



AUDITOR GENERAL

*Annual Report
to the
Legislative Assembly
of British Columbia*

March 1993

British Columbia Cataloguing in Publication Data

British Columbia. Office of the Auditor General.
Report of the Auditor General. — 1978 —

Annual.

Report year ends Mar. 31.

ISSN 0708-5222 = Report of the Auditor General
(Victoria)

1. Finance, Public — British Columbia — Accounting —
Periodicals.

HJ9921.Z9B73 354'711'007232

Additional copies of this report
may be obtained from:

Office of the Auditor General
8 Bastion Square
Victoria, B.C.
V8V 1X4

Telephone: (604) 387-6803



Auditor General of British Columbia

8 Bastion Square
Victoria, British Columbia
V8V 1X4

(604) 387-6803
Fax (604) 387-1230

The Honourable Glen D. Clark
Minister of Finance and Corporate Relations
Province of British Columbia

Sir:

I have the honour to transmit herewith my Annual Report to the Legislative Assembly, to be laid before the Assembly in accordance with the provisions of section 10 of the Auditor General Act.

A handwritten signature in cursive script that reads "George L. Morfitt".

George L. Morfitt, FCA
Auditor General

Victoria, British Columbia
April 1993



ANNUAL REPORT OF THE AUDITOR GENERAL

TABLE OF CONTENTS

AUDITOR GENERAL'S OVERVIEW	1
PART I: VALUE-FOR-MONEY AUDITS	
Introduction to Value-for-Money Audits	7
Tackling the Deficit: The Search for Solutions.....	9
Ministry of Government Services	
British Columbia Archives and Records Service.....	13
Ministry of Energy, Mines and Petroleum Resources	
Natural Gas Royalty Revenue: Follow-up	21
Ministry of Attorney General	
Licensing and Control of Public Gaming: Follow-up.....	27
Updated Responses to Preceding Year's Value-for-Money Audits.....	45
PART II: COMPLIANCE-WITH-AUTHORITIES AUDITS	
Introduction to Compliance-with-Authorities Audits	55
Compliance with the Financial Disclosure Act.....	57
Order-in-Council Appointments	65
Compliance with Part 3 of the Financial Administration Act.....	75
Compliance with the Tobacco Tax Act	81
Financial Information Act: Follow-up	83
Small Acts	91
Updated Response to Preceding Year's Compliance-with-Authorities Audit.....	93

PART III: FINANCIAL AUDITS

Introduction to Financial Audits.....	99
Synopsis of the Auditor General Report on the 1991-92 Public Accounts	101
Provincial Treasury	
A Review of Controls Relating to Investment Portfolios.....	107
Legislative Precinct	
A Review of Expenditure Controls	113
Updated Responses to Preceding Year's Internal Control Reviews	119

PART IV: OFFICE OF THE AUDITOR GENERAL

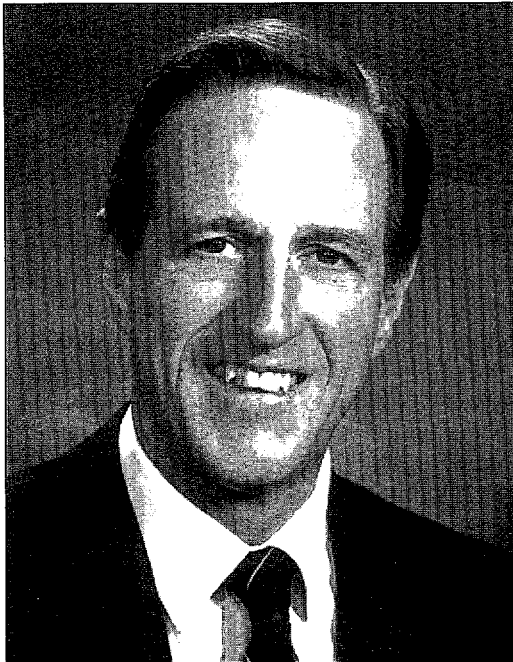
Role and Responsibilities of the Auditor General.....	127
Operation of the Office	127
Professional Activities and Affiliations.....	130
Relations With the Public Accounts Committee	133

APPENDICES

A Auditor General Act.....	139
B Mission Statement.....	145
C Government Entities and Trust Funds Audited by the Auditor General.....	147
D Government Entities and Trust Funds Audited by Private Sector Auditors, and Whose Financial Statements are Included in the Public Accounts	149
E Value-for-Money Audits Completed to Date	150
F Compliance, Control, Accountability and Other Audits Completed to Date.....	152
G Special and Other Reports Issued to Date	154



AUDITOR GENERAL'S OVERVIEW



GOVERNMENT ACCOUNTABILITY

The people of the Province, through their elected representatives in the Legislative Assembly, provide the government with its powers and resources. However, legislators retain a responsibility to see that government administration is properly discharged. They therefore require an accounting from government as to what it has done with the powers and resources under its administration. Accordingly, the government is expected to establish an accountability process that provides fair and credible accountability information on a variety of financial and administrative matters for which it is responsible.

The size and complexity of government have changed significantly over the past several decades, and increased demands for services have broadened the nature and scope of

government programs. This has resulted in a rapid rise in the level of government expenditure and, with government revenues not keeping pace, in sizable government deficits.

Until relatively recently, the major focus of government financial accountability has been compliance with authorized spending and financing limits. However, the spectre of increased taxes or program reductions necessitated by scarce resources has focused attention on the quality of government administration, and changed the public's view of what constitutes acceptable accountability reporting. People now demand to know not only what things cost, and that the government has complied with the rules and regulations of the Legislature, but also that their money is being spent wisely.

AUDITING OF ACCOUNTABILITY INFORMATION

Audit is a process that is generally designed to lend credibility to accountability reports. To do so, an audit must be undertaken by a person who is, and who is seen to be, independent of those providing the accounting. This independence must extend to such matters as the auditor's appointment, the auditor's mandate, resourcing of the auditor's office, the auditor's access to information, and the auditor's ability to report the results of audits undertaken.

The Office of Auditor General of British Columbia is established by legislation as the Legislative Assembly's auditor. As the present holder of that Office, I am responsible for auditing the operations of the provincial

government, and for regularly reporting to the Assembly the results of my audit work. Through the carrying out of a comprehensive audit program, I provide independent audit opinions on the financial statements of the government and various of its funds, corporations and agencies, and comment on the accounting policies used to prepare the statements. Additionally, I provide assessments of whether the financial and administrative aspects of legislative and related authorities have been complied with, and the extent to which government programs are being administered economically and efficiently.

REPORTING THE WORK OF THE OFFICE

Prior to 1992, my Annual Report to the Legislative Assembly provided the Members of the Assembly and the public, in one document, with observations and assessments resulting from the independent audits of government and government organizations undertaken during the previous year.

In early 1992, as a result of the government releasing its 1990-91 Public Accounts before the end of the 1991 calendar year, I published a separate report on those Public Accounts. This report was issued in January 1992 in the interest of providing timely observations on the information contained in the Accounts. Publication of my 1992 Annual Report was postponed to late June 1992, in order that the report would include the results of value-for-money audits performed by my Office in two large government ministries.

This year I again have issued, in January, a separate report on the annual Public Accounts. A synopsis of the matters dealt with in that report is included in Part III of this Annual Report.

As was the case last year, there are a number of significant value-for-money audits currently in progress that will not be completed until mid-year. However, I do not consider it in the best interests of the Legislative Assembly to delay the issuance of this 1993 Annual Report to accommodate inclusion of these audits. Accordingly, I am publishing this report in April so that the Legislative Assembly and Public Accounts Committee may be provided with the results of all audit work completed to date. I expect to issue separate reports on the value-for-money audits currently in progress as soon as those audits have been finalized.

My staff conduct financial, compliance-with-authorities and value-for-money audits on a year-round basis, and it is important that the results of these audits be reported to the Legislative Assembly and the public on a timely basis. At the same time, as has been demonstrated in recent years, the established timetable for publication of my Annual Report does not necessarily accommodate this requirement for timely reporting. Consequently, in future I plan to report audit findings to the Legislative Assembly on a more frequent basis.



I wish to thank the officers and staff of the ministries and public bodies audited by my Office for their helpful assistance and cooperation. I also extend my appreciation to the staff of my Office for the professional manner in which they have carried out their audit responsibilities on behalf of the people of British Columbia.

George L. Morfitt, FCA
Auditor General

Victoria, British Columbia
March 31, 1993



PART I VALUE-FOR-MONEY AUDITS

CONTENTS

INTRODUCTION TO VALUE-FOR-MONEY AUDITS	7
TACKLING THE DEFICIT: THE SEARCH FOR SOLUTIONS	9
MINISTRY OF GOVERNMENT SERVICES	
British Columbia Archives and Records Service	13
MINISTRY OF ENERGY, MINES AND PETROLEUM RESOURCES	
Natural Gas Royalty Revenue: Follow-up	21
MINISTRY OF ATTORNEY GENERAL	
Licensing and Control of Public Gaming: Follow-up	27
UPDATED RESPONSES TO PRECEDING YEAR'S VALUE-FOR-MONEY AUDITS	
Ministry of Forests	
Human Resource Needs and Allocation	45
Ministry of Social Services	
Programs for Independence	47
Residential Services	47
Managing Professional Resources	49



INTRODUCTION TO VALUE-FOR-MONEY AUDITS

While previous Annual Reports of the Auditor General have contained reports on all value-for-money audits conducted since our previous report, our Annual Report this year includes the results of only some of the value-for-money audits undertaken during the past year.

Reporting on all work undertaken by the Office in one document tended to restrict the amount of coverage given to any particular topic, and led to a large quantity of material for report readers to examine and digest. The need to complete all work at one time for inclusion in a single volume, or have it wait for a full year, also led to uneven work flows for our staff and charges by management of the entities audited that the pressure of special deadlines was affecting the orderly completion of audits. In light of these factors, and in an effort to provide Members of the Legislative Assembly, and the general public, with information in as timely a fashion as possible, we now plan to report the results of major value-for-money audits when they are completed.

This Report includes the results of an audit of the processes used by the Ministry of Government Services to safeguard government archival records. It also contains the results of follow-up work conducted this year on audits carried out in previous years. We conducted a follow-up review of our 1988 assessment of the Ministry of Energy, Mines and Petroleum Resources processes for determining and collecting natural gas royalty revenue. We also

undertook a follow-up to our 1990 report of the government process for licensing and control of public gaming in British Columbia.

During the past year, most of our value-for-money audit effort has been devoted to audits in the Ministry of Advanced Education and in the Ministry of Environment, Lands and Parks. These audits are nearing completion and will be reported separately when they are finished.

In our January 1993 Report, we commented on accounting for the deficit. In this Part of our Report we have included, immediately following this introduction, further commentary on the deficit and the work we have been carrying out to encourage better performance measurement and accountability reporting by government. We believe the concepts described in this section can contribute to better decision making in the public sector and better value for taxpayers' dollars.

When each value-for-money audit is completed, we provide those responsible for managing the program audited with an opportunity to respond to our audit reports. The responses received from the ministry are published directly following our reports on the audits conducted in that ministry.

It takes time to implement the recommendations that arise from value-for-money audits. Consequently, when ministries first respond to our reports, just after the audits have been

completed, they frequently are only able to indicate their intention to resolve the matters raised by our audits, rather than describing their actions in doing so. Due to the nature of value-for-money audits and the matters raised by them, we usually only follow up on these audits when the next audit of the program area is undertaken. Without further information, however, legislators and the public would not be aware of the nature, extent and results of management's remedial actions.

Therefore, we believe it is useful to obtain and publish updates of management's responses to the value-for-money audits we reported in the preceding year.

The written comments received from the ministries that were the subject of value-for-money audits last year are published at the conclusion of this part of our Report.



TACKLING THE DEFICIT: THE SEARCH FOR SOLUTIONS

In our January 1993 report to the Legislative Assembly, we commented on the financial dilemma the government is facing as it encounters rapidly escalating expenditures on one hand, and a need to minimize tax increases on the other. In his budget speech delivered on March 26, 1992, the Minister for Finance and Corporate Relations referred to the burden of a structural deficit, which unlike the cyclical component of the deficit, will not disappear as the economy recovers unless concerted action is taken to eliminate it. In our January report, we agreed with the government that a large structural deficit is not sustainable, and must be capped and gradually eliminated.

What are the solutions to this dilemma? What revenues should be increased? What programs should be cut or changed? The answers to these questions have never been easy to find. No one wants to pay higher taxes. Every program had enough support to be initiated, and continues to have its advocates. Additionally, it is often hard to penetrate beneath the rhetoric, to get solid information about the performance of programs. In this section, we propose a means to grapple with this problem.

When faced with hard choices, the government needs good information about the success of programs. Are programs meeting a crucial need? Are they being delivered at minimum cost? In other words, how effective are they?

We believe that government managers should have to demonstrate that their programs are effective, and justify why taxpayers should continue to pay for them. In other words, they should be held accountable. Over the years, this Office has repeatedly called for improved and more objective accountability information in the public sector in British Columbia. We continue to believe that this is the starting point for making better choices with respect to tax dollars.

There are examples of the need for making better choices, based on improved and objective accountability information. In British Columbia, the recent Royal Commission on Health Care and Costs found that British Columbians could have saved approximately 21% of hospital inpatient days in the fiscal year 1989/90. More recently, rapidly escalating welfare costs have led the Minister for Social Services to call for an overhaul of the system. Clearly, there is a need, and an opportunity, to improve the effectiveness of the public sector.

This raises the question of how to define and measure effectiveness. In the absence of a bottom line, there has been much debate about how to measure the success of public sector organizations. In the past, public information on government program performance has often been biased and incomplete. There is a need for a consistent model to measure performance—one that demands complete and objective accountability information from each government organization.



TABLE 1.1

The proposed
attributes of
effectiveness

Source:
Canadian
Comprehensive
Auditing
Foundation

Management Direction

The extent to which the objectives of an organization are clear, well integrated and understood, and appropriately reflected in the organization's plans and structure.

Relevance

The extent to which an activity continues to make sense in regard to the problems or conditions to which it is intended to respond.

Appropriateness

The extent to which the design of an activity and the level of effort being made are logical in light of the specific objectives to be achieved.

Achievement of Intended Results

The extent to which objectives have been realized.

Acceptance

The extent to which constituencies or customers for whom an activity or line of business is designed judge it to be satisfactory.

Secondary Impacts

The extent to which other significant consequences, either intended or unintended and either positive or negative, have occurred.

Costs and Productivity

The relationships among costs, inputs and outputs.

Responsiveness

An organization's ability to adapt to changes in such factors as markets, competition, available funding, or technology.

Financial Results

The matching of, and the accounting for, revenues and costs, and the accounting for and the valuation of assets, liabilities and equity.

Working Environment

The extent to which an organization provides an appropriate work atmosphere for its employees, provides appropriate opportunities for development and achievement, and promotes commitment, initiative and safety.

Protection of Assets

The extent to which important assets are safeguarded.

Monitoring and Reporting

The extent to which an organization monitors and reports on key aspects of its performance.



We believe a suitable model now has emerged. In recent years this Office has advocated the introduction of an accountability framework known as the "Twelve Attributes of Effectiveness", which was developed by the Canadian Comprehensive Auditing Foundation (Table 1.1). This framework offers a flexible, yet consistent model for measuring and reporting on organizational and program effectiveness. It is designed for managers to use in assessing their own performance, while allowing them to develop meaningful accountability reports to outsiders.

Used properly, it would allow government to assess the value achieved for the money spent on programs. It also would create a common language for accountability across the public sector, while still allowing for the unique circumstances of specific programs.

The framework is gaining considerable acceptance in Canada. Numerous organizations in government, education, and health care have experimented with it, and are enthused about the results. In recent months, many organizations in the British Columbia public sector have expressed interest in the framework. Our Office has made presentations to a wide variety of management groups, and has assisted some in implementing the framework. Those organizations that have worked with the framework found they improved their understanding of operations, and gained better accountability.

We believe the government of British Columbia, in its search for solutions to its financial dilemma, should look closely at this framework and its potential value. It offers an important opportunity to mobilize resources across government to improve both management and accountability, and from there to improve the value received from taxpayers' dollars.



MINISTRY OF GOVERNMENT SERVICES

BRITISH COLUMBIA ARCHIVES AND RECORDS SERVICE

An audit of the ministry's processes for safeguarding government archival and potential archival records

AUDIT PURPOSE AND SCOPE

The British Columbia Archives and Records Service, which is part of the Ministry of Government Services, is responsible for the management of government records that have archival value and require long term or permanent safekeeping. In addition, the Archives and Records Service preserves other documents related to the history of the province. Together these government records and other documents form its archival records.

We undertook our audit to assess the ministry's processes for safeguarding archival and potential archival records. We also examined the ministry's reporting procedures to determine whether they result in adequate information about archival

services being provided to the Legislative Assembly, the public, and other clients of the British Columbia Archives and Records Service. We focused our audit on those records that are in the possession of the Archives and Records Service. We did not review how records are managed in the ministries.

We conducted our audit primarily between May and October 1991. Our examination was performed in accordance with value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

OVERALL CONCLUSION

We concluded that the British Columbia Archives and Records Service does not have a clearly defined mandate. References to a mandate appear in two pieces of legislation, and in the vote description contained in the annual Estimates. Each differs in its

description of the agency's role. The Service has concerned itself primarily with provincial government records over the past two years but it also accepts other records. It is not certain, however, whether it has the jurisdiction to keep these other records.



Staff are currently unable to deal with the volume of records taken into their care and, consequently, archival processing is substantially backlogged. These delays in handling archival material are placing these records at risk of unintentional loss through natural deterioration.

We also found that the 1989/90 Annual Report of the Ministry of Government Services provides information only about the activity level of British Columbia Archives and Records Services. It neither indicates how well goals and objectives are being met, nor mentions the backlog that has accumulated.

AN OVERVIEW

The British Columbia Archives and Records Service (BCARS) does not have its own legislation. Instead it has interpreted its mandate from the *Ministry of Provincial Secretary and Government Services Act*, the *Documents Disposal Act*, and the vote description in the annual Estimates which supports the *Supply Act*.

From these sources, BCARS has developed a mission statement which states that it is responsible for acquiring and preserving historical government and private documents, printed materials, and other records such as photographs, paintings, prints, audio-visual recordings, and electronic records considered to be of permanent historical significance to the province.

Further direction is provided by Treasury Board's General Management Operating Policy. It states that records held by government ministries, boards, agencies, commissions, and corporations contain information that constitutes the government's corporate memory. These records should be managed to ensure they are properly protected and those records with archival value should be preserved.

The annual operating budget for BCARS—approximately \$4.5 million for the year ended March 31, 1992—

provides funding for 62 staff members. Management estimates that 42 of these staff members spend their time on archival activities. The other staff are involved in providing advisory and training services in records management, and technical and administrative support to BCARS. Although this is a relatively small program within the provincial government, BCARS estimates its marketable holdings to be worth \$40-57 million. The essential value of most of the records held by BCARS, however, is the information contained in them, rather than the records in and of themselves. Motor vehicle and health records, for example, contain important information but the actual documents may have little value. Other records are important in their original form, such as treaties and land grants that provide details potentially important in the discussion of native land claims. The history of the province is documented in the extensive holdings of government records and other material.

In 1989, the Archives and Records Management Branches were amalgamated as part of a ministry reorganization. During this process, the ministry identified the need to examine organizational goals and objectives, define essential functions, and evaluate priorities. In 1990, at BCARS' request, the Computer Systems Branch of the ministry reviewed the records and



information system to develop a business plan for an electronic information system. This review identified concerns over a growing workload, accumulated backlogs, and shrinking resources. In response to these two exercises, BCARS studied its acquisition policy to identify what types of records it should take into custody. It had not completed this work at the conclusion of our review in 1991.

THE LEGISLATED MANDATE

As noted above, two pieces of legislation direct the work of BCARS. The *Ministry of Provincial Secretary and Government Services Act*, Section 2, states that the Minister "shall keep all registers and archives of the Province and of any government that has jurisdiction over the territory or any part of the territory constituting the Province." Here the term "Province" refers to the provincial government. The *Document Disposal Act* directs ministries to transfer their documents to BCARS. The Act also gives BCARS the option of accepting records or other documents from a municipality, village, or school district.

The ministry feels that these two pieces of legislation are antiquated and do not reflect the current needs and requests of archival clients in British Columbia. Instead, BCARS suggests that the vote description in the 1992/93 Estimates, although it is not legislation, better reflects the services it is providing to government ministries, and other clients. This description states that the amount allocated "provides for acquisition and preservation of historical government and private documents, printed materials and other records such as photographs, paintings, prints, and audio-visual recordings considered to be of permanent historical significance to the province." The

difference between the two definitions is the reference in the Estimates to private documents.

In the past, BCARS staff collected and maintained records from various sources that were perceived to have provincial historical significance and enduring value to the province. This included private records because no other suitable repository for such records existed. The Service does not keep information on how much time and resources have been devoted to these private records.

The provincial Archives and Records Service now encourages and supports regional, municipal and local archives to hold records that document the history of British Columbia, except those of the provincial government. However, since these entities have limited resources for archival activities, BCARS continues to accept records it believes are of provincial significance.

A recent draft acquisition policy for BCARS describes acquisition strategies that include:

- acquiring any record of significance to the history of British Columbia;
- working in cooperation with archival repositories outside the provincial government to ensure the preservation of a comprehensive collection of documentation relating to British Columbia's development;
- preserving records of institutions and individuals that cannot or will not care for their own records; and
- accepting records of recognized archival value falling outside BCARS' mandate until such time as an approved archival repository exists to accept them.

The service continues to see itself as one of the principal custodians responsible for preserving the history of

British Columbia. However, given that the ministry faces resource limitations which threaten its ability to deliver the program specified in its legislation, we believe that BCARS' role as the provincial custodian must be reviewed so that its operations are clearly in keeping with its legislation.

SAFEGUARDING ARCHIVAL HOLDINGS

We reviewed the ability of BCARS to safeguard government archival holdings and concluded that, although it employs well-trained and competent staff, it does not have the capacity to process the majority of records taken into its care. We found substantial backlogs in the four major areas of the archival program—appraisal, selection, microfilming and restoration. Because of these backlogs, there is a risk that many of the records are being destroyed gradually through natural deterioration.

DETERIORATION OF RECORDS

All records deteriorate over time, some faster than others. All need some form of preservation or conservation if they are to be retained. Paper records developed over the past 100 years are mostly on paper that is mildly acidic. This paper deteriorates at a much faster pace than paper produced more than 100 years ago. Records on photographic film, particularly modern color film, are inherently unstable. Motion picture film requires regular maintenance to preserve it.

In early 1991, BCARS identified the areas where government records, including those held by ministries, were at risk of deterioration. To retain the information contained in the records, it proposed emergency microfilming of court documents, timber sales, vital statistics, Crown land records, and the

corporate registry. Cabinet records, Orders-in-Council, constitutional documents, and photographic records were also identified as needing attention. As well, BCARS expressed concern over the lack of an electronic archives program for identifying and preserving vital government information generated through computers.

Preventing deterioration of records is not the only challenge for BCARS. Large numbers of archival records in its possession require conservation work—that is, a form of repair or restoration.

THE BACKLOG

Staff at BCARS have focused since 1989 on dealing with the growing backlog of provincial government records, including those held by ministries.

Every year, BCARS receives about 2,500 applications from government ministries to appraise records for destruction or retention. However, we were told that the BCARS staff are able to process only about 500 of those applications annually, leaving a backlog each year of 2,000 applications. At the time of our audit, BCARS estimated it had over 8,000 unprocessed applications, enough work to take about 64 person years to complete, or 16 years with current staff. These estimates do not include time for processing electronic records such as computer disks. This area of appraisal has been virtually untouched by BCARS, but will likely become more significant with the proliferation of personal computers in government.

Once the records are appraised, those chosen for retention must be examined to determine how much should be stored, arranged, and described. This process can be time-consuming because





A conservator restoring a map

Courtesy of the Ministry of Government Services

these decisions must consider which records should be available for future use and how researchers could access them. According to BCARS, there are about 116 person years of work in this area.

Vital government records such as land titles and timber leases, and frequently accessed records such as Medicare, are microfilmed. The agency has determined that it must also refilm microfilm records produced in the 1960s and 1970s because they are starting to deteriorate. Staff at BCARS estimate that these requirements will take over 40 person years to complete.

In 1991, BCARS inventoried the restoration work needed on all records in its care. The survey covered records such as loose paper, scrapbooks, bound books, maps, atlases, paintings, prints, drawings, audio and video tapes, and movie film. Restoration work to preserve the records in their original condition is time-consuming and requires significant resources. For example, BCARS estimates

that it takes a person eight years to restore a meter of loose paper records. Using this estimate, BCARS identified approximately 3,100 person years of work to restore all the material in its possession. The ministry believes that this backlog could be reduced substantially if it decided to retain only the information contained in these records, either through microfilming or some other means, and not to preserve the original record itself.

The survey did not distinguish between government records and private and other historical records. Staff told us, however, that an undetermined portion of the backlog does relate to non-government records.

Since BCARS does not have an inventory system to keep track of restoration needs, the only way to assess the status of its conservation activities is to undertake the survey each year. It has started to develop a computerized inventory system, but resources are not

available to continue the project as originally planned.

Now that BCARS has estimated the size of the backlog, we believe the ministry and the government should set workable priorities to ensure that the records of choice can be safeguarded. Resolving this situation is important, as BCARS anticipates that the *Freedom of Information and Protection of Privacy Act* will increase demand for access to government records.

PHYSICAL SECURITY

Physical security is an important element for safeguarding archival records. Ideally, archival records should be stored in facilities that minimize the risk of physical damage.

In 1991, the Risk Management Branch of the Ministry of Finance and Corporate Relations performed a routine assessment of the ministry. It found that the major physical risk to the records being held by BCARS, after the risks of fire and earthquake, was water damage. One concern was for the records stored in the basement of the Archives building in Victoria. The report indicated that, since the basement of this building is below high tide level, there is a risk that sewer back-up could occur during high tide if the sewage pumps were to malfunction.

A further concern was for possible water damage to microfilm and other records held at another location that has a history of water problems caused by a leaky pipe. The agency has reduced the risk of water damage by initiating a number of improvements to the microfilm vault at that location.

COMMUNICATING PROGRAM RESULTS

Although the activities of BCARS are described in detail in the ministry's 1989/90 annual report, there is no information on its goals and objectives or how effectively any of these have been achieved. For example, BCARS reported processing 214,208 meters of original film. That information alone, however, does not explain whether the accomplishment met the clients' needs or the ministry's expectations. The 1990 Computer Systems Branch review, referred to earlier, identified broad goals for BCARS and noted the need for the Service to identify and apply measurable targets to these goals. Staff at BCARS had not managed to do this at the time of our audit.

There was also no mention of the work backlog that is hampering the agency's ability to carry out its mandate. We believe the ministry has a responsibility to inform the legislature and the public not only about its program activities, but about how well it is fulfilling its legislated mandate.

LOOKING AHEAD

We believe that the Service's operations should be in keeping with its legislation. The extent to which BCARS should accept and maintain records other than government records needs to be clarified—a step that may require changes to its legislation.

Since the BCARS cannot handle the backlog with its current resources, the ministry needs to assess how significant these backlogs are, determine what is

manageable, and develop a plan to deal with them. The ministry should also report on this to the Legislative Assembly, as well as on the degree to

which it is achieving its other objectives.



RESPONSE OF THE MINISTRY OF GOVERNMENT SERVICES

We welcome the Auditor General's review of the processes for safeguarding the archival records of the Province. The Ministry of Government Services believes that value-for-money audits are a valuable tool to help government managers improve the quality of services to the public and to reduce the cost of service delivery.

The Ministry accepts the three points highlighted in the overall conclusion of the Report: a) the Archives and Records Service has no "enabling" legislation; b) backlogs exist in archival processing; and c) the Annual Report of the ministry provides information on activity levels and not achievements.

We would, however, like to comment on some points supporting the conclusions:

a) In 1908 to the present, the archives has been funded through the Estimates process where Legislators have had the opportunity to question and review its mandate to acquire, preserve and make available Government and non-Government records which document the history and development of the Province. From its inception, the acquisition of non-Government of British Columbia records has been a long standing function of the archives. In the early decades of this century, the archives was the only major repository for records of long term historical value in British Columbia. The records acquired reflect the pioneer, labour, business and other aspects of our early history and development.

In 1989, a major shift in the archives mandate occurred, as the archives and the central agency function for records and information management were combined into a single central agency. The combined branch, the Archives and Records Service, provides centralized archives and records management services for all government records and has pioneered the introduction of a formalized process for records and information management into our Public Service and has developed Treasury Board policy for the treatment of government records and information.

b) The introduction of records management programs in ministries has changed the face of the archives. Actively encouraged by the Archives and Records Service, ministries have identified archival records and records of archival value in volumes hitherto unknown. As more and more government records of archival or potential archival value are transferred to the archives or records centre services, the volume of records awaiting appraisal grows. As in any archives, backlogs in processing exist. Within BCARS the backlogs are now larger than those normally accepted. The most cost-effective way of dealing with the backlog is to manage it, not necessarily eliminate it.

Since the timeframe covered in the Report, the Ministry is taking actions on several fronts:



1. *A Government Records and Archives Act is on the ministry's legislative timetable. With the introduction of Freedom of Information and Privacy legislation, a companion Archives Act is needed to set out the responsibilities for the maintenance and preservation of government records.*
2. *The Archives and Records Service is using the funding allocated for Bill 50 to reduce the backlogs within the branch.*
3. *The Archives and Records Service's Archives and Records Information System's (ARIS) basic modules are now operational. ARIS is the control system for the handling of all government records in storage and within the archives. Converting from the numerous manual systems, although time consuming, has improved reporting processes and transfer processes. The Ministry plans to continue its support for ARIS module development according to the Archives and Records Service's Business Area Analysis.*
4. *The Archives and Records Service has, with the introduction of ARIS, improved its reporting of backlogs and branch achievements thereby giving the agency better information from which to prioritize and set corporate objectives. The previous manual systems did not allow for accurate monitoring or status reporting.*
5. *The Archives and Records Service continues to develop its planning processes and to establish achievable goals for its programs. The agency created the position of Documentation Standards Officer to further develop policy and procedures in the appraisal, selection and other activities relating to archival records.*
6. *Specifically, the Archives and Records Service continues to prioritize its conservation treatment of archival records. Records not prioritized for conservation treatment are scheduled for microfilming thus preserving the information but not the individual record. Although the years required "to specifically conserve" the existing archival records are enormous, the prioritization of conservation treatments and the use of existing and emerging technologies (e.g., microfilm, imaging) will reduce the need for specific conservation treatments.*

MINISTRY OF ENERGY, MINES AND PETROLEUM RESOURCES

NATURAL GAS ROYALTY REVENUE: FOLLOW-UP

A follow-up review of our 1988 assessment of the ministry's processes for determining and collecting natural gas royalty revenue

SUMMARY OF THE PREVIOUS REPORT

In 1987, we undertook an audit to assess whether the Ministry of Energy, Mines and Petroleum Resources was collecting the correct gas royalty in a timely and efficient manner. The audit included a review of the ministry's past actions, practices at the time, and future plans concerning gas royalty administration. We reported the results of the audit in our 1988 Annual Report.

We concluded in 1987 that the ministry was not ensuring that the correct gas royalty was determined and collected.

In response to significant and rapid changes in the petroleum industry in the early 1980s, the ministry correctly identified the major issues with which

it had to contend, and established policies to deal with them. What it did not fully appreciate or address however, was the administrative difficulty of putting the policies into practice. As a result, administrative problems arose soon after the new royalty system began operating in 1985. These problems resulted in the Province foregoing substantial revenues.

Although ministry staff did not detect all the problems immediately, they were aware of most of them when we conducted our audit. At that time, the ministry was focusing on improving its computer systems. We believed the other administrative problems should also receive prompt attention.

PURPOSE AND SCOPE OF FOLLOW-UP

We recently conducted an audit to determine how the ministry had dealt with the problems described in our 1988 Annual Report. We carried out the work in January and February 1993. In our review, we used the work of the Internal Audit Branch of the Office of the Comptroller General, Ministry of

Finance and Corporate Relations, which carried out an audit of the Petroleum Resources Management System between December 1991 and March 1992. Our review also included discussions with ministry personnel, and such other tests and procedures we considered necessary in the circumstances.



OVERALL CONCLUSION

Since our previous report, the ministry has taken steps to deal with the problems we identified in 1987. We believe that the processes that the ministry has in place now enable it to determine and collect the correct gas royalty. It has taken steps to improve

significantly its computer system; has implemented all of the recommendations we made relating to the ministry's audit function; and has taken steps to improve its administration procedures.

BACKGROUND

During the year ended March 31, 1992, Crown royalties from natural gas generated about \$74 million in revenue (Figure 1.1). The ministry assesses, collects, verifies, and reports these revenues. According to ministry information, there are currently 838 producing gas wells, 450 production facilities, and 120 royalty payers in British Columbia. The royalty revenue system is self-assessing. Royalty payers voluntarily submit approximately 1,950

self-assessing reporting forms to the ministry each month. The ministry reviews these for completeness and accuracy. Experience shows that the reports are prone to many errors.

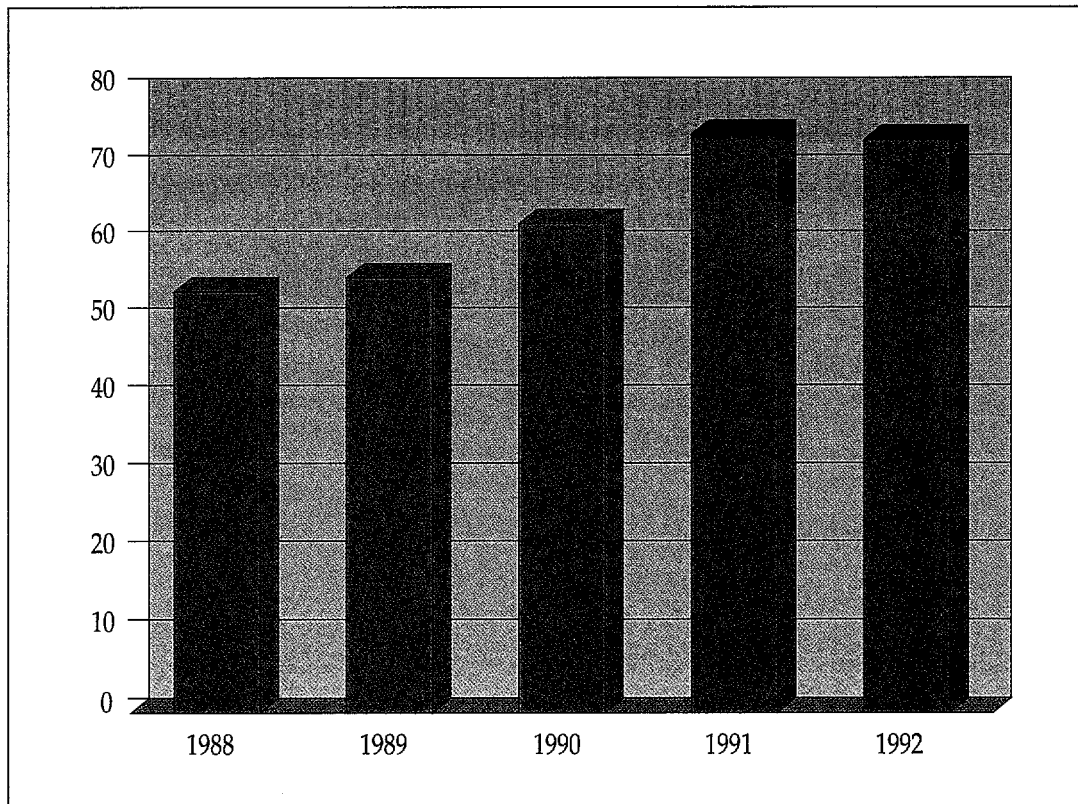
MAJOR AREAS OF CONCERN IN OUR 1988 REPORT

In our 1988 Annual Report, we noted that the ministry's royalty system did not ensure that the correct gas royalties owed to the Province were determined and collected. We identified three main

FIGURE 1.1

Natural gas royalty revenue (\$ Millions)

Source: The Public Accounts



areas that we believed the ministry needed to address: the computer system, the audit function, and administrative procedures.

When we conducted our audit in 1987, the ministry was unable to process company submissions promptly. Computer hardware failure and ongoing defects in the computer programs made the computer an ineffective error-detecting device. Often staff computed information manually and overrode computer edits.

The ministry also lacked a good analytic and audit capability to determine that all gas produced got reported, and that reported royalties were based on accurate data and correct interpretation of the royalty formula.

We also noted a number of problems in the ministry's administrative procedures. The responsibility for royalty administration was allocated to three divisions. This resulted in weakened controls and inefficiencies in carrying out the required functions. There was a general lack of experience at all levels in the use of computers and in the operation of complex royalty systems. In addition, the ministry provided insufficient instruction to the companies which resulted in the returns submitted by companies having high error rates. Because insufficient staff were allocated to deal with the high volume of submissions, staff were unable to check and verify returns. This created a six-to-eight month backlog in processing returns.

As a result of these problems the ministry was not able to collect all the royalty revenue it should have.

