1996/1997: Report 8

OFFICE OF THE
# Auditor General of British Columbia

# Executive Severance Practices: Government Ministries and Crown Corporations

## Performance Review

**Canadian Cataloguing in Publication Data**
British Columbia. Office of the Auditor General.
Executive severance practices : government ministries and crown corporations

(Report 1996/1997: 8)

ISBN 0–7726–3151–4

1. Severance pay – British Columbia. 2. British Columbia – Officials and employees – Salaries, etc. 3. British Columbia – Officials and employees – Pensions. I. Title. II. Series: British Columbia. Office of the Auditor General. Report ; 1996/97: 8.

HD4928.D5B74 1997 352.6'9'09711 C96–960025–1


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# auditor general's comments

When people hear of large sums of money being paid in severance to former public sector executives, they naturally have questions. Some wonder why so much turnover is necessary, while others question why the severance amounts paid are so high. All likely feel it's regrettable that public money is being spent in seemingly unproductive ways rather than on the delivery of much-needed programs.

I share these concerns.

We have seen a long-term trend of increased turnover at the most senior levels in the public sector over the last twenty years. These changes tend to peak after elections when administrations change, but turbulence has remained high during the intervening years as well. All this is costly. It is costly in terms of continuity of leadership for public sector organizations, and it is costly in terms of paying people for leaving their jobs rather than working at them.

With this in mind, I wanted to get a picture of how often we have had executive severance payouts in government ministries and Crown corporations over the last several years, and how much we have paid out in severance allowances. I also wanted to determine whether or not controls are in place to keep these severance settlements fair and reasonable.

Having completed this review, I am confident that severance payouts in government ministries are now under control. I do not have the same confidence in regard to Crown corporation settlements. Some of the payments have been rather striking, and there have been others featured in the media, outside of the scope of this review, which I found disturbing.

In some cases, the severance payments of concern were decided by the terms of a contract negotiated at the time of hiring. Accordingly, I believe it is time to improve

controls over the terms of employment contracts for executives in the public sector. And now is also the time to improve accountability for settling of employment terms for executives. Some of these settlements have been excessive, and this should not be allowed to continue.

*George L. Morfitt, FCA*
*Auditor General*

*Victoria, British Columbia*
*April 1997*

# highlights

# executive severance practices: government ministries and crown corporations

*A review of how government manages the difficult and costly task of severing its employment relationships with senior employees*

Ultimately, compensation of all provincial public service and public sector employees is the responsibility of the provincial government.

In recent years, executive severance compensation packages within the British Columbia public sector have come under increased public scrutiny.

## Purpose and Scope

We conducted our review to determine the extent of severance costs resulting from the termination of employment of senior executives within government ministries and Crown corporations. We further wanted to determine whether the government has:

- provided direction to ministries and major Crown corporations to ensure severance guidelines are in place, reasonable and consistent;
- monitored compliance; and
- informed the Legislative Assembly about severance costs for government's senior managers.

Within ministries, compensation for management employees is determined on the basis of established management classifications ranging from entry level positions at Management Level 1, to Deputy and Associate Deputy Ministers at Management Level 12. We defined senior management as including Management Levels 9 to 12, which comprises mainly Assistant Deputy Ministers and Deputy Ministers, and Order-in-Council appointments under the *Public Service Act*. The Public Service Employee Relations Commission (PSERC) is responsible for administering severance arrangements for provincial government ministries.

Government's public sector includes hospitals, schools, colleges, universities and Crown corporations. Our review was limited to member organizations of the Crown Corporation

Employers' Association (CCEA) (see Exhibit page 18). The association includes designated Crown corporations in British Columbia as well as the Workers' Compensation Board (WCB). Member corporations having revenues or assets greater than $20 million were selected for our survey. Senior management within these organizations we defined as the Chief Executive Officer and directly reporting executives.

The review covered all severance payments issued to senior executives during the period from January 1, 1990, to November 30, 1995. Severance practices in hospitals, schools, colleges and universities were not included in this review.

## Overall Conclusion

Most severance settlements within ministries and Crown corporations have been reasonable. However, we found one in four payouts made by Crown corporations excessive. While progress has been made toward improving the controls over severance settlements in Crown corporations, the controls are not yet strong enough to prevent excessive settlements from happening in future.

The provincial government has conducted two major studies on ministry and Crown corporation human resource management practices, including severances, since 1989. Within ministries, many recommendations resulting from these studies have been implemented and an improved level of reasonableness and consistency in severance packages has been achieved for senior executives.

The same cannot be said for Crown corporations, however. Although the establishment of the provincial government's Public Sector Employers' Council (PSEC) and the Crown Corporation Employers' Association (CCEA) has resulted in a spirit of cooperation and improved communications between government and Crown corporations, we concluded that accountability practices to ensure reasonableness and consistency over executive severance practices of Crown corporations need to be tightened.

During the six-year period surveyed, ministries and Crown corporations paid approximately $13.7 million to 87 senior executives as compensation in lieu of notice (see Exhibit 1).

Within ministries, the average severance package for 43 terminated senior executives was $133,250, representing an average of 15 months of equivalent gross salary and benefits. Within Crown corporations, the average severance package for 44 terminated senior executives was $180,258, an average of 16.3 months of equivalent gross salary and benefits.

## Exhibit 1

### Summary of Senior Management Executive Severances

| Year | MINISTRIES | | | CROWN CORPORATIONS | | |
|---|---|---|---|---|---|---|
| | Number of Terminations | Severance Package ($) | Equivalent Salary (Months) | Number of Terminations | Severance Package ($) | Equivalent Salary (Months) |
| 1990 | 2 | 129,384 | 8.8 | 6 | 841,462 | 18.4 |
| 1991 | 12 | 1,550,495 | 14.7 | 2 | 386,644 | 26.5 |
| 1992 | 14 | 2,315,226 | 18.2 | 11 | 2,309,505 | 16.3 |
| 1993 | 6 | 564,433 | 10.3 | 7 | 1,994,643 | 23.2 |
| 1994 | 6 | 793,893 | 14.5 | 9 | 1,337,276 | 11.9 |
| 1995 | 3 | 376,340 | 14.4 | 9 | 1,061,392 | 12.1 |
| | **43** | **5,729,771** | **14.9** | **44** | **7,930,922** | **16.3** |

*1995 figures are to November 30, 1995

Source: PSERC and Crown corporations

## Exhibit 2

### Excessive Severance Settlements Greater Than 24 Months

| Crown Organization | Termination Date | Severance Package ($) | Equivalent Salary (Months) | Service (Years) |
|---|---|---|---|---|
| British Columbia Transit | | | | |
| Executive #1 | 1992 | 467,227 | 28.3 | 3.1 |
| Workers' Compensation Board | | | | |
| Executive #1 | 1991 | 327,359 | 36.0 | 7.3 |
| Executive #2 | 1993 | 305,120 | 30.0 | 32.5 |
| Executive #3 | 1993 | 364,195 | 28.0 | 15.9 |
| Executive #4 | 1990 | 231,218 | 28.0 | 15.8 |
| Executive #5 | 1994 | 282,731 | 24.7 | 9.3 |
| | | **1,977,850** | | |

Source: PSERC and Crown corporations

# Key Findings

## Excessive Settlements Can Still Happen

We found 11 severance settlements which were excessive. In all cases, these occurred in the Crown corporation sector. Of the 44 employment terminations within Crown corporations, six of these received settlements (see Exhibit 2) worth 25 to 36 months' gross salary and benefits. The other five, while receiving settlements of less than 24 months, were considered excessive given the length of service.

The courts have ruled that compensation in lieu of notice should be based on factors of age, years of service, position, and potential for other employment. While each case is unique, court decisions in the last 10 years have resulted in common law standards of reasonable notice which provide, in all but the most exceptional cases, a maximum of 24 months in equivalent salary and benefits. Accordingly, in our opinion, severance arrangements exceeding 24 months are excessive.

The WCB's 1985 severance policy was, in our opinion, excessive and unreasonable. For senior executives who were involuntarily terminated the policy provided severance salary and benefits ranging from 25 to 36 months. Although the policy was changed in 1990, the board has provided senior executives appointed prior to 1990 the option of using either the new or the old policy. As a result, five WCB executives terminated since 1990 received severance settlements ranging from 25 to 36 months based on provisions contained in the 1985 policy. In 1994, new management at WCB recognized the excessiveness of termination policies and suspended such policies in favor of retaining legal advice to handle terminations.

The excessive severance settlement noted for BC Transit resulted from provisions contained within an employee's contract. These provisions required the corporation to pay either 24 months or the remainder of the contracted term of employment, whichever was greater. We offer further comments on the use of employment contracts below.

Another way of looking at the reasonableness of settlements is to compare the number of months paid to years of service. Five further severance settlements (see Exhibit 3) greatly exceeded the Crown sector ratio average of 1.5, being each individual's severance in terms of salary months received related to years of service. By comparison, the overall ratio found within ministries was 1.3.

## Exhibit 3

### Excessive Severance Settlements Less Than 24 Months

| Crown Organization | Termination Date | Severance Package ($) | Equivalent Salary (Months) | Service (Years) | Ratio |
|---|---|---|---|---|---|
| British Columbia Hydro and Power Authority | | | | | |
| Executive #1 | 1994 | 135,923 | 15.0 | 2.0 | 7.5 |
| British Columbia Transit | | | | | |
| Executive #2 | 1992 | 127,903 | 12.0 | 2.2 | 5.5 |
| Executive #3 | 1994 | 114,484 | 11.6 | 1.8 | 6.4 |
| Workers' Compensation Board | | | | | |
| Executive #7 | 1992 | 190,300 | 21.0 | 3.1 | 6.8 |
| Executive #8 | 1993 | 281,283 | 17.7 | 2.3 | 7.7 |
| | | **849,893** | | | |

Source: PSERC and Crown corporations

In 1992, the Korbin Commission was established under the *Inquiry Act* to examine human resource practices and propose a framework for human resource management. The Commission found that previous government attempts to inject greater accountability into public sector human resource management had been unsuccessful and that accountability for major public expenditures was poorly established between government and the bodies authorized to manage human resources. While some progress has been made in this regard, the compensation standards and guidelines developed by PSEC and CCEA need to go further in order to establish full accountability and prevent excessive settlements.

