



Office of the
Auditor General
of British Columbia

November 2022

Auditor General's Report on the Financial Audit Work: Fiscal Year 2021/22





Office of the
Auditor General
of British Columbia

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The Honourable Raj Chouhan
Speaker of the Legislative Assembly
Province of British Columbia
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Victoria, British Columbia
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Dear Mr. Speaker:

I have the honour to transmit to the Speaker of the Legislative Assembly of British Columbia the *Auditor General's Report on the Financial Audit Work: Fiscal Year 2021/22*.

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 (GAAP). This report, authorized 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..

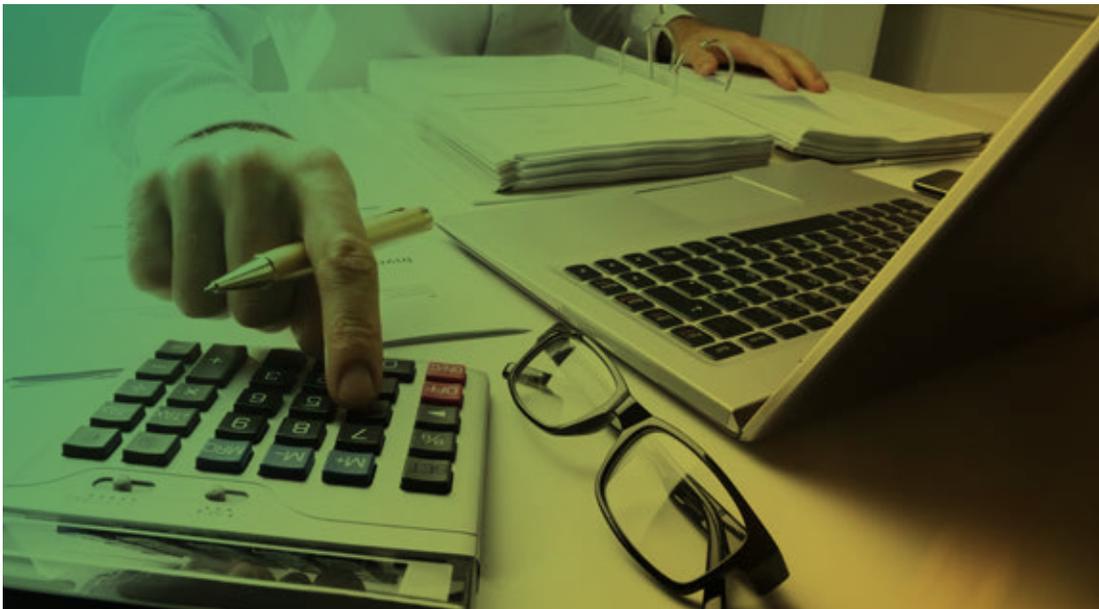
Michael A. Pickup, FCPA, FCA
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Victoria, B.C.

November 2022



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Report at a glance

Why we did this report

- The annual audit of the Government of B.C.'s *Summary Financial Statements* provides independent assurance that the statements are true and fair.
- This report can help users understand where they can rely on the *Summary Financial Statements* and where the statements should be viewed with caution.
- Our report on our financial audit work gives members of the legislature and the public a starting point for discussing the province's public accounts.
- This report also includes behind-the-scenes insights on key matters that required significant judgment, and other financial areas of interest

Auditor general's mandate

To report to the Legislative Assembly whether British Columbia's summary financial statements fairly present the financial position of the provincial government and its operations as of March 31, 2022, in accordance with Canadian Public Sector Accounting Standards.

Audit period

Fiscal year 2021/22

Independent Auditor's Report

Our office issued a qualified *Independent Auditor's Report* on the 2021/22 summary financial statements, indicating that three areas of the statements should be viewed with caution. With the exception of these, the statements present fairly, in all material respects, the financial position of the government and its operations as of March 31, 2022.

[Read the full *Independent Auditor's Report* in Appendix A.](#)

Report highlights

Overall, because of our audit, the government corrected errors that resulted in a \$9-million increase to the surplus.

Basis for qualification

We have issued a qualified *Independent Auditor's Report* based on three material misstatements – significant errors or omissions – that mislead users of the *Summary Financial Statements*. Qualifications are unusual and shouldn't be taken lightly.

- **Deferral of revenue** – The government's liability for deferred revenue is overstated by \$6.48 billion, implying the government has a liability of \$6.48 billion which is not true.
- **Incomplete contractual obligations disclosure** – The government's disclosure of contractual obligations does not include all amounts, including contracts below \$50 million. As a result, disclosures for these future expenses were understated by an estimated \$3.45 billion.
- **Accounting for BC First Nations Gaming Revenue Sharing and Financial Agreement** – Government's statements do not include gaming revenues earned and transferred under this agreement, meaning that revenues and expenses were each understated by \$91 million in the Statement of Operations.

Report at a glance *(continued)*

Key audit matters

These matters required special audit attention but did not result in qualifications:

- **Personal income tax revenue** is a complex estimate that is challenging to audit and is one of the most significant annual figures in the financial statements. It was estimated to be \$13.7 billion this fiscal year.
- **Pension plan obligations** are an estimate of future amounts to be paid from pension plans that exist today. This obligation is estimated to be \$85 billion in the notes to the financial statements. The estimate is sensitive, meaning small changes in the underlying assumptions (e.g., inflation or interest rates) can have a big impact on the amount disclosed.
- **Estimating costs to remediate contaminated sites** requires expert judgements and assumptions including the types and levels of contamination. Because of the highly technical nature of this estimate, environmental consultants assisted with the audit.

Other financial matters of interest

The increasing cost of disasters

- In 2021, the province experienced three weather-related disasters, with response and recovery costs estimated at over \$5 billion.
- This amount was more than the previous 19 years combined.
- Emergency Management BC authorizes response and recovery expenditures.
- Eligible costs for large-scale disasters can be shared with the federal government under the Disaster Financial Assistance Arrangements program.

Updates on the three COVID-19 benefit program

- The **BC Emergency Benefit for Workers** paid \$643 million in benefits to 643,000 people. Government identified 45,000 files for compliance reviews because the recipients did not file 2019 B.C. tax returns, one of the eligibility requirements. As of June 30, 2022, about 10,500 recipients were found ineligible and will have to repay the benefit, for a total of \$10.5 million.
- The **BC Recovery Benefit for Families and Individuals** provided \$1.3 billion and had more up-front controls than the benefit for workers (to reduce fraud or error). Just \$54,000 has been identified for recovery.
- The Ministry of Finance is reviewing the delivery and effective management of the **Small and Medium Sized Business Recovery Grant**. An additional external review is planned to ensure grants were spent in line with program requirements.

Management letters

- Management letter points concentrate on financial accounting and control issues.
- This report includes significant current year management letter points related to one ministry, five Crown organizations, five school districts, and the Office of the Comptroller General.