THE COMPUTER SYSTEM

The ministry has taken steps to improve significantly its computer system. In 1988, the ministry received

approval from Treasury Board to spend \$2.2 million on a new royalty management system. The Petroleum Resource Management System (PRMS) was developed between 1988 and 1990. The new system allows the ministry to calculate, collect, verify, and report petroleum and natural gas royalty revenue.

Validations, the second part of the system, was designed to support a post-transaction review. The objective of Validations is to determine that there are no anomalies between revenues that should have been collected and those reported. The system reviews all Crown royalty returns. It examines royalty factors and allowances, and reconciles company reported information to third-party information reports.

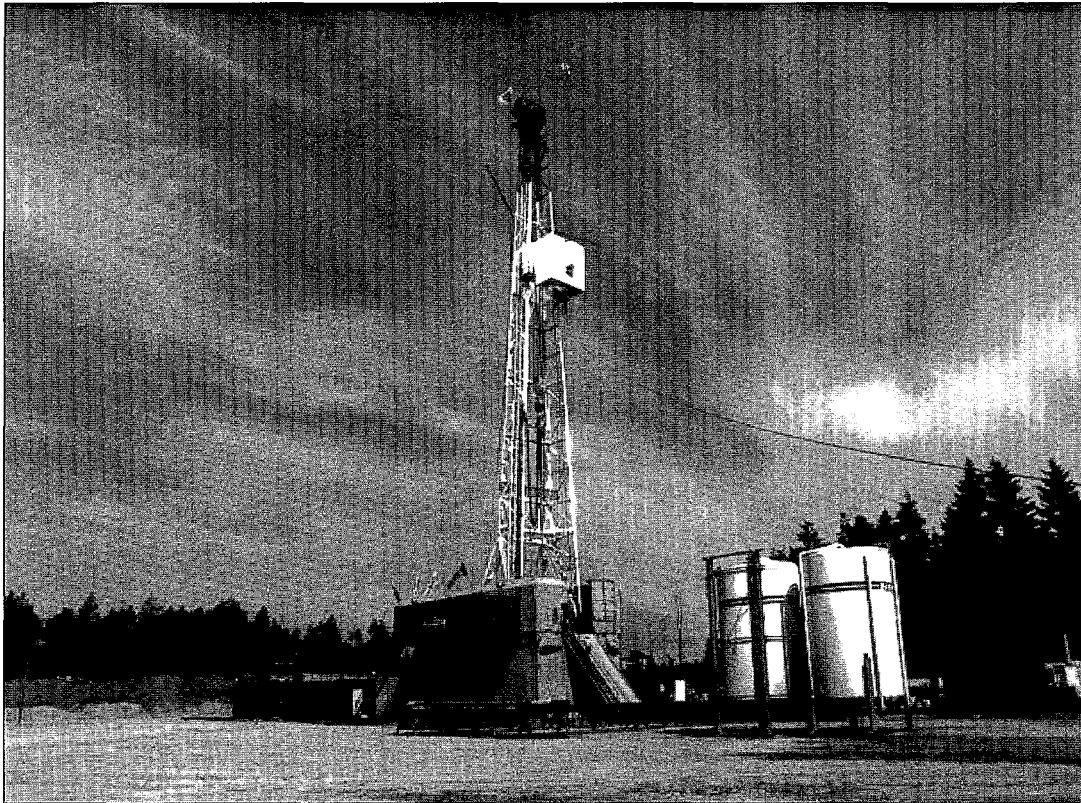
Over the past two years independent audits have been carried out on the system to ensure its integrity. The ministry has dealt with the concerns these audits raised, and is currently addressing minor problems to improve the system further.

THE AUDIT FUNCTION

The ministry has implemented all of the recommendations we made in our 1988 report relating to the ministry's audit function.

It has assigned additional staff to work directly on audits and the validation of company returns. In addition, it now contracts for external audit services for auditing the records of industry. It investigates differences between revenue that should have been collected and that reported and issues assessment notices when required. Finally, it has developed a formal program of periodic and random audits. It plans and coordinates on-site industry audits carried out by external auditors.





Gas Drilling

Courtesy of the Ministry of Energy, Mines and Petroleum Resources

As a result of these activities the audit group has identified and collected a significant amount of additional revenue for the ministry.

ADMINISTRATION PROCEDURES

The ministry has taken steps to improve its administration procedures.

It has consolidated all functions relating to petroleum and natural gas revenue into one division and increased staffing at all levels. As a result of these changes, the ministry now has staff with the necessary skills to administer the system and to ensure that industry reports are processed on a timely basis.

To ensure that industry is better informed about the type and frequency

of reporting required, the ministry has updated the Petroleum and Natural Gas Royalty Handbook and now issues Information Letters to keep industry advised of changes in policy and procedures. The ministry has also expanded the training of industry staff, giving seminars and visiting industry offices to ensure that staff are aware of ministry-required procedures.

Additionally, the ministry has taken steps to collect revenues that it had previously foregone as a result of weaknesses in its administrative procedures.



**RESPONSE OF THE MINISTRY OF ENERGY, MINES AND
PETROLEUM RESOURCES**

Thank you for the opportunity to comment on your follow-up report on the ministry's processes for determining and collecting natural gas royalty revenue.

The Ministry of Energy, Mines and Petroleum Resources agrees with the

Auditor General's findings that our new procedures and new computer system "enable (the ministry) to determine and collect the correct gas royalty."



MINISTRY OF ATTORNEY GENERAL

LICENSING AND CONTROL OF PUBLIC GAMING: FOLLOW-UP

A follow-up to our 1990 report of the government process for licensing and control of public gaming in British Columbia

SUMMARY OF THE PREVIOUS REPORT

In the 1990 Annual Report of the Auditor General (pp. 236 - 245), we reported the results of our audit of the procedures employed by the British Columbia Gaming Commission ("the Commission") and the Public Gaming Branch ("the Branch") of the Ministry of the Attorney General (formerly the Ministry of Solicitor General) to:

- ensure that only eligible organizations having a demonstrated need to raise funds for a charitable purpose are licensed;
- minimize the risk of fraudulent activity in the gaming industry;
- ensure that proceeds from gaming are used for approved charitable purposes; and
- enable charitable organizations to obtain the greatest possible monetary benefit from licensed gaming activities.

We noted that the Commission and the Branch had embarked on several initiatives to address the major risks

inherent to gaming, although many of these initiatives had not been completed or implemented at the time of our audit.

We concluded that there was inadequate assessment of the financial needs of charitable organizations, insufficient checking on whether the organizations used their gaming proceeds only for approved charitable purposes, and insufficient assurance that gaming events were being managed and operated in a way that minimized the risk of fraudulent activity. Also, because neither the Commission nor the Branch had adequately addressed two important areas—the appropriateness of established minimum returns of gross proceeds to charitable organizations, and the reasonableness of rental charges made by bingo hall landlords—we believed they were not in a position to assess whether charitable organizations were receiving the greatest possible monetary benefit from licensed gaming activities.



PURPOSE AND SCOPE OF FOLLOW-UP

In light of the growing popularity of gaming in British Columbia, we thought it timely to examine the extent to which the concerns raised in our 1990 report had been addressed by the Commission and the Branch.

We met with senior representatives of the Commission and the Branch in the summer of 1992 to find out what changes had been made to their

procedures. Then, during November and December 1992, we reviewed current procedures and examined samples of files and other documentation. Procedures were evaluated as of November 1992; financial reporting and accountability were reviewed for the 12 month period ended October 31, 1992.

OVERALL CONCLUSION

Since our 1990 report, the Commission has produced a policy manual for gaming in the Province. It includes policies on eligibility, use of proceeds, and standards for gaming events. For its part, the Branch has implemented uniform controls and reporting standards for bingos and casinos which now allow the Branch to monitor gaming activities more effectively and help the organizations improve the operational efficiency of the events.

The Commission and the Branch have also reassessed the appropriateness of the minimum percentage return of proceeds to the charitable organizations. They have determined that the current percentages—50% of the "win" (proceeds from the sale of chips, less chips cashed) from casino events and 25% of the gross proceeds from bingo events—are appropriate. Both agencies are now evaluating the reasonableness of rental charges for bingo halls as leases are renewed, and have assisted

charitable organizations in negotiating more favourable terms.

Despite this progress, we concluded that the Commission and the Branch are still not in all cases receiving appropriate financial information to be able to assess adequately the financial needs of the charitable organizations. As a result they cannot ensure that some charitable organizations are not receiving more gaming proceeds than they need, thus precluding other eligible organizations from having access to the proceeds.

We also believe that the application of procedures for monitoring the use of gaming proceeds is not adequate to assure the Commission and the Branch that proceeds are spent on the charitable purposes for which they were approved. Furthermore, we are concerned that the inspection strategy being developed in 1990 has not evolved, even though gaming activity has increased over 30% since then, and that resources devoted to audit and inspection activities have remained static.



GAMING IN BRITISH COLUMBIA

In our 1990 report, we outlined the history of licensed gaming in the Province, noting the 1,600% growth in activity over the last decade. Since that report, gaming has continued to increase in popularity (Figure 1.2). With such rapid growth has come the need for increased regulation by the Commission and the Branch. As of December 1992, however, there was still no provincial legislation to govern gaming in British Columbia. As a result, the regulation of gaming activities continues to be under the authority of the Criminal Code, which states that a charitable or religious organization may obtain a license from the Province for gaming activities if the proceeds are used for a charitable or religious purpose.

In 1991/92, \$480 million was spent in British Columbia on licensed gaming activities. This did not include wagering on horse races (\$200 million) or spending on lottery games (\$676 million). Many benefits and costs are associated with gaming activities. Positive social impacts include entertainment, employment and funding for charitable and religious purposes (Figure 1.2), while potential risks include addictive gambling and crime.

As the licensing authority for charitable events in British Columbia, the Commission continues to:

- set the terms and conditions for the conduct and management of licensed gaming events;
- establish policy for licensed gaming;

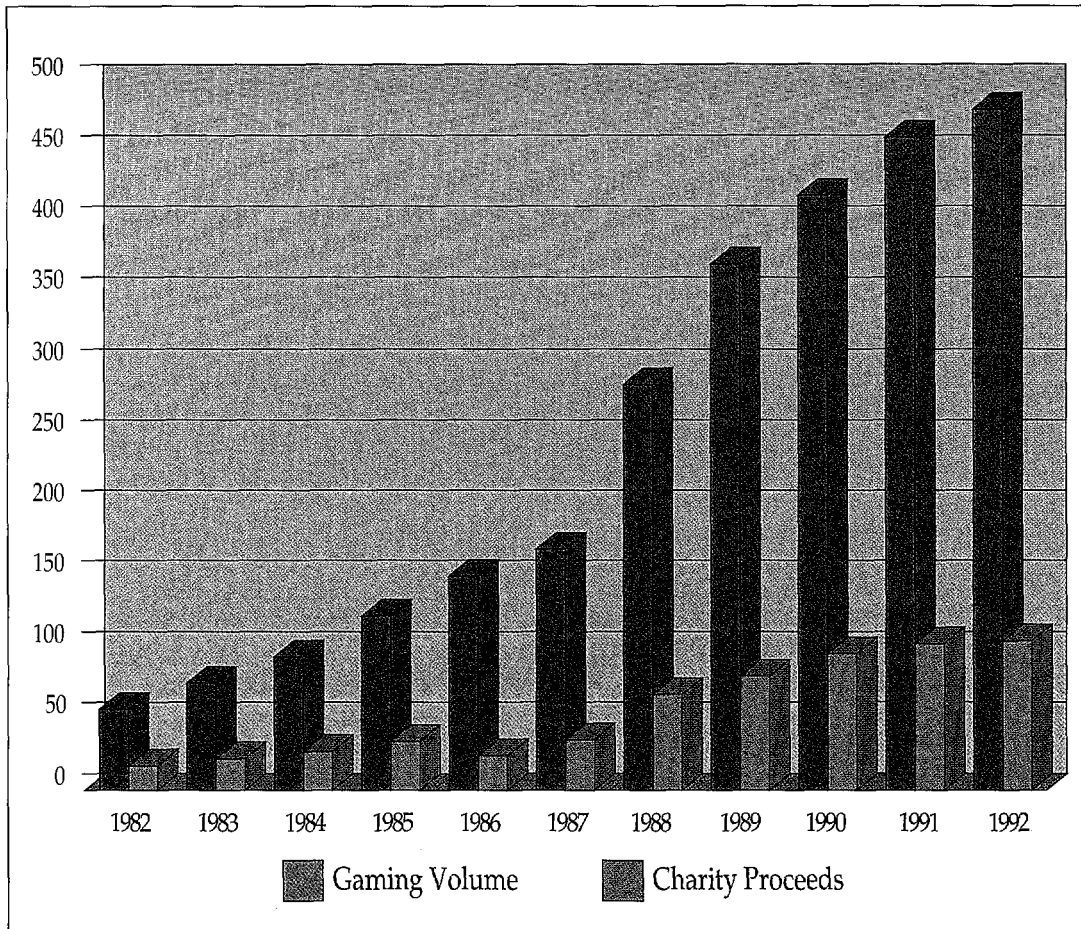


FIGURE 1.2

Gaming volumes and charitable proceeds for 1982 to 1992 (\$ Millions)

Source: Ministry of Attorney General



- hear and resolve issues arising from licensing decisions;
- determine the degree of access to licensed gaming; and
- conduct seminars in communities throughout the Province.

The Commission has adopted several fundamental principles in its approach to regulating licensed gaming in the Province. Among them are the following:

- The primary purpose of licensed gaming is to support the work of charitable and religious organizations in carrying out programs and providing services that have direct benefits for the communities in which licensed gaming events are held.
- Access to licensed gaming must be determined on the basis of demonstrated financial requirements and community needs.
- Gaming funds must be expended within the Province, preferably in the community in which the funds are raised.
- The expansion of licensed gaming must be strictly controlled.

The Branch is responsible for assisting the Commission in its licensing role by evaluating license applications and access to gaming, and by making recommendations. It is also responsible, through inspections, for monitoring compliance with the terms and conditions of licenses granted and for ensuring adherence to policy.

In the 1991/92 fiscal year, almost 9,700 gaming licenses were issued or renewed. Licensees received over \$105 million as their share of gaming proceeds (Table 1.2). A breakdown of gross volume distribution for bingo is shown in Figure 1.3.

The main motivator for all participants in gaming continues to be the money involved. This includes financial support for the participating charitable organizations, prizes for the players, and profits for the commercial interests (such as landlords and casino companies). Given that considerable amounts of cash are involved in gaming, there is an inherent risk it will attract fraudulent activities, and that ineligible organizations will attempt to obtain licenses and use proceeds for other than charitable purposes.

TABLE 1.2

Gaming activity and estimated financial impact for the 1991/92 fiscal year

Source: Ministry of Attorney General

Event	Number of Licenses	Gross ¹ Volume (\$ millions)	Prizes (\$ millions)	Expenses (\$ millions)	Paid to Charity (\$ millions)
Bingo	2,242	220	121	38	61
Casino	2,532	213	159	27	27
Ticket raffle	877	33	15	5	13
Others ²	4,000	14	unknown ³	unknown ³	4
	<u>9,651</u>	<u>480</u>			<u>105</u>

¹ Gross volume represents revenue from the sale of casino chips, bingo cards, raffle tickets, and other gaming activities such as fairs and exhibits.
² "Others" consist of class "B" licenses (events under \$2,000 gross volume), festivals, one-time events, and social club activities.
³ Prizes and expenses are not monitored for "B" licenses.

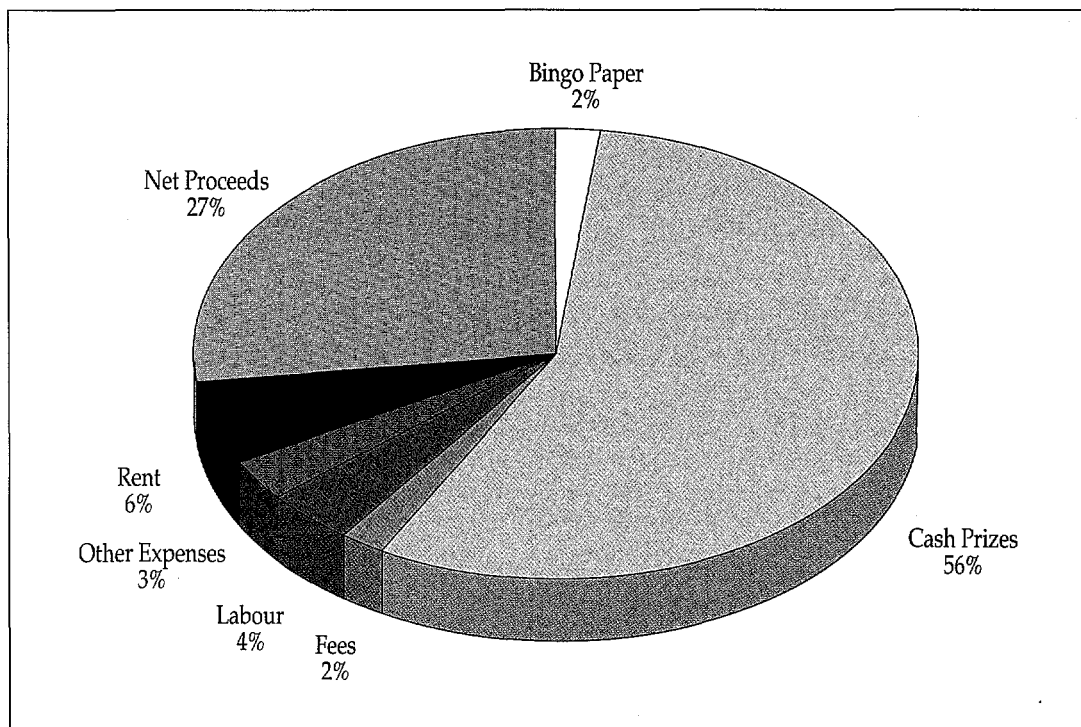


FIGURE 1.3

Bingo gross volume distribution for the 1991/92 fiscal year

Source: Ministry of Attorney General

LICENSING

The licensing process is the means by which the Commission and the Branch seek to ensure that only charitable organizations can raise funds from gaming, and that those funds will be used only for legitimate charitable purposes, thereby complying with the *Criminal Code* and Commission policy. The licensing process also should provide equitable treatment of eligible organizations through an assessment of financial need, checks to see that multiple licenses are not issued unnecessarily, an unbiased allocation to licensed organizations of time slots in casinos and bingos, and public disclosure of gaming information.

Licensing is a multi-phased process. The Branch first evaluates each application to ensure the applicant is a bona fide charitable organization. Next, it determines whether the gaming proceeds will be used for charitable purposes, and assesses the financial need of the organization through a

review of past financial statements and current year budgets. Finally, it forwards its recommendation to the Commission, where a commissioner makes the final licensing decision. Licenses are granted for a set number of gaming events, for a period not exceeding one year. Licensees have to re-apply at the end of the license period if they wish to continue their gaming activities.

In 1990, we assessed the licensing process under the following criteria:

- Charitable Purpose (Eligibility)
- Financial Need
- Multiplicity of Licences
- Gaming Session Allocations
- Reporting to the Public

At that time we found that although the Branch sought appropriate information to assess license applications, it did not ensure that the information it received was complete. Furthermore, licensing officers were not given sufficient training and guidance



to be able to analyze adequately the financial data received, and thereby to assess an organization's need. We concluded that some organizations might be allowed access to gaming proceeds beyond their needs. In our follow-up audit, we reviewed the licensing process again under the same criteria.

CHARITABLE PURPOSE

The *Criminal Code* and case law provide general criteria for the Commission and the Branch to apply in evaluating an organization's eligibility or the authorized purposes for which a charitable organization may conduct a gaming activity.

The Commission has evolved its own criteria and has established that, to be considered a licensed charity, an organization must have as its main purpose:

- the relief of poverty, disadvantage, or distress;
- the advancement of education, culture, or the arts;
- the advancement of religion; or
- other purposes beneficial to the community, including the support of amateur athletic sports, public safety and public facilities, community service clubs, volunteer fire departments, emergency rescue organizations, and provincial, regional, and community associations.

An organization must also have demonstrated activities in line with these purposes. The charitable purposes for which applicants intend to use the proceeds are also reviewed by the Branch and approved by the Commission. Since our last audit, the Commission has developed specific policies and guidelines which provide reasonable guidance to the licensing

officers. The policy manual includes policies on eligibility, use of proceeds, and standards for gaming events. In addition to the policy manual several memoranda have clarified exemptions from policy. Two examples of important exemptions allow the agencies involved to transfer gaming proceeds out-of-province, and disburse funds outside of the community where the gaming event occurred. The licensing officers we interviewed knew of the exemptions though they could not locate the memoranda. These memoranda should be included in the policy manuals to ensure consistent application of criteria in rendering licensing decisions.

We believe the Commission's policy manual and licensing memoranda provide the detailed guidance needed by licensing officers and are responsive to developments in gaming.

FINANCIAL NEED

The financial criteria an organization must meet before a bingo, casino or ticket raffle license will be issued to it are clearly specified on the application for the gaming event license. The Branch requires an applicant to submit the organization's:

- last financial statements;
- current budget;
- constitution and bylaws;
- certificate of incorporation; and
- current list of Board of Directors.

In 1990, we found that the Branch did not always receive this basic information, and so was sometimes unable to perform adequate financial analysis. Furthermore, most of the licensees' files we saw did not contain a summary assessment to support the recommendations of the Branch or the final decision reached by the



Commission, even where a commissioner had overruled the Branch's recommendation.

In response to our concerns, the Branch has developed a pre-licensing evaluation form. The form is intended to serve a number of purposes. It provides the licensing officer with a checklist of the basic information required by the Branch before a decision on licensing can be made. It also includes the eligibility category of the applicant, the intended use of proceeds, the current gaming access, an analysis of the financial data submitted, and a recommendation as to the level of gaming for the upcoming license period. As well, each form contains an area where the licensing officer may comment on the rationale for accepting or rejecting the application and set any restrictions he or she would like to see appended to the license.

Also since our 1990 audit several of the licensing officers have completed a basic accounting course as well as courses in non-profit sector management, and all licensing officers and compliance review staff have completed a two day course entitled "Financial Management in a Volunteer Organization".

As important as these improvements are, we found that the Branch is still not always receiving complete information on a timely basis. This results in delays in processing applications and issuing licenses. To help prevent interruptions in licensing renewals, the Commission does issue three month interim bingo licenses while it is waiting for the financial information.

In most cases the information is received before the three months are up. In our examination of a sample of 30 files for organizations licensed in the 1991/92 fiscal year, we found three

examples of licensees who received approval without submitting the required financial statements and budget.

We also extended our sample to include six church files and three school files. Here we found that all licensees received approval without submitting appropriate financial information.

We believe that this shows that the Commission and the Branch do not always receive adequate financial information to allow them to assess the financial need of applicants properly. The result is that some organizations may be receiving gaming proceeds beyond their financial requirements.

As mentioned previously, the submission of the basic data allows the Branch to assess the financial need of an organization before it is given access to gaming events. Licensing assessment forms are intended to be used by licensing officers to document the rationale for their decisions. In most of the 30 files we reviewed, however, there was no written assessment. We noted several instances where we would have expected to see a written assessment of why there were inconsistencies in the submitted data. For example:

- A private school had budgeted an additional \$140,000 to cover an increase in salaries for the 1992 year, and it also showed a cash surplus of \$152,000 in its financial statements.
- A hockey tournament showed a budgeted increase from \$104 to \$18,000 in its application for team assistance. It was unclear from the file as to what community benefit would be derived from the event.
- A service club's financial statements showed its only source of revenue to be from gaming, and yet funds were

not used in the community where the gaming event was held.

- A peace organization showed an increase in salaries of two and one half times the previous year's figure. There was no documentation in the file to justify this increase.

We also found two files in which a commissioner overturned the recommendation of the licensing officer to reject an application, yet the documentation in the file was insufficient to support the final licensing decision. The reasons the licensing officer gave for rejecting the applications were:

- in the first case, the group was financially sound with over \$2.6 million of cash reserves and was already operating with a ticket raffle license; and
- in the second case, the organization did not have, as its primary purpose, charitable or religious objectives.

We believe that the rationale for all licensing recommendations should be well documented to minimize the risk of inappropriate licensing decisions. In addition, where a commissioner overturns a Branch recommendation, we think the rationale should be clearly documented.

MULTIPLICITY OF LICENCES

An important aspect of licensing is to monitor the number of licenses issued to, and funds distributed among, related organizations. Keeping track of this allows the Branch to find out how much funding is generated for similar purposes, and to ensure equitable access is granted to all worthy organizations.

In 1990, we found that monitoring was being done manually and that it was an ineffective means of ensuring that related organizations were not

receiving multiple licenses. At the time of our audit then, the Branch was in the process of designing and implementing a computerized system.

Our follow-up has shown that the Branch now has several safeguards in place to ensure that multiplicity is minimized. In the annual licensing of licensees in a bingo hall, all licenses expire on the same date, allowing a licensing officer to obtain a broad view of the work being done in a community. Multiple licenses can often be spotted during the hall review. Where a suspicion arises, an investigation is performed by the Branch to determine whether the community need has already been met through licensed gaming activities. In addition, the Branch has developed a data base called GAMES to help it monitor all licensees and gaming activities.

We found, however, that the GAMES data base does not provide information on the contribution of service clubs to existing licensees. Licensing officers are therefore unable to assess the total access to gaming that many of the licensees have.

GAMING SESSION ALLOCATIONS

The allocation of time slots in casinos and bingo halls has a direct effect on the amount of funding raised by a charitable organization. Gaming attendance and wagering are influenced by several cyclical factors, including time of day, day of the week, and time of the month. Therefore, the Branch closely monitors the gaming session allocations to ensure that equitable access is afforded to all licensees.

In our 1990 work, we found that time slots in casinos were allocated by the Branch, but that time slots in bingo halls were allocated by the associations of charitable organizations or the bingo



hall owners. We also found that the Branch did not maintain a complete listing of charitable organizations that had been unable to secure time slots in bingo halls. We noted that these weaknesses had been recognized by the Branch, which was in the process of developing a computerized scheduling package.

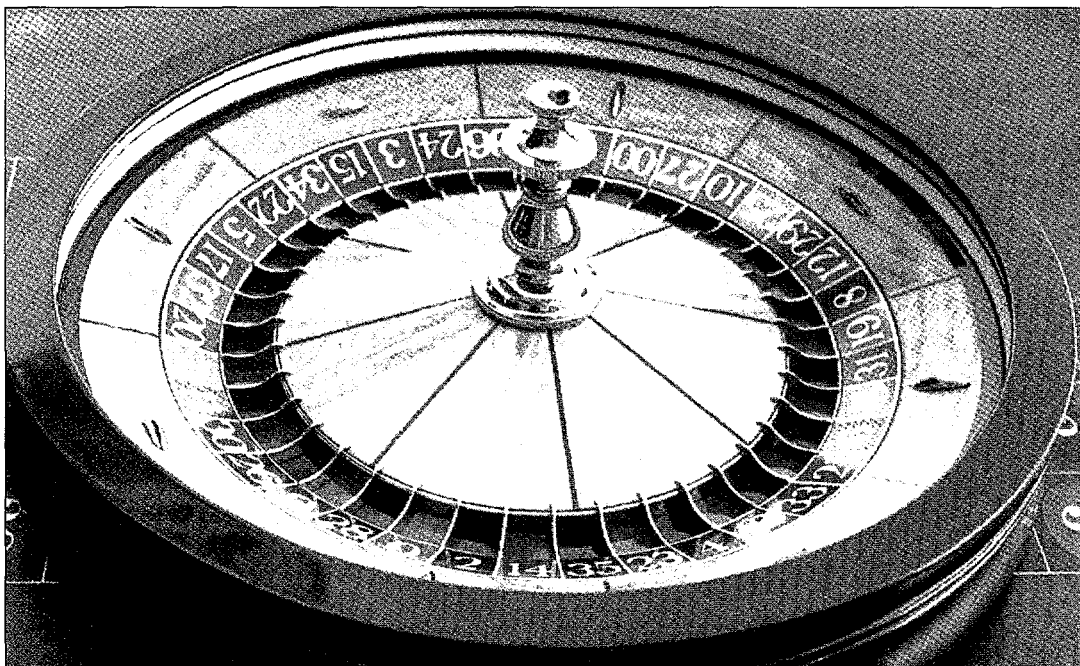
Since that report, several procedures have been implemented to ensure equitable access to all organizations within a community. The Branch assesses the availability of gaming revenue in the community to meet the needs of the charitable organizations, then allocates time slots in casinos and bingo halls to every organization with an approved license. It also maintains waiting lists of organizations for available time slots in bingo halls. Over 230 charities are currently on these waiting lists. Since taking over the scheduling, the Branch has been able to provide over 150 charities access to bingo that they previously did not have.

The Branch uses a bingo scheduler computer program to assist in these

time allocations. The scheduler allows the licensing officer to: assess time slot values in each bingo hall; automatically schedule charities for an entire licensing year; and provide each charity with a schedule of its playing dates. The process has been enhanced because bingo halls are now on an annual cycle and all licenses within the hall expire on the same date.

The Branch schedules casino events on a first come, first served basis. Given the large number of organizations applying, many of which already have bingo licenses, there is a lengthy waiting period in all regions of the province, ranging from 3 to 10 months. To improve the access to casino gaming in the Greater Vancouver Regional District (GVRD), each event is limited to two days. This has increased access at each casino site in the GVRD by 26 licenses and reduced the waiting time for applicants.

To ensure all charitable organizations have equitable access, the Branch continues to monitor the allocation process.

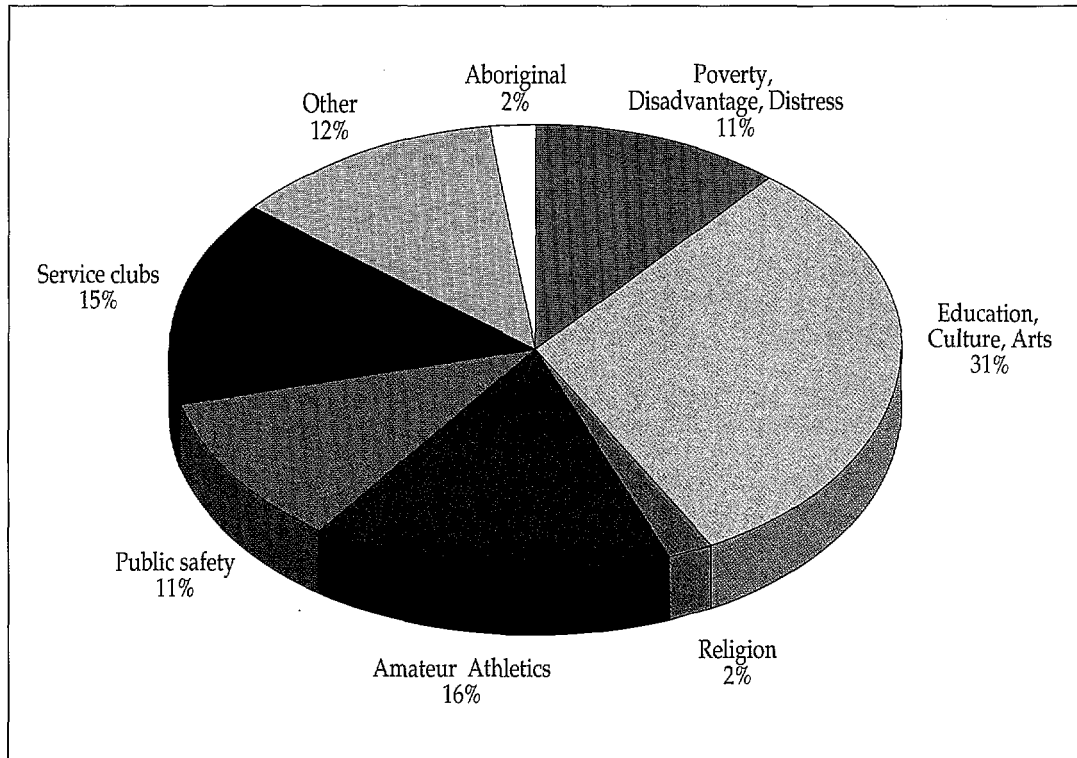


Courtesy of Public Gaming Branch

FIGURE 1.4

Licenses issued by charitable purpose

Source: Ministry of Attorney General



REPORTING TO THE PUBLIC

In 1990, we recommended that the Commission or the Branch should publish an annual listing of charitable organizations licensed for gaming activities in order to allow broader public scrutiny of licensing decisions and use of proceeds for charitable purposes. This is still not being done although the information is available in the Branch's new data base and reporting system, GAMES.

In addition, once fully functional, the system will provide information such as: the number of licenses issued by charitable purpose (Figure 1.4); revenues by region, licensee, and charitable purpose; and the use to which gaming proceeds have been applied.

USING PROCEEDS FOR APPROVED CHARITABLE PURPOSES

Once a charitable organization has received a gaming license it is the responsibility of the Commission and the Branch to ensure that the proceeds are used for approved charitable purposes.

Commission policy stipulates that gaming proceeds may only be used for:

- charitable and religious purposes as approved by the Commission;
- prizes to players; and
- expenses directly related to the conduct and management of licensed events, including all licensing fees.

In 1990, we found that the Branch did not have adequate procedures to provide it with assurance that proceeds from gaming activities were used only for approved purposes. As a result of our

findings, the Branch had begun calling in records of licensees on a regular basis to check how proceeds were being used. Although some changes have been made, we still believe that current procedures for monitoring the use of gaming proceeds do not provide assurance to the Commission and the Branch that proceeds are actually spent on approved charitable purposes.

Since 1990, the use of proceeds has been well developed in Commission policy. As part of the application process, an organization must state the purpose for which the gaming proceeds are to be used. This proposed use of funds is assessed by how well it meets policy requirements, and the request may be rejected or a modification asked for before a license is issued. Once the gaming event is held, the licensed organizations are required to provide the Branch with financial reports on gaming sessions. One of these, the Use of Proceeds Report, was developed to ensure that organizations report annually on their use of gaming proceeds.

We found, however, that the process for ensuring compliance with reporting requirements is slow and inefficient. Where reports are not received within the reporting deadlines, it can take up to four months or longer before any action is taken. In the meantime, licensees are usually re-licensed and allowed to continue their gaming activities. Licenses are cancelled only in rare circumstances.

We also found that the Branch does not regularly provide a written assessment of how the proposed use of proceeds meets policy requirements. In our review of 30 Use of Proceed Reports, there was no written assessment of the reported use and, therefore, we found it difficult in several circumstances to determine whether the proceeds were in

fact used for charitable or religious purposes. Some examples include:

- the accumulation and use of funds to pave a driveway and parking lot, not clearly identified as improvements essential to a specific charitable or religious purpose;
- proceeds used to offset a prior year's deficit;
- a scholarship payment to an American University although policy states that funds must be used within the Province and the community in which they were raised;
- a transfer of funds from a satellite organization to its parent, which had been denied a gaming license, with none of the funds used in the community in which the funds were raised; and
- the purchase of computer equipment for the box office of a cultural centre, equipment which did not appear critical to the successful delivery of the centre's services.

Furthermore, the Branch does not regularly audit licensee records to check that the proceeds were actually used for charitable purposes. We noted that, in the case of service clubs which make donations to charitable or religious organizations, recipients are not required to report on the final use of these donations. The Branch, therefore, has no assurance that proceeds are used for charitable or religious purposes as outlined in Commission policy. This is also the case for many of the large church organizations which transfer proceeds to affiliated schools. The Branch does not require a report on the use of any of these proceeds from the recipients.

CONTROLS OVER GAMING ACTIVITIES

Large amounts of cash flow through the hands of many people at gaming events. This creates opportunities for fraudulent or unethical practices to occur. These risks can be minimized through the investigation of the legitimacy of gaming operators, the establishment of standard operating procedures for gaming events, an ongoing inspection program, and adequate controls over bingo paper.

LEGITIMACY OF GAMING OPERATORS

In 1990, we found that the Commission and the Branch had adequate procedures in place to verify the legitimacy of gaming operators. Both the Commission and the Branch conduct a review of bingo hall operators and bingo service companies, and registration of casino management companies and casino dealers for all commercial locations in the Province. The background of each applicant is examined, and the examination covers:

- the method of financing;
- expertise in gaming;

- associates;
- employee history (including a criminal record check); and
- any other aspects considered to be relevant.

This process helps to ensure that charities and patrons will be efficiently and honestly served.

STANDARD OPERATING PROCEDURES

In 1990 there were standard operating procedures and reporting standards already developed for casino operations, and the Branch had

recognized the need for similar controls and standards for bingo operations to decrease the risk of fraudulent activity.

In our current audit, we found that casinos and bingos in the Province are now required to operate under uniform controls and reporting standards developed by the Branch. It is also now mandatory for all charity volunteers to attend an orientation workshop in order to become familiar with the key financial control positions in casinos

and to learn the importance of compliance with the Standard Operating Procedures. Similar orientation workshops are mandatory for bingo volunteers. We believe that these initiatives have helped to reduce the risk of fraudulent activity.