Severance standards and guidelines are not specific and were purposely made general to accommodate the diversity and complexity of these organizations and to allow each corporation flexibility to attract and retain employees of the proper calibre and experience.

Furthermore, the *Public Sector Employers Act* does not require individual Crown corporation members to adopt CCEA guidelines. Neither is there a requirement for Crown corporations to report instances in which CCEA guidelines were not followed.

In our opinion, this gives Crown corporations too much flexibility in drafting severance policies and, combined with an apparent lack of formal requirements to comply and report exceptions, could result in excessive severance settlements in the future.

## Employment Contracts Usually Result in Excessive Settlements

The use of contracts between Crown employers and senior executives is not common practice. However, where contracts were signed, we found that severance settlements were greater than they should be.

## Double-Dipping Is Hard To Control

Public interest in severance packages for senior executives has frequently been roused by reports of "double dipping." This is a situation in which a terminated employee, after having received a termination package, gains other employment within any government sector during the period of time on which the severance settlement was calculated, effectively drawing two salaries in that time. Recently, PSEC, the CCEA and PSERC have all introduced or strengthened provisions within their severance policies and guidelines requiring terminated employees to receive a reduced severance payment should they obtain employment elsewhere, including within the private sector.

No instances of double dipping were reported in the organizations we reviewed. However, we are concerned that where lump sum payments are made, government's ability to recover severances paid to an individual is difficult. Crown corporation employers have stated a reluctance to be responsible for monitoring employment and administering repayments in instances of double dipping. The position of PSEC towards administering double dipping measures is unclear.

## Crown Corporation Employers Prefer Immediate Severance Rather Than Giving Notice

Employers, having made the decision to terminate an employee, have three options. The first is to dismiss for cause without further compensation; the second is to provide the employee with a reasonable period of notice during which the employee continues to work; the third is to provide severance pay in lieu of notice.

Crown corporation employers surveyed stated that termination for cause is almost impossible to defend, and that providing working notice creates an untenable situation at the senior executive level. For these reasons, employers surveyed preferred the third option, severance pay in lieu of notice, because it allows them to immediately sever relationships with senior executives slated for termination.

## Direction Within Ministries Is Clear

Employment terms and conditions for senior management employees within ministries are not governed by collective bargaining agreements. Instead they are governed by PSERC policies and Treasury Board directives. We found severance policies to be clearly established, reasonable in relation to common law, and applied on a consistent basis.

## Accountability Reporting Is Weak

In 1989, the government requested Chief Justice, the Honorable Nathan T. Nemetz, Q.C., "to inquire into and prepare a report on severance policy for senior public employees, with specific focus on deputy ministers and chief executive officers of Crown corporations."

The Nemetz Inquiry revealed that no definitive Cabinet guidelines had been established to settle procedures for those leaving the public service on an involuntary basis. Over the years, several attempts to develop guidelines had been made. However, as Chief Justice Nemetz pointed out in his report, "there appears to have been some misunderstanding within the public service itself as to what has or has not been approved by Cabinet."

A key recommendation of the 1989 Nemetz Inquiry was that "the Provincial Secretary should report to the Legislative Assembly once every fiscal year the number of severance arrangements, not covered by any collective agreement, negotiated in the previous year and the range of equivalent months' gross salaries such arrangements represents."

We found that while ministry settlements are being reported publicly by PSERC, Crown corporations settlements are not. Given the potential for excessive settlements, we believe Crown corporations should report to the Legislative Assembly in the same way as does PSERC.

# summary of recommendations

1. *We recommend that the Public Sector Employers' Council quickly approve the Crown Corporation Employers' Association guidelines, and require early submission of individual Crown corporation proposals.*
2. *Crown corporation severance arrangements exceeding sector guidelines should require approval by the Public Sector Employers' Council before finalization.*
3. *As part of its periodic review of severance arrangements with senior executives at the Deputy and Associate Deputy Minister levels, government should consider both strengthening measures to control "double dipping" and providing terminated employees the option to receive either discounted lump sum payments or full salary continuance.*
4. *Employment contracts should contain severance provisions that reflect common-law standards.*
5. *Where severance provisions are not covered under any collective agreement, Crown corporations should be required to report annually to the Legislative Assembly the number of severance arrangements negotiated in the previous year and the range of equivalent months' gross salaries such arrangements represent.*
6. *Where working notice is not a practical severance option, the Public Service Employee Relations Commission's severance policy should identify alternative strategies.*
7. *As soon as possible, the Public Service Employee Relations Commission should computerize all employee severance information.*

# detailed report

# background

## Ministries

We requested from the Public Service Employee Relations Commission (PSERC) severance information related to employees terminated at the senior executive level during the period January 1, 1990, to November 30, 1995. For purposes of our review, senior executives were defined as those at Management Levels 9 through 12 and included those Order-in-Council appointments under the *Public Service Act*.

Over the period covered by our survey, 43 senior executives had their employment terminated, resulting in severance pay totaling $5,729,771. Total severance pay for each individual averaged $133,250, or the equivalent of almost 15 months in salary and benefits. Terminated employees averaged 51 years of age and 11.4 years of service. Exhibits 4 – 6 provide a summary of severance costs detailed by year, management level, and ministry.

## Exhibit 4

### Ministry Senior Executive Severance Costs by Calendar Year

*For the period January 1, 1990 – November 30, 1995*

| Year | Number of Terminations | Severance Packages ($) | Equivalent Salary (Months) | Average Service (Years) | Average Age |
|---|---|---|---|---|---|
| 1990 | 2 | 129,384 | 8.8 | 18.0 | 46 |
| 1991 | 12 | 1,550,495 | 14.7 | 8.0 | 51 |
| 1992 | 14 | 2,315,226 | 18.2 | 14.6 | 51 |
| 1993 | 6 | 564,433 | 10.3 | 10.0 | 49 |
| 1994 | 6 | 793,893 | 14.5 | 7.8 | 44 |
| 1995 | 3 | 376,340 | 14.4 | 12.3 | 55 |
| | **43** | **5,729,771** | **14.9** | **11.4** | **51** |

Source: PSERC

## Exhibit 5

### Ministry Senior Executive Severance Costs by Management Level

*For the period January 1, 1990 – November 30, 1995*

| Pay Classification | Number of Terminations | Severance Packages ($) | Equivalent Salary (Months) | Average Service (Years) | Average Age |
|---|---|---|---|---|---|
| Management Level 12 | 17 | 3,057,467 | 18.1 | 9.2 | 52 |
| Management Level 11 | 4 | 636,891 | 17.3 | 14.8 | 54 |
| Management Level 10 | 12 | 1,227,616 | 12.4 | 16.4 | 51 |
| Management Level 9 | 10 | 807,797 | 10.4 | 7.8 | 49 |
| | **43** | **5,729,771** | **14.9** | **11.4** | **51** |

Source: PSERC

## Exhibit 6

### Ministry Senior Executive Severance Costs by Ministry

*For the period January 1, 1990 – November 30, 1995*

| Ministry | Number of Terminations | Severance Packages ($) | Equivalent Salary (Months) | Average Service (Years) | Average Age |
|---|---|---|---|---|---|
| Aboriginal Affairs | 2 | 187,300 | 11.6 | 11.5 | 48 |
| Agriculture | 1 | 147,093 | 16.0 | 3.0 | 58 |
| Attorney General | 5 | 601,935 | 14.1 | 13.5 | 52 |
| Auditor General | 1 | 44,600 | 6.0 | 16.0 | 63 |
| Economic Development | 3 | 316,670 | 12.4 | 11.0 | 47 |
| Education | 2 | 396,323 | 20.9 | 15.5 | 52 |
| Employment and Investment | 1 | 164,400 | 18.5 | 20.0 | 59 |
| Energy, Mines and Petroleum Resources | 2 | 213,802 | 12.9 | 2.0 | 52 |
| Environment | 2 | 468,227 | 24.0 | 13.9 | 56 |
| Finance and Corporate Relations | 4 | 485,461 | 12.4 | 7.9 | 54 |
| Forests | 4 | 740,277 | 19.3 | 14.3 | 49 |
| Government Services | 3 | 268,050 | 11.7 | 11.0 | 52 |
| Health | 2 | 429,569 | 21.0 | 17.5 | 49 |
| Office of the Premier | 3 | 187,933 | 7.1 | 1.5 | 43 |
| Skills Training and Labour | 1 | 136,000 | 15.5 | 14.0 | 59 |
| Small Business Tourism and Culture | 1 | 203,165 | 20.0 | 6.0 | 52 |
| Social Services | 3 | 341,282 | 13.2 | 20.0 | 49 |
| Tourism | 2 | 162,673 | 10.3 | 3.0 | 46 |
| Women's Equality | 1 | 235,011 | 24.0 | 17.0 | 54 |
| | **43** | **5,729,771** | **14.9** | **11.4** | **51** |

Source: PSERC

## Crown Corporations

We requested from members of the Crown Corporation Employers' Association (CCEA) severance information related to employees terminated at the senior executive level during the period January 1, 1990 to November 30, 1995. The CCEA includes British Columbia Crown corporations, as well as the Workers' Compensation Board (WCB). Member corporations having revenues or assets greater than $20 million were selected for our survey. Senior management within these organizations we defined as the Chief Executive Officer and directly reporting executives.

Over the period covered by our survey, 44 senior executives were terminated, representing severance pay totaling $7,930,922. Average severance pay for each individual was $180,248, or the equivalent of 16.3 months in salary and benefits. Average years of service was 11.2. Exhibits 7 – 8 provide a summary of severance costs by year and Crown corporation.