After reading the report, you may wish to ask the following questions:

1. How is the government planning to resolve the problems that caused the qualifications?
2. How will the government and government organizations address all significant management letter items?
3. Does the government have the financial processes and resources required to effectively manage a rising number of weather-related disasters?

Summary Financial Statement Audit

Background

At the end of every fiscal year, the British Columbia government combines the financial information of over 160 entities within its control and produces the *Summary Financial Statements*. The document is important because users of this information, such as members of the legislative assembly and the public, look to the statements to understand how public resources were used during the year.

Our audit of the *Summary Financial Statements* is mandated by the *Auditor General Act*. By law, each year the auditor general must report directly to the legislative assembly and state whether the statements are presented fairly and in accordance with generally accepted accounting principles (GAAP). In Canada the public sector accounting standards (PSAS) are considered GAAP for senior governments. These common standards are the framework for consistent and fairly presented financial reports year over year.

The auditor general is independent of government and is not under the authority of the Ministry of Finance or any other government body.

The government issued its *Summary Financial Statements* in August 2022, including the *Independent Auditor's Report*. This report on our audit work explains whether the statements were prepared in line with generally accepted accounting principles and whether the auditor has any significant concerns with the quality and accuracy of the government's financial reporting. The *Independent Auditor's Report* is mandated so that financial statement users can have confidence when interpreting the financial information provided by government.

Purpose of an audit

"The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework."

Source: CPA Canada Handbook



Summary of the Independent Auditor's Report

The summary financial statements are fairly presented, except for three material misstatements

This year, the *Independent Auditor's Report* alerted users to three material misstatements found during our audit. This means that the report on the summary financial statements is qualified in three areas.

A qualified *Independent Auditor's Report* is unusual and should not be taken lightly. When auditors issue a report with qualifications, they are usually warning the users that some of the information in the financial statements is inaccurate. Material misstatements like the ones identified in this report, represent errors or omissions the auditor considers so significant that mislead a user in their interpretation of the financial statements (see: Basis for qualified opinion section).

For fiscal year 2021/22, except for the effects of the three material misstatements, the summary financial statements present fairly, in all material respects, the financial position of the government and its operations as of March 31, 2022.

[Read the full *Independent Auditor's Report* in Appendix A.](#)

Basis for qualifications

Deferral of revenues

Four different auditors general over the last eleven years, including this year, have identified a significant misstatement in the financial statements arising from the way the B.C. government accounts for certain funding contributions from others, such as the Government of Canada.

GAAP requires governments to record these contributions as revenue in their books as soon as the province has used the funds for the purpose for which they were provided. For example, if the federal government gives the province \$40 million to build a new highway, the province should record these funds as revenue as soon as the highway is complete.

However, for the last 11 years the B.C. government has been recording only a portion of the contributions received each year as revenue. The remaining amount has been recorded as a liability – deferred revenue.

This means that if the highway, from our example, was designed to last 40 years, B.C. would recognize only \$1 million in the first year and then \$1 million yearly for the next 39 years. That is why we call it deferred revenue recognition. The B.C. government created a regulation (B.C. Regulation 198/2011) to require Crown organizations to do the same thing.

For the year ended March 31, 2022, the province's liabilities are overstated by \$6.48 billion due to these incorrectly deferred revenues. That is why we qualified our report – because the financial statements are telling users that the government has obligations amounting to an additional \$6.48 billion when it does not.



Incomplete disclosure of contractual obligations

Under Canadian public sector accounting standards, contractual obligations that commit the government to make 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.

This year, we found that government did not disclose over \$3.4 billion of contractual obligations in their Contingent Liabilities and Contractual Obligations note to the *Summary Financial Statements* (Note 28).

For example, contracts below \$50 million were not added to the totals. The cumulative effect of these omitted contract amounts represents a material misstatement in the financial statement notes.

The following table, derived from historical records, estimates the effect of these missing contracts on the contingent liabilities and contractual obligations disclosed in the financial statements.

Understatement of contractual obligations disclosure (\$ in millions)

For Consolidated Revenue Fund and Taxpayer-supported Crown corporations and agencies						
2023	2024	2025	2026	2027	2028 and beyond	TOTAL
\$708	\$315	\$203	\$171	\$144	\$1,910	\$3,451

Accounting for BC First Nations Gaming Revenue Sharing and Financial Agreement

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 seven per cent of the annual net income of British Columbia Lottery Corporation to be paid to the BC First Nations Gaming Revenue Sharing Limited Partnership.

Gaming Control Act (s. 14.3)

For each fiscal year beginning on or after April 1, 2021, the lottery corporation must pay to the partnership, by paying to the government on behalf of the partnership, 7 per cent of the actual net income of the lottery corporation for the fiscal year.

Government's statements do not include gaming revenues earned by the lottery corporation from gaming and transferred to the partnership under this agreement. This means revenues and expenses were understated by \$91 million in the Statement of Operations.

Also, payments under the agreement represent a contractual obligation that should be included in the contingent liabilities and contractual obligations disclosure note in the financial statements.

For details, [read the full *Independent Auditor's Report* in Appendix A.](#)



Key audit matters

Canadian auditing standards define key audit matters as “those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements of the current period.” These key audit matters are not errors. They are challenging areas to audit as they involve accounting estimates that are subject to a high degree of uncertainty.

Estimate of personal income taxation revenues

Personal income tax is government’s largest taxation revenue stream – more than \$13.7 billion in 2021/22. Precise revenue figures from personal income tax cannot be determined until 21 months after the fiscal year’s end date. Therefore, government estimates the revenue based on the best information available.

The estimate is complex and includes several inputs and assumptions, so we have identified it as a key audit matter. We hired a specialist to help us with the audit of this complex estimate.

For details, [read the full *Independent Auditor’s Report* in Appendix A.](#)

Valuation of plan assets and pension benefits for pension plans

The government participates in four joint-trusted pension plans that include a joint defined benefit component for the majority of British Columbia public servants. To be able to pay out pension plan benefits to employees in the future, the employer and employees contribute to the pension plans.

Government discloses the value of assets and the accrued benefit obligation of each pension plan in the notes to the financial statements. When observable market data is not available, asset managers must estimate the value of these assets using significant judgments.

This year, the estimated plan assets and accrued benefit obligations of these plans both exceed \$85 billion.

The pension plans rely on a third-party actuarial specialist to estimate the expected value of future payments related to its employee pension plans. These calculations rely on the best estimates for significant 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.

For these reasons, pension accounting is a key audit matter.

For details, [read the full *Independent Auditor’s Report* in Appendix A.](#)



Estimate of contaminated sites liability

Estimating the future costs of cleaning up contaminated government sites is complex and relies on several inputs and assumptions. To help accurately estimate this future expense, the government relies on the professional judgment of a range of technical experts.

