MINISTRY OF PUBLIC SAFETY AND SOLICITOR GENERAL
GAMING POLICY AND ENFORCEMENT BRANCH

Status update for Comptroller General's Report on the Gaming Policy and Enforcement Branch – Audit and Compliance Division

In August 2005, the Office of the Comptroller General completed an assessment review of the Audit and Compliance Division in the Gaming Policy and Enforcement Branch (GPEB). The purpose of the review was to assess the division's audit and compliance framework, including staff resource allocation, audit services delivered, and audit results management. The review also evaluated the division's performance measures and targets to determine their suitability.

The report focused on three areas:
- The audit and compliance framework and how it delineates the work of the division;
- The alignment of audit services with the audit and compliance framework; and
- Program results, specifically, how the division evaluates and monitors performance measures.

Attached is the Comptroller General's report, including GPEB's response to the report's recommendations. A status report outlining actions taken with regard to these recommendations is also attached.

Click on link to go directly to report.

Office of the Comptroller General's Report on GPEB – Audit and Compliance Division

Status Report of Recommendations from Office of the Comptroller General's Report on GPEB – Audit and Compliance Division

Report on Gaming Policy and Enforcement Branch – Audit and Compliance Division

Ministry of Public Safety and Solicitor General

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Internal Audit & Advisory Services
Office of the Comptroller General
Ministry of Finance

Date of fieldwork completion: August 2005

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Glossary

BC	British Columbia
BCLC	British Columbia Lottery Corporation
ERM	Enterprise-wide Risk Management
GCA	*Gaming Control Act*
MOU	Memorandum of Understanding
the Branch	Gaming Policy and Enforcement Branch
the Division	Audit and Compliance Division
the Framework	Audit and Compliance Framework
the ministry	Ministry of Public Safety and Solicitor General

Executive Summary

We have completed our review of the Audit and Compliance Division (the Division) of the Ministry of Public Safety and Solicitor General's Gaming Policy and Enforcement Branch (the Branch). The purpose of our review was to assess the Division's Audit and Compliance Framework, including staff resource allocation, audit services delivered and audit results management. We also reviewed the Division's performance measures and targets to determine whether they are sufficient to communicate program results.

Audit Framework

We found that the Audit and Compliance Framework accurately outlines the overall structure of the Division's program. Further clarifying certain activities within the structure will support a more full and common understanding of the program's goal, mandate and objectives. In addition, developing the Framework into policies and procedures based on professional auditing standards will facilitate consistent interpretation and application of audit concepts, methodologies and techniques, and support a systematic approach to completing audit work. Communicating policies and procedures within a comprehensive audit manual will also help ensure consistency in the quality of audit work.

We noted that the Division has been taking steps to integrate a risk-based approach to conducting audits. Further integrating risk-based approaches will support the Division in ensuring their limited resources are directed to the areas of greatest risk and benefit, particularly when reviewing BC Lottery Corporation's audit program of commercial gaming.

Audit Services

We assessed audit services in relation to the audit Framework and found that, while generally well aligned with the Framework, some services require clarification to ensure a common understanding among staff and relevant divisions within the Branch. For example, the Framework suggests staff are required to continually seek opportunities to enhance compliance and improve business processes without the Division's service plan having a specific strategy or processes to ensure such opportunities are taken.

We also noted opportunities to further strengthen audit services and standards by:

- continuing to adopt and expand risk-based planning processes;

- developing more comprehensive audit programs, for charitable audits in particular, to ensure sufficient depth and rigour in the audit work;

- enhancing report content for clarity and consistency; and

- enhancing file documentation to support quality assurance.

The Division has gained valuable experience during the past two years of operating and we encourage the Division to continue to enhance the effectiveness of audit services to help mitigate their two key risks of credibility with stakeholders and third party reliance.

Program Results

We found that the Division tracks key performance measures and rolls up the information monthly for management review and assurance that targets are being met. We noted that the measures primarily focus on quantitative results, such as the number of audits completed. Developing qualitative indicators will better communicate program successes and outcomes and provide a more balanced perspective of performance over time. For example, measuring client satisfaction and the nature and frequency of exceptions will assist in demonstrating enhanced compliance and continuously improving operations through identifying risks, trends, and training opportunities.

The remainder of this report details the purpose, scope, and objectives of this audit, along with our detailed comments, conclusions and recommendations. We appreciated the opportunity to share additional information and tools with Division staff subsequent to completing our fieldwork, to support them in implementing some of the recommendations made in this report. We extend our appreciation to the management and staff of the Division for their assistance and co-operation throughout this audit.

