

SUMMARY OF ACTIVITIES 2023-24

SELECT STANDING COMMITTEE ON PUBLIC
ACCOUNTS

MAY 2024



LEGISLATIVE ASSEMBLY
of BRITISH COLUMBIA

FIRST REPORT
FIFTH SESSION, 42ND PARLIAMENT



May 14, 2024

To the Honourable
Legislative Assembly of the
Province of British Columbia

Honourable Members:

I have the honour to present herewith the First Report of the Select Standing Committee on Public Accounts for the Fifth Session of the 42nd Parliament titled, *Summary of Activities 2023-24*. This report summarizes the work of the Committee from April 1, 2023 to April 3, 2024.

Respectfully submitted on behalf of the Committee,

Peter Milobar, MLA
Chair

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COMPOSITION OF THE COMMITTEE

MEMBERS

42nd Parliament, 5th Session

Peter Milobar, MLA, [Chair](#)
Kamloops-North Thompson

Jennifer Rice, MLA, [Deputy Chair](#)
North Coast

Garry Begg, MLA
Surrey-Guildford

Spencer Chandra Herbert, MLA
Vancouver-West End

Susie Chant, MLA
North Vancouver-Seymour

Karin Kirkpatrick, MLA
West Vancouver-Capilano

Ronna-Rae Leonard, MLA
Courtenay-Comox

Doug Routley, MLA
Nanaimo-North Cowichan

Jackie Tegart, MLA
Fraser-Nicola

42nd Parliament, 4th Session

Peter Milobar, MLA, [Chair](#)
Kamloops-North Thompson

Jennifer Rice, MLA, [Deputy Chair](#)
North Coast

Bruce Banman, MLA
Abbotsford South (to October 18, 2023)

Garry Begg, MLA
Surrey-Guildford

Spencer Chandra Herbert, MLA
Vancouver-West End

Susie Chant, MLA
North Vancouver-Seymour

Ronna-Rae Leonard, MLA
Courtenay-Comox

Renee Merrifield, MLA
Kelowna-Mission (from October 16, 2023)

Doug Routley, MLA
Nanaimo-North Cowichan

Jackie Tegart, MLA
Fraser-Nicola

COMMITTEE STAFF

Jennifer Arril, Clerk of Committees

Katey Stickle, Senior Research Analyst

Jonathon Hamilton, Committee Researcher

Jesse Gordon, Committee Researcher

Sean Morgado, Parliamentary Committees Coordinator

TERMS OF REFERENCE

On February 13, 2023, the Legislative Assembly agreed that all reports of the Auditor General of British Columbia transmitted to the Speaker of the Legislative Assembly be deemed referred to the Select Standing Committee on Public Accounts. For greater certainty, the following exceptions are provided:

- a. the report referred to in section 22 of the Auditor General Act (S.B.C. 2003, c. 2) shall be referred to the Select Standing Committee on Finance and Government Services; and
- b. reports of the Auditor General respecting the Legislative Assembly prepared under the provisions of the *Legislative Assembly Management Committee Act* (R.S.B.C. 1996, c. 258) shall be referred to the Legislative Assembly Management Committee.

That the Select Standing Committee on Public Accounts be the Committee referred to in sections 6, 7, 10, 13 and 14 of the *Auditor General Act* (S.B.C. 2003, c. 2).

That, in addition to the powers previously conferred upon the Select Standing Committees of the House, the Select Standing Committee on Public Accounts be empowered to:

- a. appoint of its number one or more subcommittees and to refer to such subcommittees any of the matters referred to the Committee and to delegate to the subcommittees all or any of its powers except the power to report directly to the House;
- b. sit during a period in which the House is adjourned, during the recess after prorogation until the next following Session and during any sitting of the House;
- c. adjourn from place to place as may be convenient; and
- d. retain personnel as required to assist the Committee.

That the Committee report to the House as soon as possible; and that during a period of adjournment, the Committee deposit its reports with the Clerk of the Legislative Assembly, and upon resumption of the sittings of the House, or in the next following Session, as the case may be, the Chair present all reports to the House.

On February 26, 2024, the Legislative Assembly agreed that all reports of the Auditor General of British Columbia transmitted to the Speaker of the Legislative Assembly be deemed referred to the Select Standing Committee on Public Accounts. For greater certainty, the following exceptions are provided:

- a. the report referred to in section 22 of the *Auditor General Act* (S.B.C. 2003, c. 2) shall be referred to the Select Standing Committee on Finance and Government Services; and
- b. reports of the Auditor General respecting the Legislative Assembly prepared under the provisions of the *Legislative Assembly Management Committee Act* (R.S.B.C. 1996, c. 258) shall be referred to the Legislative Assembly Management Committee.

That the Select Standing Committee on Public Accounts be the Committee referred to in sections 10, 13 and 14 of the *Auditor General Act* (S.B.C. 2003, c. 2).

That, in addition to the powers previously conferred upon the Select Standing Committees of the House, the Select Standing Committee on Public Accounts be empowered to:

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- b. sit during a period in which the House is adjourned, during the recess after prorogation until the next following Session and during any sitting of the House;
- c. adjourn from place to place as may be convenient; and
- d. retain personnel as required to assist the Committee.

That the Committee report to the House as soon as possible; and that during a period of adjournment, the Committee deposit its reports with the Clerk of the Legislative Assembly, and upon resumption of the sittings of the House, or in the next following Session, as the case may be, the Chair present all reports to the House.

THE WORK OF THE COMMITTEE

The Select Standing Committee on Public Accounts (the Committee) is one of 10 permanent parliamentary committees established by the Legislative Assembly. The Committee supports public sector oversight through its review and consideration of the Office of the Auditor General's (OAG) reports (available at: <https://www.bcauditor.com>) which include financial and performance audits as well as information reports. To promote ongoing accountability and improvement of public sector administration, the Committee may follow up with audited organizations on progress made implementing OAG report recommendations. The Committee is also required under the *Auditor General Act* to consider and approve the OAG's annual Financial Statement Audit Coverage Plan for the upcoming three fiscal years.

This report summarizes the Committee's activities from April 1, 2023 to April 3, 2024 during which the Committee met a total of seven times and reviewed five OAG performance audit and information reports regarding government's administration of programs in a variety of areas including diversity and inclusion, fraud risk management, and cybersecurity. In addition, the Committee reviewed the OAG's first annual follow up report: *Annual Follow-up Report: Status of Performance Audit Recommendations (2019-2021)* as well as two reports on the OAG's financial audit work: *Summary Financial Statements Audit: Supporting the Role of MLAs and The Audit of B.C.'s 2022/23 Summary Financial Statements: Areas of Interest* as well as the OAG's *Financial Statement Audit Coverage Plan for financial statement fiscal years ending in 2025, 2026, and 2027*. At the first meeting of the Fifth Session of the 42nd Parliament, the Committee elected the Chair and Deputy Chair.

Three Committee Members attended the Canadian Council of Public Accounts Committees and Canadian Council of Legislative Auditors Conference in Whitehorse, Yukon from September 10-12, 2023. This annual conference provides an opportunity for Members and staff of public accounts committees, as well as legislative auditors from across

Canada, to discuss matters relating to accountability and oversight and share updates from their respective jurisdictions. Business sessions at this year's conference related to the defence of Canada, cybersecurity, climate change, and the reach of public accounts committees and auditors general.

This year, the Committee implemented a new process to follow-up on the implementation of audit report recommendations. Further information about the new process, as well as Committee decisions in this area can be found in the *Committee Follow-Up* section of this report.

On April 19, 2023, the Committee held a feedback session with the Auditor General. This high-level discussion took place *in camera*. As the Committee found the discussion to be valuable, it will continue to hold these feedback sessions on an annual basis.