As part of our audit work, we also engaged independent expertise to assess the government's approach in making their estimate.

For these reasons, the estimate of contaminated sites has been identified as a key audit matter.

For details, [read the full *Independent Auditor's Report* in Appendix A.](#)

Summary of adjustments to the financial statements

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

Whenever 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 the financial statements to correct them. The table below provides a summary of the adjusted misstatements by financial statement area.

These adjustments increased the annual provincial surplus by approximately \$9 million, based on a number of adjustments (up and down), with the largest being close to \$85 million.

Consolidated Revenue Fund and summary consolidation adjusted differences (*\$ in millions*)

Financial statement area	Statement of operations entry to correct – Debit (Credit)		Statement of operations – Surplus impact	Statement of financial position entry to correct – Debit (Credit)		
	Revenue	Expenses		Assets	Liabilities	Equity
Total	5.28	(13.85)	(8.57)	54.09	(45.52)	0

We also found and reported misstatements that government did not correct. These differences were not sufficient to result in any further qualification to our audit opinion.



Additionally, we identified several areas in the note disclosures included in the statements that required adjusting. If these disclosures had not been adjusted, additional qualifications would have been included in the auditor's report. The following significant adjustments were made:

- An increase of \$4.0 billion to the contractual obligations disclosed (note 28).
- An increase of \$3.7 billion to the contractual rights disclosed (note 27).
- A net increase of \$0.2 billion to the range of measurement uncertainty disclosed for revenues from personal income tax (note 2).
- Corrections to the retirement allowance disclosed (note 13) and corrections and enhancements to pension plan disclosed (note 17).

Other financial matters of interest

Increasing costs of weather-related disasters

In the past 20 years, B.C. has had 24 significant floods, landslides and wildfires. Nine of them occurred since 2016.

In 2021 alone, the province was hit with three significant weather-related disasters: spring flooding and landslides, catastrophic wildfires, and an atmospheric river that caused unprecedented flooding and damage to bridges, highways and other infrastructure.

Response and recovery costs from the atmospheric river disaster have been estimated to be more than \$3.5 billion. This amount represents over 50 per cent of all the estimated costs for all weather-related disasters in the past 20 years.

Given the scale, impact and costs of these events, it is important that emergency resources are managed efficiently and effectively.

Role of Emergency Management BC

Emergency Management BC (EMBC), in the Ministry of Public Safety and the Solicitor General, leads emergency preparedness and coordinates emergency management activities. This includes authorizing eligible disaster response and recovery expenditures.

EMBC receives funds to run its operations and to support local organizations in enhancing the safety of people and communities. Through the *Emergency Program Act* (EPA), it also receives a statutory appropriation, not limited to an annual budget, which provides quick access to emergency funds in the event of a disaster.

Effective emergency management by the province, through EMBC, enhances public safety, helps prevent property damage and reduces economic loss from emergencies or disasters.

Local governments and First Nations are the front-line responders in a disaster. Ministries also provide response and recovery activities. For example, the Ministry of Transportation and Infrastructure is often involved in the response to flooding while the Ministry of Forests manages the response to wildfires. Ministries are responsible for accurately tracking and recording their costs associated with emergencies and disasters.

For costs that cannot be funded through annual budgets, ministries are able to pass eligible costs to EMBC, which may cover them through its EPA statutory appropriation. EMBC also provides emergency programs and funding to communities through local authorities.



Disaster Financial Assistance Arrangements

When disaster costs are estimated to be more than \$18 million, the province can request support from the federal government’s Disaster Financial Assistance Arrangements (DFAA) program.

Over the past 20 years, under this program, the province has estimated response and recovery costs of about \$7.5 billion for flooding, landslides and wildfires. About \$5.5 billion of this was for the 2021 disasters alone.

Of the \$6.7 billion in estimated costs since 2016, B.C. is eligible for up to \$5.7 billion in federal assistance based on the federal DFAA cost-sharing formula.

DFAA guidelines allow EMBC to request advance payments of up to 50 per cent based on reasonable estimates of future expenditures. In June 2022, as a result of EMBC’s requests, the federal government provided an advance payment of \$207 million to support 2021 wildfire recovery efforts. In July 2022, it provided another \$870 million in advance payments to support flood, landslide and storm recovery efforts, of which \$824 million was for 2021 events.

EMBC expects to receive additional funding of \$557 million toward the 2021 atmospheric river costs, before March 31, 2023. The following table summarizes these payments and percentages of the total estimated federal recovery.

Estimated federal recovery supports, as of March 31, 2022, and payments for 2021 disasters

Disasters	Estimated Federal supports	Payments Received to Date	Proportion of estimated federal support
2021 Wildfires	\$307 million	\$207 million	67%
2021 Flood, landslides and extreme weather (combined total)	\$4.475 billion	\$824 million	18%

Source: Estimated federal recovery support and payments from EMBC. OAG calculated percentages.



Updates from previous reports

COVID-19 program expenditures update

B.C. Emergency Benefit for Workers

Program purpose

The BC Emergency Benefit for Workers was initiated to provide one-time, tax-free, \$1,000-payments to eligible B.C. residents whose ability to work was affected by COVID-19. To get payments out quickly, the government relied largely on people saying they were eligible for the emergency benefit. This increased the risk of fraud.

The program paid benefits of \$643 million to 643,000 applicants.

2021/22 update

Beginning in December 2021, the Ministry of Finance began auditing claims to ensure those who received the benefit were eligible.

To be eligible for the benefit, applicants were required to meet eligibility criteria, including the submission of a 2019 B.C. tax return. The Ministry of Finance identified for audit approximately 45,000 files (seven per cent of total recipients) as these applicants did not appear to have filed their 2019 taxes.

As of June 30, 2022, the ministry had reviewed 11,014 files. Of these, 560 applicants were able to demonstrate that they had filed a 2019 tax return while 10,454 (95 per cent) could not. Based on these findings, \$10.5 million (\$1,000 per recipient) has been sent for recovery.

Once a claim is reviewed and found to be ineligible, the benefit amount is set up as receivable from the claimant. If the amount is not paid back to the province after one month, the amount is forwarded to the Receivable Management Office for collection. The processes for collection of these receivables are the same as those for any other unpaid tax debts.

The Ministry of Finance is authorized under legislation to continue auditing recipient files through to December 2023.

B.C. Recovery Benefit for Families and Individuals

Program purpose

On December 8, 2020, the B.C. government announced the BC Recovery Benefit program for the following eligible families and individuals based on their 2019 tax returns:

- \$1,000 for families with incomes under \$125,000
- \$500 for single people earning less than \$62,500
- reduced benefit for families earning up to \$175,000
- reduced benefit for single people earning up to \$87,500.

The program provided a total of \$1.3 billion.