Dan Ho
A/Executive Director
Internal Audit & Advisory Services

February 2, 2006

Introduction

The Gaming Policy and Enforcement Branch (the Branch), Ministry of Public Safety and Solicitor General (the ministry), is responsible for gaming policy and legislation, standards, regulation, licensing, registration, distribution of gaming proceeds, and enforcement for all gaming sectors, and management of the province's Problem Gambling Program and related initiatives.

The Branch regulates all gaming in British Columbia (BC), ensures the integrity of people and equipment involved in the gaming industry and investigates allegations of wrongdoing. This includes regulatory oversight of the BC Lottery Corporation (BCLC), (which conducts and manages lotteries, casinos and commercial bingo halls), BC's horse racing industry, and licensed gaming events.

In 2001, five different gaming agencies were consolidated to form the branch. To support this new structure, the *Gaming Control Act* was introduced in 2002, which established a comprehensive framework for regulating and managing gaming in BC. An objective of this framework is to balance economic activity with public safety.

Commercial gaming generates approximately $2.3 billion dollars each year. The Province will receive an estimated 2004/05 net revenue of $852 million which will be distributed to the people and communities of British Columbia.

The Audit and Compliance Division (the Division) of the branch conducts regular audits of gaming activity in British Columbia, assesses compliance reviews conducted by the BCLC and reviews community organizations' use of funds received through gaming licences, the direct access grant program and/or affiliation with a commercial bingo hall. The Division is comprised of two operating units, Commercial Audit and Charitable Audit.

Purpose

The branch requested that Internal Audit & Advisory Services conduct an effectiveness review of its regulatory framework, including the Division's audit and compliance program.

Scope, Objectives and Approach

The purpose of this assignment was to assess the effectiveness of the branch's Audit and Compliance Framework. Specifically, we assessed whether:

- the Audit and Compliance Framework was risk-based and structured such that:

  ➢ staff resources were allocated to support achieving the intended results;

  ➢ services were delivered in a manner consistent with defined auditing standards, policies and procedures; and

  ➢ audit results were reported and assessed overall to ensure program objectives are being achieved.

- performance measures and targets were monitored, reported and sufficient to effectively communicate program results.

The scope of this review did not include an assessment of the current information systems (CAGE and FIGARO) due to plans to create a new system for data collection.

Comments and Recommendations

1.0   Audit and Compliance Framework

To assess the program's effectiveness by determining whether the Audit and Compliance Framework (the Framework) is risk-based and structured such that:

- **staff resources are allocated to support achieving the intended results;**

- **services are delivered in a manner consistent with defined auditing standards, policies and procedures; and**

- **audit results are reported and assessed overall to ensure program objectives are being achieved.**

Conclusion

We found that the Audit and Compliance Framework accurately outlines the overall structure of the Division's program, although further clarifying certain activities within this structure will support a more full and common understanding of the Division's goal, mandate, and objectives. In addition, developing the audit Framework into Division policies and procedures within a comprehensive audit manual will support staff in taking a systematic, disciplined approach to completing audit work.

We noted that the Division has taken steps to integrate a risk-based approach to conducting audits. Further integrating a risk-based approach to auditing will strengthen the Framework and support achieving intended results through allocating limited staff resources to the areas of greatest risk and benefit. Delivering audit services in a manner consistent with the defined auditing standards and policies and procedures, and assessing overall audit results, will continue to enhance program effectiveness. Based on the experience gained during the past two years, it appears that the Division is well positioned and focused on promoting continuous improvement to program operations and effectiveness.

1.1   Audit and Compliance Program Framework

Purpose and
Direction

The Division's Audit and Compliance Framework describes the overall mandate and the manner in which audit work is approached for each aspect of gaming in BC. The Framework outlines the program's overall purpose and direction including goal and mandate, objectives, audit philosophy, scope, approach and business relationships.

We found that the goal and mandate, including specific objectives, stated in the Framework are consistent with the Division's service plan and noted some opportunities to build on the Framework to enhance clarity by:

- communicating the purpose for incorporating a horse racing audit framework into the overall Framework by referencing the Division's responsibility for public interest standards for security and surveillance and responsible gaming in regards to the race track "front side" operations; and

- defining stakeholders to help ensure operations and reporting are aligned with stakeholder requirements and that there is a common understanding of the Division's accountability relationships.

