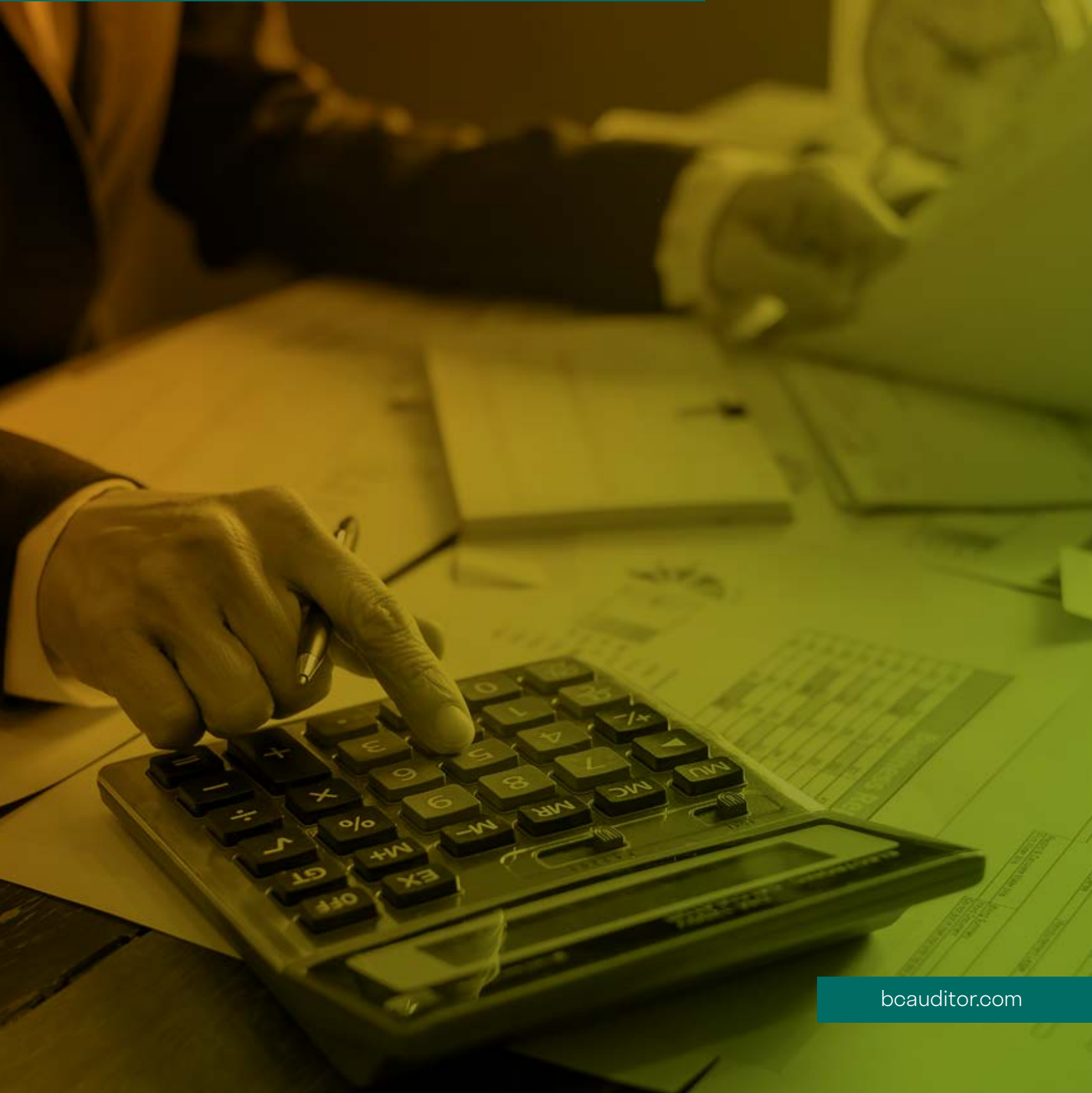




OFFICE OF THE  
**Auditor General**  
of British Columbia

# AUDITOR GENERAL'S REPORT ON THE AUDIT OF THE PUBLIC ACCOUNTS – FISCAL YEAR 2020/21

October 2021



The Honourable Raj Chouhan  
Speaker of the Legislative Assembly  
Province of British Columbia  
Parliament Buildings  
Victoria, British Columbia  
V8V 1X4

Dear Mr. Speaker:

I have the honour to transmit to the Speaker of the Legislative Assembly of British Columbia the report *Auditor General's Report on the Audit of the Public Accounts: Fiscal Year 2020/21*.

Under section 11(1) of the *Auditor General Act*, my office is required to report on whether the province's summary financial statements are presented fairly in accordance with Canadian generally accepted accounting principles (GAAP). This report speaks to the results of our financial audit of the summary financial statements and related audit work.



Michael A. Pickup, FCPA, FCA  
Auditor General of British Columbia  
Victoria, B.C.

October 2021

# CONTENTS

<b>Report at a glance</b> .....	<b>4</b>
<b>Response from the Office of the Comptroller General</b> .....	<b>6</b>
<b>Audit of summary financial statements</b> .....	<b>8</b>
Background .....	8
Audit opinion .....	9
Basis for qualified opinion .....	9
Key audit matters .....	10
Summary of adjusted differences .....	12
Other financial matters of interest .....	13
Management letters .....	14
COVID-19 program expenditure observations .....	16
<b>Appendix A: Audit opinion</b> .....	<b>21</b>
<b>Appendix B: Ministry management letter points</b> .....	<b>28</b>
<b>Appendix C: Crown organization management letter points</b> .....	<b>32</b>

The Office of the Auditor General of British Columbia would like to acknowledge with respect that we conduct our work on Coast Salish territories. Primarily, this is on the Lkwungen-speaking people's (Esquimalt and Songhees) traditional lands, now known as Victoria, and the WSÁNEĆ people's (Pauquachin, Tsartlip, Tsawout, Tseycum) traditional lands, now known as Saanich.

# REPORT AT A GLANCE

## Why we did this report

There is more to our audit of the government's financial statements than the audit opinion. In this report we take you behind the scenes of the audit to share some interesting matters we worked on.

### Financial audit mandate

To report to the Legislative Assembly whether the summary financial statements of the British Columbia government present fairly the financial position of the government and its operations as at March 31, 2021, in accordance with Canadian public sector accounting standards.

Audit Period: Fiscal year 2020/21 – Auditor's Report signed July 16, 2021

### Audit opinion

For fiscal year 2020/21 the summary financial statements present fairly, in all material respects, the financial position of the government and its operations as at March 31, 2021, except as described in the *Basis for Qualified Opinion* section.

[Read the audit opinion.](#)

## Report Highlights

**Overall, because of our audit, the government corrected errors that resulted in a \$550-million increase in the deficit.**

### Basis for qualified opinion

**Deferral of revenue** – For the year ended March 31, 2021, the government's liability for deferred revenue is overstated by nearly \$6 billion, implying the government owes that amount. This is not the case.

[Read the audit opinion.](#)

### Other key audit matters

- Determining which public sector organizations to include in the summary financial statements can be challenging.
- Estimating personal income tax revenue is complex.
- COVID-19 introduced risks into government operations and financial reporting.

### Other financial issues of interest

- St. Paul's Hospital was sold for \$850 million.
- Provincial Health Services Authority wrote off \$66 million in personal protective equipment.
- The Public Sector Employers' Council froze CEO pay for 2020/21.

### Management letters (i.e. things to improve)

- Two ministries, nine Crown organizations, and the Office of the Comptroller General have significant areas for improvement identified in this report.
- Financial accounting and control can be strengthened.
- The Royal BC Museum's treatment of its non-profit foundation resulted in an audit opinion qualification.



## Report Highlights (continued)

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### COVID-19 program expenditure observations

- **BC Emergency Benefit for Workers (\$700 million 2020/21)**
- **BC Recovery Benefit for Families and Individuals (\$1.3 billion in 2020/21)**
- **Small and Medium Sized Business Recovery Grant (\$88 million in 2020/21)**
- Eligibility controls for the emergency benefit for workers were not sufficient to mitigate potential fraud. To get payments out quickly government accepted people saying they were eligible.
- Government audits to verify eligibility are planned for all three programs.
- We did not find any problems with controls over the accuracy and completeness of financial transactions, or with the processes to make payments for the three programs.

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

1. *Why should people care that the audit opinion is qualified?*
2. *How will government resolve the problems that caused the qualified opinion?*
3. *How concerned should government be about significant management letter items?*
4. *How are management letter points resolved?*
5. *When will government verification audits for COVID-19 programs be completed?*

# RESPONSE FROM THE OFFICE OF THE COMPTROLLER GENERAL

I appreciate the opportunity to respond to the Office of the Auditor General's comments.