Courtesy of Public Gaming Branch

Inspection Activity	Perent of Time
Ticket draws	10
Use of proceeds audits	15
Bingo paper inventory audits	20
Routine inspections, public liaison, training of licensees, etc.	55

TABLE 1.3

Inspection coverage in the Vancouver Region

Source: Ministry of Attorney General

Since 1990, the Commission has sponsored six information seminars across the Province, focusing on the development of licensee associations, the accountability of the licensee for each event and for the use of proceeds, and access to gaming opportunities.

INSPECTIONS

In our 1990 audit, we were concerned about the risk of undetected irregularities at gaming operations. This matter was then being addressed by the Branch in a provincial inspection plan that was to involve more systematic and detailed inspections. We expected in our follow-up to find an overall inspection plan in place for the Province which would allow the inspectors to monitor licensed gaming activities and use of proceeds, and to detect illegal gaming. This was not the case, although the spirit of the 1990 inspection plan was being followed.

The Branch fulfills its monitoring and detection function by making routine inspections, auditing returns of licensed gaming events, auditing use of proceeds and following up inquiries and complaints about possible illegal gaming. The time devoted to each activity varies by region.

Each region is responsible for developing and implementing an operating strategy. The critical factor in the development of the strategy is the number of staff available to the region. The Branch currently has 15.5 personnel devoted to regional inspection activities, 10 of which are located in Vancouver.

As a result, the Vancouver region will be implementing a comprehensive operating strategy in January 1993 that will result in the coverage shown in Table 1.3.

The Branch has chosen not to carry out such a comprehensive plan in the other regions because of its limited resources. Instead, inspections are generally "overview" visits, consisting of general reviews of the gaming events. Some detailed inspections of operating controls and financial records are conducted in response to complaints from the public or concerns raised through the work of the Branch. We think the Branch should closely monitor the Vancouver region to see whether a similar inspection plan could be beneficial in the other regions. Without thorough examinations of operations and use of proceeds, the risk of undetected irregularities remains high.

BINGO PAPER

In our 1990 work, we were concerned that strong controls over bingo paper, from initial production through to the end use, were not in place. A comprehensive review of controls was undertaken at the time of our audit and the results indicated that inventory controls needed to be improved. In order to address our concerns, bingo paper inventory controls are now included as part of the standard operating procedures for bingo operations, and Branch inspectors now review inventory controls as part of their bingo hall inspections.



MAXIMIZING BENEFIT TO LICENSED CHARITABLE ORGANIZATIONS

Some of the factors identified by the Commission and the Branch as having an effect on the financial benefit to charitable organizations from gaming are:

- the economic viability of gaming locations;
- the efficient and effective management of operations at gaming events;
- the controls over expenditures, such as prizes, rent, wages, advertising, and supplies; and
- the financial dependence of the charitable organizations on the gaming proceeds.

The Commission and the Branch have taken some steps to deal with these issues. The Commission continues to monitor the economic viability of gaming locations throughout the Province. The Branch is encouraging the formation of community associations of licensees and, in addition to its regulatory role, is acting as an advisor to promote more effective management of operations. Limits have been set on the amounts that organizations can spend on advertising and prizes, and *minimum returns of gross proceeds* to charitable organizations have been established for casinos and bingos. These limits are monitored by the Commission to ensure continued fairness and equity among all participants in the gaming community. In our 1990 report, we noted that, in the area of expenditure control, two issues needed to be addressed:

- the appropriateness of the minimum returns; and
- the reasonableness of rental charges.

MINIMUM RETURN OF PROCEEDS

The Commission has established that, for casinos, the management companies are to receive 40% of the "win" (proceeds from the sale of chips, less chips cashed) to cover expenses of the operation; the charitable organizations are to receive 50%; and the government is to receive 10% as a license fee. The Commission has also established that, for most bingo sessions, charitable organizations must receive a minimum of 25% of the gross proceeds; 2% must go to the government; and the balance must be used for prizes and operating expenses.

In the summer of 1991, a review of returns for ticket raffles, casino, and bingo gaming was undertaken by the Branch and a report prepared for the Commission. No changes were recommended for any of the gaming activities. The Commission has also chosen to carry out comprehensive financial analyses of each of the casino management companies to determine the profitability at each site on an annual basis. We believe, these initiatives will help to ensure that established minimum return of proceeds are appropriate.

RENTAL CHARGES

The largest expense (excluding prizes) incurred by charitable organizations in running bingos is the rent charged by the hall landlord. The Commission and the Branch, beginning in 1992, now require each rental and service agreement to be evaluated by the Branch and approved by the Commission. To date, approximately 50% of the commercial bingo halls have had their agreements reviewed by the Branch and Commission. The balance will be completed by mid-1993. In one instance, the Branch assisted a group of charities in negotiating a savings of

\$100,000 in their lease. We applaud the efforts of the Branch and the Commission in ensuring that rents being charged are not unreasonable and

are as a result of prudent business decisions.



RESPONSE OF THE MINISTRY OF ATTORNEY GENERAL

The Auditor General's report on the management and operations of the Public Gaming Branch concludes that good progress has been achieved since 1990. Several initiatives in the planning stages at that time are now in place. These include a manual of Gaming Commission policies, Standard Operating Procedures for casinos and bingo events, uniform controls and reporting standards, computerization of the Branch information system and a process for evaluating the fairness of rents charged to licensees.

In addition to its positive findings, the report raises general concerns regarding the submission of financial information, monitoring use of proceeds and inspection activity.

The specific examples used to support these general concerns will be addressed one-by-one. First, however, it is important to point out some of the common characteristics associated with charitable organizations.

Charitable organizations:

- *rely heavily on volunteers;*
- *experience frequent turn-over in volunteer and hired staff positions;*
- *operate without certainty about future funding, and;*
- *provide valuable programs and services to the community.*

In view of these factors and the way in which they interact, it is sometimes necessary for the Branch to exercise

flexibility in carrying out its responsibilities.

Specific comments on the issues raised by the report follow:

• **Memoranda of Interpretation**

A process is being developed by the Branch and the Commission to ensure that policy interpretations outlined in the letters and memoranda of Commission Licensing Authorities become a part of the Commission's Policy Manual.

• **Inadequate Financial Information**

In the majority of cases, the Branch does not recommend licensing without first having received and reviewed a budget and financial statement from the applicant. In cases where complete financial information has not been submitted, the Branch attempts to balance the benefit that would be denied a community against the likelihood of a charitable organization misrepresenting its need for funds. Where such a likelihood is deemed remote, a licence may be recommended. All required information, however, must be on file before a subsequent licence will be issued.

In researching this issue as it relates to churches, the Branch confirms that it has exercised a level of discretion that appears disproportionate to that used when dealing with other categories of applicants. The Commission has affirmed its intention to require the same



level of financial disclosure from churches as it requires of all other applicants. Branch Licensing and Compliance Review staff will assist the Commission in achieving this objective.

- **Written Assessments**

The evaluation form used by Licensing Officers to document rationale for licensing recommendations provides space for a written summary assessment. In the interest of expediency, however, Licensing Officers do not always complete a written assessment.

Commission Licensing Authorities are able to comprehend the rationale for recommendations as represented in the data provided on the evaluation form and in the correspondence drafted for approval or rejection of the application.

The apparent inconsistencies cited in the report reflect decisions which are in fact consistent with Commission policies. The point is well taken, however, that without a written assessment to provide the rationale for the decisions, there is a danger of creating the perception of inconsistent decision making.

The Branch now ensures that a written assessment is given with all licensing recommendations.

- **Computer Tracking of Service Club Donations to Other Licensees**

The Branch will assess the feasibility of enhancing its computer application so that service club donations to other licensees can be tracked.

It should however be pointed out that applicants are required to disclose all sources of revenue, including donations, at the time of application. Therefore, while the Branch may not always know that an applicant is receiving gaming proceeds from a service club, the donations received will appear as revenue on the applicant's financial

statement. This will have an impact on the Branch's assessment of the applicant's overall requirement for gaming proceeds and should result in an appropriate level of access being recommended.

- **Annual Report/Listing of Licensees**

The B.C. Gaming Commission is examining the feasibility of publishing an annual report which would include a list of licensees.

- **Monitoring the Use of Gaming Proceeds**

The Branch has enacted new procedures designed to ensure a systematic review of compliance with financial reporting requirements.

Branch Compliance Reviewers now use an evaluation form when examining Use of Proceeds Reports. A written assessment is required in completing the evaluation. The assessment will ensure explanations are provided for apparent departures from use of proceeds policy and facilitate appropriate action in response to unapproved use of proceeds.

- **Verifying the Use of Donations**

The Commission and the Branch presently require only that organizations confirm by way of financial reports who donations have been made to.

Following up to determine how recipients actually spend donations would result in having to verify in excess of 40,000 transactions each year. It is questionable whether on balance the cost of the additional resources that would be required to carry out this task could be justified when measured against the likelihood of the donations being misused. The Branch and Commission are however considering measures that



would require greater accountability under defined circumstances.

- **Branch Inspection Strategy**

The inspection strategy developed by the Branch in 1990 has been slow to evolve due to static resources. The Branch has taken the position that it would be inappropriate in these difficult economic times to compete for additional resources with other programs perhaps more critical to public health, safety, and good order.

Other tools now available to the Branch have aided inspection activity. The Branch has nurtured its relationship with police agencies. Productive alliances have been established and the police readily assist in gaming enforcement and monitoring. The Branch has also obtained affiliate membership with the Criminal Intelligence Service of BC (CISBC).

In addition, the enhanced systems capabilities of the Branch allow Branch inspectors to monitor on a timely basis the results of gaming activity in casinos and bingo halls. Variations from the expected norm can be responded to quickly.

Greater inspection coverage will continue to be a goal. The Branch, however, is confident that integrity is being maintained in public gaming through its current inspection program.

- **Regional Inspection Plans**

Each region is developing an inspection plan that will be based on maximizing coverage with current resources.

- **Memoranda of Interpretation**

A process is being developed by the Branch and the Commission to ensure that policy interpretations outlined in the letters and memoranda of Commission Licensing Authorities become a part of the Commission's Policy Manual.

British Columbia can lay claim to the highest standards of accountability for charitable gaming in Canada. This represents a significant accomplishment. The Ministry is confident that the issues raised by the Auditor General's Report will be addressed and that further progress will be made as new initiatives in gaming regulation are introduced.





UPDATED RESPONSES TO PRECEDING YEAR'S VALUE-FOR-MONEY AUDITS

The following written comments were received in reply to our invitation to publish further updates from the ministries that were the subject of value-for-money audits last year.

MINISTRY OF FORESTS

The 1992 Report of the Office of the Auditor General included the results of a value-for-money audit of human resource needs and allocation in the Ministry of Forests.

The audit report concluded that the Ministry:

- *did not have appropriate processes for identifying the human resources it needs to achieve its objectives; and,*
- *processes used to allocate staff to the field did not provide management with reasonable assurance that staff are distributed in such a way that the Ministry can deliver its programs efficiently and effectively.*

The report did not identify specific recommendations for action.

As explained in our response published in the 1992 Report, there is little justification contained in the audit report for the conclusions reached.

The Office of the Auditor General criticized the Ministry's processes based on a comparison with inappropriate theoretical methods. These methods proposed by the Office of the Auditor General cannot be

practically applied in the complex environment in which the ministry operates.

In its conclusions, the Office of the Auditor General commented on the efficiency and effectiveness of the Ministry's programs. It is the view of many acknowledged public sector auditors that, in order to comment on efficiency and effectiveness, there should be an examination of the extent to which an organization's goals are achieved, and how programs are delivered. There is no indication in the 1992 report that the Office of the Auditor General had done so.

Accordingly, we have not and do not intend to take any action to address the conclusions.

However, we recognize that ongoing assessment of human resource allocation is critical to ensuring the effective delivery of Ministry programs. As we stated in our response to the 1992 Report, the Ministry had undertaken a number of major initiatives prior to the audit. The status of some of these initiatives is:

- *the Integrated Silviculture Information System (ISIS) will identify required*



silviculture activities for each site and track the record of work completed. The pilot for ISIS will be implemented in April 1993;

- *Program Management Plans (PMPs) continue to be developed across the Ministry. These plans focus accountability on results, establish a benchmark for monitoring achievements and provide a basis for determining key activities for staff;*
- *a human resource vision for the Ministry has been developed. This vision will provide the framework for subsequent human resource management initiatives; and,*
- *a Ministry-wide management development program is being designed. It is anticipated that all managers and prospective managers will participate in this program.*

In addition, we have undertaken a number of other initiatives in response to strategic needs which have arisen since the time of the audit by the Office of the Auditor General. A major project is the Ministry-wide review of roles and responsibilities. One of the objectives of this review is to determine how resources can best be deployed to meet the changing needs of all interested parties.

These initiatives reflect the Ministry's on-going efforts and commitments to ensure that present resources are deployed in a manner which provides maximum results while operating in an environment of fiscal constraint. Ministry management will continue to review issues and strategic needs to determine when additional action may be appropriate.

COMMENTS OF THE OFFICE OF THE AUDITOR GENERAL ON THE UPDATED RESPONSE OF THE MINISTRY OF FORESTS

Our value-for-money audits are conducted in accordance with the value-for-money auditing standards of the Canadian Institute of Chartered Accountants. Those standards require auditors to use audit criteria that are suitable in the circumstances and to obtain sufficient appropriate evidence to support the audit conclusions.

When we conduct value-for-money audits, we follow a rigorous audit process which is designed to ensure that we adhere to professional auditing standards. Nevertheless, when the

Deputy Minister of Forests expressed certain reservations last year about our audit of Human Resource Needs and Allocation, I considered those concerns carefully and thoroughly. Based on my own enquiries and the results of two reviews of the work done on this audit by my staff, one conducted by my Deputy and the other by a national firm of management consultants, I concluded that this audit was conducted fully in accordance with professional auditing standards.



MINISTRY OF SOCIAL SERVICES

The Ministry of Social Services is pleased to provide the following update to the Ministry's response to the value-for-money audits completed by the Office of the Auditor General in 1991/92.

PROGRAMS FOR INDEPENDENCE

In its response to the audit, the Ministry made commitments to change policy, procedure reporting and training in a number of areas. The following is an update on these commitments:

Minimizing Incorrect Payments: In March 1993, the Ministry concluded its review of the error monitoring activities and will be phasing in a permanent group of staff who will conduct special and routine eligibility checks. This group of regionally based staff will report centrally for overall direction. This is to be phased in by September, 1993. In addition, these staff will pilot the use of a case "comparator" in order to establish baseline error levels.

Assessing Appropriateness of Procedures: Written procedures for the investigators' use in surveillance have now been incorporated into the Ministry investigator's handbook.

Staff Orientation to Procedures: A monitoring manual to assist supervisory staff has been prepared and is being introduced for PFI supervisors during March and April of this year.

Staff Supervision: In order to improve the competence of its new PFI supervisors, the Ministry promised to add a new training module which would include monitoring and evaluation of client services. This module was piloted in March 1993 and will be delivered to

supervisors in the spring and summer.

Employment Initiatives Program: The audit identified the need to improve the usefulness of the assessment and referral computer system. This is a tool used by the front line workers to enable them to have quicker access to programs in client referrals and placements.

A review of the system was conducted in 1992 and changes made to improve it. All rehabilitation officers have been trained in these new procedures.

Assessing Appropriateness of Procedures: The Ministry continues to conduct reviews of its Employment Initiatives programs. In 1992, a survey of the exit rate of clients receiving education and training was concluded and a review of the RISE [regionally-initiated special employment] program was undertaken. The results of both these reviews will be used to modify and add initiatives to the employment programs.

Public Accountability: At the time of the auditors' review of the investigators program, a new reporting system had just been introduced. Information from this system will be used to improve public reporting on the investigators program in the 1992/93 annual report.

RESIDENTIAL SERVICES

Further to the Ministry's response on Residential Services, the Ministry reports that the manual called "A GUIDE TO CONTRACT MANAGEMENT" was finalized and distributed to ministry staff in November, 1992. In conjunction with the manual's introduction, a three day training program was developed for area managers and district supervisors. Training sessions are currently being conducted

regionally. Over 400 ministry staff will have completed the training as of April 1, 1993. These staff are the ministry's major players in managing community-based services contracts.

Additional training events are being planned for contract liaison social workers, rehabilitation officers and administrative support staff. Information sessions for contractors will be held at the local levels. A "CONTRACTOR'S HANDBOOK" has been drafted and is currently undergoing final editing. This document provides contractors with information about how the Ministry works with contractors. The emphasis is on contractors who provide community-based services for Ministry clients.

As part of the Contract Management Review Project, the Ministry is actively engaged in a revision of its contract documents, with particular attention being given to Schedule A's to ensure that the service objectives are clear and measurable.

Work is proceeding in the development of a Contract Management Information System. A Project Initiation Proposal was endorsed by the Steering Committee at the end of November, 1992 and the General Requirements Document is scheduled for completion by July, 1993.

Program divisions are in the process of defining program objectives and quantifiable success factors. These are expected to be completed later this year and will be part of the overall ministry evaluation plan.

In the Family and Children's Services program, draft standards for children in residential facilities were distributed widely both within the Ministry and the caregiver community for review and comment. Additionally, in conjunction with the Child and Youth Secretariat, the Ministry is working to ensure appropriate and comparable interministry standards for residential facilities for children. Meetings

are taking place with the various interest groups to discuss the draft standards and to recommend further direction. A plan is underway to integrate many of the standards into policy, practice, contract specifications and training.

In December, 1992, the Community Panel reports were presented to government. Over 264 recommendations are included. A legislative review team is now in place in preparing new legislation governing children and families which is expected to be introduced later this year.

The Superintendent of Family and Child Service has established a project wherein there will be an independent review of the plans for all permanent wards. The process will include meetings with the child's caregiver(s) and where appropriate, members of the child's extended family.

The final stage of the Levels of Care project was implemented in February, 1993. The project reflects a new foster home payment structure based on the skills of the caregiver. Training for the project is focused on service planning and caregiver expectations and includes both ministry staff and caregivers.

Additional funds have been allocated to the Ministry's budget for the monitoring of services for people with mental handicaps. A total of \$2 million is available and will provide for more frequent monitoring of residential services.

The Ministry plans to contract with an agency to conduct in depth reviews with contractors providing both residential and day program services. External monitoring teams will have a similar structure to the current Provincial Review Team. This permits the standardized application of monitoring methods and procedures. This external monitoring is in addition to contract monitoring done by the contract managers and liaison workers in the field, and the monitoring of the progress of



individuals through the Personal Service Planning process.

MANAGING PROFESSIONAL RESOURCES

The Ministry has taken action in reviewing its recruitment and selection processes to ensure its staffing activities focus on the critical competency criteria and that processes do not include systemic barriers. An Employment Equity Officer has been appointed to bring further expertise to the recruitment and selection process. Also, resources have been allocated to focus on a substantive review of the competency requirements of the social work job role from initial recruitment to the senior practitioner level.

The responsibility of the senior practitioner has been recognized by a negotiated salary adjustment which enhances the Ministry's ability to attract and retain qualified staff. Work is continuing with Government Personnel Services in the initiative of developing competency based selection criteria. The Ministry has also developed a model to do "block" hiring of new social work staff. This model supports a more comprehensive assessment technique with a positive cost benefit outcome.

The Ministry recognizes that broad human resource planning is essential. In this regard, the Ministry is providing funding to undertake a survey of social worker personnel in the profession in British Columbia. It will identify present resources and support the identification of needs and demands for appropriately qualified staff, now and in the longer term. Information on educational needs will also be a significant outcome.

This survey will be conducted by the Health Human Resources unit at the Centre for Health Services and Policy Research, U.B.C. and be managed by the Task Force on Social Work Human Resources Planning

initiated by the Ministry and the B.C. Association of Social Workers.

The survey is the most comprehensive analysis of social work practitioners, ever undertaken in the province. It will identify present resources and support the identification of needs and demands for appropriately qualified staff, now and in the longer term. Information on education needs will also be a significant outcome.

The Professional Social Worker

The Ministry has developed a plan to provide concentrated training to new social work staff. The plan includes a minimum of three months training without case load assignment and with supervision by an assigned senior practitioner who will receive specific training in the assessment and development of new staff. This plan will significantly improve new worker competency preparation and probationary evaluation.

This plan results in part from an independent audit of the present on-the-job training which recognized that time demands on District Supervisors did not allow for the dedicated time required for the training of new staff. The plan will also focus on the professional judgements staff must make.

Improving Social Workers' Working Environment

The Ministry continues to seek ways to balance community interests and expectations of existing staff resources. This need was clearly identified in the Report of the Community Panel, the framework for new Family and Children's Legislation. The report makes many recommendations that as adopted by government will strengthen the role and morale of social workers. Legislative change will be a major component of job role improvement.

A new training module has been introduced for all supervisors with a theme of effective service delivery and working in partnership with the community.

Staff morale and motivation are included as they are essential elements of community service. Community participation is essential to effective social services and positive staff recognition.

The Ministry knows that stress on the job is a significant problem. To help address this, resources have been allocated to do an audit of the effectiveness of the Ministry's critical incident policy.

Interim improvements are being made. Also, the Ministry is preparing, on a pilot basis, a workplace health promotion program. The pilot project is under discussion with senior union representatives and has support from the

Office of Health Promotion of the Ministry of Health.

Resources have been assigned to enhance the working tools of social workers by development of a computerized information system that will reduce paper and administrative demands and increase data availability.

Looking Ahead

In closing, the Ministry will continue to initiate changes to accommodate the responses to the value-for-money audits conducted in 1992. The Ministry is committed to client service and the need to support and recognize professional staff.

The foregoing outlines the activities of the Ministry to date in our effort to ensure appropriate actions to the issues identified in the audits.

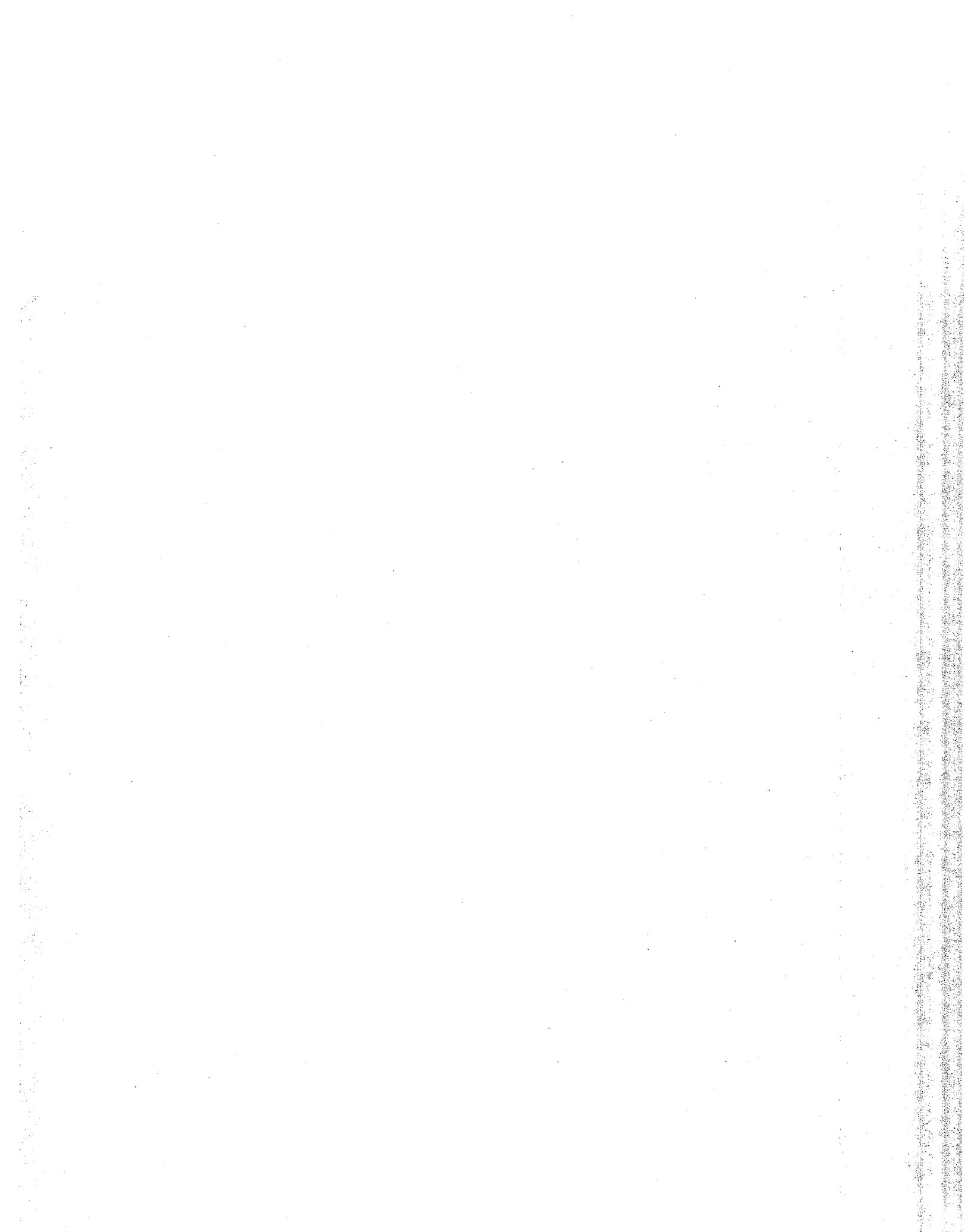


PART II

COMPLIANCE-WITH-AUTHORITIES AUDITS

CONTENTS

INTRODUCTION TO COMPLIANCE-WITH-AUTHORITIES AUDITS	55
COMPLIANCE WITH THE FINANCIAL DISCLOSURE ACT	57
ORDER-IN-COUNCIL APPOINTMENTS.....	65
COMPLIANCE WITH PART 3 OF THE FINANCIAL ADMINISTRATION ACT.....	75
COMPLIANCE WITH THE TOBACCO TAX ACT	81
FINANCIAL INFORMATION ACT: FOLLOW-UP.....	83
SMALL ACTS.....	91
UPDATED RESPONSE TO PRECEDING YEAR'S COMPLIANCE-WITH-AUTHORITIES AUDIT	
Compliance with Part 4 of the Financial Administration Act.....	93



INTRODUCTION TO COMPLIANCE-WITH-AUTHORITIES AUDITS

This part of the Annual Report of the Auditor General includes the results of several compliance-with-authorities audits completed during the first two months of 1993.

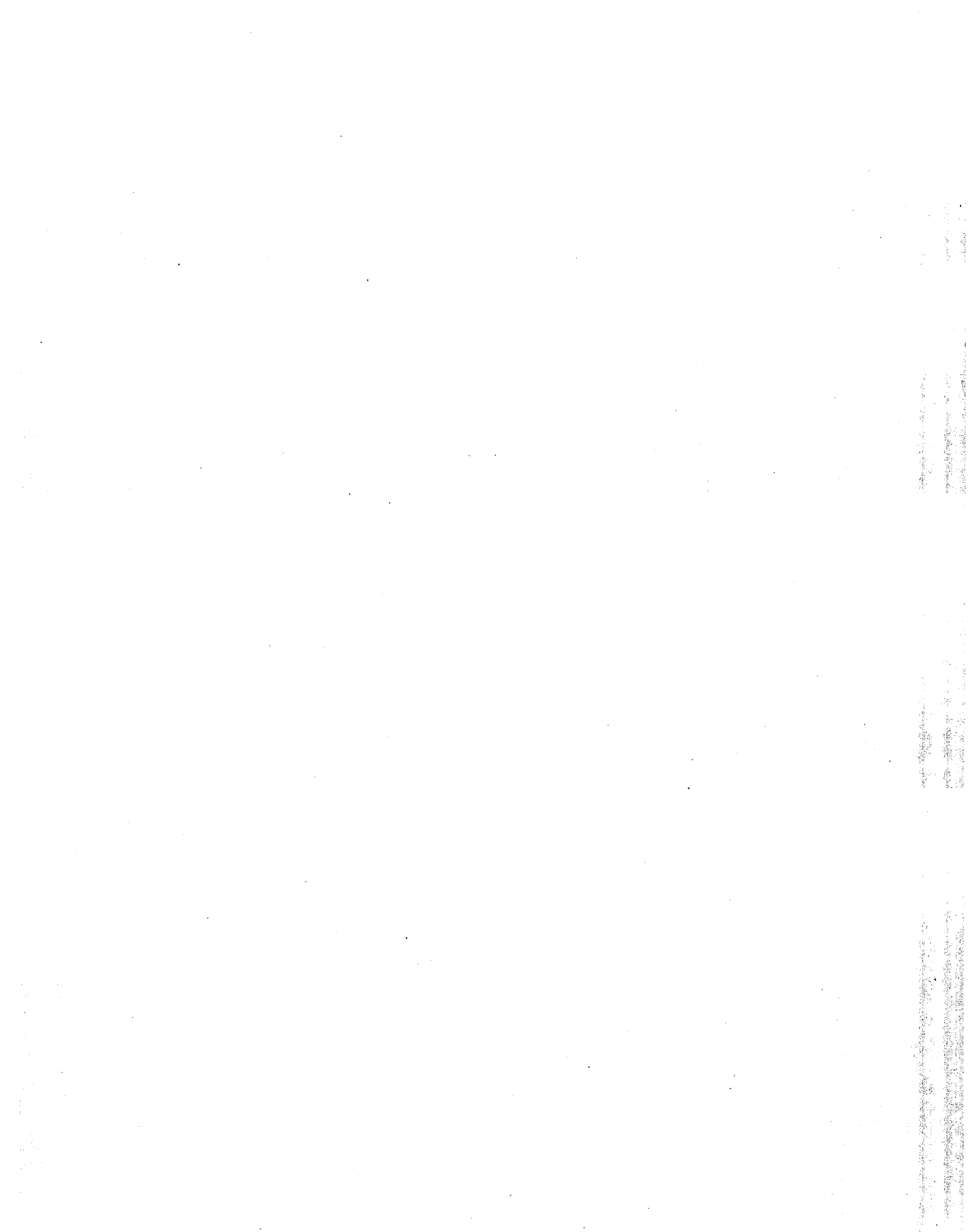
Over the past two years, our Annual Reports have contained results of our audits of compliance with Part 4 (Expenditure) of the *Financial Administration Act*, and compliance with the *Financial Information Act*. This year's Annual Report includes the results of our audits of compliance with Part 3 (Revenue) of the *Financial Administration Act*, and a follow-up audit of compliance with the *Financial Information Act*.

In addition, we report on compliance issues relating to the *Financial Disclosure Act*, the *Interpretation Act*, the *Tobacco Tax Act*, and several smaller acts.

We request responses to our compliance-with-authorities audits from senior officials of the organizations responsible for the matters addressed in our audits. These responses are published in this part, immediately following the respective audit reports.

Because it often takes time for organizations to act on audit findings and recommendations, we also ask officials for updated responses to the compliance-with-authorities audits we reported in the preceding year. These responses are also published in this report section.





COMPLIANCE WITH THE FINANCIAL DISCLOSURE ACT

An assessment of the extent to which elected local government officials meet the timing and completeness requirements of the Act for filing disclosures, whether the public has access to these disclosures, and the extent to which provincial and local government employees have been designated as having to file disclosures

AUDIT PURPOSE AND SCOPE

We have made an examination to determine whether the *Financial Disclosure Act* was complied with by elected officials of municipalities, regional districts and school districts as of January 1993. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Information reported on the disclosure forms is not susceptible to satisfactory audit verification as certain of the information is not otherwise available on the public record. Consequently, we were unable to verify the completeness or accuracy of information on the disclosure forms.

OVERALL CONCLUSION

In our opinion, except that we were unable to verify the completeness or accuracy of the information on the disclosure forms,

the *Financial Disclosure Act* was complied with, in all significant respects, by the elected officials referred to above, as of January 1993.

INTRODUCTION

The *Financial Disclosure Act* applies to: nominees for election to provincial office; nominees for election to, and persons elected to, a council or board of a municipality, regional district, or school district; and employees of the government who have been designated by the Lieutenant Governor in Council. As well, the Act applies to members or employees of a board, agency, or commission who have been designated

by the Lieutenant Governor in Council as being required to comply with the Act, and to employees of a municipality, regional district or school district who similarly have been designated by the local council or board.

The Act requires the disclosure of landholdings, shareholdings, business interests, and debts. As well, holdings by trustees for the benefit of the person making the disclosure must also be included.



Landholdings exclude the residence of the person making the disclosure, but include land where there is an agreement allowing an interest to be acquired. Where a shareholding is more than 30% of the voting shares, additional information must be reported, such as the nature of the business and details of landholdings, long term debts, and subsidiaries of the corporation. The 30% shareholding takes into account the holdings of spouses, siblings, parents, and children. Debts exclude those relating to the residence of the person making the disclosure, as well as those related to ordinary household or personal living expenses. They also exclude assets held in trust for others.

Only landholdings and business interests situated in the Province need to be disclosed. For persons connected with municipalities, regional districts, and school districts, only the landholdings and business interests situated within the applicable regional district need to be disclosed.

All disclosures must be made on the forms prescribed in the *Financial Disclosure Act Forms Regulation*. Nominees must include the disclosures with their nomination papers. Elected officials and designated employees must make the disclosures between January 1 and 15, and again between July 1 and 15 of each year, as well as by the 15th of the month following the month in which they cease to be an official or an employee. Designated employees must also make the disclosures by the 15th of the month following the month in which they first become a designated employee.

The public is entitled to inspect the disclosures made by the nominees and the elected officials. This may be done, during normal business hours, at the provincial Legislature for provincial

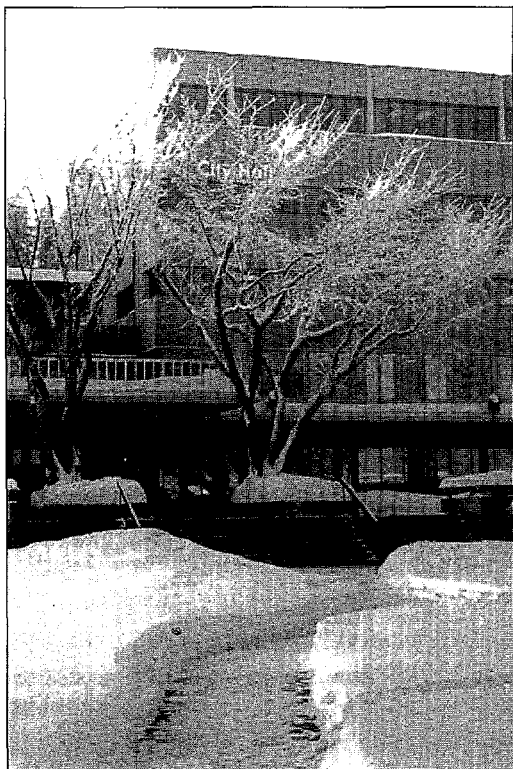
nominees, or at the appropriate municipal, regional district, or school district office.

The public may not inspect the disclosures made by employees. The disclosures made by provincial employees are to be given to a Cabinet Minister. Those made by employees of municipalities, regional districts, or school districts are to be given to the respective mayors, councillors, or board members.

The Act first came into force in June 1974 as the *Public Officials and Employees Disclosure Act*. Apart from some editorial changes, and a change of name in 1979 when the statutes of the Province were revised and consolidated, the Act remained unchanged until 1990. At that time, with the enactment of the *Members' Conflict of Interest Act*, the requirement for elected provincial officials to comply with the Act became redundant and was removed. No further changes have been made to the Act since then.

AUDIT SCOPE

We performed our audit of the filing of disclosures by elected officials of municipalities, regional districts, and school districts to assess whether their disclosures had been made within the time specified (section 2(3) of the Act), whether all the necessary forms had been completed (section 4), and whether the public had access to the disclosure forms of these elected officials (section 6(1)). Our audit work was performed in the second half of January 1993, and therefore we looked for the disclosures that should have been made between January 1 and 15, 1993. We visited 34 of the 253 municipalities, regional districts, and school districts across the Province, 13% of the total.



Prince George City Hall

For the disclosures made by employees, which are not available to the public, we conducted a survey to find out how many provincial, municipal, regional district, or school district employees were required by their employers to comply with the Act.

We did not include in the scope of our audit the disclosures required to be made by those nominated for provincial, municipal, regional district, or school district office. This was because there were no general provincial elections, or province-wide municipal, regional district, or school district elections during 1992, for which filings by nominees would have been required.

We were unable to verify the completeness or accuracy of the information on the disclosure forms. Although some information about landholdings can be verified, information on disclosure forms about shareholdings, debts, and business

interests is not available on the public record, and therefore cannot be verified.

DISCLOSURES BY ELECTED MUNICIPAL, REGIONAL DISTRICT, AND SCHOOL DISTRICT OFFICIALS

ACCESS TO DISCLOSURE FORMS

We visited several municipalities, regional districts, and school districts between January 18 and February 1, 1993. We represented ourselves as members of the public, and asked to inspect the disclosure forms. We are pleased to report that only in one case was staff reluctant to allow us to inspect these forms. Once we identified ourselves as being from the Office of the Auditor General, we were allowed to inspect the forms.

DISCLOSURES ON FILE

The councils and boards of the 34 organizations that we visited had 288 elected officials in total. This figure included 45 regional district board members who were also municipal councillors, selected to represent their municipalities at the regional districts. These 45 people were required to make disclosures for both municipal and regional district purposes, the information required to be disclosed being the same for both levels of government.