Minutes and transcripts of Committee meetings, OAG reports, and other meeting documents are available on the Committee's website at: <https://www.leg.bc.ca/cmt/pac>

MEETINGS SCHEDULE

The Committee met on the dates noted below to conduct the following business:

Fourth Session, 42nd Parliament

April 5, 2023

- Review of the Office of the Auditor General Report:
 - *Fraud Risk and Financial Statements: B.C. Public Sector, Part 1 (March 2023)*
- Consideration of audit reports from 2018 and earlier for follow-up

April 19, 2023

- Review of the Office of the Auditor General Report:
 - *Governance of the Diversity and Inclusion Strategy for the Public Service (March 2023)*

- Feedback discussion with the Auditor General
- Review and adoption of the Committee's report titled, *Summary of Activities 2022-23*

October 16, 2023

- Review of the Office of the Auditor General Reports:
 - *Fraud Risk and Financial Statements: B.C. Public Sector, Part 2 (May 2023)*
 - *B.C.'s COVID-19 Response: Destination Development Grants (May 2023)*

November 6, 2023

- Review of the Office of the Auditor General Reports:
 - *Board Oversight of Cybersecurity Risk Management at Vancouver Island University (August 2023)*
 - *Annual Follow-up Report: Status of Performance Audit Recommendations (2019–2021) (July 2023)*
- Consideration of audit reports for follow-up

November 29, 2023

- Review of the Office of the Auditor General's *Financial Statement Audit Coverage Plan for financial statement fiscal years ending in 2025, 2026, and 2027* (November 2023)

Fifth Session, 42nd Parliament

March 5, 2024

- Election of the Chair and Deputy Chair

April 3, 2024

- Review of the Office of the Auditor General Reports:
 - *Summary Financial Statements Audit: Supporting the Role of MLAs (November 2023)*
 - *The Audit of B.C.'s 2022/23 Summary Financial Statements: Areas of Interest (March 2024)*

FINANCIAL STATEMENT AUDIT COVERAGE PLAN (NOVEMBER 2023)

The Committee considered the Office of the Auditor General's (OAG) *Financial Statement Audit Coverage Plan for Financial Statement Fiscal Years Ending in 2025, 2026, and 2027* at its November 29, 2023 meeting. Pursuant to the *Auditor General Act*, the Auditor General is required to report annually to the Legislative Assembly on the financial statements of the government reporting entity. This includes all trust funds and public sector organizations that are controlled by and accountable to the provincial government. The Act requires that each year the Auditor General prepare and submit to a parliamentary committee of the Legislative Assembly for approval an audit coverage plan that covers the next three fiscal years. The plan outlines which government entities will be directly audited by the OAG and sets out the appointment of external auditors and level of OAG involvement for the remaining audits of government organizations and trust funds. The Legislative Assembly has designated the Select Standing Committee on Public Accounts as the committee to receive and approve the audit coverage plan.

SUMMARY OF PROPOSED PLAN

The Auditor General explained that the audit coverage plan covers all entities consolidated in the province's summary financial statements. OAG staff noted that the audit of summary financial statements is the largest audit conducted in the province and is performed by both the OAG and private sector auditing firms. OAG staff shared that to determine the Office's level of involvement in the audit of each entity, they develop a risk assessment, which considers the level of public interest, financial size, complexity, and the likelihood of issues that would materially affect the government's summary financial statements. The Auditor General stated that the plan ensures the OAG will have sufficient knowledge about government to allow the Office to focus on risk areas while fulfilling its role as the independent auditor of the province.

OAG staff explained that the Office has three levels of involvement in the financial statement audits of government entities: direct, oversight, and limited. The OAG directly audits

government ministries and significant entities where errors could have a material impact on the consolidated financial results. Per the audit coverage plan, the OAG intends to directly audit 10 entities in 2024-25 and 12 in both 2025-26 and 2026-27. At the oversight level, audits are performed by a private sector auditing firm while the OAG provides oversight of audit procedures. The OAG intends to provide oversight of 26 audits in 2024-25, 23 in 2025-26, and 22 in 2026-27. For the remaining audits, the OAG will have limited involvement, which means the audit is conducted by a private sector firm but the OAG remains in communication with that firm and may direct audit work if needed. The OAG intends to have limited involvement in the remaining 102 audits in 2024-25, 103 in 2025-26, and 104 in 2026-27.

OAG staff shared that as part of the audit coverage plan, the Office intends to shift its audit involvement of the British Columbia Liquor Distribution Branch from direct to oversight. The audit coverage plan notes that after the previous direct audits completed by the OAG, the Office is comfortable moving to a lower level of audit involvement for the organization. In addition, OAG staff noted that they intend to shift from the oversight level to the direct level of involvement for the British Columbia Housing Management Corporation and the Provincial Rental Housing Corporation for the fiscal year 2025-26. OAG staff explained that this shift results from the Office's risk assessment and the significance of both organizations. They added that this will be the Office's first year as direct auditor for both organizations.

OAG staff also highlighted two additional approvals the OAG is seeking as part of the plan. Under the Act, the Auditor General requires the Committee's approval to be appointed auditor of a government entity for a period of more than five consecutive years. As such, OAG staff noted that the Office is seeking approval to exceed this limit and continue as the auditor of the British Columbia Transportation Financing Authority (BCFTA) and its subsidiary the Transportation Investment Corporation. The audit coverage plan states that the BCFTA holds a significant portion of the province's capital

assets and is responsible for the financing and construction of transportation infrastructure projects. The plan also states that the two organizations have a high degree of administrative integration with the Ministry of Transportation and Infrastructure, which the OAG directly audits. OAG staff shared that the Office is also seeking approval to continue its appointment as auditor for the Provincial Employees Community Services Fund, which is an organization outside of the government reporting entity. Section 14 of the Act allows the Auditor General to be appointed auditor of an entity or trust fund that is not part of the government reporting entity with the consent of the Committee.

COMMITTEE INQUIRY

Rebuilding of Lytton

Members asked about the potential of an audit of government's response and recovery efforts related to the June 30, 2021 wildfire in Lytton. The Auditor General clarified that the audit coverage plan before the Committee is only for financial audits, while an audit into the rebuilding of Lytton would be considered a performance audit. The Auditor General added that there is no update on this matter beyond what

was noted in an October 2023 letter to the Committee, which states that the Office is scoping the potential for an audit.

British Columbia Transportation Financing Authority

Committee Members sought clarity on the OAG's rationale to continue to perform a direct audit of the BCTFA beyond the five-year limit set out in the Act. The Auditor General stated that because of the high degree of administrative integration between the Ministry of Transportation and Infrastructure and the BCFTA, having a separate private firm audit the financing authority and its subsidiary could be problematic, as well as less efficient.

Rotation of Auditors

Committee Members inquired about the professional accounting standards regarding auditor rotation. OAG staff shared that the industry standard is for auditors to be rotated within seven years but under the *Auditor General Act* it is every five years, unless approval is granted by the Committee for the Office to continue to audit the organization. They highlighted that since the OAG audits the ministries for longer periods, they rotate the senior staff who are involved to ensure they do not audit the same ministries for extended periods of time.

COMMITTEE DECISIONS

The Committee adopted the following motions in support of the recommendations in the Auditor General's proposed Financial Statement Audit Coverage Plan:

1. That the Select Standing Committee on Public Accounts, pursuant to sections 10 and 14 of the *Auditor General Act*, endorse the three recommendations listed on page 18 of the *Financial Statement Audit Coverage Plan for financial statement fiscal years ending in 2025, 2026, and 2027*, as presented on November 29, 2023.
2. That should amendments to the *Financial Statement Audit Coverage Plan for financial statement fiscal years ending in 2025, 2026, and 2027* be required, the Office of the Auditor General will return to the Select Standing Committee on Public Accounts with any such amendments.

SUMMARY FINANCIAL STATEMENTS AUDIT: SUPPORTING THE ROLE OF MLAS (NOVEMBER 2023)

The Committee considered the November 2023 report *Summary Financial Statements Audit: Supporting the Role of MLAs* at its April 3, 2024 meeting. This is the first of two reports on the Office of the Auditor General's (OAG) financial audit of the provincial summary financial statements for the 2022-23 fiscal year.

SUMMARY OF OAG REPORT

The Auditor General noted that there was approximately \$80 billion of financial activity in 2022-23 from organizations in the government reporting entity. He explained that the *Auditor General Act* requires his Office to conduct an independent audit of the province's summary financial statements and report back to the Legislative Assembly on whether the statements are fairly presented in accordance with generally accepted accounting principles (GAAP). For the BC government, these principles are the Canadian Public Sector Accounting Standards (the "standards"). OAG staff noted that the independent auditor's report of the 2022-23 summary financial statements was qualified based on three material misstatements where the financial statements do not adhere to the standards. They added that the independent auditor's report has been qualified in each of the past 16 years.

OAG staff noted that the first material misstatement relates to the accounting of funds received for restricted purposes. This is the 12th year in a row that the independent auditor's report identified a material misstatement related to this matter. To explain this misstatement, OAG staff shared the example of the province receiving funding from the federal government to build a hospital. They noted that per the standards, this revenue should be recognized as soon as the hospital is built; however, the province instead counts a portion of the revenue in each year over the working life of the hospital. OAG staff added that the treatment used by the province is in line with the Treasury Board regulation that was issued in 2011, but it is different from what is required under the standards. The audit found that because of this treatment, last year's revenues

were understated by \$6.97 billion and net liabilities were overstated by \$6.97 billion.