The Province of British Columbia prepares its financial statements in accordance with the *Budget Transparency and Accountability Act* (BTAA) which, together with other relevant legislation, establishes the government's accountability framework for financial reporting. There is currently one regulation under the BTAA that is required to address consistency in the application of Canadian public sector accounting standards across the government's reporting entity.

In the opinion on the 2020/21 Public Accounts, the Auditor General identified one audit qualification that is outlined in this report.

## Deferral of Revenues

Government is responsible for establishing accounting policies that are in the public interest. The Province maintains its longstanding policy of recognizing restricted contributions in the same period that programs and services are delivered because it best meets the objective of public accountability, first defined in the report of the Budget Process Review Panel in 1999.

This pandemic year demonstrates the problem with the recommended treatment. Had government adopted the auditor's recommendation, the province's accumulated surplus, the measure of financial capacity accrued through prior surpluses, would have been overstated by \$6.0 billion at \$9.2 billion. This misstatement would not be correct as the deferred transfers of \$6.0 billion are not available for incremental program spending in the current or future years.

I am encouraged that the revised conceptual framework and reporting model currently under deliberation by the Public Sector Accounting Board will resolve this qualification in the near future.

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

The Auditor General has described the management letters used by auditors to communicate their findings during an audit. These management letters are issued when an auditor identifies matters that do not impact the financial statements but are brought to the attention of management. Audit findings recommend potential improvements to policies and processes that support continuous improvement in the financial statements. These auditor observations provide good information supporting those responsible for governance in making decisions.

The Auditor General also commented on three programs delivered during the year as part of government's response to the COVID-19 pandemic. As in all jurisdictions across Canada, British Columbia encountered the anomalies of the pandemic that required adaptability and additional work for governments to balance public accountability with the delivery of necessary supports and services in an emergency. The Auditor General did not identify any concerns with these expenditures but acknowledged their inherent risk.

Carl Fischer  
Comptroller General  
Province of British Columbia

# AUDIT OF SUMMARY FINANCIAL STATEMENTS

## Background

At the end of every fiscal year, the British Columbia government combines the financial information of all the entities within its control and produces a consolidated set of financial statements, called the summary financial statements. The information in the summary financial statements is important because it demonstrates accountability to legislators and the public on how public resources were used during the year.

Our audit of the government's summary financial statements is required by the *Auditor General Act*. More than 160 organizations are audited, making it the largest financial statement audit in B.C. Our audit opinion explains any significant concerns we have with the quality and accuracy of the government's financial reporting.

For the year ending March 31, 2021, we audited – either directly or through a component auditor – \$62.15 billion in revenue, \$67.62 billion in expenses, \$114.74 billion in assets and \$111.53 billion in liabilities, as reported by government for the summary financial statements. We also audited – directly or through a component auditor – \$18.39 billion in revenue, \$14.43 billion in expenses, \$69.6 billion in assets, and \$59.98 billion in liabilities for the self-supported Crown corporations and agencies.

Audits of Crown agencies in the Province's summary financial statements are performed by us and by private sector accounting firms (component auditors). All audit work on ministries is performed by us.

Our audit opinion on the summary financial statements is published by government in its annual public accounts. The public accounts also include:

- unaudited information, such as government's Financial Statement Discussion and Analysis Report
- information about the Consolidated Revenue Fund
- information about provincial debt, including the Auditor General's separate audit opinion on the summary of provincial debt and related debt indicators

The public accounts provide a lot of information about the finances of the government, often at a high level. Our audit is not designed to examine every transaction and catch every error. Our audit is designed make sure there are no significant errors, or what auditors call material errors.



A standard audit opinion, without qualifications, indicates that the summary financial statements are more accurate and fair than those with qualifications. Qualifications should be rare.

## Audit opinion

### The B.C. government's 2020/21 summary financial statements are presented fairly except for the way they record revenue for some purposes

All levels of government across Canada use the same generally accepted accounting principles (GAAP) specifically designed for the public sector. These are the Canadian public sector accounting standards (PSAS). Our audit opinion, as required by the *Auditor General Act*, must state whether government's summary financial statements are presented fairly, in accordance with GAAP. These standards are important because they create consistency and fairness in financial reporting, allowing the financial statements of the province to be more easily compared with those of other Canadian jurisdictions.

For fiscal year 2020/21 the summary financial statements present fairly, in all material respects, the financial position of the government and its operations as at March 31, 2021, except as described in the *Basis for Qualified Opinion* section.

[Read the audit opinion.](#)

## Basis for qualified opinion

### Deferral of revenues

This is the 10th consecutive year that we have disagreed with government about how it accounts for certain funding contributions from others, such as the Government of Canada.

As we have said before, GAAP requires governments to record funds they receive from others as revenue in their books as soon as the purpose for the funds has been satisfied. For example, if the federal government gives the province money to build a new highway, the province should record these funds as revenue as soon as the highway build is complete.

However, for the last 10 years the B.C. government has been recording only a portion of the contributions received as revenue each year.

For example, currently, if the B.C. government received \$40 million from the federal government to build a highway, B.C. would not record the \$40 million as revenue when the highway was completed. Instead, if the highway was designed to last 40 years, B.C. would recognize \$1 million yearly over the next 40 years. That is why we call it deferring revenue recognition. The B.C. government created a regulation (B.C. Regulation 198/2011) to require B.C. Crown organizations to do the same thing.

For the year ended March 31, 2021, the government's liability for deferred revenue is overstated by \$5.98 billion. That is why we qualified our opinion, because the summary financial statements are telling users that the government owes \$5.98 billion when it does not.

For details, [read the audit opinion](#).

## Key audit matters

Canadian Auditing Standards define key audit matters as “those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period.” The matters we include in our audit opinion are not errors: they are challenging areas requiring significant judgment.

## Consolidation of government's financial statements

The B.C. public sector is large and always changing. The government periodically creates new public sector organizations and alters or closes others.

Each year we scan government announcements and media reports to identify new public sector organizations and changes to existing public sector organizations. We assess each new and changed organization for indicators of government control. We then perform audit procedures to ensure the preparation of the summary financial statements is complete and accurate. As part of this process, we also talk to the government and obtain representations as to the completeness of the summary financial statements.

For example, annually we reassess whether British Columbia Ferry Services Inc. should be included in the government reporting entity based on accounting standards.

This is a key audit matter because the nature of government control can involve significant professional judgment. The PSAS have indicators of control to help in assessing government control of public-sector organizations.

For details, [read the audit opinion](#).

## Accuracy of personal income taxation revenues

Personal income tax is government's largest taxation revenue stream – more than \$11.1 billion in revenue for fiscal 2021. Precise revenue figures from personal income tax cannot be determined until 21 months after the fiscal year's end date; therefore, the government estimates the revenue based on the best information available.

The estimate is complex. It includes several inputs and assumptions, so we have identified it as a key audit matter.

We hired an auditor's specialist to help us with the audit of this complex estimate.

For details, [read the audit opinion](#).

## Impact of COVID-19 pandemic relevant to the summary financial statements

The government spent \$10.08 billion on the COVID-19 pandemic in fiscal year 2020/21.

The COVID-19 pandemic also created risks related to government operations and financial reporting processes, so, we have identified it as a key audit matter.

Risks from the impacts of COVID-19 include those related to:

- the valuation of investments
- the estimation of taxes owed to government and the collection of other accounts receivable
- the financial impact of the COVID-19 response measures in 2021
- the number of staff working remotely and accessing IT systems

We assessed COVID-19 risks through meetings with government. We also performed additional analysis to understand the impacts of the pandemic on financial reporting, including significant estimates and judgments the government used to prepare the summary financial statements.

For details, [read the audit opinion](#).

## Summary of adjusted differences

During our audit of the government’s summary financial statements, we sometimes find that the government has used amounts, classifications, and presentations or disclosures of items that we do not agree with. We consider these to be misstatements. These items may arise from errors, fraud, or other irregularities. If the total value of identified misstatements is significant enough, they will affect the quality and reliability of the summary financial statements.

We did not identify any fraud. We did, however, identify misstatements that required adjustments to the recorded amounts to comply with PSAS. We discussed these items with the government, and it decided whether to make the adjustments.

Our audit of the government’s Consolidated Revenue Fund (i.e., ministries and core public service) and consolidation of the broader public sector this year resulted in significant adjustments. Exhibit 1 provides a summary of the adjusted misstatements by financial statement area. These adjustments resulted in an increase in the annual provincial deficit of approximately \$550 million. Simply put, this means that without an audit there would have been errors significantly impacting the financial statements.

