



**Gaming Policy and Enforcement Branch**

**Audit and Compliance Division  
Annual Audit Plan  
(2014 – 2015)**

**August 6, 2014**

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## 1. Current State

In 2014, a Crown Agency Review of the BC Lottery Corporation is being undertaken by the Ministry of Finance, Internal Audit and Advisory Services. Conclusions from this review may result in recommendations to GPEB. As a result, a one year audit plan has been completed rather than the usual five year plan.

### 1.1 Authority and Responsibility

The Audit and Compliance Division (ACD) operates within the Gaming Policy and Enforcement Branch (GPEB) and our authority is defined in the Gaming Control Act (GCA) and Regulation. Our audit work is further guided by policy directives and public interest standards issued by GPEB. We conduct our work in accordance with government's overall requirements of confidentiality and conduct, supplemented by policies unique to GPEB and further tailored to suit the sensitivity of our role.

In addition, the Gaming Policy and Enforcement Branch is accountable to the Ministry of Finance and to the Auditor General for the management of gaming revenues that the Branch distributes on behalf of the Province. Certainty of the amount and timing of net gaming income to government and of financial claims made against those programs (such as by gaming service providers) is central to our mandate. Specific areas that require our involvement include managing the distribution of government's gaming proceeds, including grants: to community organizations; to local governments (HLG payments); for local economic development (DAC grants); and, to support the revitalization of B.C.'s horse racing industry.

ACD is comprised of two operating units, whose regulatory compliance roles are:

- **Commercial Gaming Audit** – All commercial gaming including lotteries, casinos, community gaming centres, bingo halls and racetracks. Much of Commercial Gaming Audit's work involves conducting compliance audits and inspections of the conduct, management and operation of commercial gaming activities by the BCLC and its services providers.
- **Charitable Gaming Audit** – All charitable gaming including licensed gaming events (ticket raffles, independent bingos, social occasion casinos, wheels of fortune, limited casinos and licensed poker) and use of gaming proceeds and Community Gaming Grants. Charitable Gaming Audit's work involves conducting compliance audits and inspections of licensed gaming events and charities' use of gaming event proceeds and Community Gaming Grants.

## 1.2 Vision and Mission

### **Vision:**

The public has confidence in B.C.'s gambling industry.

### **Mission:**

Our mission is to ensure the integrity of gaming. Our programs promote compliance with and enforce public standards, laws and regulations, support communities through charitable licensing and grants, and provide public education on responsible gambling and treatment of those affected by problem gambling.

ACD protects the integrity of gaming by:

- Delivering a comprehensive risk-based audit strategy to assess regulatory compliance for commercial gaming, licensed gaming and community organizations' use of gaming proceeds; and,
- Encouraging enhanced compliance through public education programs and advisory services.

## 2. Audit Objectives

- Verify compliance with the Gaming Control Act (GCA), including Section 86 reporting, Regulation, GPEB directives and public interest standards;
- Confirm that the integrity, fairness, security and public safety of the commercial and charitable gaming environments, gaming equipment, gaming assets, and gaming supplies is maintained;
- Confirm that a safe and supportive environment for the delivery of gaming products and services is in place where gambling risks are minimized, and effective and timely information and assistance is provided for those with gambling problems; and,
- Verify that the system of internal controls provides an adequate audit trail, accurate documentation and safeguards over gaming assets.

The audit objectives are common to all audits conducted by ACD units and so are not repeated in the detailed audit plans on subsequent pages.

## 3. Reporting

ACD will forward to each auditee, as soon as practicable after audit fieldwork, written reports summarizing audit findings. Where appropriate, ACD will forward to other GPEB divisions and BCLC, as soon as practicable, deficiencies identified through audits and inspections, including lottery retailer inspections for further action.

## 4. Additional Audit Work

In addition to the work detailed in the following audit plans, ACD will:

- Perform ongoing monitoring of BCLC which will include regular reviews of key BCLC operations including, but not limited to, GCA Section 86 reporting, responsible gambling messaging, new gaming initiatives, and/or significant changes to operations or processes not covered in a scheduled audit;
- Respond to requests for assistance from other GPEB divisions; and,
- Investigate complaints from the public regarding procedural compliance concerns within the commercial and charitable gaming sectors.

## 5. Audit Plan: Commercial Gaming

### 5.1 Approach

#### **Risk Management**

This plan has been developed through a risk assessment process that utilizes various information sources such as, external reports, previous GPEB audit reports, BCLC's internal information systems (i.e.: ITRAK) and lottery retailer inspections. As new information is obtained, risk assessments may change which could result in a revision of priorities and identification of additional audits. Follow-up audits will be carried out, when deemed necessary.

#### **Reliance**

Reliance may be placed on audits or compliance programs performed by BCLC and/or external third parties. In accordance with generally accepted audit practice, we will review the extent and depth of audit work performed by third parties to determine whether reliance can be placed on the work performed. This will be considered in order to reduce duplication of efforts where possible.