## Exhibit 7

### Crown Corporation Senior Executive Severance Costs by Calendar Year

*For the period January 1, 1990 – November 30, 1995*

| Year | Number of Terminations | Severance Packages ($) | Equivalent Salary (Months) | Average Service (Years) |
|---|---|---|---|---|
| 1990 | 6 | 841,462 | 18.4 | 11.9 |
| 1991 | 2 | 386,644 | 26.5 | 8.7 |
| 1992 | 11 | 2,309,505 | 16.3 | 10.3 |
| 1993 | 7 | 1,994,643 | 23.2 | 19.3 |
| 1994 | 9 | 1,337,276 | 11.9 | 8.6 |
| 1995 | 9 | 1,061,392 | 12.1 | 9.0 |
| | **44** | **7,930,922** | **16.3** | **11.2** |

Source: Crown corporations

## Exhibit 8

### Crown Corporation Senior Executive Severance Costs by Organization

*For the period January 1, 1990 – November 30, 1995*

| Crown Sector Organization | Number of Terminations | Severance Package ($) | Equivalent Salary (Months) | Average Service (Years) |
|---|---|---|---|---|
| British Columbia Buildings Corporation | 1 | 85,931 | 13.0 | 11.5 |
| British Columbia Ferry Corporation | 1 | 58,695 | 6.0 | 17.3 |
| British Columbia Hydro and Power Authority | 8 | 1,635,570 | 14.8 | 16.8 |
| British Columbia Pavilion Corporation | 1 | 105,000 | 14.3 | 7.5 |
| British Columbia Railway Company | 1 | 146,660 | 12.2 | 5.0 |
| British Columbia Systems Corporation | 3 | 480,000 | 16.9 | 17.7 |
| British Columbia Trade Development Corporation | 2 | 203,673 | 12.0 | 5.5 |
| British Columbia Transit | 9 | 1,686,847 | 13.3 | 5.3 |
| Insurance Corporation of British Columbia | 3 | 708,049 | 21.6 | 18.3 |
| Pacific National Exhibition | 7 | 618,839 | 11.3 | 7.6 |
| Workers' Compensation Board | 8 | 2,201,658 | 25.6 | 12.3 |
| | **44** | **7,930,922** | **16.3** | **11.2** |

Source: Crown corporations

# common-law standards for employment

Any discussion of severance costs, particularly those incurred at taxpayers' expense, must be examined in the context of the rights of employers and employees as established under case law.

Unless there is an explicit contractual term of employment which says otherwise, employers normally have the right to terminate employment of their employees at any time. They have three primary options for doing so: termination without compensation, termination with working notice, and termination without a period of notice.

## Termination Options

One option for ending employment is termination without compensation. Situations where this might apply include mandatory retirements, resignations, the expiry of term appointments, and, provided they can be documented and supported, terminations for just cause. These situations allow the employer to terminate an employee's services immediately and without compensation.

A second option is to provide the employee with a period of notice. Often called "working notice," this period cannot be less than that established under the *Employment Standards Act*. Under this option the employee continues working for the duration of the notice period, receiving all regular salary and benefits. Should an employee gain other employment during this period, the employer-employee relationship is severed and no further compensation is provided.

The third option focuses on the employer's decision to terminate without providing a period of notice. Crown corporation employers interviewed stated that retaining a senior executive under the second option (that is, with working notice provisions) creates an untenable situation, and that the decision to terminate and provide compensation in lieu of notice is often the only option. Reasons given for termination generally related to corporate downsizing, restructuring, change in management philosophy, or performance difficulties.

## Reasonable Notice the Determining Cost Factor

Where the employee has not been given working notice or has not been terminated for just cause, he or she is normally entitled to compensation in lieu of notice, based on common-

### A Short Glossary of Terms

**Common law**
Common law refers to legal standards established by the courts.

**Compensation in lieu of notice**
The courts have established that, where reasonable notice has not been provided, the employee is entitled to receive compensation based on the salary and benefits the employee would normally have received had reasonable notice been issued.

**Termination for just cause**
While the term is not well defined, termination for just cause refers to a situation in which termination occurs as a result of poor performance, theft or other criminal action. Compensation is not due any employee terminated as a result of just cause. Termination for poor performance is difficult to defend at senior executive levels when immediate severing of the employee-employer relationship is desired.

**Minimum notice required**
The *Employment Standards Act* states that an employer cannot terminate an employee without giving the employee, in writing, a minimum of two weeks and a maximum of eight weeks notice. Common-law standards generally exceed this minimum requirement.

**Public sector**
For purposes of this report, public sector refers to those provincial organizations that operate at arm's length from government. Sectoral areas include Crown corporations, hospitals, schools, colleges, and universities.

**Public service**
For purposes of this report, public service refers to those ministries and agencies whose employees are appointed pursuant to the *Public Service Act.*

**Reasonable notice**
In defining reasonable notice, several leading cases have established a "rough upper limit" of 18 to 24 months in all but the most "exceptional cases." Although each case is considered unique, the courts have determined that a reasonable period of notice should be based on four criteria: age, years of service, position level, and potential for future employment.

**Wrongful dismissal**
A case in which the court decides that a terminated employee has been dismissed without cause, reasonable notice, or adequate compensation.

law standards of reasonable notice. Courts in British Columbia and Ontario have awarded up to 24 months in equivalent salary and benefits in such cases, depending on the circumstances.

While the courts have established a "rough upper limit" of 18 to 24 months as reasonable notice in all but the most "exceptional cases," each case is unique. There is no mathematical equation that can be used by employers to determine an appropriate figure. However, the courts have determined that a reasonable period of notice should be based on four primary criteria: the employee's age, length of service, position level, and potential for future employment.

### Three Main Types of Employment Terminations

**I. Termination without compensation**

- No period of notice required.
- Situations where this option is used include:
  - Mandatory retirement
  - End of defined term of appointment
  - Rejection on initial probation
  - Resignation
  - Termination for just cause
  - Abandonment of position by the employee
- Employer is not responsible for salary and benefits beyond the termination date set out in the *Employment Standards Act.*

**II. Termination with working notice**

- Reasonable working notice is provided.
- Employer continues providing salary and benefits (medical, pension, etc.).
- Employee continues to perform duties of the position or a similar position.
- The period of notice cannot be less than that set out in the *Employment Standards Act.*
- The period of notice cannot be extended beyond the mandatory retirement age.
- Reasonable notice criteria has been established by the courts.

**III. Termination without a period of notice**

- No period of notice given.
- Usually occurs where the employer wants to sever the employer-employee relationship immediately.
- Just cause is not a factor. Situations where this option is used include:
  - Organization restructuring and/or downsizing
  - Change in management philosophy
  - Employee performance difficulties
- Employer is responsible for paying salary and benefits approximating what the employee would have earned with reasonable notice.
- Courts have based reasonable notice, and compensation, on four criteria:
  - Age
  - Years of service
  - Position
  - Potential for other employment
- Compensation methods commonly used are:
  - Cash in lieu of salary and benefits (that is, a lump sum payment)
  - Salary and benefits continuation
  - A combination of the above

Generally speaking, the area of employment law is outside the expertise of most organizations. They prefer instead to contract the services of a lawyer when negotiating employment contracts and severance settlements or reviewing corporate termination policies.

## Compensation Costs in Lieu of Notice

Once reasonable notice has been determined, case law has established that compensation in lieu of notice should include all salary and benefits normally accruing to the employee had employment been allowed to continue during the notice period. This compensation must take into account not only such regular benefits as medical, dental and pension, but also other benefits to which the employee may normally have been entitled, such as car allowances and other management perquisites.

# ensuring severance guidelines are in place

## Ministries

We expected to find that severance compensation guidelines for terminated employees were established and in accordance with government objectives and common-law standards.

## Conclusion

For those senior executives governed under the *Public Service Act*, recommendations from past studies of senior executive severance practices have been implemented. This has resulted in executive severance compensation packages that reflect current legal values.

Although the recently revised severance policy, introduced in April 1996, provides more cost-effective approaches to severance entitlements, further enhancements are needed.

## Findings

### *Nemetz Inquiry into Severance Practices*

In 1989, the government requested Chief Justice, the Honorable Nathan T. Nemetz, Q.C., "to inquire into and prepare a report on severance policy for senior public employees, with specific focus on deputy ministers and chief executive officers of Crown corporations."

The Nemetz Inquiry revealed that no definitive Cabinet guidelines had been established to settle procedures for those leaving the public service on an involuntary basis. Over the years, several attempts to develop guidelines had been made. However, as Chief Justice Nemetz pointed out in his report, "there appears to have been some misunderstanding within the public service itself as to what has or has not been approved by Cabinet."

Key recommendations contained in the inquiry's report include the following:

- Treasury Board should, as quickly as possible, prepare and approve an appropriate set of guidelines and should obtain the approval of Cabinet for those guidelines.
- Government severance policy should be consistent in its treatment of all public servants who are excluded from the collective bargaining unit. It should also take into account court-ordered awards.

- The Government Personnel Services Division (now PSERC) should have the responsibility for executing guidelines and negotiating all severance agreements.
- All guidelines should be reviewed on a periodic basis, not exceeding three years, to ensure severance arrangements take into account the private sector and current court-ordered awards.
- The Provincial Secretary should report to the Legislative Assembly, once every fiscal year, the number of severance arrangements not covered by any collective agreement and the range of equivalent months' gross salaries that such agreements represent.

The Nemetz report also noted that Deputy Ministers (Management Level 12) traditionally experience a relatively short period of time in that position. As a result, it recommended the following severance schedule for Deputy Ministers:

**Deputy Minister Severance Schedule**

| Months Served in the Public Service* | Severance Expressed in Months' Equivalent Gross Salary |
|---|---|
| 0 – 12 | 6 months |
| 12 – 18 | 9 months |
| 18 – 24 | 12 months |

For each year of public service after 24 months, add 2 months of equivalent gross salary, to a maximum of 24 months.

*Includes other Canadian jurisdictions.

For other terminated employees below the level of Deputy Minister (Management Levels 1 to 11), the report recommended that Treasury Board develop guidelines providing lesser entitlements based on those recommended above.