### WHAT IS THE DIFFERENCE BETWEEN ERRORS, FRAUDS, AND OTHER IRREGULARITIES?

An **error** is an unintentional misstatement in financial statements, including, the omission of an amount.

**Fraud** and **other irregularities** are intentional misstatements in financial statements, including omissions of an amount or a disclosure.

**EXHIBIT 1:** Consolidated Revenue Fund and summary consolidation adjusted differences (\$ in 000's)

Financial statement area	Statement of operations entry to correct – Debit (Credit)		Statement of operations – Deficit impact	Statement of financial position entry to correct – Debit (Credit)		
	Revenue	Expenses		Assets	Liabilities	Equity
<b>Total</b>	\$595,980	(\$43,110)	\$550,000	(\$702,614)	\$25,965	\$123,779

If the government had decided not to make these adjustments, it would have resulted in a further qualification in addition to our current qualification on deferred revenue.

## Other financial matters of interest

### Providence Health Care Society – St. Paul’s Hospital sale

Providence Health Care Society (Providence) sold St. Paul’s Hospital (land and buildings) in Vancouver. The sale, using a right to purchase agreement, closed on July 31, 2020. Title will be transferred on July 31, 2027.

This \$850 million sale is a significant, complex transaction affecting Providence and, therefore, the summary financial statements.

We analyzed different aspects of this sale, including:

- timing of sale recognition
- deferral of sale proceeds
- establishment of a loan receivable
- sale-leaseback

We worked with the auditor of Providence’s financial statements, and with the Office of the Comptroller General to consider different perspectives of this sale.

We agreed with the PSAS accounting policies applied by Providence; specifically, that:

- The sale date was July 31, 2020 – the date the right to purchase agreement was signed.
- The sale proceeds received to date (and at the anticipated date of July 31, 2027) should be deferred until the completion of the construction of the new St. Paul’s Hospital.
- The outstanding amount owing at March 31, 2021– \$725 million – should be recorded as a loan receivable, discounted as appropriate.
- The lease payments from Providence to Concord Pacific Developments for using the existing hospital should be recorded as operating lease payments.

### Provincial Health Services Authority – Personal protective equipment inventory

The Provincial Health Services Authority (PHSA) buys supplies for the health sector and sells the supplies to other health authorities. The PHSA appropriately classified this inventory as held for sale (financial asset) on its own financial statements because it is not for internal consumption. The inventory held by PHSA will be consumed by health authorities in the delivery of health services.

However, this year the PHSA recorded an expense of \$66 million to write off the value of personal protective equipment (PPE) inventory held for sale because some of the PPE was not usable. The inventory write-down was appropriate for the PHSA, as inventory held for sale should be recorded at the lower of cost and net realizable value.

COVID-19 revealed the dangers and challenges the health sector faces when buying PPE in a globally competitive environment, and how important it is to have strong procurement controls in place and to obtain expert advice when purchasing specialty products.

### Public Sector Employers' Council – Executive salary freeze

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

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

In most cases, we expect there will be no increase in executive pay from fiscal 2021 to fiscal 2022.

We will follow-up at year-end for fiscal 2022 to see whether entities froze executive salaries from one year to the next.

### Management letters

Management letters are an important by-product of the financial statement audit process. As auditors learn about business processes during the audit, they may identify areas where management could strengthen or streamline internal controls and business practices to: meet accounting standards; manage risks; prevent and detect errors and potential fraud; and gain efficiencies. During the audit, auditors may also find areas of non-compliance with accounting standards. Auditors use management letters to communicate these observations to the organizations they audit.

Some items (which we call points) in management letters are more important or significant than others. We reviewed the management letters for the public sector organizations that we, and component (private sector) audit firms, audited for fiscal year 2020/21, and we have summarized selected management letter points for this report.

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

We do not include management letter points related to information technology in our report due to the sensitive nature of these findings.

### Ministry management letters

We present significant management letter points – including unresolved management letter points from prior years – for two ministries and the Office of the Comptroller General in our report.

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

### Crown organizations management letters

We present management letter points – including unresolved management letter points from prior years – for nine Crown organizations in our report.

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

# SECTION AT A GLANCE

## COVID-19 program expenditure observations

### Why we did this work

- The government spent \$10.08 billion on COVID-19 economic relief in fiscal year 2020/21.
- Canadian Audit Standards require us to understand the controls over significant expenditures.
- We highlight three programs with significant expenditures that were implemented quickly.
- Risk increased as programs were initiated to quickly deliver funds to those affected by the COVID-19 pandemic.

#### BC Emergency Benefit for Workers

- \$700 million paid to British Columbians in 2020/21.
- One-time, tax-free \$1,000-payment to B.C. residents who met conditions.

#### BC Recovery Benefit for families and individuals

- \$1.3 billion paid to British Columbians in 2020/21.
- Initiated to provide financial relief to eligible families and individuals during the pandemic.

#### Small and Medium Sized Business Recovery grant

- \$88 million in grants paid to businesses in 2020/21.
- Initiated to provide financial relief to eligible small and medium sized businesses during the pandemic.

### Key messages

- The eligibility controls for the BC Emergency Benefit for Workers program were not sufficient to mitigate potential fraud.
- Government audits to verify eligibility are planned for all three programs.
- We did not find any problems with controls over the accuracy and completeness of financial transactions, or with the processes to make payments for the three programs.

#### **After reading these results, you may wish to ask the following questions of government:**

1. *What lessons has the government learned from the quick rollout of these programs that it can apply to similar programs in the future?*
2. *When will the follow-up audits be done for these three programs?*
3. *Will government recover benefits paid to people who received benefits but were not eligible?*



## BC Emergency Benefit for Workers

### Program purpose

The BC Emergency Benefit for Workers was initiated to provide a one-time, tax-free \$1,000 payment to eligible B.C. residents whose ability to work was affected due to COVID-19.

B.C. announced the original emergency benefit on May 1, 2020. People applied for the program on-line through eTaxBC (98.7%) or by phone (1.3%). Applicants completed questions to self-assess and attest to their eligibility.

The program received over 600,000 applications, for the 2020/21 year, \$700 million in benefits were paid out from approved supplementary estimates.

### Eligibility controls

The government developed the emergency benefit program quickly to provide funds to people who had lost income because of the pandemic.

The government used information provided by the Canada Revenue Agency (CRA) to verify some information about applicants, such as their social insurance number and age. But the government could not validate other requirements, such as:

- eligibility for the Canada Emergency Response Benefit (CERB)
- loss of income
- receipt of income/disability assistance
- involuntary loss of job

To get payments out quickly, the government relied largely on people saying they were eligible for the emergency benefit. This increased the risk of fraud. The government plans to verify applicants' eligibility by doing audits when it receives 2020 tax year data from CRA in early 2022.

After doing these audits, the government will notify anyone who got the emergency benefit but was not eligible. It will refer amounts owing to the government's Receivables Management Office for collection.

### WHAT ARE SUPPLEMENTARY ESTIMATES?

Supplementary estimates are one-time expenditures, approved by the Legislative Assembly, to cover additional spending on items that were not known at budget time.

(Source: Government of B.C. website)

### RISK OF FRAUD – EFFECT ON FINANCIAL STATEMENTS

How can financial statements be accurate despite the risk of fraud? Because even if a payment went to an ineligible person, it is still an expense from an accounting perspective. In other words, if a fraudulent payment is recorded accurately, then the financial statements are still accurate. If the government can recover the payment, the amount will be recorded as a recovery (revenue) in the future.

The government checked for duplicate applications through system checks for social insurance numbers and banking information. As well, the government's Internal Audit and Advisory Services Branch reviewed the design of the program controls before the program was launched.

### Financial controls

Our audit was not designed for the purposes of issuing an opinion on the effectiveness of controls. We did not find any problems with the controls over the accuracy and completeness of financial transactions in the accounting system, or with the process to make payments.

The government recorded transactions, and made payments, through its existing processes and payment systems.

## BC Recovery Benefit for Families and Individuals

### Program purpose

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

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

The benefit paid out \$1.3 billion to B.C. residents in fiscal year 2020/21 from supplementary estimates.

### Eligibility controls

The recovery benefit process was initiated by taxpayer applications online through eTaxBC (92.1%), and by phone (2.71%), which required verification of eligibility before payments were made. People had to provide their 2019 income tax data and meet eligibility requirements.

The government paid the benefit to applicants who had filed a 2019 tax return in B.C. if their social insurance number, date of birth and net income matched the ministry's data and the applicants qualified for the benefit.

People on income assistance, disability assistance, seniors' supplement, hardship allowance or comfort allowance did not need to apply or provide income tax data. They received the payment through their ministry support program (5.17%).