On our visits, we looked for the disclosures that the Act requires to be made between January 1 and 15. Table 2.1 shows the dates of filing of disclosures for the elected officials.

In some cases, municipal councillors who are also board members of regional districts have not made separate disclosures at the regional district.

TABLE 2.1

Dates of
filing of
disclosures

Elected officials:	Municipalities & regional districts		School districts		Total	
Filing between January 16 and 31, 1993	2	1%	15	25%	17	6%
Filing between January 1 and 15, 1993	130	57%	25	42%	155	54%
Filing in December 1992	21	9%	5	8%	26	9%
Latest disclosure on file is that for July 1992	55	24%	14	23%	69	24%
Latest disclosure on file is earlier than July 1992	16	7%	1	2%	17	6%
No disclosure forms on file	4	2%			4	1%
	<u>228</u>	<u>100%</u>	<u>60</u>	<u>100%</u>	<u>288</u>	<u>100%</u>

Instead, the regional district has received a copy of the disclosure made at the municipality. Of the 69 elected officials whose latest filing was that for July 1992, 18 were regional district board members whose forms were to be received by the district from the members' municipalities. In our visits, we went to the actual municipalities for nine of these elected officials, and found that in all cases their disclosures at the municipalities were current. Subsequently, we telephoned several of the organizations where the latest disclosure form on file for all, or a majority, of the elected officials was that for July 1992, and were told that 49 of these officials had since filed their January 1993 disclosure forms.

The 17 elected officials whose latest disclosure is earlier than July 1992 included 10 elected officials at 2 municipalities where no disclosures have been made since the date of the last election, in the fall of 1990.

The four elected officials with no forms on file are municipal councillors who are also newly appointed regional district board members. They were not required to make disclosures at the regional district in July 1992 as they

were not members of the regional district board at that time. Thus, the only forms that should have been on hand were those for January 1993, and those had not yet been filed at the time of our visit.

We have recommended that the appropriate ministry send out a general reminder to the municipalities, regional districts, and school districts of the timing requirements of the Act.

In view of the above results, and based on comments made to us during our audit, the required semi-annual filing of disclosures, especially where there are no changes to report, may be too frequent. We suggest that consideration be given to amending the Act to some other frequency of filing, such as: annually; when there is a material change to report; or some combination of alternatives.

ENFORCEMENT OF THE ACT

We found that, although the Act provides for a fine of up to \$10,000 for anyone who fails to make the disclosures as required, it does not specify who is responsible for enforcing compliance. While the Act is the responsibility of the Attorney General,



the non-provincial government organizations that must comply with it—the municipalities, regional districts, and school districts—are the responsibility of the Minister of Municipal Affairs, Recreation and Housing, and the Minister of Education. These two ministries told us that they would intervene if a complaint was received. We believe that the legislation and regulations should clarify the issue of responsibility for enforcing the Act.

COMPLETION OF THE DISCLOSURE FORMS

We found that all five of the disclosure forms specified in the Act were being completed. However, the fifth form ("form I"), which is to provide additional information about corporations in which a person's shareholding is more than 30% of the voting shares, was often incomplete. Instead of showing the name, nature of business, landholdings, and long-term debts of the corporation, as well as the name, nature of business, landholdings, and long-term debts of any subsidiaries, the form, when applicable, often showed only the name of the corporation. While some corporations may not have subsidiaries, landholdings, or long-term debts, as a minimum the nature of the business should have been disclosed.

We have recommended that the appropriate ministry send out a general reminder to the municipalities, regional districts and school districts of the information that is required regarding corporations where more than 30% of the voting shares are held. We have also recommended that the forms be revised to ensure that information necessary to include is not overlooked, and to provide greater certainty to someone inspecting the forms that a "nil" form is indeed correct.

THE ISLANDS TRUST

We also noted that the trustees of the Islands Trust and related local trust committees are not required to comply with the *Financial Disclosure Act*. The Trust has control over land use on the Gulf Islands, and as such could be considered the equivalent of a municipality or regional district. Although the *Islands Trust Act* prohibits trustees from acquiring an interest in land, except with the consent of the Minister for Municipal Affairs, Recreation and Housing, there is no requirement for public disclosure when individuals stand for election or hold office. We have recommended to the Ministry of Attorney General and the Ministry of Municipal Affairs, Recreation and Housing that they consider bringing the Islands Trust and the related local trust committees within the purview of the *Financial Disclosure Act*.

PROVINCIAL EMPLOYEES

Provincial employees include those employed by the government under the *Public Service Act*, and those employed by or appointed to a board, agency, or commission. Only those provincial employees who have been designated by the Lieutenant Governor in Council are required to comply with the *Financial Disclosure Act*.

We found that no provincial employees have ever been designated by the Lieutenant Governor in Council since the Act was proclaimed. We also found that the matter of the designation of employees appeared not to have been considered, at least not recently.

We have recommended to the Ministry of Attorney General that the question of designating senior provincial employees be considered,

bearing in mind the existing Directives of the *Public Service Act*. These Directives contain standards of conduct for provincial employees, one of which is that they manage their private affairs so as to avoid being in a conflict of interest.

EMPLOYEES OF MUNICIPALITIES, REGIONAL DISTRICTS, AND SCHOOL DISTRICTS

Only those employees who have been designated by a council or board are required to comply with the Act. We sent a letter to each municipality, regional district, and school district in the Province asking them to tell us whether they had designated any employees under the *Financial Disclosure Act*. The results of our survey are shown in Table 2.2.

Where employees have been designated, there was little consistency in total numbers. For example, the number of employees designated by the cities ranged from 1 to 22, with an average of 9. However, there was some commonality in who was designated, that usually being the senior officers, such as the clerk and treasurer. As a result of our survey, some of the organizations indicated that they would be reconsidering their current designations of employees.

Some of the municipalities, regional districts, and school districts that had not designated any employees informed us that some or all of their employees were, nonetheless, being required to complete the disclosure forms. In addition, some informed us that they had their own separate rules covering conflicts of interest.

We believe that the organizations subject to the Act could benefit from guidance being provided as to what employees might be designated.

RETENTION AND USE OF FORMS

The Act does not contain any provisions for retaining disclosure forms. From our enquiries, we found that in practice each individual's forms are retained for as long as that person is on the council or board. We recommended to the Ministry of Attorney General that it consider introducing a Regulation specifying the length of time disclosure forms should be retained.

On our visits to the municipalities, regional districts, and school districts, we found that the disclosure forms used were not always those prescribed by the Regulations of the *Financial Disclosure Act*. However, in all cases the forms presented the same information, and had the same approvals, as the prescribed forms. We recommended to

TABLE 2.2

Results of survey

	Number of organizations in province	Replies to survey		Respondents who have designated employees	
Municipalities	149	120	81%	57	48%
Regional districts	29	24	83%	9	38%
School districts	75	65	87%	9	14%
Totals	253	209	83%	75	36%

the Ministry of Attorney General that it consider amending the Regulation to allow for flexibility in the style of disclosure forms, as long as the required content and approval aspects were consistently retained.

LEGISLATION FROM OTHER JURISDICTIONS

We reviewed recent and pending legislation from other jurisdictions, including Canada, Alberta, and Nova Scotia. This legislation is not directly comparable with the *Financial Disclosure Act*. Rather, it is more closely related to British Columbia's *Members' Conflict of Interest Act*, enacted in 1990 and

amended in 1992. These pieces of legislation deal with Members of Provincial Legislatures (and Members of Parliament) rather than with elected local government officials and provincial and local government employees. However, a common part of recent legislation, including that for Members of the Legislative Assembly in British Columbia, is that disclosures are made to a commissioner, whose job it is to advise the Members of their responsibilities, to make rulings on conflicts of interest, and to review what information is to be made public.



RESPONSE OF THE MINISTRY OF ATTORNEY GENERAL

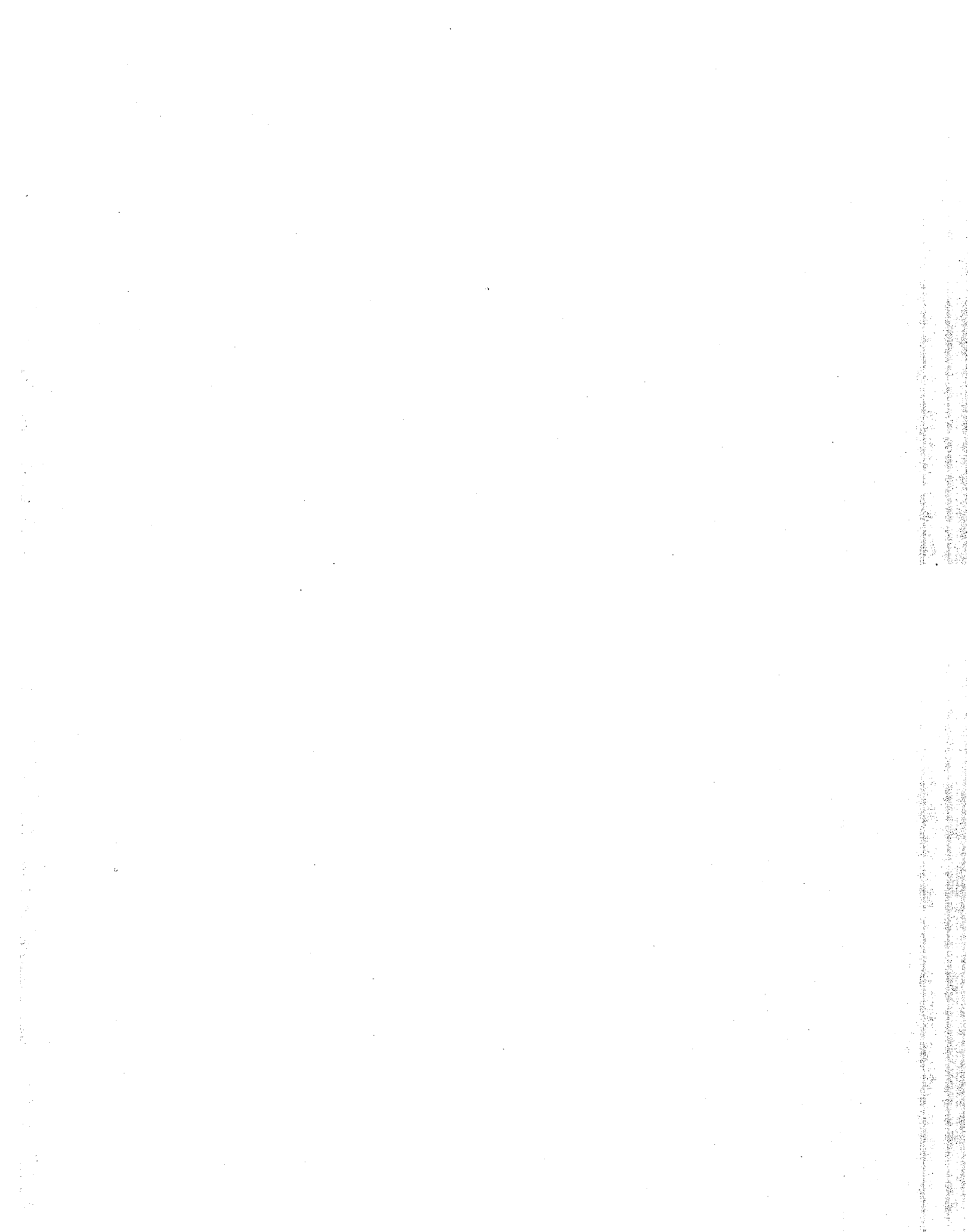
Thank you for your report on the audit of compliance with the Financial Disclosure Act.

The Ministry is pleased with the overall conclusion that the Financial Disclosure Act was complied with, in all significant respects, as at January, 1993.

The Ministry agrees with your various recommendations that the process of filings and timeliness of filings should be reviewed. We agree that there should be a more formal process to remind jurisdictions that the Act must be materially complied with and that the Ministry should review

the necessity of having senior Provincial employees comply with this Act. We also agree that the form of the disclosure should be reviewed and that guidelines for the time these disclosure forms will be retained should be established. Finally, we agree that the Act should be amended to clarify which Ministry has the responsibility to enforce this legislation.

Our Ministry will work towards these objectives in consultation with the Ministries of Education, and Municipal Affairs, Recreation and Housing.



ORDER-IN-COUNCIL APPOINTMENTS

An assessment of whether the term of office and amount of remuneration for order-in-council appointments were authorized in accordance with legislative requirements

AUDIT PURPOSE AND SCOPE

We have made an examination to determine whether the *Interpretation Act*, sections 22(a) and (d), regarding term of office and amount of remuneration, or the relevant enabling legislation, was complied with for order-in-council appointments made during the 1992 calendar year. Our examination included all organizations in the government's summary financial reporting entity, except government

ministries and special offices, and other organizations that we believe should be included in the government reporting entity (i.e., the Workers' Compensation Board, universities, colleges, institutes and the Open Learning Agency). Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

OVERALL CONCLUSION

In our opinion, except for a number of appointees obtaining remuneration which had not been appropriately authorized as referred to in the following paragraph, the *Interpretation Act*, sections 22(a) and (d), or the relevant enabling legislation, was complied with, in all significant respects, for order-in-council appointments made during the 1992 calendar year for the organizations referred to above.

We found that for 49 of the 389 appointments, the legislative requirements for authorization of remuneration were not met. For 19 appointments, an official in the responsible ministry provided the only authorization for the amount of

remuneration, whereas the legislation required authorization by the Lieutenant Governor in Council. For another 19 appointments, remuneration was authorized either by the board members themselves or by a contract with the organization, but not by the Lieutenant Governor in Council as required by legislation. For one appointment, remuneration was authorized by a board resolution, whereas the enabling legislation required that it be authorized in a board bylaw. Finally, for one organization with ten appointments, the remuneration was established with the concurrence of the minister, but the legislation required that the remuneration be authorized in a Regulation.



INTRODUCTION

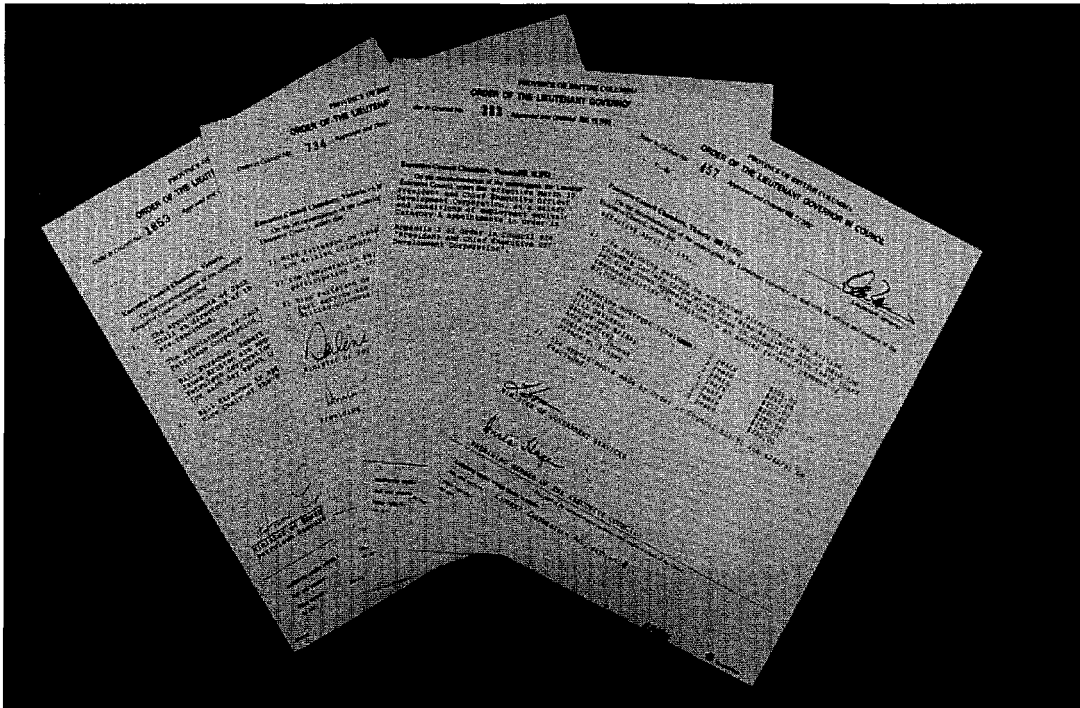
The government appoints people to a variety of positions within the public sector, such as staff in a minister's office, coroners, judges, and the chair and directors of Crown corporations and other government organizations.

For many organizations, the enabling legislation governing the organization states that the Lieutenant Governor in Council appoints the governing boards and certain other positions. Authorization by the Lieutenant Governor in Council is recorded and made public in an order in council (OIC). These orders must be signed by the Lieutenant Governor in Council, or, in his absence, the Chief Administrator of the Province, before they are valid.

The enabling legislation often states who has the authority to fix remuneration, if any, paid to these appointees as well as the terms of their appointments. This authority is usually

given to the Lieutenant Governor in Council, who also makes the appointment. However, it may instead be given to the board of the organization or the minister responsible for the organization. The enabling legislation may also set restrictions on the maximum term of office which may be served or the amount of remuneration which may be paid.

Where the enabling legislation does not specifically state who has this authority, sections 22(a) and (d) of the *Interpretation Act* apply. Section 22 of the *Interpretation Act* states, in part, "Words in an enactment authorizing the appointment of a public officer include power to (a) fix his term of office ... and (d) fix his remuneration and vary or terminate it." This means that where the enabling legislation does not specifically mention the authority to fix remuneration or term of office, the Lieutenant Governor in Council, as the person making the appointment, is the only person with that authority.



Orders in Council

Where the *Interpretation Act* applies, or where the enabling legislation specifies that the Lieutenant Governor in Council fixes remuneration and sets the term for the appointment, the name of the appointees, the length of terms, and the remuneration, if any, for the position should be stated in an OIC.

THE APPOINTMENT PROCESS

The Lieutenant Governor in Council does not personally choose the person to fill the appointed position or determine the amount of remuneration to be paid. However, the legislation requires that he approve the appointments and, in most cases, the amounts determined in order for them to be appropriately authorized. The legislative requirement for approval by the Lieutenant Governor in Council provides public accountability for the decisions made by the government.

When an appointment is to be made by order in council, the responsible ministry contacts the Legislative Counsel's office in the Ministry of Attorney General. The ministry either drafts the order or requests that the Legislative Counsel draft the order. Cabinet's policy is that all orders in council are to be reviewed and given a legal opinion by the Legislative Counsel, although this process is not required by legislation. The review ensures that the order complies with the legislation under which it is made. Legislative Counsel attaches its opinion to the drafted order and returns the order to the ministry. The ministry is responsible for presenting the order to Cabinet for approval.

Cabinet reviews all orders in council and decides whether or not to approve them, based on the presentation by the ministry and the advice it receives from the Co-ordination of Agencies, Boards

and Commissions Branch of the Ministry of Government Services. When the document has been approved, it is signed by the presiding member, usually the Premier, and the minister who presented it. The order is then sent to the Lieutenant Governor for his approval and signature.

AUDIT SCOPE

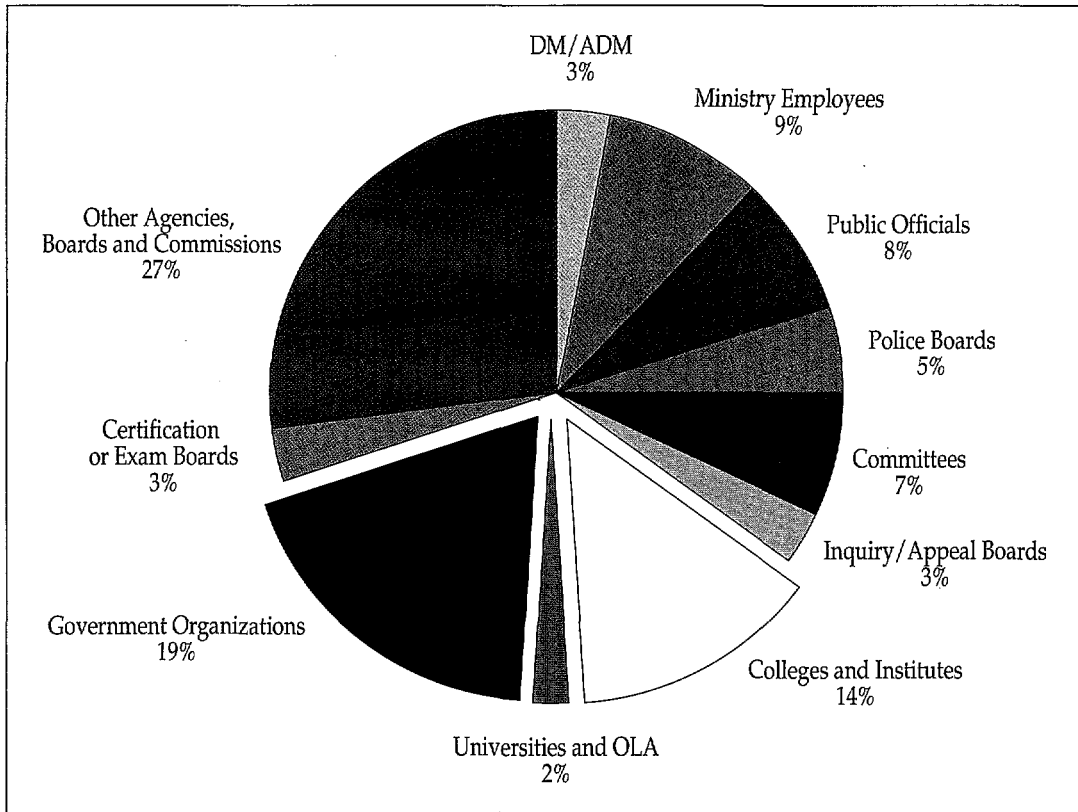
Our audit included order-in-council appointments made during the 1992 calendar year for all organizations in the government's summary financial reporting entity, except government ministries and special offices, and for other organizations that we believe should be included in the government reporting entity (i.e., the Workers' Compensation Board, universities, colleges, institutes and the Open Learning Agency). These organizations are accountable for the administration of their financial affairs and resources to the government, and are owned or controlled by government.

Figure 2.1 shows the distribution of the more than 1,100 appointments made by the Lieutenant Governor in Council in 1992. The detached portion of the chart shows our audit coverage. For the organizations included in our audit, there were 389 appointments to 46 organizations representing approximately 35% of all 1992 appointments. There were appointments to the boards of every college, institute and university, and either significant changes or complete replacements of the boards of 21 of the 43 government organizations included in the government's summary financial statements. The number of appointments audited for each type of organization, and the number of organizations for which appointments were audited, are shown in Table 2.3.



FIGURE 2.1

Summary of 1992 order-in-council appointments by type
 Source: 1992 Orders in Council



For each organization with appointments in 1992, we reviewed the enabling legislation to identify the requirements where the authority to fix the remuneration and term of office was specified. Where the legislation was silent, the more general requirement of the *Interpretation Act*, that the remuneration or term be fixed by the Lieutenant Governor in Council, applied.

We reviewed the appointing orders in council to determine whether, in each case, a term of appointment was specified. Where a term was stated, we

looked to see whether it was within the restrictions, if any, imposed by the relevant organization's enabling legislation. Our objective was to ensure that the term was fixed by an appropriate authority. We did not endeavour to determine whether the actual term served was the same as the term stated.

We also reviewed the appointing orders in council to determine whether, in each case, remuneration for the appointment was specified. We contacted each organization directly to find out if any remuneration was paid

TABLE 2.3

Summary of appointments audited by type of organization
 Source: 1992 Orders in Council

Organization	Number	Appointments
Universities & Open Learning Agency	5	22
Colleges and Institutes	19	158
Government Organizations	22	209
Total	46	389

to the appointees and, for appointees who did receive remuneration, how the amount had been authorized. Where remuneration was being paid, we checked to ensure that it was authorized according to the legislative requirements.

We did not look at the process for determining the amount of remuneration to be paid, nor did we assess whether the rules governing that process were complied with.

OBSERVATIONS OF SIGNIFICANCE

TERM

Authorization of Term

Most appointing orders in council we reviewed specified the term of the appointment and therefore complied with the *Interpretation Act* or the terms of the enabling legislation. When the appointing order does not specify the term of the appointment, the implication is that the appointment is "during pleasure". This means that the appointment can be terminated at any time by the person who made it.

Only 34 of the 389 appointing OICs we examined did not state the term of office. For all but four of these appointments, representing two organizations, the enabling legislation is either silent about the term of the appointment or states that the appointment is "during pleasure". The remaining four appointments were made under the *University Act*. It states that members of the board "shall hold office for three years and after that until his successor is appointed or elected." Therefore, given the requirements of the enabling legislation for the organizations to which these appointments were made, the orders in

council being silent still resulted in compliance with the legislation.

Length of Term

When the Lieutenant Governor in Council has the authority to fix the term of office for appointments he makes, the length of the term must still be within the constraints set by the enabling legislation of the organization. We looked at 27 different enabling Acts, and 9 of them specified a maximum term. The remaining Acts either said that the appointments were "during pleasure" or did not mention the length of term.

We found only two instances in which the term specified in the OIC did not comply with the limits set in the enabling legislation. One of the directors of the British Columbia Health Research Foundation was appointed for a term of three years, but the term specified in the Foundation's Act is two years. The *First Peoples' Heritage, Language and Culture Act* states that appointments are for a term of two years, except in the first year during which at least half the members shall be appointed for a one year term. In this case, however, the OIC appointed the council for only one month.

Orders in council should be carefully reviewed to ensure that the specified terms of office are in compliance with the Act under which they are made.

REMUNERATION

Summary of Findings

The legislation provides for a variety of ways in which remuneration can be authorized. Most legislation states that remuneration is fixed by the Lieutenant Governor in Council. However, the boards of the Insurance Corporation of British Columbia and of colleges and institutes are permitted to set their own

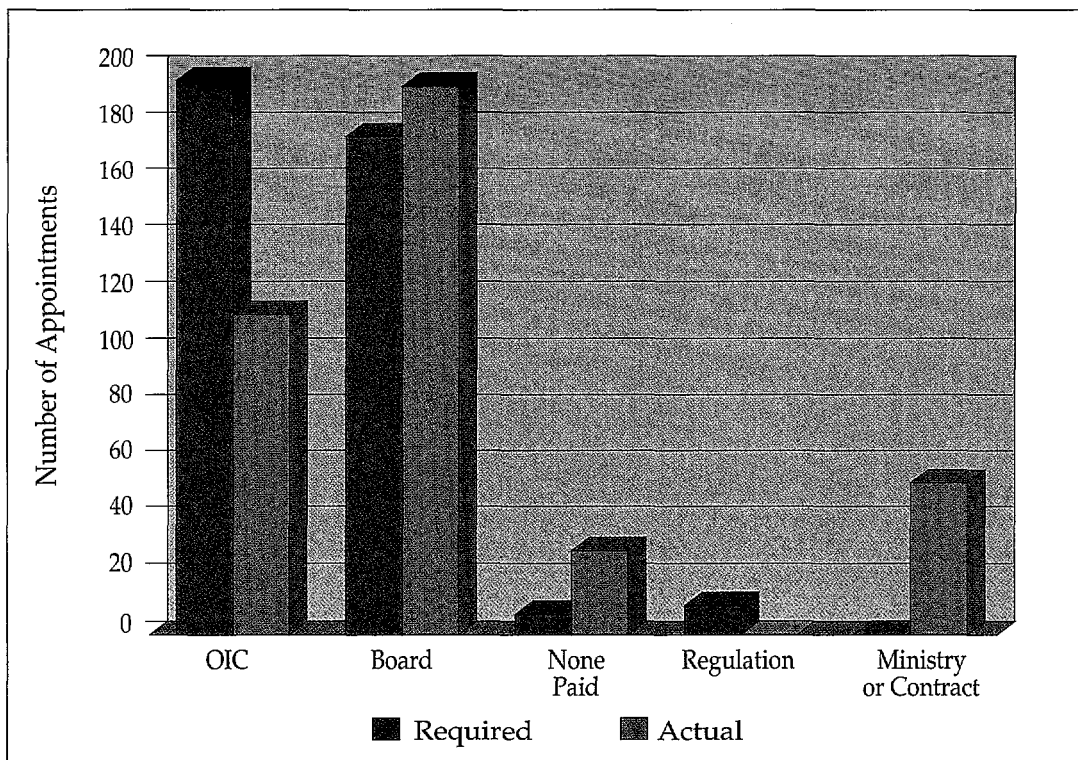
remuneration in a bylaw. In other cases, the legislation states there is no remuneration or it is fixed in Regulations made by the minister.

For approximately 90% of the appointments, relating to 80% of the

Figure 2.2 summarizes the legislative requirements for authorizing remuneration by appointment, and compares the requirements to the actual method of authorization used in each case.

FIGURE 2.2

Comparison of legislative requirements for authorization of remuneration to actual method used



organizations we reviewed, remuneration paid to the appointees was fixed in compliance with the relevant legislation. However, the amount of remuneration was usually not specified in the appointing order. Most often, remuneration for the position, rather than for a specific individual, was authorized in an OIC dating back several years. For example, remuneration for the chair and directors of British Columbia Buildings Corporation was approved in an OIC dated May 18, 1978.

For the other appointments, remuneration was not authorized in compliance with the relevant legislation.

Different ways of authorizing remuneration

We found that enabling legislation described a variety of methods by which remuneration could be fixed. Figure 2.3 groups the organizations we audited by the legislative requirements for authorization of remuneration.

For 16 of the organizations, the enabling legislation stated clearly that either no remuneration was to be paid, or that any remuneration paid was to be fixed by the Lieutenant Governor in Council. For nine organizations, the enabling legislation made no specific reference to authority to set remuneration. The *Interpretation Act*, therefore, applies in these cases so the

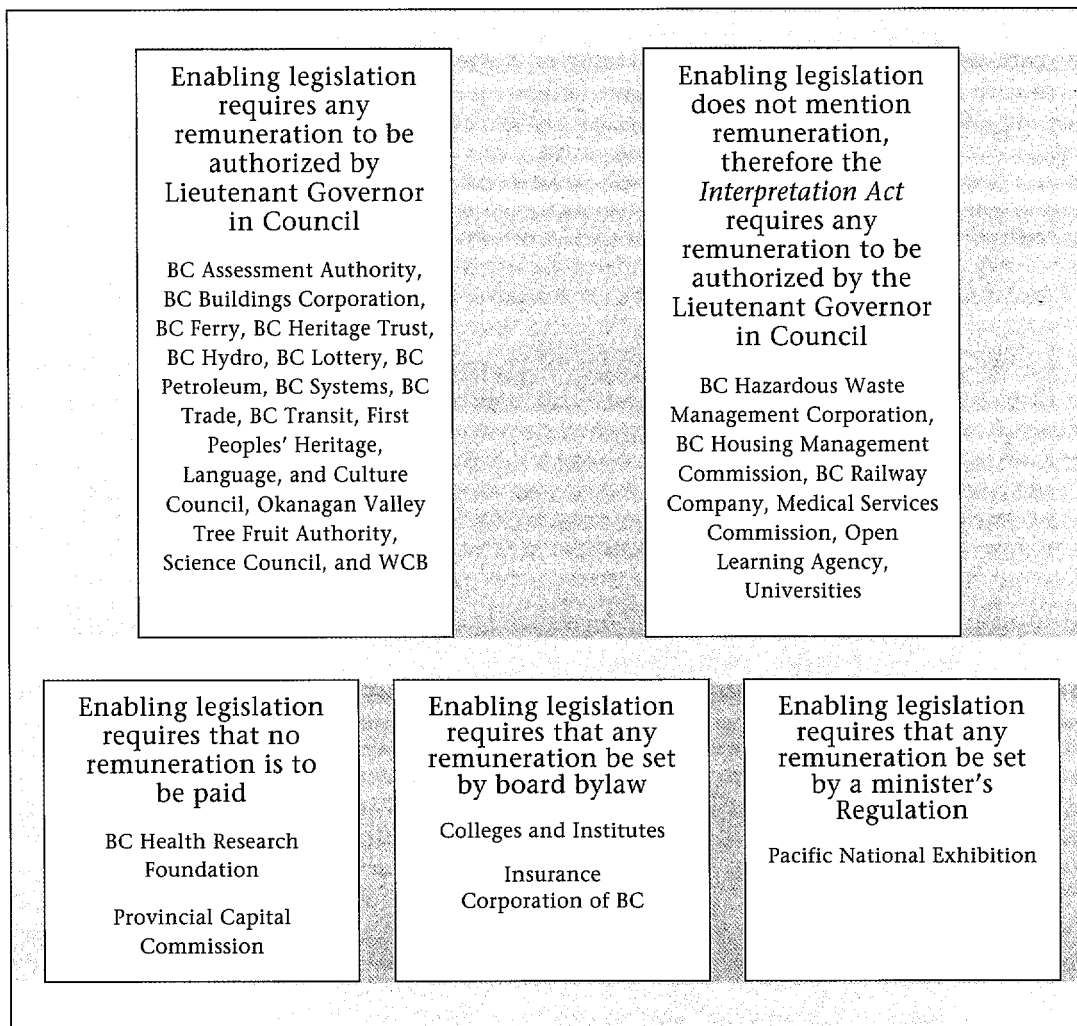


FIGURE 2.3

Summary of legislative requirements for authorization of remuneration for the appointments audited

Lieutenant Governor in Council has the authority to fix any remuneration that may be paid. In one case, the legislation states that remuneration is to be fixed by the minister in a regulation. For the remaining 20 organizations, including the colleges and institutes and the Insurance Corporation of British Columbia, the legislation states that board remuneration may be fixed by the board's own bylaws.

We found several instances in which the orders in council did not contain the necessary information to comply with the legislative requirements for authorizing remuneration for OIC appointments. In most cases, this occurred when there was no specific mention in the enabling legislation of

who had the authority to set remuneration, and therefore the *Interpretation Act* applied. For example, appointees to the British Columbia Hazardous Waste Management Corporation, British Columbia Railway Company, and the University of Northern British Columbia were all paid amounts fixed by the organization. However, this did not satisfy the requirements of the *Interpretation Act* for approval of the remuneration by the Lieutenant Governor in Council.

The Regulation setting out the powers and duties of the British Columbia Housing Management Commission is silent on how remuneration for commissioners is to be authorized. The Minister of Municipal Affairs, Recreation



and Housing authorized the amounts paid to the chair and commissioners in a letter. The appointing order in council did not refer to remuneration, and therefore the requirement of the *Interpretation Act* for authorization of remuneration was not satisfied.

We found several instances where remuneration was not appropriately authorized even though the enabling legislation clearly stated how it was to be set.

- Members of the First Peoples' Heritage, Language and Culture Council are paid a per diem authorized by the Ministry of Aboriginal Affairs. Their enabling legislation states, "The Lieutenant Governor in Council may determine the remuneration of the members of the board...." However, the members' remuneration is not approved in an OIC.
- The Insurance Corporation of British Columbia appropriately set the remuneration for its directors in a board bylaw, but set the amount for its chair by board resolution, the same way in which the president's remuneration is set. We believe that, since the chair is one of the directors, his remuneration should have been approved in the same manner as that of the other directors.
- The *Pacific National Exhibition Incorporation Act* requires that remuneration paid to the directors shall be set in a Regulation made by the minister responsible for the organization. Although staff at the Pacific National Exhibition confirmed that their directors are paid a per diem, there are no Regulations under this Act so the amount paid has not been authorized in compliance with the legislation.

- The chair of the British Columbia Hydro and Power Authority is paid an amount authorized by the Minister of Labour. However, the remuneration was not specified in an order in council as required by the *Hydro and Power Authority Act*.

We believe that the legislative requirements for the authorization of remuneration were not met in the above cases. Legislative requirements governing the authorization of remuneration should be communicated to all parties involved in determining and authorizing the amounts to be paid. In particular, application of the *Interpretation Act*, where other, more specific legislation is silent, needs to be stressed.

We found that in some of the cases described above, there seemed to be uncertainty about what constitutes proper authorization. We recognize that with a variety of legislation about the appointment process, and wording that differs from one statute to another, there may be different interpretations of the legislative requirements for authorization of remuneration. A letter from a minister, or a contract setting out the remuneration for an appointment, may satisfy requirements for the determination of the amount of remuneration, but neither one satisfies the legislative requirements for remuneration to be authorized by the Lieutenant Governor in Council.

Making the information more accessible

For organizations in which the amount of remuneration paid must be fixed by the Lieutenant Governor in Council, there is no requirement that the remuneration be specified in the appointing OIC. Remuneration for a specific position, such as a director of BC Transit, can be set globally in an OIC

that remains in effect for several years, during which time several appointments may be made. None of the 1992 appointing orders in council we looked at referred back to a global order in council authorizing remuneration so that it could be easily located. Although the remuneration in these cases is appropriately authorized and the information is public, it is not easily accessible.

Most of the government organizations included in our review are required by the *Financial Information Act* (FIA) to show, in an annual report available to the public, the total remuneration paid for each employee who receives over \$35,000. We have reported on compliance with the FIA in the "Financial Information Act: Follow-up" section of this Annual Report. Usually, the total remuneration paid to each member of a governing board is less than the minimum amount required for it to be reported in the annual FIA report.

