

### 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?