



Report at a glance

Why we did this report

- This is our second report on the financial audit work we completed for the Province of B.C.'s 2022/23 Summary Financial Statements.
- The first report focused on our Independent Auditor's Report and aided Members of the Legislative Assembly in scrutinizing the \$80 billion of public sector financial activity last fiscal year.
- This report describes matters that came up in our audit that warrant attention because of their potential influence on the government's future financial results.

Areas of interest

The income tax estimation challenge

- Personal and corporate income tax revenues provided \$26.5 billion, or 32%, of provincial revenues in 2022/23.
- Government's method of estimating income taxes has resulted in significant adjustments.
- For example, in November of fiscal year 2022/23 government adjusted for \$4.3 billion in additional revenue related to fiscal 2021/22.
- For fiscal year 2023/24, in consultation with our office, government updated their year-end estimate by using federal tax return filings (as of June 30, 2023).
- Our audit found this method was much less subjective.
- Government's year-end surplus was \$1.86 billion lower than its initial estimate.

Government direction on electricity rates: the impact on BC Hydro's accounting

- In B.C., rate regulation helps electricity customers avoid volatility in the rates charged by energy providers.
- BC Hydro's rates must be reviewed and approved by the British Columbia Utilities Commission (BCUC) in order for rate-regulated accounting to apply.
- When government issues direction (about BC Hydro) to the BCUC, it interferes with the independent regulation of electricity rates.
- It may mean rate-regulated accounting can't be applied to some transactions, leading to financial impacts for BC Hydro.
- In the fall of 2022, government directed the BCUC to order BC Hydro to issue a \$320 million credit to residential and commercial customers.
- Every residential customer (including non-BC Hydro customers) received a \$100 credit.
- We raised concerns about using rate-regulated accounting for the household credit because it wasn't independently reviewed by the BCUC.
- BC Hydro later changed its approach by taking the credit payment from net earnings instead of its rate-regulated deferral accounts.
- We recommend government:
 - consult relevant parties to understand how its directions may impact BC Hydro's ability to apply rate-regulated accounting; and
 - assess how such directions could affect the Summary Financial Statements.
- We recommend BC Hydro:
 - continue to assess the impact of government directions on the use of rate-regulated accounting standards; and
 - alert government when its directions are likely to impact BC Hydro's ability to use rate-regulated accounting.

Report at a glance *(continued)*

New accounting standards: better planning, communication would reduce the risk of reporting errors

- Government applied new accounting standards – covering asset retirement obligations and financial instruments – for fiscal 2022/23.
- We identified significant departures from the new standards.
- Early engagement with us would have ensured implementation of the new standards met requirements and reduced year-end corrections.
- Lessons from last year can be useful when two more new standards (for revenue and public-private partnerships) are applied for fiscal 2023/24.

Asset retirement obligations:

- The asset retirement obligations standard came into effect in fiscal 2022/23, four years after it was issued in 2018.
- Government guidance to public sector organizations included inconsistencies with the standard, increasing the risk of material error.

Financial instruments:

- The financial instrument related standards didn't apply to B.C.'s financial statements until fiscal 2022/23.
- However, they have been required in all other organizations in the government reporting entity since fiscal 2012/13.
- Government corrected the three significant departures from the standards (including one incomplete statement) that we identified.

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

1. How will government improve the way it estimates income tax revenues and the accuracy of the amounts it reports in the financial statements?
2. When issuing BC Hydro-related direction to the BCUC, how will government consider the financial reporting impacts (e.g., BC Hydro's ability to continue using rate regulated accounting)?
3. How will government change its approach to implementing complex accounting standards?