### *Government Adopts Recommendations*

In June 1989, government adopted many of the recommendations of the Nemetz Inquiry by issuing Treasury Board Order 219. In addition to the formula recommended by Chief Justice Nemetz for Deputy Ministers, the Treasury Board directive established severance pay schedules covering management-level employees appointed under the *Public Service Act*. These severance schedules took into consideration such factors as the employee's age, years of service, and

position level. Responsibility for administering the Treasury Board directive and severance pay schedules was assigned to the Government Personnel Services Division (now PSERC). Severance pay schedules, with the exception of that used for Deputy and Associate Deputy Ministers, were used as a confidential negotiating tool by PSERC to reach agreement on severance pay with affected employees.

### *New Severance Strategy Developed*

Since the last major review of severance policy in 1989, public awareness concerning employment law and wrongful termination practices has increased. Also, in 1995, the confidential severance pay schedules were made public under the *Freedom of Information and Protection of Privacy Act.* This, along with changes in court awards, the Treasury Board directive requiring policy reviews every three years, and government's desire to shift towards more cost-effective methods of employee terminations, led PSERC to conduct an internal review of its severance policies. As a result, a new severance policy was introduced in April 1996.

#### *Fundamental Change in Strategy*

Whereas the previous severance policy consisted of providing lump sum payments as compensation in lieu of notice, along with an immediate severing of the employment relationship, the new policy takes the basic approach that terminated employees should normally be provided with working notice.

Working notice, PSERC believes, is more cost-effective because it retains employees in the workplace. At issue was government's desire to receive value from compensation given to those receiving termination notices. Working notice is intended to accomplish this by requiring terminated employees to continue performing job duties until the period of (reasonable) notice ends.

The use of working notice, however, is not without some risk. As reported in the *1995 Canadian Termination Practices Survey,* conducted by Murray Axmith & Associates, changes in a terminated employee's loyalty, anxiety levels, morale, and job satisfaction—not to mention his or her potential feelings of resentment—may all have an impact on productivity and costs. Also, continued employment under working notice may require the employer to provide benefits under an organization's short- and long-term illness plans, which can extend the period of notice given and also be costly.

*Re-employment*

Concern over re-employment (or "double dipping") was addressed by PSERC in a 1987 directive. That directive requires employees to reimburse the government a portion of severance pay relative to the notice time remaining after gaining re-employment elsewhere within the public service.

The new PSERC policy reinforces government's position on re-employment. The use of working notice in place of the past practice of immediate termination and lump sum payments theoretically makes it possible to reduce termination costs should an employee gain alternative employment during the notice period. It also more clearly defines the employer as including both the public service and public sector, and outlines government's payment conditions should alternative employment be obtained within the private sector.

*Alternative Options Not Clearly Defined*

We noted the new PSERC policy does not provide direction in those circumstances that may warrant immediate severing of the employer-employee relationship. While the policy focuses on providing working notice, employing senior executives at the higher levels under such provisions is not likely to be viable, and thus compensation in lieu of notice will continue to be the practice.

The new PSERC policy provides no direction on compensation payment methods where working notice has not been given. Two compensation methods commonly used are lump sum payments and salary continuance. The *1995 Canadian Termination Practices Survey* revealed that over two-thirds of the 1,034 organizations it covered allowed terminated employees to choose between lump sum or salary continuance.

There are several valid reasons why an employer might want to sever the employer-employee relationship immediately rather than continue under working notice provisions. Obviously each case is unique and only the employer can determine which course of action would be in the best interests of the organization. In our view, the policy should formally recognize the diversity of circumstances surrounding severance and allow for them.

*Recommendation:*

***Where working notice is not a practical severance option, the Public Service Employee Relations Commission's severance policy should identify alternative strategies.***

*Deputy Level Executives Excluded from New Policy*

Of the 43 terminations reported during our survey period, 17 were at the Deputy Minister level, accounting for $3.1 million in severance packages, more than half of the total severance payments issued.

As noted earlier, the new severance policy excludes Deputy and Associate Deputy Ministers. Senior executives at this level remain covered by the Treasury Board directive 219 (dated August 31, 1989). This directive does not address current concerns over double dipping nor such alternative options as working notice and lump sum versus salary continuance payment methods.

The exclusion of these executives is understandable to a degree. The revised policy focuses on providing terminated employees with working notice, which (as discussed above) may be impractical at this level. However, to exclude them without making improvements to the 1989 directive, such as strengthening measures to prevent double dipping and offering terminated employees the option of receiving salary continuance or discounted lump sum payments, could well result in less than cost-effective termination decisions.

*Recommendation:*

***As part of its periodic review of severance arrangements with senior executives at the Deputy and Associate Deputy Minister levels, government should consider both strengthening measures to control "double dipping" and providing terminated employees the option to receive either discounted lump sum payments or full salary continuance.***

*Assistance Programs*

According to PSERC, its new termination policy is intended to help employees who are terminated with working notice to obtain employment as soon as possible, and that employee efforts to re-establish earnings are an integral part of this process.

To encourage employees to seek other employment during their working notice period, the PSERC policy provides for special assistance and incentives. Special assistance includes outplacement or other counseling services, training and educational services, assistance for new business start-up costs, and other assistance as considered appropriate. In addition, employees retain "in-service" status under the *Public Service Act*, which gives them the opportunity to apply for government positions available only to government employees.

Financial incentives are also made available and provide the employee with salary protection for the remainder of the notice period, should the employee obtain lower-paying employment within either the public service or public sector. If the employee obtains other employment outside the public service or public sector, he or she receives a lump sum severance settlement equal to 50% of the base salary payable during the remaining notice period. The purpose of this is to encourage the employee to mitigate losses by gaining new employment.

The Government of British Columbia is not alone in making assistance programs and other incentives available to terminated employees. Organizations across North America are becoming sensitive to the needs of those terminated, as well as to the impact of terminations on those who remain. The *1995 Canadian Termination Practices Survey*, for example, indicated that approximately 90% of its respondents provided re-employment counseling services to terminated executives.

*Cost-effectiveness*

Given the newness of PSERC's updated severance policy, it is too early to tell whether government objectives of cost-effectiveness are being achieved.

## Crown Corporations

We expected to find that severance compensation guidelines for terminated employees of Crown corporations were established and in accordance with government objectives and common-law standards.

## Conclusion

We concluded that, during the period of our survey, not all Crown corporations had developed severance compensation policies, practices, and guidelines which were in accordance with common-law standards and government direction. Until recently, severance compensation for Crown corporation senior executives has been governed by management employment practices established within individual Crown corporations.

The creation of the Public Sector Employers Council (PSEC) and the sectoral CCEA—both recommendations of the 1992 Korbin Commission—has resulted in a framework of standards that has the potential to achieve reasonableness and consistency in compensation (including severance). The presence of these bodies has also resulted in a spirit of cooperation and improved communications between government and Crown corporations.

Nevertheless, we concluded that clearer direction is necessary if government is to achieve consistency and reasonableness in Crown corporation severance practices.

## Findings

### *Nemetz Recommendations*

In his 1989 report, Chief Justice Nemetz reported he was unable to undertake a full review of severance practices employed by Crown corporations for its Chief Executive Officers. However, he did make the following recommendation:

> "The guidelines recommended for the public service should be forwarded to the boards of directors of Crown corporations. They should be directed that, as a matter of government policy, the board of each Crown corporation will prepare guidelines for severance arrangements for senior administrative officers consistent with the approved guidelines. Each Crown may vary such guidelines where the board of directors considers it appropriate."

Of the 11 Crown corporations issuing severance pay during the period surveyed, only five—British Columbia Ferry Corporation, British Columbia Systems Corporation, British Columbia Buildings Corporation, British Columbia Hydro and Power Authority, and the Insurance Corporation of British Columbia—had adopted severance guidelines similar to those recommended by Justice Nemetz. We found the remaining corporations either did not have a severance policy or had policies that were inconsistent with those recommended in the Nemetz Report.

### *Korbin Commission Recommendations*

In 1992, the Commission of Inquiry into the Public Service and Public Sector was established under the *Inquiry Act*, with Judi Korbin as its commissioner. Broader in range than the Nemetz Inquiry, the Korbin Inquiry set out to examine human resource practices and propose a framework for human resource management.

The final report of the commission, issued in 1993, documented the disparities in human resource practices that had developed in the public sector. The commission found that previous government attempts to inject greater accountability into public sector human resource management had been unsuccessful:

> "None of these past efforts had given the provincial government any real long term control, influence over, or coordination of public sector compensation levels or public sector human resource matters generally.
>
> As the public sector has increased dramatically in size, the autonomy of the sectors has resulted in the adoption of human resource policies and agreements which are inconsistent and sometimes detrimental to overall government objectives."

Among the Korbin Commission's recommendations was that government establish a public sector employers' council, along with sectoral employers' associations, to improve the coordination, consultation, and monitoring of human resource practices within Crown corporations and government-funded agencies.

### *Creation of PSEC*

On July 29, 1993, the *Public Sector Employers Act* was proclaimed, governing all employees of Crown corporations, schools, universities, colleges, and hospitals. In order to develop effective working relationships between government, its public sector employers, and employees, the Act established the Public Sector Employers Council. PSEC's key purposes include:

- ensuring coordination of human resources and labor relations policies and practices among public sector employers;
- improving communication and coordination between public sector employers and representatives of public sector employees; and
- setting and coordinating strategic directions in human resource management and labor relations.

The Act further required the creation of public sector employers' associations. In response, the CCEA, consisting of representatives from Crown corporations, was established. We noted, however, that monitoring of human resource practices, recommended by the Korbin Commission, was not defined within the Act.

### *New Rules to Achieve Greater Accountability*

In 1994, the provincial government announced that it was introducing "strict new rules requiring greater accountability for tax dollars and the elimination of waste throughout the public sector" for those public sector employees not served by a collective bargaining agreement.

Of significance to the issue of severance compensation for terminated employees were the new rules for establishing:

- executive and management compensation and severance policies;
- severance policies based on current legal values;
- regular and full disclosure of total compensation for each individual; and
- clear measures of performance.

*Responsibility Assigned and Standards Developed*

The government made PSEC responsible for enforcing the new rules with respect to accountability (Exhibit 9) and recommending to Cabinet how they could be effectively and consistently implemented throughout the public sector.