Recommendation

(1) **We recommend that the Division update the Framework to more fully reflect the Division's purpose and direction by:**

- **clarifying its mandate for horse racing; and**

- **more specifically defining its stakeholders.**

Ministry Response

(1)   *We accept the recommendation and will include this content in our new audit manual (see Recommendation 3).*

Policy
Framework

We also noted that the Division would benefit from developing the Framework into policies, supported by clear and concise procedures, to help ensure a systematic, disciplined approach to completing the audit processes. Policies and procedures will facilitate consistent interpretation and application of audit concepts, methodologies and techniques and serve as a basis for evaluating auditor performance. We were informed that the Division plans to

develop a policy framework and we suggest it be based on professional internal auditing standards and that it clearly communicate jurisdictions (i.e., federal and provincial) and limitations over horse racing audits.

Recommendations

(2) We recommend that the Division evolve the Framework to become a document of comprehensive policies supported by clear and concise procedures.

Ministry Response

(2) We accept the recommendation and will include this content in our new audit manual (see Recommendation 3).

Audit Manual

Once the Division has defined policies and procedures, the information can be developed into a comprehensive audit manual, which serves as a primary reference source for directing audit work and supporting consistency and quality in the work. Currently, the Division's audit manuals contain audit programs and, building on this, the Division will need to include information such as:

- professional auditing standards, including documentation standards that demonstrate transparency and accountability in the work performed (i.e., sufficient audit programs, working papers, cross-referencing, appropriate evidence that provides persuasive support for the conclusions);

- guidelines to perform each audit phase, including planning, fieldwork, reporting and follow-up, to promote a systematic approach in completing audit projects;

- policy statements with detailed procedures to support consistency and intended results, such as setting up parameters within which auditors are to exercise professional judgment in planning, performing, and reporting on audit engagements;

- types of risk and risk assessment guidelines, including those to detect potential criminal activity for referrals to the ministry's Investigation Division; and

- audit forms, templates and checklists.

A comprehensive audit manual will help to clearly define auditor roles and responsibilities, including expectations to support other divisions in the ministry through activities such as verifying registration status of gaming workers for the Registration Division. The manual can also communicate the legal mandate for work performed, including audit authority and any scope limitation as defined in the *Gaming Control Act* (GCA) and Memorandum of Understanding (MOU) with BCLC. Communicating BCLC's accountability under the GCA and the reason for having an MOU with BCLC will also support a common understanding among staff.

Developing an audit manual of policies and procedures that sufficiently guide staff in performing risk-based audit engagements will help ensure resources are focused on the areas of greatest risk and benefit and support the Division in achieving program objectives and mitigating their risks. We have provided an audit manual template for the Division to use in developing their own manual along with information in Appendix A regarding key information to include in the Division's audit manual.

Recommendation

(3) **We recommend that the Division establish and incorporate policies and procedures, based on auditing standards, into a new audit manual.**

Ministry Response

(3) *We agree. Work is already under way to develop a new audit manual based on policies and procedures recommended to us during completion of the audit fieldwork.*

1.1.1 Risk-Based Approach in the Framework

The Division's audit Framework has outlined a risk-based approach for audit scope decisions relative to the type of engagements conducted and the minimum number of engagements to cover the identified risk areas. We noted that staff have recently been involved in the Branch Business Process Review, the Divisional Risk Assessment and trained in Enterprise-wide Risk Management to support them in making informed decisions about risk-taking and the degree of control required.

The Division also plans to strengthen the Framework through further integrating a risk-based approach to reviewing BCLC's audit program. BCLC's audit program covers audit and inspection of gaming service providers, facilities and financial records to ensure compliance with BCLC Casino, Bingo and Race Track Operational Service Agreements, Standards, Policies, Procedures, and instructions. The Division's audit plans for 2005/06 include:

- reviewing BCLC's automated casino management and reporting systems, and testing the operation of these systems in the field; and

- gaming site audits that include a risk assessment based on information in occurrence reports, BCLC audit findings, and previous Branch audits.

The Branch also intends to take a risk-based approach to assessing BCLC's audit program, including the appropriateness of their audit methodology and coverage, and the effectiveness of the program in strengthening controls. Effectively examining BCLC's audit program will provide reasonable assurance that processes are functioning as intended and further assure ministry management on the integrity of commercial gaming.

Recommendation

(4) **We recommend that the Division implement plans to review BCLC's audit program, including the appropriateness of BCLC's audit methodology and coverage and the effectiveness of the program in strengthening controls.**

Ministry Response

(4) *The Division's 2005/06 business plan included examination of BCLC's e-gaming system (Play Now) and assessment of the overall effectiveness of BCLC's audit process. The mandate has been extended to other BCLC systems as a result of the Auditor General's examination of the integrity of casino gaming. Our work has been in process for some time.*

1.1.2 Staff Resource Allocation and Tracking

We noted that the Division completes audit plans annually, has estimated standard times to complete audits and allocates staff resources based on target levels of coverage for commercial and charitable audits. Currently, staff track total audit hours on timesheets, although not for each type of audit engagement.