The government checked for duplicate applications through system checks for social insurance numbers and banking information. It also flagged applications for manual review if a person had not filed a 2019 tax return in B.C. The ministry verified application requirements by reviewing other documentation such as a utility bill in a person's name.

Government's Internal Audit and Advisory Services Branch reviewed the design of the eligibility program before the program was launched.

The government plans to conduct audits to verify eligibility. After doing these audits, the government will notify anyone who got the recovery benefit but was not eligible and will refer amounts owing to the government's Receivables Management Office for collection.

### Financial controls

We did not find any problems with the controls over the accuracy and completeness of financial transactions in the accounting system, or with the process to make payments.

The government recorded transactions, and made payments, through its existing processes and payment systems.

Our audit was not designed for the purposes of issuing an opinion on the effectiveness of controls.

## Small and Medium Sized Business Recovery Grant

### Program purpose

The B.C. government announced the Small and Medium Sized Business Recovery Grant program on Sept. 17, 2020. Its goal was to give these businesses financial support during the pandemic. B.C. businesses could apply to receive grants between \$10,000 and \$30,000, and tourism-related businesses could apply for an additional grant between \$5,000 and \$15,000. The application window closed on July 2, 2021.

As of July 31, 2021, the government had approved 17,224 of the 25,625 applications submitted, committing to pay \$345,040,000 in grants (\$88 million as at March 31, 2021).

The government's Public Accounts Report for 2020/21, reported \$93 million as the total expense for the program, which includes \$5 million in professional fees and administration costs.

### Eligibility controls

The government established a process to confirm applicants met the eligibility requirements for the grants. The process combined manual and information technology application controls, including controls designed to check for: valid business numbers; duplicate applications; submission of all required documents; and eligibility according to grant approval criteria. In January 2021, this process was streamlined to be more efficient while the program was receiving applications.

The government hired an accounting and consulting firm to review program controls. The consulting firm identified areas of risk, and the government asserted it made changes based on the consulting firm's recommendations.

At the time of our review, government was considering various options for potential future audits of this program.

### Financial controls

We did not find any problems with the controls over the accuracy and completeness of financial transactions in the accounting system, or with the process to make payments. The government recorded transactions, and made payments, through its existing processes and payment systems.

Our audit was not designed for the purposes of issuing an opinion on the effectiveness of controls.

# APPENDIX A: AUDIT OPINION



## INDEPENDENT AUDITOR'S REPORT

*To the Legislative Assembly of the Province of British Columbia*

### ***Qualified Opinion***

I have audited the summary financial statements of the Government of the Province of British Columbia (Government) using my staff and resources. The Engagement Leader, Molly Pearce, CPA, CA is responsible for this audit and its performance. The summary financial statements of Government comprise the consolidated statement of financial position as at March 31, 2021, and the consolidated statements of operations, change in net liabilities and cash flow for the year then ended, and notes to the financial statements including a summary of significant accounting policies.

In my opinion, except for the effects of the matters described in the *Basis for Qualified Opinion* section of my report, the summary financial statements present fairly, in all material respects, the financial position of the Government as at March 31, 2021, and the results of its operations, change in its net liabilities, and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards.

### ***Basis for Qualified Opinion***

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

#### *Deferral of revenues*

Government's accounting treatment for funds received from other governments and for externally restricted funds received from non-government sources is to initially record them as deferred revenue (a liability) and then recognize revenue in the statement of operations either on the same basis as the related expenditures occur or, in the case of funds for the purchase or construction of capital assets, to recognize revenue on the same basis as the related assets are amortized.

Under Canadian Public Sector Accounting Standards, Government's method of accounting for contributions is only appropriate in circumstances where the funding meets the definition of a liability. Otherwise, the appropriate accounting treatment is to record contributions as revenue when they are received or receivable. In my opinion, certain contributions from others do not meet the definition of a liability, and as such Government's method of accounting for those contributions represents a departure from Canadian Public Sector Accounting Standards.

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

This departure has existed since the inception of the standard, which applies to periods beginning on or after April 1, 2012. Had Government made an adjustment for this departure in the current year, the liability for deferred revenue as at March 31, 2021 would have been lower by \$5,983 million, contribution revenue, surplus for the year and accumulated surplus would have been higher by \$5,983 million, and net liabilities would have been lower by \$5,983 million.

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of Government in accordance with the ethical requirements that are relevant to my audit of the summary financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements.

***Key Audit Matters***

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section, I have determined the matters described below to be the key audit matters to be communicated in my report.

*Consolidation of the Government's financial statements*

The Government's summary financial statements include the financial information of both central government components and those organizations in the broader public sector controlled by Government. Note 1 – Significant Accounting Policies, explains what is included in the reporting entity (with reference to a list of organizations on pages 91 – 93) and the principles of consolidation.

The challenge is to understand what control means in the public sector. Control is determined by looking at the circumstances of each organization. An organization's legal form does not determine whether an organization is included or excluded from the reporting entity. Canadian Public Sector Accounting Standards provides guidance that sets out various indicators that provide evidence of control at the financial statement reporting date. Once the determination of control has been made the type of government organization needs to be determined as this impacts the accounting policies applied in the consolidation of the financial information. The complexity of identifying all the entities that comprise the government reporting entity, along with the significant judgments required in the determination of control, as well as the significant judgments required in the determination of the types of government organizations controlled have a pervasive impact on the financial statements. In addition, the complexity of the consolidation process itself creates a risk of fraud and error. For that reason, the consolidation of the Government's financial statements has been identified as a key audit matter.



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

Audit procedures include evaluating the relationship between government and an organization. In some circumstances it is easy to determine the existence of control. In other cases, it is a matter of judgement to determine if indicators represent evidence of control. Throughout the year, as part of my audit procedures I scan media as well as Government announcements to identify new organizations, as well as organizations or legislative changes that may have changed an organization's control profile. I look for indicators of control for each new and changed organization. I also enquire of management and obtain representations as to the completeness of the summary financial statements.

Once the government reporting entity organizations, or components, have been identified there are extensive procedures to ensure the preparation of the consolidated summary financial statements has resulted in accurate eliminations of all intra-organization balances and accurate disclosure of financial statement balances. My audit procedures for the consolidation process include: reviewing the audit work performed by component auditors, checking that figures used in the consolidation have been accurately extracted from the financial statements of the components, reviewing the disclosures in the component financial statements to ensure these are carried forward to the summary financial statements, reviewing the adjustments for any components that have a different financial year end than the summary financial statements, and gathering evidence to support specific consolidation journal entries and verifying the compilation of the summary financial statements as a whole.

*Accuracy of personal income taxation revenue*

Personal income tax is Government's largest taxation revenue stream, providing over \$11.1 billion in revenue in fiscal 2021. Personal tax is included in Note 29 – taxation revenue and note 2 - measurement uncertainty provides disclosure on measurement uncertainty related to personal income tax revenue and provides a range for uncertainty of +/- \$500 million. Personal income tax revenue in a fiscal year is derived from management estimates of personal income tax for two separate calendar years. For the fiscal year ending March 31, 2021, Government records nine months of revenue for calendar year 2020 and three months of revenue for calendar year 2021. However, the tax assessments for the 2020 calendar year will not be finalized until December 2021, and the 2021 tax assessments won't be available until one year later. This means precise revenue figures from personal income tax cannot be determined until 21 months after the fiscal year-end date. As a result, Government estimates these revenues based on the best information available. The estimate is complex and includes several inputs and assumptions and as a result this has been identified as a key audit matter.

Government uses an economic forecast model to support its conclusions on two main assumptions underpinning a significant portion of its calendar year estimates: household income growth and elasticity. The latter, elasticity, is defined as the ratio of annual current year tax revenue growth to annual household income growth.



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

Other key areas included in the estimate are the impact of tax measures or other adjustments to consider significant events. In the current year, there was a one-time downward adjustment of \$391 million due to the expectation that the impacts of COVID-19 would result in taxpayers moving to a lower tax bracket.

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

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

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

*Impact of the COVID-19 pandemic relevant to the summary financial statements*

The COVID-19 pandemic has had a significant impact on the province of British Columbia for fiscal year 2021. Government has considered the impact of COVID-19 on the summary financial statements. They have disclosed that the pandemic has increased measurement uncertainty as noted in Note 2. Government has also disclosed a broad statement related to COVID-19 in Note 40 – significant event. The COVID-19 pandemic has resulted in risks related to the operations and financial reporting processes of Government and for this reason it has been identified as a key audit matter.

