

# Financial Information Act Audit Report

Audit Services

September 10, 2020

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## Transmittal Letter

September 16, 2020

Alan Kerr  
Chief Financial Officer and VP, Finance and Corporate Services  
74 West Seymour Street  
Kamloops, BC V2C 1E2

Dear Alan:

**Re: Financial Information Act**

Attached is Audit Services' report on management's key controls used in the preparation of the Statement of Financial Information. This Statement is required under the Financial Information Act (FIA).

Based on the audit work performed and within the limited scope of the engagement, we conclude that the controls used in the development of the FIA report were adequate. There are two significant audit findings from the audit of this report.

We thank the management and staff of the Corporate Finance department for their cooperation and assistance during this audit.

Sincerely,

s 22

† SC, CRMA  
Director, Internal Audit

cc: Michelle Webb, Senior Manager, Corporate Finance

## Introduction

As per BC legislation<sup>1</sup>, BCLC must prepare and release statements of financial information. Due to financial system limitations, several of the key processes in developing this report are manual in nature. Audit Services, as part of their annual audit plan, performs an audit of the controls used in developing the FIA report.

Within six months following their fiscal year end, corporations must send to the ministry contact, a copy of the Statement of Financial Information required under section 2 of the Financial Information Act together with an FIA checklist. Corporations must ensure that the Statement of Financial Information complies with the Act, the Regulation and this Directive. Compliance (or the reasons for non-compliance) must be indicated on the checklist accompanying the Statement of Financial Information.

The link to the Financial Information Act: [http://www.bclaws.ca/EPLibraries/bclaws\\_new/document/ID/freeside/00\\_96140\\_01](http://www.bclaws.ca/EPLibraries/bclaws_new/document/ID/freeside/00_96140_01)

## Statement of Objectives

The objective of this engagement was to confirm the adequacy of the controls used in the preparation of the FIA report for the fiscal year ended March 31, 2020.

## Statement of Scope

The scope of this audit encompassed several key controls that were identified by Audit Services and Corporate Finance. The scope was limited to the following key control areas:

- Review updates to theory document, list of procedures, and FIA regulations.
- Reconciliation to the financial statements and Public Sector Employers' Council (PSEC) reporting.
- Department review of FIA reporting information approved by the managers responsible in their respective finance areas.
- Overall reviews completed by Corporate Finance on FIA data by Manager of Financial Reporting & Systems.
- Final review and approval by Chief Financial Officer on FIA report.

## Key Risks Identified

The key risks identified around the preparation of the FIA report are:

- Reliance on multiple reporting systems.
- Manual nature of the compilation and reconciliation process.
- Inherently difficult nature to completely reconcile accrual accounting versus cash accounting.
- Reliance on many different individuals from different departments.
- Management is aware of these risks and management has implemented processes and controls to mitigate these risks

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<sup>1</sup> [http://www.bclaws.ca/EPLibraries/bclaws\\_new/document/ID/freeside/00\\_96140\\_01](http://www.bclaws.ca/EPLibraries/bclaws_new/document/ID/freeside/00_96140_01)

## Statement of Methodology

Audit Services identified the key control areas and developed the testing procedures required to assess the key controls. A test process was developed to address each of the control areas and additional substantive testing as required.

## Statement of Audit Standards

We conducted our audit in accordance with professional standards issued by the Institute of Internal Auditors. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws, rules and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

## Personnel Changes in Key Control Areas

BCLC's Audit Committee has requested that Audit Services include information about personnel changes to key control areas during all engagements related to BCLC's core functions. Personnel changes can impact the control environment, effectiveness of key controls, and loss of risk and control knowledge. During this engagement, we discussed personnel changes, retirements, and revisions to roles with management. Four significant changes in key personnel occurred since the previous year's FIA reporting. Audit Services noted additional due diligence and process controls were implemented by management to ensure the accuracy and completeness of the reporting, specifically a more comprehensive review by Senior Management of Corporate Finance, including the Chief Financial Officer.

## Audit Conclusions

While there are still risks associated with the manual nature of the report preparation and the continuity of key FIA preparation employees, management is aware of these risks and has strengthened the control environment to ensure there are adequate processes and controls in place to mitigate significant risks. This year, Management also implemented the digitization of records and reporting to further streamline the process.

During our audit, two findings, as noted below, were specifically discussed with the Chief Financial Officer. The findings, detailed below, were in relation to Guarantees and Indemnities and the unreconciled difference between the different basis of financial reporting.

### **Guarantees and Indemnities**

The first finding, as noted in previous years, was related to Guarantees and Indemnities; as per the regulations:

*"The schedule of guarantee and indemnity agreements must list financial guarantee and indemnity agreements in force which required government approval prior to being given under the Indemnities and Guarantees Regulation".*

Due to system and information centralization restraints, BCLC currently reports Guarantees and Indemnities entered into and approved during the current year versus all Guarantees and Indemnities in force as at fiscal year end.