Tracking the audit hours by auditor and engagement type (i.e., direct access, bingo affiliations, licence applicants, casinos, commercial gaming centres, etc.) will better identify standard times and assist management in assessing efficiency, economy, and effectiveness in the deployment of resources.

Recommendation

(5) **We recommend that the Division consider tracking audit hours by auditor and audit engagement.**

Ministry Response

(5) *We will consider this recommendation in the future, but do not plan to adopt at this point. Each quarter, we apply standard time estimates for each type of audit engagement to the actual audit work completed and compare the result to actual time expended by our audit staff. We believe this periodic reaffirmation of our standards is sufficient given the current size of our organization and the nature of our engagements. As we grow, or the nature of work changes, we will continue to monitor the need for more sophisticated measures.*

1.2   Service Alignment with Audit Framework

We assessed charitable and commercial audit operations in relation to the overall objectives and direction outlined in the Audit Framework and noted that, in general, services were well aligned with the Framework. Further clarifying the Framework to identify the Division's two key risks (credibility with stakeholders and reliance on third parties to act within their authority) and demonstrate how the Division's audit plan and operations address the risks, will support staff's understanding of their role in mitigating these risks.

The Framework describes applying a mix of tests for commercial and charitable audits, including tests to establish the Division's ability to rely on control procedures within organizations to prevent unwanted outcomes. Although the commercial audit program is based on the detailed procedures outlined by BCLC to help create an effective control environment in commercial establishments, charitable auditors do not use control checklists or other assessment tools to identify gaps in key controls that may increase the risk that funds were used inappropriately. As an example, reviewing key controls in a charitable organization's expenditure payment process may help to identify a concern such as payees

signing their own cheques, which could alert the auditor to an increased risk that direct access funding was misused. In addition, suggesting improvements to address such gaps will strengthen organizations' controls over the funds and help improve overall compliance.

We also noted that audit processes require modification to ensure staff continually seek opportunities to provide value-added service to clients by making recommendations to enhance compliance and/or business processes, as noted in the Framework. Defining a strategy or processes for providing these value-added services will help ensure any opportunities are consistently taken.

Further, we noted that an objective within the Framework requires modification to align with the Division's mandate. Specifically, the Framework indicates that the Division is to provide recommendations for sanctions for non-compliant licensees, grant recipients and registrants, when the Division's mandate does not include making such recommendations.

In the first two years of operation, the Framework's scope for commercial audits included full coverage audits of each commercial service provider (i.e., casinos each year and commercial bingo halls every two years). This coverage allowed the Division to establish a base knowledge from which they may now vary the nature and extent of work according to site-by-site risk profiling. Modifying the Framework to define appropriate variances to nature and extent of work and focusing audit services on certain key risk areas, applying more depth and rigour to these areas as necessary, will help ensure that resources are effectively allocated.

Recommendation

(6) We recommend that the Division include in the Framework:

- **the Division's two key risks (credibility with stakeholders and reliance on third parties to act within their authority) and the audit plans and processes which address these risks; and**

- **direction which ensures that audit scopes are based on risk assessments specific to each commercial gaming site or community organization.**

Ministry Response

(6)   *We agree with the recommendation and will include appropriate coverage in the new audit manual, which is to supersede the existing Audit Framework.*

We agree with the recommendation and will include appropriate coverage in the new audit manual. Site specific risk assessments are already in place as a matter of practice for 2005/06 commercial audit assignments.

1.3   Audit Services and Auditing Standards

We reviewed the Division's audit services, comparing the Division's performance with internal auditing standards defined by the Institute of Internal Auditors. Our review included the following key standards:

- independence and objectivity;

- proficiency and due professional care;

- managing audit activity (i.e., planning, resource management, policies and procedures); and

- engagement planning, performing the engagement, communicating the results and monitoring progress.

While the Division's audit services generally appeared to align with most of these standards, defining and communicating auditing standards will improve the Division's accountability and ensure consistency in the services provided. We were informed that the Division is currently in the process of defining standards and has identified areas within each phase of the audit process, including planning, fieldwork, reporting and follow-up, upon which to focus.

Planning

We noted that the Division documents commercial audit plans considering scope, objectives and approach, but does not document charitable audits in the same way, due to the volume, limited scope and consistent nature of the audits. Documenting planning for charitable audit engagements considering the incremental risk of the entity or event, timing, budget and resource allocations will help ensure that audits are conducted in an efficient, effective and economical manner.