The government voluntarily discloses the amounts for all order-in-council appointees paid directly from the Consolidated Revenue Fund. This group includes deputy ministers, judges, and certain ministry employees. Since appointees to government organizations are not paid directly from the Consolidated Revenue Fund, their remuneration is not included in the Public Accounts. Therefore, neither of these methods of public disclosure ensures that remuneration is disclosed for all government organization appointees.

We believe that, for positions appointed by the Lieutenant Governor in Council, remuneration should be specified in the appointing OIC. Where the remuneration was appropriately fixed for a position in a previous OIC, the appointing OIC should refer to the

previous one. In cases where the enabling legislation gives someone else the authority to fix remuneration (e.g., the minister or the board) the relevant section of the Act should be referred to in the appointing OIC. Where no remuneration is paid, this fact should be stated. Inclusion of this information in a public document, such as an OIC, would make information about remuneration paid to government appointees more accessible to the public.

GENERAL COMMENTS

In our audit we did not assess the government's policies and procedures for making appointments by order in council. However, the following matters came to our attention during the course of this audit.

Accountability

The enabling legislation for most government organizations requires that remuneration for appointees be authorized either by the Lieutenant Governor in Council in an order in council or by the minister in a Regulation. Either procedure would result in public disclosure of the amounts. However, the enabling legislation for the Insurance Corporation of British Columbia and the colleges and institutes allows the government-appointed board members to authorize their own remuneration.

The Compensation Fairness Commissioner, in his 1991 Annual Report on the Compensation Fairness Program, considered situations in which senior management could influence their own pay increases to be a conflict of interest.

We believe that the ability of board members of these public sector organizations to set their own remuneration is out of step with the



authorization processes followed by other such organizations in the Province, and provides for little in the way of public accountability. Perhaps this method of authorization should be reconsidered for the two enabling statutes relating to these organizations.

Definitions

When determining the amount of remuneration for appointees, all parties involved refer to guidelines issued by Treasury Board. There is one set of guidelines for agencies, boards and commissions, and another set for Crown corporations. The amounts in the guidelines for remuneration for appointees to Crown corporations are higher than the amounts for agencies, boards and commissions. We reviewed legislation and government policies and could find no clear written definition of a Crown corporation. Staff at several different government ministries told us

that there is no definition of a Crown corporation, and each gave us a slightly different definition which they used for their own purposes.

We attempted to ascertain if a Crown corporation is an organization which is defined in its enabling legislation as both a corporation and an agent of the Crown. However, this definition includes colleges and institutes, which most people do not consider Crown corporations.

We believe that specific terms, such as Crown corporation, used in government guidelines should be clearly defined. Where guidelines apply to a group of organizations, that group should be clearly identified, either based on set criteria, or by a specific listing of names.



RESPONSE OF THE MINISTRY OF ATTORNEY GENERAL

We requested a response to this report from the Ministry of Attorney General. The

ministry advised us that no response for publication appeared to be warranted.



COMPLIANCE WITH PART 3 OF THE FINANCIAL ADMINISTRATION ACT

An assessment of compliance by the government with the provisions of the Financial Administration Act for the receipt and management of public money

AUDIT PURPOSE AND SCOPE

We have performed an audit to determine whether Part 3 of the *Financial Administration Act* and its related Regulations were complied with by the government for the fiscal year ended March 31, 1992 and, for section 12 of the Act, as of November

30, 1992. Our audit was carried out in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

OVERALL CONCLUSION

In our opinion, except for not charging interest on overdue fines, as referred to below, the requirements of Part 3 of the *Financial Administration Act* and its related Regulations were complied with, in all significant respects, by the government for the fiscal year ended March 31, 1992 and, for section 12 of the Act, as of November 30, 1992.

Section 17(1) of the Act and its related Regulation require persons who owe money to the government to pay interest at prescribed rates from the day the money becomes due. We found that there is an unresolved question as to whether interest can be charged on overdue court and motor vehicle fines owing to the government.

INTRODUCTION

The *Financial Administration Act* (the Act) provides the basis for a consistent standard of financial management and control of billions of dollars of public money that the government of British Columbia administers on behalf of the people of British Columbia. Part 3 of the

Act is entitled "Revenue". It contains nine sections, consisting of sections 9 to 17 inclusive. This Part provides the legal framework for the receipt and management of public money, and includes the following provisions:

- establishment of the Consolidated Revenue Fund;



- separation of trust funds from the Consolidated Revenue Fund;
- receipt and management of public money;
- banking and bank accounts;
- refunds of money erroneously paid or collected for purposes not fulfilled;
- write-off of assets and uncollectable debts;
- extinguishment or forgiving of uncollectable debts;
- remissions in case of hardship or injustices; and
- interest to be charged on overdue accounts.

This audit was the third phase of our assessment of compliance with the *Financial Administration Act*. Phases one and two, covering expenditure matters relating to Part 4 of the Act, were reported in the Auditor General's 1991 and 1992 Annual Reports to the Legislative Assembly.

AUDIT SCOPE

We carried out the audit to check for compliance with the requirements of Part 3 of the Act and its related Regulations for the fiscal year ended March 31, 1992. We carried out our audit during the months of January and February 1993. The requirements of the Act and its related Regulations are extensive. For our audit of certain sections of the Act, we relied on the work performed by our Office's government financial statement attest audit teams. We analyzed certain financial data, obtained documented representations from senior management, and carried out other appropriate procedures. For our work on section 12 of the Act, we sent

confirmations to all financial institutions with branches in British Columbia so as to identify existing government bank accounts. These confirmations were dated November 30, 1992.

OBSERVATIONS OF SIGNIFICANCE

INTEREST ON OVERDUE ACCOUNTS

Section 17(1) of the Act states that "the Treasury Board may make regulations requiring persons who owe or are liable to pay money to the government to pay interest on the money at a rate the Treasury Board prescribes."

Treasury Board has approved Regulation 214/83, *Interest on Overdue Accounts Receivable Regulation*, which states that where money is owed to the government, the person who owes the money shall pay interest on the money calculated from the day the money becomes due. The Regulation also specifies:

- those who owe money to the government on which interest is not chargeable (e.g., agents, trustees, municipalities and Government of Canada);
- the conditions under which interest is chargeable;
- the method of interest calculation.

At March 31, 1992, the government had outstanding court and motor vehicle fines totalling many millions of dollars. No interest was being charged on the overdue amount of those fines. Such fines are mainly derived from the provisions of the *Offence Act* and the *Motor Vehicle Act*. There has been some question as to whether or not fines and penalties, many of which are imposed



through judicial decisions, can be considered a debt for the purpose of applying interest under section 17(1) of the Act. The interest foregone by the government, if the Act does apply, based on the interest rate prescribed as at March 31, 1992, was estimated at several million dollars annually.

We noted that the government is already considering steps to implement either an interest charge or other form of late payment penalty on outstanding fines receivable.

We encourage the government to continue its efforts to resolve the issue of charging interest on overdue fines.

BANK ACCOUNTS

Subsection 12(2) of the Act states: "No person shall open an account for the receipt and deposit of public money except as authorized by the Minister of Finance." We obtained confirmations of government bank accounts as of November 30, 1992 from all financial institution branches operating in British Columbia. We agreed these confirmations to the central records of all government authorized bank accounts maintained at the Ministry of Finance and Corporate Relations. We identified 20 exceptions from the more than 2,000 accounts which were confirmed to us by financial institutions.

One account, which had been opened in error, had already been reported to the Ministry of Finance and Corporate Relations and was closed after November 30, 1992. For the other 19 accounts, the relevant financial institutions had been instructed to close the accounts. We reviewed documents issued prior to our audit instructing the relevant financial institutions to close these accounts. We were satisfied that these exceptions were only of a

housekeeping nature. Ministry staff indicated to us that the financial institutions would be contacted again to ensure the proper closure of these accounts.

This was a considerable improvement in the control of government bank accounts when compared to the results of a similar audit reported in our 1983 Annual Report. At that time we observed 106 unauthorized bank accounts which were not included in the central records of the government.

ACCOUNTABILITY FOR REFUNDS, WRITE-OFFS AND EXTINGUISHMENTS OF DEBTS AND REMISSIONS

Subsection 8(2)(b)(iii) of the Act requires a statement to be included in the government's financial statements of: money refunded; assets, debts and obligations written off; debts and obligations forgiven; and remissions made. However, this statement is only required to include amounts authorized by sections 13, 14, 15, and 16 of the *Financial Administration Act*.

- Section 13 allows refunds of money erroneously paid or collected for purposes not fulfilled.
- Section 14 provides for the write-off of assets and uncollectable debts. A write-off does not extinguish the government's right to collect the debt.
- Section 15 makes rules for the extinguishment or forgiving of uncollectable debts or obligations to the government. When a debt is extinguished or forgiven, the right of the government to collect the debt or obligation is terminated. Where the amount forgiven is more than \$100,000, the approval of the Lieutenant Governor in Council is required.



● Section 16 allows remissions of amounts paid or payable to the government in case of hardship or injustices. Remission means the cancellation of money due to the government. A remission can be conditional or unconditional, and must be authorized by order in council approved by the Lieutenant Governor in Council.

We analyzed reports obtained about refunds, write-offs, extinguishments and remissions provided to us by government ministries. We observed that the Act's provisions are by no means exclusive. Although many ministries generally use the Act as authority for these purposes, other authorities were used by some ministries. Table 2.4 shows a summary of these transactions recorded during the fiscal year ended March 31, 1992.

write-offs, extinguishments and remissions should be similarly disclosed. We therefore recommend that consideration be given to amending the Act to require all government refunds, write-offs, extinguishments and remissions to be reported together in one statement in the government's financial statements, whether authorized by the Act or by any other authorities.

INTEREST RATE ON OVERDUE ACCOUNTS

Since subsection 17(3) of the Act states that Regulations made under the Act do not apply to any case where another Act imposes interest, we reviewed the prescribed interest rates being charged under a number of other Regulations: 213/83 (*Interest Rate Under Various Statutes Regulation*); 330/83

TABLE 2.4

Summary of authorizations (\$ Millions)

	Money Refunded	Debts Written Off	Debts Forgiven or Extinguished	Remissions Made
Authorized by:				
Financial Administration Act	66.0	25.0		
Other Authorities	5.6		2.6	14.6

The majority of the refunds authorized by other authorities were for *Motor Vehicle Act* and *Commercial Transport Act* fees. Approximately \$2.2 million of the \$2.6 million of debts were extinguished or forgiven according to the Travel Industry Development Sub-agreement. The \$14.6 million for remissions were made using voted grant appropriations as part of the B. C. Student Loan Remission Program.

(*Mineral Land Tax Act Regulation*); 222/88 (*Petroleum and Natural Gas Act Regulation*) and 204/88 (*Water Act Regulation*).

The rates are standard, with one exception. The current rate for Regulation 204/88 is 1% above the prime lending rate to the Province. The other Regulations charge 3% above prime.

The Act makes adequate provision for refunds, write-offs, extinguishments and remissions to be annually disclosed in the government's financial statements. We believe all government refunds,



RESPONSE OF THE MINISTRY OF FINANCE AND CORPORATE RELATIONS

Interest on Overdue Accounts:

No further comment.

Bank Accounts:

No further comments.

Accountability for Refunds, Write-offs and Extinguishments of Debts and Remissions:

We believe that the Travel Industry Development Sub-agreement (TIDSA) loans and the B.C. Student loans are both forgivable loan programs. The loans were made with the clear understanding that, if the borrower met certain conditions, the loans and interest would be forgiven in whole or in part. Therefore, when conditions for forgiveness have been met a loan no longer exists. The related costs are accounted for as grants.

It is our understanding that the provisions of sections 15 and 16 of the Financial Administration Act would only apply where there was an otherwise legitimate receivable that the government

wished to forgive or remit. Under this assumption we have not considered TIDSA Loans to be forgivenesses nor Student Loans as remissions for the purposes of these sections.

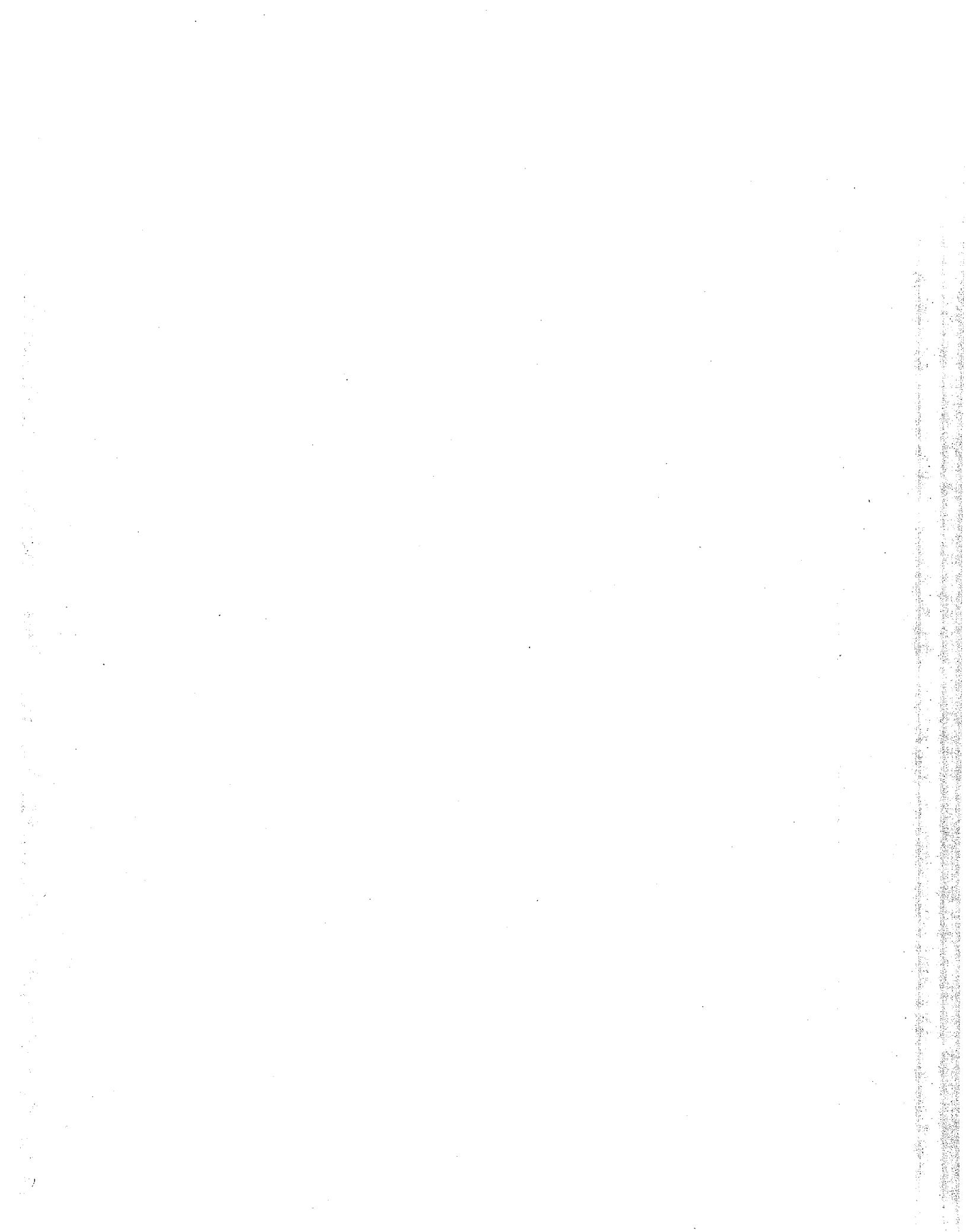
However, the Auditor General has raised an interesting point as to how these transactions should be reported. We will be reviewing the transactions made under the authority of Acts other than the Financial Administration Act in order to have consistency.

Interest Rate on Overdue Accounts:

No further comment.

We would like to thank you and your staff for the opportunity to provide our comments regarding these reports, as well as for the professional way in which the work was conducted and the continuing assistance your staff provides the ministry.





COMPLIANCE WITH THE TOBACCO TAX ACT

INTRODUCTION

In the 1991/92 fiscal year, the Province received \$433 million in revenue from taxation of the sale of tobacco. Estimated revenue for the 1992/93 fiscal year is \$510 million. This is a significant source of revenue which has more than doubled in the past five years.

The basis for collecting this revenue is the *Tobacco Tax Act*. We wanted to verify that the significant financial sections of the Act are being complied with. In particular: that the correct rate of tax is applied, in accordance with the Act; that the tax is applied to all sales; and that all the tax that is collected is remitted to the government.

The tax is payable on the retail sale of cigars, cigarettes, and other tobacco products. The rate of tax is set by the Act, which is typically amended each year in the Budget legislation. The tax is administered by the Consumer Taxation Branch of the Revenue Division of the Ministry of Finance and Corporate Relations.

The tax is remitted to the Province by the wholesaler, who is considered to have prepaid the tax on behalf of the retailer who, in turn, has prepaid the tax on behalf of the consumer. This process is both practical and economical for the Province, since the number of wholesalers is considerably less than the number of retailers.

PURPOSE OF OUR REVIEW

We wanted to verify that certain financial sections of the *Tobacco Tax Act* were being complied with. These were the sections dealing with the setting of the rate and the application of that rate to the selling of tobacco (section 2), and with the remittance of the tax that had been collected (sections 2 and 5). We determined that an effective way to accomplish this would be to review the administration of the Act—in other words, to see what the government was doing to ensure that the Act was being complied with.

As a result of enquiries during our audit planning process, we found that the Internal Audit Branch of the Office of the Comptroller General was in the process of reviewing the operations of the Consumer Taxation Branch, including the administration of the *Tobacco Tax Act*. As a consequence, and to minimize the disruption at the Consumer Taxation Branch that would result from different groups of auditors performing similar work, it was agreed that Internal Audit would extend their procedures beyond what they had originally planned, to look at various issues on our behalf. Upon completion of Internal Audit's examination, we reviewed the scope of their work and the resultant findings.

COMPLIANCE FINDINGS

Internal Audit found that the *Tobacco Tax Act* was being complied with in all significant respects. Their findings were that:

- the correct rate was being used, as set in the *Budget Measures Implementation Act*;
- the legislation covered all types of tobacco products; and
- for the tobacco revenue transaction samples they tested, there were no identified errors or significant weaknesses, or failures to comply with the legislation, in the ministry's procedures for monitoring: the movement of tobacco products from manufacturer to wholesaler to retailer; the amount of tax levied on these sales; and the remittance to the government of the tax collected.

We concluded that we did not need to do any further work, other than reviewing the audit files that Internal Audit had prepared relating to their findings. These files satisfactorily supported their findings.

CROSS-BORDER TOBACCO MOVEMENT

Cross-border smuggling of tobacco products is a widely publicized problem. The Province has no authority at the border with the United States; that authority lies with Canada Customs and Excise. The Province works with Customs and Excise, and investigates possible tax avoidance situations of which it becomes aware. The Province has also recently reached an agreement with Customs and Excise whereby provincial tobacco taxes will be levied at Canada Customs on tobacco products brought into the country by individuals who bring back more than their exemption.

Cross-border imports of tobacco products by consumers for their own use from other provinces and territories are not considered by the Consumer Taxation Branch to be a significant problem.



RESPONSE OF THE MINISTRY OF FINANCE AND CORPORATE RELATIONS

Regarding compliance with the Tobacco Tax Act, we are pleased that the Tobacco Tax Act was being complied with in all

significant respects, and that you were able to place reliance on the work performed by our Internal Audit Services Branch.



FINANCIAL INFORMATION ACT: FOLLOW-UP

A follow-up on a previous audit of a statute that calls for providing financial accountability information to the public

AUDIT PURPOSE AND SCOPE

Subsequent to reporting in 1991 on our audit of compliance with the *Financial Information Act* and its related Regulation and Directive, we were asked to conduct a series of public information seminars to heighten awareness about the requirements of the Act and its related authorities. In conjunction

with the seminars, we performed follow-up audit procedures to determine if the required statements of financial information were being given out to the public. These seminars and follow-up audit steps were performed throughout the Province between October 1991 and December 1992.

OVERALL CONCLUSION

We are satisfied that awareness about the requirements of the *Financial Information Act* and its related Regulation and Directive has increased considerably among the approximately 450 preparer organizations throughout the Province, including municipalities,

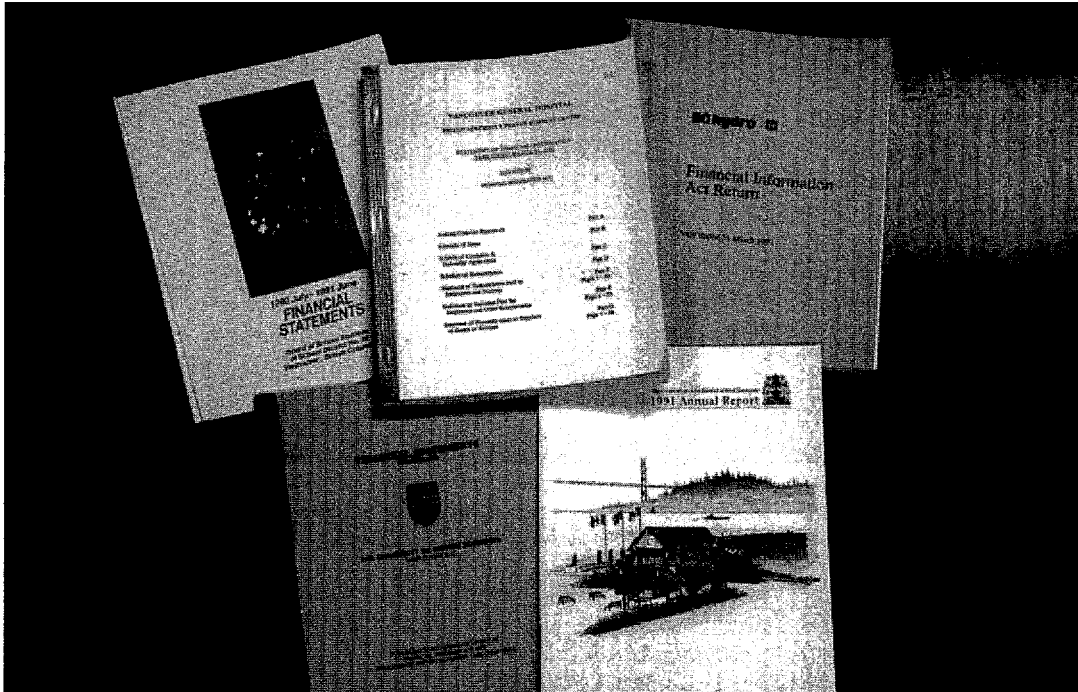
school districts, hospitals, Crown corporations, colleges, institutes and universities. We also found that public availability of the required statements of financial information was much improved compared with our original finding of two years earlier.

INTRODUCTION

In our 1991 Annual Report, we reported on our 1990 audit of the extent of compliance with the disclosure requirements of the *Financial Information Act, Regulation, and Directive*. Following our report, two senior members of our staff presented a series of seminars throughout the Province through which the requirements of the Act, Regulation and Directive, and some of our more detailed audit observations, were discussed with seminar

participants. In addition, we carried out certain follow-up procedures to ascertain if compliance by the affected organizations was improving.

The more than 500 seminar participants at 16 different presentations included representatives from many of the organizations which are subject to the requirements of this legislation. As in any process in which you have the opportunity to discuss issues with a wide variety of interested parties, we received a great deal of valuable feedback about the clarity and



Examples of Statements of Financial Information

practicality of the requirements. We communicated these comments to the Office of the Comptroller General, and include some of them in the comments that follow.

Our follow-up work in 1992 focused on whether, over the two years subsequent to our audit, the availability of required financial information for purchase by the public had improved. In addition, we had the opportunity to discuss the original audit findings of our 1990 audit at a June, 1992 meeting of the Public Accounts Committee of the Legislative Assembly.

OBSERVATIONS

RELATIONSHIP OF THE FINANCIAL INFORMATION ACT TO THE FREEDOM OF INFORMATION LEGISLATION

Since we reported on our 1990 audit, the *Freedom of Information and Protection of Privacy Act (FOI Act)* has been passed,

but has not yet been brought into force. The government has announced that the freedom of information legislation will be extended to the broad public sector, including the local level of organizations to which the *Financial Information Act* applies. The *FOI Act* states that it does not replace other procedures for access to information. More specifically, the *FOI Act* contains a provision to allow personal information, to which it would normally restrict access, to continue to be made available, where required, by the *Financial Information Act*.

The disclosure requirements of the *Financial Information Act* are important to maintain in order to ensure that a uniform level of financial accountability information is made available to the public, on request, at a minimal charge.

ELIGIBLE ORGANIZATIONS

At our public seminars, we received several questions as to whether this legislation applies to organizations that

are recipients of lottery grants, independent school grants and other sources of government funding. Such uncertainty arises because the organizations that must comply with the Act are substantially determined either by their obtaining funding, advances or borrowing guarantees under the authority of the statutes in schedule 1 to the Act, or by being named in schedule 2 to the Act. This can be a somewhat confusing way of determining if the Act is applicable to a particular organization. Clarifying guidelines would be helpful. For example, the *School Act* designation in schedule 1 could be clarified in the guidelines to indicate that it applies to public schools but not to private schools which are funded by the *Independent School Act*.

In our 1991 audit report, we stated that most, but not all, organizations in the government's summary financial statements are required to comply with the requirements of the *Financial Information Act*, and suggested that the remaining organizations should also be subject to the Act. The Public Accounts Committee has concurred with this view and, in its June 1992 report to the Legislative Assembly, recommended that the definition of "corporation" in the *Financial Information Act* be amended as follows:

Corporation also means an organization or enterprise that is included in the reporting entity for purposes of the Government's summary financial statements.

We are hopeful that this recommendation will be adopted and the Act amended, so that all government organizations will be treated consistently for purposes of the accountability reporting requirements of the *Financial Information Act*.

STATEMENT OF FINANCIAL INFORMATION

The content required to be included in the Statement of Financial Information is set out below and illustrated in Figure 2.4.

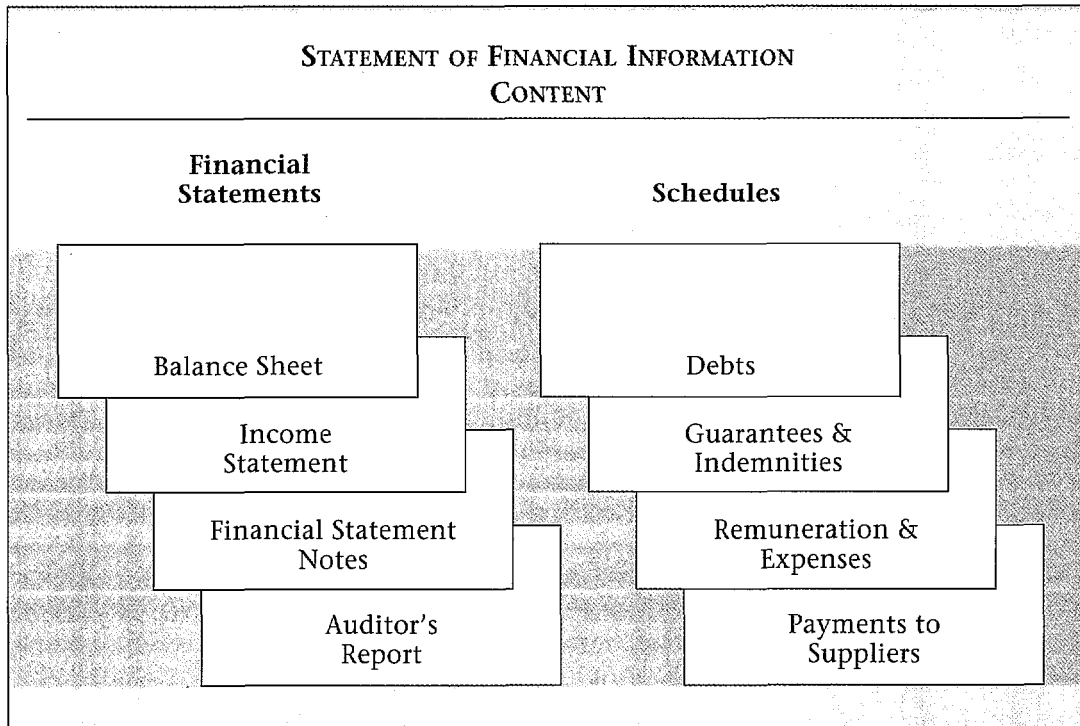
The *Financial Information Act*, *Regulation*, and *Directive* set out specific content requirements for public body financial accountability information. These authorities identify the organizations required to provide the information, the content of the statement of financial information to be prepared, the timing of its availability, and the means by which the public may obtain the information.

The *Financial Information Regulation* (the Regulation) specifies the detailed content requirements for these statements and schedules, such as:

- The financial statements should have notes disclosing the accounting policies followed and indicating whether the accounts are kept on a cash or accrual basis.
- The schedule of debts should list all of the organization's long-term debts, giving the amount outstanding, the interest rate, and the maturity date for each debt.
- The schedule of guarantee and indemnity agreements should provide names of entities and amounts involved, if known.
- The schedule of remuneration should include the remuneration and expenses for each employee earning more than \$35,000 annually, and a lump sum total of the employer portion of CPP and UIC payments. It should also include the number of severance agreements made, along with the range of equivalent months'

FIGURE 2.4

Content of a statement of financial information



gross salaries agreed to for certain officials of the organization.

- The schedule of payments to suppliers for goods and services should include an alphabetical list of suppliers paid in excess of \$10,000.

SCHEDULE OF REMUNERATION

Who to include

Currently, the Act's Regulation requires that the schedule of remuneration should include for each employee the total remuneration paid, where it exceeds \$35,000, and the related employee expense amounts. One question which frequently arose in our seminars was whether it made sense to disclose remuneration information for employees who receive over \$35,000 and yet exclude information about remuneration for those elected or appointed officials who receive less than \$35,000 per annum. There may be higher public interest in the salary and related expense information for publicly elected and appointed officials, even

where they receive less than \$35,000. These officials include mayors and councillors of municipalities, and board members for school districts, hospital societies, universities, colleges and institutes, Crown corporations, and other organizations covered by the Act.

We noted that some organizations exceeded the minimum disclosure requirements of the Act and the Regulation and, as well, some highlighted information they assumed would be of particular interest to the public. For example: the City of Vancouver included remuneration information for its elected officials on a separate page; the British Columbia Institute of Technology included a statement of remuneration and expenses for its board members; and the British Columbia Hydro and Power Authority disclosed the salary information for employees earning more than \$100,000 per year on a separate page.

We believe that consideration should be given to amending the *Financial Information Regulation* so that

remuneration information for publicly elected and appointed officials would be included in the schedule of remuneration regardless of the dollar amounts involved.

What expenses to include

The majority of representatives from preparer organizations who attended our seminars had problems interpreting what employee expense information was required to be disclosed, and they were unsure of how much time and money they should spend to identify and allocate such expense information. For example, some representatives asked if relocation costs associated with hiring a new employee should be included.

Many employee activities occur on a group basis, in which circumstance some costs are easily separable while others would have to be allocated arbitrarily. Also, it may be difficult in certain situations to determine to whom expenses should be allocated.

We believe that clearer, concise guidance on employee expense disclosures is needed in the Act's Regulation and Directive because of the existing uncertainties, and because accumulating and preparing this information can be costly and may require detailed and specific accounting criteria to ensure its consistent production. Alternatively, consideration could be given to limiting the types of employee expenses that need to be separately disclosed. For example, the Public Accounts of British Columbia includes only travel expenses for provincial public servants.

Severance agreement information

The Financial Information Regulation requires that the number of severance agreements made for the chief executive and senior administrative officers who are excluded from

collective agreements of the organization be included. However, it is unclear to many of the affected organizations what employees are included in the phrase "senior administrative officers" about whom severance information is to be disclosed. One organization defined this to include only the vice-presidents of its subsidiary companies. Some other organizations applied the term to all non-union employees, while still others thought the term only applied to government order-in-council appointees.

There was also some question as to the point in time at which it was appropriate to make severance information disclosure. According to the Regulation, severance agreement information is to be reported regarding agreements made during the preceding fiscal year. However, some organizations that had included severance provisions in their employment contracts, thought disclosure should be made at the time of the employee's commencement of employment, when the employment agreement was made, even though the severance provision might never be exercised.

Another concern expressed to us involved severance agreement contracts which require that the terms of a settlement be kept confidential. This confidentiality cannot be fully maintained as the *Financial Information Act* disclosure requirements must still be complied with and cannot be circumvented by a contract. Accordingly, it would be appropriate for the *Financial Information Act* disclosure requirement to be referred to in contracts with such clauses.

We believe that more guidance is required for preparer organizations on these issues relating to the severance

agreement disclosures called for by the Act's Regulation.

APPROVALS

The Act's Directive requires that both the financial statements and the schedules included in the Statement of Financial Information be approved by the board of management of the reporting organization. There is not, however, a requirement that evidence of the approvals has to be included in the documents. In the Statements of Financial Information that we examined, we found that financial statement approvals were included as approvals on the organizations' balance sheets, but that board of management approvals for the schedules were seldom, if ever, included.

As the schedules do have to be approved, it would make sense to include evidence of this approval with

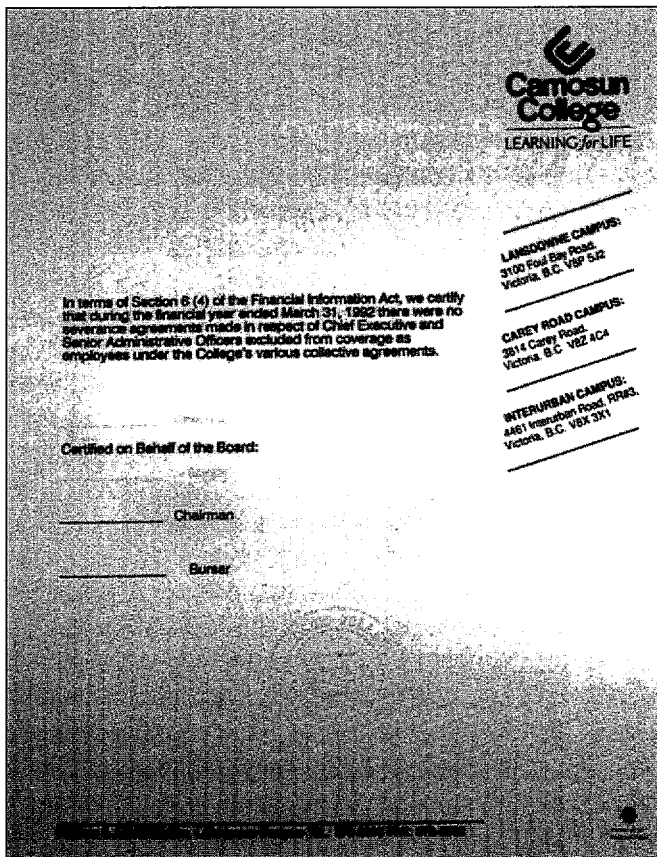
the schedules so as to indicate clearly that the schedules have been duly reviewed and that responsibility has been taken for them by the board of management. Seminar participants frequently requested guidance as to the way in which this could be done.

Our Office, in consultation with the Office of the Comptroller General, drafted a form of approval for general use by any organization, and this was distributed at our seminars. An example of such a form of approval disclosure for Statement of Financial Information schedules should be considered for inclusion in the Act's Directive. One good example of a form of approval for schedules included in a Statement of Financial Information is shown in Figure 2.5.

A trend in external financial disclosure is to have the roles and approvals of the various parties involved in the process (i.e., management, board of directors, audit committee and auditors) included in a specific, explanatory manner in a public statement of management responsibility. Many government organizations including, among others, the British Columbia Government, British Columbia Hydro and Power Authority and the British Columbia Railway Company, currently publish such a statement with their financial statements. Consideration should be given to expanding the requirements of the *Financial Information Act* to require statements of management responsibility to be provided by all organizations subject to the Act.

FIGURE 2.5

Camosun College schedules approval



AVAILABILITY TO THE PUBLIC

At various times during the months of August, September and October 1992, staff from our Office visited certain organizations subject to the *Financial Information Act, Regulation and Directive* to purchase a copy of their Statement of Financial Information.

We presented ourselves as members of the public, and not as employees of the Office of the Auditor General, when we requested the information from these organizations. The purpose of this follow-up review was to assess whether organizations were in fact making their Statements of Financial Information available for purchase by the public in accordance with section 2(4) of the *Financial Information Act*. During this follow-up work, we did not perform a qualitative review of the packages we received to see if their content met all the requirements of the Act, Regulation and Directive.

