



Making a difference...together

**REPORT TO FINANCE COMMITTEE
MEETING OF WEDNESDAY, MARCH 06, 2024**

SUBJECT Internal Controls Over Financial Reporting

ISSUE SUMMARY

Report to the Finance Committee on the Internal Financial Controls Program in place for the Capital Regional District (CRD), Capital Region Housing Corporation (CRHC) and Capital Regional Hospital District (CRHD).

BACKGROUND

At the January 3, 2024 Finance Committee meeting, while considering items 5.1.1 and 6.1; the 2023 Audit Planning Presentation and Report, discussion by committee resulted in a request for more information regarding internal control practices for the CRD entities.

Starting in 2018 through the Finance Committee and Corporate Plan priorities referencing financial accountability and transparency, the Financial Services division began development and implementation of an Internal Controls over Financial Reporting (ICFR) framework.

The initial phase of this program involved a review by an external public accounting firm (BDO) to evaluate nine financial processes.

1. Financial Statement Close Process
2. Hire-to-Pay
3. Procure-to-Pay
4. Cash/Cheques Receipts
5. Treasury and Investments
6. Revenue – Sale of Services
7. Tangible Capital Assets
8. Budgeting
9. IT General Controls (ITGC)

A total of 171 controls were identified where 45 were assessed as requiring enhancement, remediation, or having gaps to operate effectively. The results are summarized as follows:

Assessment	# of Controls	% of Total
Operating Effectively	126	74%
Enhancement	26	15%
Remediation	16	9%
Gap	3	2%
TOTAL	171	

As a result of these findings, Financial Services embarked on a multi-year remediation plan with progress reports to the Executive Leadership Team, making meaningful improvements with respect to Tangible Capital Assets and Expenditure Authorities. However, more meaningful progress required more resourcing and programming.

In 2022 the CRD Board approved Initiative Business Case (IBC) 15f-1.17 Corporate Accounting Standard Compliance which continued to advance remediation efforts. Most recently, an Internal Control Program was formalized and is now mid-implementation. The program relies on the globally recognized Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control Integrated Framework (ICIF). Although the CRD isn't directly governed by Sarbanes Oxley (SOX) regulations, its framework aligns with and satisfies SOX standards for ICFR. The CRD also aligns with other government and crown corporations in British Columbia who have adopted ICFR to ensure financial integrity and accountability.

The program consists of a strategy, implementation plan and a documented environment of financial processes and controls. It is also a part of the organization's risk management activities, with regular assessments conducted and reported. Internal assurance is provided through monitoring and testing with an internal materiality set to detect and correct errors. The intent of the program is to minimize risks and protect assets, ensuring accuracy of records.

The auditors gain an understanding of our ICFR program as it relates to the external audit of the consolidated financial statements. This assessment is relevant to the CRD's preparation and fair presentation of the financial statements to design audit procedures.

Moreover, internal controls play a critical role in safeguarding organizational assets, ensuring compliance, enhancing operational efficiency and facilitating accuracy of financial reporting for decision-making. By establishing a program to monitor the robust control environment, Staff are able to more effectively manage risks, protect assets and support the organization.

IMPLICATIONS

Alignment with Board & Corporate Priorities

Aligned with the 2023 to 2026 Corporate Plan, Financial Services lead systems and policies to respond to best practices, comply with legislative requirements and deliver sustainable budgets. Directly in support of the ICFR Program are several initiatives: 13c-2 optimize Financial Services through enhanced internal controls and continuous improvement methodologies, 13b-1 continue implementing business continuity planning and the Enterprise Risk Management framework, 13c-1 advance changes to policies and systems to streamline activities, reduce complexity and increase efficiency.

Service Delivery Implications

Although the external auditors do not design procedures to express an opinion on ICFR, they do design their audit procedures based on the conditions of the organizations ICFR environment. Where control issues are observed, they are reported to the attention of Management and the Board. These matters are presented annually to the Committee and then to the Board in the Management Letter accompanying the report on the Audited Financial Statements presented for approval each May.

Table 1 lists examples of control improvements which have since been implemented by Staff.

Table 1: Examples of Control Performance Improvement Observations by the Auditor

Control Description	Observation
Chief Administrative Officer Expense Report Approval	Sign off by direct report (CFO), rather than direct supervisor (Board Chair)
Board Director Expense Report Cut Off	Expense reports submitted past deadline resulting in understatement of expenses
Related Party Transaction Declarations	Board declarations forms not returned may result in missed disclosures
Purchase and Payment Cut Off	Purchase or payments greater than Internal threshold of \$100K not recorded by financial close resulting in understatement of expenses considered to be material

With the ICFR program developed and implementation underway, internal activities are regularly performed to assess the effectiveness of controls and risk to financial reporting. The control environment consists of 14 core financial business processes which include 279 financial controls.

The core financial processes are as follows with the number of associated controls:

- Financial Statement Close (21)
- Payroll (27)
- Procure-to-Payables (51)
- Cash Handling (14)
- Treasury and Investments (26)
- Revenue Recognition (44)
- Tangible Capital Assets (27)
- Budget (15)
- IT General Controls (24)
- Accounts Receivable (12)
- Inventory (9)
- Planning and Local Services (9)

While transactions of all values are recorded, additional focus and activities is placed on transactions above the materiality threshold of \$100k. In addition to the control environment, as prescribed by the Delegation of Authority Bylaw No. 4186, Financial Services maintains a list of authorized purchasers of goods and services. This is maintained and used to match invoice and payment signing authorities to ensure only authorized individuals are processing against the Board approved budget.

CONCLUSION

At the January 3, 2024 Finance Committee meeting, while considering items 5.1.1 and 6.1, committee members discussion resulted in a request for more information regarding the internal controls practice in place for the organization. As approved in the 2022 IBC 15f-1.17 Corporate Accounting Standard Compliance Enhancements, an Internal Control Program has recently been formalized and is mid-implementation. The program is based on internationally accepted COSO ICIF and consists of a strategy, implementation plan and a documented environment of financial processes and controls. The program forms part of the risk management register for the organization where risk assessments are regularly performed and reported.

RECOMMENDATION

There is no recommendation. This report is for information only.

Submitted by:	Rianna Lachance, BCom, CPA, CA, Sr. Mgr., Financial Services / Deputy CFO
Concurrence:	Nelson Chan, MBA, FCPA, FCMA, Chief Financial Officer
Concurrence:	Ted Robbins, B. Sc., C. Tech., Chief Administrative Officer