2021/22 update

Because eligibility for the BC Recovery Benefit Program was verified before the Ministry of Finance paid these benefits, the risks associated with this program were lower than the BC Emergency Benefit for Workers and fewer ineligible applicants were paid.

As of June 30, 2022, the Ministry of Finance had identified 78 ineligible files, out of two million applications, with expected recoveries of \$54,000.

The Ministry of Finance is authorized, under legislation, to continue auditing recipient files through to December 2023.

Small and Medium Sized Business Recovery Grant

Program purpose

The B.C. government announced the recovery grant program on September 17, 2020. Its goal was to give businesses financial support during the pandemic. B.C. businesses could apply for grants between \$10,000 and \$30,000. Tourism-related businesses could apply for an additional benefit of \$5,000 to \$15,000.

In total, the program paid \$437.1 million in grants to 22,618 applicants over two fiscal years.

2021/22 update

In January 2022, the Ministry of Jobs, Economic Recovery and Innovation engaged the Ministry of Finance's Internal Audit and Advisory Services branch to review the management of the Small and Medium Sized Business Recovery Grant program. The review includes determining how the Ministry of Jobs, Economic Recovery and Innovation:

- Established appropriate roles and responsibilities in administering the grants.
- Developed and executed controls to reduce the risk of inappropriate grant payments.
- Monitored and reported on spending and delivery.
- Captured lessons learned and identified areas of improvement for future events.

The review has not yet been completed.

In addition, the ministry will engage a third party to audit a sample of grant recipients. These audits will determine whether recipients spent the funds as intended and the work is expected to be completed by the end of 2022.



Public Sector Employers' Council – Executive salary freeze

On August 31, 2020, the minister of finance and deputy premier, sent a letter to the board chairs for all B.C. Crown organizations, notifying them of an executive salary freeze. It was to apply to chief executive officers, vice-presidents, and comparable executive roles in Crown organizations during the 2020/21 performance cycle.

While there may be some timing variances, the expectation of government was that every Crown organization would show one fiscal year in which executive compensation (salary only, as benefit rates may change) would be the same from one year to the next.

The Public Sector Employers Council Secretariat verified that, in all cases, the organizations complied with the pay freeze. In cases for which there was an increase in pay from one performance cycle to the next, the secretariat determined that the increase was allowed under the pay freeze rules.

At the date of this report, the secretariat had not completed its verification of the pay freeze at school districts, because of their June 30 year-end. We intend to follow up next year to see whether the secretariat has completed this work.



Management letters

Management letters are an important by-product of the financial statement audit.

As auditors learn about business processes during the audit, they may identify areas where management could strengthen or streamline internal controls and business practices to improve the quality of financial reporting, manage risks, prevent and detect errors and potential fraud, and gain efficiencies. Auditors use management letters to communicate these observations to the organizations they audit.

Some items (“points”) in management letters are more important or significant than others. We reviewed the management letters for the public sector organizations audited for fiscal year 2021/22 and have summarized selected management letter points.

Management letter points do not always identify misstatements. Historical accounting may be correct, but weaknesses in how organizations control their business activities may expose them to waste, abuse, and even potential fraud. It is important for organizations to address internal control weaknesses as soon as they learn of them.

For this report, we only include management letter points that we consider the most important. We do not include management letter points related to information technology security issues due to the sensitive nature of these findings.

Ministry management letters

We present management letter points for one ministry and the Office of the Comptroller General in our report. We also provide an update on the status of previous, unresolved management letter points.

For details, [see Appendix B.](#)

Crown organizations management letters

We present management letter points for five Crown organizations in our report. We also provide an update on the status of previous, unresolved management letter points.

For details, [see Appendix C.](#)

School district management letters

We present management letter points for five school districts for the year ended June 30, 2021.

For details, [see Appendix D.](#)



Response from the Office of the Comptroller General

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 the opinion on the 2021/22 Public Accounts, 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 maintains its longstanding 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.

I am encouraged that the definition of non-financial liabilities in the revised conceptual framework recently approved by the Public Sector Accounting Board will resolve this qualification soon.

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 per cent of BC Lottery net income as revenue of the 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 recommends 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.



Other Matters

In this report, the Auditor General has outlined other matters of interest that are included in the *Summary Financial Statements*. In each case, they acknowledge their agreement with the recognition of these items in government's financial statements.

The Auditor General has also included certain audit findings from management letters that do not impact the financial statements. These findings recommend potential improvements to policies and processes and provide good information to support management and those responsible for governance in making decisions.

Carl Fischer
Comptroller General
Province of British Columbia



Appendix A: Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

To the Legislative Assembly 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 comprise the consolidated statement of financial position as at March 31, 2022, and the consolidated statements of operations, change in net liabilities and cash flow for the year then ended, and notes to the 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, 2022, and the results of its operations, change in its net liabilities, 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.

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, 2022 would have been lower by \$6.48 billion, contribution revenue, surplus for the year and accumulated surplus would have been higher by \$6.48 billion, and net liabilities would have been lower by \$6.48 billion.



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

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						
	2023 \$	2024 \$	2025 \$	2026 \$	2027 \$	2028 and beyond \$	Total \$
Consolidated Revenue Fund and Taxpayer-supported Crown corporations and agencies	708	315	203	171	144	1,910	3,451

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 the 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 income statement. 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.



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The effect of this departure is an understatement of both revenues and expenses on the statement of operations in the current year of \$91 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).

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 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.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the 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.

Personal Income Taxation Revenue

Personal income tax is Government's largest taxation revenue stream, providing over \$13.7 billion in revenue in fiscal 2022. Personal income tax revenue is included in Note 29 – Taxation Revenue. Note 2 - Measurement Uncertainty provides disclosure on measurement uncertainty related to personal income tax revenue and provides a range for uncertainty of +\$800 million/- \$400 million. This means revenue could be \$800 million more or \$400 million less than is currently reported. Personal income tax revenue in a fiscal year is derived from management's estimates of personal income tax for two separate calendar years. For the fiscal year ending March 31, 2022, Government records nine months of revenue for the calendar year 2021 and the first three months of revenue for calendar year 2022. However, tax assessments for the 2021 calendar year will not be finalized until December 2022, and the 2022 tax assessments won't be available until one year later. This means precise personal income tax revenue figures cannot be determined until 21 months after the fiscal year-end date. As a result, Government estimates these revenues based on the best information available.

The estimate is complex and includes several inputs and assumptions and as a result this has been identified as a key audit matter.

Government uses an economic forecast model to support its conclusions on two main assumptions underpinning a significant portion of its calendar year estimates: household income growth and elasticity. The latter, elasticity, is defined as the ratio of annual current year tax revenue growth to annual household income growth. Other key areas included in the estimate are the impact of tax measures or other adjustments, as required, as a result of significant events.