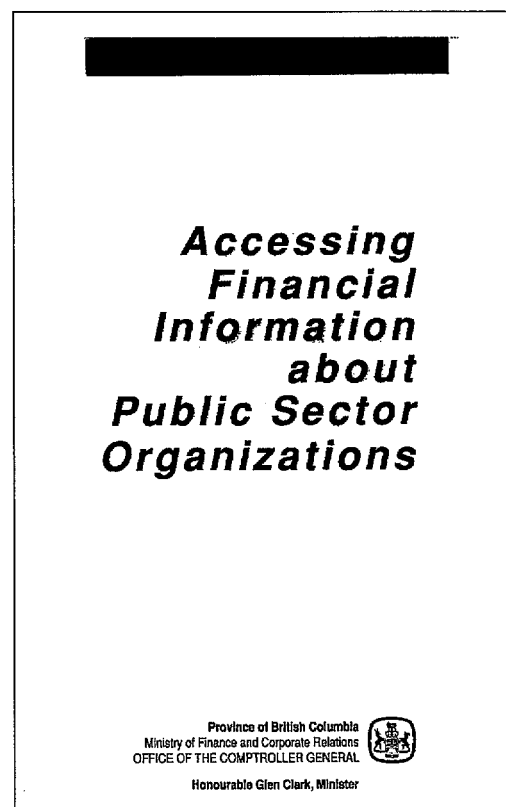
During our 1992 review we found that, overall, public availability was much improved compared with our original finding of two years ago. The specific results for each organization that we visited were reported to the respective ministries to which the various organizations are responsible, and to the Office of the Comptroller General.

Generally, we found that school districts have continued to be very good at providing the required information to the public. Colleges, institutes and universities have also been good at releasing the required information. Municipalities and regional districts have improved significantly in this regard over the past two years. Crown corporations have also improved in recent years, but more is needed from them as a group. Hospitals, meanwhile, have not, as a group, been providing the

information to the public as well as the other major groups of funded organizations.

The Office of the Comptroller General and the ministry representatives responsible for administering the Act should periodically re-emphasize to the preparer organizations the public availability requirements of the Act.

In this regard, the Minister of Finance and Corporate Relations issued in 1992 an informative brochure setting out how British Columbians can obtain the information the Act states must be made available (see below).



**RESPONSE OF THE MINISTRY OF FINANCE
AND CORPORATE RELATIONS**

*With respect to your Financial
Information Act: Follow-up, the Office of
the Comptroller General is currently*

*reviewing this area, and will take these
comments and observations into account.*



SMALL ACTS

In the course of our audit work, we sometimes question why some provincial Acts are still on the statute books of British Columbia. This is particularly so with respect to some of those we come across in the course of our financial and administrative audit research activities. Consider the following examples that we have noted in recent months.

DEFICIT REPAYMENT ACT

This Act, passed in 1976, authorized the borrowing of up to \$400 million to pay for the projected deficit for the fiscal year ended March 31, 1976. The actual amount of the deficit for that year was \$261.4 million, and this was the amount borrowed pursuant to this Act. The original debentures issued to cover this borrowing were due to be paid in full by March 15, 1979. However, bonds were subsequently substituted for these debentures, repayable over a further term to 1988. By March 31, 1987, none of the debt relating to the 1976 deficit remained outstanding.

INFLATION CONTROL ACT

This Act was passed in 1976, and was intended to relate to the federal *Anti-Inflation Act*. Its purpose is to authorize: the investigation of the effect of inflation on the price of commodities and services; the temporary regulation of the price of commodities and services; and cooperation with Canada in carrying out inflation control programs. The federal *Anti-Inflation Act* was repealed in the mid-1980s, and, currently, inflation is reasonably under

control (British Columbia's 1992 consumer price index rise was 2.6%).

SENIOR CITIZEN AUTOMOBILE INSURANCE GRANT ACT

This Act, passed in 1981, allows for the establishment of a program to provide financial assistance, by way of government grant to persons aged 65 or older, to pay basic premiums for universal compulsory automobile insurance under the *Insurance (Motor Vehicle) Act* for pleasure use of automobiles. However, during the twelve years since 1981, no enabling regulation has been passed by government, as would be required to put this program into effect.

VANCOUVER CENTENNIAL CELEBRATION ACT

This 1982 Act provided for the administration and funding for the celebration of the centennial of the 1886 incorporation of the City of Vancouver. The Act established a non-profit corporation, the Vancouver Centennial Commission, consisting of persons appointed by the Council of the City of Vancouver. The commission was to be funded by grants from the Vancouver City Council and from other sources. It is now seven years since Vancouver's centennial celebrations were held, and the Vancouver Centennial Commission was wound up several years ago.



MINISTRY RESPONSES

We have been advised by the ministries responsible for administering these Acts that they will either be repealed in the near

future, or will be dealt with in conjunction with the next general revision of the Statutes of British Columbia.



UPDATED RESPONSE TO PRECEDING YEAR'S COMPLIANCE-WITH-AUTHORITIES AUDIT

The following written comments were received in reply to our invitation to publish a further update from the

organization that responded to our compliance-with-authorities audit last year.

MINISTRY OF FINANCE AND CORPORATE RELATIONS, OFFICE OF THE COMPTROLLER GENERAL

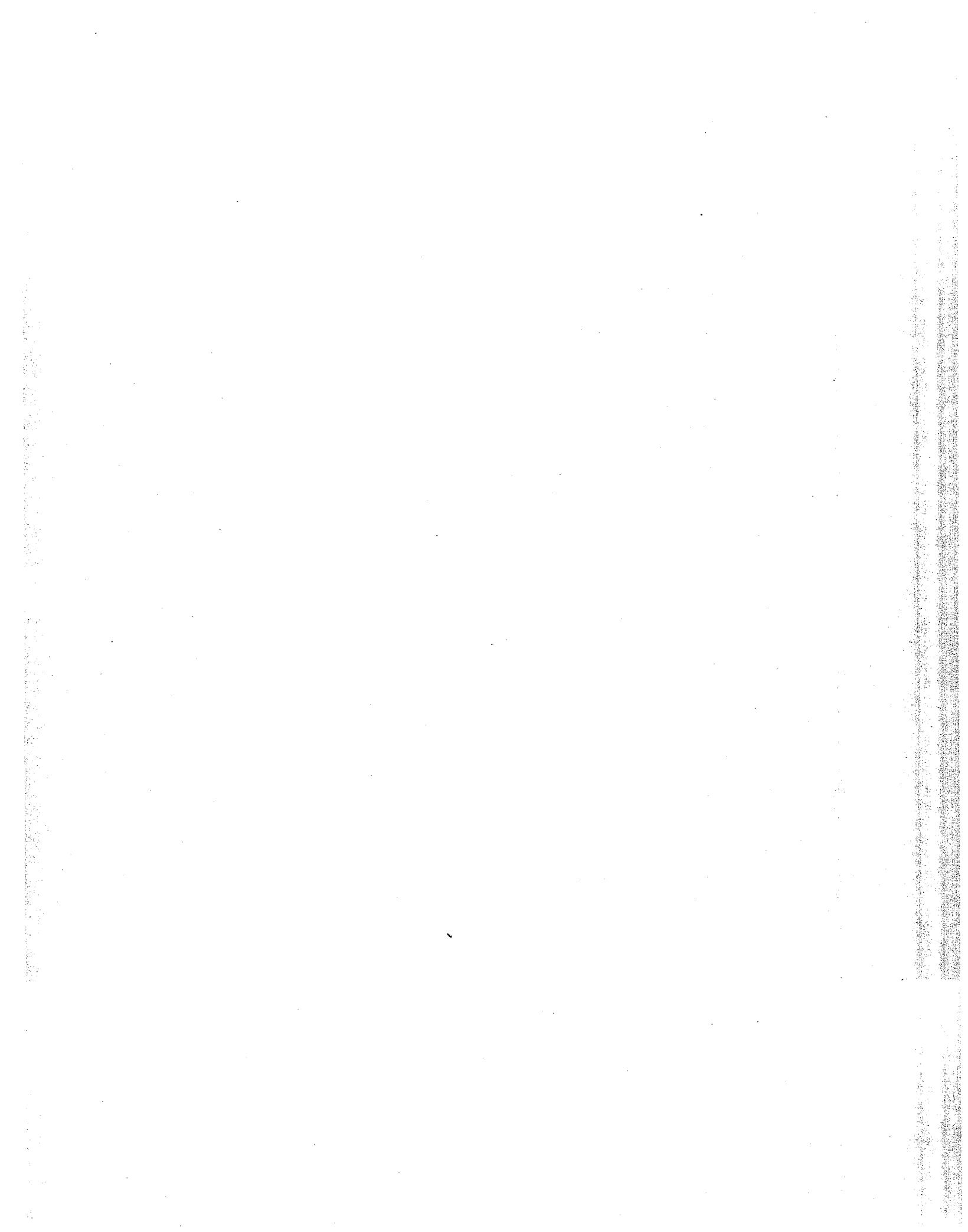
COMPLIANCE WITH PART 4 OF THE FINANCIAL ADMINISTRATION ACT

Certification for Payments:

As a part of the general review undertaken during the development and installation of the new central accounting system, the whole question of spending and payment authority matrices has been brought into review. Ministries have been reminded that it is their responsibility to ensure that their staff conforms to the established spending and payment authority matrices.

Special Warrants:

The Independent Financial Review (IFR) performed by Peat Marwick Thorne commented on a variety of issues which are affected by the terms of the Financial Administration Act (Act). The question of Special Warrant spending as raised by the Office of the Auditor General has been incorporated into the general review of that Act.



PART III

FINANCIAL

AUDITS

CONTENTS

INTRODUCTION TO FINANCIAL AUDITS	99
SYNOPSIS OF THE AUDITOR GENERAL REPORT ON THE 1991-92 PUBLIC ACCOUNTS	101
PROVINCIAL TREASURY	
A Review of Controls Relating to Investment Portfolios.....	107
LEGISLATIVE PRECINCT	
A Review of Expenditure Controls	113
UPDATED RESPONSES TO PRECEDING YEAR'S INTERNAL CONTROL REVIEWS	
Ministry of Attorney General	
Office of the Public Trustee	119
Liquor Distribution Branch.....	119
Ministry of Finance and Corporate Relations	
Office of the Comptroller General.....	121



INTRODUCTION TO FINANCIAL AUDITS

An independent audit of financial statements has several purposes. The main one is to add credibility to the statements, thus enhancing their value to the ultimate users. Evidence of this is provided in the form of an Auditor's Report which accompanies the financial statements, in which the auditor expresses his opinion as to whether the statements are presented fairly in accordance with an appropriate, disclosed basis of accounting.

We carry out extensive examinations of the accounts and records maintained by the ministries and central agencies of government, and by the Crown corporations and other public bodies of which the Auditor General is the auditor.

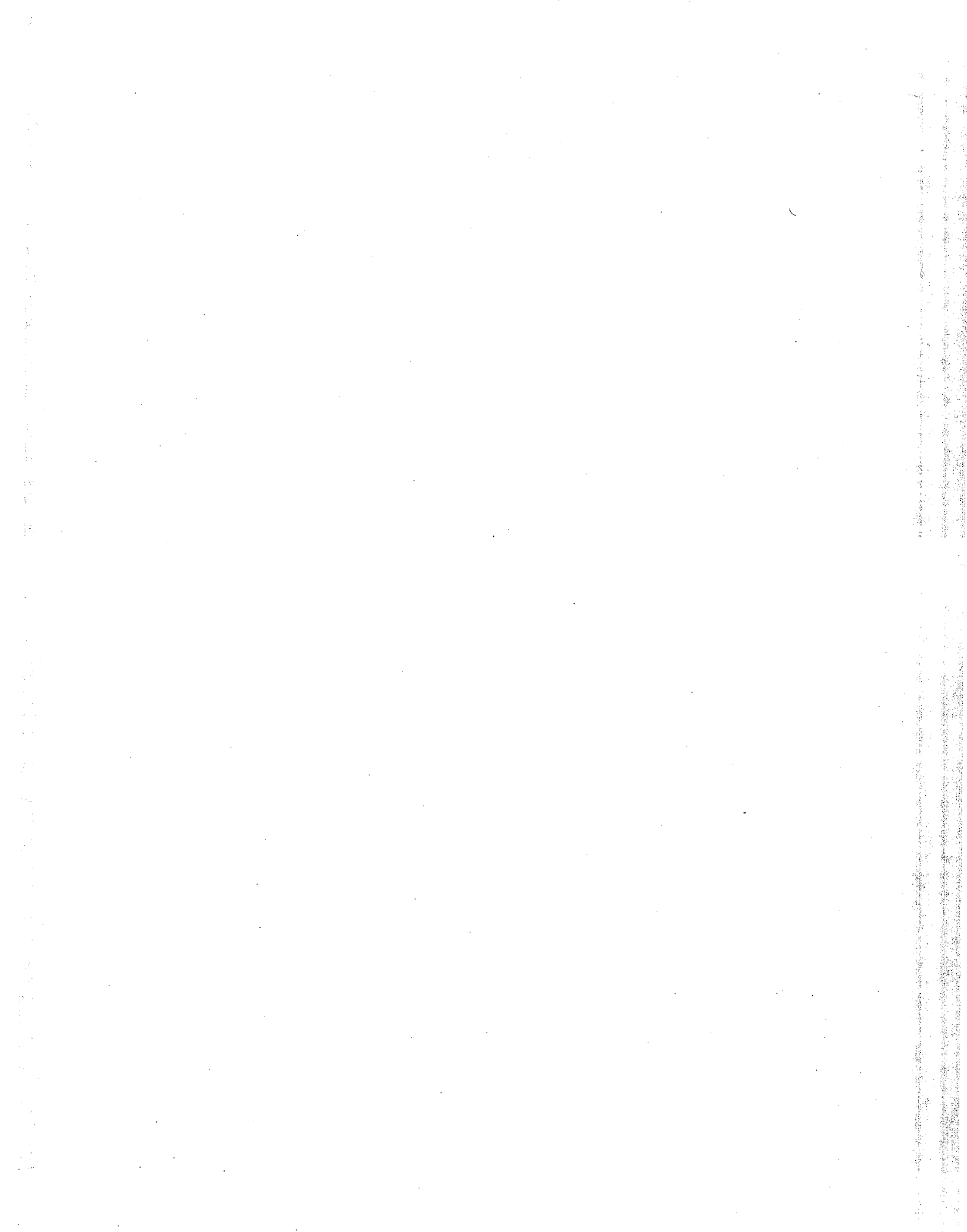
Also, with respect to Crown corporations audited by other auditors and which form part of the government's Summary Financial Statements, we obtain various information and assurances from those other auditors which enable us to rely on their work in the conduct of our audit of the government's accounts. This information is supplemented by periodic reviews by our staff of those auditors' working paper files and audit procedures.

We reported on this work in the Auditor General's "Report to the Legislative Assembly of British Columbia on the 1991-92 Public Accounts", a special report issued in January 1993. Included in this part is a synopsis of that report.

A significant benefit of an annual audit is that it provides a constant stimulus to an organization to pursue sound financial management. For this same purpose, we also carry out reviews to determine whether appropriate systems of internal control have been established for significant accounting systems. Included in this part of the report are our observations on such reviews undertaken this year, together with related ministry responses.

Also included are the updated responses of ministry officials to similar reviews discussed in last year's report. These provide a current and complete picture of management's actions to date with respect to our various observations and recommendations.





SYNOPSIS OF THE AUDITOR GENERAL REPORT ON THE 1991-92 PUBLIC ACCOUNTS

The 1991-92 Public Accounts of the Province were released by the government on December 31, 1992. On January 20, 1993, the Auditor General issued a special report titled the "Report to the Legislative Assembly of British Columbia on the 1991-92 Public Accounts".

The report contains comments and observations arising from the audit of the government's financial statements for the fiscal year ended March 31, 1992. It also includes comments on the audits of the financial statements of various Crown corporations, trust funds, and other public bodies, particularly those for which the Auditor General is the appointed auditor.

For the first time, the report provides an historical review of the trends in deficits and debt of the British Columbia government for the five fiscal years ended March 31, 1988 to 1992.

Presented here are the highlights of that report, followed by the report's complete Table of Contents. Readers are referred to the main publication for a full explanation of the issues raised.

HIGHLIGHTS FROM THE REPORT ON THE 1991-92 PUBLIC ACCOUNTS

NO RESERVATION OF AUDIT OPINION ON GOVERNMENT FINANCIAL STATEMENTS

The Auditor General issued unqualified opinions on the government's financial statements for the year ended March 31, 1992, stating that they present fairly the financial results of its operations for the year. With the government's recording of unfunded pension liabilities in its accounts, the Auditor General was able to remove the reservation which had been included in the 1991 auditor's reports.

IMPROVEMENTS IN THE PRESENTATION OF THE GOVERNMENT'S ACCOUNTS

The government has continued to make progress in improving its financial disclosure. Nearly all of the 35 recommendations on general reporting principles and standards for disclosure made by the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants are now fully complied with.



INCLUSION OF THE SUMMARY FINANCIAL STATEMENTS AS THE FIRST FINANCIAL REPORT IN THE PUBLIC ACCOUNTS

The government's Summary Financial Statements provide the most complete information about the operating results and financial position of the Province. They aggregate the financial position and results of operation of entities owned or controlled by the Province with those of the Province's Consolidated Revenue Fund.

The Consolidated Revenue Fund Financial Statements account for the financial activities of central government, and include the accounts of the General Fund and the Privatization Benefits Fund (now the British Columbia Endowment Fund).

There are significant differences between the financial results reflected in the Summary Financial Statements and those in the Consolidated Revenue Fund Financial Statements (see Table 3.1).

Accordingly, the Auditor General considers it important that the latter not be used for reviewing the Province's overall financial position and results of operation.

NEED FOR THE GOVERNMENT TO PLACE A REALISTIC VALUE ON UP TO \$4 BILLION OF LOANS MADE THROUGH ITS FISCAL AGENCY LOAN PROGRAM

The government has now identified, in a note to its financial statements, some \$4 billion in loans made to government organizations which are recoverable substantially through future government appropriations. Nevertheless, the Auditor General believes that unless debts to the government from government organizations represent realizable value, they should not be recorded in the Summary Financial Statements.

TABLE 3.1

Comparative summary of financial results and balances

(\$ Millions)

Source:
The Public
Accounts

	Summary Financial Reporting Entity		Consolidated Revenue Fund	
	1991/92	1990/91 ¹	1991/92	1990/91 ¹
Deficit, beginning of year	2,800	1,603	3,971	2,6670
Net expenditure for the year	2,163	519	2,355	626
Prior period adjustments		678		678
Deficit, end of year	4,963	2,800	6,326	3,971
Assets, end of year	13,296	12,278	10,216	9,134
Liabilities, end of year:				
Public debt	15,750	12,717	14,204	10,959
Other	2,509	2,361	2,338	2,155
	18,359	15,078	16,542	13,114
Guaranteed debt, end of year	4,109	4,369	5,729	6,234

¹1990/91 figures are adjusted to reflect the retroactive effects of changes in accounting policy, and other prior period adjustments.

NEED FOR THE GOVERNMENT TO ADDRESS REPORTING AND FUNDING ISSUES RELATED TO STATUTORY PENSION PLANS ADMINISTERED BY THE GOVERNMENT, THE UNFUNDED LIABILITIES OF WHICH TOTAL \$3 BILLION

Last year the Auditor General issued a reservation qualifying his auditor's report on the government's financial statements for the 1990/91 fiscal year because the government's unfunded pension liabilities continued to appear only in a footnote to the statements and not as a separate item in the accounts. For the 1991/92 fiscal year the government improved its reporting of liabilities by recording in its financial statements \$445 million of pension obligations of the Public Service Superannuation Plan.

A number of important pension issues remain, however. These have to do with the accounting for, and funding of, statutory pension plans administered by the government — in particular the Municipal, Teachers', and College Pension Plans. The unfunded liabilities of these three plans total about \$3 billion.

FIVE-YEAR REVIEW OF PROVINCIAL DEBT AND DEFICITS

The report includes, for the first time, a five-year historical review of trends, to March 31, 1992, in the provincial government's revenue, expenditures, deficits, and debt. Some highlights of this review:

Revenue

During the last five years, revenue other than taxation — including a federal government contribution, natural resources revenue, and all fee and licence collections, earnings from investments, contributions from government enterprises, recovery of

monies from sources outside government, and some miscellaneous revenue — has either stayed relatively unchanged or changed only slightly. Taxation revenue, however, has increased significantly from \$6,195 million in 1988 to \$9,268 million in 1992. This means that the average taxation revenue generated by each resident of British Columbia has increased from \$2,079 in 1988 to \$2,804 in 1992.

Expenditure

In the last five years, health education and social services combined have, on average, accounted for 64.8% of the total expenditure of the Province:

- Health costs have increased from \$4.1 billion in 1988 to \$5.6 billion in 1992, an increase of \$1.5 billion, or 36.6%, over the past five years.
- The cost of educating British Columbia students has increased from \$2.7 billion in 1988 to \$4.5 billion in 1992, an increase of \$1.8 billion, or 66.7%, over the past five years.
- The cost of social services has increased from \$1.3 billion in 1988 to \$2 billion in 1992, an increase of \$700 million, or 53.8%, over the past five years.

In the same five-year period, the Province's population increased by 11% from 2.98 million to 3.31 million, and its Gross Domestic Product grew by 32.6% from \$62,876 million to \$83,383 million.

Deficit

The annual deficit of the Province for 1992 was \$2.16 billion, or 13.3% of the year's total revenue of \$16.26 billion. The accumulated deficit of the Province — the total of all government deficits and surpluses — totaled \$4.96 billion at the end of the fiscal year 1992.

TABLE 3.2

Year ended March 31	1988	1989	1990	1991	1992
Accumulated deficit, beginning of year	(3,532)	(3,483)	(2,632)	(2,281)	(2,800)
Surplus/(deficit) for year	49	851	351	(519)	(2,163)
Accumulated deficit, end of year	(3,483)	(2,632)	(2,281)	(2,800)	(4,963)

Source: *The Public Accounts*

Table 3.2 shows changes in the accumulated deficit of the Province in the last five fiscal years, after adjustments are made for accounting policy changes.

Public Debt

The funds that the Province borrows from outside sources for its own needs are referred to in its financial statements as "public debt used for government operating purposes." This debt has risen

about 31% in five years, from \$5.5 billion in 1988 to \$7.2 billion in 1992.

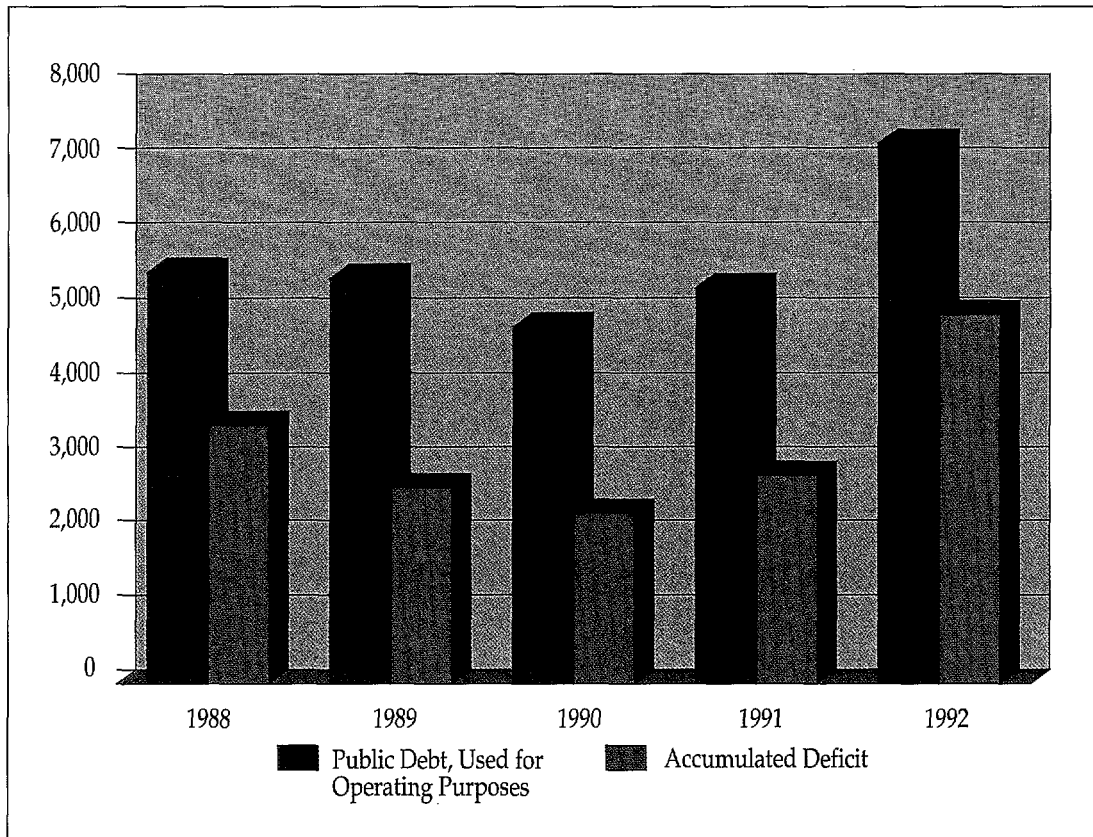
Figure 3.1 shows the balance of monies borrowed for government operating purposes at the end of each of the last five fiscal years, compared with the accumulated deficit balances at the same dates.

The Auditor General considers it important that the government measure deficit and the public debt in terms of their benefits to future generations.

FIGURE 3.1

Public debt used for operating purposes and the accumulated deficit, 1988-1992 (\$ Millions)

Source: *The Public Accounts*



**TABLE OF CONTENTS FROM THE
REPORT ON THE 1991-92 PUBLIC
ACCOUNTS**

AUDITOR GENERAL'S OVERVIEW

INTRODUCTION

The Auditor General's Mandate
Report on the Financial Statements
The Public Accounts
Structure of the Public Accounts
The Government's Financial
Statements
 Summary Financial Statements
 Consolidated Revenue Fund
 Financial Statements
 Privatization Benefits Fund
 Budget Stabilization Fund
Results of the Audits

**AUDIT OF THE GOVERNMENT'S
FINANCIAL STATEMENTS**

Defining the Government Reporting
Entity
Changes in Government Accounting
Policies
Accounting for Government Transfers
Amounts Recoverable Through Future
Appropriations
General Standards of Financial
Statement Presentation for
Governments
Pension Liabilities
Public Service Long Term Disability
Plan
The Lottery Fund 1974-1992
BCEC Deferred Revenue
Expo Lands Contaminant Clean-up

Follow-up: Accounting in the
Ministry of Transportation and
Highways

**AUDIT OF FINANCIAL STATEMENTS
OF GOVERNMENT ENTITIES AND
TRUST FUNDS**

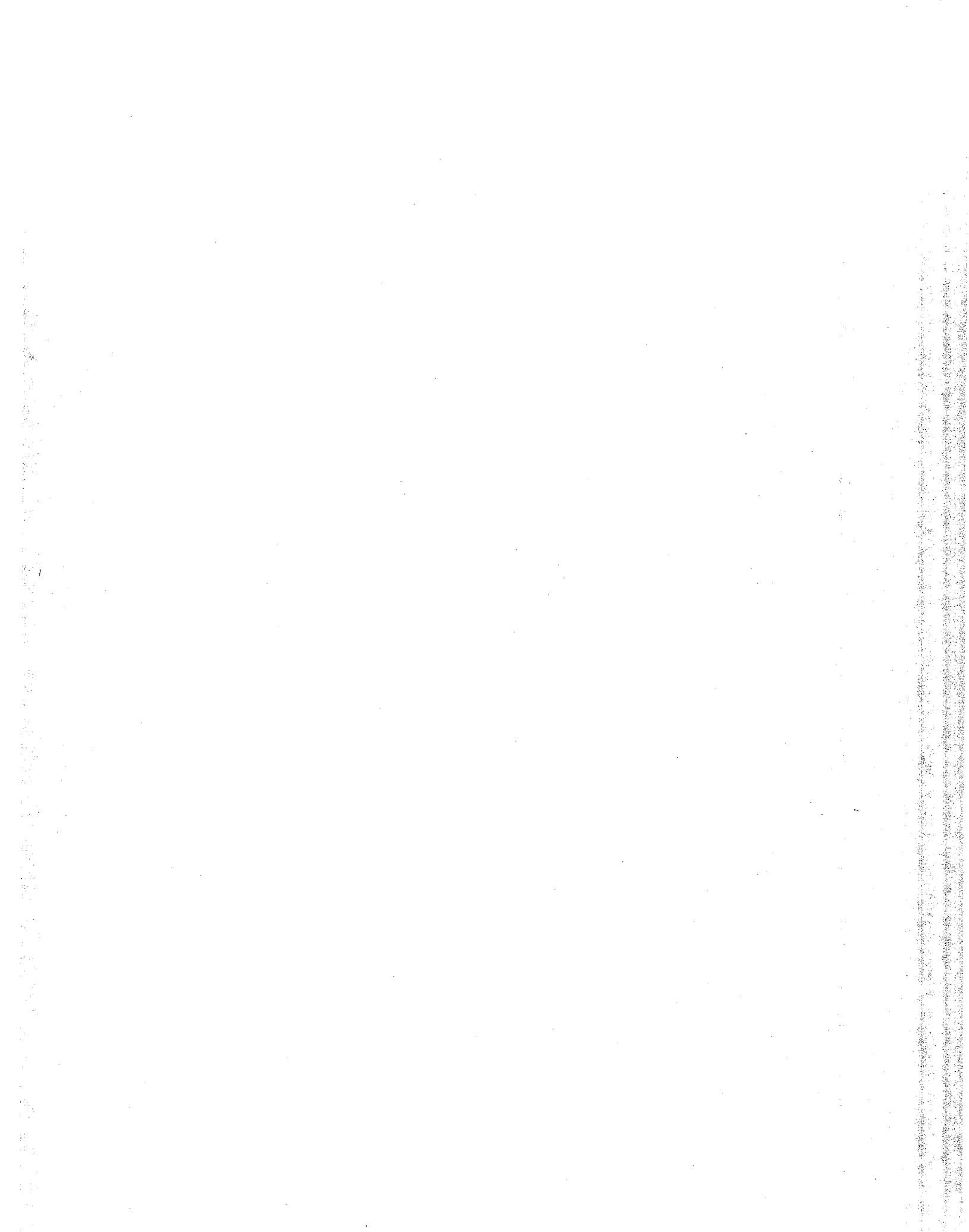
Introduction
Audit of Government Entities
British Columbia Hydro and Power
Authority Preferred Funding
Statutory Pension Plans
 Funding the Pension Plans
 Inflation Indexing
 Financial Reporting for Pension
 Plans
 Actuarial Valuation of Benefits of
 the Members of the Legislative
 Assembly Superannuation Account

**PUBLIC ACCOUNTS COMMITTEE:
RECOMMENDATIONS ON THE 1990-91
PUBLIC ACCOUNTS**

**FINANCIAL HIGHLIGHTS AND
COMMENT ON ACCOUNTING FOR THE
DEFICIT**

Revenue
Expenditure
Deficit
Comment on Accounting for the
Deficit
Public Debt





PROVINCIAL TREASURY

A review of controls relating to investment portfolios

REVIEW SCOPE AND OBJECTIVES

We examined procedures used by Provincial Treasury to control and manage investment portfolios on behalf of the Province and its trust clients. In particular, we reviewed the general computer controls of the Investment Portfolios System (IPS), as it is an integral part of the management of investment portfolios.

We focused on controls intended to ensure that all transactions were completely and accurately recorded on a timely basis, and that:

- only authorized investment purchases and sales were made;
- investment income was collected and re-invested on a timely basis;
- investment income was accurately attributed to clients;
- investment portfolios were valued accurately according to external market quotations, and that the pricing of units was calculated correctly;

- purchases and sales of units by clients were properly recorded;
- funds and investments were adequately safeguarded; and
- accurate and timely reports were produced for clients.

We conducted our review for the nine-month period ending December 31, 1992.

We reviewed general computer controls in place for the IPS to determine whether they were adequate to ensure that changes to programs and processing of transactions are complete, authorized, and accurate; that access to software and hardware is restricted to authorized personnel; and that data are recovered accurately, completely and promptly in the event of accidental interruption of operation. The observations for general computer controls are based on information gathered and tests performed during the month of February 1993.

OVERALL ASSESSMENT

We found that Provincial Treasury has adequate controls in place to address the major risks associated with its responsibilities for managing and investing funds entrusted to it. It has

established controls over the purchase and sale of units and investments, the collection and re-investment of income, and the attribution of income to unit holders. All of these controls

operated effectively throughout the period tested. We also found that assets are being properly safeguarded.

However, we believe there are opportunities for enhancing the effectiveness of controls. The IPS could be used, if cost-effective, to handle international equity investments, report formats could be revised to improve report readability, and certain key review procedure should be documented.

BACKGROUND

Provincial Treasury, a division of the Ministry of Finance and Corporate Relations, manages extensive investment portfolios on behalf of the Province and its trust clients: Crown corporations, pension funds and government agencies. Part 5 of the Financial Administration Act defines a broad range of investments in which the Minister of Finance may invest. It also provides the Minister with authority to establish and manage pooled investment portfolios. The portfolios are similar to mutual funds and are established for each primary type of investment held (Figure 3.2). The majority of Provincial Treasury clients

now invest funds in portfolio units rather than in specific investments.

INVESTMENTS

Since the 1987 fiscal year, investments managed by Provincial Treasury have increased at an annual rate of 12.5% (Figure 3.3). At March 31, 1992, the total assets managed were about \$25 billion (Figure 3.3).

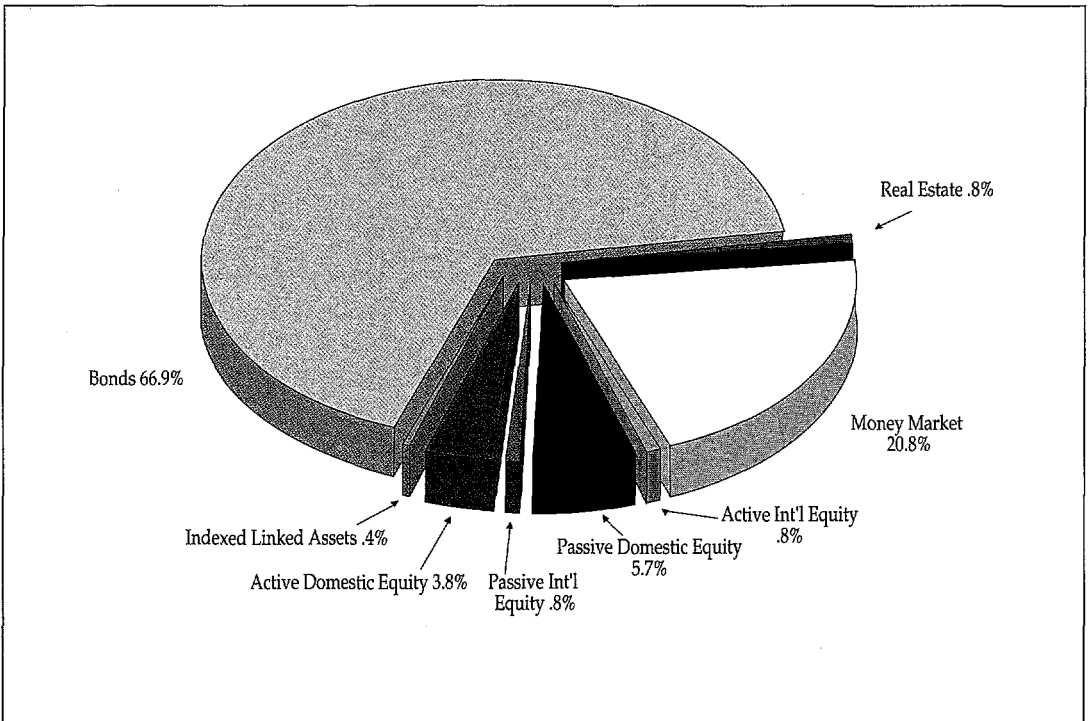
POOLED INVESTMENT PORTFOLIOS

There are currently 12 portfolios established. Investments in each portfolio are valued according to external market quotations on valuation days, and units may be purchased or redeemed only on a valuation day. The value of a

FIGURE 3.2

Investment portfolios managed by Provincial Treasury at March 31, 1992

Source: Ministry of Finance and Corporate Relations



unit is determined by dividing the market value of the net assets of the portfolio by the total number of units outstanding. All income earned by each portfolio is attributed to unit holders. Clients receive, on a monthly basis, copies of transaction reports detailing unit purchases, redemptions, and income attributed during the month.

EXTERNAL CUSTODIANS AND MANAGERS

Provincial Treasury has contractual agreements with the Canadian Imperial Bank of Commerce and the Royal Trust Corporation, who act as their custodians for investment settlement and securities safekeeping. A majority of investment purchases and sales are settled through electronic fund transfers between Provincial Treasury's bank accounts and investment dealers.

For international and real estate pooled portfolios, external managers provide investment management and advisory services. Each external manager

is under a contractual obligation to invest within a specific mandate.