#### **Business Knowledge**

Additional fieldwork will be undertaken by GPEB auditors throughout the fiscal year in order to gain knowledge of other areas of the BCLC's activities. These efforts will ensure that ACD has the appropriate context to perform its audit work. A formal audit report will not be issued for this type of work. Examples include the collection of information and documents, and ensuring ACD has an understanding of BCLC's:

- Organizational structure (including their assigned roles and responsibilities);
- Public reporting, Freedom of Information and privacy protection processes;
- Staff code of conduct;
- Performance metrics; and,
- Reporting to GPEB.

#### **Emerging Issues**

During our planning timeframe, it is important that we maintain the flexibility to respond to issues that may emerge and to respond to new initiatives in the complex and ever-changing world of technology and gaming.

**5.2 BCLC’s Overall Conduct and Management of All Forms of Gaming**

A risk assessment is utilized to determine which components (sub-processes) will be included in the scope of the audit.

Ref #	Area	Description	Risk Rating	2014/15
1.	<b>Responsible Gambling</b>	Audits will include reviews to verify compliance by BCLC and its service providers with GPEB Responsible Gambling Standards and Advertising and Marketing Standards for the B.C. Gambling Industry for all forms of gaming.  Monitoring of BCLC, service provider, and player activities is conducted throughout the year.	Required	✓
2.	<b>Regulatory Reporting</b>	Audits will include reviews to verify compliance by BCLC and its service providers with GPEB requirements (GCA, S. 86) to report any real or suspected conduct, activity or incident that affects the integrity of any form of gaming.  Monitoring of BCLC’s incident reporting and handling of public complaints is conducted throughout the year.	Required	✓
3.	<b>GPEB Registration</b>	Audits will include reviews to verify compliance by BCLC and its service providers with GPEB registration requirements relating to companies, equipment, products, people, and retailers.	Required	✓
4.	<b>Compliance Regime</b>	Audits will include a review of the functions of BCLC Internal Audit Services, Operational Gaming Compliance, Lottery Mystery Shopper Program and the Ethical Reporting Program (Whistleblower).	Required	✓
5.	<b>IT</b>	Audits will include reviews of the functionality, security and controls of BCLC IT systems (i.e. Gaming Management System, corporate, lottery or commercial gaming systems).	High	✓✓
6.	<b>E-gaming</b>	Audits will include reviews of BCLC systems and processes in place to provide gaming activities electronically to the public. Audits may include the PlayNow.com system, game platforms, such as mobile gaming, and external service providers to verify that adequate systems of internal control are operating and effective.	High	✓
7.	<b>Accounting for Gaming Revenues and Expenditures Reported to GPEB</b>	The work in this area is typically done through monitoring with specific reviews carried out in response to issues related to reporting of gaming revenues to GPEB. For example, HLGs & DACs.	Medium	✓

### 5.3 BCLC’s Conduct and Management of Lottery Gaming

A risk assessment is utilized for some audit areas to determine which components (sub-processes) will be included in the scope of the audit.

Retailer inspections are conducted to monitor the compliance levels of lottery retailers and as a method of gathering information for many of the audits listed in this audit plan.

Ref #	Area	Description	Risk Rating	2014/15
1.	<b>Retailer Contract Framework</b>	Monitoring of BCLC progressive discipline is conducted throughout the year to verify ongoing compliance. Last completed in 2012/2013.	Medium	*
2.	<b>Retailer Support &amp; Maintenance</b>	This audit may include a review of the retailer hotline, retailer support, retailer equipment maintenance, and/or retailer training.	Medium	✓
3.	<b>Lottery Product Inventory, Distribution and Sales</b>	This audit will include a review of controls and processes related to: <ul style="list-style-type: none"> <li>• The inventory and distribution processes within BCLC and its service providers; and,</li> <li>• The sales cycle, including retailer product ordering through to the sales of products to customers.</li> </ul>	Medium	✓
4.	<b>Watch Dog</b>	This audit will review the processes and controls in place around BCLC’s monitoring of the gaming system and retailer fraud detection program. Last completed in 2013/2014.	Medium	*
5.	<b>Lottery Draw and Validation Process</b>	This audit will review the controls and processes related to the generation of winning numbers and matching of winning tickets; and, the validation process and procedures used by retailers. Last completed in 2013/2014.	Medium	*
6.	<b>Prize Payout Process</b>	This audit will review the prize payout policies, controls and procedures in place at retailers, regional prize payout centres and at BCLC’s corporate offices. Last completed in 2012/2013.	Medium	*
7.	<b>Lottery Gaming</b>	This audit will review controls and procedures related to different lottery gaming processes as they relate to game integrity and protection of the public. For example, audits of the BCLC RFP process, sports action, and pull-tabs.	Medium	✓
8.	<b>Manufacturing Process</b>	This audit will review the policies and procedures in place to control the integrity of the manufacturing process from S&W ticket data transmitted to manufacturer through to the shipment to BCLC.	Low	✓
9.	<b>Lottery Finance</b>	Audits will review the controls, processes, and accounting for lottery games, retailer banking process, and the Inter-Provincial Lottery Corporation (ILC).	Low	*

\* Audits are planned every two to three years based on an overall risk assessment.