Turning to the second material misstatement, the understatement of future financial commitments, OAG staff explained that government only discloses contractual obligations over \$50 million which is a significantly higher threshold than the one used by the federal government. They added that while accounting standards do not set a reporting threshold for disclosure, it makes sense for an organization the size of the provincial government to ensure that the most significant contractual obligations are disclosed. The audit found that government did not disclose over \$4.9 billion in contractual obligations including \$2.4 billion under the BC First Nations Gaming Revenue Sharing Agreement and \$2.3 billion under physician contracts.

The third material misstatement is related to the accounting for the BC First Nations Gaming Revenue Sharing Agreement. OAG staff explained that this agreement requires seven percent of the annual net income of the British Columbia Lottery Corporation (BCLC) to be paid to the BC First Nations Gaming Revenue Sharing Limited Partnership. They noted that while the standards require the full amount of the BCLC's net income to be recorded as revenue and the portion transferred to the Partnership as an expense, government recorded these transactions as a flow-through arrangement. This resulted in both revenues and expenses being understated by \$114 million. OAG staff added that under the standards it is acceptable to net the amounts when revenue is collected on behalf of others; however, under the agreement, First Nations are entitled to a share of BCLC's net income which is not the same as collecting revenue on their behalf.

SUMMARY OF GOVERNMENT RESPONSE

Office of the Comptroller General (OCG) staff explained that the public accounts are government's main accountability document and that they use an accounting consolidation process to conform and collate the financial reporting of

ministries, Crown corporations, school districts, post-secondary institutions, health authorities, and other organizations in the government reporting entity. They described the legislative framework for financial reporting including the *Budget Transparency and Accountability Act*, which assigns authority to Treasury Board to set government's accounting policies and make regulations or issue directives that align with existing GAAP, and the *Financial Administration Act* which assigns responsibility to the Comptroller General for preparing the public accounts.

Turning to the 2022-23 public accounts, OCG staff stated that these were prepared consistently with previous years following the basis of accounting prescribed in the *Budget Transparency and Accountability Act*. On the qualification regarding deferred revenue, OCG staff explained that government recognizes revenue related to restricted contributions as the obligation is satisfied not as the asset is built. This is consistent with Treasury Board Regulation 198/2011 which provides for revenue to be recognized over the period the asset is used to provide services. OCG staff noted that this accounting policy is also consistent with Canadian Public Sector Accounting Standards for government transfers. Further, they stated that the Public Sector Accounting Board has confirmed that this policy is appropriate under the standards and that other provinces which defer restricted contributions do not receive an audit qualification.

Regarding the second qualification, OCG staff stated that Treasury Board set the disclosure threshold for contractual obligations at \$50 million which captures government's significant contracts and agreements. With respect to disclosing future amounts of First Nations gaming revenue as a contractual obligation, OCG staff stated that since the right to gaming revenue has been conveyed to First Nations, it is not a liability of government as defined in the standards for contractual obligation disclosure.

Speaking to the third qualification, OCG staff explained that amendments to the *Gaming Control Act* convey the right to seven percent of BCLC's net income to First Nations. They added that this arrangement is part of government's commitment to shift from transactional short-term agreements to long-term arrangements that support First Nations' self-determination and economic independence. OCG staff explained that accounting standards prohibit the

recognition of money that is collected by one government on behalf of another government; therefore, they do not agree with the OAG's assessment.

COMMITTEE INQUIRY

Qualification on Deferred Revenue

Committee Members noted that other provinces use the same accounting treatment for recognizing revenue related to restricted contributions and asked why there continues to be a qualification related to deferred revenue in BC. The Auditor General stated that he cannot comment on the financial statements in other provinces, noting that his Office is mandated to give an opinion on whether the financial statements are presented fairly in accordance with GAAP and public sector accounting standards, not in accordance with government regulations. He stated that in the example of the province receiving funding from the federal government to build a school, the province is not required to return the money if the school does not operate for a specific amount of time, so there is not a liability. In response, OCG staff stated that when government receives contributions from the federal government, it is not just to build a school; the expectation is that government operate the school for a long period of time. They added that there is flexibility in the standards and Treasury Board issued a regulation on this matter to ensure accountability and transparency.

Disclosure of Contractual Obligations

Members inquired about government's disclosure of contractual obligations, noting references to the BC First Nations Gaming Revenue Sharing Agreement and physician contracts. Regarding the former, the Comptroller General explained that previously government treated the contractual obligations as a government transfer but with the passage of the *Declaration on the Rights of Indigenous Peoples Act*, government is representing these arrangements in a new way to recognize that First Nations have inherent right to self-govern and participate in their share of the economy. Further, the agreement was meant to convey a share of revenues as a right to First Nations, so it is not a liability to the province. With respect to physician contracts, OCG staff explained that there is guidance that excludes compensation arrangements from being disclosed because government has discretion to

change the level of services that will be provided. They added that doctors operate on a fee-for-service basis and as the level of service is determined in each fiscal year it will be accounted for in the year that the service is provided.

Accounting for the BC First Nations Gaming Revenue Sharing Agreement

In response to a question about the accounting for the BC First Nations Gaming Revenue Sharing Agreement, OAG staff noted that under the agreement, a portion of BCLC's net income, not revenue, is transferred to First Nations. They stated that this is distinct from a flow-through arrangement such as a dedicated fuel tax collected by the province and transferred to TransLink. Under the agreement, the province takes in revenue from BCLC, pays expenses such as salaries and administrative costs, and then pays seven percent of the net income to First Nations. The Auditor General noted that government should show the complete transaction, including both the revenue and the expenses. In response, the Comptroller General stated that government shows 93 percent of BCLC's revenue in the financial statements, with a notation that the other seven percent is conveyed to the BC First Nations Gaming Revenue Sharing Limited Partnership.

Potential Solutions

Committee Members noted that there have been qualified audits in BC for the past several years and inquired about opportunities to address this. The Auditor General shared that the Office has no interest in having qualifications and noted that they are open to engaging in a discussion about potential changes. Regarding the accounting for the BC First Nations Gaming Revenue Sharing Agreement, the Deputy Minister of Finance noted that there is legislation that is foundational to this arrangement so while they are open to discussions, it is unlikely to make a difference in this case.

THE AUDIT OF B.C.'S 2022/23 SUMMARY FINANCIAL STATEMENTS: AREAS OF INTEREST (MARCH 2024)

The Committee reviewed the Office the Auditor General's (OAG) March 2024 report titled, *The Audit of B.C.'s 2022/23 Summary Financial Statements: Areas of Interest*, at its April 3, 2024 meeting. This is the second of two reports on the province's 2022-23 summary financial statements and describes areas of interest that arose during the OAG's audit.

SUMMARY OF OAG REPORT

The Auditor General shared that this report describes three matters that the OAG found in its audit of the 2022-23 summary financial statements that require greater attention due to their potential impact on government's financial reporting. The report outlines challenges related to the provincial estimation of income tax revenue and changes to increase estimate accuracy, as well as the potential impact of government's directions on rate-regulated accounting at BC Hydro and the risk of future qualifications. The report also outlines challenges with government's implementation of new accounting standards and the need for earlier discussions between the OAG and government on standards implementation.

As noted in the report, provincial income tax revenues in the summary financial statements are estimates and once tax returns are finalized by the federal government any adjustments must be made in the current year's summary financial statements. OAG staff noted that over the previous nine years, the provincial government's method of estimating income tax revenues has resulted in average adjustments of \$1.1 billion per year. Given this history of adjustments, the OAG looked for an alternative way to estimate income tax revenues to better obtain audit assurance. OAG staff shared that in 2022-23, following consultation with their Office, government updated the year-end income tax estimate by using federal tax return filings as of June 30, 2023. As a result, government's year-end surplus was \$1.86 billion dollars lower than its initial estimate. Per the report, the OAG's audit work concluded that the use of tax sharing statement data for the estimates of income tax revenues was appropriate

and the Office anticipates continuing with this approach until government can demonstrate a more reliable estimate method.

The second area of interest relates to BC Hydro and rate-regulated accounting. Under the *Utilities Commission Act*, BC Hydro rates must be reviewed and approved by the British Columbia Utilities Commission (BCUC) following a rate framework. When the framework is followed, it enables BC Hydro to apply rate-regulated accounting which allows the transferring of costs or revenues to later years. OAG staff explained that when government issues directions through the BCUC about BC Hydro it interferes with the independent regulation of electricity rates and may mean that rate-regulated accounting cannot be applied to some transactions. OAG staff noted that in fall 2022, government directed BCUC to order BC Hydro to issue a \$320 million credit payment to residential and commercial customers, which was paid from its regulator deferral accounts. The report states that because the credit payments were not subject to BCUC's rate-setting process, the OAG issued a qualified report on BC Hydro's third-quarter financial statements. OAG staff explained that BC Hydro later restored the deferral account balances and took the credit payment from net earnings instead. The OAG recommended that government consult the relevant parties, including the Office of Comptroller General (OCG), when they plan to issue directions to BCUC to understand if the directions impact BC Hydro's ability to apply rate-regulated accounting and assess the potential impact on the summary financial statements.