PROVINCIAL TREASURY

Provincial Treasury engages in the following activities:

- analysis of potential and current markets and development of investment strategies;
- day-to-day investment in financial markets;
- day-to-day unit purchases and redemptions by clients;
- settlement of investment trades and investment income collection;
- market valuation of portfolios and unit pricing;
- securities lending through its custodians;
- management of investment bank accounts;
- accounting and reporting of investment portfolio transactions; and

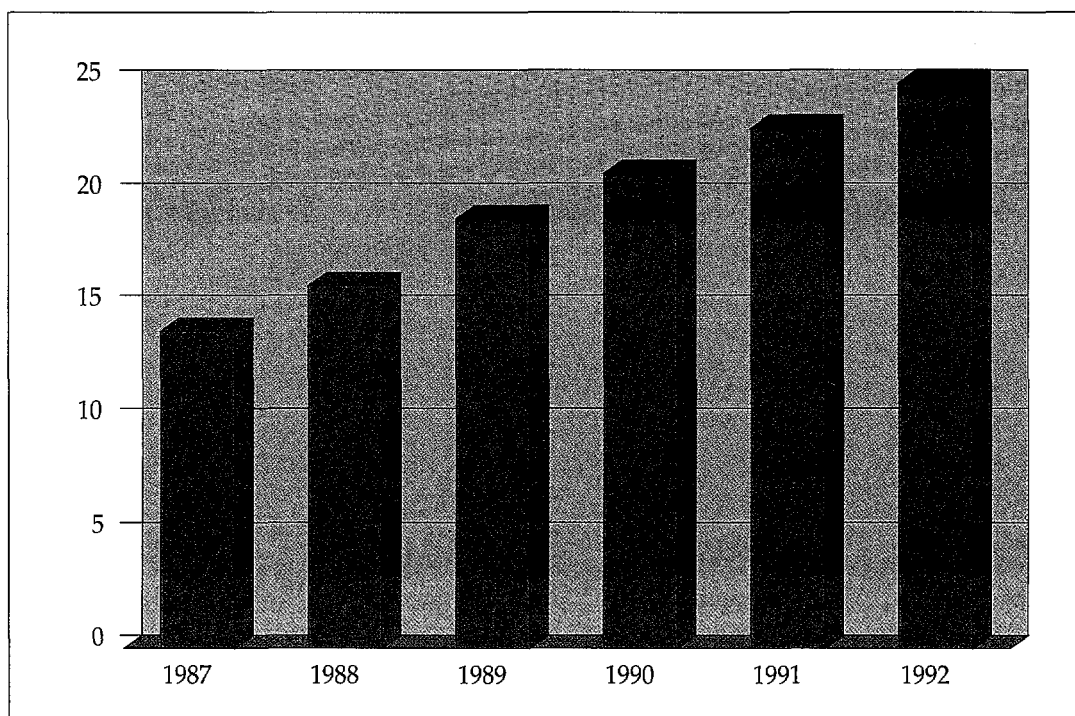


FIGURE 3.3
Investments managed by Provincial Treasury (\$ Billions)
Source: The Public Accounts



- physical custody of bond investments or, if they are held by external custodians, periodic reconciliation with custodian reports.

Provincial Treasury operates in a highly computerized environment and uses the IPS to assist it in monitoring investment activities. The system provides the accounting and reporting for investments, income, unit transactions, and portfolio valuation. It also provides information for performance measurement of the portfolios. The IPS is a software package purchased from an external company and runs at the Victoria computer centre of British Columbia Systems Corporation. Provincial Treasury provides its own in-house system processing support.

To recover its administration costs, Provincial Treasury's clients are charged a fund management fee based on the market value of clients' investments held at month end.

AUDIT OBSERVATIONS

Provincial Treasury uses the IPS to monitor investment transactions and balances, and to serve as the primary source of information for monitoring investment income receipts, maintaining investments inventory, and pricing units. It is also a valuable source of information for making investment decisions. However, although it is a highly sophisticated system, the IPS is not fully utilized to handle the accounting of international equity transactions because of certain constraints. Therefore, IPS is not being used to record the investment activities of international equity investments. Currently, Provincial Treasury relies on custodian and external manager reports to account for foreign exchange translation, portfolio

valuation, and dividends receivable of international equity portfolios.

We believe that the effectiveness of ensuring the completeness and accuracy of market valuation and income could be improved if IPS is utilized, if cost-effective, to fully support the accounting and reporting functions of international equity portfolios.

The IPS produces various reports for internal and external use. We found that the reports are accurate and timely. We noted, however, that the format of some of the reports is awkward and occasionally confusing. Provincial Treasury has recognized this problem and has made report reformatting a part of its ongoing IPS enhancement project.

Part 5 of *Financial Administration Act* defines a broad range of investments in which the Minister of Finance may invest. More specific investment guidelines and policies are established by Provincial Treasury for investment traders to follow. We were informed by management that investment activities are being reviewed periodically to ensure that investment traders are investing according to established guidelines and policies, however, we noted this review is not fully and consistently documented. We recommend that the procedures used to review and monitor the compliance of traders' investment activities be further documented so as to evidence that the control is carried out promptly.

We have made a number of other insignificant recommendations to Provincial Treasury for improving the controls of investment portfolios management, and some minor suggestions for strengthening general computer controls over IPS programming changes.



RESPONSE OF PROVINCIAL TREASURY

We appreciate the opportunity to respond to the audit observations made in the internal control review of the controls relating to Provincial Treasury's management of investment portfolios.

We acknowledge that the Investment Portfolio System is not being used to handle the accounting for international equity transactions. This was a conscious decision recognizing various constraints e.g., timing/reliability of trade advices within the overall process, which rendered the recording of international equity activities ineffective. Other controls including the prompt reconciliation of investment manager and custodian reports are in place.

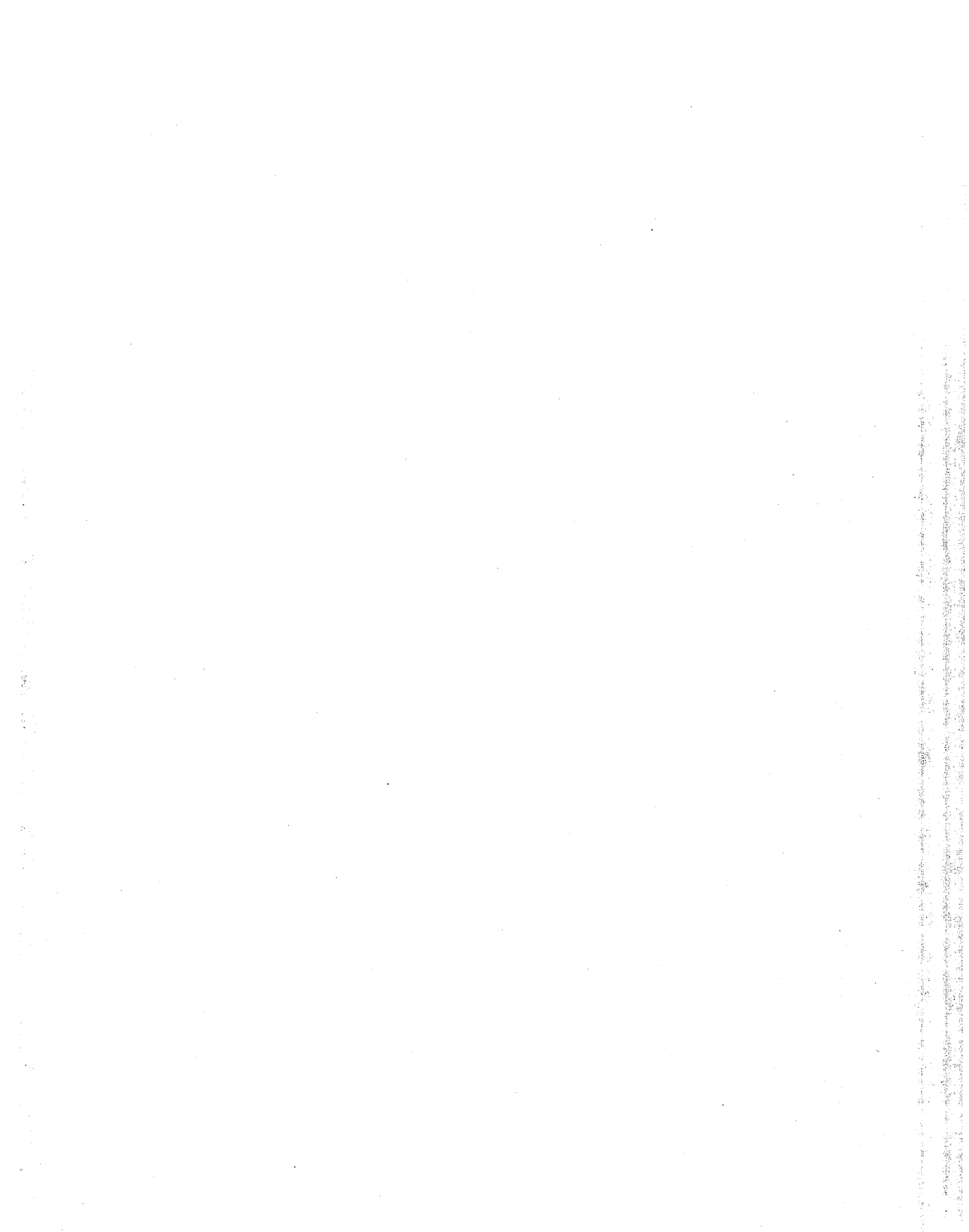
We concur that the format of some Investment Portfolio System reports could be improved. Report reformatting is a priority within our Investment Portfolio System enhancement project but is

restricted by current software limitations and the need to complete other enhancements.

Treasury Management regularly conducts reviews of all aspects of trading activity to ensure adherence to policy. This includes a weekly review of trades, credit limits and commission expenses. We agree that the documentation of these procedures could be improved. In future, all of the review reports will be signed, dated and filed so as to evidence that the control procedures are carried out promptly.

We appreciate the thoroughness with which your staff reviewed the controls relating to the management of investment portfolios. All findings and recommendations will be reviewed and incorporated where appropriate in future enhancements of our controls.





LEGISLATIVE PRECINCT

A review of expenditure controls

REVIEW PURPOSE AND SCOPE

In late 1992, at the request of the Legislative Comptroller, our Office carried out a review of expenditure processing at the legislative precinct. While conducting this review, we also studied a recent initiative by the

Legislative Accounting Office to inventory assets held in each of the branches and offices within the precinct, and therefore decided to include these inventories within the scope of our review.

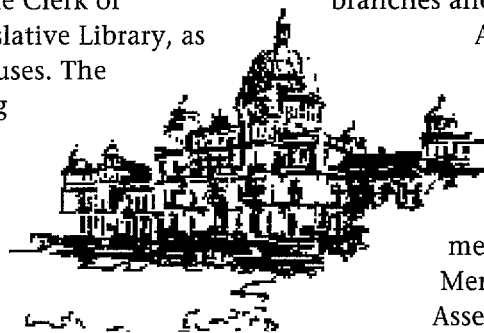
OVERALL ASSESSMENT

As an overall observation, we noted that there was only a limited amount of documented policy and procedural guidance to assist with the financial administration of

expenditures. However, we recognize that good financial management should not be solely dependent on issued rules and procedures.

INTRODUCTION

The Legislative Accounting Office, headed by the Legislative Comptroller, provides accounting and related services to the branches and offices within the legislative precinct. These branches and offices include the Speaker's Office, the Clerk of the House, the Clerk of Committees, the Legislative Library, as well as the party caucuses. The Legislative Accounting Office offers these services in much the same manner as senior financial officers in government ministries.



*Parliament Buildings,
Victoria, British Columbia*

POLICIES AND GUIDELINES

Ministry expenditures are governed by the *Financial Administration Act*, and guided by Treasury Board approved manuals covering financial administration policies and procedures.

In our system of government, the branches and offices of the Legislative Assembly are not bound by Treasury Board directives. At the Legislative Accounting Office we found that, except for the members' handbook for Members of the Legislative Assembly, there were few written policies or guidelines for expenditures. We believe that these branches

and offices could benefit from being guided by most of the government's policies and procedures. Clear, uniform guidelines can provide for economic and efficient financial operations, and serve to preserve the integrity of those who are served by them.

EXPENDITURE PROCESSING

From our examination of expenditure transactions in the legislative precinct, we learned that government purchase orders were not regularly used for the acquisition of goods and services, and that prior approvals for purchases were not always documented.

In our examination, we noted an instance where an invoice had been paid twice. The overpayment occurred in April 1992, and was still not resolved in November 1992. Since the overpayment, there were at least three more payments to the supplier, and the amount of the overpayment could have been deducted from any one of these payments.

When enquiring about the credit for the overpayment, the Legislative Accounting Office was informed by the branch involved that there were also some items which had been traded in for which credit had not yet been provided. This comment was made in October 1992, but our review found that the credit referred to had been applied in February 1992 against the purchase of other equipment.

In these cases, the monitoring of purchases of goods was not effective.

CORPORATE CREDIT CARDS

A corporate VISA card is used by some branch staff to cover travel and other expenses such as equipment purchases. As laid out by financial administration policies, however, officials and staff of

government ministries are not permitted to use credit or charge cards for equipment purchases.

We found in our review that travel expenses of persons other than the cardholder were sometimes paid with the corporate VISA cards in use. This bypasses the normal procedure whereby the person travelling scrutinizes all costs for reasonableness and determines if the expenses are those that can be claimed or are those that should be covered by per diem amounts. We also found that when this form of payment occurred the travel expenses were not being coded as an expense of the appropriate individual. As a result, the figures published by the government in the Public Accounts as to the expenses paid on behalf of officials and employees would be misstated.

We also found that VISA card statements were not always forwarded to the Legislative Accounting Office for payment in time to avoid interest charges. As a result, in the 1991/92 fiscal year, interest charges of \$1,490 were paid. In the 1992/93 fiscal year to November 17, 1992, interest payments amounted to \$1,120.

LEAVE MANAGEMENT

We found that written policies and procedures covering leave management had not been issued for the guidance of precinct staff. It is important that information on entitlements for vacation, sick leave and other time off be maintained and controlled for the benefit of both the organization and the individual employees.

EQUIPMENT ASSETS

The government's financial administration manuals require that accurate and timely records be maintained of all fixed assets costing more than \$200, and of all assets which a ministry determines to be "attractive", regardless of cost.

In September 1992, the Legislative Accounting Office asked the precinct branches and offices to prepare and return to it a list of all equipment in their possession. This was the first time that such an inventory of equipment had been taken.

From a review of related invoices, we prepared lists of equipment that had been purchased over the last three fiscal years. We then determined whether the purchased items were recorded on the inventory lists.

We found that a number of items purchased had not been recorded on the inventory lists, but we were subsequently able to locate them in the branches and offices of the legislative precinct.

Public money should only be used for those purposes described in the votes of the legislative assembly. However, in our review, we noted occasions when personal items were purchased through government processes, and later reimbursed with personal cheques.

When we compared actual equipment acquisitions to amounts in the Vote, we found that some budgets within the precinct for asset acquisitions were considerably overspent in the 1992/93 and 1991/92 fiscal years.

ASSURED LOADING TICKETS

BC Ferries sells assured loading tickets which, when used to purchase ferry tickets at the terminal, guarantee the user a place on the next sailing. The tickets are sold in books of 10 tickets each, and are priced at a premium over the regular fare.

We found that the branches and offices of the precinct did not have a process to account for assured loading tickets when used, nor to keep track of unused tickets. We consider these tickets to be in the category of "attractive", and very usable, assets.

PROTOCOL GIFTS

In the 1992/93 fiscal year to October 1992, some \$10,800 was spent by the branches and offices of the legislative precinct to purchase protocol gifts for presentation to visiting dignitaries. When the inventory of assets was completed by the branches and offices, halfway through the current year, approximately \$3,300 worth of protocol gifts was on hand.

We found that there was no process to record when and to whom protocol gifts had been presented, nor to record, on an ongoing basis, items still on hand.

RECOMMENDATIONS

We made several recommendations to the Legislative Comptroller resulting from our review. They are intended to assist management to address identified issues and instances of concern regarding financial management procedures within the legislative precinct.

We recommended that:

- the legislative precinct adopt similar policies and procedures relating to acquisitions of goods and services as are followed by government ministries. The only exceptions would be to meet the direct needs of MLAs, who are covered by separate guidelines in the members' handbook, as well as any other exceptions explicitly authorized by the Speaker.
- meaningful approval authorities for expenditure documents be established. Similar to government-wide requirements, the approvals should be exercised before the time of purchase, and with due consideration of amounts budgeted.
- the corporate VISA cards be withdrawn. Individuals requiring a credit card for travel purposes should obtain one of the other credit cards that are available throughout government for this purpose.
- if individuals do not pay separately for their own travel expenses, they nonetheless should approve in writing their travel charges, and the payments then be properly coded to allow for correct reporting of travel expenses in the Public Accounts.
- all branches and offices within the legislative precinct adopt similar policies and procedures relating to leave management as are followed by government ministries.
- all branches and offices within the legislative precinct be required to implement ongoing systems for recording both the inventory and the utilization of moveable equipment items, assured loading tickets, and protocol gifts.



RESPONSE OF THE LEGISLATIVE COMPTROLLER

I wish to acknowledge the report you recently forwarded regarding your review of the expenditure controls within the Legislative Assembly. I was pleased to receive your comments, as audit reports can be a very useful management tool which highlight potential problem areas, provide support for needed changes, and offer recommendations for solutions.

Your prompt response to our request for assistance in conducting a review of our expenditure controls, the thoroughness and professionalism of your audit staff, and the manner in which they conducted the review with minimal disruption to our day-to-day operations was greatly appreciated.

Your overall observation that there is only limited documentation of policies and procedures to assist the various offices with financial administration is quite correct.

The operational requirements of the Legislative Assembly and its support offices is somewhat unique and, frequently, flexibility is needed to address the circumstances. This is formally recognized by such governmental central agencies as Treasury Board and the Office of the Comptroller General which do not (and should not) impose their powers of control over the Assembly in the same manner as they do over the Executive areas of government.

In many ways, the Legislative Accounting Office acts like these central control agencies and issues both verbal and written guidelines to assist the offices in their duties. My office has access to all of the government's policy and procedures manuals and, utilizing our many years of direct experience and involvement in



financial administration with line ministries, my staff and I attempt to guide the Assembly's financial operations in a manner which is compatible with these established principles, while recognizing the special needs of the Assembly. We are gradually working towards the production of more formal, written policies and procedures but, again, the unique nature of our operations makes it difficult to issue directives on a universal basis.

Immediately after receipt of your initial report, we prepared and distributed written instructions, based on your audit observations and recommendations. A copy of these instructions has been provided to you under separate cover for your information and guidance when conducting future audits. I believe these instructions adequately address all of the concerns you raised and should result in improved financial procedures, without unduly affecting the flexibility required in our operations.

Some of the recommendations you made, such as adoption of government procedures

for acquisition of goods, were largely already in place through the use of the government's "Standing Offer" system. However, because these instructions were not formally outlined in written policy, this was not immediately evident to the audit team or to the Assembly's support offices. While you have recommended that the VISA credit cards be withdrawn, we have authorized the continued, but restricted, use of them until such time as a study is completed on viable alternatives.

With respect to your observation that some budgets for asset acquisitions were overspent, this can be a reflection of the problems encountered in anticipating the needs of the House when establishing the budget, rather than an expenditure control issue. We are very conscious of the need for prudence and frugality when making expenditures, while being fully prepared to meet the requirements of the House as they arise.

Again, I wish to thank you and your staff for the helpful manner in which this review was conducted.





UPDATED RESPONSES TO PRECEDING YEAR'S INTERNAL CONTROL REVIEWS

MINISTRY OF THE ATTORNEY GENERAL

OFFICE OF THE PUBLIC TRUSTEE

We are pleased to provide an updated response to the findings and recommendations presented in the Auditor General's 1992 Annual Report with respect to your review of the internal controls related to our administration of clients' assets, receipts and disbursements. In addition to the actions taken immediately at the time of your review, we have since undertaken the following measures:

Authority to Act

The issue of protecting the financial interests of potential clients prior to the Public Trustee receiving full legal authority to act continues to be of concern to us. Means of resolving this problem are contained in the new adult guardianship legislation which will be presented to the Legislature this spring. In the interim, we have taken action to speed the investigation process so that legal authority is received in as timely a manner as possible.

Policies and Procedures

While fiscal restraint measures have somewhat delayed the completion of the restructuring initiatives begun three years ago, we are implementing changes as quickly as possible, within our available resources. Accordingly, we are continuing the revision of our operating systems, policies, procedures and standards. For

example, to ensure that clients' assets and liabilities are recorded in a consistent and timely manner, we have created a Financial Transactions Officer position to handle financial data and recording functions within our Services to Adults department.

Identifying and Recording Clients' Income

To allow us to more effectively and efficiently manage clients' cash flow, we have developed an automated client budgeting system that is now being tested. The system will also assist us in minimizing the risk of not collecting or recording income that is due to OPT clients by enabling us to identify and record anticipated income for our clients.

As stated in our previous response, the full implementation of the new organizational structure will largely resolve the other operating issues identified. We are continuing to implement change within available resources.

LIQUOR DISTRIBUTION BRANCH

Since the recommendations by the Auditor General were made in the 1992 Auditor General Annual Report, the following steps have been taken to improve compliance with the General Computer Controls:



- Policy statements outlining the role and responsibilities of user management's involvement in projects were recorded and approved by the LDB Executive.
- The LDB has completed a project to improve Project Management practices. A major deliverable, the Project Management Handbook, has been published and been adopted by the LDB, which:
 - provides an umbrella for all project management issues at the LDB.
 - recommends that project teams produce phase and reports, which are to be prepared at the end of each phase of the project. The report provides feedback on acceptance by the user of the project deliverables and formal reporting so that the project team can learn from its experience.
 - describes the dynamics of project management, focusing on the "six components" and the roles and responsibilities of project team members and organizations. All LDB mid-managers have received basic project management training and are scheduled for follow-up sessions. All corporate and non-corporate significant projects are expected to have up-to-date project charters, status reports and project plans. Projects are being monitored and a level of consistency is being experienced.
 - recommends to project managers that an independent person or team conduct post implementation reviews on significant projects. Guidelines have also been established for the content and format of the report. The closure chapter is devoted to activities surrounding project completion and follow up.
- The LDB will shortly publish "The Managers Guide to Investments in Personal Computers" outlining roles and responsibilities of line management and information services, managing the investment, justification and procedures for acquiring personal computers. This guide has been circulated to the steering committee members for final approval. Training sessions on the use of this manual are expected to be scheduled shortly for all LDB middle management.
- As a component of the Head Office Information Technology Infrastructure Project, centralized backup and recovery facilities for head office microcomputers have been implemented. To this date, approximately half of the head office computers have been included.
- The LDB has commenced a strategy of release control. Examples include releases of Finance systems and a release strategy for a major Store Operations system. A new work request form is under development, which is designed to ensure the group of work requests follow proper guidelines.
- The Information Services Department has been formally documenting its products and services. The ISD management has circulated a draft document internally for review. It is expected to continue to make refinements to this document over the next few months.
- A member of the Finance Department is approving the B.C. Systems billings.
- The LDB has undertaken to publish, on a period basis, allocation to all departments of the B.C. Systems bill. The allocation report is included with the branch earnings package, which is published each period. A sampling of the major financial systems costs are produced for review.
- The Information Security Committee has developed a strategy for disaster recovery planning. Within the 93/94 fiscal year, a project will be initiated for the



preparation of recovery plans for the centralized data processing facilities of the LDB. Following this will be a project for the preparation of recovery plans for critical applications.

- *Following the recommendations of the LDB's Information Security Committee,*

the Loss Prevention Department has requested funds in the 1993/94 budget, for the cost of consulting services to assist with the preparation of business continuity plans.

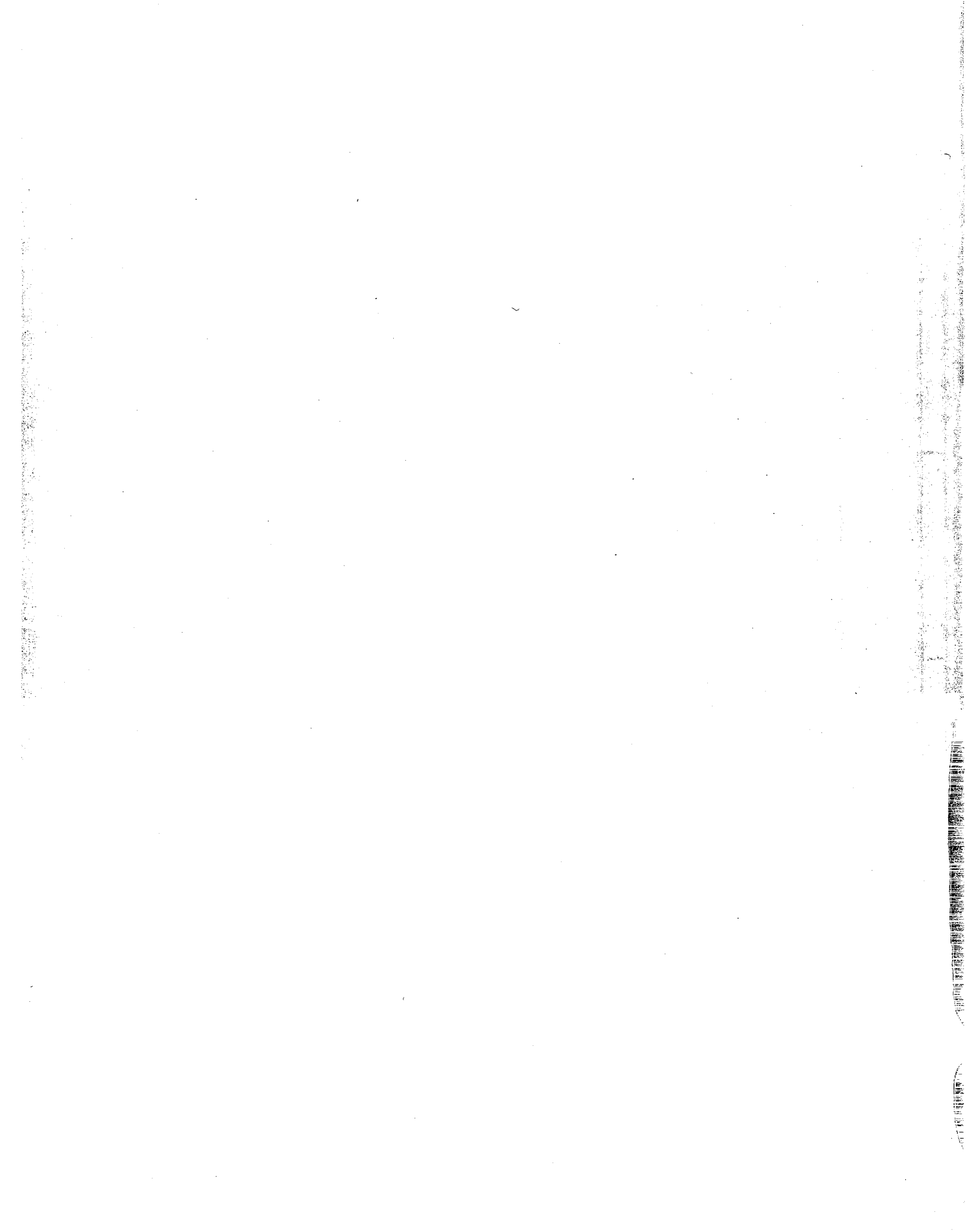
MINISTRY OF FINANCE AND CORPORATE RELATIONS

OFFICE OF THE COMPTROLLER GENERAL

Since the previous response the Government Payroll Office has been able to fill a

Training and Compliance Officer position. As a result, it has been possible to provide additional training to payroll staff in the ministries, as well as conduct sample compliance reviews of transactions.





PART IV

OFFICE OF THE AUDITOR GENERAL

CONTENTS

ROLE AND RESPONSIBILITIES OF THE AUDITOR GENERAL	127
OPERATION OF THE OFFICE	127
Organization	127
Personnel	127
Professional Development	129
Quality Assurance Program	129
Information Technology	130
Finance	130
PROFESSIONAL ACTIVITIES AND AFFILIATIONS	130
Association and Committee Memberships	130
CICA Interest Groups	131
Canadian Conference of Legislative Auditors	131
Canadian Comprehensive Auditing Foundation	132
Public Sector Accounting and Auditing Committee	132
Community Service	133
RELATIONS WITH THE PUBLIC ACCOUNTS COMMITTEE	133



ROLE AND RESPONSIBILITIES OF THE AUDITOR GENERAL

The legislative mandate for the activities of the Office derives from the *Auditor General Act*, which came into force in 1976.

Details of the Auditor General's responsibilities, as set out in the Act, appear in Appendix A. A more concise description of the role of the Auditor General is found in the Office's Mission Statement, which reads:

MISSION STATEMENT

The Auditor General serves the citizens of the Province by providing independent opinions and evaluations on the financial and administrative management of the government and its related entities in the public sector. As well, he promotes improvement in public sector accountability.

To fulfill his responsibilities, the Auditor General has established a professional office committed to the principles of objectivity, integrity and service to the public.

Comments expanding on the various aspects of the Mission Statement are presented in Appendix B.



OPERATION OF THE OFFICE

ORGANIZATION

The organization of the Office has changed somewhat during the past year. The new organization reflects the changes in the audit divisions mentioned below, as well as the

retirement of Deputy Auditor General, Mr. Robert J. Hayward, CA. Figure 4.1 provides an overview of the organization as at March 31, 1993.

The Office is organized into four divisions. Three of these, each under the direction of an Executive Principal, carry out the Office's audit operations and represent its commitment to all three components of legislative auditing:

- A new division has been established to conduct audits of government compliance with legislative authorities and to carry out special projects.
- A second division is responsible for coordinating the audit of the government's financial statements; for undertaking the public body financial audits assigned to the Office and developing methods and practices for those audits; and for conducting internal control reviews.
- A third audit division is responsible for performing value-for-money audits.

A fourth division, under the direction of the Principal, Administration, is concerned with the administrative, financial, and information technology areas of the Office.

PERSONNEL

The funding constraint placed on Office staffing and technical resources recognizes the financial difficulties currently facing the government. Our present authorized staffing level of 90 full time equivalents (FTEs) is two positions fewer than was authorized 10 years ago, despite the continuing increase in number and size of audits assigned to the Office. We consider that the audit coverage accomplished at this staffing level is the minimum required to fulfill the Auditor General's mandate and to meet the minimum expectations of the Legislative Assembly.

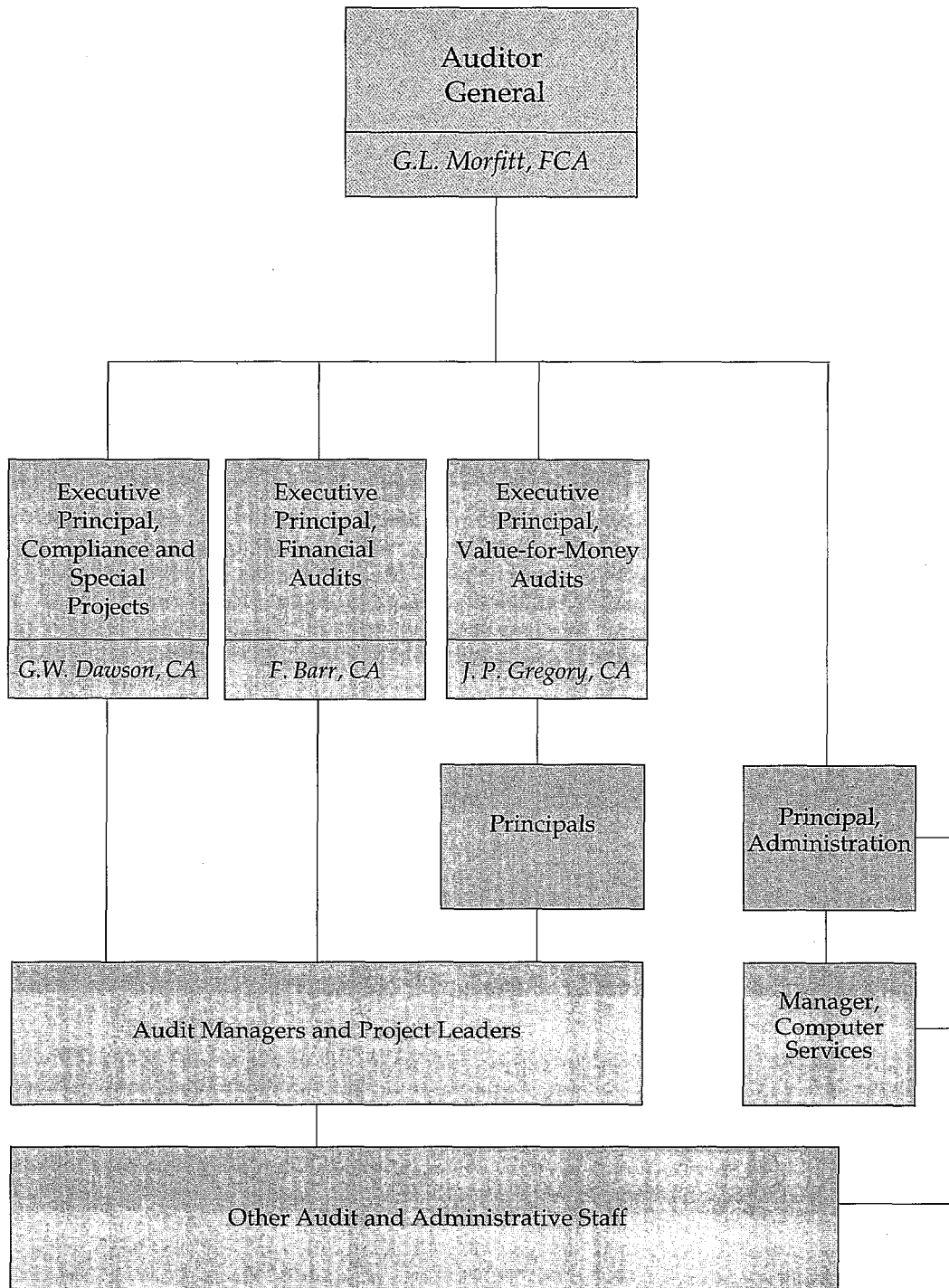
Staff departures during the year necessitated the recruiting of nine new



FIGURE 4.1

ORGANIZATION OF THE OFFICE OF THE AUDITOR GENERAL
MARCH 1993

Organization
of the Office of
the Auditor
General



personnel: one audit professional and eight audit students. Also we continued our association with the University of Victoria Cooperative Education Program by employing four computer science/math co-op students and three business program co-op students, each for four-month work terms.

Through our secondment program, six staff members sharpened their line management skills and became more familiar with the operating aspects of government and Crown corporations. The ministries and Crown corporations appreciated the special expertise of our secondees, all of whom had both university and professional training.

PROFESSIONAL DEVELOPMENT

Legislative auditors throughout the world face an increasingly complex environment. Our Office is committed to meeting this challenge by undertaking an extensive program of staff training and professional development in all aspects of legislative auditing. This includes financial statement attestation, compliance-with-authorities auditing, and value-for-money auditing.

Our students are enrolled in the professional accounting programs provided by the Institute of Chartered Accountants of British Columbia, the Certified General Accountants Association of British Columbia, and the Society of Management Accountants of British Columbia. The students follow a program of on-the-job training, and courses offered by the Office and various professional accounting bodies. Five of our students received their professional accounting designations during the year.

Our professionals undertake programs to develop their expertise in financial statement attest and in the unique areas of value-for-money and compliance-with-authorities auditing. Many of our value-for-money auditors are enrolled in the Certified Management Consultancy program, and this year we had our first

graduate from this program, Leslie P. McAdams, CA, CMC.

The information technology courses for our auditors are coordinated and presented by the staff of the Office's Information Technology Services Group and by outside consultants.

In addition to these programs, our staff attend courses, seminars, and conferences on subjects relating to their areas of professional interest.

QUALITY ASSURANCE PROGRAM

The integrity of the work of the Office is fundamental to its purpose. It is therefore essential that the Office conduct its audit work in a manner that meets or exceeds professional auditing standards.

To ensure our work meets professional standards, we have in place a formal audit quality assurance program. This program is based on a peer review approach involving professionals from both inside and outside the Office.

Over the past several years the following reviews have been conducted:

- a review of our financial statement audit work by practice review officials of the Institute of Chartered Accountants of British Columbia;
- an internal review of our public body financial statement audit work;
- a review of our computer audit activity by a senior representative of the Office of the Auditor General of Canada;
- an internal review of our value-for-money audit work; and
- an external review of our value-for-money audit work by a national firm.

These reviews have consistently confirmed that the work of the Office is conducted in accordance with all professional auditing standards.

INFORMATION TECHNOLOGY

In 1990 we commissioned a firm of independent consultants to prepare an Information Technology Plan for our Office. The consultants stated in their report:

In the rapidly changing technological environment of the OAG's audit clients, the Office needs to remain ahead of, or at least, in step with the use of technology to perform its audit functions efficiently and effectively.

To bring the Office up to date by applying current technology, and replacing aging equipment and reducing the existing hardware and software problems, requires investment above the OAG's current funding levels. The investment in information technology is seen as a key factor in achieving the Office's business goals.

Unfortunately, the resources the Office needs to implement the plan fully have not been provided.

Our investment in information technology to carry out the work of the Office ranks among the lowest in government. We are now seriously concerned that we are falling behind the information technology environments of the public sector organizations we audit.

All of our audits are of highly computerized environments using the latest advanced computer systems. Our Office staff must have access to the information technology they need if they are to audit these areas effectively.