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Actual calendar year results differ from Government's estimates and result in prior year adjustments being accounted for in the current fiscal reporting period. These adjustments impact Government's reported taxation revenue from personal income.

Audit work to address this key audit matter included assessing the appropriateness of the method used to make the estimate, performing a retrospective review to determine the accuracy of previous estimates made, ensuring the underlying data supporting management's estimate is correct, testing the accuracy of management's calculations supporting the estimate and developing a range estimate to assess management's estimate against. Audit procedures also included a review of the estimate for indications of management bias, an evaluation of the quality of the personal income tax revenue measurement uncertainty disclosure in the summary financial statements and obtaining management representation related to estimates.

An auditor's specialist was engaged to assist with the audit of this complex estimate.

Valuation of Plan Assets and Pension Benefits for Pension Plans

The Government participates in four jointly trustee pension plans that include a joint defined benefit component for the majority of British Columbia public servants. The estimated plan assets and accrued benefit obligations of these plans both exceed \$85 billion.

Pension plan accounting values plan assets at market-related value for funded plans. Market-related value is based on 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.

The 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 best estimate 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 accounting has been determined to be a key audit matter.

Audit work to address this key audit matter included assessing the pension plan auditor's work over the reliability of the market-related value of plan assets used in the estimate, as well as their work over the data provided by management to the actuary for making the estimate. Our 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 assessing financial statement disclosure and presentation for compliance with Canadian Public Sector Accounting Standards.



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Estimate of Government's Contaminated Sites Liability

Various natural resource sector activities may lead to levels of contamination of sites that exceed environmental standards. Clean up of these sites is the responsibility of mine or other facility operators that created the contamination. However, there are a number of former mine and resource extraction sites in the province where the facility operator is no longer in business and no successor organization can be found to take responsibility to clean up and maintain/monitor site contamination levels. In these instances, or where Government is directly responsible for the contamination itself, an estimate of the expected costs is prepared by Government and recorded as a liability on the statement of financial position. At March 31, 2022, this liability was estimated to be \$522 million.

The nature of this liability and the challenges around its estimation are discussed in Note 28 – Contingent Liabilities and Contractual Obligations and Note 2 – Measurement Uncertainty.

The estimation of site clean-up and monitoring and maintenance costs is complex and includes several inputs and assumptions, and as a result this has been identified as a key audit matter.

The contaminated sites estimated liability requires professional judgements throughout the process including: the expected costs to clean up a specific site, how long that site will need to be monitored and maintained, the impact of evolving technology on future clean up and monitoring/maintenance costs and other key assumptions. Government engages a range of experts, such as site engineers and others to assess the sites it is responsible for and assist in various parts of its estimation process.

Audit work to address this key audit matter included assessing the completeness of sites for which Government has accepted responsibility and verifying the completeness and accuracy of information considered in the estimation process. We performed a retrospective verification of previous estimates made by management and an assessment of the appropriateness of assumptions made in the current year. In addition, we confirmed the accuracy of management's liability calculation and developed a range estimate to assess the impact of key assumptions underlying the estimate. We also engaged an independent environmental firm with expertise in environmental contamination to assess the reasonability of Government's approach in developing this estimate.

Other Accompanying Information

Government is responsible for the other information they include in the annual Public Accounts. My opinion on the summary financial statements does not cover other information included in the 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.



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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 the 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 the Government will continue its operations for the foreseeable future.

Auditor's Responsibilities for the Audit of the 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 decision of users taken on the basis of these 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.



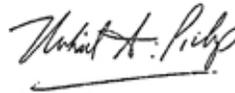
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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Comptroller General.
- Conclude on the appropriateness of the Comptroller General's use of the going concern 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.

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 to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



Victoria, British Columbia, Canada
July 28, 2022

Michael A. Pickup, FCPA, FCA
Auditor General



Appendix B:

Ministry management letter points

The following management letter points were identified during the current year audit.

Table 1: Ministry of Finance

Employer Health Tax accrual	Potential impact
<ul style="list-style-type: none"> The Employer Health Tax (EHT) is a newer government revenue stream and became effective in the 2019 calendar year. The audit found that improvements are needed to the year-end accrual process for EHT to ensure that appropriate system information is used to calculate the accrual. 	<p>The use of incorrect information can impact the accuracy of the amount recorded for accrued EHT revenue. For the current year, this resulted in an understatement in EHT revenue of \$49 million. This misstatement was adjusted.</p>
<p>Ministry of Finance's Response (unaudited)</p>	
<p>Management is aware of the error and has taken steps to ensure this type of error will not occur in future years. Further, management will pro-actively review late filer data in order to assess the reasonability of the accrual for future years.</p>	
Mineral and Mining Tax Revenue Accrual	Potential impact
<ul style="list-style-type: none"> Due to the nature of the Mineral and Mining Tax (MMT) revenue, government is required to estimate revenue for the period January to March as actual information is not yet available. This requires the ministry to make key assumptions to estimate accrued revenue. The audit found that improvements to the estimation process are needed to ensure assumptions are well supported and reasonable. 	<p>The use of incorrect assumptions can result in a misstatement of revenue.</p>
<p>Ministry of Finance's Response (unaudited)</p>	
<p>The MMT revenue accrual estimate is complex and includes several inputs and assumptions, which can often change due to market volatility and uncertainty throughout the entire year. The precise revenue figures and input information to support the accrual will only become available 16 months after the government fiscal year-end date. As a result, the Ministry of Finance estimates the accrual by exercising professional judgement based on the best information available at the time. The ministry will review and assess the assumptions in alignment with our goal to continuously improve this estimate.</p>	
Bank Reconciliations	Potential impact
<ul style="list-style-type: none"> The Central 1 Credit Union is the main disbursement bank account for the province. The Operations Division of the Office of the Comptroller General is responsible for the preparation of the monthly credit union disbursement reconciliation. The audit found that this reconciliation had not been completed for the months of October 2021 to March 2022. 	<p>The lack of regular bank reconciliations increases the risk of fraud and error due to incorrect or missing reconciling items not being detected or investigated in a timely manner.</p>
<p>Ministry of Finance's response (unaudited)</p>	
<p>Management agrees with the recommendation, and we will be working with the new financial officer on updating the step-by-step instructions on how to prepare the monthly reconciliation. This process has re-enforced the importance of preparing the bank reconciliation, which will be completed and reviewed on a monthly basis going forward.</p>	



Table 2: Office of the Comptroller General (OCG)