Further, we noted that audit programs or scope were not always adjusted to increase rigour for areas within commercial gaming facilities that had exceptions in prior audits, incident reports from BCLC or that may not have been sufficiently verified by BCLC. Adjusting the Division's audit program for the service provider would help to ensure sufficient coverage of risk areas.

Recommendations

(7) We recommend that the Division:

- **standardize audit planning expectations (i.e., risk assessment, timing, budget and resource allocations) for each type of charitable audit engagement; and**

- **adjust commercial audit scopes and procedures in areas exhibiting prior exceptions or incident reports.**

Ministry Response

(7) We will consider this recommendation, as we are currently adopting a planning checklist for charitable audits. We recognize the value of planning, but must also recognize that our charitable audits are very short, narrow in their focus and almost completely substantive in nature.

When we began adjusting our 2005/06 commercial audit scopes based on site-specific risk assessments, we also built in the facility to increase our coverage in these areas as they arise.

Fieldwork

Overall, we noted that the audit programs require modification to sufficiently establish the procedures and standards for identifying, analysing, evaluating and recording information during an audit engagement. We found that the audit programs do not include criteria and standards against which to compare actual performance in determining compliance. Establishing criteria will help ensure that sufficient, relevant, and reliable evidence is collected to support concluding on each audit objective.

In a limited sample review, we noted two examples where clear audit criteria and detailed approaches would have helped ensure staff:

- had a clear understanding of adequate segregation of duties; and

- properly completed work in assessing whether volunteer Board of Director members received remuneration to operate bingos.

We also found that charitable audit programs were not consistently used and sometimes a checklist was used instead. Without an audit program, there is a risk that steps will be missed and audit objectives will not be met. We noted an example in a direct access file where funds were redistributed to other programs without the required approval documented and audit steps performed to ensure funds were used in the required timeframe.

We noted examples where steps in the commercial audit programs were not completed, properly documented or clear, resulting in a risk that audit objectives may not be met. Specifically, we noted:

- the audit procedure to "observe and document cage controls, segregation of duties and physical security of assets" had no working paper in the file to support that this procedure was performed and to document that proper controls were in place;

- an auditor, completing four of 22 required audit steps, noted on an audit module that head office performed a number of the steps, without documenting the results of the head office work to demonstrate compliance with all controls assessed through the steps;

- in an independent bingo audit, the auditor requested client records for which no audit steps were included in the checklist and it was unclear how this information was used; and

- the Cage and Vault audit program requires a review of a number of logs maintained by the cage, without criteria to clarify the intent of the review.

Further, we noted examples where audit documentation did not clearly indicate whether and how noted exceptions were resolved. In one example, gaming cheques totalling $60,000 were used to reimburse disbursements that were paid through the general account rather than the gaming account. These exceptions were not accompanied by receipts or working papers that documented how this issue was resolved.

The Division has recently taken steps to enhance its audit programs. Audit programs with clear criteria and approaches will support consistently gathering and documenting sufficient, appropriate audit evidence from which a conclusion can be made on the audit objectives.

Recommendations

(8) We recommend that the Division:

- **continue to develop comprehensive audit programs that include criteria, standards and the use of relevant client records; and**

- **reinforce the requirement that auditors routinely use the programs to perform and document their fieldwork.**

Ministry Response

(8) *This has already been done for Commercial Audit and is in progress for Charitable Audit.*

New file review procedures are in place to ensure our existing programs and their successors (see above) are used for audit work.

Reporting

The goal of the reporting phase is to communicate results such that the client accepts the conclusions and implements the necessary changes for compliance. The Division provides audit reports to the clients, BCLC, and the Director of Licensing and Grants Division. In reviewing a sample of reports, we noted opportunities to enhance clarity and conciseness and were advised that the Division has been making improvements to clarify reporting. We also noted that the reports communicate the exceptions that support the issues identified, but require further enhancement to consistently communicate conclusions and convey to management the following:

- scope and objectives in charitable audit reports;

- the authority used (i.e., legislation, regulations) to support findings, such as proper maintenance of gaming records;

- level of assurance in conclusions reported (e.g., based on a small sample);

- reservations that the auditor may have had during the audit; and

- conclusions clearly related to the audit objective and logically supported by findings (e.g., the standard concluding remark in a commercial audit: "Exceptions that relate to internal controls, operational efficiencies and effectiveness, and clarity of policies and procedures remain an integral part of this report" is unclear, particularly when audit procedures do not test for operational efficiency and effectiveness).