Working with each sectoral association, PSEC developed a framework of compensation and severance standards, "PSEC Exempt Compensation—General Standards," for excluded employees in September 1995. This framework, introduced in September 1995, was intended to "assist public sector employers to achieve fair, realistic and prudent compensation practices; and establish exemplary levels of disclosure and accountability to the public of BC."

## Exhibit 9

### New Government Rules to Establish Greater Accountability in the Public Sector

1. The highest standard of ethical conduct will be required and applied.
2. Executive and management compensation policies will be established.
3. Full disclosure of executive compensation will be required.
4. All types of employment will be covered by compensation policies and practices.
5. Severance policies will be established to include current legal values for executive termination and allow for termination for cause without compensation.
6. Compensation based in whole or part on performance will be guided by clear and real measurements of performance.
7. Personal use of business vehicles provided to executives or reimbursement for use of a person's own vehicle will be included in compensation calculations.
8. Clear policies and guidelines for business expenses will be established and made available to the public.
9. Use of employer equipment, credit cards and travel expenses will be for business, not personal expenses.
10. Policies and guidelines will be developed for retirement gifts and similar expenditures for executives, employees and board members.

Source: Province of British Columbia

Framework standards relating to severance practices required public sector employers to:

- publicly disclose all compensation and severance arrangements;
- limit severance entitlements to a maximum of 24 months;
- incorporate PSEC standards upon renewing or changing employment contracts;
- negotiate employment contracts at least every five years;
- make provisions within severance settlements allowing for partial recovery of severance payments should terminated employees gain alternative employment, and requiring that severance settlements in excess of six months be in the form of salary continuance; and
- propose for approval compensation ranges covering benchmark positions.

*CCEA Development of Sector Guidelines*

Following approval of the "PSEC Exempt Compensation—General Standards," the Crown Corporation Employers' Association (CCEA) was required by PSEC to develop specific sectoral guidelines for compensation, including severance. One of the unique challenges faced by the CCEA in developing exempt compensation guidelines was that, unlike other sectors such as hospitals, colleges, universities, and schools, its sector members differ widely in corporate purpose, complexity, size of operations, and ability to attract and retain senior executives.

Both the CCEA and PSEC agreed that developing "one size fits all" guidelines would not reflect this diversity. As a result, the CCEA developed general guidelines only, which were intended to comply with the spirit and intent of PSEC's standards while allowing each Crown corporation an opportunity to propose compensation benchmarks reflective of its business. Although general in nature, these guidelines did specify that severance arrangements were not to exceed 24 months and that severance payments representing compensation in lieu of notice greater than six months should ideally be in the form of salary continuance.

The CCEA's guidelines were submitted to PSEC late in 1995. They have yet to be formally approved, however, as the council has met only once since December 1995. Following approval, each Crown corporation will then formally submit its own specific compensation proposals and implementation

ranges, consistent with the CCEA guidelines, to PSEC for approval and recommendation to Treasury Board.

*Crown Corporations to Prepare Proposals*

Most Crown corporations indicated to us that individual corporate responses proposing compensation benchmarks are on hold pending approval of the CCEA's guidelines by PSEC. All Crown corporations interviewed, however, stated they agree with CCEA guidelines recommending severance arrangements be limited to a maximum of 24 months.

We found the draft guidelines to be of limited usefulness, as they are quite broad, and allow for considerable diversity among Crown corporations. As individual Crown corporations file their plans, this may reduce our concerns about the potential for continuing inconsistency and excessive settlements.

*Recommendation:*

***We recommend that the Public Sector Employers' Council quickly approve the Crown Corporation Employers' Association guidelines, and require early submission of individual Crown corporation proposals.***

# compliance with severance guidelines

## Ministries

We expected to find responsibility for administering Treasury Board's 1989 directive on senior management severance compensation arrangements properly assigned and the directive complied with.

## Conclusion

Responsibility for administering Treasury Board's 1989 directive on severance compensation arrangements is properly assigned. All payments were either in accordance with the directive's severance pay schedules, or, where exceptions occurred, reviewed and approved by a committee established under the directive for this purpose.

Computerized severance information was found to be incomplete and did not include all severance costs. Compliance could be monitored more easily with improvements to computerized severance information databases.

## Findings

### *Responsibility Assigned*

Responsibility for implementing and administering Treasury Board's 1989 directive, including severance pay schedules, is assigned to PSERC, formerly the Government Personnel Services Division.

### *Severance Guidelines Complied With*

We found 40 of the 43 ministry terminations were settled in accordance with severance pay schedules established under Treasury Board's severance directive, and appeared reasonable with regard to equivalent months' salary and benefits.

In three cases, the value of severance paid out exceeded the amounts provided for in these schedules (Exhibit 10). In such cases, the directive required the Severance Advisory Committee, composed of the Deputy Minister to the Premier's Office, the Assistant Deputy Minister of PSERC, and the Superannuation Commissioner, to review and approve the severance arrangements before issuing any payments. In every case, the committee's approval was obtained.

Of the 43 terminated individuals reported by PSERC, eight received severance settlements of 24 months in equivalent salary

## Exhibit 10

### Severance Packages Greater Than Established Severance Schedules

*For the period January 1, 1990 – November 30, 1995*

| Employee | Pay Classification | Termination Year | Severance Schedules ($) | Severance Package ($) |
|---|---|---|---|---|
| Executive #1 | Management Level 9 | 1992 | 66,600 | 88,750 |
| Executive #2 | Management Level 9 | 1991 | 54,420 | 83,500 |
| Executive #3 | Management Level 9 | 1990 | 39,375 | 44,000 |
| | | | **160,395** | **216,250** |

Source: PSERC

## Exhibit 11

### Severance Packages Equal to 24 Months of Gross Salary and Benefits

*For the period January 1, 1990 – November 30, 1995*

| Employee | Termination Year | Age | Service (Years) | Severance Package ($) |
|---|---|---|---|---|
| Executive #1 | 1992 | 57 | 18 | 257,220 |
| Executive #2 | 1992 | 48 | 12 | 246,323 |
| Executive #3 | 1992 | 60 | 16 | 233,760 |
| Executive #4 | 1992 | 44 | 16 | 246,180 |
| Executive #5 | 1991 | 47 | 18 | 246,626 |
| Executive #6 | 1991 | 54 | 17 | 235,011 |
| Executive #7 | 1991 | 46 | 11 | 234,025 |
| Executive #8 | 1991 | 51 | 12 | 234,467 |
| | | | | **1,933,612** |

Source: PSERC

and benefits (Exhibit 11). In all cases, these were at the Deputy Minister level (Management Level 12). According to Treasury Board directive 219, service exceeding eight years entitles the terminated employee to the maximum allowed, 24 months. All eight cases met this requirement.

### *Information Databases Need Improvement*

We found that management of severance information is weak. Individual severance files are maintained on a manual basis only. Computerized reports, based on information partially

extracted from these files, are incomplete and do not include all costs.

A 1993 internal audit by the Office of the Comptroller General reported that, in order to generate more useful and accurate severance information, PSERC should review all its information requirements and improve certain computerized file management practices.

As PSERC now offers a broader range of severance options and assistance programs, the need to keep track of these and to capture their full cost will require PSERC to ensure it has a reliable information system.

*Recommendation*

***As soon as possible, the Public Service Employee Relations Commission should computerize all employee severance information.***

## Crown Corporations

We expected to find that severance policies of each Crown corporation complied with recommendations of the Nemetz Inquiry and common-law values.

## Conclusion

Although the 1989 Nemetz Inquiry into government severance practices recommended that Crown corporations prepare guidelines consistent with those of government, we noted a wide variety of severance practices, some of which provided severance settlements exceeding standards recommended by Chief Justice Nemetz. Overall, we concluded that government needs to improve its monitoring and accountability processes over severance practices within Crown corporations.

## Findings

*Varying Direction on Severance*

Severance practices within and among Crown corporations varied widely, with four corporations relying on direction from more than one source (Exhibit 12).

*Written Policies*

As noted in Exhibit 12, only 5 of the 11 corporations reporting terminations at the senior executive level relied on formally-established policies to determine severance pay. Four

## Exhibit 12

### Corporate Sector Direction

*Practices used by Crown corporations to determine severance pay*

| Crown Sector Organization | Number of Terminations | Written Policy | Legal Advice | Contracts | Court Award | Other |
|---|---|---|---|---|---|---|
| British Columbia Buildings Corporation | 1 | | 1 | | | |
| British Columbia Ferry Corporation | 1 | 1 | | | | |
| BC Hydro and Power Authority | 8 | 6 | | | | 2 |
| British Columbia Pavilion Corporation | 1 | | | | | 1 |
| British Columbia Railway Corporation | 1 | | 1 | | | |
| British Columbia Systems Corporation | 3 | 3 | | | | |
| British Columbia Trade Development Corporation | 2 | | 2 | | | |
| British Columbia Transit | 9 | | 5 | 2 | 1 | 1 |
| Insurance Corporation of British Columbia | 3 | 3 | | | | |
| Pacific National Exhibition | 7 | | 4 | 2 | 1 | |
| Workers' Compensation Board | 8 | 7 | | 1 | | |
| | **44** | **20** | **13** | **5** | **2** | **4** |
| **Percent** | **100** | **45** | **30** | **11** | **5** | **9** |

Source: Crown corporations

of these corporations, namely British Columbia Systems Corporation, British Columbia Ferry Corporation, British Columbia Hydro and Power (BC Hydro) and the Insurance Corporation of British Columbia (ICBC), had adopted termination policies similar to that recommended by the Nemetz Inquiry. During the period surveyed, ICBC and Workers' Compensation Board (WCB) rescinded their corporate severance policies in favor of advice from legal counsel specific to each severance situation.

The written termination policy at British Columbia Hydro and Power Authority allowed considerable flexibility. It did, nevertheless, specify a maximum entitlement of 24 months.

The 1985 and 1990 written termination policies at WCB provided excessive severance settlements compared with those in other Crown corporations, the provincial government, and common law. The subsection below *"Notice Terms Affect Costs"* discusses this.