Quality of Financial Statements	Potential impact
<ul style="list-style-type: none"> ▪ The audit noted areas where improvements are needed to the presentation and disclosure in the Summary Financial Statements to better comply with public sector accounting standards and to provide the financial statement users with better, more complete information. ▪ A number of presentation and disclosure suggestions were provided to management in the current and prior years which have not yet been implemented. ▪ Given updates in accounting standards and changes in the nature of government transactions and balances that happen over time, it is important for financial statement presentation and disclosure to be reviewed and updated on a regular basis to ensure the quality of financial reporting is maintained. 	<p>Financial reporting that is not complete and fulsome may not provide users with all relevant, reliable and decision-useful information, and may not objectively represent the economic reality of a government's activities during the reporting period.</p>
<p>OCG's response (unaudited)</p>	
<p>The Public Sector Accounting Board is expected to approve a new Reporting Model standard within the 2022/23 fiscal year. We will consider the auditor's comments during our review of this new standard.</p>	
Frequency of determining gains and losses for public sector pension plans	Potential impact
<ul style="list-style-type: none"> ▪ Audited financial statements are available each year which can be used to determine the actuarial gains and losses for the plan assets for each pension plan. ▪ Therefore, we would expect that the actuarial gains and losses on plan assets would be determined annually. ▪ However, the audit found that the annual extrapolations supporting the amounts disclosed for the plans were calculated on a three-year cycle. 	<p>By not using the annual information available to calculate the actuarial gains or losses, there is an increased risk that the amounts disclosed in the financial statements could be misstated.</p>
<p>OCG's response (unaudited)</p>	
<p>Extrapolations of pension assets and obligations are conducted annually for each government pension plan. The actuary for the four joint-trusted plans has confirmed that the calculations used to support the note disclosure are accurate, complete and in accordance with public sector standards. Disclosures related to joint-trusted pension plans are undertaken in coordination with each pension plan's Board of Trustees to ensure that government is not infringing on the Boards' areas of responsibility.</p>	



While many previous management letter points have been addressed by the OCG, the following points from last year's *Auditor General's Report on the Audit of the Public Accounts* remain unresolved or partially resolved:

Table 3: Unresolved Management Letter Points – Ministry of Finance and OCG

Ministry	Prior year management letter point	Status
Office of the Comptroller General	<p>Use of discount rates (from fiscal 2020/21 management letter)</p> <ul style="list-style-type: none"> PSAS requires governments to use discount rates when valuing long-term liabilities. The standards require the use of discount rates based on defined criteria. The government used either its historic weighted average cost of capital, or a rate included in legislation for some long-term liabilities. Neither are consistent with criteria required by PSAS. 	<p>Partially resolved:</p> <p>We do note that the long-term disability discount rate that previously used a legislated rate has now been changed. However, the rate that was chosen for this and other estimates is a discount rate reflecting government's historic weighted average cost of capital.</p> <p>This rate is not based on plan assets nor is it reflective of a cost of borrowing that is consistent with the term of the obligation. However, due to the change in rates, the estimated obligations are within a reasonable range and there is no misstatement as a result.</p> <p>We have concerns with the discount rate materials that were provided to us, and these will be raised separately with Financial Reporting and Advisory Services.</p>
Office of the Comptroller General	<p>Amortizing actuarial gains/losses for Post-employment Retirement Allowance Benefits (from fiscal 2019/20 management letter)</p> <ul style="list-style-type: none"> PSAS requires actuarial gains/losses to be amortized over the expected average remaining service life (EARSL) of employees. 	<p>Not resolved:</p> <p>Government continues to recognize actuarial gains/losses for Post Employment Retirement Allowance Benefits immediately instead of over the EARSL of employees</p>
Office of the Comptroller General	<p>Pension extrapolation/calculation should use actual pensionable earnings (from fiscal 2019/20 management letter)</p> <ul style="list-style-type: none"> We recommend that government obtain and use the actual pensionable earnings for the extrapolation calculation for each of the Public Service, Municipal, Teachers' and College Pension Plans. 	<p>Partially resolved:</p> <p>Government obtained and used the actual pensionable earnings amounts for this year in their calculation.</p> <p>This item is partially resolved for the Municipal Pension Plan because the accrued benefit obligation has been extrapolated for more than one fiscal period.</p> <p>This item is resolved for the College Pension Plan and Teachers' Pension Plan this year because valuations for these plans were updated this year.</p> <p>This item was resolved for the Public Service Pension Plan in the prior year.</p>
Office of the Comptroller General	<p>Measurement uncertainty disclosure (from fiscal 2018/19 management letter)</p> <p>Summary Financial Statement Note 2 – Measurement Uncertainty – does not give users adequate information about the nature and extent of measurement uncertainty.</p>	<p>Not resolved:</p> <p>We were pleased that Note 2 disclosures have been expanded for the current fiscal year to include more account balances as needed, as well as increases to the dollar range of uncertainty related to personal income tax revenue.</p> <p>Improvements are still needed to provide more discussion about the uncertainty related to personal income tax revenue to ensure the financial statement users understand the sensitivity and nature of the uncertainty.</p>



Appendix C: Crown organization management letter points

The following management letter points were identified during the current year audit.

Table 1: BC Council for International Education

Segregation of duties and expense approvals	Potential impact
<ul style="list-style-type: none"> ▪ The audit noted that accounting personnel at the head office perform some incompatible duties as follows: <ul style="list-style-type: none"> ▫ Initiating, reviewing, and posting journal entries. ▫ Receiving, reviewing, and depositing cash and preparing and posting cash related journal entries. ▪ The audit also found that receipts to back up amounts reported on expense reports are not always provided. ▪ Due to the size of the council, having extensive segregation of duties may not always be practical. However, increased supervision over financial recording and reporting is needed to provide compensating controls. ▪ Journal entries, with appropriate supporting documentation for the entry, should be reviewed and approved by a senior officer, prior to the transaction being recorded. 	<p>These incompatible duties impact the effectiveness of controls relating to financial reporting, increasing the potential for error or misappropriation of assets.</p>
<p>BC Council for International Education's response (unaudited)</p> <p>While segregation of duties may not always be possible and may remain a deficiency, the Council implemented all the above recommendations. Journal entries, cheque runs, bank reconciliations and cash reconciliations are all reviewed and approved by the appropriate director or officer.</p>	

Table 2: Forestry Innovation Investment Ltd.