FINANCE

Our net expenditure for the operation of the Office for the fiscal year ended March 31, 1992, was \$6,556,578, made up as follows:

Salaries and benefits	\$5,002,491
Operating costs	1,093,284
Asset acquisitions	428,668
Grants and contributions	50,000
	<hr/>
	6,574,443
Recoveries	(17,865)
	<hr/>
	<u>\$6,556,578</u>

This amount represents 0.38 of 1% of total Consolidated Revenue Fund expenditures.

In accordance with the *Auditor General Act*, the accounts of the Office are audited by an auditor appointed by the Treasury Board and are tabled in the Legislative Assembly by the Speaker.



PROFESSIONAL ACTIVITIES AND AFFILIATIONS

ASSOCIATION AND COMMITTEE MEMBERSHIPS

The Office promotes staff involvement with professional and other associations whose activities are relevant to the Office. These include:

- Institute of Chartered Accountants of British Columbia
- Certified General Accountants Association of British Columbia
- Society of Management Accountants of British Columbia
- Canadian Comprehensive Auditing Foundation



- Canadian Evaluation Society
- EDP Auditors Association
- Financial Management Institute of Canada
- Institute of Internal Auditors
- Institute of Public Administration of Canada
- Law Society of British Columbia

Some of our staff are members of the executive or of various committees of these bodies; others are involved in research and technical projects:

Frank Barr, Executive Principal, member of the Local Government Affairs Sub-Committee of the Institute of Chartered Accountants of British Columbia

Gordon W. Dawson, Executive Principal, coordinator of the Compliance-with-Authorities Auditing Study Group of the Conference of Legislative Auditors

Endre Dolhai, Principal, member of the Practice Review and Licensing Committee of the Institute of Chartered Accountants of British Columbia

J. Peter Gregory, Executive Principal, research resource of the Canadian Comprehensive Auditing Foundation

Fred Heard, Manager, secretary of the EDP Auditors Association, Victoria Chapter

Brian Jones, Audit Manager, President of the Victoria Chartered Accountants Association

Terence P. Mackian, Principal, Administration, member of the Council of the Institute of Chartered Accountants of British Columbia and chair of its Membership and Re-admission Committees, chair of the Consolidated Estimates Study Group of the Conference of Legislative auditors, and a director of the Financial Management Institute, Victoria Chapter

The Auditor General, George L. Morfitt, continues to chair the Auditing Section of the Public Sector Auditing and Accounting Committee of the Canadian Institute of Chartered Accountants. As well, he serves as a Governor of the Canadian Comprehensive Auditing Foundation.

CICA INTEREST GROUPS

In December 1991, the Canadian Institute of Chartered Accountants (CICA) approved the establishment of special Interest Groups (IGs). These Interest Groups are voluntary associations of individuals with common interests in existing or emerging areas of technical knowledge and skill of Chartered Accountants. The IGs are seen as providing opportunities for CAs to advance their professional knowledge by communicating with others who have common professional interests.

To date, six IGs have been formed in the following areas:

Business Advisory Services

Environmental Management
Accounting and Reporting

Family-owned Enterprises

Financial Management

Information Technology-Micro

Investigative and Forensic Accounting

Four representatives from our Office are among the founding members of three of the IGs, groups which are pertinent to the work of the Office.

The Investigative and Forensic Accounting IG was set up on July 1, 1992. It is for CAs who practice investigative accounting or auditing, provide expert testimony, or provide financial valuations in dispute situations. Gordon Dawson, in charge of our compliance and special projects division, is a member of this IG.

The Information Technology-Micro IG also got officially under way on



July 1, 1992. The purpose of this group is to assist members of the profession in establishing pre-eminency as users of, and advisors on, the efficient and effective use of micro-based information technology for purposes of decision making, management and productivity. Reg Carter, a senior computer audit specialist in our Office, is a member of this IG.

The Environmental Management Accounting and Reporting IG, inaugurated in January 1993, is for CAs interested in accounting and reporting on matters relating to the legal and moral issues of creating and maintaining a "green" environment. Two members from our Office have joined this IG: Russell Jones, a manager in our financial statement attest auditing area, and Kenneth Lane, a senior project leader in our value-for-money audit division.

Our Office expects considerable professional benefit to be gained from the development of these IGs and our participation in them.

CANADIAN CONFERENCE OF LEGISLATIVE AUDITORS

The Canadian Conference of Legislative Auditors is an association of auditors general and provincial auditors from the federal and provincial jurisdictions of Canada. Meetings are held annually so that those actively involved in legislative auditing can exchange information and experiences. Two members of our staff attended the 20th annual meeting held in Fredericton, New Brunswick in July 1992.

The Canadian Council of Public Accounts Committees, made up of representatives from all the senior legislatures across the country, also met in Fredericton at that time. A joint session of the legislators and auditors provided the opportunity for a useful exchange of views on subjects of mutual interest.

CANADIAN COMPREHENSIVE AUDITING FOUNDATION

The Canadian Comprehensive Auditing Foundation is a national association established to help strengthen management, accountability and auditing in the public sector. Its interests extend to all organizations that are sustained by public funds to carry out public policy objectives.

The Foundation's work concentrates on the ways in which managers can ensure that good value for money is obtained from their administrative practices; on the manner in which managers report their accountability for achieving economy, efficiency and effectiveness; and on the role audit plays in reporting.

The Office has been a member and supporter of the Foundation since its formation in 1980. The Auditor General is an elected member of its Board of Governors.

PUBLIC SECTOR ACCOUNTING AND AUDITING COMMITTEE

The Canadian Institute of Chartered Accountants formed the Public Sector Accounting and Auditing Committee (PSAAC) in 1981 with the objective of improving and harmonizing public sector financial reporting, accounting and auditing practices. The Committee, made up of representatives from various levels of government, the accounting community, and other interested parties, carries out research and periodically issues recommendations on matters pertaining to these areas of interest.

To date, seven Public Sector Accounting Statements, four Public Sector Auditing Statements and three Public Sector Auditing Guidelines have been issued. These are now serving as authoritative references for those involved in accounting and auditing at the federal, provincial, and local levels of government throughout Canada. As



well, several major research projects are in progress.

This Office actively supports the work of the Committee by reviewing and commenting on its research work. The Auditor General continues to chair the Auditing Section of PSAAC.

COMMUNITY SERVICE

The Office is proud of the community service accomplishments of its staff, especially notable given the relatively small size of the Office. Many of our staff are involved in volunteer work or fund-raising with many charitable, service, and community organizations.

As well, the Office has a participation rate of 99% in the Provincial Government Employees' Community Services Fund; and our annual Office gift auction for Christmas charities has raised \$11,439 over the past four years. As a result of these efforts, we have received a United Way Gold Award in each of the last two years.



RELATIONS WITH THE PUBLIC ACCOUNTS COMMITTEE

The *Auditor General Act* requires that the Annual Report of the Auditor General be tabled in the Legislative Assembly and then referred to the Assembly's Select Standing Committee on Public Accounts.

The Public Accounts Committee is made up of members from all political parties represented in the Assembly, and is empowered to examine and enquire into matters referred to it by the Assembly. The Committee's consideration of the work of the Auditor

General plays a major role in ensuring that the public accountability obligations of ministries and agencies are properly discharged. The Auditor General and his senior staff assist the Committee in providing explanations and analyses on the various audit matters under review.

The Committee conducted 12 meetings during the period March 31, 1992 to June 24, 1992, and in the course of its deliberations gave considerable attention to issues raised in the Auditor General's Report on the 1990-91 Public Accounts.

On June 29, 1992, the Committee tabled in the Legislative Assembly a report on its activities. Three of the Committee's 12 recommendations pertained directly to issues raised by the Auditor General affecting the government's financial statements. These three recommendations, together with information as to actions the government has taken in responding to them, were detailed in the Auditor General's Report on the 1991-92 Public Accounts issued in January, 1993.

The Committee conducted a further seven meetings during the period November 3, 1992 to December 15, 1992. Those meetings gave detailed consideration to value-for-money audits conducted in the Ministry of Transportation and Highways and Ministry of Forests, as reported in the 1991 and 1992 Annual Reports of the Auditor General.

The Committee report for this period was tabled in the Legislative Assembly on December 15, 1992. None of the recommendations in the report related specifically to audit matters.

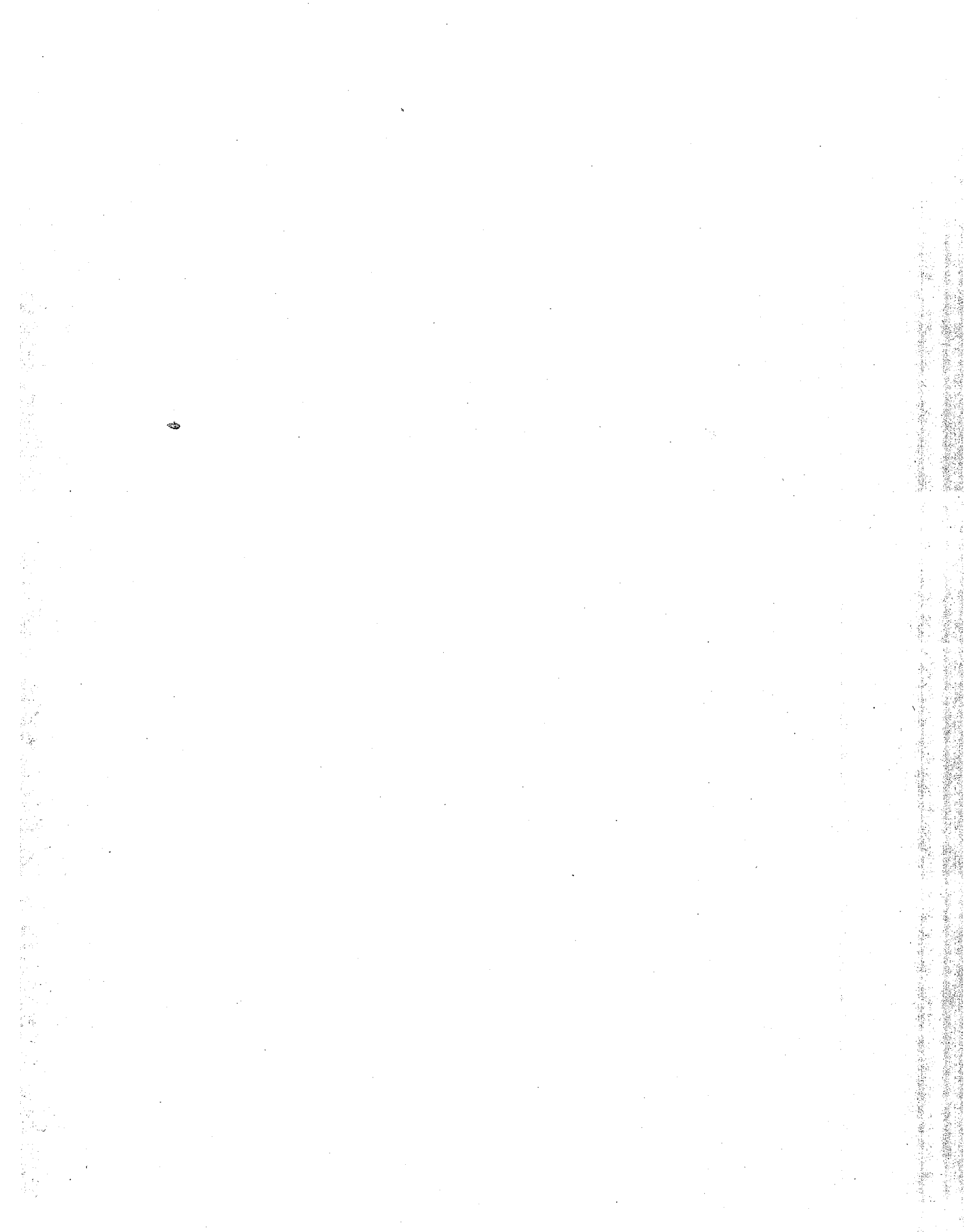


APPENDICES

CONTENTS

A	AUDITOR GENERAL ACT	139
B	MISSION STATEMENT	145
C	GOVERNMENT ENTITIES AND TRUST FUNDS AUDITED BY THE AUDITOR GENERAL	147
D	GOVERNMENT ENTITIES AND TRUST FUNDS AUDITED BY PRIVATE SECTOR AUDITORS, AND WHOSE FINANCIAL STATEMENT ARE INCLUDED IN THE PUBLIC ACCOUNTS	149
E	VALUE-FOR-MONEY AUDITS COMPLETED TO DATE	150
F	COMPLIANCE, CONTROL, ACCOUNTABILITY AND OTHER AUDITS COMPLETED TO DATE	152
G	SPECIAL AND OTHER REPORTS ISSUED TO DATE	154





APPENDIX A

AUDITOR GENERAL ACT

INTERPRETATION

1. In this Act

"ministry" means a ministry or branch of the executive government of the Province;

"public body" means

- (a) an agency of the Crown;
- (b) a board, commission, council or other body of persons, whether or not incorporated, all the members of which or all the members of the board of management or board of directors of which are appointed by an Act, an order of the Lieutenant Governor in Council or a minister of the Crown;
- (c) a corporation, more than 50% of the shares or ownership of which is, directly or indirectly, vested in the Crown; or
- (d) a corporation, association, board, commission or society to which a grant or advance of public money is made, or the borrowings of which may be guaranteed by the Crown under the authority of any Act;

and all other words have the same meaning as they have in the *Financial Administration Act*.

APPOINTMENT, SALARY, TERM AND PENSION

2. (1) The Lieutenant Governor shall, on the recommendation of the Legislative Assembly, appoint as an

officer of the Legislature, a person as Auditor General to exercise the powers and perform the duties assigned to him under this Act.

(2) The Legislative Assembly shall not recommend a person to be appointed as Auditor General unless a special committee of the Legislative Assembly has unanimously recommended to the Legislative Assembly that the person be appointed.

(3) The Auditor General shall be appointed for a term of 6 years and he may be reappointed in the manner provided in this section for further 6 year terms.

(4) The Auditor General shall be paid, out of the consolidated revenue fund, a salary in an amount equal to the salary paid to the chief judge of the Provincial Court of British Columbia.

(5) The Auditor General shall be reimbursed for reasonable travelling and out of pocket expenses necessarily incurred by him in discharging his duties.

(6) Subject to subsections (7) to (10.1), the *Pension (Public Service) Act* applies to the Auditor General.

(7) An Auditor General who retires, is retired or removed from office after at least 10 years' service shall be granted an annual pension payable on or after attaining age 60.

(8) Where an Auditor General who has served at least 5 years is removed from office by reason of a physical or mental disability, section 19 of the *Pension (Public Service) Act* applies and he is entitled to a superannuation



allowance commencing on the first day of the month following his removal.

(9) Where an Auditor General who has served at least 5 years dies in office, section 20 of the *Pension (Public Service) Act* applies and the surviving spouse of the Auditor General is entitled to a superannuation allowance commencing on the first day of the month following the death.

(10) When calculating the amount of a superannuation allowance under subsection (7), (8) or (9),

(a) each year of service as Auditor General shall be counted as 1 1/2 years of pensionable service.

(b) [Repealed 1988-52-1.]

(10.1) Subsection (10) does not apply to the calculation under section 6(5) of the *Pension (Public Service) Act*.

(11) Before beginning to perform his duties, the Auditor General shall take an oath before the Clerk of the Legislative Assembly that he will faithfully and impartially exercise the powers and perform the duties of his office.

RESIGNATION, REMOVAL OR SUSPENSION

3. (1) The Auditor General may at any time resign his office by written notice to the Speaker of the Legislative Assembly or to the Clerk of the Legislative Assembly if there is no Speaker or if the Speaker is absent from the Province.

(2) On the recommendation of the Legislative Assembly, based on cause or incapacity, the Lieutenant Governor shall

- (a) suspend the Auditor General, with or without salary; or
- (b) remove the Auditor General from his office in accordance with the recommendation.

(3) Where the Auditor General is suspended or removed from office or the office of Auditor General becomes vacant, the Lieutenant Governor shall, on the recommendation of the Legislative Assembly, appoint an acting Auditor General to hold office until the end of the period of suspension of the Auditor General or until an Auditor General is appointed under this Act, as the case may be.

(4) When the Legislature is not sitting and is not scheduled to sit within the next 5 days, the Lieutenant Governor in Council may, with or without salary, suspend the Auditor General from his office for cause or incapacity but the suspension shall not continue in force after the expiry of 20 sitting days.

ACTING AUDITOR GENERAL

4. (1) Where

- (a) the Auditor General is suspended or removed or the office of Auditor General becomes vacant when the Legislature is sitting but no recommendation under this Act is made by the Legislative Assembly before the end of that session; or
- (b) the Auditor General is suspended or the office of Auditor General becomes vacant when the Legislature is not sitting,

the Lieutenant Governor in Council may appoint an acting Auditor General.

(2) The appointment of an acting Auditor General under this section terminates

- (a) on the appointment of a new Auditor General under section 2;
- (b) at the end of the period of suspension of the Auditor General; or



(c) immediately after the expiry of 20 sitting days after the day on which he was appointed whichever the case may be and whichever occurs first.

STAFF

5. (1) The Auditor General may appoint, in accordance with the *Public Service Act*, a deputy Auditor General and other employees necessary to enable him to perform his duties.

(2) For the purpose of the application of the *Public Service Act* to this section, the Auditor General shall be deemed to be a deputy minister.

(3) Notwithstanding the *Public Service Act*, the Auditor General may engage and retain specialists and consultants as may be required to carry out his functions, and may determine their remuneration.

(4) [Repealed 1985-15-19, effective March 2, 1987 (B.C. Reg. 248/86).]

(5) The Auditor General may make a special report to the Legislative Assembly where

- (a) the amounts and establishment provided for the office of the Auditor General in the estimates; or
- (b) the services provided to him by the Government Personnel Services Division,

are, in his opinion, inadequate to enable him to fulfil his duties.

EXAMINATION OF ACCOUNTS

6. (1) The Auditor General shall examine in the manner he considers necessary the accounts and records of the government relating to the consolidated revenue fund and all public money, including trust and special funds under the management of the government, and to public property.

(2) Notwithstanding any other Act, the Auditor General

- (a) shall be given access to the records of account and administration of any ministry; and
- (b) may require and receive from any person in the public service, information, reports and explanations necessary for the performance of his duties.

REPORT ON FINANCIAL STATEMENTS

7. (1) The Auditor General shall report annually to the Legislative Assembly on the financial statements of the government, including those required by section 8(2) of the *Financial Administration Act*, respecting the fiscal year then ended.

(2) The report shall form part of the public accounts and shall state

- (a) whether he has received all of the information and explanations he has required; and
- (b) whether in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the government in accordance with the stated accounting policies and as to whether they are on a basis consistent with that of the preceding year.

(3) Where the report of the Auditor General does not contain the unqualified opinion required under this section, the Auditor General shall state the reasons why.

ANNUAL REPORT

8. (1) The Auditor General shall report annually to the Legislative Assembly on the work of his office and call attention to anything resulting from his examination that he considers should be brought to the attention of



the Legislative Assembly including any case where he has observed that

- (a) accounts have not been faithfully and properly kept or public money has not been fully accounted for;
- (b) essential records have not been maintained;
- (c) the rules, procedures or systems of internal control applied have been insufficient
 - (i) to safeguard and protect the assets of the Crown;
 - (ii) to secure an effective check on the assessment, collection and proper allocation of the revenue;
 - (iii) to ensure that expenditures have been made only as authorized; or
 - (iv) to ensure the accuracy and reliability of the accounting data; or
- (d) public money has been expended for purposes other than for which it was appropriated by the Legislature.

(2) In the report the Auditor General may also include an assessment

- (a) as to whether the financial statements of the government are prepared in accordance with the most appropriate basis of accounting for the purpose of fair presentation and disclosure; or
- (b) as to whether any program being administered by a ministry is being administered economically and efficiently.

TRIVIAL MATTERS

9. The Auditor General need not report to the Legislative Assembly on any matter he considers immaterial or insignificant.

SUBMISSION OF ANNUAL REPORT

10. (1) A report of the Auditor General to the Legislative Assembly shall be submitted by him through the Minister of Finance.

(2) On receipt of a report of the Auditor General, the Minister of Finance shall lay the report before the Legislative Assembly as soon as possible.

(3) If the Minister of Finance does not lay the report before the Legislative Assembly on the first sitting day following the receipt of the report by him, the Auditor General shall transmit the report to the Speaker and the Speaker shall lay the report before the Legislative Assembly.

(4) On being laid before the Legislative Assembly, the annual report of the Auditor General shall be referred to the Public Accounts Committee of the Legislative Assembly.

SPECIAL REPORT

11. The Auditor General may at any time make a special report to the Legislative Assembly on a matter of primary importance or urgency that, in his opinion, should not be deferred until he makes his annual report.

OTHER REPORTS

12. The Auditor General may at any time make a report to the Minister of Finance, the Treasury Board, the Lieutenant Governor in Council, or any public officer on any matter that in the opinion of the Auditor General should be brought to his or their attention.

SPECIAL ASSIGNMENTS

13. The Auditor General may undertake special assignments at the request of the Lieutenant Governor in Council, but he is under no obligation to carry out any requested assignment if, in his opinion, it would interfere with his primary responsibilities.



STAFF IN MINISTRIES

14. (1) The Auditor General may station in any ministry a person employed in his office to enable him to more effectively carry out his duties, and the ministry shall provide the necessary office accommodation for a person so stationed.
- (2) The Auditor General shall require every person employed in his office who is to examine the accounts or the administration of a ministry pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that ministry.

INQUIRY POWERS

15. The Auditor General may examine any person on oath on any matter pertaining to his responsibilities and for that examination the Auditor General has all the powers, protection and privileges of a commissioner under sections 12, 15 and 16 of the *Inquiry Act*.

PUBLIC BODIES

16. (1) Notwithstanding any other Act, where the Auditor General is not the auditor of a public body,
- (a) the public body shall, on the request of the Auditor General, supply the Auditor General with a copy of all financial statements and reports relating to the public body;
- (b) the auditor of the public body shall, on the request of the Auditor General, make available to the Auditor General, within a reasonable time, all working papers, reports and other documents in his

- possession relating to the public body; and
- (c) the Auditor General may conduct examinations of the records and operations of the public body he considers necessary or advisable to carry out his duties under this Act.

(2) Notwithstanding any other Act, the Auditor General

- (a) shall be given access to the records of account and administration of any public body; and
- (b) may require and receive from any officer or employee of a public body information reports and information necessary for the performance of his duties.

ELIGIBILITY AS AUDITOR

17. Notwithstanding any other Act, the Auditor General is eligible to be appointed the auditor, or a joint auditor, of a Crown corporation, Crown agency or public body.

TRANSFER OF AUDIT DUTIES

18. The Lieutenant Governor in Council may transfer to the Auditor General the duty imposed by any Act on a person to conduct an audit.

AUDIT OF ACCOUNTS OF AUDITOR GENERAL

19. (1) The Treasury Board shall appoint an auditor to audit the accounts of the office of Auditor General annually.

(2) The auditor appointed under this section shall certify the accounts of the office of Auditor General that he finds to be correct and shall report the result of his audit to the Speaker, who shall present it to the Legislative Assembly.



APPROPRIATION

20. Money required for the purposes of this Act shall be paid out of money authorized by an Act of the Legislature.



APPENDIX B

MISSION STATEMENT

The formal mandate of the Auditor General has been prescribed by the Legislative Assembly in the *Auditor General Act*, a copy of which is presented in Appendix A to this report.

Based on the requirements of that Act, and reflecting the concepts and practices that have evolved over time, a Mission Statement has been developed to concisely describe the role of the Auditor General, and the means employed to carry out this role.

MISSION STATEMENT

The Auditor General serves the citizens of the Province by providing independent opinions and evaluations on the financial and administrative management of the government and its related entities in the public sector. As well, he promotes improvement in public sector accountability.

To fulfill his responsibilities, the Auditor General has established a professional office committed to the principles of objectivity, integrity and service to the public.

While this statement is purposely brief, amplification of its various aspects will help the reader better understand its message.

The phrase, "*serves the citizens of the Province*," denotes the concept of public service and recognizes the breadth of the audience interested in the Auditor General's work, including Members of the Legislative Assembly, the government and its administration, the taxpayer, and others seeking information about the financial and administrative affairs of the government.

The statement continues, "*by providing independent*." This reflects the fact that the Auditor General is an officer of the legislature. His independence from the government of the day and the public service is essential to the effective and unbiased work of the Office.

The phrase, "*opinions and evaluations on the financial and administrative management of the government*," describes the major responsibility of the Office of the Auditor General. The *Auditor General Act* requires the Auditor General to examine the accounts and records of the government, and to express his opinion on the government's annual financial statements. In this respect the Auditor General's role is like that of accounting firms who audit the books of private sector companies. Following the collection and spending of public funds, the Auditor General examines the government's financial transactions and reports his findings to the Legislative Assembly. Like private sector auditors, he expresses his opinion on the financial information presented to him



by the government—the traditional “attest” audit function.

The Act also calls on the Auditor General to comment in an annual report to the Legislative Assembly on any matter arising from his work that he considers to be of interest to the Assembly. This may deal with such matters as the improper use of public funds, failure to comply with legislative and related authorities, expenditures not authorized by the legislature, and other irregularities. It may also deal with his evaluations as to whether tax dollars have been economically and efficiently spent for the purposes intended.

The Statement continues, “*and its related entities in the public sector.*” This refers to the Auditor General’s role with respect to provincial Crown corporations and other public bodies. For those public bodies of which he is the appointed auditor, the Auditor General’s responsibilities roughly parallel those undertaken in the audit of the government’s accounts. For those public bodies audited by others, the Auditor General has an overseeing role which responds to the various needs of the Legislative Assembly.

The next sentence states, “*As well, he promotes improvement in public sector accountability.*” It refers to the Auditor

General’s overall concern with disclosure and accountability throughout the public sector. In this regard, whether through his Annual Report, his dealings with the Public Accounts Committee of the Legislative Assembly, or his direct contact with public officials and administrators, the Auditor General actively furthers the concept of accountability.

The final phrase of the Mission Statement reads, “*a professional office committed to the principles of objectivity, integrity and service to the public.*” The concept of professionalism emphasized here implies adherence to a set of standards that are professionally recognized. Since its inception, the Office of the Auditor General has operated as a practicing accounting office as defined by the Institute of Chartered Accountants of British Columbia, and has met all the requirements of that Institute associated with this status. Staff members of the Office are required to have either a professional accounting designation or special qualifications in other disciplines, or to be pursuing studies toward a professional designation.



APPENDIX C

GOVERNMENT ENTITIES AND TRUST FUNDS AUDITED BY THE AUDITOR GENERAL

ENTITIES INCLUDED IN THE SUMMARY FINANCIAL STATEMENTS

British Columbia Assessment Authority

British Columbia Educational Institutions Capital Financing Authority

British Columbia Enterprise Corporation

British Columbia Health Research Foundation

British Columbia Liquor Distribution Branch

British Columbia Regional Hospital Districts Financing Authority

British Columbia School Districts Capital Financing Authority

Creston Valley Wildlife Management Authority Trust Fund

Duke Point Development Limited

Health Facilities Association of British Columbia

Medical Services Commission of British Columbia

Provincial Capital Commission

W.L.C. Developments Ltd.

OTHER ENTITIES

British Columbia Institute of Technology

Legal Services Society

Provincial Employees' Community Services Fund

Simon Fraser University

University of British Columbia

University of Northern British Columbia

University of Victoria

University Foundations:

- Simon Fraser University Foundation
- The University of British Columbia Foundation
- University of Northern British Columbia Foundation
- Foundation for the University of Victoria

Workers' Compensation Board Superannuation Fund

TRUST FUNDS

BC Rail Ltd. Pension Fund

British Columbia Hydro and Power Authority Pension Fund

British Columbia Public Service Long Term Disability Fund

College Pension Fund

Members of the Legislative Assembly Superannuation Account

Municipal Superannuation Fund

Province of British Columbia Pooled
Investment Portfolios:

Active Canadian Equity Fund
Indexed Canadian Equity Fund
Indexed U.S. Equity Fund
Managed International Equity
Fund
Passive International Equity Fund
Corporate Bond Fund
Real Return Bond Fund
Fund ST1
Fund ST2
Fund ST3
Realpool Investment Fund

Public Service Superannuation Fund

Teachers' Pensions Fund

Workers' Compensation Board of British
Columbia



APPENDIX D

GOVERNMENT ENTITIES AND TRUST FUNDS AUDITED BY PRIVATE SECTOR AUDITORS, AND WHOSE FINANCIAL STATEMENTS ARE INCLUDED IN THE PUBLIC ACCOUNTS

ENTITIES INCLUDED IN THE SUMMARY FINANCIAL STATEMENTS

B.C. Health Care Risk Management Society

B.C. Pavilion Corporation

B.C. Summer and Winter Games Society

British Columbia Buildings Corporation

British Columbia Ferry Corporation

British Columbia Festival of the Arts Society

British Columbia Hazardous Waste Management Corporation

British Columbia Heritage Trust

British Columbia Housing Management Commission

British Columbia Hydro and Power Authority

British Columbia Lottery Corporation

British Columbia Petroleum Corporation

British Columbia Railway Company

British Columbia Steamship Company (1975) Ltd.

British Columbia Systems Corporation

British Columbia Trade Development Corporation

British Columbia Transit

British Columbia Year of Music Society

Cloverdale Historic Transportation Society of B. C.

Downtown Revitalization Program Society of British Columbia

First Peoples' Heritage, Language and Cultural Council

Insurance Corporation of British Columbia

Okanagan Valley Tree Fruit Authority

Pacific National Exhibition

Plain Language Institute of British Columbia Society

Provincial Rental Housing Corporation

Science Council of British Columbia

The Education Technology Centre of British Columbia

TRUST FUND

Credit Union Deposit Insurance Corporation of British Columbia



APPENDIX E

VALUE-FOR-MONEY AUDITS COMPLETED TO DATE

1993 ANNUAL REPORT

Ministry of Government Services:

British Columbia Archives and
Records Service

Ministry of Energy, Mines and
Petroleum Resources:

Natural Gas Royalty Revenue:
Follow-up

Ministry of Attorney General:

Licensing and Control of Public
Gaming: Follow-up

1992 ANNUAL REPORT

Ministry of Social Services:

Programs for Independence

Residential Services

Managing Professional Resources

Ministry of Forests:

Human Resource Needs and
Allocation

1991 ANNUAL REPORT

Ministry of Forests:

Monitoring of Forest Roads

Monitoring of Timber Harvesting

Monitoring of Major Licensees'
Silviculture Activities

Ministry of Transportation and
Highways:

Highway Planning

Protecting Roads and Bridges

Monitoring of Maintenance
Contractors

Minor Capital Construction and
Rehabilitation Projects

1990 ANNUAL REPORT

Ministry of Transportation and
Highways:

Road and Bridge Maintenance

Major Capital Projects

Development Approvals

Gravel Management

Buying Signs

Services, Facilities and Attractions
Signs

Annual Report

Privatization:

Monitoring Environmental
Laboratory Services

British Columbia Enterprise
Corporation Westwood Plateau
Property

Acquisition and Disposition of Land

1989 ANNUAL REPORT

Privatization:

The Process

Early Initiatives

Highways
British Columbia Enterprise
Corporation Loans

Ministry of Health:

Hospitals
Medical Services Plan
Continuing Care
Public Health

1988 ANNUAL REPORT

Ministry of Education:

Funding
Special Education
Facilities
Curriculum

Ministry of Energy, Mines and
Petroleum Resources:

Organization Structure
Natural Gas Royalty Revenue
Petroleum Resources Division
Mineral Resources Division,
Engineering and Inspection Branch

1987 ANNUAL REPORT

Government Purchasing

Ministry of Attorney General:

Corrections Branch
Legal Services Branch
Management of Buildings and
Office Accommodation
Management of the Financial
Function

1986 ANNUAL REPORT

Ministry of Lands, Parks and Housing:

Crown Land Administration
Crown Land Special Account
Computerization

Social Housing
Parks and Outdoor Recreation
Financial Management and Control
Passenger Vehicle Travel

1985 ANNUAL REPORT

Ministry of Agriculture and Food:

Strategic Direction and
Accountability
Financial Assistance Extension
Financial Management and Control
Ministry Annual Reports

1982 ANNUAL REPORT

Review of Internal Audit in the
Government of British Columbia

1981 ANNUAL REPORT

Ministry of Environment:

Waste Management Program
Financial Management and Control

Ministry of Forests:

Financial Management and Control

Ministry of Health:

Financial Management and Control

1980 ANNUAL REPORT

Ministry of Human Resources:

Income Assistance Program
Financial Management and Control

Ministry of Education:

Financial Management and Control

Ministry of Finance:

Financial Management and Control

Ministry of Lands, Parks and Housing:

Financial Management and Control



APPENDIX F

COMPLIANCE, CONTROL, ACCOUNTABILITY AND OTHER AUDITS COMPLETED TO DATE

1993 ANNUAL REPORT

Compliance with the Financial Disclosure Act

Order-in-Council Appointments

Compliance with Part 3 of the Financial Administration Act

Compliance with the Tobacco Tax Act

Financial Information Act: Follow-up

Small Acts

Provincial Treasury - Controls Relating to the Management of Investment Portfolios

Legislative Precinct - Expenditure Controls

1992 ANNUAL REPORT

British Columbia Year of Music

Crown Societies

Compliance with Part 4 of the Financial Administration Act and its Related Regulations

Ministry of Attorney General

Family Maintenance Enforcement Program

Office of the Public Trustee: Internal Control Review

Liquor Distribution Branch:
General Computer Controls

Ministry of Environment, Lands and Parks

Purchase of Environmental
Laboratory Services

Ministry of Finance and Corporate Relations

Office of the Comptroller General:
Government Payroll Office

1991 ANNUAL REPORT

Compliance with the Financial Information Act, Regulation, and Directive

Compliance with Part IV of the Financial Administration Act and its Related Regulations

Expenditure Review: Board of Internal Economy

External Settlement/Safekeeping Services for Long-Term Bond Portfolios: Ministry of Finance and Corporate Relations

Child Day Care Subsidy Program: Ministry of Social Services and Housing

The Industrial Incentive Fund: An Audit of the Loans Process

Performance and Security Bonding

1990 ANNUAL REPORT

Ministry Accounts Receivable Management



Pharmacare Processing of Payment Claims from Pharmacies: Ministry of Health

Wildlife Act—Licence Fee Revenue: Ministry of Environment

Long Term Disability Plan Benefit Payments: Superannuation Commission

Home Mortgage Accounting System: Ministry of Finance and Corporate Relations

Student Financial Assistance: Ministry of Advanced Education, Training and Technology

Accountability of Crown Corporations to the Legislative Assembly

The Lottery Fund: An Audit of the Granting Process

Public Gaming: Licensing and Control

Reporting the Results of Privatization Transactions

Fraud and Other Illegal Acts: Awareness, Reporting and Investigation

1989 ANNUAL REPORT

Property Purchase Tax System: Ministry of Finance and Corporate Relations

Long-Term Debt Accounting System: Ministry of Finance and Corporate Relations

Central Textbook Inventory System: Ministry of Education

Data Collection Phase of the Stumpage and Royalty Revenue System: Ministry of Forests

Provincial Police Services Contract Payment System: Ministry of Solicitor General

Control of the Public Purse by the Legislative Assembly

Review of Recent Initiatives: Ministry of Transportation and Highways

Management of Government Employee Leave Entitlements

1988 ANNUAL REPORT

Provincial Treasury Investment System: Ministry of Finance and Corporate Relations

Sewerage Assistance and Water Facilities Grants Payment System: Ministry of Municipal Affairs

Shelter Aid for Elderly Renters Grant Payment System: Ministry of Social Services and Housing

Small Business Enterprise Program Revenue System: Ministry of Forests and Lands

Vital Statistics Division Revenue System: Ministry of Health

1987 ANNUAL REPORT

Review of Local Minor Purchase Orders and Emergency Purchase Orders

1986 ANNUAL REPORT

Professional Service Contract Review

1982 ANNUAL REPORT

Expenditure Review (Travel Expenses)



APPENDIX G

SPECIAL AND OTHER REPORTS ISSUED TO DATE

	Date Report Issued
Report to the Legislative Assembly of British Columbia on the 1991-92 Public Accounts.	January 20, 1993
Report to the Legislative Assembly of British Columbia on the 1990-91 Public Accounts	January 24, 1992
Report Under Section 12 of the Auditor General Act—Ministry of Attorney General: A Review of the Ministry's Relationship with Syscom Consulting Inc.	November 23, 1990
Special Report to the Legislative Assembly—The Lottery Fund: An Audit of the Granting Process	February 27, 1990
Report under Section 12 of the Auditor General Act—An Examination of the Severance Settlement with Mr. David Poole	July 7, 1989
Special Report to the Legislative Assembly on the Allocation of Highway Construction Costs in the Fiscal Year Ended 31 March 1986	March 7, 1988
Third Special Report to the Legislative Assembly on the Expenditures of the Ministry of Tourism	April 11, 1984
Second Special Report to the Legislative Assembly on the Expenditures of the Ministry of Tourism	July 18, 1983
Special Report to the Legislative Assembly on the Expenditures of the Ministry of Tourism	May 1, 1983
Special Report on Expenditures of the Minister of Consumer and Corporate Affairs from 6 January 1981 to 31 March 1982	July 23, 1982