The final area of interest relates to two new accounting standards that applied to government in 2022-23 on asset retirement obligations and reporting on financial instruments. The report states that the asset retirement obligation standard now requires government to recognize the costs to retire a tangible capital asset over its useful life, as opposed to at the end of its use. The second standard requires government to provide information regarding how financial instruments, such as investments or debt, were measured and government's

risk exposure arising from these instruments. As stated in the report, the OCG prepared materials on implementing the new standards but did not share them with the OAG until after they were approved by Treasury Board. OAG staff noted that the materials included inconsistencies with the new standards and increased the risk of material misstatement in the summary financial statements. OAG staff shared that government later corrected the identified issues, including one incomplete statement. They highlighted that early engagement with the OAG would have ensured that the implementation of the new standards met requirements and reduced the number of year-end corrections. Further, OAG staff added that lessons learned from the experience can be useful when additional standards are applied for 2023-24.

SUMMARY OF GOVERNMENT RESPONSE

OCG staff shared that the estimation of income tax revenues is a complex process due to various factors, one of which being the length of time required by the Canada Revenue Agency (CRA) to provide final tax results which spans three fiscal years. OCG staff added that the pandemic further complicated the estimation process as it created volatile and unexpected economic conditions, which led to income tax revenue adjustments in 2020, 2021, and 2022. OCG staff explained that because of this, government agreed to a different approach to estimate income tax revenues for 2022-23 and adjusted income tax revenues down \$1.86 billion dollars based on interim reports from the CRA for the 2022 tax returns that had been processed by June 30. OCG staff stated that now that final tax results for 2021-22 have been received, the previous adjustment was nearly \$1 billion dollars too high and that waiting for the June report did not ultimately yield a more accurate estimate. Staff noted that the OCG will continue to review income tax revenue estimate calculations and work with auditors to find an agreeable estimate methodology.

On the topic of BC Hydro and rate-regulated accounting, OCG staff shared that concerns regarding the impact on deferral accounts resulting from government direction to provide credits on customer accounts were addressed and BC Hydro appropriately accounted for these credits in its financial statements. OCG staff noted that government directions to BC Hydro have been raised as a qualification in the past and that

government will continue to ensure the use of rate-regulated accounting within BC Hydro is appropriate.

Regarding the new accounting standards, OCG staff shared that implementing new standards across the government reporting entity requires significant research, collaboration, and coordination. They noted that the financial instrument standard has been under development since 2003 and senior governments were unable to accept the first iteration of the standard as it did not meet the public interest. OCG staff shared that the asset retirement obligation standard had impacts across the government reporting entity, so it took time to provide Treasury Board with information to establish the accounting policies required to implement the standards. Staff added that the OAG was kept informed throughout the implementation process and once the year-end results were received the OAG's concerns were discussed and resolved.

COMMITTEE INQUIRY

Asset Retirement Obligation Standards

Committee Members asked questions about the impact of the asset retirement obligation standard on capital asset management. OCG staff explained that the standard has no impact on asset management, as previously the costs associated with retiring an asset would be incurred at the end of life. Under the new standard, OCG staff explained that these costs are now capitalized upfront and amortized over the useful life of the asset.

Income Tax Estimations

Members inquired about the difficulty in estimating income tax revenues and if other estimation models exist. The Comptroller General shared that based on new information and the current economy it is worth examining other estimation options. She added that the OCG is considering engaging a third-party to review and assess the estimation approach to provide additional options. She noted that the Office uses the best information available, but estimations will always carry some uncertainty by nature.

FRAUD RISK AND FINANCIAL STATEMENTS: B.C. PUBLIC SECTOR, PART 1 (MARCH 2023)

The Committee reviewed the Office of the Auditor General's (OAG) March 2023 information report titled *Fraud Risk and Financial Statements: B.C. Public Sector, Part 1* at its April 5, 2023 meeting. The report detailed the results of a fraud risk management questionnaire distributed by the OAG to public sector organizations.

SUMMARY OF OAG REPORT

As part of the audit of BC's summary financial statements for 2022-23, OAG staff sent a fraud risk management questionnaire to 23 significant public sector organizations, including Crown corporations, school districts, universities, colleges, institutes, and health authorities. OAG staff outlined that management of these organizations have a responsibility to ensure that their financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and to establish and maintain internal controls to ensure the integrity of financial information. They explained that the auditor's responsibility is to reasonably ensure that these financial statements are prepared in line with GAAP and free of material misstatements resulting from fraud or error. The questionnaire focused on perceptions of fraud risk, fraud risk governance, and experiences with fraud in the last year. OAG staff noted that the self-reported data will be used to help the OAG assess the risk of material misstatements due to fraud or error.

While reviewing the results of the survey, OAG staff noted that 61 percent of organizations reported having experienced some form of fraud in the past year, the common types being theft of physical assets and misappropriation of company funds. Forty-three percent of respondents indicated that their organization had experienced theft of physical assets in the last year. Regarding perceptions of fraud risk, OAG staff noted that 17 percent of respondents reported high vulnerability to fraud and 74 percent reported a low perceived vulnerability to theft of physical assets.

OAG staff noted that several organizations also had inadequate programs to monitor, detect, and report fraud. Thirty-nine percent reported having no ongoing process to identify and document fraud risks. Seventeen percent of organizations reported that they had not established a compliance monitoring and reporting function and 17 percent said they had not assessed the need for a fraud hotline. Staff also noted that 35 percent of organizations reported that they did not have a policy dedicated to fraud risk management and 43 percent of organizations said they had not established a schedule to perform fraud risk management evaluations.

OAG staff explained that they are the direct auditors of five of the 23 organizations surveyed, and the results of the survey are shared with the other organizations' auditors, which will inform planning for their 2022-23 financial statement audits.

COMMITTEE INQUIRY

Response Rate

Members inquired as to whether all 23 organizations who received a questionnaire responded and whether the OAG was surprised by the responses. OAG staff outlined that all organizations responded, and it is difficult to articulate surprise because the survey responses are unaudited. They added that the organizations who responded were large and therefore were expected to have some level of sophistication with respect to fraud risk.

Definition of Fraud

The Committee asked for clarification on the definition and severity of fraud measured by the survey. OAG staff explained that the survey did not provide a definition, allowing respondents to apply their own interpretations of fraud. However, they added that the survey outlined several types of fraud and a similar survey was distributed last year suggesting respondents would be familiar with the terminology.

Information Theft

The Committee inquired as to whether there was an assessment of other types of fraud, such as information theft. OAG staff noted that the survey focused on risk of financial fraud only; however, the larger organizations who responded to the survey would have an internal audit and finance committee that would be responsible for assessing fraud risk in other areas. The Auditor General agreed that information theft has become an area of concern, and a target for criminal organizations.

Reasons for the Survey

Members inquired into the intent and benefits of the survey. OAG staff explained that they are responsible for identifying fraud risks for significant financial misstatements and knowing whether there are general procedures in place to assess levels of risk. They added that as organizations respond to these surveys, it may help the organizations' internal audit and finance committees develop their internal audits and identify additional areas of risk. The Auditor General explained that the more that an organization talks about managing fraud, the more likely the organization is to develop and implement programs and policies to manage fraud risk, thereby reducing instances of fraud.

Patterns in Survey Responses

The Committee noted patterns in the responses to several questions and inquired as to whether the answers originated from the same small group of organizations. OAG staff explained that there was some overlap, but the organizations were not completely aligned. Members inquired as to whether the survey identified any characteristics among organizations that the OAG could use to identify organizations in need of assistance. OAG staff explained that for organizations that have risk issues, senior management and boards of those organizations will be contacted. Some of those organizations may be directly audited by the OAG.

Comparability with Previous Survey

The Committee noted that this is the second fraud risk management survey conducted by the OAG and asked what, if any, changes and improvements had been made since the first survey. OAG staff explained that the questionnaire distributed this year was a bit more specific than the previous

questionnaire and given the small number of respondents, the OAG has not compared the results. They added that the data gleaned from the questionnaire could help inform year-end financial statement audit work.

Financial Risks

The Committee asked how much money is at risk of being lost to fraud in the organizations who responded to the survey. OAG staff noted that the survey was not a financial audit and did not focus on dollar figures, rather they were focused on perceptions of fraud risk and what policies are in place to detect financial fraud.