Reporting is also an opportunity to further educate the auditee to support enhancing compliance. We were advised that the Division's written reports are not intended to be used for that purpose. Instead, opportunities to educate are to be taken through discussions during the site visit. Implementing processes, such as documenting in the files that discussions occurred, will help ensure auditors take such opportunities to support enhanced compliance. Further, written reports that clearly communicate the organization's performance will help to meet the goal of ensuring the client understands and accepts the audit conclusions and implements the changes for improved compliance and controls.

Recommendation

(9) We recommend that the Division continue to enhance the clarity and conciseness of written reports, include conclusions and take steps to ensure opportunities to educate auditees are consistently taken.

Ministry Response

(9) *We will continue our efforts to enhance clarity and conciseness. Commercial audits already state a conclusion on compliance and we are currently developing a compliance grading system for charitable audits that will allow us to state a compliance conclusion. We will continue our education efforts, but the audit report will not be our medium of choice; we need to make these as concise as possible to deal with consistency risk.*

Follow-up

The primary purpose of the follow-up process is to monitor and ensure that management actions have been effectively implemented. The Division's follow-up process differs for charitable and commercial audits due to the differing nature of these audits.

For charitable audits, the Licensing Division has agreed to perform follow-up for those charitable organizations that have not implemented the planned actions within 60 days. As Licensing Division completes any follow-up, the Audit and Compliance Division does not incorporate the follow-up results into the next audit of that organization. Licensing Division, however, considers the follow-up results when determining eligibility for subsequent applications for funding.

For commercial audits, the Division performs audit follow-up during the next audit completed in the following year or bi-annually and the results are factored into the planning or approach of the subsequent audit.

Enhancing the follow-up process for both commercial and charitable audits, by providing an action plan template, will support monitoring that the audit recommendations have been effectively implemented in a timely manner. The template could include recommendations, planned actions, accountability for completing the planned actions and the targeted timeframe.

Recommendation

(10) We recommend that the Division provide an action plan template with each audit report to help ensure complete responses to the reports and support additional follow-up as appropriate.

Ministry Response

(10) *We accept the recommendation and have decided to adopt OCG's action plan template.*

1.2.2 Quality Assurance

We reviewed a limited sample of charitable and commercial audit files to assess the processes in place to ensure quality standards are met. We noted that the audit managers reviewed and signed-off working papers in a timely manner, although responsibilities and accountabilities for quality assurance were not specified in the Framework or manager job descriptions. Further, it was unclear what quality checks the auditors were required to complete and whether the managers were accountable for ensuring each file contained sufficient, appropriate audit evidence to support all conclusions, comments and recommendations in the audit report. Documenting required quality assurance processes in the Division's audit manual will help ensure standards are met. In addition,

implementing a Reviewer's Checklist will ensure auditors complete key quality checks on their work prior to transferring the file to their manager for review, and also ensure the manager clearly indicates their role in meeting quality standards by having:

- relevant and sufficient working papers that are cross-referenced and signed by the preparer and reviewer on file;

- appropriate evidence to support all findings;

- fully completed audit programs that demonstrate the audit steps performed; and

- an organization risk assessment that considers any past audit results, complaints received, etc.

Recommendation

(11) We recommend that the Division implement a Reviewer's Checklist, which outlines the quality checks that the auditor is to perform prior to transferring the file to their manager and includes manager sign-off on the quality of the file documentation and evidence.

(12) We also recommend that the quality assurance processes be documented in the audit manual.

Ministry Response

(11) *We accept the recommendation and have adopted OCG's review checklist for immediate implementation.*

(12) *We accept the recommendation and will include appropriate content in the new audit manual.*

2.0   Performance Reporting

To assess the program's effectiveness by determining whether performance measures and targets are monitored, reported and sufficient to effectively communicate program results.

Conclusion

The Division monitors and reports on several performance measures and targets to communicate program results. These measures and targets focus on the number of audits performed by program and region, the number of compliance presentations

made, the level of charitable audit compliance and progress on corporate objectives. Building further on the Division's performance measures and targets to capture more qualitative information related to client satisfaction and program delivery will communicate a more balanced perspective of the Division's performance over time.

2.1   Performance Measures and Targets

The Division tracks specific performance measures, such as number of audits performed, and rolls up the information monthly into a "dashboard" document to monitor and ensure that targets are met. Progress in completing audit work is discussed and assessed informally between the Director and Audit Managers on a monthly basis to ensure that the Division is on track for achieving their targets.