Risks arising from the impacts of COVID-19 include:

- the valuation of investments, interest rates used to estimate long term liabilities, estimation of taxes owed to Government and the collection of other accounts receivable.
- the financial impact of the COVID-19 response measures implemented in 2021.
- Government's way of working, including the operation of controls, has been impacted by COVID-19 as a result of many staff working remotely. There is inevitably an increase in risk due to the remote accessing of information technology systems.

Audit procedures to address the significant aspects of COVID-19 included meetings with Government during the year to understand the impacts of the pandemic to financial reporting and how it has impacted the significant estimates and judgements used in the preparation of the summary financial statements.





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

Though the audit places only limited reliance on the Government's information technology control environment, in response to any incremental risk from remote working, audit procedures included obtaining understanding and reviewing any key changes to various Government information technology controls and financial process activities as part of my assessment of audit risks to consider where additional testing might be required.

The higher level of COVID-19 related spending increased the level of detailed audit testing done as well as adjusting substantive analytic procedures to take into consideration the factors that are directly related to pandemic revenues and expense. There was also increased scrutiny of transactions occurring directly before and after year end to ensure entries were recorded in the correct year. In addition, management representation related to the impact of COVID-19 on the financial statements was obtained.

***Other Accompanying Information***

Government is responsible for the information they include in the annual Public Accounts report.

My opinion on the summary financial statements does not cover other information accompanying the financial statements and, except for my independent auditor's opinion on the debt-related statements, I do not express any form of assurance conclusion thereon.

In connection with my audit of the summary financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the summary financial statements or my knowledge obtained during the audit or otherwise appears to be materially misstated.

If, based on the work I have performed on the other information, I conclude that there is a material misstatement therein, I am required to report that fact in this auditor's report. As described in the *Basis for Qualified Opinion* section above, I believe there are material misstatements in Government's accounting for the deferral of revenues. I have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the annual report affected by this departure from Canadian Public Sector Accounting Standards.

***Responsibilities of Treasury Board for the Summary Financial Statements***

The Treasury Board of British Columbia is responsible for the oversight of the financial reporting process including the approval of significant accounting policies. The Comptroller General of British Columbia (Comptroller General) is responsible for the preparation and fair presentation of the summary financial statements in accordance with the *Budget Transparency and Accountability Act* (BTAA), and for such internal control as the Comptroller General determines is necessary to enable the preparation of the summary financial statements that are free from material misstatement, whether due to fraud or error.



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

In preparing the summary financial statements, the Comptroller General is responsible for assessing Government's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting when the Government will continue its operations for the foreseeable future.

***Auditor's Responsibilities for the Audit of the Financial Statements***

My objectives are to obtain reasonable assurance about whether the summary financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with generally accepted accounting principles, being Public Sector Accounting Standards for senior governments in Canada. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement, when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decision of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the summary financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Government's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Comptroller General.
- Conclude on the appropriateness of the Comptroller General's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Government's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the summary financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause Government to cease to continue as a going concern.



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

- Evaluate the overall presentation, structure and content of the summary financial statements, including the disclosures, and whether the summary financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The audit of the summary financial statements is a group audit engagement. As such I also obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the summary financial statements. I am responsible for the direction, supervision and performance of the group audit and I remain solely responsible for my audit opinion.

I communicate with the Chair of Treasury Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the Chair of Treasury Board with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

*Victoria, British Columbia, Canada*  
July 16, 2021



Michael A. Pickup, FCPA, FCA  
Auditor General



# APPENDIX B: MINISTRY MANAGEMENT LETTER POINTS

We have not included management letter points related to information technology due to the sensitive nature of those findings.

**TABLE 1:** Ministry of Finance (MoF)

<b>Provincial sales tax (PST) revenue accrual</b> (identified in current year)	<b>Potential impact</b>
<ul style="list-style-type: none"> <li>▪ MoF's estimate for accrued PST revenue was not based on best information available.</li> <li>▪ Reports MoF used to determine PST accrued revenue had transactions related to the next fiscal year. Better reports without those transactions were available.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The ministry overstated PST revenue by \$50 million. But it corrected the misstatement in the summary financial statements; therefore, it did not affect our audit opinion.</li> </ul>
<b>MoF's Response (unaudited)</b>	
<ul style="list-style-type: none"> <li>▪ The accrual process will be enhanced for the 2022 fiscal year to ensure that only those revenues relating to the fiscal year will be captured. Sub-ledger information will be utilized to ensure the correct filing period data is captured.</li> </ul>	
<b>Speculation and vacancy tax (SVT)</b> (identified in current year)	<b>Potential impact</b>
<ul style="list-style-type: none"> <li>▪ The government introduced the SVT on December 31, 2018. Each year, property owners must pay SVT unless they submit a declaration to claim an exemption.</li> <li>▪ This year, the ministry recorded revenue from property owners who did not make SVT declarations for 2018 and 2019, because it expects to collect SVT from some of these property owners.</li> <li>▪ Under PSAS, a government can recognize only tax revenue that it expects to collect.</li> <li>▪ The ministry did not provide sufficient documentation to show it will be able to collect the SVT revenue it recorded.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The ministry may have overstated SVT revenue.</li> <li>▪ This is an area for improvement; it did not affect our audit opinion.</li> </ul>
<b>MoF's response (unaudited)</b>	
<ul style="list-style-type: none"> <li>▪ Speculation and Vacancy Tax was introduced on Dec 31, 2018. With any new tax streams, it takes several years before trends in collectability and effectiveness of the enforcement is known. The Ministry will mature its process over time on the estimation of the undeclared revenue with supported basis for the recognition.</li> </ul>	

**TABLE 2:** Ministry of Forests, Lands, Natural Resource Operations and Rural Development

<b>Accurately determining contaminated sites liability</b> (prior year carry-over)	<b>Potential impact</b>
<ul style="list-style-type: none"> <li>▪ Consistent with prior year, the ministry has continued to improve the accuracy of its contaminated sites liability. However, it must do more to ensure our original recommendation is fully implemented.</li> <li>▪ The ministry still needs to:               <ul style="list-style-type: none"> <li>▫ review changes to the legal status of identified sites to assess if they change its liability (and document its review)</li> <li>▫ ensure it incorporates new or updated site investigation reports or quotes into cost estimates for all sites</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ The recognized contaminated sites liability amount may not be complete or accurate.</li> <li>▪ This is an area for improvement; it did not affect our audit opinion.</li> </ul>
<b>Ministry's response (unaudited)</b>	
<ul style="list-style-type: none"> <li>▪ The ministry agrees with the feedback provided and agrees to incorporate the recommendations going forward.</li> </ul>	

**TABLE 3:** Office of the Comptroller General (OCG)**Duties of the OCG:**

The Office of the Comptroller General, subject to any direction of the Treasury Board, is responsible for:

- establishing financial management policies and procedures in B.C.
- issuing directives for how the accounts of government are kept
- administering and maintaining the central accounts of the government
- providing functional control over all financial transactions entered into the central accounting system
- evaluating financial management throughout the government
- preparing the public accounts
- performing other duties assigned by the Treasury Board

Read the *Financial Administration Act* for details.

<b>Use of discount rates</b> (identified in current year)	<b>Potential impact</b>
<ul style="list-style-type: none"> <li>▪ The government's estimate for some long-term liabilities in the summary financial statements does not follow PSAS.</li> <li>▪ PSAS require governments to use discount rates when valuing long-term liabilities. The standards require the use of discount rates based on defined criteria.</li> <li>▪ The government used either its historic weighted average cost of capital, or a rate included in legislation for some long-term liabilities. Neither are consistent with criteria required by PSAS.</li> <li>▪ We recommend that government review the methodologies used in selection of discount rates to determine the value of long-term assets and liabilities.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The government has understated the expenses and liabilities in the summary financial statements.</li> <li>▪ The largest understatement was for the long-term disability liability amounting to \$80 million in the summary of unadjusted audit differences.</li> <li>▪ This is an area for improvement; it did not affect our audit opinion.</li> </ul>
<b>OCG's response (unaudited)</b>	
<p>We agree with the auditor's recommendation to review the discount rates used by the Province.</p> <p>Accounting standards recommend the use of the discount rate technique to estimate certain items in the financial statements, but there is limited guidance on the selection of discount rate. As PSAB has removed the discount rate project from their workplan, we will assess the principles to determine representative discount rates to ensure continued consistency throughout the financial statements.</p>	
<b>Measurement uncertainty disclosure</b> (Prior year carry-over)	<b>Potential impact</b>
<ul style="list-style-type: none"> <li>▪ The government's Note 2 disclosure on measurement uncertainty has been expanded for the current fiscal year related to personal income tax and tax transfer expenses. But it needs to improve the disclosure to ensure the users understand the uncertainty involved.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Insufficient disclosures in Summary Financial Statement Note 2 – Measurement Uncertainty – do not give users enough information about the nature and extent of measurement uncertainty.</li> <li>▪ This is an area for improvement; it did not affect our audit opinion.</li> </ul>
<b>OCG's response (unaudited)</b>	
<p>The Office of the Auditor General has provided recommendations for additional description in the measurement uncertainty note. We will work with the responsible ministries to vet their proposal.</p>	