Fraud Risk Tolerance

Members discussed the potential financial consequences of fraud and noted that a considerable amount of public money is at risk of loss. The Comptroller General explained that most organizations operate with a two to five percent margin for fraud and theft, whereas government has a much lower tolerance level because it is responsible for ensuring public trust. He added that this information report covers a wide range of public sector organizations spanning multiple sectors, each with different risk profiles. Organizations will develop their risk management programs based on the types of risk to which they are most exposed.

Consequences

Members inquired into the consequences for significant instances of fraud or theft. The Comptroller General explained that any incidence of loss related to malfeasance will result in appropriately measured disciplinary action up to and including dismissal. If there is evidence that fraud has occurred, the provincial government may consider recommending to the relevant deputy minister and the Deputy Attorney General that a report be filed with the RCMP, and these instances would be tracked. The Auditor General noted that nine percent of organizations said they do not have policies and procedures to follow if incidents of fraud are identified.

Efficacy of Training

The Committee noted that public sector employees receive training for fraud risk assessment and inquired as to whether this survey indicates that the training is not working, or simply that people do not perceive it to be working. The Comptroller

General stated that there is a training package on fraud risk awareness which has been deployed to 95 percent of public sector employees. He highlighted that Crown corporations receive a fraud management toolkit for policy direction, a fraud risk assessment package, and have quarterly meetings of internal audit functions but the government does not have direct responsibility for policy direction for Crown corporations. He added that each organization must make their own risk assessments and determine how to prioritize use of their resources to best tackle those risks. To highlight the importance of fraud awareness, the Auditor General noted that public sector organizations across the country have been defrauded of millions of dollars by employees who were able to exploit systems without being noticed.

Perceptions of Fraud Risk

Members noted that there is a discrepancy between the percentage of respondents who noted instances of theft from their organization in the last year, and the percentage who identified risks of theft as low in their organization. They asked whether shoplifting or kickbacks for preferential contracts are classified as fraud. The Comptroller General explained that organizations are assessing an inherent risk of fraud and whether they believe there are controls in place that are sufficient to manage that risk. He added that there are ways to manage moderate risk, such as shoplifting from a store, but it is not possible to remove it. He clarified that both shoplifting and kickbacks are classified as fraud.

Fraud Detection

Members raised concerns over the sophistication of fraud, and inquired into how more opaque types of fraud are detected. The Comptroller General explained that there is a large list of what is considered fraud, all of which have red flags which accountants, controllers, and auditors are trained to detect. He added that organizations' internal policies and controls need to be designed to combat and identify all types of fraud such as having an evaluation team approve procurement contracts and good inventory management practices. The Auditor General added that the United States has implemented a number of innovative and advanced fraud detection mechanisms.

Change Orders

Members inquired into whether other jurisdictions have a similar rate of change orders and whether BC audits change orders. The Comptroller General noted that he is unaware of data from other jurisdictions but explained that change orders are a part of any process. He explained that if a project has a high number of change orders, it may be indicative of poor management; however, the important component is ensuring there are clear practices and policies around management of change orders.

GOVERNANCE OF THE DIVERSITY AND INCLUSION STRATEGY FOR THE PUBLIC SERVICE (MARCH 2023)

The Committee reviewed the Office of the Auditor General's (OAG) March 2023 audit report titled *Governance of the Diversity and Inclusion Strategy for the Public Service* at its April 19, 2023 meeting. The objective of the audit was to determine whether the Public Service Agency (PSA) had implemented a strong governance framework for the *Where We All Belong* diversity and inclusion strategy.

SUMMARY OF OAG REPORT

The audit covered the period between January 2018 and November 2022. This timeframe was selected because it allowed OAG staff to examine the development of the strategy before its launch and to monitor its effectiveness at the halfway point. OAG staff explained that the three-year strategy has four goals, supported by 20 objectives, that were grouped around four themes: leadership in education, structure and alignment, recruitment and retention, and flexibility.

OAG staff explained that the audit found several areas where the implementation of the strategy could be improved, including risk assessment and management, and establishing roles and responsibilities. The audit found that the PSA had identified several risks to the strategy but did not conduct an additional evaluation of the risks' broader impacts or ways to manage risks. As an example, OAG staff noted that the PSA identified resourcing as a risk, but had not fully evaluated what resources were needed to successfully implement the strategy. OAG staff also noted that despite establishing roles and responsibilities for business leads, five recruitment-related objectives had unclear or unestablished objectives as of November 2022.

The OAG found that the PSA had only established documented expectations for ministries with respect to one objective, thereby increasing the risk that strategy objectives would not be implemented. Further, no targets were set for the PSA's performance measurement framework to assess the effectiveness of the strategy nor had any data been analyzed,

though OAG staff noted that the PSA expects to begin using the measurement framework in the summer of 2023.

The OAG made the following seven recommendations, that the PSA: evaluate, mitigate, and monitor risks to implementing the strategy; document staff responsibilities for the five objectives that remain outstanding or unclear, including descriptions of what the work will achieve, planned actions, and timelines for implementation; continue to monitor staff's implementation of all strategy objectives and provide timely feedback; work with ministries to document and communicate ministry responsibilities for each objective that requires ministry participation to implement; work with ministries to monitor ministry implementation of each strategy objective that requires ministry participation to implement; analyze which performance measures should include targets and include these in the measurement framework; and implement a performance measurement framework to evaluate the effectiveness of the strategy and report the results.

SUMMARY OF GOVERNMENT RESPONSE

The PSA accepted all seven recommendations outlined in the OAG's report and will implement them in future iterations of the strategy. PSA officials noted they will continue to strengthen oversight, clarify roles and responsibilities, improve reporting, enhance communication and collaboration with ministries, and implement strategy-specific risk management.

PSA officials explained that many objectives in the strategy will require long-term and ongoing culture change, but work has progressed on many of these objectives. As an example of progress made, PSA officials highlighted that as of April 1, 2023, all job postings are open to individuals residing in any BC community where the hiring ministry has an office. The PSA noted that it will continue working with ministries to monitor ministry implementation of each strategic objective.

With respect to performance measurement targets, PSA officials noted that difficulties can arise if diversity and

inclusion targets are perceived as 'ticking a box', and they will consult with subject matter experts to determine how performance measurement targets can best contribute to a cultural shift. The target date for completion of this process is between fall and winter 2023-24.

PSA officials also noted that the *Anti-Racism Data Act* will provide the PSA with a new framework to collect and use data needed to implement the measurement framework. The PSA will review the draft framework by winter-spring 2024 to determine where improvements can be made, and how those improvements can best balance the additional commitments outlined in the *Accessible British Columbia Act* and the *Declaration on the Rights of Indigenous Peoples Act*.

The Comptroller General further noted that he has been a public servant for a long time and praised the PSA for the work they have done to highlight the importance of diversity and the value of creating an inclusive environment.

COMMITTEE INQUIRY

Strategy End Date

Members noted that the strategy is set to end in 2024 and inquired into how efforts to promote diversity and inclusion will continue. PSA officials explained that this is a rolling strategy that will be continuously updated. The end date outlined in the strategy is the target date for delivery of certain pieces of the objectives outlined in the document; however, the ultimate goal of the strategy is to build a more inclusive organization that reflects the province it serves.

Province-wide Employment Opportunities

Members commented on the benefits of expanding public service employment opportunities and highlighted the importance of ensuring that rural British Columbians across the province are able to work in the public service. The Committee noted that differences between rural and urban connectivity may impact the accessibility of jobs and inquired as to how the PSA was able to expand employment opportunities in rural areas of the province. PSA officials explained that the advent of remote work during the COVID-19 pandemic demonstrated that work could be done differently. They added that consultations with equity-deserving groups revealed that many people wanted to

remain closer to their communities and be public servants. They noted that a historically tight labour market has required the PSA to be more flexible and expand hiring to regions that are more affordable.

Entry-level Qualifications

Committee Members raised concerns that too many entry level jobs in the public service require a university degree, which may limit the candidate pool. PSA officials agreed that it is inappropriate to require a high-level graduate degree for an entry level position and noted that they are working to ensure that lived experience and volunteer experience are considered in the hiring process.

Shifting Culture

Members noted that ensuring that employees better reflect the diversity of the province is important, but inquired as to what steps are being taken to ensure that the culture of the PSA is shifting permanently. PSA officials explained that it is important to ensure that people feel like they belong, and changing a culture is an ongoing process. They explained that during the first year of the strategy, a lot of work was focused on education and engaging in dialog with staff to ensure people have the tools and support needed to foster an inclusive organization. The PSA also focused on breaking down systemic barriers using a variety of methods including acknowledging applicants' lived experience and simplifying job profiles to ensure it is a welcoming organization; these changes have resulted in more diversity at the corporate executive levels as well.