Performance Currently Monitored and Reported

The Division currently measures performance related to:

- the number and type of audits performed, monitored monthly to the Division's commitment of auditing casinos each year, commercial bingos every two years, and an annual percentage of charitable gaming organizations, to ensure targets are met;

- the number of Compliance Enhancement presentations provided and participant satisfaction surveys;

- charitable audit compliance, measured by organizations that indicate implementing compliance action (i.e. audit recommendations) prior to being notified of having 60 days to follow-up with Licensing Division; and

- the completion of corporate objectives and Divisional infrastructure (e.g., implementation of Enterprise-wide Risk Management (ERM) and operationalizing the racing audit Framework).

These measures are primarily quantitative and focus on outputs, rather than the intended outcomes, which include:

- mitigating risk to increase credibility with stakeholders and reliability of third parties;

- meeting objectives that support ensuring gaming integrity; and

- increasing compliance through strengthened internal controls in gaming establishments.

We were informed that the Division provides outputs for other divisions in the Branch to use in assessing outcomes and that only one outcome-based measure related to client satisfaction in the Compliance Enhancement Program has been adopted.

Effectively Communicating Program Results

Developing additional performance indicators, which focus on qualitative factors, will help to more effectively communicate program results and provide a more balanced perspective of performance over time. For example, measures might include:

- satisfaction of clients (i.e., service providers, licensees, grants recipients, other Divisions and BCLC) regarding staff conduct and audit processes, to assist in reporting on the intended outcome of increasing credibility with stakeholders;

- financial measures, to assist in reporting on meeting program objectives in a cost-effective manner, including tracking the number of audit hours by audit engagement and auditor to support individual accountability and monitoring staff utilization; and

- business processes, to measure strengthened internal controls in gaming establishments and increased reliability of third parties by tracking:

  - percentage of recommendations implemented or exceptions addressed; and

  - number of days from fieldwork completion to issuing the draft and final report, to demonstrate timely service delivery.

Tracking additional information, such as rolling up key audit results as to the nature and type of issues by region and sector, would support assessing the overall audit results to identify trends, risks, policy issues, training needs and communication opportunities. Identifying and reporting on additional measures that support communicating improved compliance in the auditee organizations and effective internal business processes will help demonstrate the impact of the Division on strengthening internal controls and ensuring gaming integrity.

Recommendation

(13) **We recommend that the Division consider developing additional performance measures, factoring in qualitative elements to better communicate program successes and progress on achieving program outcomes.**

Ministry Response

(13) *We acknowledge the validity of the recommendation and will do what we can. We already have one "outcome-based" measure (compliance percentage target for charitable audits) and we are working on another, dealing with lead-time from fieldwork completion to report issuance for our commercial audits. Further, we are now aligned with Service Delivery Initiative staff to develop customer service commitment statements for the Division and the Branch as a whole, along with an appropriate array of success measures including overall client satisfaction, timeliness, fairness and professionalism.*

Appendix A –Information for Developing a Policy Framework and Audit Manual

Below is additional information to assist the Division in developing policies and procedures and building them into a comprehensive audit manual. We suggest the following standards and information be included:

- professional auditing standards within a policy framework, which include:

  - independence and objectivity;

  - proficiency and due professional care, including confidentiality;

  - quality, assurance and improvement program;

  - managing audit activity and projects;

  - engagement planning;

  - performing the engagement;

  - communicating results;

  - monitoring progress; and

  - quality assurance and improvement program;

- purpose, authority and responsibility including the legal mandate for work performed, stating audit authority and any scope limitation as defined in the GCA, MOU with BCLC, etc.;

- jurisdictions (i.e., federal and provincial) and limitations over horse racing audits;

- audit tools and techniques, forms and checklists; and

- a code of ethics.

Audit and Compliance Framework   Report on Audit and Compliance Division

Audit and Compliance Program Framework

Recommendation	Response	Status	Necessary Actions
Recommend that the Division further clarify its audit mandate for horse racing and more specifically define its stakeholders in the Framework, to more fully reflect the Division's purpose and direction.	We accept the recommendation and will include this content in our new audit manual.	Complete	N/A
Recommend that the Division evolve the Framework to become a document of comprehensive policies supported by clear and concise procedures.	We accept the recommendation and will include this content in our new audit manual.	Complete	N/A
Recommend that the Division establish and incorporate policies and procedures, based on auditing standards, into a new audit manual.	We agree. Work is already under way to develop a new audit manual based on policies and procedures recommended to us during completion of the audit fieldwork.	Complete	N/A