Segregation of duties	Potential impact
<ul style="list-style-type: none"> ▪ The audit found that one individual has several incompatible duties. With administrator ("super user") access rights in QuickBooks, this individual has the ability to: <ul style="list-style-type: none"> ▫ add and delete users and edit the settings ▫ post journal entries, and ▫ be involved in the preparation and review of the financial statements. 	<p>The absence of appropriate segregation of duties increases the risk and severity of potential fraud as the individual could conduct and hide fraudulent transactions.</p>
<p>Forestry Innovation Investment Ltd.'s response (unaudited)</p> <p>The entity has reviewed the process around segregation of duties and made changes to the policies and procedures to mitigate the incompatible duties and reduce the risk of potential fraud.</p>	



Table 3: Nechako-Kitamaat Development Fund Society

Cheques issued prior to contract finalization/completion of contract terms	Potential impact
<ul style="list-style-type: none"> The audit noted an instance where the initial project cheque was issued prior to the finalization of the contract with the grant recipient. A similar scenario was noted where a final grant cheque was issued prior to the receipt of the final report from the recipient. 	<p>Final payments made before work under contract has been completed and verified creates a risk that unauthorized payments may be made, or contract requirements may not be fulfilled.</p>
<p>Nechako-Kitamaat Development Fund Society's response (unaudited)</p> <p>In no case did any client receive payment prior to contracts being signed or contractual requirements being met. In two isolated incidents cheques were prepared in advance. Keeping in mind the large geographical region, the process of mailing cheques to the signing authorities and having the cheques returned by mail can sometimes be a slow process. The cheques were not fully negotiable as a second signing authority did not sign until contractual obligations were met.</p> <p>To correct the situation cheques will not be prepared until all authorizations and sign-offs are obtained. Additionally, we are researching an EFT process to mitigate the issue of cheque signers covering a large geographic distance.</p>	

Table 4: Royal BC Museum

Bank reconciliations	Potential impact
<ul style="list-style-type: none"> During our audit work, we noted that there is a delay in the preparation and review of bank reconciliations at the Royal BC Museum. 	<p>Without timely preparation and review of bank reconciliations, the financial records may contain undetected fraud or error.</p>
<p>Royal BC Museum's response (unaudited)</p> <p>Bank reconciliations are performed by the revenue manager and during 2021/22 the incumbent changed twice in the last half of the year. Given the complexity of the bank reconciliation process this resulted in some delays. Going forward, the museum plans to increase staffing to allow for redundancy.</p>	
Review of payroll reports	Potential impact
<ul style="list-style-type: none"> The audit noted that payroll reports and reviews designed to detect possible errors or fraud were not being performed. 	<p>The lack of a detailed and timely review increases the risk that errors or fraud in payroll transactions will go undetected.</p>
<p>Royal BC Museum's response (unaudited)</p> <p>The [human resources] position was vacant from June 2021 to January 2022 (filled only part time by a contractor). While the position was vacant, the review of payroll reports was performed by the executive financial officer and an updated Payroll Narrative was completed. A human resources manager position was filled in April 2022 and this position is supporting the payroll review process. The museum is beginning to review the reports identified monthly.</p>	



Public Private Partnership Assets	Potential impact
<ul style="list-style-type: none"> ▪ In 1998, the museum entered into a public-private partnership for the construction of a large screen movie theatre (IMAX). ▪ The assets and liabilities associated with the construction and operation of the IMAX theatre were never recorded in the museum’s financial statements. ▪ In fiscal 2019/20 the museum terminated the partnership and recorded the theatre as a tangible capital asset at its estimated fair value on that date. ▪ Although the assets are recorded now, they are materially misstated. 	<p>The failure to record the IMAX asset and associated partnership liabilities at the correct values in the financial statements represents significant misstatements. This resulted in a qualification of our audit opinion on the financial statements of the Royal BC Museum.</p>
<p>Royal BC Museum’s response (unaudited)</p>	
<p>The museum reviewed the IMAX Theatre accounting treatment in the prior year and provided a memo with support for its decision. The museum obtained external accounting advice from Grant Thornton and the Office of the Comptroller General. The impact of the recommended adjustment was a timing difference in the year in which the assets were recognized.</p>	

Table 5: Royal Roads University

Deviation from executive expenses policy	Potential impact
<ul style="list-style-type: none"> ▪ The audit found that some executive team member expenses are not being approved by the board chair. 	<p>Unauthorized travel expenses may be incurred.</p>
<p>Royal Roads University’s response (unaudited)</p>	
<p>Management agrees that executive expenses should be authorized by the board chair. Board chair approvals for some executive expenses and pre-approvals where necessary, were inadvertently missed for the 2021/22 fiscal year and changes have been enacted. All approvals for 2022/23 fiscal year have been obtained from the board chair and the record of such approval retained for financial record purposes.</p>	



While many previous management letter points have been addressed by Crown organizations, the following points from last year’s Auditor General’s Report on the Audit of the Public Accounts remain unresolved or partially resolved.

Table 6: Unresolved Management Letter Points – Crown organizations

Crown organization	Prior year management letter point	Status
Liquor Distribution Branch	<p>Property and equipment additions</p> <ul style="list-style-type: none"> LDB recorded certain property and equipment assets for the first time in the fiscal 2020/21 financial statements when they should have been recorded in the fiscal 2019/20 financial statements. This was due to head office not receiving the appropriate documentation from various stores until fiscal year 2020/21. 	<p>Not resolved:</p> <p>The recommendation for current year is consistent with that of the prior year.</p>
BC Transit	<p>Deferred revenue and contribution accounts</p> <ul style="list-style-type: none"> BC Transit needs to clarify obligations for third-party revenue in the provincial contribution agreement. 	<p>Partially resolved:</p> <p>Management, together with the province, needs to assess the accounting implications and develop an appropriate policy, for the treatment of third-party revenue in the provincial contribution agreement.</p>
BC Transportation Financing Authority	<p>Contaminated sites liability – policy and application guidance</p> <ul style="list-style-type: none"> The BCTFA lacks a documented policy and application guidance to ensure a consistent approach in determining contaminated site liability estimates. 	<p>Partially resolved:</p> <p>A working group has been put in place, has been meeting regularly, and has developed draft policy and guidance for contaminated sites.</p> <p>This policy and guidance will need to be approved by senior leadership in the next fiscal year.</p>
Royal BC Museum	<p>Control of Royal BC Museum Foundation</p> <ul style="list-style-type: none"> The RBCM does not account for the RBCM Foundation (the foundation) as a controlled entity and has not consolidated the foundation into the RBCM financial statements. We assessed the relationship between the museum and the foundation against the control criteria in section 1300 – Government Reporting Entity – of PSAS. We concluded that the museum controls the foundation for accounting purposes, and it should be consolidated into the museum’s financial statements on a line-by-line basis. 	<p>Not resolved:</p> <p>The museum has not changed its accounting with respect to the control of the Royal BC Museum Foundation.</p>



Crown organization	Prior year management letter point	Status
Royal BC Museum	<p>Journal entries – review controls</p> <ul style="list-style-type: none"> ▪ The museum posts journal entries before they are appropriately reviewed as part of the financial reporting process. ▪ RBCM needs to review journal entries and adjustments prior to posting to ensure that entries are appropriate and accurate. 	<p>Not resolved:</p> <p>Journal entries continue to be reviewed only after posting.</p>
University of Northern BC	<p>Bank reconciliations</p> <ul style="list-style-type: none"> ▪ A prior year audit noted that the bank reconciliations for the various bank accounts of the university were not being completed in a timely manner. 	<p>Not resolved:</p> <p>The university has made progress but more slowly than was anticipated last year. The slow pace is due in part to the limited availability of resources, and the time required to bring new staff up to speed. The university anticipates all reconciliations will be completed in a timely manner by October 2022 and the balance of the 2022/23 fiscal year.</p>
University of Northern BC	<p>Travel reimbursement process</p> <ul style="list-style-type: none"> ▪ A prior year audit noted, in the review of executive travel expenditure reimbursements, that certain procedures in the travel policy were not being followed. 	<p>Partially resolved:</p> <p>A draft updated travel policy has recently been completed and will be circulated to various areas for review and feedback. The university expects to present the final policy for approval by the board by November 2022.</p>



Appendix D: School district management letter points

School district management letter points are for the fiscal year ending June 30, 2021.