<b>Amortizing actuarial gains/losses for Post-employment Retirement Allowance Benefits (prior year carry-over)</b>	<b>Potential impact</b>
<ul style="list-style-type: none"> <li>▪ The government continues to recognize actuarial gains/losses for Post-employment Retirement Allowance Benefits immediately, contrary to PSAS.</li> <li>▪ PSAS requires actuarial gains/losses to be amortized over the expected average remaining service life of employees.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The government has overstated the expenses and liabilities in the summary financial statements.</li> <li>▪ An unadjusted difference of \$6 million was recorded in the summary of audit differences.</li> <li>▪ This is an area for improvement; it did not affect our audit opinion.</li> </ul>
<p><b>OCG's response (unaudited)</b></p>	
<p>We have considered this issue for the past few years. Due to the status of the retiring allowance liability as an unfunded liability and the low materiality of a potential difference, we have not yet made a change and will continue to discuss with the Office of the Auditor General.</p>	
<b>Pension plan disclosures (prior year carry-over)</b>	<b>Potential impact</b>
<ul style="list-style-type: none"> <li>▪ The government used actual pensionable earnings for fiscal year 2021 when calculating estimates for the Public Sector Pension Plan (PSPP), the Municipal Pension Plan (MPP), the Teachers Pension Plan (TPP) and the College Pension Plan (CPP).</li> <li>▪ But, in previous years they used the actuary's salary figure in calculating the estimates, which is not as accurate as using actual pensionable earnings.</li> <li>▪ If government continues to use actual pensionable earnings, this issue will be resolved when government receives updated actuarial valuations.</li> <li>▪ Each pension plan receives an actuarial evaluation every three years.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Readers of the summary financial statements are not receiving the best information about employee pension plans.</li> <li>▪ The accrued net obligation (asset) table of Note 17 – Employee Pension Plans – in the summary financial statements is misstated for the MPP, the TPP and the CPP.</li> <li>▪ This is an area for improvement; it did not affect our audit opinion.</li> </ul>
<p><b>OCG's response (unaudited)</b></p>	
<p>Actual pensionable earnings are not available for previous years. The information is now available and we will be incorporating the information in our extrapolations from this year forward.</p>	

# APPENDIX C: CROWN ORGANIZATION MANAGEMENT LETTER POINTS

We did not include school districts because of timing.

**TABLE 1:** *Coast Mountain College*

<b>Review of manual journal entries</b> (identified in current year)	<b>Potential impact</b>
<ul style="list-style-type: none"> <li>During the audit, it was found that certain users are able to post manual journal entries to the system without review and approval by a second user.</li> </ul>	<ul style="list-style-type: none"> <li>Allowing entries to be posted without an approval or review process increases the risk that erroneous or fraudulent entries could be posted and not detected in a timely manner.</li> <li>This is an area for improvement; it did not affect our audit opinion.</li> </ul>
<b>Coast Mountain College's response (unaudited)</b>	
We will ensure that all journal entries are reviewed and approved by a second individual.	

**TABLE 2:** *BC Liquor Distribution Branch (LDB)*

<b>Property and equipment additions</b> (identified in prior years and still not fully resolved)	<b>Potential impact</b>
<ul style="list-style-type: none"> <li>LDB recorded certain property and equipment assets for the first time in the fiscal 2021 financial statements when they should have been recorded in the fiscal 2020 financial statements.</li> <li>This was due to head office not receiving the appropriate documentation from various stores until fiscal year 2020/21.</li> </ul>	<ul style="list-style-type: none"> <li>There is a risk that there are material property and equipment assets not recorded in the financial statements and/or not recorded in the correct fiscal year.</li> <li>This is an area for improvement; it did not affect our audit opinion.</li> </ul>
<b>LDB's Response (unaudited)</b>	
Finance follows up on authorizations for expenditures (AFES) that have no spending. We will look into this situation further to understand what happened.	



<b>Standardized procedures across BC Liquor Stores (BCLS) (identified in prior years and still not fully resolved)</b>	<b>Potential impact</b>
<ul style="list-style-type: none"> <li>▪ During BCLS site visits, it was noted that there is no requirement for BCLS to count inventory receipts and match receipts to the purchase orders.</li> <li>▪ Furthermore, there are no standardized count instructions.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Without a formal receiving process in place that requires inventory receipts to be counted and confirmed, there is an increased risk that items are recorded as received although they have not been shipped to the store, an increased risk of inventory count adjustments occurring at both the BCLS and the distribution centres during cycle counts, and an increased risk of potential theft going undetected.</li> <li>▪ A lack of inventory counting instructions allows for inconsistencies, which increase the risk of inventory counting errors at stores.</li> <li>▪ This is an area for improvement; it did not affect our audit opinion.</li> </ul>
<b>LDB's Response (unaudited)</b>	
<p>Standard Operating Procedures (SOPs) are available on the stores' intranet page. This section has various SOPs depending on the type of count being performed (cyclical or ad hoc). A reminder will be sent to all stores directing staff to the location where these SOPs are available. BCLS stores have been instructed to count and verify the number of cases being received from both LDB and Private distributors. With regards to cycle counts, there is already an existing standard operating procedure available on the Store Intranet. However, recognizing that there is inconsistent execution of the SOP, Store Operations are looking to provide more hands-on training via "Boot Camp" training sessions in various BCLS locations.</p>	

**TABLE 3: BC Transit**

<b>Deferred revenue and contribution accounts (identified in prior years and still not fully resolved)</b>	<b>Potential impact</b>
<ul style="list-style-type: none"> <li>▪ BC Transit has several deferred revenue and contributions accounts that represent funds to be used for a specific purpose.</li> <li>▪ BC Transit needs to improve policies, procedures, and reporting of deferred revenue.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Funds may not be used for their intended purpose.</li> <li>▪ Accounting and reporting for these funds may not be appropriate.</li> <li>▪ This is an area for improvement; it did not affect our audit opinion.</li> </ul>
<b>BC Transit's response (unaudited)</b>	
<p>Management is working through an engagement with Deloitte to develop a lease fee governance framework, a financial reporting structure and a policy for board approval. Once this review is complete, management will evaluate the financial reporting structure and determine the appropriate course of action to optimize the efficiency and effectiveness of the lease fee structure and process.</p>	

<b>Financial staff capacity</b> (identified in prior years and still not fully resolved)	<b>Potential impact</b>
<ul style="list-style-type: none"> <li>▪ B.C. Transit's finance department lacks sufficient resources to resolve identified control deficiencies, including deferred revenue identified above.</li> </ul>	<ul style="list-style-type: none"> <li>▪ BC Transit will not be able to resolve control issues quickly.</li> <li>▪ This is an area for improvement; it did not affect our audit opinion.</li> </ul>
<b>BC Transit's response (unaudited)</b>	
<ul style="list-style-type: none"> <li>▪ A review of BC Transit's finance department was completed in 2020/21. There is now a detailed roadmap for Finance transformation. The following key activities are currently underway:                             <ul style="list-style-type: none"> <li>▪ Staff are being hired and the organization is building a full finance team with key new positions including: controller; director, capital program; manager, asset accounting; manager, financial planning and analysis</li> <li>▪ Efficiencies are being introduced through accounts payable automation.</li> <li>▪ Accounting tasks are being transferred back to the accounting department to allow other departments to focus on their activities.</li> <li>▪ Lease fee governance review and developing formal reporting.</li> </ul> </li> </ul>	

**TABLE 4:** BC Transportation Financing Authority (BCTFA)

<b>Contaminated sites liability – policy and application guidance</b> (identified in prior years and still not fully resolved)	<b>Potential impact</b>
<ul style="list-style-type: none"> <li>▪ The BCTFA lacks a documented policy and application guidance to ensure a consistent approach in determining contaminated site liability estimates.</li> <li>▪ The public sector standard 3260 – liability for contaminated sites – is complex. It requires identification, measurement, and recognition of a liability for all contaminated sites that BCTFA owns or has taken responsibility for – if they are no longer in productive use or if an unexpected event occurs on a site in use.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Without a consistent approach to determining the contaminated site liability estimates, the estimates in the financial statements may be prone to error; and, as a result, the financial statements may not present a true picture of the future spending required.</li> <li>▪ This is an area for improvement; it did not affect our audit opinion.</li> </ul>
<b>BCTFA's response (unaudited)</b>	
<ul style="list-style-type: none"> <li>▪ A working group comprising program area and finance staff is now in place. The working group is finalizing its terms of reference and documenting current practice.</li> <li>▪ Documentation of ministry policy and ensuring consistent application will be a priority of this working group.</li> </ul>	