Risk-Based Approach in the Framework

Recommendation	Response	Status	Necessary Actions
Recommend that the Division implement plans to review BCLC's audit program, including the appropriateness of BCLC's audit methodology and coverage and the effectiveness of the program in strengthening controls.	The Division's 2005/06 business plan included examination of BCLC's e-gaming system (Play Now) and assessment of the overall effectiveness of BCLC's audit process.	Complete	N/A
	Mandate has been extended to other BCLC systems as a result of the Auditor General's examination of the integrity of casino gaming.	Complete	N/A

Staff Resource Allocation and Tracking

Recommendation	Response	Status	Necessary Actions
Recommend that the Division consider tracking audit hours by auditor and audit engagement.	We will consider this recommendation in the future, but do not plan to adopt at this point. Each quarter, we apply standard time estimates for each type of audit engagement to the actual audit work completed and compare the result to actual time expended by our audit staff. We believe this periodic reaffirmation of our standards is sufficient given the current size of our organization and the nature of our engagements. As we grow, or the nature of work changes, we will continue to monitor the need for more sophisticated measures.	No immediate plans to implement	N/A

Service Alignment with Audit Framework

Recommendation	Response	Status	Necessary Actions
Include in the Framework the Division's two key risks (credibility with stakeholders and reliance on third parties to act within their authority) and the audit plans and processes which address these risks.	We agree with the recommendation and will include appropriate coverage in the new audit manual, which is to supersede the existing Audit Framework.	Complete	N/A
Include in the Framework direction which ensures that audit scopes are based on risk assessments specific to each commercial gaming site or community organization.	We agree with the recommendation and will include appropriate coverage in the new audit manual. Site specific risk assessments are already in place as a matter of practice for 2005/06 commercial audit assignments.	Complete	N/A

Audit Services and Auditing Standards

Recommendation	Response	Status	Necessary Actions
Standardize audit planning expectations (i.e., risk assessment, timing, budget and resource allocations) for each type of charitable audit engagement.	We will consider this recommendation, as we are currently adopting a planning checklist for charitable audits. We recognize the value of planning, but must also recognize that our charitable audits are very short, narrow in their focus and almost completely substantive in nature.	No immediate plans to implement	N/A
Adjust commercial audit scopes and procedures in areas exhibiting prior exceptions or incident reports.	When we began adjusting our 2005/06 commercial audit scopes based on site-specific risk assessments, we also built in the facility to increase our coverage in these areas as they arise.	Completed previously	N/A
Continue to develop comprehensive audit programs that include criteria, standards and the use of relevant client records.	This has already been done for Commercial Audit and is in progress for Charitable Audit.	Completed previously	N/A
Reinforce the requirement that auditors routinely use the programs to perform and document their fieldwork.	New file review procedures are in place to ensure our existing programs and their successors (see above) are used for audit work.	Completed previously	N/A
Continue to enhance the clarity and conciseness of written reports, include conclusions and take steps to ensure opportunities to educate auditees are consistently taken.	We will continue our efforts to enhance clarity and conciseness. Commercial audits already state a conclusion on compliance and we are currently developing a compliance grading system for charitable audits that will allow us to state a compliance conclusion. We will continue our education efforts, but the audit report will not be our medium of choice; we need to make these as concise as possible to deal with consistency risk.	Complete	Ongoing
Recommend the Division to provide an action plan template with each audit report to help ensure complete responses to the reports and support additional follow-up as appropriate.	We accept the recommendation and have decided to adopt OCG's action plan template.	In use for all 2006/07 audits	N/A

Quality Assurance

Recommendation	Response	Status	Necessary Actions
Recommend that the Division implement a Reviewer's Checklist, which outlines the quality checks that the auditor is to perform prior to transferring the file to their manager and includes manager sign-off on the quality of the file documentation and evidence.	We accept the recommendation and have adopted OCG's review checklist for immediate implementation.	Completed previously	N/A
Recommend that the quality assurance processes be documented in the audit manual.	We accept the recommendation and will include appropriate content in the new audit manual.	Complete	N/A

Performance Reporting			Report on Audit and Compliance Division

Performance Measures and Targets

Recommendation	Response	Status	Necessary Actions
Recommend that the Division consider developing additional performance measures, factoring in qualitative elements to better communicate program successes and progress on achieving program outcomes.	We acknowledge the validity of the recommendation and will do what we can. We already have one "outcome-based" measure (compliance percentage target for charitable audits) and we are working on another that deals with lead time from field work completion to report issuance for our commercial audits. Further, we are now aligned with Service Delivery Initiative staff to develop customer service commitment statements for the Division and the Branch as a whole, along with an appropriate array of success measures including overall client satisfaction, timeliness, fairness and professionalism.	No immediate plans to implement	N/A