*Increasing Reliance Placed on Common Law*

As noted in Exhibit 12, five Crown corporations preferred to negotiate many of their settlements on an individual basis, citing common law as the determinant for any negotiated settlement. Also, as previously noted, two other corporations—ICBC and WCB—have decided to abandon formal severance policies and rely exclusively on legal counsel. These corporations state that common law provides the most current standard for compensating former employees and is defensible should public scrutiny be brought to bear on settlements.

In our view, however, common law does not allow for precise estimates of reasonable notice on which to negotiate severance settlements. At best, it offers only a broad range based on past court cases. Corporations that choose not to have established severance policies can also expect to incur additional costs in each case by requiring outside legal employment counsel to recommend current common-law ranges.

Nevertheless, Crown corporation employers have stated that reliance on existing common law is necessary to avoid potential litigation. Since litigation is always a possibility regardless of the practice used, we think this a moot point. The experience of other corporations and PSERC has shown that clearly stated severance policies, periodically reviewed to ensure consistency with legal standards, reduces the likelihood of employers incurring litigation costs.

*Employment Contracts*

As Exhibit 12 shows, three Crown corporations have determined severance pay for five terminated senior executives on the basis of provisions contained in employment contracts.

Contracts between Crown corporation employers and senior executives are not used extensively. However, where they are in use, we found they generally resulted in severance settlements greater than what might have been awarded under common law or, where established, corporate policy.

A summary of contracts (Exhibit 13) shows that the ratio of service years to reasonable notice (equivalent months' salary) exceeded the average of 1.5 (Exhibit 14) experienced by all organizations reporting executive terminations. The number of years served by these individuals was low and it is questionable whether employees would have received such generous severance had the organization relied on common law.

According to the report of the Korbin Commission, one common reason senior executives want employment contracts is the relative lack of job security at the very high levels. We

## Exhibit 13

### Employment Contracts for Crown Corporation Senior Executives

*Summary of severance pay issued*

| Crown Organization | Termination Date | Severance Package ($) | Equivalent Salary (Months) | Service (Years) | Ratio |
|---|---|---|---|---|---|
| British Columbia Transit | 1992 | 467,227 | 28.3 | 3.1 | 9.1 |
| British Columbia Transit | 1992 | 127,903 | 12.0 | 2.2 | 5.5 |
| Pacific National Exhibition | 1994 | 111,277 | 12.0 | 3.0 | 4.0 |
| Pacific National Exhibition | 1995 | 98,439 | 9.5 | 3.2 | 3.0 |
| Workers' Compensation Board | 1993 | 281,283 | 17.7 | 2.3 | 7.7 |
| | | **1,086,129** | | | |

Source: Crown corporations

noted that four terminated employees had formal severance provisions contained in their contracts, specifying the number of months to be given as compensation in lieu of notice should employment be ended. Termination before the stated expiry of these contracts resulted in severance provisions we consider to have been excessive.

The employment contract for one terminated executive differed from the others in that it specified that severance would be equal to either time remaining in the term of the contract or 24 months, whichever was longer. Since 28 months remained at the time of termination, the result was severance greater than that normally provided under common law.

*Recommendation:*

***Employment contracts should contain severance provisions that reflect common law standards.***

### *Notice Terms Affect Costs*

We found that notice terms (expressed as equivalent months salary) varied widely (Exhibit 14) among Crown corporations, with the average for the WCB exceeding the maximum common-law standard of 24 months.

We also found that the ratio of equivalent months' salary to years of service was highest for British Columbia Transit, followed by the British Columbia Railway Company, British Columbia Trade Development Corporation, and Workers' Compensation Board.

## Exhibit 14

### Crown Corporation Comparison of Equivalent Salary Months

*For the period January 1, 1990 – November 30, 1995*

| Crown Sector Organization | Number of Terminations | Severance Package ($) | Equivalent Salary (Months) | Average Service (Years) | Ratio |
|---|---|---|---|---|---|
| Workers' Compensation Board | 8 | 2,201,658 | 25.6 | 12.3 | 2.1 |
| Insurance Corporation of British Columbia | 3 | 708,049 | 21.6 | 18.3 | 1.2 |
| British Columbia Systems Corporation | 3 | 480,000 | 16.9 | 17.7 | 0.9 |
| British Columbia Hydro and Power Authority | 8 | 1,635,570 | 14.8 | 16.8 | 0.9 |
| British Columbia Pavilion Corporation | 1 | 105,000 | 14.3 | 7.5 | 1.9 |
| British Columbia Transit | 9 | 1,686,847 | 13.3 | 5.3 | 2.5 |
| British Columbia Buildings Corporation | 1 | 85,931 | 13.0 | 11.5 | 1.1 |
| British Columbia Railway Company | 1 | 146,660 | 12.2 | 5.0 | 2.4 |
| British Columbia Trade Development Corporation | 2 | 203,673 | 12.0 | 5.5 | 2.2 |
| Pacific National Exhibition | 7 | 618,839 | 11.3 | 7.6 | 1.5 |
| British Columbia Ferry Corporation | 1 | 58,695 | 6.0 | 17.3 | 0.4 |
| | **44** | **7,930,922** | **16.3** | **11.2** | **1.5** |

Source: Crown corporations

While every case is unique and other factors must be considered in determining severance, these exceptions raise questions about how well some Crown corporations are managing severance settlements.

The written termination severance policy for WCB provided generous notice terms which, in our opinion, resulted in excessive severance settlements compared to those of other Crown corporations, the provincial government, and common law. During the period covered by our survey, five WCB executives received severance settlements ranging from 24.7 to 36 months. Exhibit 15 provides details on seven cases in which the board's corporate severance policies provided the basis for settlement.

Severance policies at WCB have undergone three major changes since 1985. Two of these changes are summarized in Exhibit 16.

## Exhibit 15

### Workers' Compensation Board Severance Costs

*Severance pay expressed in equivalent months salary compared to years of service*

| Employee | Termination Date | Severance Package ($) | Equivalent Salary (Months) | Service (Years) |
|---|---|---|---|---|
| Executive #1 | 1991 | 327,359 | 36.0 | 7.3 |
| Executive #2 | 1993 | 305,120 | 30.0 | 32.5 |
| Executive #3 | 1993 | 364,195 | 28.0 | 15.9 |
| Executive #4 | 1990 | 231,218 | 28.0 | 15.8 |
| Executive #5 | 1994 | 282,731 | 24.7 | 9.3 |
| Executive #6 | 1993 | 219,452 | 24.0 | 12.6 |
| Executive #7 | 1992 | 190,300 | 21.0 | 3.1 |
| | | **1,920,375** | **27.4** | **13.8** |

Source: Workers' Compensation Board

## Exhibit 16

### Workers' Compensation Board Severance Policy Provisions

*Historical comparison*

| | Management Classifications | | | | |
|---|---|---|---|---|---|
| **Termination Categories** | **1985 Category A** | **1985 Category B** | **1985 Category C** | **1990 Chairman** | **1990 Other Executives** |
| **Involuntary Termination** | | | | | |
| – Base benefit | 18 Months (Service time is not a factor) | 15 Months (Service time is not a factor) | 12 Months (Service time is not a factor) | 24 Months (Schedule based on service up to 7 years) | 24 Months (Schedule based on service up to 9 years) |
| – Additional benefit as a senior executive employee | 1 month for each 4 months' service | 1 month for each 6 months' service | 1 month for each 12 months' service | 2 months for every 5 years over 10 years max 6 months | 2 months for every 5 years over 10 years max. 6 months |
| **Total maximum benefit** | **36 months** | **30 months** | **24 months** | **30 months** | **30 months** |
| **Voluntary Termination** | | | | | |
| – Base benefit | 12 months | 9 months | 6 months | Not provided | Not provided |
| – Additional benefit as a senior executive employee | 1 month for each 4 months' service | 1 month for each 6 months' service | 1 month for each 12 months' service | Not provided | Not provided |
| **Total maximum benefit** | **24 months** | **20 months** | **18 months** | **Not provided** | **Not provided** |

Source: Workers' Compensation Board

The WCB's 1985 involuntary termination policy was, in our opinion, excessive and unreasonable when compared to that followed in common law. Although the policy was changed in 1990, the board has continued to honor the 1985 policy for senior executives appointed prior to this change. All except Executive #6 in Exhibit 15 were issued severance pay based on this 1985 policy.

The 1985 policy also contained generous severance entitlements to those who voluntarily chose to resign. This is not a normal practice and could well result in excessive severance costs that do not conform to any government direction in this regard. Although we did not observe any instances of individuals receiving such settlements during the period surveyed, one executive voluntarily resigned and received severance compensation after the period surveyed. Currently, there remains one executive under the board's "grandfather" clause for whom this option also continues.

In 1990, WCB revised its severance policy resulting in both the elimination of severance pay for those who voluntarily resign, except for those appointed prior to 1990, and the lowering of severance entitlement from 36 months to 30 months. We believe this revised policy to be excessive as well.

In 1994, new management at WCB recognized the excessiveness of termination policies and has suspended such policies in favor of retaining legal advice to handle terminations.

### *Payment Methods*

Two primary methods by which Crown organizations disburse compensation in lieu of notice to their terminated senior executives are lump sum and salary continuance.

Lump sum payments allow employers to sever the relationship immediately, as well as reduce their risk of funding potential medical leave which may arise during the notice period. For the employee, it provides a large cash infusion at a difficult time. Although no Crown organizations reported doing so, some employers interviewed expressed the view that, where salary continuance is provided as an option, lump sum payments should be reduced to reflect not only interest cost factors but the possible desire by the employee to also sever the relationship immediately.

Although the employee is not on working notice, salary continuance does provide regular salary and benefits over the period of notice agreed upon. For the employer, however, it increases the risk of added costs should the employee

suffer health problems. The courts have ruled that income received by the employee while under medical leave is separate from salary received under a salary continuance termination program.

Nevertheless, Crown corporation employers have stated that salary continuance is a better vehicle than lump sum payments should government wish to control double dipping.

Most Crown organizations offer either payment method, or some combination of the two. The choice often depends on the degree of risk associated with each method, management's desire to sever the relationship, the length of reasonable notice given, and the employee's preference.

# keeping the legislative assembly and government informed

Because ministries and Crown corporations derive their existence and authority from the Legislative Assembly, these government entities should be accountable by reporting regularly on their performance to the Assembly.