Table 1: SD 47 Powell River

Timesheet reviews	Potential impact
<ul style="list-style-type: none"> The audit found that electronic timesheets are not being reviewed or approved consistently. Timesheets should be reviewed and approved by immediate supervisors. This should be confirmed by viewing the Time Sheet Audit Report for the pay period. 	<p>The lack of review creates the risk of error or fraud in payroll transactions.</p>
<p>SD47's response (unaudited)</p>	
<p>Last year we completed our transition to an electronic timesheet module within PowerSchool which replaced our long-standing paper timesheet process. We expected there to be a learning curve as administrators got used to the new process and we allowed for a bit of a grace period despite providing them with numerous reminders of the requirement. Beginning this year, we have implemented an internal communication protocol modelled after the Ministry of Education Deputy Bulletin. We will provide a reminder to Principals through that bulletin and will hold people accountable for any missed deadlines. We don't expect this to be a factor again for next year's audit now that we will be entering our first full year post implementation.</p>	
Deferred homestay payable reconciliation	Potential impact
<ul style="list-style-type: none"> The audit found that a reconciliation of the deferred homestay payable subledger to the general ledger balance is not being performed on a regular basis. 	<p>Neglecting to reconcile the subledger to the general ledger on a regular basis can result in poor record keeping and inaccurate information, which may in turn result in over and underpayments to host families.</p>
<p>SD 47's response (unaudited)</p>	
<p>Several years ago, we started collecting homestay payments directly from tuition paying families and making those monthly payments to local host families. This was at the request of our internal International Student Department and the agent that provides the district with most of the students. This new process replaced the long-standing practice of student families paying host families directly. Recognizing the increased volume in collections and distributions we acquired the software rights of True North, an International Student Program enterprise system which is used by most school districts in the province. To date implementation of that software has been lengthy and we have found the data to be unreliable at times, so we are still performing a manual reconciliation through Excel. Recognizing the issue, we recently hired a student homestay coordinator, the expectation is that this person will assist in ensuring the software is properly implemented as well will assist the finance department in ensuring we have reliable information with which to better reconcile those payments.</p>	



Table 2: SD 52 Prince Rupert

Bank reconciliations	Potential impact
<ul style="list-style-type: none"> The audit noted that the district bank reconciliations do not have evidence of review after they are prepared. 	<p>Without timely preparation and review of bank reconciliations, the school district may not identify possible misappropriation of assets.</p>
<p>SD 52's response (unaudited)</p>	
<p>District bank reconciliations are completed by the director of finance, a senior leader in the district. As a result, risk of misappropriation is believed to be very low. As this risk cannot be completely eliminated, the secretary-treasurer will begin to review district bank reconciliations monthly.</p>	
School-level account reconciliations	Potential impact
<ul style="list-style-type: none"> The audit noted that the individual schools only provide the district with reconciliations annually. 	<p>At the individual school level there could potentially be accounting errors or misappropriation of assets that would remain undetected for the entire year.</p>
<p>SD 52's response (unaudited)</p>	
<p>The director of finance will do a system check monthly to ensure that the reconciliations have been completed. Schools will be asked to submit their reconciliations quarterly.</p>	
Information in board reporting packages	Potential impact
<ul style="list-style-type: none"> During audit discussions with those charged with governance, they noted that they did not have sufficient financial information in their board reporting packages. In addition, at times management did not have a clear understanding on the data requested and what was needed by those charged with governance. 	<p>Without timely, accurate information, those charged with governance may make uninformed decisions that could negatively impact the mandates of the district.</p>
<p>SD 52's response (unaudited)</p>	
<p>The district has engaged a contractor to work with the board and senior leaders to review and update financial reporting to the board. The first joint sessions were held on September 28 and 29, 2021.</p> <p>Senior staff have an existing process in place to track and complete action items from board meetings. Board motions and commitments from senior staff to provide information will continue to be recorded in this tracking system and completed.</p>	



Table 3: SD 73 Kamloops Thompson

Controls over purchase cards	Potential impact
<ul style="list-style-type: none"> The auditor noted purchase card approval forms that were missing both the cardholder and the approver's signature. 	<p>There is a risk that purchases can be made without the knowledge of management. This can lead to duplication of purchases or purchases that are made for personal rather than district use.</p>
<p>SD 73's response (unaudited)</p>	
<p>The District has implemented a process to ensure monthly MasterCard transactions are reviewed for accuracy, ethics and transparency. Monthly transactions for this group are reviewed on a rotating sample basis.</p>	

Table 4: SD 74 Gold Trail

Account reconciliations	Potential impact
<ul style="list-style-type: none"> The audit found that there were multiple balances on the financial statements that had not been reconciled to the trial balance. Adjustments made during the preparation of the financial statements pose a greater risk of fraud and error as they are not subject to routine controls. 	<p>Failing to reconcile the amounts reported in the statements to amounts recorded in the general ledger exposes the entity to risks of fraud and error in the financial statements.</p>
<p>SD 74's response (unaudited)</p>	
<p>The adjustments referenced in the management letter were, in total, 0.4% of the operational budget. As a result of the findings, a financial statement reconciliation process was implemented for the 2021-2022 school year. The adjustments at the 2022 year-end were reduced by over 50%, and the district plans on continuing the work.</p>	

Table 5: SD 81 Fort Nelson

Account reconciliations	Potential impact
<ul style="list-style-type: none"> The audit found that there were multiple balances on the financial statements that had not been reconciled to the trial balance. Adjustments made during the preparation of the financial statements pose a greater risk of fraud and error as they are not subject to routine controls. 	<p>Failing to reconcile the amounts reported in the statements to amounts recorded in the general ledger exposes the entity to risks of fraud and error in the financial statements.</p>
<p>SD 81's response (unaudited)</p>	
<p>In 2020/21 School District 81 purchased a new accounting/payroll software system titled Powerschool. In the transfer of data from our previous system to the new system we discovered that it only carried over totals, not detail. This past year, this deficiency was addressed and not noted in the Audit Findings Report for 2021/22.</p>	





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