Data Collection

Members of the Committee asked how data is being collected to support the strategy and future decision-making. PSA officials stated that data is self-disclosed in a work environment survey that is conducted every two years, and supported by pulse surveys and a diversity and inclusion survey. They added that the *Anti-Racism Data Act* will assist the PSA in collecting more comprehensive data.

Indigenous Consultation

Members inquired into how Indigenous consultation was incorporated into planning for the strategy. PSA officials noted that the PSA's reconciliation strategy is complementary but

distinct from the diversity and inclusion strategy. The strategy is informed by the *Declaration of the Rights of Indigenous Peoples Act* Action Plan and has three parts: education and learning, which is based on ongoing consultation with Indigenous partners; a youth internship program for Indigenous youth, which is being reviewed with Indigenous partners; and reassessing reconciliation targets.

Measuring Success

The Committee inquired into what metrics will be used to measure the success of the strategy and whether there will be an ongoing audit process that leaves room for adaptability over time. PSA officials explained that they will be examining whether the organization is more representative of the province and whether the organization is more inclusive through workplace and work environment surveys. Additionally, they will be assessing whether simplifying job profiles and modernizing recruitment systems is attracting a broader candidate pool, and whether adjusting cultural days is increasing the length of time people stay at the organization. They noted that the PSA will be reporting on the progress of the strategy.

FRAUD RISK AND FINANCIAL STATEMENTS: B.C. PUBLIC SECTOR, PART 2 (MAY 2023)

The Committee reviewed the Office of the Auditor General's (OAG) May 2023 information report titled *Fraud Risk and Financial Statements: B.C. Public Sector, Part 2* at its October 16, 2023 meeting. The report, which is the second report of a two-part series, set out to assess the perception of fraud among ministries through a self-reported questionnaire.

SUMMARY OF OAG REPORT

As part of the OAG's planning process for its audit of the province's summary financial statements for the 2022-23 fiscal year, the OAG assessed the risk of material misstatements due to fraud or error. As part of this risk assessment, the OAG distributed a questionnaire to all ministries (22 at the time) to obtain insight into their perception of fraud risk management. OAG staff shared that the Office of the Comptroller General (OCG) is responsible for the overall financial management and control systems, but ministries are responsible for designing, implementing, and operating internal controls to ensure accurate and complete financial statement information.

The questionnaire asked ministries about their understanding of fraud risk within their organization, fraud risk governance, processes for assessing fraud risk, controls and processes, detection and investigation, and practices for monitoring and evaluating their fraud risk management program. OAG staff shared that 45 percent of ministries reported experiencing fraud within the last year, most commonly being theft of physical assets and vendor, supplier, or procurement fraud. Regarding fraud risk management, OAG staff highlighted that 50 percent of ministries reported having no ongoing process to identify and document ongoing fraud risks, despite participating in a fraud risk assessment process established by the OCG. Nearly all ministries reported having established fraud compliance monitoring and reporting systems, while 18 percent reported not having established policies and procedures in the event of identified potential fraud. Regarding monitoring and evaluation of fraud risk management, 23 percent of ministries responded that they

have not established a schedule to evaluate the performance of their fraud risk management system.

SUMMARY OF GOVERNMENT RESPONSE

OCG staff shared that the questionnaire's specific focus on ministry-level fraud risk management led to disparities between the answers provided in the questionnaire and the actual fraud risk management programs in place. OCG staff noted that all ministries are subject to a corporate fraud policy which includes annual fraud risk assessments, supports for management and staff, and compliance and reporting processes. The Comptroller General shared that his Office followed up with the ministries to validate their responses to the questionnaire and OCG staff were of the view that limitations in the questionnaire's approach provided an incomplete picture of the government's fraud risk management as it did not include government-wide fraud risk management programs and key corporate fraud risk elements. OCG staff expressed concern that the information report does not provide the public an accurate understanding of government's fraud risk management program and stated that through their validation work they determined the fraud risk management program is working as intended.

COMMITTEE INQUIRY

Questionnaire Responses

Committee Members inquired about the difference between what was reported by the ministries in the questionnaire and the existing fraud risk management program. The Comptroller General shared that the questions were specifically focused on each ministry's experience, fraud policies, and fraud risk management results. He noted that some ministries do not have their own fraud policies or practices as they do not have public-facing programs that expose them to certain types of fraud, but they are subject to corporate policy. He added that the questionnaire was not shared with other corporate entities that have contextual responsibilities for

fraud risk management and related items within ministries and government. OAG staff shared that the questionnaire was designed to better understand the perception of fraud risk within ministries to help the OAG understand the potential impact of fraud on financial reporting, not to audit the government's fraud risk management program. OAG staff noted that they conducted a previous audit of the OCG's fraud risk management program and found its framework to be effective, but they did not audit its implementation.

Information Report Insights and Objectives

Committee Members asked about the objective and effectiveness of the questionnaire in gathering information to support the audit process. OAG staff shared that the questionnaire was designed to gather information about the perception and understanding of fraud risk management among ministries. This in turn helps inform the OAG's assessment of fraud risk. OAG staff reiterated that there are no conclusions in the information report, the OAG only shared information that was provided to them by the ministries through the questionnaire. Members sought clarity on the nature of information reports, as opposed to the audit reports produced by the OAG. In addition to helping with its audit planning work, OAG staff noted that this information report and others like it contribute to increasing awareness and dialogue around fraud and mechanisms in place to prevent it. They shared that the type of validation work completed by the OCG is an example of this, as it helps reduce the risk of fraud as ministries now better understand the corporate and ministry responsibilities around fraud.

Perception of Fraud Risk

Members inquired about comments made by OCG staff regarding the potential for increased fraud risk based on the OAG report. OCG staff shared that based on the negative perception of the government's fraud risk management presented in the report, bad actors may be emboldened to try fraud schemes designed to test the fraud risk management system. The Comptroller General added that the biggest fraud risk is often employees who feel inclined to take a chance to commit fraud.

B.C.'S COVID-19 RESPONSE: DESTINATION DEVELOPMENT GRANTS (MAY 2023)

The Committee reviewed the Office the Auditor General's (OAG) May 2023 audit report titled *B.C.'s COVID-19 Response: Destination Development Grants* at its October 16, 2023 meeting. The audit set out to determine if the Ministry of Tourism, Arts, Culture, and Sport administered Destination Development grants under the Community Economic Recovery Infrastructure Program following government transfer payment policy and program guidelines.

SUMMARY OF OAG REPORT

In response to the COVID-19 pandemic, the BC government developed the Community Economic Recovery Infrastructure Program to support economic recovery, development, and resiliency in communities. As part of this program, Destination Development grants were administered by the Ministry of Tourism, Arts, Culture, and Sport to support the recovery of the tourism industry which was severely impacted by the pandemic. Grant funding was provided to local governments, and not-for-profit and Indigenous organizations for tourism-related infrastructure projects. The OAG audit examined how the Ministry developed and administered Destination Development grants, examining program design, evaluation processes, monitoring systems, and reporting structures. The audit covered the first two rounds of grant funding in 2021 and 2022, which distributed \$41.1 million in funding.

The report found that the Ministry followed appropriate government transfer payment policies and program guidelines but identified minor inconsistencies and gaps in both the evaluation process and the monitoring strategy. The report noted that a systematic approach was used to evaluate grant application eligibility, but in some instances, the evaluation guidance provided by the Ministry was not interpreted consistently by grant application evaluators, or evaluation documentation was missing. While due diligence was completed on all applications, the report noted that certain responsibilities or expectations in the application evaluation guidance were not clearly defined by the Ministry. Regarding

monitoring, the audit found that the Ministry tracked compliance with grant requirements and addressed instances of non-compliance; however, there were gaps in the Ministry's monitoring documentation. Further, a gap in the monitoring process resulted in the delayed receipt of some expenditure information.

The OAG made four recommendations: ensure evaluation guidance defines all aspects of the evaluation process; ensure staff document their rationale for evaluation and funding decisions; define a due diligence process in evaluation guidelines to ensure recipients meet program objectives; and improve the design of the monitoring strategy to ensure timely receipt of expenditure reports to monitor grant requirement compliance.

SUMMARY OF GOVERNMENT RESPONSE

The Ministry accepted all recommendations and has integrated them into its redesigned Development Destination Fund Program which was launched as the OAG audit was being conducted in fall 2022. Ministry officials shared that they developed a detailed grant evaluation guidebook to clearly define the evaluation process. They also noted that robust risk assessment instructions, criteria and scoring guidelines, and a new evaluation scoring matrix have been implemented as part of the program redesign. They added that a two-stage intake process has been developed to ensure that projects clearly align with program objectives.