We expected to find that government required PSERC and Crown corporations to report on severances and that information provided to the Legislative Assembly was in accordance with this requirement.

## Conclusion

The provincial government has issued a directive requiring PSERC to report annually to the Legislative Assembly severance arrangements negotiated for terminated management. PSERC has complied with the Treasury Board directive.

No formal requirement, however, was placed on Crown corporations to provide similar information to the Legislative Assembly.

Furthermore, we noted no clear requirement within the *Public Sector Employers Act* for individual Crown corporations to report instances to government in which CCEA guidelines were not followed. Although the PSEC standards and CCEA guidelines provide for the principle of full disclosure, they neither identify a specific reporting structure nor state the consequences of non-adherence. Also, the standards do not require Crown corporations to obtain prior approval for proposed payments which exceed the guidelines.

## Findings

### *Informing the Legislative Assembly*

In his report, Chief Justice Nemetz stated that the need for accountability must be balanced with the rights of individuals to privacy. On this basis he recommended collective reporting rather than individual reporting. A key recommendation of the inquiry stated that for ministries:

> "The Provincial Secretary should report to the Legislative Assembly once every fiscal year the number of severance arrangements, not covered by any collective agreement, negotiated in the previous year and the range

of equivalent months' gross salaries such arrangements represents."

This recommendation, was adopted by government and incorporated into Treasury Board's 1989 directive governing ministry severance arrangements for all terminated management level employees.

Although Crown corporations are required to report similar information to the ministers to which they are responsible and to PSERC under the *Financial Information Act*, they are not required to report such information to the Legislative Assembly.

*Recommendation:*

***Where severance provisions are not covered under any collective agreement, Crown corporations should be required to report annually to the Legislative Assembly the number of severance arrangements negotiated in the previous year and the range of equivalent months' gross salaries such arrangements represent.***

## *Informing Government*

Over the past 20 years, government efforts to inject greater accountability into the management of public sector human resources in British Columbia have had little success. The Korbin Commission found that management of human resources in the broad public sector failed to live up to the principle of accountability. Korbin stated:

> "Accountability for major public expenditures is poorly established between government and the bodies authorized to manage human resources. No formal process exists that ensures accountability back to the Treasury Board, the ultimate government authority in fiscal matters."

The Korbin Commission report described many past unsuccessful attempts to inject accountability into the management of human resources within the public sector. Government's adoption of the commission's recommendations establishing PSEC and sectoral associations has resulted in improved communications between government and its Crown organizations. Also, all Crown employers we interviewed supported government's objective to achieve consistency and reasonableness between and among public sectors.

Crown corporations participated as CCEA members in the development of broad severance and other compensation

guidelines to meet PSEC's framework of standards. Although all corporations we surveyed agreed with these guidelines, several did not view them as compulsory. In this regard, we noted no clear requirement within the *Public Sector Employers Act* for individual Crown corporations to report instances in which CCEA guidelines were not followed. Although the PSEC standards and CCEA guidelines provide for the principle of full disclosure, they do not identify a specific reporting structure. Furthermore, they do not state the consequences of non-adherence.

In our opinion, the CCEA guidelines are not meant to be intrusive and were purposely expressed in general terms to give each corporation the flexibility to develop its own specific standards. It is also been recognized by CCEA and PSEC that exceptions to guidelines may occur to meet specific recruiting or termination objectives. We think, however, that Crown corporation employers should, as a minimum, be required to explain any exceptions.

*Recommendation:*

***Crown corporation severance arrangements exceeding sector guidelines should require approval by the Public Sector Employers' Council before finalization.***

# management response

## *Public Service Employee Relations Commission*

*We have reviewed your report and find it clear and complete. We have reviewed your recommendations and staff will implement them as soon as possible.*

*We appreciate your taking the time to meet with our staff to review the previous drafts and respond to their comments.*

## *Public Sector Employers' Council Secretariat*

*Background:*

*[Note: The Auditor General's report deals with severance payments in the public service and crown corporations. This response addresses only the comments dealing with the crown corporations, PSERC will respond on the commentary and recommendations dealing with the public service. It should be noted, however, that the PSEC structure developed to deal with exempt compensation, which deals with severance, also applies to PSERC.]*

*The Auditor General's report reviews 44 severance payments made by crown corporations between January 1, 1990 and November 30, 1995. It concludes that 11 of these payments were excessive because they either: (1) exceeded 24 months payment; or (2) significantly exceeded the ratio of 1.5 months severance payment per year of service with the employer which was the Crown sector average.*

*In response to these findings, the report offers recommendations directed at the Crowns—specifically recommendations #1, 2, 4 and 5. In addition, the report contains a number of comments in the Highlights section concerning the current status of measures to address control of severance payments in the crowns, and their likelihood of success. This response will address both the recommendations relevant to the Crowns and comments from the Highlights section.*

*Discussion:*

*Recommendations dealing with the Crowns*

1. *"We recommend that the Public Sector Employers' Council quickly approve the Crown Corporation Employers' Association guidelines, and require early submission of individual Crown corporation proposals."*

*Response – The Crown Corporation Employers' Association guidelines were adopted by the Public Sector Employers' Council at its January 30, 1997 meeting. One of the recommendations made to the Council by Secretariat staff in proposing acceptance of the*

*guidelines was that individual Crowns should be encouraged to bring forward their individual proposals promptly. Individual Crowns are currently working on those proposals and the Secretariat will work with them to ensure that they are submitted and reviewed by Council promptly.*

2. *"Crown corporation severance arrangements exceeding sector guidelines should require approval by the Public Sector Employers' Council before finalization."*

*Response – Our position is that the severance provisions in the guidelines are designed to be fair and defensible, and that no public sector employers should exceed them. In the very exceptional situation where an employer felt there was a good case for exceeding the guidelines, we agree that those circumstances should be reviewed by the Council and approved.*

4. *"Employment contracts should contain severance provisions that reflect common-law standards."*

*Response – Both the Exempt Standards and the CCEA guidelines reference common-law standards. It is important to note in this area that severed employees always retain the right to seek a severance payment determined through a legal challenge.*

5. *"Where severance provisions are not covered under any collective agreement, Crown corporations should be required to report annually to the Legislative Assembly the number of severance arrangements negotiated in the previous year and the range of equivalent months' gross salaries such arrangements represent."*

*Response – PSEC Secretariat agrees that full disclosure of severance arrangements is necessary and is currently working towards securing such a requirement.*

*On the whole, we find the formal recommendations of the report to be useful and consistent with the direction PSEC has been taking since 1994 to improve management of this issue.*

## *Commentary on the Crowns in the "Highlights" section of the report*

*The "Highlights" section of the report contains a number of statements about the current approach to this issue developed by PSEC and the Crown Corporations Employers Association (CCEA).*

1. *"Most severance settlements within ministries and Crown corporations have been reasonable. However, we found one in four payouts made by Crown corporations excessive. While progress has been made toward improving the controls over severance settlements in Crown corporations, the controls are not yet strong enough to prevent excessive settlements from happening in future." (p. 6)*

2. *"Although the establishment of the provincial government's Public Sector Employers' Council (PSEC) and the Crown Corporation Employers' Association (CCEA) has resulted in a spirit of cooperation and improved communications between government and Crown corporations, we concluded that accountability practices to ensure reasonableness and consistency over executive severance practices of Crown corporations needs to be tightened." (p.6)*

3. *"While some progress has been made in this regard [re greater accountability for public sector human resource management], the compensation standards and guidelines developed by PSEC and CCEA need to go further in order to establish full accountability and prevent excessive settlements." (p. 9)*

*Response – The material presented in the report is based on a survey of severances between January, 1990 and November, 1995. Since that time a number of steps have been taken to correct the problems identified. Specifically, PSEC has adopted General Exempt Compensation Standards and CCEA has adopted guidelines for exempt employees. Both of these documents set out acceptable practises for severance payments which are based on common law standards. These policies are well understood by the Crowns and we have no evidence to date that they are not being applied in this sector. This contrasts with payments made during the period of the Auditor General's survey when there were no common standards in place. While the findings of the report are of historic interest, they do not provide a good basis for predicting future behaviour.*

*The Crowns which are identified as having made excessive severance payments all have policies with respect to severance. As noted on p. 42 of the report, WCB altered its policy on executive severance in 1994. The current policy provides that notice entitlement will be determined by seeking independent legal counsel on each termination and that severance will not exceed 24 months. B.C. Transit's current policy provides that terminations without cause may be made with notice, or pay in lieu of notice in accordance with relevant law, legislation and provincial guidelines. CCEA will be following up with all Crowns to ensure that their policies are in accordance with the standards/guidelines.*

*In short, the Crowns have taken a number of steps to address excessive severance issues, both on their own initiatives and under the auspices of the PSEC/CCEA structure. PSEC Secretariat continues to monitor the effectiveness of the current model of management of exempt compensation practises in the public sector and will be recommending alternate policies if the current policies are not fully effective.*

