cashflows for derivative instruments that now meets the required presentation of the standard.

Note 27 – Contingent Assets and Contractual Rights

Under Canadian Public Sector Accounting Standards, contractual rights are rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future and are required to be disclosed so that financial statement users are provided with information about the economic resources available in the future to meet future obligations or to finance future operations. There were a number of contractual rights that were not initially included in the Note 27 disclosure. The total adjustments to the financial statements were:

	Contractual rights in $ millions						
	2024	**2025**	**2026**	**2027**	**2028**	**2029 and beyond**	**Total**
Consolidated Revenue Fund and taxpayer-supported Crown corporations and agencies	141	43	43	(3)	(3)	(28)	**193**

Note 28 – Contingent Liabilities and Contractual Obligations - Environmental Clean-up

Government added disclosure for the undiscounted estimated costs for sites that require ongoing remediation, monitoring or maintenance of $124 million.

Note 28 – Contingent Liabilities and Contractual obligations

Under Canadian Public Sector Accounting Standards, contractual obligations that govern the level of a certain type of expenditures for a considerable period into the future are required to be disclosed so that financial statement users understand the nature and extent to which government's resources are already committed to meet its obligations. There were a number of contractual obligations that were not initially included in the Note 28 disclosure. The total adjustments to the financial statements were:

	Contractual obligations in $ millions						
	2024	**2025**	**2026**	**2027**	**2028**	**2029 and beyond**	**Total**
Consolidated Revenue Fund and taxpayer-supported Crown corporations and agencies	73	65	46	(21)	(22)	(23)	**118**

Office of the **Auditor General** of British Columbia

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