Regarding documentation, Ministry officials shared that new program management software has been implemented to improve the documentation of the rationale for evaluation and decisions at each stage of the process. To ensure more timely expenditure reports, Ministry officials highlighted improvements to its monitoring strategy, including simplified and clearer instructions for reporting progress and assigning specific deadlines to submit reports.

COMMITTEE INQUIRY

Program Evaluation

Committee Members inquired about how the economic impacts of projects that received grant funding are assessed. Ministry officials shared that as part of the program redesign, project progress reports now require more detailed reporting on areas such as increased visits, tourism expenditures, and community benefits. Ministry officials added that they work closely with regional destination management offices and other tourism sector partners to monitor the success of tourism projects.

Program Uptake

Members asked the Ministry about the subscription rate for Destination Development grants. Ministry officials shared that over \$100 million was initially requested in funding supports during the first grant application intake period in 2021, suggesting the program was considerably oversubscribed. They added that the initial intake period carried over into the second round of funding in 2022 due to the volume of applications.

Project Permitting

Committee Members noted that there was no requirement to have approved construction permits to receive grant funding, even though the focus of the program was for construction-ready projects. Ministry officials shared that while initially there was not a requirement under the program to have approved permits, of the 106 approved projects, only four did not proceed. They added that as part of the redesign of the Destination Development Fund, permit approval for projects is now a requirement to proceed under the program.

BOARD OVERSIGHT OF CYBERSECURITY RISK MANAGEMENT AT VANCOUVER ISLAND UNIVERSITY (JULY 2023)

The Committee reviewed the Office of the Auditor General's (OAG) July 2023 audit report titled *Board Oversight of Cybersecurity Risk Management at Vancouver Island University* at its November 6, 2023 meeting. The objective of the audit was to determine whether Vancouver Island University's board of governors provided oversight of the university's cybersecurity risk management practices.

SUMMARY OF OAG REPORT

As background, the Auditor General noted that post-secondary institutions depend on information technology both to deliver education and manage personal information. He highlighted that cyberattacks are increasing, noting that they can lead to unauthorized access to sensitive information as well as reputational damage. At Vancouver Island University (VIU), as with other post-secondary institutions, management is responsible for conducting risk assessments and implementing risk mitigation processes, while the role of the board of governors is to oversee cybersecurity risk management and hold management accountable for its delivery.

To determine if the board provided oversight, the audit examined documentation on roles and responsibilities, board training, and whether the board reviewed the risk management framework and mitigation strategies. The audit found that while the board has documentation that defines its responsibilities for overseeing cybersecurity risk management, the risk management policy was out of date. Regarding board training, OAG staff noted that the orientation for board members lacked guidance on providing oversight of cybersecurity risk management and there was no development program to increase board members' knowledge in this area. Lastly, OAG staff shared that while VIU has developed a risk management framework, for most of 2022-23 the board had not reviewed management's evaluation and responses to cybersecurity risks, which include its compliance with legal and regulatory requirements. As such, the audit concluded that the board had not provided oversight of the university's

cybersecurity risk management practices. The OAG made four recommendations: ensure that governance and policy documents defining roles and responsibilities for cybersecurity risk management are reviewed and approved as scheduled; create an annual development program and ensure board members receive annual training on cybersecurity risk management; update the orientation program to include information on the roles and responsibilities for oversight of cybersecurity risk management; and review cybersecurity risk mitigation strategies throughout the year.

SUMMARY OF GOVERNMENT RESPONSE

VIU accepted all four audit recommendations with plans to implement them by December 31, 2023. VIU staff shared that the university has updated its enterprise risk management policy which was approved by the board in April 2023. The policy establishes a risk management framework and as part of this, the board will receive ongoing reports from VIU administrators on cybersecurity risk and how it is being managed. Regarding board orientation and training, VIU staff noted plans to implement an annual development program for board members, as well as changes to include more information on cybersecurity risk management in the board orientation program. Further, an annual orientation meeting will be held for all board members rather than just new members.

The Deputy Minister of Post-Secondary Education and Future Skills highlighted work done by the Ministry to support cybersecurity. Some of this work is delivered through BCNET, a Crown corporation that provides cybersecurity services to all public post-secondary institutions. These services include vulnerability scanning, security information event management, and firewall services. The Deputy Minister noted that some other public sector organizations have also chosen to join BCNET. Regarding training, the Deputy Minister explained that the Crown Agencies and Board Resourcing Office is mandated to deliver training to boards across the

public sector, including on the topic of risk management. Other training activities include a board governance workshop focused on cybersecurity risk management hosted by the Ministry in April 2023 and a cybersecurity risk management forum sponsored by BCNET in October 2023.

COMMITTEE INQUIRY

Selection of Audit Topic

Committee Members asked why the board of governors was audited rather than management. OAG staff noted that they have done previous audits examining management activities for cybersecurity and wanted to look higher up in the chain of responsibility. The Auditor General added that it is important to consider different aspects of cybersecurity, noting that his Office has also examined this issue from a more technical perspective, including an audit of the management of medical device cybersecurity at the Provincial Health Services Authority. Further, he noted that cybersecurity was an area of interest at the Canadian Council of Public Accounts Committees and Canadian Council of Legislative Auditors Conference in September 2023.

Briefings on Cybersecurity Risk Management

Members asked about the work to update the board orientation program, including how VIU developed briefings on cybersecurity risk management. VIU staff noted that they spent a significant amount of time preparing background material for board members' reference to ensure they understood the level to which management assesses the risk as well as the mitigation strategies. They also noted that VIU has provided additional annual training to the board to ensure that it is improving its competence in this area. VIU is also developing a presentation for the next board meeting in response to a series of questions from the Chair of the Finance, Audit and Facilities Committee which is a standing committee of the board.

BCNET

In response to questions about outreach by BCNET, the Deputy Minister explained that most people working in technology in the broader public sector are already aware of BCNET as it has been in existence for a long time. Members also asked if VIU

was already working with BCNET prior to the audit. VIU staff stated that they were working with BCNET and using many of their cybersecurity resources and other networking resources and materials. They added that all chairs of VIU's standing committees participated in the cybersecurity forum hosted by BCNET in October 2023.

ISO 31000 Risk Management Guidelines

Committee Members asked for details, including cost implications, about the ISO 31000 Risk Management Guidelines which form the basis of VIU's updated Enterprise Risk Management Framework. VIU staff explained that the ISO 31000 is an international standard for risk management with a prescribed series of questions and rankings to assess risk. VIU asked all senior managers to complete the ranking system and then the management team met to assess the variations in the responses. VIU staff noted that there is a full-time enterprise risk manager who undertakes this work, so associated costs are included in the salary for that position.

ANNUAL FOLLOW-UP REPORT: STATUS OF PERFORMANCE AUDIT RECOMMENDATIONS (2019–2021) (JULY 2023)

The Committee considered the Office of the Auditor General's (OAG) July 2023 report titled *Annual Follow-up Report: Status of Performance Audit Recommendations (2019–2021)* at its November 6, 2023 meeting. The OAG report provides limited assurance on the reports that audited entities submitted regarding their progress implementing recommendations from 18 performance audits published between 2019 and 2021.

SUMMARY OF OAG REPORT

OAG staff explained that, in response to a request from the Committee that the OAG provide assurance on the status of performance audit recommendations, this report reflects a new approach to follow-up on performance audits. In the previous process, audited entities submitted annual "Action Plan and Progress Assessments" to the Committee reporting on the status of recommendations, planned and completed actions, and targeted timelines. The OAG did not provide assurance on these assessments.

For the new process, OAG staff shared that in fall of 2022 they asked audited entities to prepare progress reports confirming and summarizing the status of recommendations as of November 30, 2022. The OAG reviewed the progress reports to assess whether they faithfully represented the entity's progress which involved meeting with staff, reviewing key documents, and carrying out additional procedures as needed. OAG staff noted that unlike in the previous process in which they coordinated with the Office of the Comptroller General, in the new process they coordinated with the Office of the Premier to determine responsibility across the audited entities. They also stated that this process will be expedited next year as they plan to publish the second annual follow-up report in May 2024.