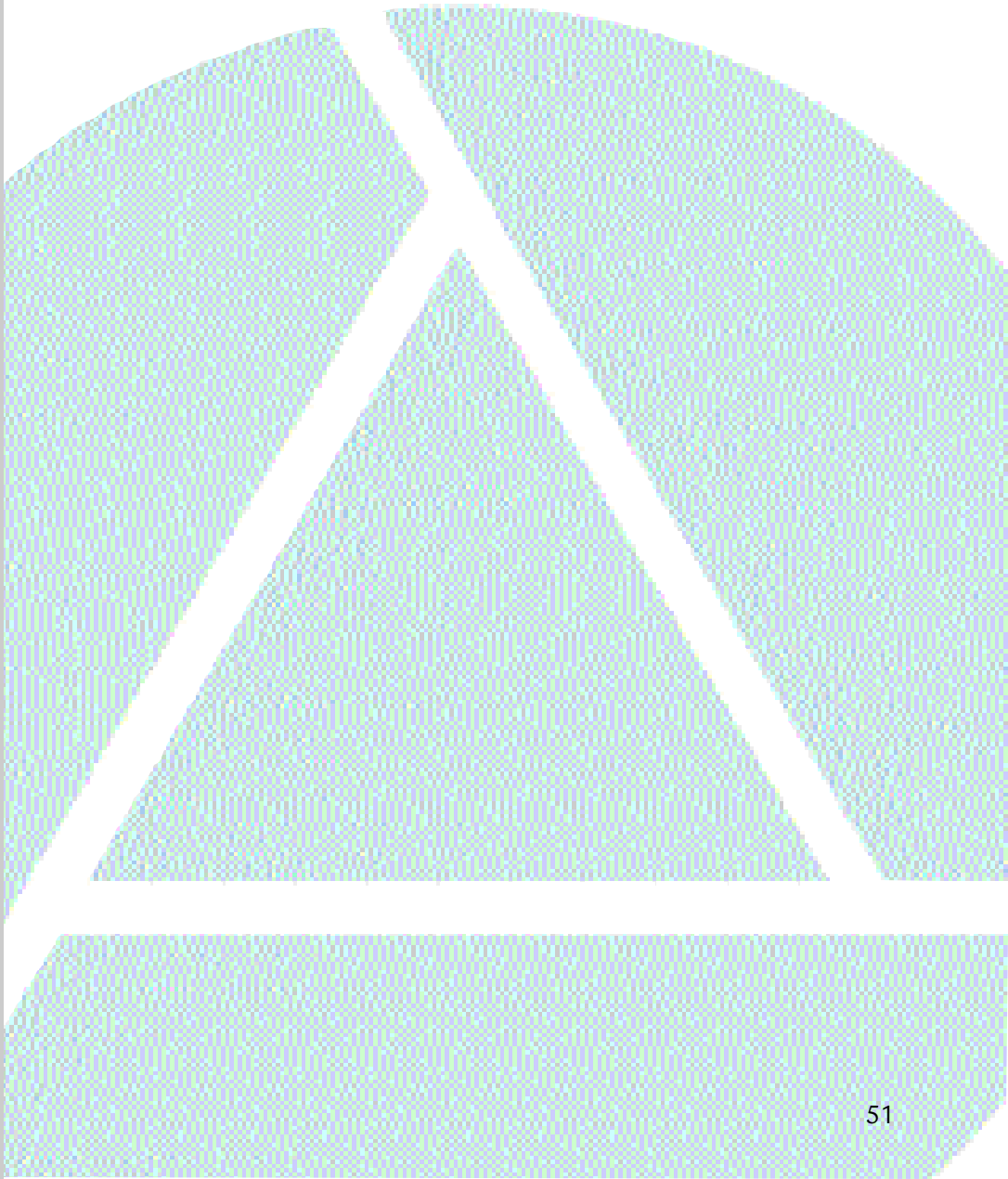
4. *"No instances of double dipping were reported in the organizations we reviewed. However, we are concerned that where lump sum payments are made, government's ability to recover severances paid to an individual is difficult. Crown corporation employers have stated a reluctance to be responsible for monitoring employment and administering repayments in instances of double dipping. The position of PSEC towards administering double dipping measures is unclear."*

*Response – As the report notes, double dipping has not been an issue with the Crowns. It is difficult to address because the employer may have an opportunity to reduce the amount of severance which would otherwise have to be paid through offering a lump sum payment instead of salary continuance. Also, both the employer and government usually have an interest in encouraging the severed employee to move on to new employment. The Exempt Compensation General Standards clearly state, however, that an employee receiving severance has a duty to mitigate his/her losses. Additionally, the CCEA guidelines state that severance payments should be structured to avoid double dipping and that payments in excess of six months should be in the form of salary continuance which can be terminated if the employee obtains employment elsewhere in the sector. Through the PSEC and CCEA structures, Crown employers are aware of this issue and have an established network to become more aware of previous severance payments made to employees they may be planning to hire, and to track subsequent employment activities of those they have severed.*

## *Summary*

*The report provides a review of some of the problems with severance payments within the Crowns sector in the past which have been addressed in policy changes adopted by the individual crown corporations and in the PSEC and CCEA standards and guidelines. It makes useful recommendations regarding administration of the policies established under the PSEC structure.*

# appendices



# appendix a

## 1996/97 Reports Issued to Date

***Report 1***

*Performance Audit*

Management of Child Care Grants

***Report 2***

Crown Corporations Governance Study

***Report 3***

*Performance Audit*

Vancouver Island Highway Project: Planning and Design

***Report 4***

*Performance Audit*

Trucking Safety

***Report 5***

A Review of Government Revenue and Expenditure Programs Relating to Alcohol, Tobacco, and Gaming

***Report 6***

*Financial Audit*

Report on the 1995/96 Public Accounts

***Report 7***

*Performance Audit*

Management of Travel

***Report 8***

*Performance Audit*

Executive Severance Practices: Government Ministries and Crown Corporations

# appendix b

## Office of the Auditor General: Audit Objectives and Methodology

Audit work performed by the Office of the Auditor General falls into three broad categories:

- Financial auditing;
- Performance auditing; and
- Compliance auditing.

Each of these categories has certain objectives that are expected to be achieved, and each employs a particular methodology to reach those objectives. The following is a brief outline of the objectives and methodology applied by the Office for performance auditing.

## Performance Auditing

### *Purpose of Performance Audits*

Performance audits look at how organizations have given attention to economy, efficiency and effectiveness.

The concept of performance auditing, also known as value-for-money auditing, is based on two principles. The first is that public business should be conducted in a way that makes the best possible use of public funds. The second is that people who conduct public business should be held accountable for the prudent and effective management of the resources entrusted to them.

### *The Nature of Performance Audits*

An audit has been defined as:

> *...the independent, objective assessment of the fairness of management's representations on performance, or the assessment of management systems and practices, against criteria, reported to a governing body or others with similar responsibilities.*

This definition recognizes that there are two primary forms of reporting used in performance auditing. The first—referred to as attestation reporting—is the provision of audit opinions on reports that contain representations by management on matters of economy, efficiency and effectiveness.

The second—referred to as direct reporting—is the provision of more than just auditor's opinions. In the absence of representations by management on matters of economy,

efficiency and effectiveness, auditors, to fulfill their mandates, gather essential information with respect to management's regard for value for money and include it in their own reports along with their opinions. In effect, the audit report becomes a partial substitute for information that might otherwise be provided by management on how they have discharged their essential value-for-money responsibilities.

The attestation reporting approach to performance auditing has not been used yet in British Columbia because the organizations we audit have not been providing comprehensive management representations on their performance. Indeed, until recently, the management representations approach to value for money was not practicable. The need to account for the prudent use of taxpayers' money had not been recognized as a significant issue and, consequently, there was neither legislation nor established tradition that required public sector managers to report on a systematic basis as to whether they had spent taxpayers' money wisely. In addition, there was no generally accepted way of reporting on the value-for-money aspects of performance.

Recently, however, considerable effort has been devoted to developing acceptable frameworks to underlie management reports on value-for- money performance, and public sector organizations have begun to explore ways of reporting on value-for-money performance through management representations. We believe that management representations and attestation reporting are the preferred way of meeting accountability responsibilities and are actively encouraging the use of this model in the British Columbia public sector.

Presently, though, all of our performance audits are conducted using the direct reporting model, therefore, the description that follows explains that model.

Our performance audits are not designed to question government policies. Nor do they assess program effectiveness. The *Auditor General Act* directs the Auditor General to assess whether the programs implemented to achieve government policies are being administered economically and efficiently. Our performance audits also evaluate whether members of the Legislative Assembly and the public are provided with appropriate accountability information about government programs.

When undertaking performance audits, auditors can look either at results, to determine whether value for money is actually achieved, or at managements' processes, to determine

whether those processes should ensure that value is received for money spent.

Neither approach alone can answer all the legitimate questions of legislators and the public, particularly if problems are found during the audit. If the auditor assesses results and finds value for money has not been achieved, the natural questions are "Why did this happen?" and "How can we prevent it from happening in future?" These are questions that can only be answered by looking at the process. On the other hand, if the auditor looks at the process and finds weaknesses, the question that arises is "Do these weaknesses result in less than best value being achieved?" This can only be answered by looking at results.

We try, therefore, to combine both approaches wherever we can. However, as acceptable results information and criteria are often not available, our performance audit work frequently concentrates on managements' processes for achieving value for money.

We seek to provide fair, independent assessments of the quality of government administration. We conduct our audits in a way that enables us to provide positive assessments where they are warranted. Where we cannot provide such assessments, we report the reasons for our reservations. Throughout our audits, we look for opportunities to improve government administration.

### *Audit Selection*

We select for audit either programs or functions administered by a specific ministry or public body, or cross-government programs or functions that apply to many government entities. There are a large number of such programs and functions throughout government. We examine the larger and more significant ones on a cyclical basis.

We believe that performance audits conducted using the direct reporting approach should be undertaken on a five- to six-year cycle so that members of the Legislative Assembly and the public receive assessments of all significant government operations over a reasonable time period. Because of limited resources, we have not been able to achieve this schedule.

### *Our Audit Process*

We carry out these audits in accordance with the value-for-money auditing standards established by the Canadian Institute of Chartered Accountants.

One of these standards requires that the "person or persons carrying out the examination possess the knowledge and competence necessary to fulfill the requirements of the particular audit." In order to meet this standard, we employ professionals with training and experience in a variety of fields. These professionals are engaged full-time in the conduct of performance audits. In addition, we often supplement the knowledge and competence of our own staff by engaging one or more consultants, who have expertise in the subject of that particular audit, to be part of the audit team.

As performance audits, like all audits, involve a comparison of actual performance against a standard of performance, the CICA prescribes standards as to the setting of appropriate performance standards or audit criteria. In establishing the criteria, we do not demand theoretical perfection from public sector managers. Rather, we seek to reflect what we believe to be the reasonable expectations of legislators and the public. The CICA standards also cover the nature and extent of evidence that should be obtained to support the content of the auditor's report, and, as well, address the reporting of the results of the audit.

Compiled and typeset by the Office of the Auditor General of British Columbia
and published by the Queen's Printer for British Columbia
Victoria 1997