<b>Liability for contaminated sites without site-specific investigation</b> (identified in prior years and still not fully resolved)	<b>Potential impact</b>
<ul style="list-style-type: none"> <li>▪ The BCTFA has not developed a standardized remediation cost estimate approach for sites without a site investigation.</li> <li>▪ If there is no detailed site investigation, BCTFA should consider available site assessment information and experience at other sites with typical or common characteristics, such as similarities in historical land use activities.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Since the BCTFA does not recognize a liability for sites without a site investigation, there is a risk that the liability in the financial statements is understated.</li> <li>▪ This is an area for improvement; it did not affect our audit opinion.</li> </ul>
<p><b>BCTFA's response (unaudited)</b></p> <p>As indicated in 2020, management has considered a standardized remediation cost estimate approach for sites in advance of a site investigation and does not agree that the potential benefit of this approach would outweigh the significant costs of developing a standardized formula that captures the myriad of factors required to provide a meaningful assessment of both the presence of contamination and possible economic outlay by site.</p> <p>BCTFA land assets are dispersed geographically across the province and each site is unique in its risk profile and attributes. Not all properties have contamination and not all forms of contamination require action or economic outlay, as some forms of contamination are non-migratory, and others naturally attenuate with time.</p> <p>Both the presence of contamination that exceeds a standard and the estimated costs of a potential remediation strategy for any given site are highly variable and related to site specific factors (such as risk profile, future site plans, the nature of the contamination if it exists, proximity to pathways like watercourses or utility corridors, and topology features). Because of this, attempts to apply a standard valuation approach to potential contamination, that may not even be present on site, would be costly and not reliable.</p> <p>Management will continue to rely on current practice of a site-specific process to estimate and record remediation costs for contaminated sites.</p>	

**TABLE 5:** Provincial Health Services Authority (PHSA)

<b>Third party warehouse inventory reconciliations</b> (identified in current year)	<b>Potential impact</b>
<ul style="list-style-type: none"> <li>▪ Warehouse staff did not complete inventory reconciliations between third-party warehouse reports and internal records, for the current year, until after the financial statements were prepared.</li> <li>▪ Several variances were identified but were left unaddressed until after year-end.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Failure to complete inventory reconciliations on a timely basis increases the risk that the inventory balances in the financial statements may be misstated.</li> <li>▪ This is an area for improvement; it did not affect our audit opinion.</li> </ul>
<p><b>PHSA's Response (unaudited)</b></p> <ul style="list-style-type: none"> <li>▪ PHSA Supply Chain will work to implement a process to reconcile variances between our system and the third party logistics provider as noted throughout the year.</li> </ul>	

<b>Inventory count processes and controls</b> (identified in current year)	<b>Potential impact</b>
<ul style="list-style-type: none"> <li>The initial count of approximately \$100-million worth of inventory at one of the PHSA warehouses had to be reperformed due to count errors resulting from weak controls and count processes.</li> </ul>	<ul style="list-style-type: none"> <li>Insufficient count controls increase the risk that inventory could be misstated.</li> <li>This is an area for improvement; it did not affect our audit opinion.</li> </ul>
<p><b>PHSA's Response (unaudited)</b></p> <ul style="list-style-type: none"> <li>We acknowledge the need to have standardized count sheets with clear units of measurements reviewed and signed off by supervisors prior to the next inventory count. This is complete. Additionally, count schedules will be reviewed to ensure adequate resources are deployed. This was in place in time for the second Agar count and the remaining three inventory facility counts.</li> </ul>	
<b>Lack of perpetual inventory management system</b> (identified in current year)	<b>Potential impact</b>
<ul style="list-style-type: none"> <li>PHSA has two electronic inventory management systems: one to track the monetary value and quantity of inventory, and the other to track the movement of inventory between warehouses.</li> <li>The new third-party warehouses and PHSA owned warehouses that were commissioned in fiscal year 2020/21 did not use either system. Instead, the daily movements of inventory between warehouses were tracked on a Google spreadsheet.</li> </ul>	<ul style="list-style-type: none"> <li>Manually tracking a high volume of inventory movements between warehouses is subject to human error.</li> <li>This was evidenced by variances between the inventory management system and Google spreadsheets at the end of the year, which were subsequently reconciled.</li> <li>This is an area for improvement; it did not affect our audit opinion.</li> </ul>
<p><b>PHSA's Response (unaudited)</b></p> <p>Updating to the existing systems is in process and will be completed in July 2021.</p>	

**TABLE 6:** Royal BC Museum (RBCM)

<b>Control of RBCM Foundation</b> (identified in prior years and still not fully resolved)	<b>Potential impact</b>
<ul style="list-style-type: none"> <li>▪ The RBCM does not account for the RBCM Foundation (the foundation) as a controlled entity and has not consolidated the foundation into the RBCM financial statements.</li> <li>▪ We assessed the relationship between the museum and the foundation against the control criteria in section 1300 – Government Reporting Entity – of PSAS.</li> <li>▪ We concluded that the museum controls the foundation for accounting purposes, and it should be consolidated into the museum’s financial statements on a line-by-line basis.</li> <li>▪ The foundation’s sole purpose is to support the museum. All grants and donations received will be strategically distributed to further the work of the museum.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The museum has not provided its true financial picture to users of its financial statements.</li> <li>▪ We qualified our audit opinion on the museum’s financial statements because the museum materially misstated its financial statements by not consolidating the foundation.</li> </ul>
<b>RBCM’s response (unaudited)</b>	
<p>Control of the Foundation was reviewed by RBCM’s predecessor auditor for fiscal 2017/18 (and updated as prior auditors for fiscal 2018/19), the Ministry of Tourism, Arts &amp; Culture and the Office of the Comptroller General. All agreed that no control existed hence consolidation of the Foundations’ financial statements is not an appropriate RBCM financial statement presentation.</p> <p>Since this issue was raised in 2018/19, changes have been made to increase the independence of the two organizations including:</p> <ul style="list-style-type: none"> <li>▪ Elimination of a contract between the Foundation and the RBCM CEO</li> <li>▪ RBCM modified its website to eliminate a link that directed online donations to the Foundation. No donations solicited by RBCM are sent to the Foundation.</li> <li>▪ There have been numerous requests from RBCM to the Foundation requesting funding that have been denied</li> </ul> <p>RBCM continues to disagree with this OAG recommendation.</p>	

<b>Accounts Payable - Segregation of duties and review</b> (identified in prior years and still not fully resolved)		<b>Potential impact</b>
<ul style="list-style-type: none"> <li>RBCM has not sufficiently segregated duties in its vendor master file or in its processing of invoices.</li> <li>The accounts payable clerk can create, update, and delete vendor master file records and process invoices for payment.</li> <li>Changes by the accounts payable clerk are not verified or reviewed by the head of corporate finance.</li> </ul>	<ul style="list-style-type: none"> <li>Payments may be made to erroneous, unauthorized, or fictitious vendors.</li> <li>This is an area for improvement; it did not affect our audit opinion.</li> </ul>	
<b>RBCM's response (unaudited)</b>		
<p>Due to the small number of finance staff, segregation of duties for procurement and payment processing is not achievable. However, mitigation controls exist to reduce risk to acceptable levels.</p> <p>RBCM has hired an external resource to assist with various financial system controls and the master vendor file issue will also be addressed.</p>		
<b>Journal entries - Review controls</b> (identified in prior years and still not fully resolved)		<b>Potential Impact</b>
<ul style="list-style-type: none"> <li>The museum posted journal entries before they were appropriately reviewed as part of the financial reporting process.</li> <li>RBCM needs to review journal entries and adjustments to ensure that entries are appropriate and accurate.</li> </ul>	<ul style="list-style-type: none"> <li>Unauthorized journal entries may be posted to the general ledger and increase the risk of the financial statements being misstated.</li> <li>This is an area for improvement; it did not affect our audit opinion.</li> </ul>	
<b>RBCM's response (unaudited)</b>		
<p>Head of Finance reviews all Journal Entries on a post audit basis using a special report that pulls all journal entries posted to the general ledger. Any issues identified are adjusted as appropriate. This is a better control, even though it is a post audit control, since it picks up all transactions posted to the financial system regardless if the paper journal entry is brought for review by the Head of Finance.</p> <p>Most journal entries (paper copies) are brought to Head of Finance for review on the day they are posted and initialed at that time. This is not a system control and the primary control remains a post audit of all journal entries by the Head of Finance, combined with review of the month end lead sheets and financial statements.</p>		