Regarding the results of the review, OAG staff shared that as of November 30, 2022, government had implemented 42 percent of the 112 recommendations from the 18 performance audit reports that were published between

2019 and 2021. They added that some recommendations are more complex and time-consuming than others to complete, and that in most cases, entities reported work underway to implement incomplete recommendations. OAG staff noted that entities expressed support for implementing all of the recommendations except one from the audit report *Detection and Response to Cybersecurity Threats on BC Hydro's Industrial Control Systems*. This recommendation asked BC Hydro to implement detection mechanisms and monitor, in real time, for anomalous activity on systems and devices related to industrial control systems. According to BC Hydro's progress report, it intends to implement these mechanisms where it is technically feasible to do so but cannot implement detection mechanisms on analogue devices.

COMMITTEE INQUIRY

Coordination with the Office of the Premier

Committee Members expressed concern about the involvement of the Office of the Premier in the process and asked for clarification about this. The Auditor General noted that ultimately the Office worked with the audited entities on the report. OAG staff explained that when they were developing the process, they spoke to the Comptroller General and Deputy Minister of Finance who were clear that they did not have responsibility for coordinating the follow-up process and that accountability for each progress report was with each individual deputy minister or CEO. They added that the *Auditor General Act* requires the OAG to embargo a report seven days prior to publication with the minister responsible, which in this case was the Office of the Premier because that office has overall responsibility for the entities involved. Members asked if the OAG ever communicated to the Committee that the Office of the Premier would be involved in the process. OAG staff noted that they originally planned to coordinate through the Office of the Comptroller General, but it became clear in later discussions that this was not appropriate.

Themes in the Progress Reports

Members inquired about any themes that emerged in the progress reports. OAG staff noted that the audits addressed many different topics and the recommendations varied in terms of the amount of work or engagement required to complete them. As such, it was difficult to identify any major trends. The Auditor General added that he expected to see a common theme in the responses regarding the COVID-19 pandemic delaying progress but that was not the case.

Measuring Completion of the Recommendations

Noting that entities reported work underway to implement many of the recommendations reported as incomplete, Committee Members asked if there is a way to include more nuance in the reporting of the status of recommendations beyond “complete” or “not complete.” The Auditor General described different approaches to this reporting undertaken in other jurisdictions such as having multiple categories to indicate whether a recommendation is “nearly complete” or “significantly complete.” He advised that such an approach can complicate and lengthen the process. OAG staff added that for next year’s report they have added planned completion dates to the progress report template.

Reporting Lags

In response to comments about the lag between the completion of the progress reports by audited entities and the release of the OAG report, the Auditor General confirmed that the next report will be released in May rather than July. OAG staff noted that while it takes time to work with each entity in this process, there is value in terms of clarifying and adjusting the progress reports before they are finalized.

Enforcement

Members asked about ways to increase compliance with performance audit recommendations. The Auditor General noted that the OAG has no control over the implementation of recommendations. He shared that when he worked in Nova Scotia, the Public Accounts Committee followed up with entities who reported less than 80 percent of recommendations complete after two years. He linked this scrutiny by the Nova Scotia Committee with an improvement in the completion rate for recommendations in that province.

COMMITTEE FOLLOW-UP

This year, the Committee adopted a new process to follow up on the implementation of OAG report recommendations: the OAG issues an annual follow-up report that provides limited assurance on the annual progress reports submitted by audited organizations. The first such report, considered by the Committee on November 6, 2023, covered recommendations from audits published in 2019, 2020, and 2021 (see page 27). Outstanding recommendations from audit reports published in 2018 or earlier were not included in this process so any follow-up on these reports was the Committee's responsibility.

As noted in the Committee's previous annual report, on February 3, 2023, the Committee considered additional information and presentations regarding 15 audit reports not included in the new process and determined that no further follow-up was required. This left nine audit reports in the hands of the Committee to determine any follow-up. The Committee met on April 5, 2023, to consider these remaining audit reports. Members noted that significant changes have occurred since these audits were published which reduce the relevancy of the recommendations. As such, they determined that no further follow-up was required with respect to these reports. With this decision, all audit reports will now be addressed in the new follow-up process.

Following consideration of the OAG's *Annual Follow-up Report: Status of Performance Audit Recommendations (2019–2021)* at its November 6, 2023 meeting, Committee Members discussed the progress made by organizations in

implementing audit report recommendations. Members noted that several of the audited organizations had implemented less than 50 percent of the recommendations and agreed that this was a useful benchmark in determining which organizations to follow-up with. Committee Members also considered other factors in their discussions such as the nature and seriousness of the audits and recommendations and whether there were specified timelines in place for implementation. The Committee agreed to request follow-up presentations regarding eight audit reports.

At the meeting on November 29, 2023, Committee Members discussed the motion that was adopted on November 6. Some Members noted that the information included in the OAG report on the status of the implementation of recommendations was from November 2022, and that the audited organizations would be providing additional status updates to the OAG soon. As such, some Members were of the view that it would be preferable to wait for the next annual follow-up report from the OAG to discuss potential follow-up based on more up-to-date information. Other Members highlighted the importance of the Committee's follow-up process in ensuring transparency and accountability and were of the view that the Committee should proceed with the requested presentations as previously agreed. The Committee was unable to come to a unanimous decision on this matter and therefore agreed, on division, to rescind the motion that was adopted on November 6.

COMMITTEE DECISIONS

The Committee adopted the following motion on April 5, 2023:

That the Select Standing Committee on Public Accounts pursue no further follow-up on the following Office of the Auditor General reports:

- *Audit of the Evergreen Line Rapid Transit Project (2013)*

- *Oversight of Physician Services (2014)*
- *An Audit of the Education of Aboriginal Students in the B.C. Public School System (2015)*
- *Monitoring Fiscal Sustainability (2015)*
- *An Audit of the Adult Custody Division's Correctional Facilities and Programs (2015)*
- *An Audit of Mid-size Capital Procurement in Post-Secondary Institutions (2016)*
- *An Audit of B.C. Public Service Ethics Management (2017)*
- *Promoting Healthy Eating and Physical Activity in K-12: An Independent Audit (2018)*
- *An Independent Audit of Executive Expenses at School District 61 (2018)*

The Committee adopted the following motion on November 6, 2023:

That the Select Standing Committee on Public Accounts request the audited organizations appear before the Committee to provide an update on the status of implementing recommendations in the following reports of the Auditor General of British Columbia at the earliest opportunity:

- *Oversight of Contracted Residential Services for Children and Youth in Care (2019)*
- *The Protection of Drinking Water (2019)*
- *Management of Forest Service Roads (2020)*
- *Management of the Conservation Lands Program (2021)*
- *Oversight of Dam Safety in British Columbia (2021)*
- *Ensuring Long-distance Ground Transportation in Northern B.C. (2021)*
- *The BC Oil and Gas Commission's Management of Non-Operating Oil and Gas Sites (2019)*
- *Access to Emergency Health Services (2019)*

The Committee adopted the following motion on division on November 29, 2023:

That the order of the Select Standing Committee on Public Accounts of November 6, 2023, with respect to requesting audited organizations appear before the Committee to provide an update on the status of implementing audit report recommendations, be discharged in recognition of the fact that the Committee made its decision based on information dated November 30, 2022, as contained in the Office of the Auditor General's *Annual Follow-up Report: Status of Performance Audit Recommendations (2019-2021)*.

OTHER MATTERS CONSIDERED BY THE COMMITTEE

GOVERNMENT RESPONSE AND RECOVERY EFFORTS FOR 2021 LYTTON WILDFIRE

On October 16, 2023, the Committee considered a motion to request the Auditor General undertake an examination of the Government of British Columbia's response and subsequent recovery efforts related to the June 30, 2021 wildfire that devastated the community of Lytton and the immediate surrounding area, with a view to supporting the return to homes and communities, and that the examination include a review of processes, timelines, and results as they relate to initial response, ongoing recovery efforts, procurement, and public expenditures of funds. In speaking to the motion, some Members noted the lack of progress on rebuilding homes and businesses more than two years after the fire. They also cited a lack of transparency on timelines as well as roles and responsibilities for decision-making related to recovery efforts. Other Members raised concerns regarding the authority of the Auditor General with respect to auditing local governments and questioned whether an audit would help to expedite recovery efforts. Following discussion, the motion was defeated.

before the Committee to make a decision on the matter. As such, the motion was defeated.

CLEANBC GO ELECTRIC PROGRAM

At its April 3, 2024 meeting, the Committee considered a motion to request the Auditor General undertake an examination of the Government of British Columbia's CleanBC Go Electric program, including but not limited to the Commercial Vehicle Innovation Challenge and the advanced research and commercialization program administered by MNP LLP with a view to examining any potential conflict of interest relating to program administrators charging success fees to successful applicants who use their advisory services. Some Members noted that the possibility of a conflict of interest had been raised by several individuals and stated that some ministers were aware of these concerns. Other Members were of the view that there was not enough information