This has been discussed with management and it is noted that the title of the schedule is accurately reflective of the reporting being provided by BCLC;

*“There were no Guarantee Agreements approved during the year. List of indemnities approved during the year...”*

Management has committed to continue working with Legal Services and Contract Management to explore opportunities to centralize the information in order to provide complete and accurate data as prescribed in the FIA regulation. In the absence of a process to capture complete Guarantees and Indemnities information, Audit Services has reinforced that management should continue to ensure transparency by clearly articulating the information, disclosures and assumptions being communicated throughout the FIA report to the office of the Comptroller General, who is responsible for administering the FIA.

### **Unreconciled Difference**

The second finding focused on the unreconciled difference, which resulted from the adjustment and reconciliation of financial information from accrual basis to cash basis as well as inclusion and exclusions of reportable amounts. Financial statements are prepared on an accrual basis and FIA guidelines require the FIA reporting to be prepared on a cash basis. Therefore, financial information must be adjusted to cash based accounting for the purposes of the FIA reporting. The differences between expenses on the financial statements and the payments on the FIA report are usually attributable to non-cash accruals, timing differences, changes in working capital, and non-BCLC payments or outflows.

Management has established a threshold for this unreconciled difference, defined as 1% of total vendor and remuneration spend. Total vendor and remuneration spend for 2019-2020 was \$1,227,022,000. The average unreconciled difference over the past nine years has been approximately \$1,893,000 and on average has represented about 0.25% of total vendor and remuneration spend. This year, it was noted that the total unreconciled difference was \$9,940,000 representing approximately 0.81% of total vendor and remuneration spend. Though this variance is still under the 1% threshold defined by Management, it is still significantly higher than previous years. This finding has also been discussed with Management and it was confirmed that a similar review approach was used to previous years. Management noted given the larger than average unreconciled difference this year, a significant amount of additional time, resources and due diligence was applied to try to reconcile this amount. However, Management was unable to identify contributing factors that would explain the increase in the unreconciled difference this year.

Management should continue to carefully monitor this unreconciled difference year-to-year and explore options of managing and reducing this unreconciled difference.

Other opportunities to further strengthen the FIA reporting process and related control environment were also discussed with Management. Management has agreed with all the recommendations and have formally incorporated them into the FIA process and control environment.

Based on the audit work performed, we conclude that the controls tested for this audit were found to be sufficient and no other exceptions were noted.

## **Acknowledgements**

We wish to thank Management and staff for their participation, assistance and cooperation during this review. Audit Services was given full access to all resources and information required to complete this review.

# Holdback Review

Audit Services

July 17, 2020

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## Transmittal Letter

August 18, 2020

Sandy Austin  
Director, People Rewards & Recruitment  
74 West Seymour  
Kamloops, BC V2C 1E2

Dear Sandy:

**Re: Holdback Review**

Attached is the Audit Services' report on Holdbacks. During our review no exceptions were noted.

We thank the management and staff of People and Culture and the Payroll team for their cooperation and assistance during this engagement.

Sincerely,  
s 22

Director, Internal Audit  
C, CRMA

cc: Yabome Gilpin-Jackson, Chief People Officer

## Introduction

In July 2012, all managers and executives were required to participate in the holdback program offered by BCLC. The holdback program included a percentage of base pay which was “held back” from each Manager’s and Executive’s pay throughout the fiscal year, and only eligible to be paid if BCLC met the corporate financial threshold approved by the Board at the start of the fiscal year. If the corporate financial threshold was met, the amount paid was determined based on the extent to which the established corporate and personal objectives were met.

Effective April 1, 2019 the Board approved the elimination of the holdback incentive plan for all Managers and Executives. The maximum allowable for holdback incentives was absorbed in the base pay for all Managers and Executives on an annualized basis going forward.

## Statement of Objectives

The objectives of this engagement were to:

- Review policies and procedures to identify and assess the design of key controls in place
- Assess the accuracy of the calculations related to the elimination of Holdbacks
- Identify any discovery improvement opportunities

## Statement of Scope

The scope of this engagement was to understand the current state of the holdback process. This assessment included a review of the procedures to eliminate the Holdback program and determine whether holdbacks retroactive payments to Managers and Executives were accurately applied.

## Statement of Methodology

The following procedures were conducted:

- Interviews and inquiry
- Discussion with key personnel
- Review of procedures and practices
- Re-perform calculations

## Statement of Standards

We conducted our work in accordance with professional standards issued by the Institute of Internal Auditors. Those standards require that we plan and perform our work to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under review. This includes an assessment of applicable internal controls and compliance with requirements of laws, rules and regulations when necessary to satisfy the objectives. We believe that our review provides a reasonable basis for our conclusions.

## Personnel Changes in Key Control Areas

BCLC's Audit Committee has requested that Audit Services include information about personnel changes to key control areas during all engagements related to BCLC's core functions. Personnel changes can impact the control environment, effectiveness of key controls, and loss of risk and control knowledge. During this engagement, we discussed personnel changes, retirements, and revisions to roles with management. It was noted that there no critical personnel changes in the teams responsible for Holdbacks.

## Conclusion

Based on the work performed, Audit Service found no Holdback exceptions.

## Acknowledgements

We wish to thank management and staff for their participation, assistance and cooperation during this engagement. Audit Services was given full access to all resources and information required to complete this review.