



NEWS RELEASE

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After the audit: Three concerns with government financial reporting

VICTORIA – B.C.'s auditor general is calling attention to three key issues that his office noted in its latest audit of the government's financial statements and \$80 billion of public sector financial activity.

A report delivered today to the Legislative Assembly pinpoints:

- challenges with income tax revenue estimation methods and their impacts on financial statement surpluses or deficits;
- government directions to the independent BC Utilities Commission concerning BC Hydro and their potential impact on the Crown corporation's accounting and net earnings; and
- not enough planning and communication for two new accounting standards before they were applied across government.

"These things deserve attention because of their impact on the accuracy of government's financial reporting," says Auditor General Michael Pickup. "At the end of the day, they influence the decisions made on how to fund public programs and services for British Columbians."

Personal and corporate income tax revenue contributed \$26.5 billion, or nearly a third of all provincial revenue in 2022/23. But the income tax revenues reported in the province's summary financial statements are only estimates. That's because the annual deadline for the statements comes before the processing of tax returns is finished by the federal government.

Since 2013/14, the estimate has missed by an average of \$1.1 billion. Government, in consultation with the auditor general's office, incorporated Canada Revenue Agency data that becomes available later in the year and is more current. This is less subjective and resulted in the surplus being reduced by \$1.86 billion after tax revenue estimates were lowered.

"Government could reduce the risk of large year-to-year swings in income tax revenues by developing a better estimation method," Pickup said. "Until government can demonstrate a more reliable method, we anticipate using the tax sharing statements as our basis to evaluate government's estimate."

Government's BC Hydro-related directions to the BC Utilities Commission risk BC Hydro's ability to use "rate-regulated accounting" to avoid major fluctuations in its net earnings. This would also have financial reporting implications for BC Hydro and the province's net earnings, as its sole shareholder.

Legislation allows government to issue directions to the BCUC, but some directions have either bypassed or overridden the commission's standard regulatory review of rate changes. As a result, rate-regulated accounting may not be appropriate for some transactions. A recent example was the \$320-million BC Hydro household and commercial credits that government directed in 2022. Initial accounting for the credits were corrected after the accounting method used by BC Hydro raised auditors' concerns.

"We're saying government should consult and understand how its directions may affect BC Hydro's ability to apply rate-regulated accounting and assess how they could affect the financial statements," Pickup said. "We also suggest BC Hydro should alert government when its directions are likely to put rate-regulated accounting at risk."



Government applied two new accounting standards in fiscal 2022/23 after having several years to prepare. The audit found significant departures from the new standards that were corrected by government. Early engagement by government accountants with the auditor general's office would have avoided many of the year-end corrections made during the audit. Lessons from last year can be useful when two more new standards are applied this year.

The new report on financial audit work follows last November's report that supported MLA scrutiny of the Summary Financial Statements. Both reports will go to the Select Standing Committee on Public Accounts for discussion.

Related links

[Report: The Audit of B.C.'s 2022/23 Summary Financial Statements: Areas of Interest](#)

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General questions and interview requests

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