**TABLE 7: University of British Columbia (UBC)**

<b>Year end close procedures</b> (identified in current year)	<b>Potential impact</b>
<ul style="list-style-type: none"> <li>▪ UBC needs to improve its financial year-end close procedures. Under the current process, transactions were not recorded in the general ledger between March 20 and March 31 for accounts payable and between March 27 and March 31 for banking.</li> <li>▪ As a result, each department had to record an accrual to report these transactions, and bank reconciliations included unreconciled amounts where transactions had not been recorded.</li> <li>▪ A lot of extra work was required by the financial reporting group to ensure transactions were appropriately identified and recorded and bank accounts were completely reconciled.</li> </ul>	<ul style="list-style-type: none"> <li>▪ UBC's processes increased the work required at both the department and financial reporting level.</li> <li>▪ The added complexity increases the risk that transactions may not be recorded in the correct fiscal year; therefore, financial results for the University may be misstated.</li> <li>▪ This is an area for improvement; it did not affect our audit opinion.</li> </ul>
<b>UBC's response (unaudited)</b>	
<ul style="list-style-type: none"> <li>▪ The University migrated financial reporting processes to Workday during the fiscal year, and as such the year end close was completed for the first time in a new system. As a result, the year-end cut off dates for recording of supplier invoices, and banking and settlement activities were moved ahead to provide sufficient time to address unknowns related to the new Workday system.</li> <li>▪ Management has already initiated planning for a deep dive into the financial reporting processes within Workday. In addition to the deep dive, a careful review of the campus close process is being undertaken. Management will initiate changes in the timing and/or processes involved in the year end cut-off based on the results of these reviews.</li> </ul>	
<b>Endowment agreement</b> (identified in current year)	<b>Potential impact</b>
<ul style="list-style-type: none"> <li>▪ The nature of UBC's inflation adjustment allocated to endowment donations is not clear.</li> <li>▪ Endowment agreements and university policies do not give donors enough information on the nature of this allocation and whether funds allocated to this account are held forever or temporarily.</li> <li>▪ Information is also not reported on the amounts allocated to this account, which are, therefore, not available for spending in the near term.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Donors may not understand how the income earned on their endowment donation is allocated and what amounts are not available for spending in the near term.</li> <li>▪ This is an area for improvement; it did not affect our audit opinion.</li> </ul>
<b>UBC's response (unaudited)</b>	
<p>Management agrees with the recommendation and will update the Endowment Management Policy and its related procedures.</p>	

<p><b>Clear roles and responsibilities</b> (identified in prior years and still not fully resolved)</p>		<p><b>Potential impact</b></p>
<ul style="list-style-type: none"> <li>▪ Roles and responsibilities for financial operations and reporting are not always well defined and documented for the university.</li> <li>▪ As a result, it is not always clear who has overall accountability and decision-making responsibility for different financial functions.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Without clearly defined roles, responsibilities, policies and procedures, there can be confusion regarding who is responsible, which can lead to missing or insufficient controls, inefficiencies, and increased potential for fraud or error.</li> <li>▪ This is an area for improvement; it did not affect our audit opinion.</li> </ul>	
<p><b>UBC's response (unaudited)</b></p>		
<ul style="list-style-type: none"> <li>▪ UBC has a decentralized financial model and the individual faculties are responsible for their financial operations and reporting. The Comptroller will work closely with the finance officers across the University to ensure there is clear communication regarding roles and responsibilities as well as overall accountability and decision-making responsibility for different financial functions.</li> </ul>		
<p><b>Financial reporting department staffing</b> (identified in prior years and still not fully resolved)</p>		<p><b>Potential impact</b></p>
<ul style="list-style-type: none"> <li>▪ UBC's financial reporting department operates with limited staff given the size and complexity of operations.</li> <li>▪ The department's processes rely heavily on a few key people, making these people critical to the financial reporting process.</li> <li>▪ In the current year, the university did make changes to this department, but more is needed to resolve the concerns.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Reliance on a few key people increases the risk of a breakdown in controls and can result in financial reporting delays.</li> <li>▪ This is an area for improvement; it did not affect our audit opinion.</li> </ul>	
<p><b>UBC's response (unaudited)</b></p>		
<ul style="list-style-type: none"> <li>▪ The financial reporting team is experiencing an increased workload related due to transition to Workday. Additional temporary staff resources have been allocated to the financial reporting team to manage the increased workload created by the Workday transition.</li> <li>▪ Management will assess the workload of the financial reporting team once the Workday configuration issues are resolved and the system is stabilized. Additional permanent resources will be added if necessary.</li> </ul>		



<b>Manual transactions</b> (identified in prior years and still not fully resolved)	<b>Potential impact</b>
<ul style="list-style-type: none"> <li>▪ UBC's processes to record transactions require several items to be adjusted later or eliminated to accurately record or classify the transaction.</li> <li>▪ In particular, the process to prepare the quarterly and annual consolidated financial results is complex and highly manual.</li> <li>▪ While some improvements were made, the concerns were not fully resolved.</li> </ul>	<ul style="list-style-type: none"> <li>▪ A high number of manual transactions increases the risk of misstatement in the financial results and makes it less likely that a misstatement (fraud or error) would be detected.</li> <li>▪ This is an area for improvement; it did not affect our audit opinion.</li> </ul>
<b>UBC's response (unaudited)</b>	
<ul style="list-style-type: none"> <li>▪ Management has implemented a number of additional controls through additional training, reviews, and reconciliations. Management will continue to add system and manual controls to further reduce the risk of fraud and error.</li> </ul>	

**TABLE 8:** *University of Northern British Columbia (UNBC)*

<b>Bank reconciliations</b> (identified in prior years and still not fully resolved)	<b>Potential impact</b>
<ul style="list-style-type: none"> <li>▪ In a prior year audit, the auditors noted that the bank reconciliations for the various bank accounts of the university were not completed in a timely manner.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Failure to complete bank reconciliations in a timely manner may result in the year end balances being misstated and may result in fraud or errors going undetected.</li> <li>▪ This is an area for improvement; it did not affect our audit opinion.</li> </ul>
<b>UNBC's response (unaudited)</b>	
<ul style="list-style-type: none"> <li>▪ Timely completion of the bank reconciliations remains a priority. We anticipate bank reconciliations will again be up to date in the first quarter of 2021/22, and remaining issues will be resolved.</li> </ul>	

<b>Travel reimbursement process</b> (identified in prior years and still not fully resolved)	<b>Potential impact</b>
<ul style="list-style-type: none"> <li>▪ In a prior year audit, the auditors noted in their review of executive travel reimbursement expenditures that certain procedures in the travel policy were not being followed.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Payment of travel expenses that may not be allowed by the policy may result in the misuse of public funds by university executives.</li> <li>▪ This is an area for improvement; it did not affect our audit opinion.</li> </ul>
<b>University of Northern British Columbia’s Response (unaudited)</b>	
<ul style="list-style-type: none"> <li>▪ The response to the COVID-19 pandemic, significant turnover of senior management and Board members, as well as staffing shortages, delayed the planned review and update of the travel policy in 2020/21.</li> <li>▪ This work will resume in 2021/22 and we expect the policy will be updated and submitted for approval in the Fall.</li> <li>▪ We will ensure this work includes clarifying the points previously noted by the auditors.</li> <li>▪ We will work with those responsible for review and approval of travel expenses for reimbursement to ensure they have clear direction, guidance and training on their roles and responsibilities.</li> </ul>	

**TABLE 9:** Vancouver Coastal Health Authority (VCHA)

<b>Accounting for accrued liabilities</b> (identified in current year)	<b>Potential impact</b>
<ul style="list-style-type: none"> <li>▪ During our testing of accrued liabilities, we noted several erroneous entries related to COVID-19 costs.</li> <li>▪ As the entries are unique, one-time transactions related to COVID-19 and therefore outside the normal stream of controls, there is a significant risk of error.</li> <li>▪ The aggregate error is immaterial to the financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Insufficient review of unusual accrual transactions may lead to the accrual balances in the financial statements being misstated.</li> <li>▪ This is an area for improvement; it did not affect our audit opinion.</li> </ul>
<b>VCHA’s response (unaudited)</b>	
<ul style="list-style-type: none"> <li>▪ VCH Finance will review material unique (i.e., non-recurring) accruals in excess of \$1M on a regular basis and will develop a report that can be run or a process that can be followed to identify large accruals.</li> </ul>	



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