**5.4 BCLC’s Conduct and Management of Commercial Gaming (Casino, Community Gaming Centres and Bingo Halls)**

Risk assessments will be conducted to determine which gaming facilities and specific areas will be audited.

Ref #	Area	Description	Risk Rating	2014/15
1.	<b>Casinos</b>	Audits will include a review of operational functions within gaming facilities. These audits also include casino operations located at racetrack facilities.	Site specific	✓
2.	<b>Community Gaming Centres</b>	Audits will include a review of operational functions within gaming facilities.	Site specific	✓
3.	<b>Bingo Halls</b>	Audits will include a review of operational functions within gaming facilities.	Site specific	✓
4.	<b>Anti-Money Laundering</b>	Audits will include a review of: <ul style="list-style-type: none"> <li>• BCLC’s compliance with FINTRAC reporting requirements under the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA); and,</li> <li>• BCLC’s and its service provider’s adherence to provincial anti-money laundering strategies and directives.</li> </ul>	Required	✓
5.	<b>Asset Maintenance</b>	Audits are conducted to verify that assets are being maintained in a manner that promotes game integrity and public safety. For example, a review of promotional activities undertaken by service providers.	Medium	✓
6.	<b>Service Provider Offsite Asset Storage</b>	Audits are conducted to verify that controls are in place to properly safeguard gaming assets being stored at service provider’s offsite storage facilities, i.e. chips and cards.	Low	*
7.	<b>Prize Payout (Slots, Tables, and eCasino)</b>	Audits may include a review of: <ul style="list-style-type: none"> <li>• Land based slot and table hold percentages</li> <li>• PlayNow.com eCasino game hold percentages.</li> <li>• Information available to the public regarding the games, rules of play and odds of winning for all eCasino games and land based table games.</li> </ul>	Low	✓

\* Audits are planned every two to three years based on an overall risk assessment.

**5.5 Audit Plan: Racing**

As GPEB has sole responsibility for the conduct of racing, these audits will be conducted on annual basis.

Ref #	Area	Description	Risk Rating	2014/15
1.	<b>Racetracks</b>	Audits will include a review of all normal non-race pari-mutuel operations, including event (betting) conduct, surveillance, security, cash handling and regulatory activities (registration and GCA Section 86 reporting).	Required	✓
2.	<b>Horse Racing Industry Initiative</b>	Audits will include a review of the administration of the industry account, use of funds, revenue streams, governance, and expense disbursements.	Required	✓

## 6. Audit Plan: Licensed Gaming and Community Gaming Grants

### 6.1 Approach

#### Charitable Gaming

The selection of charitable organizations that will be audited and the licensed gaming events that will be inspected each year is developed using a risk assessment process and is based on the grants distributed and the licenses approved during the previous calendar year. As more information is obtained during our audit fieldwork and our ongoing risk assessments, priorities may be revised and additional audits may be identified. As well, follow-up audit work will be carried out, when deemed necessary, to determine if relevant actions have been implemented as required.

Various criteria are used to determine which licenses are selected for event inspections and which organizations are selected for use of proceeds audits, including: anticipated gross sales revenue; amount of grant received; complaints from the public; findings from previous inspections; control self-assessment questionnaires; and/or, information obtained from other GPEB divisions.

#### Grant, Licensee or Sector Specific Projects

Each year, based on knowledge gathered during our scheduled audits, we will identify specific sectors or types of grants or licenses where additional audits will be conducted. Along with verifying compliance, this approach will allow us to develop educational tools specific to a particular sector or grant type which will help to enhance compliance in these areas.

### 6.2 Licensed Gaming and Community Gaming Grants

Ref #	Area	Description	Risk Rating	2014/15
1.	<b>Licensed Gaming: Raffles, Bingos, Wheels of Fortune, Social Occasion Casinos and Poker (A, B, C and D licenses)</b>	Audits will include reviews to verify that the management and conduct of the gaming event is in compliance with the terms and conditions of the license issued and that net revenue generated from the event has been spent on eligible disbursements.	Risk assessed on an individual file basis	✓
2.	<b>Community Gaming Grants</b>	Audits will include reviews to verify compliance by charitable organizations with the terms and conditions of the grant received.	Risk assessed on an individual file basis	✓
3.	<b>Grant, License or Sector Specific Projects</b>	Projects will include audits of areas identified as a result of a risk assessment process in an effort to increase compliance in a specific area.	Risk assessed on an individual file basis	✓
4.	<b>Responsible Gambling</b>	Monitoring of licensee advertising is conducted throughout the year to verify ongoing compliance with GPEB Responsible Gambling Standards and Advertising and Marketing Standards for the B.C. Gambling Industry.	Required	✓